

PBR Life Subgroup

This was the first of three calls to discuss VM-20, the life portion of the Valuation Manual. Over a two-hour period, LHATF discussed these major items:

- PA proposed discount rates for each scenario be equal to net asset earned rates if invested assets and net investment earnings remain positive for the entire projection period. Otherwise, discount rates would be risk-free rates adopted by the NAIC.

The Academy recommended defining the path of discount rates for each stochastic scenario to be 105% of the path of one-year Treasury rates for that scenario. LHATF will continue to evaluate both proposals.

- The subgroup proposed that Treasury yield curves, S&P 500 returns, and fund returns reflect stochastically generated paths determined by pre-packaged scenarios. The Academy replied that company-generated scenarios address the pertinent risks better. LHATF considers ease of auditing a key criterion. Discussion of this issue will continue on the next call.
- The subgroup prescribed returns on reinvested assets to be a risk-free rate plus x% for illiquidity. While nobody objected to the concept, the value of “x” remains open.
- ACLI asked that companies be allowed to group data into representative cells in modeling without explicitly having to perform seriatim calculations to show that the grouping is conservative. NY supported into the concept but wants tighter controls.
- ACLI requested that companies be permitted to rely on reinsurers to validate mortality and underwriting characteristics in the determination of mortality credibility. NY was cool to the idea, but it was not rejected outright.

The next call of this subgroup is July 1.

Donald P. Maves, FSA, MAAA

30 June 2008

