PBR Life Subgroup: VM-20

The subgroup considered amendments for revenue sharing, setting assumptions for items lacking credible experience, and the stochastic exclusion test.

The subgroup approved an amendment limiting non-contractually-guaranteed revenue sharing, similar to VACARVM. The limit is a percentage of estimated amounts, grading from 100% in the first projection year to 50% in the 6th year. A competing NY amendment to exclude all non-contractually-guaranteed revenue sharing was rejected.

NY proposed requiring all companies to use the CIA Term-to-100 lapse study as the basis of industry lapse experience on UL policies with secondary guarantees. Companies would have to grade from the last duration with credible experience to the CIA study over 5 years. The Academy has a competing proposal that would require “sound actuarial judgment and the most relevant data available.”

That led to a lengthy discussion on how to prescribe assumptions for items that have no credible experience, such as policyholder behavior or new products with new risk classes. There did not seem to be resistance to the use of the CIA study for lapses, but all parties agreed that the general issue is a tough nut to crack and needs much more work.

Finally, the subgroup adopted an amendment that formalizes the details of the stochastic exclusion test, including the determination of the paths of interest rates and equity returns for each of the 16 required scenarios.

The subgroup has now disposed of all of the outstanding amendments (either by passing, rejecting, or referring them to the entire LHATF group) except for the assumption issue reported above. The next call for this subgroup is February 18.

Donald P. Maves, FSA, MAAA 5 February 2010

POLYSYSTEMS, INC.
30 North LaSalle Street • Suite 3600
Chicago, Illinois 60602-2506
Voice: 312.332.5670
Fax: 312.332.2391