

**LHATF – Actuarial Guideline VA CARVM**

On Wednesday, January 25, 2006, the Life and Health Actuarial Task Force (LHATF) held a conference call to discuss updates from the Variable Annuity Reserve Work Group (VARWG) and comments on the December exposure of VA CARVM. The following states were represented: NM, AL, AK, AR, CT, KS, MN, NE, NY, OK, OR, PA, TX, UT, IL, KY, NC, OH, District of Columbia, VA. Several interested parties were also represented.

The agenda for the call was as follows:

- 1- Appoint the 2006 Accident and Health Working Group
- 2- Update from the AAA Variable Annuity Reserve Work Group
- 3- Review of written comments received since the December 2005 meeting
- 4- Planning for a call on February 8, 2006

Item 1 – The new 2006 Accident and Health Working Group was appointed. OH and CA have been added to the subgroup.

Item 2 – Tom Campbell discussed an update from the VARWG. The changes were mainly for references and spelling. These are changes from the most recently exposed December 2005 version. The AAA recommended that these changes be made to the exposure draft.

Item 3 – American Council of Life Insurers (ACLI) additional changes – John Bruins discussed changes he would like to make to the December 2005 version of the standard scenario.

- 1- Recommended that an issue year plan type A valuation rate with guaranteed duration greater than 10 years be used for the valuation rate.
- 2- Recommended that imputed charges be allowed. Also defined what the imputed charge should be. They should be determined at issue and should be determined from the stochastic runs in that year. These charges would remain constant from that point forward.
- 3- Clarified the in-the-moneyness (ITM) calculation. At the start of each projection year, the ITM should be determined for that year.
- 4- Talked about changes for unexercised GMIBs.
- 5- Introduced new lapse rates for the year surrender charges go away and later years.
- 6- Also wanted aggregate reinsurance to use discount rate plan type A, duration 10 year or greater on an issue year basis for current year calculations. This rate would also be used for hedges.
- 7- In determining a liquidation value, the five year treasury rate should be used for valuing options.



CA – why use guaranteed duration 10 year or more?

ACLI - Benefits generally have long waiting periods, so a guaranteed duration of 10 years.

Item 4 – NY discussed its revised version of the December 2005 exposure. NY prepared an entirely new document to replace the December version. NY believes that their most recent proposal is a substantial compromise from the April 2005 standard scenario requirements. They accepted a number of changes that the ACLI introduced in December. The main changes are as follows:

- 1- Eliminated a number of the floors (was 5 or 6); now is 3.
- 2- Kept an option value floor. You can make an estimation of what the option value floor would be. Important for companies to know what the capital market value would be for these benefits.
- 3- Changed the lapse rates back to April's rates.
- 4- Changed the drop and recovery assumptions. Now equity drop and recovery is changed to 7% and 5% respectively.
- 5- Discount rate should be a market rate.
- 6- Felt it is not appropriate to have implicit charges.
- 7- Would like to change the CTE level to be 75 instead of 65.
- 8- Revenue sharing should be contractually guaranteed. Must be guaranteed to a successor.
- 9- Commented that the first 2 lines of Page 7 of the NY document should be omitted.
- 10- Margins for adverse deviation should be included in the definition of prudent best estimate.
- 11- GMAB election rate should be 100% at the earliest exercisable date, if in the money.
- 12- Hedging should be approved by the company's Board of Directors and not by a committee selected by the Board.
- 13- Prudent to assume that policyholders will act in their interest and not the company's interest, especially when there is little or no experience.
- 14- Made a motion to expose this version as the official LHATF version.
- 15- CA seconded.

Questions or comments.

TX – It's hard to assess the impact of these changes. Page 10, why do we need to know the effectiveness of hedge information. Additionally, they have a reservation of moving from 65 CTE to 75 CTE.

NY – We want to know the effectiveness of any hedges that are on the books. Company would not have to liquidate after one year for this purpose.



ACLI - John Bruins

- 1- We continue with our analysis.
- 2- Before our version is discarded, we would like to show our numbers.
- 3- Standard scenario should be simple and should be a floor to the 65 CTE.
- 4- Option pricing floor, calculation is done at the contract level, but the comparison is done at the aggregate level. Seems like too much.

AAA – Tom Campbell – are the AAA comments being considered in these changes?  
NY – Not at this time.

To this listener's surprise, the motion passed by a healthy margin of 12-4. The next conference call is scheduled for February 8<sup>th</sup>. It appears that VA CARVM may finally be picking up steam. It is evident that much work is starting to happen between calls. The most recent exposure draft has an effective date of 12/31/2006.

Timothy P. Gaynor, FSA, MAAA

25 January 2006

