

**Actuarial Guideline XXXVIII**

This call is a continuation of the April 11 call. On the prior call LHATF had solicited comments on the March 11, 2005 draft of AG XXXVIII, which keeps Item 8 unchanged for issues prior to 2006 and changes it for shadow accounts issued after 2005. LHATF had also discussed the "Harrison proposal" that introduced asset adequacy analysis and had mentioned in passing another industry proposal known as the "7% solution."

All of the comments received to date apply to the 7% solution. This is a temporary solution proposed by a bipartisan 10-company industry coalition (sent to the ACLI) that would modify the denominator in Step 4 of Item 8 such that it would be the net single premium with a 7% load.

Members of this coalition outlined three steps that they recommend:

1. Use the 7% solution as an interim compromise, applicable to issues after June 30, 2005 and having a sunset provision of March 31, 2007.
2. Address redundant reserve requirements in the current XXX.
3. Complete a "principles-based" long-term solution.

ACLI has received comments opposing the interim compromise. ACLI will keep its comment period open until the end of the month. Its Board will discuss the proposal at its June 24 meeting. This happens to be well after the next LHATF meeting on June 10, so the likelihood of broad industry support by then is not high.

The "7% solution" garnered some support from LHATF, especially New York. However, some LHATF members believe that the sunset provision puts LHATF in a delicate position of ultimately having to take action without sufficient deliberation. Others were reluctant to implement the interim solution so soon. These objections were overcome after a lengthy discussion. Many members also did not want to abandon the March 11 draft approach. Ultimately LHATF voted unanimously to expose both the existing approach and the 7% solution. A draft of the latter approach should be on the NAIC website in a few days.

There was no discussion of the Harrison proposal and no discussion of the March 11 draft, other than that it should not be abandoned.

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