

PBR Life Subgroup

The subgroup devoted the entire call to a discussion of PBR discount rates, but ultimately made no binding decisions.

LHATF has proposed five options for the determination of discount rates. At the December meeting, LHATF members, in a non-binding poll, rejected one option - net asset earned rates plus a cap at Treasury plus an add-on, either a flat amount or a percentage.

To review, the other four options are:

- Net asset earned rates, with disclosure of embedded spreads,
- Net asset earned rates, with prescribed default assumptions for below-investment grade assets,
- Net asset earned rates, with prescribed spreads by investment grade based on historical spreads, and
- Net asset earned rates, with prescribed default cost assumptions for core asset classes, and a method for determining spreads on other classes.

CT remarked that the default rate is only one aspect of the problem, another problem being the determination of the value of the defaulted asset over time.

LHATF speculated that there might be some leading indicator for default rates, such as high spreads. CT observed that when Paul Volcker raised interest rates thirty years ago, spreads were low but defaults were high.

NY proposed establishing a quality level (e.g., the lowest investment grade) such that any asset below that level would get no additional credit in the earned rate than it would get if it were above the level. There seemed to be mild support from other members, but the ACLI pushed for a cap method instead.

This subgroup has three more calls in the next three weeks to consider this issue and others.

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