

## **PBR Life Subgroup**

The focus of this call was discount rates and net asset earned rates.

First, the subgroup agreed to an Academy proposal to set discount rates for any scenario within the stochastic reserve calculation equal to the path of one-year Treasury rates in that scenario, multiplied by 105%.

Then they addressed an issue that has defied solution for some time now. Regulators are concerned that investing in lower quality assets would likely increase net asset earned rates. Thus one gets the perverse result that riskier assets lead to lower reserves. How to solve this dilemma took up over an hour.

The Academy proposed prescribing default rates (or a method for determining such rates) for starting assets rated below investment grade. The intent is to cap the spread on these assets such that discount rates do not reflect "credit" for excess spreads. This proposal is conceptual in nature, and the Academy would need to add the details of how to apply it in practice. Regulators did not embrace this concept.

NY countered by recommending a cap on net asset earned rates. They may not exceed the historical Treasury yields at the dates of purchase, taking into account the maturity structure of the assets, plus a fixed number of basis points (50 bp for deterministic and 75 bp for stochastic). Industry has argued that this involves voluminous record-keeping, but other regulators supported this concept.

Time ran out before the subgroup could decide this issue.

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