

Preferred Mortality Structure for PBA

The SOA/AAA Joint Preferred Mortality Project Oversight Group (POG) presented a status report on its development of valuation mortality tables. The main speakers for the POG were Al Klein (AIG), Dieter Gaubatz (Swiss Re) and Mary Bahna-Nolan (PwC).

The POG has made great progress in the development of an Underwriting Criteria Algorithm, essentially a “scoring” system for companies to determine where their various risk classes fit vis-à-vis the valuation mortality tables being developed. Based upon actual underwriting standards contributed by companies, the algorithm considers nine items (cholesterol, personal medical history, alcohol and drug use, build, blood pressure, family history, driving, tobacco use, and “other”). The POG derived weights and a scoring system for each item such that companies can compute an overall Underwriting Criteria Score (UCS) for each class.

In the next step the POG developed a Relative Risk Ratio (RRR) that varies by UCS and attempts to provide predictive value of the preferred risk criteria. The RRR determines the first duration mortality rate. Later durations are subject to a “preferred wear-off”, which persists until attained age 90 (or two years if greater).

Finally, the POG is developing primary mortality tables to which companies will apply the UCS/RRR method. The main source is 2002-04 data from inter-company studies done by the SOA.

While all of the above items are in “draft” form only and there are still issues to be resolved before it can be formally presented to LHATF, the POG appears to be in the home stretch of this key project. The project is being presented to all 19 members of LHATF; the main respondents are Larry Bruning (KS), Bill Carmello (NY), Sheldon Summers (CA), John Rink (NE) and Alan Elstein (CT).

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