

The Life and Health Actuarial Task Force held a conference call to discuss Actuarial Guideline VACARVM – CARVM for variable annuities redefined. The following states were represented: NM, CA, CT, FL, MN, NE, NY, OH, PA, TX, WV, District of Columbia, IL, MO, NC, AL. Several interested parties also participated.

The agenda for the call was as follows:

1. Update from the AAA Variable Reserve Work Group
2. Update from the Revenue Sharing Subgroup
3. Update from the Standard Scenario Subgroup
4. Future Steps

Update from the AAA Variable Work Group (Tom Campbell – Hartford Life)

1. The Academy is recommending changes to mortality assumptions for the alternative methodology (was 65% of GMDB mortality). Rather than a specific recommended table, companies would use a prudent best estimate and ratio their mortality to 100% of the 94 GMDB Mortality Table. Appendix 10 of the new draft guideline will give guidance.
2. Changes are also being proposed for setting the mortality assumption for the modeling approach. Specific recommendations are being made for how to incorporate margins for error, credibility, and mortality improvements.
3. Calibration points
 - a. Updating the calibration points to consider the error in the mean that develops due to the use of historical data.
 - b. More work still needs to be done.
 - c. Updates to the pre-package scenarios will follow.
4. There will be some revenue sharing language changes.
5. Alternatives to the current version of the standard scenario will also be suggested. The current version does not allow aggregation.

Update from the Revenue Sharing Subgroup – (Dennis Lauzon – New York)

1. The subgroup reviewed the Academy's write up on revenue sharing.
2. Discussed the fact that the Academy looks at revenue sharing like any other cashflow stream.
3. In order to include, New York would like for revenue to be guaranteed to a successor.
4. Some states expressed some level of comfort with the Academy's position.
5. Even if we allow revenue sharing maybe it should be separated so there is a pre- and post revenue sharing number.
6. CT supports a cap on revenue sharing.
7. Due to lack of participation, the subgroup has no recommendation other than to disband.

Update from the Standard Scenario Subgroup (Mike Boerner - TX)



1. The subgroup has requested several runs. John O'Sullivan will put the numbers together by the end of the month.
2. Users can extrapolate to get a feel for what is happening.
3. Requested runs had sufficient interest but we are not proposing any of these at this point.
4. It may not be possible to get the numbers done before the March meeting because RBC is more important.
5. Once numbers are available, the subgroup will schedule another call.

Future Steps – Regulators - How can we make progress?

1. Mike Boerner (TX) – RBC should get the priority so that can have in place for this year.
2. Alan Elstein (CT) – we are valuing put options that have a lot of volatility. We need some retrospective method to dampen the swings in reserves. Reserves are not just an extension of RBC. Concerned about a premature release of reserves into profits.

Other comments:

1. Tom Campbell (Hartford) tried strike down the need for a retroactive component of the standard scenario.
 - a. RBC uses a smoothing mechanism.
 - b. Concern with retrospective reserve is that it will not encourage companies to hedge.
 - i. Idea is that hedge moves with the reserves
 - ii. In order to have a hedge you have to spend some money. How can you build up a reserve and still pay for a hedge?
 - c. Guideline 39 was a retrospective approach (we spent 9 months on it). It would be difficult to come up with a standard release mechanism.
2. Alan Elstein (CT)
 - a. A retrospective method can include expenses for hedges.
 - b. We certainly don't want to discourage people from hedging.
3. NM recognizes that a lot of time is being spent on this project. I would like to see a guideline this year.
4. One hour and 45 minutes are allocated for VA-CARVM at the March NAIC meeting in Utah.
5. The Academy will come to March NAIC meeting with a document that can be final.
6. Tom Campbell (Hartford) - It will all come down to the standard scenario.
 - a. Current discussions are going in several directions.
 - b. There is concern over aggregation, volatility, and specific assumptions.
 - c. Perhaps we are trying to solve too many problems with the standard scenario.
 - d. We are losing sight of the model-based methodology.



With no further business, the call adjourned.

Tim Gaynor, FSA, MAAA

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