



SOCIETY OF ACTUARIES

U.S. GAAP & IFRS: Today and Tomorrow
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GAAP for Long Duration Contracts

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Session 6b

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Discussion Topics

- Contract classification
- Provisions for Risk of Adverse Deviation (PADs)
- Loss recognition testing

Contract Classification

- Policy terms are “fixed and guaranteed”
- Not Universal Life-like
 - Premium payments cannot vary at policyholder's discretion
 - No account balance
 - Changes in policy credits not based on experience
- Not participating
 - Dividends cannot be based on “contribution principle”
 - Dividends cannot be based on market conditions

Contract Classification

Frequently encountered questions

- Indexing
 - Pre-need insurance
 - Inflation-protected contracts
 - Cross currency contracts
- Dividends
 - Dividends not payable annually
 - Dividends not actively managed

Provisions for the Risk of Adverse Deviation

- Assumptions established at issue and “locked-in”
- PADs established based on nature of risk
- Effect of PADs is to increase liabilities or reduce DAC

Example: Level Premium Term

Provisions for the Risk of Adverse Deviation

Level Premium Term Insurance

- Level premium for initial period, then increasing each year following
- Higher mortality and higher lapses expected following level premium period

Result: PADs are tricky!

Provisions for the Risk of Adverse Deviation



Loss Recognition Testing

- Literature is found in paragraphs 35 through 37 of FAS 60
- Paragraph 35: Evaluation based on gross premium valuation using current best estimate assumptions
- Paragraph 36: Assumptions are unlocked and then re-locked at current best estimate
- Paragraph 37: If “profits followed by losses”, accrue for the losses

Loss Recognition Testing

Frequently encountered questions

- Paragraph 35: Determining investment yield assumption
- Paragraph 36: What happens if things get better? Worse?
- Paragraph 37: How is the loss accrued?

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