

LHATF subgroup on Premium Deficiency Reserves

There were 7 regulators and several interested parties on the call. The conversation focused on a proposal drafted by Randall Stevenson, NAIC Life/Health Actuary, to aggregate policies similar to how GAAP aggregates for the purposes of calculating Premium Deficiency Reserves (PDR).

Joe Musgrove (AR), PDR subgroup chair explained that the reason for the paragraph on premium deficiency reserves in SSAP 54 was that there is a requirement for PDR in GAAP and the NAIC, as part of codification, thought that if GAAP required it, SAP should also. Even though SSAP 54 is part of codification, states have not been uniform in interpreting the intention of statutory PDR. The goal of the subgroup is to add language to the Health Guidance Manual for a suggested approach to PDR. As the Health Guidance Manual is not part of codification, states are not required to follow the Manual.

Musgrove explained that the industry definition of GAAP PDR seems to be much more settled than the SAP PDR. Bill Weller, representing AHIP, stated that GAAP PDR reserves are limited to short term deficiencies. Longer term deficiencies are handled by gross premium valuations and reserve adequacy testing.

This proposal drafted by Mr. Stevenson was a replacement for part of a draft from AHIP, which has wanted a more uniform approach to PDR. The AHIP proposal discussed specific lines for aggregations.

Because several state are uncomfortable referring to GAAP, Julia Phillips (MN) proposed a combination of the specified lines language from AHIP with the Stevenson language as background. That generally had the support of 5 of the 7 regulators, with FL and NY wanting to abandon the project. NY was the most vocal about wanting to abandon the project. Apparently NY's current practices are much more restrictive than those in the proposed language. While a change in the Health Guidance Manual will not require NY to change anything they currently do, they didn't want to be alone in their restrictive interpretation.

Bill Weller and several regulators will draft the replacement language based on Julia Phillips' suggestion. The new language will be reviewed on a conference call and then taken to LHATF at the summer meeting.

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