

Actuarial Guideline 43 Issues

On 10/20/2009, the Life and Health Actuarial Task Force (LHATF), held a conference call to discuss the following:

- 1) Grading of Actuarial Guideline XLIII reserves
- 2) Interrogatory 9.2
- 3) Exhibit 5A

Leslie Jones (SC) led the call. The majority of the call focused on item 3) Exhibit 5A.

In general, changes in valuation bases are effective as of January 1st of the year of a change. In such a situation, it is necessary to calculate the reserves using the old method and the new method at the date of the change (i.e. the start of the year). The difference between these reserves is then subtracted from surplus and reported in Exhibit 5A. The difference between the reserves calculated at the end of the year and the beginning of the year using the new bases are a component of income for the year. The task force agreed that Guideline 43 is a change in valuation basis.

Now the problem, Guideline 43 is effective 12/31/2009. John Bruins representing the ACLI argued that Guideline 43 was intentionally made effective 12/31/2009 so that companies would not be required to calculate reserves according to Guideline 43 as of 1/1/2009. He indicated that the change in reserve for old versus new methods should be done as of year end instead of at the beginning of the year. The old methods, (i.e. Guideline 33, 34, 39) would be used to calculate change in reserves for 2009. The change in reserve for changing valuation bases would be calculated as of year end. While this reasoning seems perfectly logical, it is contrary to accounting guidance SSAP No. 3, and SSAP No. 51.

After much debate, the task force agreed to set up an additional conference call to determine how they could modify Guideline 43 to achieve the ACLI's proposed treatment of Guideline 43 reserves as it relates to Exhibit 5A.

Item 1) Grading of Guideline 43 reserves during a phase in period, was discussed for five minutes. The task force agreed that they should offer guidance on how companies should grade reserves if opting for a grade in period. NY proposed that companies who are electing to phase in reserves should be required to do old and new reserve method calculations for two years. These calculations would only apply to existing business.

Item 2) Interrogatory 9.2 was not discussed.

Another call will be scheduled to further discuss today's items.

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