

LHATF – Actuarial Guideline VA CARVM

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: ND, NE, OR, NM, OH, SC, CT, NC, MN, PA, KS, AL, NY, FL, UT, CA, AK, TX. Many interested parties also attended.

The agenda for the call was as follows:

- 1- Discuss recent changes submitted by New York.
- 2- Discuss ACLI Letter
- 3- Discuss Hartford Letter

Review of New York changes (Fred Anderson)

- 1- 21 changes were made, 7 were deemed “material”
- 2- None of the changes addressed any of the industry’s concerns:
 - a. CTE level (65 or 75)
 - b. Removal of an option valuation floor
 - c. More liberal stance on revenue sharing
 - d. Aggregation issue

Review of ACLI Letter

- 1- The ACLI met with New York and other regulators on 4/6/2006 for 3 hours.
- 2- The conclusion of the meeting was that no compromises could be made until some real numbers have been reviewed.
- 3- ACLI has requested data from member companies.
- 4- Data will arrive in early May.
- 5- Results will be put together by the end of May in time for the June NAIC meeting.
- 6- ACLI can’t support the current version of VA CARVM
 - a. Too many difference on fundamental issues
 - b. Limited revenue sharing
 - c. 65 CTE versus 75 CTE
 - d. Lack of an apparent need for an option floor (stochastic scenarios already address this)
 - e. Lack of a well defined approach for the option floor
 - f. Limited margins during the surrender charge period
 - g. Potential tax problem for using treasury rates for discounting tax reserves
- 7- The ACLI suggested that LHATF needs to make some decisions about principles based reserves in general:
 - a. How should reserves relate to capital requirements (currently might exceed capital requirements)?
 - b. How do we know if the modeling has been done correctly?
 - i. management review
 - ii. minimum floors



- 8- The ACLI volunteered to have meaningful discussions on a face-to-face basis. Claimed that hour-long conference calls were not productive.
- 9- A regulator questioned whether or not some sort of compromise could be reached on some of the issues. Neither the ACLI nor New York seemed prepared to budge on current positions prior to seeing any results.

Review of Hartford Life Letter (Tom Campbell)

- 1- Concludes that Hartford's reserves would be held at the standard scenario level under today's current proposal.
- 2- Commented that 70 CTE would be better than 75 CTE.
- 3- Suggested the following standard scenario changes:
 - a. Remove option cost method
 - b. Instead of CMT rate use valuation rate less 50 basis points.
 - c. Guaranteed revenue sharing should be allowed in the standard scenario
 - d. Dynamic lapse assumptions and utilization should not be prescribed.
Companies should be able to address these issues head on.

In summary, today's discussions resulted in no new developments for VA CARVM. Although the next conference call is scheduled for May 11th, it is hard to imagine that anything meaningful will be discussed before the June NAIC meeting (i.e. until after the ACLI has had a chance to review some numbers). In fact, I predict the May 11th call will be cancelled.

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