

Sunday Morning, September 21, 2008: PBR Education Session

The NAIC sponsored a special half-day session dedicated to bringing everyone up to speed on PBR. The panel members were Commissioner Thomas Hampton (DC), Chair of the PBR (EX) Working Group, Larry Bruning (KS), Chair of LHATF, Tom Campbell (Hartford Life) and Dave Neve (Principal Financial), representing the Academy, Norm Hill (NoraLyn Ltd.), representing NALC, Dennis Glass (CEO of Lincoln Financial), and Paul Graham (ACLI).

The audience of over 200 people included Commissioners, LHATF actuaries, other state regulators, industry actuaries, and other interested parties.

The presentations covered the genesis of the project, comparisons of the current system with PBR, the history to date, and the expected benefits. If you have been following these meeting and conference call reports from PolySystems, you know a lot of it; thus for considerations of space and time, I will present the highlights only.

Commissioner Hampton enumerated the looming challenges:

- Uniform adoption by states,
- Prospective application for reserves but possibly retroactive for RBC,
- Governance,
- Coordination with capital requirements,
- Examinations and regulatory oversight,
- Training regulators,
- Data collection,
- Federal taxes, and
- Small company issues.

Bruning outlined a potential timeframe:

- NAIC adopts SVL by December, 2008,
- Legislatures enact by the end of 2011,
- Valuation Manual determines effective date,
- Earliest effective date not before 2012.

Campbell and Neve covered actuarial issues:

- Qualifications to perform PBR,
- Assumptions and margins,
- Experience reporting, uses of data, and confidentiality, and
- Comparisons to international solvency approaches.



Hill summarized the positions of small companies. NALC supports:

- A focus on “problem” products – term and UL with secondary guarantees,
- Application to all issue years,
- No SVL without a completed Valuation Manual,
- Exemption from experience reporting, or other consideration of small company costs of compliance,
- Elimination of onerous or unnecessary seriatim floors,
- Focus on aggregate margins,
- More research on the appropriate CTE level, and
- An attempt to get a definitive Treasury position on Federal taxes.

Glass presented the perspectives of large companies, but also argued that the PBR concept is necessary and good for the entire industry.

Graham noted that recent ACLI modeling has spotlighted potential problems with the level of proposed margins, the application of the current method to whole life and traditional UL, and making decisions without knowing their impact. To complete the project in a timely manner with appropriate impacts, ACLI recommended:

- Limiting the initial scope to variable annuities, term, and UL with secondary guarantees, and
- Completing modeling and analysis of effects before decisions are final.

Sunday Afternoon, September 21, 2008: Life & Health Actuarial Task Force

It was good to see Larry Bruning (KS) back at LHATF, although he deferred chairing the meetings to Leslie Jones (SC). Larry had been ill for some months and is still not at 100%, and we wish him a continued and complete recovery.

PBR Process and Coordination Subgroup. This subgroup had some thoughts on Exhibit 5A (change in valuation basis) and Exhibit 5 interrogatories that it asked LHATF and industry to consider. The goal is to make the data useful to regulators but not onerous for industry to complete.

Group Waiver of Premium. LHATF passed the latest exposure unanimously with only one change - the effective date is now 1/1/2009.

2009 GRET Factors. The SOA Committee on Life Insurance Expenses had previously proposed new factors for 2009. NY had a number of questions related to shifts in categories and factor changes from 2008. The ACLI expressed concern about the volatility of the



factors from year-to-year. (Some of the factors rose sharply after prior decreases.) Despite these concerns, most LHATF members supported the new factors, defeating a proposal to continue using the 2008 factors in 2009. The proposed 2009 factors then passed.

Preferred Mortality Tables and Margins. The SOA/AAA Joint Valuation Team reported on its efforts to meet LHATF's mandate to derive margins that would cover at least 85% of contributing companies. LHATF will provide additional guidance.

The ACLI remarked that if PBR mortality is significantly different from pricing assumptions, resulting reserves are likely to have unreasonable levels and patterns, backing it up with an example comparing reserves (a) with margins, (b) under current XXX, and (c) without margins. ACLI recommended that the mortality project:

- Develop unloaded basic tables for use with both deterministic reserves and stochastic reserves, and
- Evaluate the timing of updating 2001 CSO in light of mortality changes and cost of implementation (i.e., consider delaying any updates).

LHATF will contemplate this proposal.

Nonforfeiture Improvement. The Academy expects to have a full-blown report in six months.

PBR Use of Company Scenarios. The Academy recommended permitting the use of company-generated scenarios, subject to defined calibration criteria. The current proposal requires pre-packaged scenarios defined by regulators. LHATF will consider the change.

Standard Valuation Law. This was the first of many sessions devoted to the SVL. With time in short supply, LHATF passed a number of minor, non-controversial amendments. On Monday, LHATF will discuss confidentiality, the final form of principles, and the minimum seriatim floor, all of which are major and at least the last of which is expected to be controversial.

Monday Morning, September 22, 2008: Accident & Health Working Group

Did not attend, but see the summary from the LHATF meeting Monday morning.

