

Friday, March 28, 2008: Life & Health Actuarial Task Force

Leslie Jones (SC) chaired the meeting in the absence of Larry Bruning (KS). Surprisingly, in view of the location, the numbers of members (11 out of 18) and interested parties in attendance were down from recent meetings. PBR issues continued to dominate the meeting, LHATF deferred any discussion on VA-CARVM, and LHATF heard an unscheduled presentation from a Commissioner on capital markets vis-à-vis XXX.

Group Waiver of Premium. Although the new table exists, LHATF must create a guideline to implement it. A November draft guideline allows companies to use their own experience to decrease or increase reserves, but a January draft does not permit decreases.

Some states prefer the latter, but could live with a guideline that permitted neither decreases nor increases. A motion to adopt the November draft failed miserably, but a motion to expose the January draft with no experience adjustment failed also.

One major writer of such benefits commented that its experience is much better than the new table, and the prohibition of reserve decreases would cost hundreds of millions of dollars in unneeded reserves.

Statistical Agent. This agent is needed for the collection of mortality data from companies using preferred mortality tables. The ACLI listed concerns about consistency, cost-effectiveness, and what companies should do for 2007 data.

LHATF agreed to (a) notify state insurance departments that reporting formats are not ready, and (b) expose a revised format from MIB that addresses some of the issues raised by the ACLI.

Preferred Mortality Tables. The joint AAA/SOA task force released its final report on the valuation basic tables. With all the various combinations of gender, smoking status, degree of preferred risk, amount of underwriting, and ANB/ALB, the result is 72 tables.

Now a valuation table team will develop the valuation tables from these basic tables, and it seeks input on margins from LHATF. LHATF will discuss on a conference call.

SVL-2. This project, to revise the Standard Valuation Law for PBR, actually arose three times over Friday and Saturday. Rather than give it a chronological, disjointed description, I will summarize all three sessions here:

- LHATF devoted a lot of time to making many technical, non-controversial changes.
- CA proposed an additional deterministic floor of the present value of future cash flows, citing as an example of concern policies with significant decreases in surrender charges occurring shortly after the valuation date.



- The ACLI proposed deleting the floor of the present value of expected cash flows, which LHATF rejected.
- There is some question whether the cash value floor should be seriatim vs. aggregate, although LHATF seems to prefer the former.
- The ACLI also observed that a seriatim cash value floor can significantly overstate liabilities on policies that are reinsured.
- NY proposed penalty reserves for material understatements because of unduly optimistic assumptions. After a long debate, LHATF decided not to specify such penalties, but to permit each Commissioner to handle it as he sees fit.
- LHATF had a long, ultimately unresolved debate about how to give each Commissioner appropriate authority to modify, delete, or add to the Valuation Manual.

Financing XXX Reserves in the Capital Markets. Commissioner Gross (VA) summarized the concerns that some regulators have on the potential effects of the current turmoil in the capital markets on some major risks:

- Mr. Gross cited catastrophe, mortality, and longevity risks,
- Securitization of excess XXX reserves might become harder to do,
- Bank letters of credit can be difficult to get, high-priced, or not long enough relative to the liabilities being financed,
- (A) Committee and the PBR Executive Committee will want this issue addressed.

Interested parties responded that PBR goes a long way toward solving these problems, thus making it essential that the project finish as soon as possible. In discussions after the meeting, interested parties told me that they believe that Commissioner Gross is not saying that a crisis exists, but that the situation warrants close monitoring and attention to alleviate the deleterious effects of tight credit markets on life insurance companies' liquidity.

Saturday Morning, March 29, 2008: Accident & Health Working Group

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

Saturday Morning, March 29, 2008: Life & Health Actuarial Task Force

The AHWG meeting ended early, so LHATF used the time to discuss VM-20, specifically the discount rates to be used in PBR. LHATF did not have a quorum, so it could take no action, but nevertheless regulators and interested parties had a spirited discussion about one of the more contentious issues of PBR.



- Although PBR defines the discount rates as the net asset earned rates, NY wants a cap equal to the Treasury rate at the time of asset purchase plus some number of basis points (50 has been mentioned).
- Interested parties countered that accumulating at one set of rates and discounting at another set produces inconsistencies, not to mention the amount of work to get and retain historical rates for each asset.
- NY countered that, unless this was required, riskier assets would lead to the incongruous result of lower reserves.
- Interested parties replied that it depends on the assumed default rates,
- NY agreed, but noted that in asset adequacy analysis junk bond net earned rates less defaults come nowhere close to Treasuries.
- Interested parties observed that under NY's proposal companies would get no compensation for taking on more risk.

Essentially all of these arguments have surfaced before, no parties changed their respective positions, and thus this issue is no closer to resolution.

Saturday Afternoon, March 29, 2008: Life & Health Actuarial Task Force

A&H Working Group report. The AHWG discussed these items on Saturday morning:

- Health actuarial opinion - the processes differ between lines of business, so AHWG seeks a joint subgroup of health, life, and casualty actuaries to achieve consistency,
- The Medicare Supplement refund formula is on hold, pending changes to the Federal Social Security Act,
- The NAIC Senior Issues Task Force has asked AHWG to take on a Medicare Supplement Compliance Manual, and
- AHWG continues to address the portions of the PBR Valuation Manual (VM-25 and VM-26) applicable to health insurance.

Valuation Manual. The main points of this discussion are:

- Like the SVL-2 discussion, LHATF considered a number of technical changes,
- The stochastic exclusion test is complete,
- Spreads on reinvested assets remain unresolved,
- The CTE level is now unspecified (the VM had CTE 65 as a placeholder, and it might ultimately end up there, but it is not final) and might still vary by product,
- CA is unwilling to toss the risk transfer requirements for reinsurance; AAA constructed examples of why such requirements are not necessary under PBR, but LHATF did not have time to discuss them, and



- There is a question of how the AOMR will apply to business subject to PBR and to business issued prior to PBR.

Sunday Morning, March 30, 2008: Other Non-LHATF Meetings

Principles-Based Reserving Working Group. Because PBR is such a monumental change from current reserve practices, this high-level group of Commissioners is closely monitoring its progress. Highlights of this meeting are:

- Some deadlines might be pushed back,
- Some legislatures meet relatively early each year; which will affect what some states can do in 2009,
- The ACLI recommended that the Valuation Manual be substantially complete before states are asked to address SVL-2, and
- ACLI reported on feedback from Treasury on income taxes related to PBR - (a) VA-CARVM has a good chance of receiving favorable tax treatment with some minor adjustments, and (b) for life products, Treasury wants a “net premium” method. ACLI will construct recommended changes on both these topics.

Capital Adequacy Task Force. These items of interest to life insurers have an expected effective date of yearend 2009:

- C-3 Phase II (variable annuities),
- C-3 Phase III (modeling approach for life products),
- Scenario generator consistency for all C-3 phases,
- Consistency of C-3 Phase I and C-3 Phase II methods for all annuities, and
- Mortgage experience adjustment factor calculation review.

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