

UL Work Group

LHATF convened to discuss a progress report from the AAA UL Work Group (ULWG), which is developing a recommendation for principles-based reserves. The level of interest in this project is quite high, as evidenced by the 17 states and over 40 interested party entities (some with multiple listeners) that audited the call.

David Neve (Principal Financial), Chairman of the ULWG, reported on progress since June, timelines and associated deliverable items and outstanding issues. He also requested an extra session devoted to this project at the December meeting of LHATF. That session would be an informal discussion outside of the actual meeting, at which regulators and interested parties would be welcome.

The scope has been expanded to cover all individual life insurance products. ULWG has completed the initial reserve modeling and has begun work on RBC requirements.

ULWG is on target to deliver a recommended Model Regulation at the December meeting. Some LHATF members preferred an actuarial guideline, but most other members wanted a regulation for more effective enforcement.

The main outstanding issues involve treatment of non-guaranteed elements, determination of when the calculation must be stochastic, levels of aggregation needed, establishment of appropriate margins, resolution of tax issues, retroactivity and limits and controls on reserve assumptions.

LHATF spent a good deal of time discussing premium pattern assumptions. ULWG recommended testing 4 "boundary" patterns as an aid to arrive at a "best estimate" premium pattern for each policy. They include (1) payment of premiums for the premium-paying period, (2) no future premiums, (3) minimum premiums to keep a guarantee in force and (4) single premiums. Bill Carmello (NY) recommended that, for term policies with large premium increases, companies be prohibited from recognizing future profit on any persisting policyholders.

LHATF also discussed Carmello's memo, in which he made 11 recommendations. Neve replied that ULWG agreed in principle with all of them except one relating to the discount rates used for deterministic scenarios. Carmello wants Treasury rates with no spread, but ULWG believes that is too conservative. The upshot is that some spread will most likely be allowed, but it will be subject to limits.

For the complete current ULWG report, see the AAA website at www.actuary.org.

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