

PBR Life Subgroup

On today's call LHATF discussed the ACLI's proposed net premium method for PBR.

Before discussing sample results for a one-cell illustration, ACLI made some general observations about its proposal:

- Assumptions reflect pricing with margins,
- Regulators might prescribe some assumptions, which can reflect the policy structure (e.g. lapse rates that are a function of premium increases),
- The calculations use guaranteed benefits,
- Net premiums will not necessarily be a level percentage of gross premiums, and
- The treatment of FIT is a major unresolved item.

Then using a 20-year level premium term policy followed by YRT premiums, ACLI compared results for shock lapse percentages ranging from 95%-100%. That led to some comments and questions from regulators:

- NY currently requires such a policy to be profitable over the 20 years, and is concerned about pricing of such products,
- Regulators wondered about actual shock lapse experience; ACLI cited the SOA's 2007 study showing about 20% for 5-year term and 60% for 10-year term, and
- Regulators questioned what the appropriate mortality should be after the occurrence of shock lapses.

In addition to those issues, the as yet undefined exclusion test will be a crucial issue, since under certain conditions the net premium reserve could completely replace the deterministic and stochastic reserves. At this point, regulators do not oppose the concept, but it is far from being decided.

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