

PBR Life Subgroup

This subgroup discussed many of the outstanding VM-20 issues on this call. While the group reached no final decisions on any of them, we did get a sense of what the group's concerns are and which direction they might move.

Aggregation

NY has strong reservations about high degrees of aggregation, which can lead to masking significant risks. Eliminating the deterministic calculation would aggravate the concern.

Industry countered that risk offsets and aggregation are fundamental to PBR, and that the proposed Net Premium Method provides some relief because of the seriatim requirement and the cash value floor.

The subgroup decided to kick the issue up to the full LHATF group.

Levels of margins

Regulators and industry each have their main concerns. Regulators worry about margins being set such that there is little or no reserve in the first year of a policy. Industry fears that requiring appropriate margins on each assumption can easily lead to overly conservative reserves.

Revenue sharing

If the scope of PBR does not include VUL, then this is not an issue, but since the scope as currently written does include VUL, NY believes that this is a major issue. NY fears the risk of revenue sharing being discontinued by a mutual-fund company if new business ceases.

The subgroup plans to get feedback from people experienced with revenue sharing.

Minimum number of scenarios

NY believes that fewer than 1,000 scenarios might be sufficient.

Cap on discount rate

The subgroup referred this to the full LHATF group. The Academy is working on a response.

The same actions apply to the related item of prescribed reinvestment spreads.

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6 November 2009

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