

Thursday, December 4, 2008: Life & Health Actuarial Task Force

Although the primary focus of the LHATF meeting was PBR, there was keen interest in the ACLI proposal for immediate (12/31/08) capital and surplus relief. The latter item arose at other sessions beside LHATF. In short, the NAIC did not take final action on it, and the write-up of today's session and the sessions on Friday and Saturday provide the details.

NAIC intends to add a staff actuary, preferably one having a background in health insurance.

Mortality Tables and Margins. Since the Valuation Basic Tables (VBT) are complete, the next step is the development of valuation tables. The discussion centered on two methods: (a) VBT with a method for adding margins, or (b) fully loaded tables. In (a), each company would determine its margins, based on its own product characteristics. In (b), the tables are fixed. ACLI prefers (a).

Another complication is that LHATF wants the joint SOA/AAA subgroup to develop "CSO tables" for both the Net Premium method (see below) and the determination of nonforfeiture values.

LHATF postponed a final decision and asked the joint subgroup to provide comparisons of the effects upon reserves of the 2001 CSO tables and the "2008 CSO" tables. The latter tables would be VBT plus appropriate loadings.

PBR Process and Coordination Subgroup. This subgroup reported that it proceeds apace on the instructions for the current Exhibit 5A (Changes in Basis of Valuation) and new Exhibit 5B (untitled, but a breakdown of PBR reserves by product type).

It will also continue work on VM-0 (PBR introduction and broad overview) on a conference call. Finally, it expects to report a finished VM-1 (definition of terms) at the next LHATF meeting in March.

Economic Scenarios. The Academy Economic Scenarios Work Group (ESWG) reported that it has provided a prescribed generator with updated parameters for testing, and it recommended calibration criteria so that companies can use their own generators. The primary differences in assumptions and methods from the original C-3 Phase I are:

- A "soft" cap of 18% for the long rate ("soft" means that the limit applies before any random shock),
- Monthly variation of the long rate volatility,
- More weight to recent history in the mean reversion parameter,
- Automatic annual updating of the mean reversion parameter, and

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- Curve completion method based on historical relationships, not a parametric formula.

The above report might be moot, however, since LHATF reiterated its preference for prescribed scenarios. LHATF has long been reluctant to let companies generate their own scenarios.

PBR Reinsurance Subgroup. The long-running bone of contention between industry and regulators, whether current risk transfer rules are necessary under PBR, continued. LHATF, in support of keeping them, cited potentially manipulative treaties such as one in which a company cedes the cash value for one day only (January 1), thus avoiding the cash value floor. The Academy countered that reflecting the expected cash flows of all treaties puts a sound value on the reserves.

LHATF did not buy the argument, changing VM-20 to reflect its position, but agreed to study the options.

Lunch. I only mention this because while the meeting broke for lunch, LHATF went into a scheduled two-and-one-half hour executive session (i.e. no interested parties allowed) to consider the ACLI capital and surplus proposal. It actually ran almost 30 minutes overtime. See the next item for a report on LHATF's conclusions.

ACLI Capital & Surplus Proposal. In November, the ACLI requested reserve and capital relief for certain life insurance policies and variable annuity contracts in light of the current economic turmoil. Some items related to capital, investments, and accounting, which LHATF did not discuss. Here are LHATF's conclusions on the reserve portions. Note that the numbering scheme comes from the ACLI document, which is currently on the NAIC website - www.naic.org:

1a (life): For the Interim Solution, ACLI proposed allowing the 2001 Preferred Mortality Tables to be used for any 2001 CSO product. LHATF agreed.

1c (life): For the Interim Solution, ACLI proposed allowing the 2001 Non-Preferred Mortality Tables to be used for determining segments within AG 38. LHATF agreed.

2 (life): ACLI proposed to eliminate artificial constraints in Regulation XXX for the calculation of X-factors. LHATF agreed.

1b (life): ACLI proposed making Section 8C of AG 38 retroactive to 7/1/05. LHATF thought that its approval could lead to potential problems, and so did not support it.

1 (VA): ACLI proposed eliminating the redundant use of the stand-alone asset adequacy analysis required by AG 39 for guaranteed living benefits. LHATF thought that its approval

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might cause difficulty in the current environment, but otherwise agreed that it was actuarially sound.

Note that LHATF did not give any rationale for its decisions, and there was no discussion. Also note that LHATF is only the first stop for these proposals, and they must clear the complete NAIC approval process to become effective.