Monday Morning, September 22, 2008: Life & Health Actuarial Task Force



Joint CASTF/LHATF Subgroup report. This subgroup is trying to make the process of naming and changing the appointed actuary consistent between the various types of Annual Statements. Recommendations will follow later.

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

- Medicare Supplement refund formula continues, with a conference call scheduled to review data issues. AHWG referred some issues to the Academy.
- Incorporation of “innovative” benefits and 2010 new plan designs into the Medicare Supplement compliance manual continues.
- AHWG began what it hopes is the final comment period for changes to the A&H actuarial opinion.
- Editing VM-25 (PBR) will resume on a conference call.
- The Academy expects to release a report on PBR for LTC insurance at the December meeting.

2009 Charges. There were no surprises here, as PBR is foremost on the list. Other items of interest address nonforfeiture, cancer claim cost tables, mortality tables for payout annuities, reserves for LTC, review of AG XXV (pre-need), and mortality tables for simplified issue and guaranteed issue life insurance.

Actuarial Guideline CCC. LHATF adopted this guideline for nonforfeiture benefits on policies with certain endowment benefits, such as return of premium benefits on term insurance. LHATF made minor changes from the exposure draft, including sweeping in policies with multiple endowments.

This guideline is effective for all policy forms filed after 2008, and for all contracts issued after 2009 even if filed before 2009.

Standard Valuation Law. This topic continued from Sunday afternoon, starting with confidentiality. ACLI proposed a new section that would consolidate all existing references to confidentiality. Areas protected by the requirements are actuarial memorandums, examinations, certifications of internal controls, PBR reports, and experience data. LHATF adopted it, subject to ACLI’s showing the detailed changes and also subject to review by NAIC general counsel.

Discussion on the form of principles in the SVL began, but there was little time left in the morning session. Consequently, LHATF reserved the afternoon session for principles and minimum floors.

Monday Afternoon, September 22, 2008: Life & Health Actuarial Task Force



Standard Valuation Law. LHATF plunged in - and almost did not get out of – an hours-long discussion on the form that principles should take. Unfortunately, although spirited, it never became contentious, and thus we observers in the audience had to make our own entertainment.

LHATF debated at length the meanings of such terms as “sufficiently”, “moderately adverse”, “risks associated with”, “tail risk”, and others, followed by an equally long go-around on the method of establishing assumptions.

LHATF managed to slog through it, with the major items of interest being (a) removal of the requirement to set assumptions toward the conservative end of the range of plausible scenarios, and (b) greater emphasis on overall margins instead of individual ones.

Then the fun finally started as the final issue, minimum reserve floors, promised to be quite controversial. Unfortunately, little time remained. Industry proposed various solutions:

- Move the details into the Valuation Manual, where they would be easier to change if they are found to be too conservative,
- Specify different methods for different products, recognizing that a one-size-fits-all approach is not appropriate, or
- Get rid of them altogether.

NY and AK insisted that a seriatim approach involving cash values and present values of contract cash flows is necessary.

LHATF voted 9-3 to put the as yet unspecified details into the VM, with AK, CA, and NY opposed. LHATF will discuss this on a conference call that could occur quite soon.

Almost out of time, LHATF voted to expose the SVL with all changes adopted from May through today included, the goal being adoption by the NAIC in December.

At this meeting various subgroups were scheduled to discuss the Valuation Manual, such as Reporting and Review, Experience Reporting, Life, and Reinsurance. Having no time left, LHATF voted to expose the VM with all changes adopted since the last exposure. That will not be adopted in December, as the devil is in the details and the details are in the VM, awaiting Armageddon. (Hyperbole to be sure, but many issues still lack consensus.)

Tuesday Morning, September 23, 2008: Capital Adequacy Task Force

The Academy issued an updated C-3 Phase III report, discussed by the Life RBC Working Group at an earlier meeting, with these developments (all requiring more discussion):



- Added a requirement to redo stochastic modeling at year-end if modeling had been done prior to year-end and the company ends up within 110% (subject to change) of an action level,
- Added the concept of an optional stochastic exclusion test, possibly permitting companies to simplify and cut down the amount of work, although the details have yet to be determined,
- Continued work on calibration criteria,
- Asked the Academy to summarize differences between capital and reserves for both C-3 Phase II and Phase III, and
- Indicated that CA and NY would provide information on reinsurance issues.

The ACLI will develop proposals for:

- The mortgage experience adjustment calculation, and
- Receiving RBC credit for derivative hedges.

The Life Working Group is considering raising the trigger for the life RBC trend test from 250% to 300%.

Summary of Meeting Actions

1. Many PBR decisions and actions remain outstanding. Commissioners seem to be quite interested in the project, which should spur results.
2. A revised draft SVL for PBR has been completed and exposed for potential adoption in December.
3. A revised Valuation Manual has been exposed, but is by no means in final form.
4. LHATF adopted a Group WP model effective in 2009.
5. LHATF adopted 2009 GRET factors.
6. LHATF adopted CCC for nonforfeiture values on life plans with partial endowments.
7. There are many irons in the fire for RBC, but no concrete results came out of this meeting.

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