

Thursday, September 7, 2006: Life & Health Actuarial Task Force

A number of items related to the Principles-Based Approach (PBA) consumed most of the time at these sessions, but there was also action on VACARVM and GRET factors.

Report from the AAA Life Reserves Work Group. This group revised the model regulation:

- Incorporated the greatest present value of accumulated deficiencies for stochastic reserves,
- Expanded the stochastic modeling exclusion to give more relief to small companies,
- Added considerations in setting margins and additional disclosure of the effect of each margin,
- Provided more discussion of reserves net of reinsurance and the determination of gross reserves,
- Dropped the “Predetermined Scenario Set” option, but added a “Proprietary Scenario Set” option determined by the company,
- Brought in equity-indexed products,
- Provided additional relief and simplifications for small companies, and
- Made miscellaneous clarifying changes related to group life, company controls, due and accrued investment income and timing of reserve calculations (not more than six months prior to the valuation date).

This group also revised the requirements in Actuarial Guideline PBR-VAL for setting:

- Best estimate assumptions,
- Margins in general,
- Specific margins,
- Reinsurance assumptions, and
- Mortality assumptions, including credibility methodology.

The Work Group noted that it has changed its initial FIT strategy of waiting for an almost final product to discuss with Treasury. In that regard, the ACLI has already begun the dialogue. ACLI tax counsel indicated that the process will take some time (for some unknown reason Treasury does not defer all its other minor projects, e.g., the Federal budget for 2008, to work on life insurance issues), the big issue being stochastic versus seriatim reserve calculations.

LRWG enumerated three critical technical issues that must be resolved:

1. Setting margins with or without consideration of the aggregate impact.
 - a) LRWG recommends the former approach.
 - b) CA asked how an actuary would determine that the final margin was too



- conservative.
- c) There was a long discussion of blocks of policies supporting other blocks and what would happen if the good block were sold.
2. Risk offsets among different product groups.
 - a) LRWG supports it.
 - b) CA suggested allocating the stochastic reserve to each product group, and comparing to the corresponding deterministic reserve.
 - c) Some LHATF members support an offset at the capital level, but not at the reserve level.
 3. Discount rate based on the projected earned rate of actual assets.
 - a) This might create an incentive to invest in risky assets.
 - b) LRWG believes it is adequately addressed.
 - c) NY urged the use of a 50 basis point margin over Treasuries, but many LHATF members were reluctant to support it.
 - d) Some LHATF members believe that conservative margins on asset default assumptions would be a better solution.

LRWG then listed the remaining outstanding items, which are too numerous to be shown here. Thus, although a lot of work has been accomplished, much remains to be done.

LHATF voted to expose the revised regulation and actuarial guidelines for comments.

Report from Various AAA PBA Work Groups. For those of you interested in more details related to PBA than can be provided here, here are some sources of reference:

- AAA will sponsor a webcast on September 28 from 12:00 – 1:30 EDT,
- AAA will conduct an all day meeting and case study on September 17 in Scottsdale,
- www.actuary.org/risk.asp provides updates for all PBA projects and links to more detailed documents.

A number of AAA Work Groups presented status reports, including Consistency, Non-Variable Annuities, Reinsurance, Standards for Stochastic Methods, Economic Scenarios and C-3 Phase III. There is still a fair amount of work outstanding, but the goal of having a PBA law ready for the December meeting of LHATF is still viable.

Finally, the Academy has begun work on a Credibility Practice Note.

GRET Factors. LHATF voted to adopt the proposed tables for 2007 if it receives no adverse comments in the next 30 days. The SOA website has the tables.

Actuarial Guideline VACARVM. Regulators and industry have not been able to bridge the



yawning gap that has existed for some time now. Tom Campbell recommended that LHATF expose for comment a draft submitted by Hartford Life in July. He indicated that although it is not Hartford's preferred approach, he could live with it. ACLI and other interested parties supported the action because it is much closer to C-3 Phase II and it simplifies the calculations. Major issues addressed by the draft are:

- Use of CTE 70,
- No option value floor,
- Less restrictive recognition of revenue sharing, and
- More realistic assumptions of policyholder behavior.

NY firmly resisted such changes, citing companies holding little additional capital on these products and the industry's belief prior to the 2000 market swoon that things were fine then.

LHATF members agreed that exposing the Hartford draft does not mean that it supports the draft, reminding the audience that further study would be required. With that caveat, LHATF voted 9-2 (NY and FL against, and SC and CA abstaining) to expose the Hartford draft.

Report on SOA/AAA Mortality Experience Studies. Larry Gorski reported that the group expects 32 companies to contribute and that the amount of data will exceed the amount received for the SOA's normal mortality updates. In spite of the volume of data, the group still expects to have tables with and without margins ready by March of next year.

This group will derive a tool based upon underwriting criteria submitted by the contributors to derive the preferred and non-preferred splits. The underwriting tool thus developed will be available to non-contributors when the study is complete.

