



SOCIETY OF ACTUARIES

Article from:

Product Matters!

February 2010 – Issue 76

NAIC Update – September 2009 Meeting

by Donna R. Claire

For me, the biggest news from the September 2009 NAIC meeting was that changes to the Standard Valuation Law to allow PBA have now been passed by all needed committees of the NAIC, including the Executive and Plenary Committees. There is a caveat that the Valuation Manual must be passed by December of 2009.

The remainder of this article summarizes my notes on the meetings I attended.

Life and Health Actuarial Task Force

Larry Bruning, chair of the Life and Health Actuarial Task Force (LHATF), started off the LHATF meeting by reminding everyone that the revisions to SVL had passed the PBR (EX), Solvency Modernization, and the A committee since the last LHATF meeting. There is still work to be done on the Valuation Manual. At this point, due to the lack of specificity on the net premium approach from the ACLI, it looks like the SVL revisions will likely go to the 2011 legislative sessions.

Valuation Manual

As with the last LHATF meeting, much of the meeting was spent reviewing the work of the LHATF subgroups working on various sections of the Valuation Manual:

- a. **VM-00, 01, Process and Coordination:** Mike Boerner heads the LHATF team on this part of the Manual (as well as heading the Academy team on the Valuation Manual in general). Bob DiRico heads an Academy subgroup on Consistency that is assisting with these sections, making sure that the overall direction and definitions are consistent for various product lines. Bob's group had offered a proposed amendment regarding what is covered in reserves. LHATF generally accepted these recommendations and exposed a new draft of VM-00 for comment.
- b. **VM-20, Life:** Pete Weber heads the LHATF group on VM-20. Pete has had numerous conference calls and most of the work on this part of the manual has been completed. The major outstanding item is the net premium approach, discussed in more detail below. In addition, the discussions

on economic scenarios and default/spread analysis impact this section of the manual.

- c. **VM-21 Variable Annuities:** This section would bring in the Variable Annuity CARVM Actuarial Guideline, which goes into effect at year-end 2009. There is a draft VM-21 done, and it will be discussed on a conference call.
- d. **VM-30, 31, PBR Reporting and Review:** Katie Campbell heads this effort. One outstanding issue is concerns about reliance on others regarding information. There are also some concerns regarding the wording of the actuarial opinion. There will be a follow-up conference call on these issues.
- e. **VM-50, 51, PBR Experience Reporting:** Fred Andersen is heading this effort. He stated that some companies have requested that they want to have a centralized collection agency with a global budget. Fred plans to have a conference call to continue these discussions.

Related Issues

There were a number of topics discussed at LHATF, most related to SVL and the Valuation Manual. These include:

Preferred Mortality: Tim Harris provided an update on preferred mortality work done by the Academy of Actuaries and Society of Actuaries. When performing a gross premium calculation, one of the considerations is what type of margins should be used on mortality. After reviewing the work done by the group, LHATF advised the SOA/Academy group to continue work on developing a range of reasonable margins, and provide guidance as to what an actuary should consider when setting margins from that range. The report will be available on the Academy Web site, www.actuary.org.

Payout Annuities: Although it will not be an issue from day one, a PBA approach will also be used on annuities. The SOA has developed the experience table. A joint SOA/Academy group is looking at developing a new valuation table. I gave the report from this



Donna R. Claire, FSA, MAAA, is president of Claire Thinking, Inc. She can be reached at clairethinking@cs.com.

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group. LHATF determined (1) a new Valuation Table is needed for payout annuities; (2) this Valuation Table will include yearly projection factors; and (3) the new Valuation Table will not be tiered for size. Note, this last issue was considered because the A/E ratio of the biggest payout annuities—those over \$50,000 a year—was 71 percent; the A/E ratio for the smallest annuities—those less than \$2,500—had an A/E ratio of 111 percent. However, there were too many practical issues to develop a Valuation Table that was separated by amounts.

