

**Thursday, March 10, 2005: Life & Health Actuarial Task Force**

13 states and about 60 interested parties attended the first day of the meeting.

Development of a Regulation Pertaining to Nonforfeiture for Individual Deferred Annuities. LHATF, working from a redraft as a result of the February 22 conference call, had three issues to be addressed: the value-trigger method, the prospective test and contracts with both EIA and other benefits.

However, it opened with an issue addressing the meaning of the determination of the current rate based upon CMT within the last fifteen months. After much picayune discussion, LHATF finally deleted Section 3.A(b)(vi) entirely because it merely reiterated the Model Law and hence was not needed.

The value-trigger method was not changed. The AAA is reviewing the prospective test, but was not prepared to comment, although some states wanted the “tweaking” for every new product stopped.

Regulators were reluctant to bifurcate contracts with both EIA and other benefits. The general sense of the group is that it wants one rate for all benefits. The model regulation will be revised to put that into effect.

A revised draft will be exposed for comments.

Update on C-3 Phase II Work and Variable Annuity Reserves Actuarial Guideline. The AAA WG revised its draft of VACARVM based on comments received. It reviewed and recommended the following significant changes:

1. Guidelines for the recognition of revenue sharing are more detailed,
2. Standard Scenario is modified as recommended by NY,
3. Alternative Method mortality must be “prudent best estimate”,
4. Calibration criteria have been modified and strengthened to address left-tail risk, and
5. New Appendix 10 gives guidance for setting prudent best estimate mortality.

The WG observed that the Standard Scenario seriatim result still produces greater reserves than stochastically-generated reserves in the aggregate. LHATF, particularly Lauzon (NY) and Boerner (TX), countered that the Standard Scenario must remain as is.

Hartnedy (AR) considers this document “micro-managing” on LHATF’s part. Chairman Batte (NM) expressed frustration that this process has not been completed.



Ultimately LHATF voted unanimously to expose the latest AAA draft for exposure, with no changes.

Report From AAA Nonforfeiture Improvement Work Group. This group issued a high-level report looking for feedback from LHATF. The report emphasizes the need for flexibility of product design. Some of the designs under consideration include no cash values, non-smooth cash values, periodic cash value resets, multi-line products, multi-generational products, market-value adjusted products and life cycle insurance.

The WG asked for specific feedback on scope, the concept of a purely retrospective approach, the independence of cash versus “continuing” benefits and the desired regulatory parameters on the management of non-guaranteed elements.

Report From AAA SVL 2 Work Group. The WG report spent some time discussing the Canadian approach to “principle-based” valuation opinions. Canada uses “worst plausible” scenarios, requires peer review, and has a method for resolving differences of opinion between the opining actuary and the reviewer. In Canada, every item on the balance sheet is open to choice by the actuary.

LHATF members want to learn more about the Canadian process, which the WG indicated seems to be working well for the Canadian regulators. LHATF suggested having a Canadian expert discuss the approach at its next meeting if it could be arranged. In the interim, LHATF will schedule a conference call to give feedback to the WG on its report.

Referral on Accounting for Life Reinsurance Credits. LHATF voted to send its 3/10/05 draft response to the Statutory Accounting Principles Working Group. The response disallows reinsurance reserve credit for the type of arrangement under consideration, YRT with guaranteed premiums, because it is neither YRT nor coinsurance.

New Valuation and Nonforfeiture Mortality Table for Preneed Life Insurance. Some companies in this market believe that the 2001 CSO Table is inadequate for this type of business. An SOA task force has been formed and is about to send out a request for data. The task force has already received enough informal commitments from companies that it believes that the data will have total credibility. Companies want this new table for tax reserve and Section 7702 purposes also.

GRET Factors for 2006. An SOA Committee will begin its analysis of current industry expenses shortly, for use with the Life Insurance Illustration Regulation in 2006.

Updates on AG ABC and Deletions or Amendments to Various NAIC Models. These issues were postponed to future conference calls. LHATF did note that it did not adjust ABC for EIA offsets in December.



Other Matters. LHATF discussed its self-imposed “4-week rule” , in which material not submitted at least four weeks prior to a meeting will not be discussed at the meeting. LHATF agreed to hold no conference calls in that 4-week period. It also changed the date from four weeks prior to a meeting to the deadline for the mailing just prior to a meeting.

Regulators now get an email informing them when the LHATF monthly mailing is available on the website. They do not get hard copy mailed; they must print it. It sounds as if they will ultimately do that for all parties currently receiving the monthly mailing.

### **Friday, March 11, 2005: Accident & Health Working Group**

Did not attend, but see the second item below from Friday afternoon.

### **Friday, March 11, 2005: Life & Health Actuarial Task Force**

The same 13 states and over 100 interested parties attended this session, no doubt reflecting the keen interest in the approval of the minutes.

