

Monday Morning, September 21, 2009: Life & Health Actuarial Task Force

LHATF had 15 of 17 members present, the highest turnout that I can remember. Since the last meeting, Sheldon Summers has left the California Department to work with Donna Claire, and was in the audience as a mere interested party. LHATF and the Academy saluted him for his years of meritorious service to the regulatory community, but more important, we all got cupcakes.

Mortality Tables and Margins. The proposed 2012 CSO Table has taken a backseat to the effort to determine appropriate margins for PBR. The Academy presented results of studies on the effects of various loading methods on deterministic reserves for term and UL with secondary guarantees, and asked for feedback from LHATF. LHATF asked what percentage of contributing companies were covered by each loading method, which the Academy promised to research.

LHATF and the Academy then agreed on these remaining tasks:

- Written guidance on margin determination,
- A basic (unloaded) table, and
- The percentage of contributing companies covered by each loading method.

The Academy is also investigating mortality results for payout annuities. LHATF and the Academy agreed in principle on three items:

- We need a new valuation table in light of recent experience,
- The new valuation table should include projection scales or some such method of updating experience, and
- Although payout amounts affect the experience, it appears to be difficult to quantify such effects in the valuation table.

Net Premium Reserves in VM-20. ACLI reported that industry testing of the proposed Net Premium method is moving slower than hoped, but that it expects to have term testing done in one month, UL with secondary guarantees by mid-November, and a final proposal in December.

ACLI drew an analogy of PBR to current reserves in an attempt to sell the Net Premium method, comparing NP reserves to current base reserves, deterministic reserves to current deficiency reserves, and stochastic reserves to current asset adequacy analysis.

ACLI also indicated that it will recommend both the elimination of mortality mapping and less prescription in determining assumptions and margins.

To view past LHATF conference call and meeting notes, visit www.polysystems.com

LHATF appeared somewhat irritated by having so much of the NP method still unresolved, as one of its goals had been to finish VM-20 by December and ultimately to get it to state legislatures by 2011 (meaning that the earliest effective date would be 2013). That is complicated by the NAIC's moving to three meetings per year next year instead of the current four.

PBR Reinsurance. Tomasz Serbinowski (UT) replaces Sheldon Summers as Chair of this subgroup. In action prior to the meeting, the subgroup rejected an amendment to consider the possibility of reinsurer default in PBR, and also did not pass an amendment requiring stochastic testing on a gross basis even if a company passes the stochastic exclusion test on a net basis.

Joint CADTF/LHATF Subgroup. Leslie Jones (SC) replaces Sheldon Summers as temporary Chair of this subgroup until a permanent Chair volunteers. This group did not discuss any items today, but intends to schedule a conference call to discuss these items:

- Risks appropriate to reserves and risks appropriate to capital,
- Scenario generators in PBR compared to those for RBC, and
- Differences between VM-20 (Valuation Manual - Life) and RBC.

PBR Process and Coordination. This subgroup's ongoing activities include:

- Modifying Annual Statement blanks for PBR, and
- Completing PBR definitions for the Valuation Manual,
- Putting AG 43 (VACARVM) into the appropriate format for the Valuation Manual.

The subgroup also changed the Valuation Manual to add a section on corporate governance and to exclude pre-need life insurance from PBR.

There was also an extended discussion on what risks could be excluded from reserves, and what effects risks arising from future (undefined) events would have on reserves, but these questions remain unresolved.

Monday Morning, September 21, 2009: Solvency Modernization Initiative Task Force

The SMI PBR Working Group, a Commissioner-level group, took these actions:

- Received an update from LHATF indicating that (a) the Net Premium method is not likely to be completed by December, (b) PBR for variable annuities will probably be completed by December, and (c) LHATF believes that sending the SVL to the state legislatures in 2010 is premature without a completed Valuation Manual,

To view past LHATF conference call and meeting notes, visit www.polysystems.com

- Adopted a Corporate Governance Guidance document, supported by both industry and regulators, providing PBR guidance for the board, senior management, and qualified actuaries,
- Exposed for comments a memo on the statistical agent process, in which the NAIC could itself be a statistical agent or at least serve as the central collection point for all statistical data filed by companies, thus making the filing process simpler for companies, and
- Referred to LHATF a draft fiscal impact study of PBR training for regulators and how to fund it.

