

**AAA Life Reserves Work Group (LRWG) Report**

LRWG reported that it has beefed up the Prudent Best Estimate Assumptions section (Sec. 7B) of the PBR Model Regulation. It now includes guidance for setting margins for risk factors that are not stochastically modeled. Here are the highlights of the new section:

- Prudent Best Estimate assumptions must reflect risk factor dependencies relative to each scenario,
- Margins for each risk factor must reflect the degree of uncertainty and the available experience,
- The actuary should consider the “market price of risk” in setting margins for each risk factor,
- The actuary must disclose an estimate of the impact of the margins for each risk factor,
- The actuary must disclose an estimate of the aggregate margins, and
- The actuary must disclose an estimate of the Margin Ratio, which is the aggregate margin divided by the discounted value of the capital requirement.

LRWG intends the points listed above to be general guidelines; it will include specific guidelines for each assumption in an Actuarial Guideline.

“Market price of risk” for each risk factor can be estimated as the product of the economic or regulatory capital allocation for that risk factor and the excess of the pre-tax market rate of return for such risks over the pre-tax risk-free rate.

LHATF members observed that a number of terms must be defined, such as “risk factor”, “market price of risk” and “economic or regulatory capital”. NY expressed strong reservations that the section as modified allows different actuaries to use differing margins for similar risks.

LRWG will redraft the regulation to include the necessary definitions of terms and to attempt to assuage NY’s concern.

Donald P. Maves, FSA, MAAA

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