

**Friday, June 1, 2007: Life & Health Actuarial Task Force**

LHATF had another well-attended first day, which concentrated on the Principles-Based Approach (PBA) to reserves and capital. However, Larry Gorski missed the meeting, perhaps for the first time in over 30 years as either a regulator or a private consultant, calling into question whether it is even legal to hold a LHATF meeting in his absence.

Changes in the NAIC Model Law Process. The new process affects all task forces of the NAIC. For any task force to consider a model law or regulation, it must get approval from its parent committee and the Executive Committee, such approval requiring a two-part test:

- The issue necessitates a national standard and requires uniformity among all states, and
- NAIC members must be committed to devote significant resources to support a model that has been adopted.

Essentially uniformity means that at least 2/3 of the states must commit to adoption with no substantive changes from the model. Surprisingly, of the more than 25 Models passed since the mid-1990s, only 2 have been adopted by more than 25 states.

Overview from the AAA PBA/SVL-2 Steering Committee. Donna Claire presented an overall status report and the activities of some of the subgroups. Other subgroups had specific time allotted for their reports below. The main points of the overall report were:

- AAA is coordinating its work with international developments, although there will most likely be differences due to specific country taxation policies if nothing else,
- Targeted timeframes now are 12/31/2008 for life RBC and 1/1/2010 for PBA,
- The main focus currently is the Valuation Manual,
- The Annuity Reserve Work Group has focused on how annuity treatment will differ from life for scenario reserves, the stochastic modeling exclusion, Separate Account reserves and assumptions for mortality and policyowner behavior,
- The ASB developed some early stage discussion drafts of ASOPs, not near being ready for exposure yet, and
- The Analysis Work Group expects to have the results of its comparisons of 5 actuarial modeling systems in September.

With the incredible amount of activity related to this project, the AAA recommends visiting its website and tuning in to its next webcast on June 20.

Report from the AAA on Capital Requirements. The AAA has formed a number of groups to investigate issues affecting life capital, annuity capital and economic scenarios. They have the following recommendations:



- The scope should be broad, not restricted to those policies in the LRWG scope,
- The Total Asset Requirement (TAR) should be set at CTE(90),
- The TAR calculation is after-tax,
- The actuary may choose scenarios from (a) an AAA generator, (b) AAA supplied scenarios with a scenario picking tool or (c) a proprietary generator subject to calibration criteria, and
- Assumptions are determined by Prudent Estimate, reflect the company's investment policy, and involve criteria for treatment of hedges and reinvestment spreads.

Report from the AAA Economic Scenario Work Group. This WG has focused on 2 issues:

- Updating the C-3 Phase 1 RBC Stochastic Log Volatility (SLV) model, and
- Establishing calibration criteria for reserves and capital.

This report will be completed by September.

Report from the AAA Reinsurance Work Group. This WG has a number of items on its agenda:

- Allocation of aggregate reinsurance cash flows,
- Adjustment of the cash value floor for reinsurance (such as non-proportional),
- Differing assumptions between ceding company and reinsurer,
- Treatment of agreements that do not meet the requirements for reinsurance accounting,
- Assets held by other parties,
- Financial impairment of either party to a treaty,

See the website for the myriad of details regarding reinsurance.

Report from the AAA Preferred Mortality Project Oversight Group. There are also too many details from this group to list here, so once more you should visit the website. Here are the main points:

- The group used SOA experience data from 2002-4,
- The group supplemented the SOA data with other data where credibility was lacking, such as females, smokers and older issue and attained ages,
- Preferred classes will utilize Underwriting Criteria Scoring (UCS),
- Final tables will be available in September, with male non-smoker expected to have 3-10 tables, and
- Outstanding issues are the wearing off of preferred underwriting, fit vs. smoothness, improvement factors through 2008 and table variation by amount of insurance.



Report from the AAA Life Reserves Work Group. The LRWG has made many non-substantive changes to its draft, plus the following substantive ones:

- The actuary must determine margins for each risk factor independently unless he can demonstrate co-variance of risks or another appropriate approach,
- The “Provision for Model Understatement”, although not called that now, applies to the Stochastic Reserve only,
- The actuary does not need to disclose the Margin Ratio,
- The group included a method for allocating aggregate reinsurance cash flows to each contract,
- The “company” determines the reserve, not the “actuary”,
- The definition of Reported Reserve, while not changing the amount of the reserve itself, now comports better with the Federal tax code, and
- There are now two possible simplifications to help small companies and companies with less risky products.

The two simplification tests are still in the formative stages, but they might work like so:

- Use of a small (e.g., 10-12) number of prescribed scenarios, similar in concept to the “NY 7”, with a measure of the degree of variability needed to pass.
- For policies shown to have no material tail risk at issue, user of a deterministic GPV reserve with conservative margins.

BY the end of this year, LRWG expects to:

- resolve all outstanding technical issues,
- develop recommendations on CTE level, interest and equity assumptions for the Deterministic Reserve and net spreads on reinvestment assets,
- Perform additional modeling,
- Incorporate suggestions from Treasury, and
- Provide concrete simplified approaches.