Monday Afternoon, September 21, 2009: Life & Health Actuarial Task Force

2010 Charges. The current ones will all continue, and LHATF considered adding these:

- Monitor international reserve developments,
- Review nonforfeiture for individual deferred annuities,
- Develop new valuation and nonforfeiture mortality tables for individual life insurance,
- Construct a PBR framework for LTC, and
- Develop valuation mortality tables for guaranteed issue and simplified issue life insurance.

PBR Experience Reporting. A number of issues still remain:

- Source of data (a statistical agent or the individual state) if a state questions a company's assumptions,
- Costs of collection, and
- Voluminous amounts of data and scrubbing necessary to produce summarizations.

Report of the A&H Working Group. The subgroup met by conference call prior to the meeting and reported these continuing actions:

- Modifying the health actuarial opinion for PBR,
- Completing a Medicare Supplement refund draft,
- Replacing the 1987 Group Disability Income Table, and
- Drafting rate filing guidelines.

PBR Economic Scenarios. NY has reservations about the interest scenario generator being developed by the Academy, citing not enough "go low and stay low" scenarios and not enough volatility. LHATF asked the Academy to provide a distribution of scenarios.

To view past LHATF conference call and meeting notes, visit www.polysystems.com

The Academy updated LHATF on recent progress:

- After evaluating other models, it will continue with the Stochastic Log Volatility model,
- It refreshed some parameters with recent Treasury data,
- The Mean Reversion Parameter (MRP) for the target long interest rate is now 5.50%, compared to 6.55% for C-3 Phase I, and
- Key elements in the evaluation were dispersion of results and tail scenarios.

LHATF will continue discussion on a conference call.

PBR Reporting and Review. LHATF and industry enumerated items related to the actuarial opinion, discussion of which will also continue on a conference call:

- Reliance on others,
- Documentation,
- More detail needed for tables and miscellaneous items,
- Indication of the type of opinion, and
- Deviations from standard language.

Actuarial Guideline 33. LHATF unanimously adopted the draft AG 33 to address GLIBs on fixed deferred annuities.

Default Costs on Existing Fixed Income Investments in VM-20. This issue had been a major bone of contention at the last meeting, industry contending that the method presented then raised reserves much too highly.

The Academy revised its approach, mainly by (a) grading from the current market to the long-term historical market over three years, and (b) making default costs a function of valuation date, not purchase date. As a result, the deterministic reserve increase is much less severe than what it was three months ago.

The Academy also tested a NY proposal to limit net spreads over Treasuries, but claimed that there are severe structural flaws with that approach. NY refused to budge, however, provoking some minor irritation from some other LHATF members.

LHATF passed a motion to use the Academy structural approach with NY the only state voting No.

Other Matters. LHATF has been asked for advice on accounting practice related to AG 43 (VACARVM). Since AG 43 becomes effective at 12/31/2009, what should be the basis of the beginning of year 2009 reserve? If AG43, then it means additional work for companies; if the "old" way, then the reserve increase and income statement are distorted.

To view past LHATF conference call and meeting notes, visit www.polysystems.com

LHATF deferred discussion to a conference call.

Monday Afternoon, September 21, 2009: Life RBC Working Group

This group, six of whose seven members are also members of LHATF, actually had better attendance than the LHATF meeting, somewhat surprising since it was at the end of the day. Perhaps it indicates the urgency of making changes to RBC because of ongoing unfavorable economic conditions.

C-3 Phase III Proposal. The Academy released a revised report, with all of the changes deemed non-substantive. The WG, having received no negative comments on the prior report, exposed the new report for comments. The Academy will begin work on Instructions for the Annual Statement blanks.

