

On Wednesday, January 19th, the Standard Scenario Subgroup of the Life and Health Actuarial Task Force held a conference call to discuss modifications to the current proposed standard scenario reserve.

The following states were represented: Texas, Connecticut, Kansas, Minnesota, Florida, Pennsylvania, Utah, Alabama, California, District of Columbia, Illinois and North Carolina.

Several interested parties also participated.

The purpose of the call was to set an agenda for the Academy's work. Specifically, the Academy would like to know what changes to the standard scenario should be explored to make the current proposal more acceptable. As has been noted in previous calls, the standard scenario does not allow for aggregation.

The purpose of the standard scenario was revisited. The standard scenario is supposed to be a reserve floor for any reserves that are calculated using the modeling approach. The standard scenario also offers some side benefits: it can be audited and it can tie the stochastic process back to the policy level to satisfy tax requirements.

Next, the focus shifted to a 12/2/04 memo that was sent by Tom Campbell to Leslie Jones of South Carolina. The memo was not distributed to the interested parties. The memo proposed several ways to change the standard scenario requirements so as to reduce the resulting standard scenario reserve.

The Academy was asked to provide more information on 3 proposals:

- 1) (item 3 from the "12/2/04 memo") The standard scenario floor could be replaced with the basic seriatim reserve (ie the reserve calculated according to guideline 33). The results of the modeling at the aggregate level could then be an additional reserve added to the basic reserve. The modeled reserve would be floored at zero.
- 2) Same as above, but allow aggregation of policies with basic reserves that are larger than the cash value.
- 3) (item 5 from the "12/2/04 memo") Replace the standard scenario with only one integrated benefit stream from guideline 33. This calculation would also be done seriatim.

The Academy requested that they get more feedback on what is wrong with the modeling approach. Why is so much focus on the standard scenario? Can we get past the aggregation issue of the standard scenario?

The group was asked if there are any other alternatives to the standard scenarios that should be considered.



New York responded:

- 1- We would entertain any other alternative that would raise the reserves above the standard scenario level.
- 2- We are done tweaking.
- 3- NY is not looking for any lowering of the standard scenario reserve.
- 4- The standard scenario was based on seriatim assumption. If there is aggregation, we need to redo the assumptions for the standard scenario.

Connecticut agreed with NY and added:

- 1- Would explore aggregation but would have a problem with aggregation at the scenario level.
- 2- Aggregation is difficult for reserves. We're nervous about it.
- 3- Only aggregate at the policy level.
- 4- Lots can be masked by aggregation.
- 5- What problem are we trying to solve?
- 6- Maybe the standard scenario reserve should be the reserve and not the floor?
- 7- Should bring all the states together so that most people are comfortable.

At this point, the Academy expressed concerns that they would be wasting their time reviewing any additional alternatives to the standard scenario. Again they asked what should we be doing? What's wrong with the modeled based reserve? We've been talking about the modeled reserves for over 3 years. We're confused about what direction to go. What needs to be done to make the modeling approach better? LHATF directed us to do so. We've already spent 3 years trying to find a non-modeling approach. Now we've been doing a modeling approach for 3 years. Internationally that's where everyone is going.

NY – We have no problem with the Canadian approach as long as there is a floor. We're not ready to embrace a principle-based approach and a company-based set reserve.

A follow up call will be scheduled in the next couple weeks. In the meantime the Academy will provide more detail on the three alternatives.

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