

The Standard Scenario Subgroup of the Life and Health Actuarial Task Force held a conference call to review the objective of the standard scenario as proposed in Actuarial Guideline VA CARVM and to explore alternatives to the standard scenario.

The following states were represented: TX, CA, CN, FL, KS, MN, NE, NY, PA, UT, WV, IL, NC, and District of Columbia. Several interest parties also listened.

The purpose of the standard scenario was reviewed. The standard scenario is intended to be a floor for the reserves calculated under the new proposed modeling approach. The standard scenario may be used to link modeled reserves to individual policies, thus satisfying any tax requirement of calculating reserves at the policy level. The standard scenario may be used to evaluate the relative strength of the model. It may be used to compare reserves among companies and provide a given level of comfort for regulators. There were no other comments regarding the purpose of the standard scenario.

John O'Sullivan led a discussion of a document that described various alternatives to the August 2004 version of the standard scenario. The document had several numeric results and comparisons. John stressed that the central issue is aggregation. Whether aggregation is allowed or not does not need to be a yes or no question. He expressed that there can be varying levels of aggregation.

John proposed two approaches, non-integrated and integrated.

Within the non-integrated approach, there are 2 options:

- 1- Variation 1 (full aggregation) – a basic reserve component would be calculated without any aggregation, but the greatest present value component would be calculated on an aggregate bases.
- 2- Variation 2 (limited aggregation) – similar to variation 1, but only contracts that have an accumulated loss at some yearend are considered.

The integrated approach combines all the revenue and benefits into a single calculation. Within this integrated approach there are 2 variations:

- 1- Variation 1 (expanding the basic reserve component) – the basic reserve is the starting point and the benefit costs for GMDBs and GMIBs are layered on top, similar to Guideline 34.
- 2- Variation 2 (expanding the GPV component) – cash value is used as a working reserve. All benefits are considered and additional assumptions are used for lapses and revenue.



At this point, Michael Boerner of Texas proposed that John O'Sullivan do the following additional runs using his sample inforce:

- 1- Aggregation with full integration
- 2- Aggregation without integration
- 3- Aggregation but not until after 5 years with full integration
- 4- Aggregation but not until after 5 years without full integration
- 5- Aggregation with full integration with an increased lapse assumption
- 6- Aggregation without integration with an increased lapse assumption

Alan Elstein of Connecticut stressed that he has a problem with aggregation. He suggested doing additional runs by expanding the basic reserve component (Integrated approach variation 1 from above). Alan suggested 3 additional runs:

- 1- Full contract charges
- 2- Full contract charges with a haircut outside of the surrender charge period.
- 3- Full contract charges with two haircuts: one inside and outside the surrender charge period.

Bill Carmello of NY expressed his concerns. He didn't think this work is going in the right direction. He reiterated that, if anything, the standard scenario reserves are too low. He understood that the standard scenario was not perfect, but did think it would do the job. NY would rather see the reserves increased under the standard scenario. He does not understand why the industry gets their voice heard while those who want to be conservative get ignored. If any changes are made to the standard scenario, he will need to review the assumptions.

CT suggested that maybe we should compare what results would be if these methods were in place in 2000. We should do some back testing. There is a lot of work to be done. We need to do some more thinking.

Other regulators agreed that seeing more numbers would be useful.

When asked, NY said they would not consider using credible company experience for any of the standard scenario assumptions.

In conclusion, John O'Sullivan agreed to do the additional runs for the end of February. The results of the additional runs will be delivered at the March NAIC meeting. At this point, there are no recommended changes to the standard scenario.

Tim Gaynor, FSA, MAAA

8 February 2005

