

Friday, May 30, 2008: Life & Health Actuarial Task Force

LHATF had a strong turnout this time, with 15 out of 18 members in attendance. Vice-Chair Leslie Jones (SC) ran the meeting as Chair Larry Bruning (KS) was ill. PBR, now known as Principle (singular, not plural) Based Reserves, saw a flurry of activity related to mortality margins, hope for a meeting of the minds on reinsurance, and a slew of amendments. VA-CARVM, meanwhile, had a slough of sound and fury, signifying – not much action.

Randall Stevenson, LHATF's main staff support, will be leaving the NAIC in June to go to private industry. John Engelhardt will continue to provide support to LHATF's efforts.

New Charges. The "A" Committee requested that LHATF develop a guideline, consistent with the Standard Nonforfeiture Law, for cash values on term insurance with return of premiums, intermediate endowments, and similar benefits. LHATF exposed a draft for comment that would apply prospectively to policies issued after 2011. Cash values prior to the ROP or endowment period could result from that draft.

The "A" Committee also asked LHATF for guidance on the treatment of loans paid out in excess of cash values. This arose because of activities in the life settlement arena. LHATF will schedule a call to discuss it.

Group Waiver of Premium. LHATF agreed to expose a redraft of AG GWP, which applies to group waiver of premium disabled life reserves. The redraft specifies a floor for companies using their own experience exclusively - reserves can not be less than those produced by using 75% of the 2005 GTLW Mortality Tables and 160% of the 2005 GTLW Recovery Tables. It also defines a blending method for companies using credibility-weighted combinations of their own and industry data.

Nonforfeiture Improvement. The Academy expects to issue a report before the end of the year. The report will not address "post-issue" underwriting activities.

Preferred Mortality Tables and Margins. The final report of the joint AAA/SOA task force appears on the SOA website. The joint task force asked for guidance from LHATF on building margins for the valuation tables:

- Should margins be relative to a gross premium reserve method or a net premium method? ACLI favors a net premium method for tax considerations.
- Should one-time events be covered by surplus or by reserves?
- Should effects of randomness be covered over a lifetime or year-by-year?
- May companies with credible experience use lower margins? LHATF seems agreeable.
- Margins for individual company variation should cover what percentile of companies? LHATF indicated 85% as a starting point.



- Should an overall margin be allocated to all cells, assuming similar credibility?
- Are higher margins that cause surplus strain in the first two policy years acceptable? ACLI remarked that industry is quite concerned if PBR results in additions to the current level of reserves.

LHATF will address these issues more completely in future discussions.

Standard Valuation Law. LHATF intended to cover a number of amendments, but almost the entire discussion centered on the required seriatim floor for PBR. Industry cited a number of reasons why it should not be in the law:

- Once in, it is hard to change,
- Reserves make sense only in the aggregate,
- Tail risk is not the same as “once in a lifetime” events,
- There are undefined and perhaps unintended consequences; e.g. the effects of reinsurance, term insurance where deferred premium assets exceed mean reserves, variable life with transfers to and from the separate account, and
- If PBR requires a formulaic floor, it should be in the Valuation Manual.

Fred Andersen NY replied that these were “scare tactics”, which certainly raised many eyebrows. Katie Campbell (AK) believes that a floor increases the odds of favorable legislative action.

Time ran out, so LHATF and industry will attempt to craft a compromise.

Valuation Manual. The main issues covered in this session related to life reserves, and experience reporting.

Katie Campbell summarized the major outstanding issues on life reserves:

- CTE level (CTE 65 is not set in stone),
- Policyholder behavior assumptions when credible experience does not exist,
- Discount rates,
- Aggregation of products,
- Credit for dynamic hedging,
- The stochastic exclusion percentage, and
- Disclosure of mortality assumptions.

In the ensuing discussion, LHATF members focused on the policyholder behavior issue. It seems to be the sense of the group to begin with conservative assumptions, however those might be defined, and permit reserve reductions if experience ultimately warrants. Industry had no comments.



A group of small company representatives requested relief from much of the experience reporting requirements if premiums net of reinsurance fall below \$75 million. There was little discussion.

Finally, the Academy drafted a standardized template for the PBR Actuarial Report, but advised that it would like to have more discussion on materiality considerations. Nevertheless LHATF exposed it for comments.

VA-CARVM. This was the first of two scheduled sessions to discuss the four issues raised by NY on the May 7 call.

NY skipped the issue of policyholder behavior assumptions, remarking that the discussion of P/O behavior for life reserves earlier in the day essentially applied here also.

On the issue of dynamic hedging (also known as delta hedging or continual rebalancing), NY questioned the ramifications if the availability of hedging instruments is significantly curtailed in a sharp market decline. Industry agreed that it was certainly a possibility, but argued that to disallow all hedge modeling because of that does not reflect reality either.

As neither issue showed signs of coming to solution, LHATF deferred the last two issues to the next day.