Net Premium Reserves in VM-20. The ACLI proposed a Net Premium Reserve component for Life PBR. The ostensible reason is to cut the amount of work needed, especially in light of how economic conditions can change rapidly. Depending upon criteria to be established, products would be subject to (a) NP only, (b) NP and deterministic, or (c) NP and stochastic.

LHATF had no reaction, other than that it will consider this method.

PBR Life Subgroup. This is another example of a long-running bone of contention – discount rates. Once again we heard the Academy’s case for no caps, and once again we heard LHATF’s concerns about industry’s use of inappropriate default rates. LHATF still maintained that it must prescribe default rates because historical rates are not necessarily realistic.

Friday Morning, December 5, 2008: Capital & Surplus Relief (Executive) Working Group

This recently-formed group of Commissioners intends to respond to the ACLI proposal on capital and surplus. Attendance was high for this half-hour session, although there was no real action.

A couple of consumer advocates complained about the lack of transparency on this project. Commissioners responded that the extraordinary nature and urgency of the request forced them to act quickly, and promised an open process. Both sides having made their points, the meeting drew to a close.

The WG discussed no part of the proposal, but indicated that a decision would be forthcoming as soon as possible this month.

Friday Morning, December 5, 2008: Accident & Health Working Group

Did not attend, but see the summary from the LHATF meeting Friday afternoon.

Friday Morning, December 5, 2008: Life & Health Actuarial Task Force

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PBR Reporting and Review Subgroup. LHATF exposed a revised draft of VM-30 (AOMR). The main point is that states would prefer opining actuaries to use prescribed language if at all possible, since it makes it easier to review.

PBR Experience Reporting Subgroup. LHATF broadened the small company exemption for mortality experience reporting in PBR and Model Regulation 815 (AXXX).

The ACLI questioned the need for the requirement of extensive reporting of experience data by any companies, citing concerns about the purpose and use of such data and the cost of providing them. Arguing that the required documentation is in itself quite extensive, the ACLI got LHATF to agree to continue the discussion at the next meeting.

Friday Afternoon, December 5, 2008: Life & Health Actuarial Task Force

International Developments. A panoply of presenters gave LHATF an overview of the current status of international financial reporting developments. For those of you readers who follow that project, there was nothing new to report. However, with LHATF having a full plate domestically, many of its members appreciated the update.

The gist of the presenters' remarks was that, since there is a possibility that U.S. GAAP will disappear, and since U.S. statutory follows U.S. GAAP in some ways, LHATF and the NAIC should consider taking a bigger role than they currently do.

A&H Working Group Report. In a limited session on Friday morning, the AHWG discussed these items:

- Medicare Supplement reserves, and
- The Academy report on LTC PBR.

AHWG will continue to discuss these items at the next meeting.

Standard Valuation Law. LHATF made some technical changes related to non-PBR plans and confidentiality, and then exposed the revised SVL for comments.

Other Matters. In a flurry of activity as time expired, LHATF, with no discussion:

- Exposed for comment VM-20 with all the changes made through this meeting,
- Exposed for comment a revised Standard Nonforfeiture Law that defines nonforfeiture interest rates for products subject to PBR, and
- Agreed to consider an update of AG IX-C.

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Saturday Morning, December 6, 2008: Capital Adequacy Task Force

Items reported by the Life RBC Working Group:

- Approved the 2008 Life RBC formula and instructions,
- Expects to receive a proposal from the ACLI on derivatives hedging,
- Set the C-3 Phase III working reserve equal to the cash surrender value, and
- Continues to consider alternatives for the long-term commercial mortgage project.

Saturday Afternoon, December 6, 2008: Executive Committee

I attended this meeting of the entire 50+ group of Commissioners specifically to hear the update on capital and surplus relief. The Commissioner Working Group reported that it expects to finish its work before Christmas.

Saturday Afternoon, December 6, 2008: Executive PBR Working Group

This group received updates from LHATF on its actions Thursday and Friday. Commissioner Hampton (DC) told LHATF to proceed with the SVL even though the Valuation Manual might not be ready until June, 2009. He also mentioned his concern with the complexity of reserve floors, especially as it affects small companies. This group remains quite supportive of the PBR effort.

Summary of Meeting Actions

1. ACLI capital and surplus proposal will be resolved this month.
2. LHATF exposed a Standard Valuation Law for PBR.
3. PBR Valuation Manual will not be done until June, 2009 at the earliest. The major unresolved issues include discount rates, reinsurance risk transfer, mortality table margins, economic scenario generation, a net premium method, and reserve floors.

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