

AAA UL Work Group

LHATF scheduled this call to discuss the principles underlying the ULWG's draft framework for a principles-based approach to reserves. These principles were part of the ULWG's report distributed in June. Regulators and interested parties raised the following issues:

1. ACLI indicated that it plans to approach Federal tax authorities as part of the project to ensure that the methodology supports appropriate income tax treatment. LHATF supported that action.
2. Northwestern Mutual proposed that the methodology reflect not only the appropriate degree of risk but also the degree of pre-funding. LHATF also supported that item.
3. NY questioned the purpose and scope of the principles – i.e., are they intended merely for company actuaries or for both companies and regulators?
4. FL wants to see more emphasis on controls and limits and less emphasis on actuarial judgment.
5. FL raised the issue of transition between the current system and the new system, as there is a good possibility of significantly different results.
6. FL is reluctant to support the same methodology for both reserves and capital, because that eliminates one source of checks and balances.
7. NY opined that the methodology should be such that no gain is recognized at the inception of any contract.
8. NY remarked that it seems to be evolving into a “market value of liabilities” approach, which is inconsistent with holding assets at book value. Industry representatives disagreed, but LHATF reached no conclusion.

The ULWG will redraft the principles to reflect today's discussion so that LHATF can then accept the results. Discussion will continue at the September meeting of LHATF.

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22 July 2005