Approve Minutes. LHATF approved the minutes of the last meeting and of all conference calls since then.

Report of the A&H Working Group. The WG reported the following items from its morning meeting:

1. The WG completed the Long-Term Care Model Regulation and the LTC Rating Guidance Manual. Both will now be sent to the Senior Issues Task Force for approval. The Group has just begun to study statutory reserves for LTC, and expects to get input from AAA.
2. Alaska proposed changes to the Medicare Supplement refund formula, third year loss ratio requirements and experience reports, but this will require changes to Federal laws.
3. Premium deficiency reserves have been contentious, with unfocused discussion up to now. The WG has identified key issues for continuing discussion.
4. Alternatives for individual medical rate regulation will be discussed on a conference call in April.
5. The WG incorporated recommendations (see January LHATF mailing) to the Medicare Supplement Guidance Manual. The revised Manual now goes to the Senior Issues Task Force.



AAA UL Work Group Update. David Neve, Chair of this WG, clarified its purpose. It is developing a long-term, principles-based approach to reserves. As such, the scope is much narrower than SVL 2 (see above), which is studying high-level issues of capital and corporate governance. Neve emphasized that the UL WG's role is not to get involved in the AG XXXVIII controversy.

The WG has started with UL with secondary guarantees, term insurance and VUL, and then will extend the approach to all life insurance. It will have a draft of basic principles ready for discussion at LHATF's June meeting.

Neve cited some other preliminary conclusions of interest. "Principles-based" does not necessarily involve modeling or a stochastic approach. A stochastic approach does not require that all assumptions be stochastic. For assumptions not determined stochastically, the WG leans to "prudent best estimate" (i.e., relevant experience plus appropriate margins).

Finally, Neve indicated that the UL WG is working with both the ACLI and AAA to consider the effects of Federal tax requirements on the final product.

Lauzon (NY) stated that VACARVM should serve as a good test of a "principles-based" approach, and should be in place for some time before extending that approach to other products.

Issues Relative to Actuarial Guideline XXXVIII. Working from its December 2, 2004 draft, LHATF spent a lot of time discussing a minor clarifying change. Finally, Hartnedy (AR) stirred the pot by emphatically demanding that LHATF quit tinkering with the Guideline and get on with the long-term solution requested by the (A) Committee. His motion to do so was overwhelmingly defeated (only NE and ND supported AR).

The discussion turned to retroactivity and effective dates. Campbell (AK) floated a proposal that, as if by magic or more likely by voodoo, enamored the entire LHATF group. She suggested that LHATF renumber the current Item 8 as 8A and make it effective from the beginning until some cutoff date, then add 8B, which would be similar to the exposed revisions from December and would be effective after the cutoff date.

A lengthy discussion of the cutoff date ensued, some members insisting on July 1, 2005 (or perhaps even retroactive) and others willing to use January 1, 2006. Finally, Dino (FL) to his everlasting credit, stepped up and opined that, whatever its flaws, the current AG XXXVIII has been used by companies in good faith. For LHATF to go back and say that companies have been doing it incorrectly is just not right. That won the day, as LHATF voted near unanimously (only ND opposed) to use AK's concept with a cutoff date of January 1, 2006.



Summers (CA) tried one last time to get the date changed to July 1, 2005, but it was defeated 9-5 (CA, CT, MN, NY and TX for it).

LHATF then discussed the (A) Committee's request for a long-term solution. The "Harrison group", a coalition of 13 insurance entities represented by attorney and former NY regulator Scott Harrison, had submitted an asset adequacy based revision to AG XXXVIII. It keeps the current formulaic method, defines a "Reserve Adequacy Testing Method", allows for a safe harbor (as yet not explicitly defined) and applies only to policies subject to Item 8 of the current Guideline. This document served as the basis for discussion.

Although most of the regulators did not embrace the proposal with open arms, they were not hostile to it either. In fact, Lauzon (NY) stated that it was a good start, although he might want to take a different approach. Dino (FL) thought it was fatally flawed because it contained no formulaic minimum reserve, but it in fact does so.

ND moved to expose the "Harrison" document, which was soundly defeated. At that point, Chairman Batte (NM) vented his frustration at unnamed Task Force members who make motions that end up being soundly defeated after some discussion, thus wasting the group's time. He admonished the group that the motion-maker should know how the vote will go before making a motion.

In any case, LHATF will schedule a conference call to discuss the Harrison proposal, as it has come to be known, and any other potential ways to address the long-term solution.

In informal conversations with some interested observers afterward, it seems that no one came away entirely happy with the short-term solution, but most realized that they could in fact live with it – at least for now.

#### Other Items of Interest

John Hartnedy will retire from the Arkansas Department on May 1.

Steve English, AAA Policy Analyst who worked with various AAA task forces, is leaving the Academy this week.

Donald P. Maves, FSA, MAAA

13 March 2005

