

ACLI Interim Proposal

A sellout crowd, as evidenced by the attendance of a perfect 19-of-19 LHATF members, a few Commissioners and over 75 interested parties, jammed the rafters for this call. LHATF met to hear a review of the mortality proposal of the ACLI and then to vote on the entire interim proposal.

The AAA/SOA Joint Review Team presented the conclusions of its review of the split of the 2001 CSO Table into preferred and residual classes:

- The method and assumptions used to develop the tables meet actuarial principles and practices,
- It would not be unreasonable to adopt these tables as an interim measure,
- The Team expressed no opinion on the resulting reserves or on non-reserve uses such as nonforfeiture,
- Prevalence rate assumptions (i.e., distributions of the various risk classes) appear to be reasonable, but they reflect historical results that might not continue, and
- Regulators must consider providing guidance to companies in the use of these tables.

Bill Carmello (NY) had mild qualms about the prevalence assumptions, but industry representatives assuaged regulators' fears by reminding them that the tables (a) are interim in nature and (b) do not create any tax problems.

LHATF Chairman Mike Batte (NM) then sought a motion to vote on the ACLI proposal, which includes a regulation to recognize multiple risk classes and a revision to AG 38 to allow lapses on UL with secondary guarantees. He got it, but it took a while to get there.

Mike Boerner (TX) moved to vote on the regulation alone, without the requirement to report experience, ostensibly to give states time to adopt it. There was resistance to the removal of reporting experience, so it was kept. Even so, some states worried about the costs to small companies.

Some regulators had come into the call expecting to vote the entire package up or down, so a lengthy discussion ensued. TX and other states have significant reservations about the use of lapse rates and thus have a hard time accepting the revision to AG 38.

Blaine Shepherd (MN) fired a shot across the industry's bow when he remarked that the ACLI proposal has been a distraction from principles-based reserves, a charge that he noted has been made by industry to LHATF on many other occasions.



Boerner thought that LHATF should consider a sunset provision and some form of asset adequacy analysis. Commissioner Poolman (ND), Chairman of the Life Insurance and Annuities (A) Committee, promised to work with LHATF on those issues.

LHATF ended up amending the motion to vote on the entire package, and it passed by a surprisingly strong 12-3 with 3 abstentions – so surprising in fact that an unidentified interested party muttered a barnyard epithet when NY voted Yes.

Although Chairman Batte did not vote, he concluded the call with withering opinions of the project:

- LHATF, as a technical advisory group, should not be forced to make politically expedient decisions,
- Lapses are not part of the Standard Valuation Law, and
- He apologized for letting the project develop the way that it did.

The (A) Committee has scheduled a conference call on Thursday to discuss today's recommendation by LHATF.

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