Report on SOA Pre-need Mortality Experience Study. The study has credible data for these products that are typically sold at older ages:

- Data show reverse S&U mortality,
- Mortality for these plans is higher than 2001 CSO at all durations, and
- Mortality for single-premium plans exceeds that of multiple-pay plans in early durations, raising the question of whether multiple tables are appropriate.

This discussion will continue in December.

SOA Report on Pandemic Studies. The SOA expects to present a report on an avian flu study in December.

Disclosure of Extra-Contractual Amounts. This item applies to the reporting of claims that arise from lawsuits. LHATF deferred discussion until the Casualty Actuarial Task Force acts.



Electronic Filing of Actuarial Opinions. LHATF deferred discussion of this item to a future conference call.

Reinsurance Reserve Credits. The main event from June's meeting got short shrift this time. Sheldon Summers has referred this issue to the Statutory Accounting Principles Work Group, so LHATF will defer discussion until the SAP WG asks for input.

Friday morning, September 8, 2006: Accident & Health Working Group

Did not attend, but see the summary report of this Working Group on Friday afternoon.

Friday morning & afternoon, September 8, 2006: Life & Health Actuarial Task Force

Governance and ASOPs in a PBA. The Actuarial Standards Board has begun drafting an ASOP for PBA, but it is not ready for exposure. Regulators expressed some interest in how to disclose and deal with deviations from the standard, given the amount of judgment permitted the appointed actuary.

Donna Claire reported that the AAA Governance Work Group has a subgroup discussing the valuation law and manual, a subgroup studying the concept of a central actuarial examiner team and a subgroup working on other internal governance issues.

The manual is in the outline stages, with more work needed on both the law and the manual.

A central examiner team could assist states without the resources to perform complete financial examinations under PBA. There are a number of issues to resolve before this concept could become real:

- Legal liability (which NAIC does not want),
- Funding,
- Assurance of consistency and comparability to prior results, and
- Coordination with state examiners.

The main internal governance issues under study are (a) clarification of roles and responsibilities within an organization, (b) coordination with other internal management processes and (c) determination of benchmarking sources.

Report of the A&H Working Group. This group plans to:

1. Have a conference call to draft a regulation for individual major medical premiums by



December,

2. Complete a draft of a new health reserve guidance manual by December, and
3. Initiate work on a PBA framework for LTC.

Report from the CADTF/LHATF Joint Subgroup. This subgroup has an act and a regulation for corporate governance in discussion form, but not ready for exposure. LHATF will schedule a conference call to continue its work. Batte remarked that the NAIC (E) Committee might be a better forum than LHATF to discuss corporate governance issues because of the amount of input needed from non-actuaries.

Report from LHATF SVL-2 Subgroup. This subgroup completed a survey of regulators, the results of which it incorporated into a revised draft of the Standard Valuation Law. Since the draft came out so recently, LHATF deferred discussion to two future conference calls.

Charges for 2007. Highlights of what LHATF will recommend:

- The highest priority item is a broad charge relating to PBA. LHATF debated whether to have multiple charges for various aspects of the project, but ultimately settled on a broad charge.
- VACARVM is also a high priority, with a scheduled completion date of June.
- There are 10 other charges, none new except for a group WP table.

LHATF almost removed the charge related to the development of a revised Standard Nonforfeiture Law, but relented in the face of mild industry support for the project. Whew! That was close – 20 years of work almost down the drain!

Report of the AAA Nonforfeiture Improvement Work Group. In its review of how to preserve the linkage of the Standard Nonforfeiture Law to the Standard Valuation Law under PBA, this group indicated that the only major issue is the determination of the nonforfeiture interest rate. The group will continue to study that issue and the determination of nonforfeiture values in general.

Report from the AAA Work Group on the PBA Review. This group presented some recommendations for the review:

- The review is due within 30 days of the Annual Statement filing,
- The Board of Directors hires the reviewer, but the domiciliary state may veto for cause,
- The auditing firm may perform the review,
- A Commissioner may request the report and supporting documentation,
- All filings are confidential,
- The qualifications of the reviewing actuary are the same as the appointed actuary,
- The reviewing actuary is limited to five consecutive years, but the firm that employs



him may continue to do the review, and

- The reviewer may rely on company management and other PBA reviewers.

The ensuing discussion covered these issues:

- LHATF leans toward making the opinion itself non-confidential,
- Some states strongly resisted allowing the auditing firm to perform the PBA review, but there is no consensus among LHATF members,
- There should be one opinion per company, not one for each line of business,
- LHATF members would like to see the review cover capital ultimately, and
- The reviewer would work with the appointed actuary pre-release, and the Work Group foresees that the review might actually begin before the end of the fiscal year.

Other Matters. LHATF will schedule a conference call to discuss a new group Waiver of Premium table from the SOA.

Kudos are due to Mike Batte and LHATF members for covering a lot of ground over these two days quite efficiently.

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