PBR Scenarios Subgroup

This subgroup has concerns about how well the risks of various products will be captured by the economic scenarios to be generated for PBR.

Fred Andersen (NY), the Chair of the subgroup, asked the Academy to generate scenarios with a high (11.5%) starting 20-year treasury rate and with a low (2.5%) rate. Results indicated that (a) starting rates influence the distribution of scenarios, and (b) the mean reversion parameter had modest impacts.

The subgroup then considered three proposals:

- The Academy's existing proposal to base the mean reversion parameter on experience going back to 1953, with an emphasis on recent experience,
- Use of a relatively high mean reversion parameter for half the scenarios and a relatively low parameter for the other half,
- The mean reversion parameter based on a blend of a 3-year moving average, a 10-year moving average, and recent historical experience.

NY prefers the second one, but the Academy favors the first one.

The Academy urged the Subgroup to choose a parameter such that it is easy to update with current data.

ACLI remarked that its member companies were concerned about high observed scenario run times for VACARVM, and feared the same thing occurring for PBR.

The Subgroup reached no decisions, but will take the issue to the entire LHATF group at the December meeting.

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