

**Friday, March 9, 2007: Life & Health Actuarial Task Force**

Chairman Mike Batte (NM) could not attend, but Vice-Chair Larry Bruning (KS) ably ran the meeting. LHATF focused on the Principles-Based Approach (PBA) to reserves on the first day.

Overview from the AAA PBA/SVL-2 Steering Committee. Donna Claire presented an overall status report:

- AAA expects most of the work to be completed by the end of this year,
- The main focus now is the Valuation Manual,
- The Life RBC Work Group has an exposure out for comment,
- The Annuity Reserve Work Group is studying consistency among commercial models, and ways to reduce long processing times, and
- The next informational webcast is March 21.

Report from the AAA Life Reserves Work Group. Dave Neve and Gary Falde summarized the recommended changes. Many of them were clarifications or shifts in location. The major ones are:

- The former regulation and guidelines are now part of the Valuation Manual,
- The actuary may select the credibility method if it meets certain conditions,
- AAA added a Provision for Model Understatement (PMU - see below), and
- AAA made various changes to modeling derivatives (see below).

The purpose of the PMU is to adjust for material approximations, simplified assumptions, simplified techniques and limitations of models to handle complex derivative programs. Its main features are:

- It can not be negative,
- It does not add to or supercede other requirements,
- There are no specific requirements on the method used to determine PMU, and
- The Practice Note will describe possible approaches.

The main changes to derivative modeling are:

- It Includes hedging and non-hedging strategies,
- There may be "asset" programs or "liability" programs that are treated accordingly with the appropriate cash flows,
- Existing derivatives are always modeled,
- Future hedging that qualifies as a Clearly Defined Hedging Strategy (CDHS) is modeled,



- Future hedging that is not CDHS is not modeled,
- Future non-hedging strategies are always modeled,
- For the stochastic modeling exclusion, existing positions are always modeled but no future transactions may be modeled, and
- Certifications are required from the actuary and from a financial officer (similar to VACARVM).

LRWG outlined these outstanding technical issues:

- Assumption margins - aggregate vs. individual,
- Margins when experience is lacking,
- Risks to be excluded from reserves,
- Non-proportional or catastrophic reinsurance,
- Derivative modeling,
- Grading period for mortality credibility weighting,
- Calculation of the Margin Ratio, and
- Non-guaranteed elements.

LRWG indicated its priorities for the rest of 2007:

- Resolution of technical issues,
- Recommendations for prescribed elements such as CTE level, spreads on reinvested assets, interest and equity assumptions for deterministic reserves,
- Additional product modeling and analysis,
- Incorporation of the results of discussions between ACLI and Treasury,
- Review of comments received on the exposure draft, and
- Address simplified approaches.

LHATF voted unanimously to expose the latest draft for comments. Note that this does not necessarily mean that individual regulators support the proposal in its current form.

Norm Hill then presented an AAA subgroup report on possible simplified approaches to help small companies, although not restricted to just those companies:

- Phase-in by product type, starting with the most complex,
- Simplified variations of the current LRWG model:
  - Deterministic reserves unless a test (to be defined) indicates stochastic is required, or
  - Use of a simplified exclusion test that would permit Deterministic Reserves, combined with a simplified approach to setting prudent estimate assumptions.
- Simplified variations outside of the current LRWG model:



- An “opt-in,” whereby the actuary classifies the reserve method for each product as formulaic, deterministic, or current LRWG - with appropriate justification,
- A seriatim GPV under anticipated assumptions with a provision for risk, or
- A seriatim deterministic reserve, with a stochastic exclusion test based upon extreme scenarios predefined by regulators.

Obviously there is a lot of remaining work to resolve these simplified approaches and which ones ultimately to use. Although regulators have appeared sympathetic to the problem, they had no comments today.

Report from the AAA Economic Scenario Work Group. Larry Gorski reported that this WG is concentrating on:

- Reparameterization of the existing C-3 Phase 1 interest rate model, focusing on the target long rate, spread and volatility, and
- Calibration criteria for interest rates and equity returns.

Bill Carmello (NY) expressed concern about a “pop-up” interest scenario, but others were also leery of low interest scenarios because of product guarantees.

Report from the AAA Project Oversight Group. This POG manages the mortality table determination:

- It considered tables varying by face amount, but ultimately rejected that approach,
- It continues to refine its underwriting criteria scoring (UCS), and
- It estimates the final number of tables to be 4-6 for nonsmokers and 2-3 for smokers; since they will be sex-distinct, that means 12-18 tables.

