Economic Scenarios Subgroup

The group dedicated the entire session to a discussion of the appropriate mean reversion parameter (MRP) for scenario generation. As of today, there are three options on the table:

- The Academy's recommendation of basing MRP on the average of the historical 20-year Treasury rates and a 3-year moving average of the 20-year rates,
- NY's first choice of generating half of the scenarios with a high MRP and the other half with a low MRP (e.g. one using historical rates and the other using a 3-year moving average), or
- NY's second choice of using a MRP weighted toward current rates (e.g. 20% historical, 30% 10-year average, and 50% 3-year average).

NY's argument against the Academy's proposal is that it does not generate enough "bad" scenarios. The Academy and ACLI countered with these points:

- The MRP is one parameter of many, and focusing on one parameter distorts the effects of the others,
- The MRP by itself does not have a significant effect on the distribution of scenarios, and
- Arbitrarily establishing an MRP to produce some desired current result distorts the process in future years.

LHATF, the Academy, and industry agree that choosing an MRP is quite subjective and that there might be no optimum way to do that. Yet having that agreement still does not get us to a solution, although there will be at least one more call (February 10) to try to resolve it.

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