

## PBR Life

ACLI discussed its work to date on the Net Premium method for PBR.

Companies must pass an exclusion test to use the Net Premium method:

- The test considers guaranteed benefits and premiums.
- For scheduled premium contracts, net premiums are a constant % of gross premiums.
- For flexible premium contracts, determine the respective level annual premiums to mature the contract (a) using valuation standards, and (b) using contractual guarantees.
- If the gross premiums (or contractual guarantee premiums for flexible plans) exceed the net premiums, then the contract passes the test.
- Passing the test means that deterministic reserves need not be calculated, although avoiding the calculation of stochastic reserves still requires passing a separate stochastic exclusion test.

The ACLI still needs to fill in the myriad of details, such as shock lapses and dynamic lapse formulas, and provide examples requested by LHATF.

ACLI tested three formulas for determining the expense allowance and compared results with current XXX reserves on a 20-year term. The most favorable formula reduced reserves about 50% at duration 5 and 15% at duration 13, the peak.

Regulators indicated that any expense allowance should be based in reality and asked the Academy to review any proposed allowance for reasonableness. The Academy is willing, but replied that LHATF needs to define the criteria for reasonableness.

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