

## ACLI Interim Proposal for New Valuation Standards

LHATF devoted this call to a discussion of the proposal for interim valuation standards that the ACLI presented in December. The ACLI intends it to be a stopgap between the current AG 38, with its redundant reserves, and Principles-Based Valuations (PBV). The industry is remarkably unified in its support of the proposal.

The three components of the proposal are:

- Split of the 2001 CSO Mortality Table into preferred and non-preferred risk classes, primarily for term insurance.
- Use of modest lapse rates for the AG 38 adjustment applicable to UL policies with secondary guarantees.
- Use of a surrender charge offset for non-premium paying UL policies with secondary guarantees.

The ACLI distributed a number of handouts:

- Rates and derivations of mortality tables.
  - Non-smoker: Super Preferred, Preferred, Residual Standard.
  - Smoker: Preferred, Residual Standard.
- Draft of a model regulation to recognize the use of preferred mortality tables.
- Redraft of Actuarial Guideline 38.
- Opinion from a prominent law firm regarding the permitted use of lapse rates in the Standard Valuation Law (SVL).
- Analysis of reserving methodologies and results for term insurance.
- Analysis of reserving methodologies and results for UL with secondary guarantees.

The ACLI then asked LHATF to expose the draft regulation and the draft AG38 revision for comments, citing a number of items in an attempt to satisfy regulators' qualms:

- Adoption of the interim solution will not affect its commitment to PBV.
- Use of lapse rates does not violate the terms and principles of the SVL.
- The result will be a modest decrease in reserves.
- Current AG 38 reserves are highly redundant.
- Use of modest lapse rates reflects the reality that not every insured keeps his/her policy in force even if it is in his best interest to do so.

The ACLI recommended that the proposal apply to issues after 2006.



Then LHATF members had their say, citing the following potential flaws:

- The aggregation of the new mortality tables appears to be 77% of the 2001 CSO Table.
- The effects of preferred underwriting in the tables continue for an unreasonably long time.
- The use of lapse rates is hard to justify under current law, the legal opinion notwithstanding.
- The surrender charge offset should reflect the length of the secondary guarantee.
- The new mortality tables need to get the imprimatur of the SOA.
- With the profusion of multiple mortality classes, there must be concrete rules for their applicability.
- The introduction of new mortality tables might cause adverse tax consequences.

The ACLI effectively rebutted the first two objections and the last one, but LHATF members were not swayed on the others. Nevertheless, LHATF voted to expose the proposal for comments by a surprisingly robust 11-4 margin. Yet a fair number of members voting to expose also had serious reservations about the proposal. Thus the industry still has a yeoman's task to convince regulators of the merits of the proposal.

Donald P. Maves, FSA, MAAA

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