Actuarial Guideline VACARVM. The AAA VARWG and the ACLI each recommended a slew of changes to the exposure draft, many of which were similar, most of which were clarifications, and none of which provoked controversy.

Carmello remarked that he would recommend no lapses under the equity and bond haircut scenarios. He also opined that dynamic hedging is unlikely to be effective.

LHATF has sent its comprehensive survey to the top 25 VA writers and agreed to defer any action until it receives the results of the survey. LHATF plans to have two conference calls, one of which will address any questions about the survey before companies begin to respond and thus will have to occur soon.

SVL-2 and Valuation Manual. The main item of note from the AAA Team is that the contents of the model regulation and the two guidelines are now in the Valuation Manual itself. Various subgroups continue to work on reporting requirements, coordination with the



Accounting Practices and Procedures Manual, independent review, experience reporting and small company issues.

This led to an extended discussion of the Reviewing Actuary. Bruning indicated that KS could not legally accept a Reviewing Actuary chosen by the company and not by the Commissioner. Other states voiced the same problem. Carmello had the same concern, but seemingly from more of a philosophical than a legal perspective.

Additionally, some states would need legislative approval every time the Valuation Manual changes.

LHATF then turned to the seriatim cash value floor. There is a question of whether it should be in the SVL itself or merely in the Valuation Manual. NY wants a seriatim floor of max {CV, PV of cash flows} so that such products as term and SPIA have meaningful floors.

LHATF plans to schedule two conference calls to address these sticky issues and such other issues as revised principles and reserves versus capital.

Nonforfeiture Improvement. The AAA Work Group distributed a list of questions about the direction of the project for which it seeks guidance from LHATF. There was no further discussion.

SOA Progress Reports on Mortality Studies and Pandemic Study. The SOA finished the pre-need basic mortality table. The next step is the addition of margins, with the goal being to replace the 2001 CSO for tax purposes by 2008.

The SOA has completed research on the life insurance pandemic study and expects to issue a report in June. It will then proceed to the pandemic study for health insurance.

The Cancer study is behind schedule. The SOA needs more contributors and will report in June on its efforts to get them.

### **Saturday morning, March 10, 2007: Accident & Health Working Group**

Did not attend, but see the summary report of this Working Group on Saturday afternoon.

### **Saturday afternoon, March 10, 2007: Life & Health Actuarial Task Force**

Report of the A&H Working Group. The AHWG took these actions at its morning meeting:

- Received a report from its LTC PBA Work Group,



- Revised the Health Reserve Guidance Manual,
- Continued to study revisions to the actuarial opinion for health insurance, and
- Made minor changes to the LTC Experience Reporting Form for the Blank.

Group Term Life Waiver of Premium Model Rule. LHATF asked the AAA to review the proposed tables with and without margins.

Discontinuation of Models 814, 820 and 822. Periodically the NAIC asks LHATF to review the need for retaining various model regulations. The three models in question are the recognition of the 2001 CSO table, the Standard Valuation Law and the AOMR. Everyone was shocked! - shocked! - that LHATF voted to retain these three models.

Referral from Risk Assessment Work Group. This is a request to aid state examiners in the use of risk assessment techniques. LHATF will address the issue in two executive session (i.e., no interested parties) conference calls.

Actuarial Guideline TAB. AG TAB was once known as the “ACLI interim solution”. Carmello has strong reservations about the use of judgment to determine mortality tables if relevant experience is not sufficient to form an assumption. He pushed for a more scientific basis. The ACLI cited the power of the Commissioner in the regulation to reject any choice or to require a rigorous demonstration of experience, and also cited preliminary results from the SOA POG to attempt to show that the ACLI’s tables are reasonable. The parties do not seem that far apart, but they reached no agreement today.

In light of this issue and some minor editorial changes to AG TAB, LHATF will hold a conference call to get an acceptable version for re-exposure.

Standard Nonforfeiture Law. LHATF deferred action on this project, which addresses the issue of the removal of the linkage between the nonforfeiture interest rate and the Standard Valuation Law because of PBA.

Other Matters. A few issues were cited, but nothing earthshaking. The issues included an NAIC-approved statistical agent, patents for business processes and travel assurance for the transportation of the remains of a deceased individual.

With Daylight Savings Time looming just hours away, and more importantly some major conference basketball tournaments still in progress, LHATF adjourned.

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