

# U.S. GAAP & IFRS: Today and Tomorrow Sept. 13-14, 2010

**New York** 

**GAAP** for Long Duration Contracts

**David Rogers** 

# **GAAP for Long Duration Contracts**

#### Session 6b

Society of Actuaries
US GAAP & IFRS: Today and Tomorrow
September 13th, 2009

David Y Rogers, PwC LLP

# **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

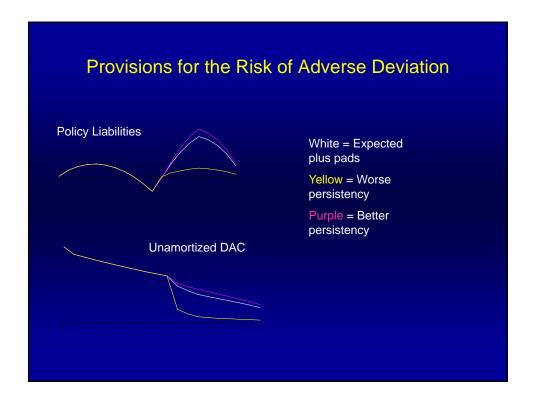
Example: Level Premium Term

## 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!



## 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 relocked 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?

# **GAAP for Long Duration Contracts**

#### Session 6b

Society of Actuaries
US GAAP & IFRS: Today and Tomorrow
September 13th, 2009

David Y Rogers, PwC LLP