LHATF – Actuarial Guideline VA CARVM

On Thursday, May 11, 2006, the Life and Health Actuarial Task Force (LHATF) held a conference call to discuss draft Actuarial Guideline VACARVM – CARVM for Variable Annuities Redefined. The following states were represented: OH, CT, NM, ND, OR, IA, OK, NY, MN, NC, NE, IL, CA, PA, UT, AK, KS. Many interested parties also attended. (7 minutes of roll call).

The original intent of the call was to review some actual company results under various draft proposals. However, results are currently not available. The American Council of Life Insurers (ACLI) is in the process of accumulating company results for the June NAIC meeting. The results will show four sets of calculations: 1- stochastic results at 75 CTE (i.e. current draft), 2- stochastic results at 65 CTE (i.e. former draft), New York's standard scenario results (i.e. current draft), and the ACLI's standard scenario results (i.e. December 2005 draft).

Two issues were discussed: 1- the CTE level (65, 75, or other), and 2- the standard scenario.

Issue 1 – What should the appropriate CTE level be? Was 65, NY introduced 75 (current exposure draft).

- New York expressed that 75 CTE is better because it says more about the tail.
- Kansas offered a new idea. Instead of using just a CTE measure, perhaps you could use 65 CTE plus one standard deviation. Kansas offered to formalize their idea for the June NAIC meeting. No one expressed any interest.
- Connecticut has concerns with using CTE as a measure. Under some product designs and certain scenarios, early profits mask later losses. CT felt that scenarios that show periods of early profits followed by future losses should have a reserve. CT supports NY because 75 is more conservative than 65. CT raises a good point about volatility. One of the little talked about problems with the proposals to date is how volatile the reserves could be.
- Utah said we are basically just pulling a number out of the air. Perhaps we should think about what the reserve should cover and what should capital cover.
- NY suggested that maybe we should be looking at a way to limit a company's level of risk (perhaps 10% of surplus). Risk would be measure using today's inforce and a market drop.

Issue 2 - Comments on the standard scenario

- Kansas is in favor of a simpler version of the standard scenario so that you can verify compliance.

- Nebraska echoed KS comments
- CT likes New York's current version without an option floor.

There was no time to discuss revenue sharing or the standard scenario option value floor. One hour and 15 minutes has been allotted for VACARVM at the NAIC June meeting. The goal is to have a revised exposure draft after the meeting. I'm guessing it's not likely. But I have been wrong before. I thought today's call was going to be cancelled.

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