Long-Term Mortgage Proposal. The ACLI has not reduced the significant volatility in its proposal for mortgage experience adjustment factors, and will continue to refine it. The WG reminded ACLI that to take effect by 12/31/2010, the proposal must pass by December of this year, and also indicated that it will not change the short-term solution until it receives a long-term solution.

Treatment of Derivatives Collateral. ACLI proposed treating cash collateral the same as other cash, taking effect in 2010. The WG will schedule a conference call later this year to discuss it.

Derivatives Risk Mitigation. ACLI also provided an updated proposal to calibrate risk reductions when maturity mismatches developed. ACLI expects to have a final proposal by the end of September.

Tuesday Morning, September 22, 2009: Capital Adequacy Task Force (CADTF)

This group is the parent group of the Life RBC Working Group, but also considers Health and P&C items. CADTF covered these items of interest to life insurers:

- Discussed the Residential Mortgage-Backed Securities (RMBS) proposal released by the Valuation of Securities Task Force, which would provide some relief to insurers on this type of security; ACLI has submitted a revised proposal,
- Reviewed the status of the various proposals before the Life RBC Working Group (see the summary of that group's meeting on Monday afternoon above),

To view past LHATF conference call and meeting notes, visit www.polysystems.com

- Asked for a volunteer to replace Sheldon Summers as Chair of the CADTF/LHATF Joint Subgroup; this subgroup considers what risks should be covered by reserves and what risks should be covered by capital.

Tuesday Afternoon, September 22, 2009: Life Insurance & Annuities (A) Committee

This Commissioner-level committee is the parent committee for all groups addressing life and annuity issues, including LHATF.

Most of the meeting was routine, including the adoption of the LHATF report, although there was a brief flurry of polite back-and-forth between ACLI and a consumer representative regarding annuity disclosure.

Wednesday Morning, September 23, 2009: PBR Education Session

Philip Barlow (Chair of the Life RBC Working Group), Larry Bruning (Chair of LHATF), and Nancy Bennett (Senior Life Fellow of the AAA) presented a 90-minute session covering the history of reserve regulation, the need for changes, the positive effects of PBR upon consumers, industry, and regulators, corporate governance requirements, the role of the Academy, and the role of ASOPs.

Although they covered no new ground for those who have followed PBR, the intent was to bring non-actuaries up to speed. With about 100 attendees and well over half of those not attending the LHATF meeting, and given the overall quality of the session, I believe that the panel achieved its goal.

Wednesday Morning, September 23, 2009: Joint Executive Committee/Plenary

This group, composed of all 50+ Commissioners (all but a few of whom attended), is the final hurdle for all proposed NAIC model laws and regulations. This group discussed life insurance items related to SVL, various XXX reserve relief items, and AOMR:

- Passed the Standard Valuation Law, amended for PBR,
- Eliminated artificial constraints on X-factors (i.e. the 20% floor and the non-decrease by duration),
- Allowed the use of 2001 CSO Preferred tables on any 2001 CSO product subject to XXX (i.e., it is retroactive),

To view past LHATF conference call and meeting notes, visit www.polysystems.com

- Permitted XXX segments determined prior to the adoption of the 2001 CSO Preferred tables not to be recalculated if the company subsequently uses those tables for reserves, and
- Amended the AOMR to require additional comments on interim results of significant concern because of asset insufficiency or the establishment of statutory reserves.

Summary of Meeting Actions

1. LHATF agreed for now to the Academy's proposed approach to setting PBR default costs.
2. NAIC passed SVL for PBR.
3. NAIC passed various XXX reserve relief proposals.
4. RBC relief proposals appear to be on track for 2010.
5. LHATF passed AG 33 to address GLIBs on fixed annuities.
6. LHATF wants to see significant progress in the next 3 months on the Net Premium method.

Donald P. Maves, FSA, MAAA

24 September 2009

To view past LHATF conference call and meeting notes, visit www.polysystems.com
