

Valuation Actuary Symposium  
Life and Annuity Update  
Session 2

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2001 CSO Table

- ADOPTED BY LHATF – Working its way through NAIC
- Effective Date
  - Some states - May be as early as January 1, 2003
  - Required by January 1, 2009
- **Virtually all life insurance products will need to be re-priced, re-filed; all reserve systems need to be updated**

## 2001 CSO Table - Major Impacts

- Statutory Reserves
- Tax Reserves: Effective Date - When it is a "Prevailing Table" - 2005 (?)
- 7702 Issues
- Nonforfeiture issues
- Product issues - e.g., COIs on VUL

## 2001 CSO Table - Info Available

- Report of the Individual Life Insurance Valuation Mortality Task Force, November 2001
  - Some minor changes to tables from one release in March 2001
  - Report available on SOA website, [www.soa.org](http://www.soa.org)
- AAA Final Report on 2001 CSO Tables - 6/02
  - Started with basic tables; added margins, targeted load was 15%
  - Report available on Academy website, [www.actuary.org](http://www.actuary.org)
- AAA Report of the CSO Implications Work Group

## 2001 CSO Reduction in Safe Harbor Premium Limits

Percent Reduction in Single Life	Premium		Limits	
	Male NS	Female NS	Male Smoke	Female Smoke
Guideline Level Prem - Level DB	15% - 20%	15% - 30%	15% - 20%	0% - 20%
7 pay Prem	10% - 15%	10% - 15%	5% - 15%	0% - 5%

## 2001 CSO Table – “One size does not fit all”

- Academy report emphasizes variation in mortality by company (niche, underwriting standards, etc.)
- If one uses 2001 CSO, must do Section 8 opinion
- Actuary has to feel comfortable resulting reserves are sufficient – may not be for, e.g., simplified or guaranteed issues, overseas business

## 2001 CSO Table – Mortality Studies

- Requirement that company must submit data to SOA eliminated BUT
  - Several states preferred having this provision
  - Will likely ask for data from some companies during asset adequacy review
  - Would be helpful to have mortality studies done in a manner similar to SOA requirements
- NEED COMPANIES TO CONTRIBUTE DATA TO SOA TO DEVELOP TABLES THAT ARE APPROPRIATE

## 2001 CSO Table Types

- Decided to go with specified tables for everything – not formulas
- 42 Tables - ANB
  - Male & Female
  - Select and Ultimate vs. Ultimate
  - Smoker, Nonsmoker & Composite
- No CET Tables
- ALB Tables
- Joint Life Tables
- Unisex - same blends as 1980 CSO

## 2001 CSO Table - Issues

- When to adopt as a company?
- Effective Dates (states adopt at different times)
- Not retroactive – cannot use on current in force

## AXXX – Guideline on “Term” Reserves

- Is retroactive (mostly)
- Requires that XXX be followed for all products that have guarantees, quasi guarantees, and “not officially a guarantee, but we won’t change premiums unless the world ends”
- Officially became Actuarial Guideline XXVIII (38)

## AXXX – Products Covered: EXAMPLES

- Level premiums not guaranteed, but if raised, bonus or refund is paid
- Premiums not guaranteed if, e.g., Moody's bond index falls below 3%
- Dividend guarantees that level out policyholder cash flow
- Level premium guarantee issued through an affiliated company

## AXXX- Exception to Retroactivity

- UL with shadow accounts
- Covered under XXX, but could have reserved using YRT approach
- Now requires a UL model regulation calculation

## Mortality Improvements?

- With XXX, a number of companies are using reinsurance factors
- Make sure these factors do not assume mortality improvement past valuation date
- Is the mortality continuing to improve?
  - Some companies experienced a bump up
  - Rate of improvement appears to be slowing, especially for females

## Use of Other Mortality Tables

- SOA has developed an updated credit insurance table
- SOA also has new accidental death table
- Updated long-term disability tables also available
- Use appropriate table in asset adequacy testing – e.g., latest annuity mortality table
- Compare actual to expected to ensure table is appropriate

## Regulation XYZ - Purpose

- To provide minimum nonforfeiture standards for policies with secondary guarantees, e.g.,
  - Universal Life
  - Variable Universal Life with 20+ years of guarantees or beyond age 70

## Regulation XYZ

- AG XYZ NFV is not to replace the primary nonforfeiture value; AG XYZ NFV is available only if all below are true:
  - Policy terminates
  - No-lapse guarantee still in force at termination
  - Primary NFV < AG XYZ NFV
- Effective date: 1/1/2003???

## Regulation XYZ

- Has been rewritten as an optional regulation for states to adopt
- Alternate proposed regulation submitted by The Hartford at the September NAIC meeting
- Some states indicate they will adopt, others will not

## GICS With Bailouts

- Proposed Actuarial Guideline is up for adoption
- Suggests Type C rates unless actuary can prove why it should be another Type
- Is meant to increase reserves on GICs with puts – e.g., credit rating downgrade puts – unless company has hedged risk

## Replacement For Moody's

- Moody's is charging for rates
- Want to replace for valuation interest rates
  - May effect annuity nonforfeiture rates
  - May effect "Regulation 128" (Guaranteed separate account) rates
- May be a corporate bond index, Treasury index, LIBOR swap curve, other?
- UPDATE: LHATF decided to stay with Moody's for now

## Nonforfeiture Interest Rate For Annuities

- ACLI made push to reduce the 3% minimum interest rate guarantee
- Several states adopted it, but in some states it has a 2004 sunset provision
- Thought was that a more permanent solution should be in place by then
- Several proposals to replace minimum – e.g.,
  - Index based on 5 year Treasuries
  - Index based on LIBOR swap curve
  - Low rate graded into, e.g. 3%

## NF Interest Rate For Annuities – Continued

- Proposals presented at September meeting
- ACLI proposal was to rewrite annuity nonforfeiture law
- Question is what will change besides the interest rates?
- Tie into long-term nonforfeiture project

## Nonforfeiture Project

- Scrap current law, which doesn't work – too restrictive for certain designs, on other side doesn't give policyholder enough info
- Strengthen disclosure to policyholders (and to regulators) as to how nonforfeiture elements are regulated

## Liquidity

- NAIC Life Liquidity Risk Working group report finalized – available on NAIC website
- Recommends “New York” approach
  - Series of questions re liquidity and liquidity management
  - Potential follow-up if questions/concerns
- Suggests changes in annual statement general interrogatory to get info on large sums that could be moved

## Liquidity - continued

- New York expected to send out another circular letter this year
- New York and other states have talked to specific companies

## Risk Management

- More states are asking questions on both liquidity and risk management
- Have done it for years on companies that they are concerned about – is moving into general examination for a number of companies
- Rating agencies also asking these questions

## AOMR

- Revisions adopted by NAIC, some states are taking some actions
- Major changes:
  - All companies must do a Section 8 opinion
  - States can accept a “state of domicile” actuarial opinion
- Became part of codification, so will be automatically adopted by some states

## QUALIFICATION STANDARD

- **Actuaries who take exams under SOA 2000 syllabus are not qualified, i.e. CANNOT, sign annual statement opinions!!!!**
- Must pass an exam on specified topics – e.g., U.S. reserves and nonforfeiture law
- Academy offers course November 12-15, 2002