

PBR Life Subgroup

The subgroup used the entire session to discuss an amendment to VM-20 proposed by Alaska that would change the requirements of the exclusion tests:

- Passing both the deterministic and the stochastic exclusion tests allows companies to use current SVL requirements,
- Passing the stochastic test but failing the deterministic test means that the minimum reserves are the aggregate Net Premium (NP) reserves plus any excess of deterministic over NP,
- Failing the stochastic test means that the minimum reserves are the aggregate NP reserves plus any excess of the greater of the deterministic and stochastic reserves over NP.

In addition, the amendment changes these items:

- Companies can exclude products such as par WL, term, and UL without secondary guarantees from stochastic testing by certifying that the product does not contain interest or tail risk,
- The deterministic reserves are seriatim instead of aggregate, and
- The deterministic exclusion test proposed by the ACLI now allows for a tolerance level, as yet undefined, making it somewhat easier to pass.

There was a long and ultimately inconclusive discussion between LHATF and industry about the effect of these changes on tax reserves. ACLI promised to review with its tax counsel and report the conclusions.

NY was leery of the subjectivity of the certification requirement, and wondered if companies with similar products would get similar reserve results.

Although NY thought it premature, the amendment passed the subgroup and now goes to the full LHATF body.

As a side note, Alaska included a chart with its proposal showing the expected reserve calculations for a range of products:

- Non-competitive term - current SVL,
- Competitive term - deterministic and NP,
- Par WL – current SVL,
- Non-par WL – current SVL if premiums are adequate, else deterministic and NP,
- UL without SG – current SVL if premiums are adequate, else deterministic and NP,
- UL with SG – deterministic, NP, and possibly stochastic,

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- VL and VUL – stochastic, deterministic, and NP,
- GI/SI UL – current SVL if premiums are adequate, else deterministic and NP.

This may or may not reflect the opinions of the entire group, as no one commented on it.

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