

Actuarial Guideline XXXVIII (AXXX)

At least fourteen state regulators participated in the call. The purpose of the call was to discuss the December directive from the (A) Committee and to determine future steps.

The (A) Committee had asked LHATF to develop a solution to the current AG 38 problem that is consistent with the long-term broad solution to valuation generally and to develop the long-term solution. LHATF was instructed to report in June on an asset adequacy-based solution to reserves for UL products with secondary guarantees.

LHATF spent a fair amount of time debating how to respond. A majority of members are reluctant to abandon the current work on AG 38 for an asset adequacy analysis. They argued that LHATF must recommend appropriate solutions, not necessarily solutions dictated from above. Some LHATF members are opposed to throwing out formulaic reserves applied on a seriatim basis, even if an asset adequacy analysis is required. Some members do not agree with (A) Committee's opinion that these reserves are redundant. Finally, a majority believes that LHATF is close to a short-term solution.

Industry was allowed a short time for comments. The pro-AG 38 camp's main argument is that a "fully paid up" secondary guarantee should have a reserve equal to a net single premium and that the degree of funding should determine the reserve. The other camp countered that the highest priority belongs to the consumer and innovative product designs should not be stifled.

Chairman Batte (NM) proposed that he construct a list of options as to how to proceed. The list will be discussed at the March meeting.

The recent emergency Regulation 147 passed by New York in December was not discussed except to acknowledge that it is effective for 2004 Annual Statements.

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