

Valuation Actuary Symposium Life and Annuity Update Session 2 PD

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Life and Annuity Update

- Variable Annuity Guaranteed Benefits
 - Statutory reserves for VAGLBs
 - RBC for MGDBs and VAGLBs
- Potential SVL Updates
- GAAP Developments
- Codification Issues

Statutory Reserves for VAGLBs Actuarial Guideline MMMM

- Change in direction
 - prospective method dropped
 - the Keel is dead (keeled over)
- Retrospective accumulation of charges
 - supported by standalone asset adequacy analysis at the benefit level
- Effective date 12/31/2002

RBC for MGDBs and VAGLBs

- Current “interim” factors for VAGLBs
 - applied to total V/A reserve (net of reins)
 - High Risk C-3 factor (2%)
 - Medium Risk factor (1%) can be applied
- No explicit requirement for MGDBs

RBC for MGDBs and VAGLBs C-3 Phase II Project

- Variable contracts with guarantees
 - to include VAGLBs and MGDBs
- Elements of CIA approach, including CTE
 - stochastic modeling
 - PV of accumulated stat income

RBC for Guaranteed Benefits C-3 Phase II Project - Example

Year	Reserves (or CV)	Revenue	Benefits/ Expenses	Change in Reserves	Income	Cumulative Income
2	150	30	15	40	-25	-30

- Take PV of max loss for each scenario (floor at 0)
- Rank the results
- 90 CTE (avg. of “worst” 10%) is RBC

RBC for MGDBs and VAGLBs C-3 Phase II Project

- Can use approach to determine reserves
 - lower CTE level for reserves (e.g., 60 or 65)
 - could replace AG 34 and interim AG MMMM
 - could be used for “upside” MGDBs
- LHATF will be discussing
 - input from Academy
 - RBC expected to be ready for 12/31/2003

RBC for Guaranteed Benefits C-3 Phase II Project

- Key issues to be resolved
 - treatment of reserves within analysis
 - CH behavior (e.g., annuitizations)
 - fund performance
 - fixed interest rates
 - discount rate (including whether P/T or A/T)
 - safe harbors and/or grading

Potential SVL Updates

- Specific Changes to the Law
 - State of Domicile Opinion
 - Elimination of Deficiency Reserves
 - Scope of SVL
 - Reference to Qualified Actuary
 - Specific reference to Health Reserves
- Long Term Statutory Solutions

Potential SVL Updates Long Term Statutory Solutions

- Outline for Future Solvency Framework
- Start with UVS principles
- Incorporate
 - changes since 2000 UVS Report
 - recent solvency developments in the Financial Services Industry
- Next step - establish vision and goals

GAAP Developments It's A Fair Value World (after all...)

- Adopted FASB Statements
 - FAS 133 - Derivatives and Hedging
 - FAS 141 - Business Combinations
 - FAS 142 - Goodwill
- In The Works
 - International Accounting
 - FASB Fair Value (are they gonna do it??)

GAAP Developments FASB Statement No. 133

- Accounting for Derivative Instruments
 - All derivatives at fair value on balance sheet
 - EDs include insurance liabilities
- DIG Issues
 - EIAs and GMABs are EDs
 - MGAs and MGDBs are not
 - GMIBs not an ED unless net settled

GAAP Developments FASB Statement No. 133

- New Issue involving reinsurance
- FAQ on Academy website
 - Academy LFRC

GAAP Developments AICPA Statements of Position

- Non-traditional Products
- Internal Replacements

GAAP Developments Non-traditional Products

- AICPA SOP on Non-traditional Products
 - exposed for comments through 10/02
 - 1/1/04 effective date (with transition rules)
- SOP addresses several issues
 - Separate Account presentation
 - Investment in the S/A (seed money)
 - Sales Inducements
 - Liability Valuation

GAAP Developments Internal Replacements

- AICPA SOP on Internal Replacements
 - looking to issue final SOP in 2Q of 2003
 - 1/1/04 effective date
 - prospective application
- Addressing Accounting Treatment of IRs
 - other than those described in FAS 97
 - DAC and other GAAP balances (e.g., URR)

GAAP Developments SOP on Internal Replacements

- Definition of Internal Replacement
- Is IR Substantially Different?
 - Qualitative Test only
- Accounting for Internal Replacements
 - IRs that are Substantially Different
 - IRs that are Not Substantially Different

Codification Issues

- Many States Comparing Regs to SSAPs
- Disclosure of Variations in Reserves
 - Appendix A-205
 - disclose both over and under in A/S footnote
 - should only impact 2001+ issues
 - subject to materiality as defined in Preamble