

VM-20 Net Premium Method

LHATF continued the discussion of the NPM from the January 14th call. On that call, LHATF exposed for comments certain parts of the ACLI proposal, and today the goal was to discuss the other parts.

NY listed some major concerns with the method as proposed:

- Level of term lapse rates after the level premium period,
- Lack of mortality anti-selection after the level premium period, and
- Artificiality of method and weakening of VM-20.

LHATF asked the ACLI to document the sources of the assumptions by the March meeting in Denver. ACLI responded to the various concerns expressed:

- The basis of lapse rates is a published SOA study from a few years ago,
- Expenses are actually higher than the allowance in the Standard Nonforfeiture Law,
- The proposal does in fact have mortality anti-selection provisions after the level premium period, and
- If the NPM floor is too strong, then principle-based reserves become irrelevant.

There followed a discussion of “unlocking” of assumptions. ACLI stated that mortality and lapse assumptions may change on existing policies, but that interest is locked. Some LHATF members questioned whether that jeopardizes tax reserves, noting that the main purpose of the NPM seems to be the qualification of some or all of the reserves as tax reserves. ACLI indicated that tax assumptions are locked in from issue.

ACLI proposed an amendment to VM-20 that limits the net premiums beyond the level premium period, but NY objected that the modification seemed quite arbitrary. NY also asked for evidence that profits actually exist beyond the level premium period, expressing doubts about the current situation on existing policies. Nevertheless, LHATF voted unanimously to expose the amendment for comments, NY noting that it voted for it not because it agrees with it but merely to see what comments it generates.

The final ACLI amendment establishes the parameters for the deterministic exclusion test. There was a motion to expose it for comments, but NY objected, remaining adamantly opposed to elimination of the seriatim deterministic calculations. The motion died for lack of a second. NY questioned why the industry, which from the inception of the project had argued that formula-based reserves are inappropriate and principle-based reserves are a superior measure of the liabilities, is now reverting to formula-based reserves and trying to get out of doing principle-based calculations.

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Based on today's call, industry has a major sales job ahead of it to get the NPM accepted by August, and as one LHATF member observed, time is of the essence.

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29 January 2010

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