Net Premium Approach: The A committee has made as a condition the passage of a Valuation Manual by the end of 2009 which includes some formulaic minimums. John Bruins gave a presentation regarding a net premium approach to PBA reserving, which the ACLI states is needed for federal income tax deductibility of reserves. The ACLI is in the process of developing a net premium approach and expects to have information to present to LHATF in the next few months. Note that this is the biggest open issue on the life insurance PBA (VM-20).

Reinsurance Subgroup of LHATF: Tomasz Serbinowski is now chairing this group. The point of the group is to make sure reinsurance will be handled reasonably under PBA. Tomasz gave a brief report—most of this group's recommendations have already been accepted. This group will need to review the impact of a net premium approach on reinsurance once the net premium approach is finalized.

Joint CADTF/LHATF Subgroup: Leslie Jones is temporarily chairing this group. This group is trying to make sure the capital testing and reserve testing rules are as consistent as possible. They will continue to have conference calls.

Economic Scenarios: Nancy Bennett gave a presentation from the Academy's Economic Scenarios Implementation Work Group. The regulators have asked questions regarding the generator developed by the Academy's Economic Scenario Work Group, and the Economic Scenario Implementation work group did analysis. The Academy's group used a stochastic log volatility model. The goal of the group is to have the same calibration criteria so that companies can use the same generators for both reserves and capital. The report will be available on the Academy Web site, www.actuary.org.

Prescribed Default Costs to be used on Existing Fixed Income Investments: Gary Falde and Alan Routhenstein gave an update from the Academy on several possible methods that LHATF could use to develop default costs/spreads to be used under PBR. A lot of work has been done, but work is still needed on this to get results that look reasonable to all parties.

GLIBs: LHATF had exposed revisions to Actuarial Guideline 33. These changes were made to address how a new benefit—deferred annuities with guaranteed living income benefits that allow cash surrender before and during the payout phase—would be valued under Actuarial Guideline 33 for reserves. LHATF determined that the correct answer is to bifurcate the benefit, and that Type C (lower) interest rates be used when there are cash values remaining, with Type A (higher) interest rates thereafter. The amendments to AG33 were adopted by LHATF. Note: This is a bandage approach, and is the type of issue PBA could handle better.

Nonforfeiture Changes for PBA: There is a proposal to change the nonforfeiture law (de-linking the interest rate from the valuation interest rate). The ACLI believes these changes need to wait until the net premium approach reserve changes are resolved.

Accident and Health Working Group (a subgroup of LHATF):

The Accident and Health working group met via conference call prior to the LHATF meeting due to the shortened time of the LHATF meeting, and the results

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reported at the LHATF meeting. Steve Ostland chairs this group. The group is looking at what changes are needed to the 2010 Statements for Health products. The group is working with the SOA/Academy to develop a replacement for the 1987 Group Disability Table.

Life Risk Based Capital Working Group

Philip Barlow ran the RBC meeting. Peter Boyko presented an update to the RBC C-3 Phase 3 report, which had minor changes to the March report. This was exposed for comment.

PBR (EX) Task Force

This group is charged with shepherding the PBA project through the various NAIC Committees. The new PBR (EX) Chair is Commissioner Hamm from North Dakota. They heard a report from LHATF on the PBA project. The group adopted the rules for corporate governance for PBA, which will be made part of the Valuation Manual. The group exposed for comment a memo on the role of the NAIC as a statistical agent.

Summary

In summary, PBA has made significant progress over the past couple of years. It's almost here! ■

Visions for the Future of the Life Insurance Sector

by Mike Boot

The economic crisis that dominated the news during 2008 and 2009, the expansion of technology, changing accounting standards, access to capital, and changing demographics are some of the challenges facing the life insurance sector. To provide a catalyst for discussion and to showcase the thought leadership of actuaries, the Financial Reporting, Product Development and Reinsurance Sections of the SOA sponsored "Life Insurance 2020 Foresight—A Call for Essays." Members of the SOA responded by authoring short essays with their unique and thoughtful vision of the future. We are proud to be able to present this collection of essays selected from among those submitted.

The full list of essays can be found at:

<http://www.soa.org/library/essays/life-essay-2009-toc.aspx>

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