

**Statutory Accounting Principles Work Group (SAPWG) Conference Call**

The purpose of the call was to discuss accounting and reporting issues for financial instruments used to hedge options embedded in variable annuity guarantees. A joint subgroup will be formed to address these issues. The following states were represented: NE, NM, AR, CT, FL, NY, OH, PA, TX, UT, WV, IA, NC, VA, IL, MN, AK. Several interested parties were also represented.

The agenda for the call was as follows:

- 1- A brief description of the VA CARVM approach (cash flow scenarios done in aggregate)
- 2- Explanation of revenue sharing and implications for statutory reporting
- 3- Explanation of aggregation and implications for statutory reporting
- 4- Review of American Academy of Actuaries form A submission to the Statutory Accounting Principles Work Group (SAPWG)
- 5- Review of location of hedging and revenue sharing on the balance sheet.

**Item 1**

Tom Campbell, representing the American Academy of Actuaries, discussed the VA CARVM reserve methodology. Tom referred to the exposed version of VA CARVM for much of the discussion. His comments were mainly focused on the first 3 principles of the guideline: the objective, the model, and the assumptions. Tom also commented that revenue sharing is included in the model because the model should assume all revenues. Additionally, hedges are included because the analysis should include all asset cashflows.

**Questions Item1:**

- 1- Are the calculations compared to the policy level cash values? - No, the reserves are calculated in aggregate using a model. The reserves are compared to the aggregate cash value.
- 2- Has there been any simulation analysis done? – Yes. Made up blocks of business have been used.
- 3- Has an actual company block of business been tested thru the last 15 years of interest rates? – No.
- 4- Would that be beneficial? – Company information would be proprietary and the Academy does not have the resources for such an undertaking.
- 5- Were the results favorable for the testing that was done (i.e. were there enough assets to keep the block of business inforce)? Yes.

**Item 2**

Dennis Lauzon (NY) discussed revenue sharing. Dennis also referred to the exposed VA CARVM document for the definition of revenue sharing. Page 8 lists the requirements for including revenue sharing in the analysis. New York's position



continues to be that the revenue sharing agreement should be guaranteed to a successor if it is to be considered in the analysis.

Questions – Item 2:

- 1- Is this a side letter similar to what is used for reinsurance? No.
- 2- Could we show the effect of revenue sharing on the reserves (i.e. use a footnote that shows the impact in the annual statement)? We could, but it has not previously been considered.

Item 3

Dennis Lauzon (NY) discussed the aggregation issue. He used an example to illustrate his concern. The reserves for a large block of variable annuities with no guarantees, will be the cash value. The reserves for policies with rich guarantees, will be in excess of the cash value. When these policies get aggregated with the mature policies, the reserves can end up being the cash value with no extra reserves being held for the extra risk. If later, the conservative policies lapse, a company may have to put up additional reserves due to a policy lapse. Said another way, a company may have a decrease in surplus due to a policies lapsing.

There was no time for discussion of this item.

Item 4

Larry Gorski, representing the American Academy of Actuaries, discussed a document that was developed to expose issues related to the clarification of accounting and reporting guidance for financial instruments used to hedge options embedded in variable annuities.

There was no time for discussion of this item.

Item 5

Dennis Lauzon (NY) briefly discussed where hedging and revenue sharing should be included in the balance sheet. Should these items show up on the asset side and not be used to net down the liabilities?

There was no time for discussion of this item.

No further calls have been scheduled.

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