LHATF voted to expose the document with the changes outlined above, with all in favor except NY. NY has issues with policyowner behavior items and wants caps on net asset earned rates.

Report from AAA on Valuation Manual. The AAA Valuation Law and Manual Team has four subgroups working on (1) reporting and review requirements, (2) the Valuation Manual itself, (3) experience reporting requirements and (4) treatment of products with less risk.

AAA will deliver a substantially complete Valuation Manual in September.



The ACLI raised issues of implementation and uniformity among states, suggesting a phase-in of the reporting requirements. NY indicated that it will propose that both formula-based reserves and PBA reserves be calculated and reported for one or more years. Industry was not enamored of that idea, and one interested party rebutted that the first few years will exhibit little difference since PBA is not retroactive.

SVL-2 Subgroup. This LHATF subgroup itemized many issues related to the drafting of a new Standard Valuation Law, such as scope, filing of actuarial opinion in all states, frequency of reviews, exemptions for companies operating in a limited number of states, and others. This subgroup will schedule one or more conference calls to resolve all the issues and complete the draft.

SOA Progress Reports on Mortality Studies and Pandemic Study. The first part of this session covered the new basic tables for pre-need insurance. The essence of the discussion in a nutshell is that there might not be enough time to develop valuation tables effective 1/1/2008. Since 2001 CSO becomes mandatory then for tax reserves, and since the basic tables produce much higher statutory reserves, the tax/stat differential will be huge. LHATF will explore the possibility of extending the 1980 CSO table for pre-need only, until the new valuation tables are effective.

The SOA presented the results of its research on pandemic studies in the last part of the session. Although there is no immediate regulatory impact, the SOA encourages you to visit its website next week to see how the group performed the study and what they concluded.

Actuarial Guideline VACARVM. The AAA VARWG recommended changes to the model based upon comments received from the ACLI. Neither group diverged widely from the other; it was merely a matter of fixing the language.

LHATF had sent its comprehensive survey to the top 25 VA writers and deferred any action until it receives the results of the survey. The survey deadline is July 1.

### **Saturday morning, June 2, 2007: Accident & Health Working Group**

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

### **Saturday afternoon, June 2, 2007: Life & Health Actuarial Task Force**

Report of the A&H Working Group. The AHWG summarized its morning meeting:

- Continued work on the Health actuarial opinion,
- Reviewed the Med Supp refund formula, depending upon Federal changes to the



- law,
- Neared completion of revisions to LTC experience reporting forms that will make the 2008 Blanks,
  - Discussed group term life WP reserves,
  - Received a “white paper” from AR and NE outlining options for states to make regulatory changes to Individual Major Medical, and
  - Requested approval to work on a Med Supp regulation.

Risk Assessment Subgroup Report. NY promised a document in 2 weeks and a final report by September. The document would aid examiners in assessing the risk characteristics of a company under examination.

Statistical Agent. This purpose of this project is to provide guidance to LHATF for the oversight of statistical agents that would be collecting mortality data. Tom Rhodes (MIB) devised a data format (similar to the ones used in the SOA’s data calls) and a simplified version for small companies (defined as companies having less than \$25 million of ordinary life premium in the prior year).

The ACLI cautioned that there are a number of potentially sensitive issues such as scope of data, how it will be used by regulators and confidentiality. NY agreed to chair a subgroup of LHATF (with CA, FL, NE, OH and SC) to address these issues.

Actuarial Guideline TAB. LHATF unanimously approved a May 2 draft supported by the ACLI. This guideline introduces preferred/residual mortality rates and lapse rates into XXX/AXXX calculations.

Group Term Life Waiver of Premium Model Rule. The AAA Work Group is researching the proposed group term life WP table, specifically margins, the use of company experience in reserve determination and appropriate interest rates. The WG promised a report by September that will include valuation tables and an implementation model regulation.

The ACLI opined that the existing margins seem quite strong. It also recommended that the use of credible experience be permitted, the use of an interest rate equal to the SPIA rate less 100 basis points, and that companies have the option to use the new table on existing claims.

LHATF agreed to permit the use of credibility-weighted company experience.

Presentation by ABCD/ASB. Julia Philips (MN) and Cecil Bykerk, members of ABCD and ASB respectively, provided an in-depth look at how these two groups operate and how their activities affect the working actuary. They encouraged the audience to visit their groups’ websites, both of which can be accessed through the AAA website.



Nonforfeiture Improvement. The ACLI recommended that LHATF drop this project in light of all the activity related to PBA, the complexity of public policy issues that need to be addressed and the magnitude of the project. Many LHATF members vehemently disagreed, so this 20-year on-again/off-again project will continue.

Other Matters. LHATF exposed 2008 GRET factors for comment. These are voluntary expense factors available for the Illustration Regulation. LHATF noted that the SOA advisory group expanded the number of market/agent categories significantly.

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