Saturday Morning, May 31, 2008: Accident & Health Working Group

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

Saturday Morning, May 31, 2008: Life & Health Actuarial Task Force

The AHWG meeting ended early, so LHATF used the time to discuss reinsurance under PBR. This began the same way as the May 1 conference call. The Academy described in about an hour its four examples that would not meet current risk transfer rules, but that it believes are valid ways of managing risk.

This time, however, Sheldon Summers (CA) urged LHATF to review the current rules and Q&A in A-791 of the Accounting Practices and Procedures Manual to see if there is a basis for modification under PBR. Thus it seems as if there is hope that LHATF and industry can forge a compromise to move this issue along.



Saturday Afternoon, May 31, 2008: Life & Health Actuarial Task Force

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

- It will form a joint subgroup with the Casualty Actuarial Task Force to coordinate common areas of the health actuarial opinion, and schedule a call to discuss a new draft,
- The federal government requested the revised Medicare Supplement refund formula before it will consider changes to federal law,
- AHWG agreed with the SAP Work Group to remove references to premium deficiency reserves from the Health Reserve Guidance Manual,
- AHWG plans to revise the Medicare Supplement Compliance Manual, and
- It exposed credit standards for the PBR Valuation Manual, and continues work on other sections.

Miscellaneous Matters.

At the last meeting, a Commissioner asked LHATF to respond to tightening conditions for companies trying to mitigate their XXX/AXXX reserves via reinsurance, letters of credit, and securitization. Steve Ostlund (AL) had surveyed companies and regulators and reported that:

- Excess reserves (i.e., reserves above true “economic” reserves) are the source of the problem, where “excess” refers to more than merely deficiency reserves,
- The interim solution has helped, but not enough,
- Solvency does not appear to be threatened,
- Some companies might have to cut back sales, and
- Companies urged a fast track for PBR, which they believe will solve the problem.

I must report that LHATF mentioned the word “crisis” a few times, but one must also remember that if PBR is truly the solution, it is at least a couple of years away and will be prospective only. There was no discussion of another potential interim solution.

LHATF exposed the SOA’s 2009 GRET tables for comment, even though no one has really had much chance to review them. These tables apply to the Illustration Regulation.

Finally, in response to a question about the use of gender-blended mortality for pre-need insurance, LHATF noted that it was in fact permitted.

Standard Valuation Law. LHATF with a Herculean effort managed to get through all of the proposed amendments, although some, such as those dealing with confidentiality and single state exemptions, will require additional discussion. Although there were many amendments, none of them provoked contentious discussion, whether adopted or rejected.



VA-CARVM. This continuation of the discussion from Friday began with literally less than a minute remaining on the scheduled agenda. In light of that, Fred Andersen (NY) recommended that the discussion be tabled and continued on a call. And with that – all hell broke loose!

John Rink (NE) vented his frustration that the project has been delayed for years with no end in sight. Tomasz Serbinowski (UT) seconded that remark, noting that LHATF continually sets dates and then continually moves them back.

NY fired back that it would be irresponsible to push this forward when the outstanding issues are nowhere near being resolved. Joe Musgrove (AR) replied that LHATF should take an immediate up/down vote on each issue. A number of states (AK, TX, CA) supported NY's plan. The dissidents insisted that there be a guarantee that LHATF take a vote no later than its next meeting, which went nowhere.

Sharp discussions continued on how to proceed until thirty minutes past the scheduled end of the session. Finally NY formally moved to table VA-CARVM, which won 11-3.

Lest I give the wrong impression to readers who were not there, I should mention that the discussion, while spirited, was never less than professional. It was just nice to have some excitement after two long days, which shows how hard up for excitement some of us are.

Sunday Morning, June 1, 2008: Capital Adequacy Task Force

The Life RBC Working Group has had no calls since the last meeting. It expects to receive an Academy report in June and will follow up with a conference call.

The Health RBC Working Group mentioned these items:

- The Academy is evaluating data relative to a proposed trend test,
- It expects a stop-loss update from the Academy in 3 months, and
- It is reviewing Medicare Part D factors.

A CADTF/LHATF joint subgroup will schedule a conference call to assess the status of capital and reserves. The Chairman cited VACARVM as an item on which capital requirements are likely to be done much sooner than reserves.



Summary of Meeting Actions

To summarize the activities from these meetings, I have listed the major action items:

- LHATF added a floor and experience blending to the proposed Group WP disabled lives guideline,
- LHATF must determine the bases for appropriate margins on PBR mortality,
- There is a revised Standard Valuation Law for PBR, but it is likely not the final version,
- The life reserves section of the Valuation Manual still has significant unresolved issues, and
- The issues on VA-CARVM are no closer to being resolved, and with only two meetings left, any hope for a resolution by the end of this year appears to be optimistic.

The next NAIC meeting starts September 21 in Washington, DC, with interim LHATF conference calls before then.

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