

VACARVM

LHATF heard comments on the draft of VACARVM that came out of the June meeting. If anything, the gap between regulators and industry (including the AAA Variable Annuity Reserves Work Group, the ACLI and individual companies) has widened.

Industry observers opposed to the current draft cited the following reasons, most of which have been raised many times in the past:

- It is not a principles-based solution,
- It is not consistent with capital requirements,
- CTE (75) produces reserves higher than capital in many cases,
- The Standard Scenario is much too conservative,
- Revenue sharing rules are too restrictive,
- Assumptions related to policyholder behavior are overly formulaic, and
- The option value floor introduces more complexity and is not needed.

New York proposed some adjustments to the option value floor and to the determination of policyholder behavior, neither of which helps in any great way to bridge the chasm.

Mike Batte (NM) appointed a subgroup chaired by Kansas and also including CT, NE, NY and TX to work with VARWG and the ACLI to resolve differences and produce a draft that LHATF could adopt this year to be effective at December 31, 2007. It is an ambitious goal, to say the least.

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