

## VM PBR Life Subgroup

Pete Weber (OH), chair of the subgroup, moderated the call. The purpose of the subgroup is to present to LHATF a recommendation on modifications to the Valuation Manual to incorporate regulation pertinent to Principals Based methods. This subgroup is nearing completion of their task and substantial agreement among the regulators and with industry representatives has been achieved.

The call focused on two areas:

- VM-20 Amendment Proposal Form Section 8-B (Assumption Margins):
  - (1) The first part of the discussion looked at two proposals intending to address the issue of correlated assumptions. The first proposal was authored by representatives of the NY state insurance department, the second by industry actuaries representing the American Academy of Actuaries. There was little difference between the two and little objection to the adoption of the NY proposal. However, one AAA representative expressed concern that the NY proposal had deleted reference to “interdependent” assumptions in favor of a more general term, “correlated” assumptions. Regulators had no objection to retaining the word “interdependent”.
  - (2) A second point of discussion centered on the requirement to evaluate the assumption at different durations. Regulators clarified that there is no intent to require specific treatment of every duration. An industry representative requested that the term “duration” be changed to “duration segment”, but regulators declined feeling the word “duration” was sufficiently clear.
  - (3) Third, the industry requested that the last sentence in the section that provides examples of material assumptions be deleted as it may be limiting. The regulators disagreed, but in the end it was agreed that the sentence fit better in guidance than in the regulation.
  - (4) Finally, the industry requested that the phrase,  
“. . . the method used to justify such a reduction is appropriate under adverse circumstances . . .”  
be changed to,  
“. . . a reduction is appropriate under *moderately* adverse circumstances . . .”  
Regulators requested that the AAA come up with an example to illustrate the difference.

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- VM-20 Amendment Proposal Form Section 8-G (revenue sharing)

Regulators expressed a concern that there should be an explicit reserve for what they referred to as a guaranty that is indirect to the insurer.

AAA representatives questioned why this should be treated differently than other revenue streams where a probability of incurring the cost is applied in the calculation.

In the end, all agreed that there were no “experts” in this area that were on the call and that the subject should be deferred until such experts could be convened.

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