

PBR Margins in VM-20

The PBR Life Subgroup, unable to resolve the question of how to determine margins on PBR assumptions, had referred the issue back to the full LHATF group. Regulators believed that the guidance was too vague, while industry favored focusing on the total margin rather than each one in isolation.

The Academy's Life Reserve Working Group (LRWG) proposed a 2-part "practical" solution for discussion on this call:

- Margins for individual risk factors must fall within prescribed ranges, with the appointed actuary having to justify the positions of the margins in the ranges,
- Companies must test the overall level of margins using the cost of capital approach in a recent SOA report (found at www.soa.org/research/life/research-analysis-life-framework-annuity.aspx).

Companies must then disclose the result of the margin testing to regulators only.

LRWG volunteered to study and recommend the appropriate ranges for each risk factor if LHATF will agree to the general framework.

NY continued to resist putting the focus on the total margin, insisting that each margin be considered on its own merits. Other regulators had concerns about keeping the results confidential and about the timeframe needed to develop the final proposal.

LHATF asked LRWG to proceed with development, although it did not vote whether to accept or reject the proposal at this time.

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28 January 2010

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