

ACLI Interim Proposal

Paul Graham (ACLI) reviewed a July 24 draft guideline for the use of preferred mortality tables. ACLI used ASOP 40 (relating to the use of X-factors) as a guideline, with input from LHATF member states NE, SC and TX.

The ACLI draft added a definition of “Underwriting Class” based upon premium rate structures. Significant features of the regulation related to Class are:

- Most of the considerations in creating classes read word-for-word from ASOP 40,
- This draft allows separate classes within one policy form if there are significant anticipated mortality differences, such as by policy size, and
- Since an underwriting scoring system has not yet been developed, ACLI thought that inclusion of such a system would be premature.

NY was disappointed that a scoring system had not yet been developed, but the joint SOA/AAA task force is studying that issue. Graham allayed CA’s fear that companies could develop policy forms targeted to preferred risks only and somehow play games with their non-preferred classes.

The draft contains two tests of sufficiency:

- The present value of death benefits over the next ten years using anticipated mortality must be less than that using the appropriate valuation basic table,
- The second test is similar to the first one, but over the remaining lifetime,
- Each class must meet the tests; otherwise the appointed actuary must change valuation mortality,
- The appointed actuary must certify annually that each class meets the tests, and
- The ACLI removed lapses from the calculation of the present values.

Graham then mentioned some highlights of Milliman’s analysis of the effects of the ACLI proposal on UL with secondary guarantees:

- There are modest reductions in reserves from current requirements, and
- The interim proposal produces reserves that are much higher than a principles-based approach.

The joint SOA/AAA task force expects to issue a report by August 25. LHATF agreed to try to schedule another conference call on the interim proposal for late August.

