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Proposed Actuarial Guideline XYZ

by Scott Cipinko

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A Revised version of Proposed Actuarial Guideline (PAG) XYZ was distributed at the LHATF meeting. Two topics were discussed without closure. The same topics were discussed during the most recent conference call. The first issue was whether or not to allow the use of a simplified approach for calculating the R factor, rather than a seriatim method. The other issue was how to change the definition of the expense allowance. However, the new draft Optional Guideline included all the changes that were discussed.

The regulators discussed the March 12, 2001 letter that included comments from the February letter. The following concerns were included in that letter:

1. Expressed continued opposition to PAG Guideline XYZ whether on a mandatory or optional basis
2. If NAIC decides to go forward, PAG XYZ should be a regulation rather than an Optional Guideline
3. Appendix of the letter had a number of suggested changes.

There was a discussion about the simplified approach for calculating the R factor as well as the discussion of a serious administrative concern by the industry. There is uncertainty about the effect of an Optional Guideline because it is not clear whether companies would know whether a guideline has been adopted by the state. It was pointed out that approximately one third of the states automatically adopt guidelines. To avoid this confusion, and for many other reasons, the Guideline should be a regulation and go through the normal administrative procedure process.

It was also suggested that the possibility of cost reduction could involve using pricing mortality rather than the CSO mortality tables. Two approaches were considered and problems were found with both.

It was mentioned that the industry does not believe the approach for PAG XYZ is legally enforceable and does not have social value. Alex Zeid, the Chair of the NALC Actuarial Committee (FMSI, Actuarial Concepts) advised the regulators that the cost of implementing PAG XYZ would be in excess of seven figures for one company and may take as much as nine months to implement. Mr. Zeid further pointed out that this cost estimate did not include the cost for variable products, which are included in the scope of this Guideline. In addition, there will be costs to, change illustration

systems and make new policy filings. Mr. Zeid requested that the regulators perform a cost/benefit analysis to determine if the cost justified the expense of the Optional Guideline. Each time the NALC asks for the regulators to do such an analysis, the regulators either ignore the request or advise that it is the industry's job to tell them how much the proposed Guideline or Regulation would cost to implement.

The regulators pointed out that cash values "are needed" for policies with lifetime guarantees.

Regarding the suggested changes, the table below summarizes the changes and the LHATF's actions:

Optionality:	No comments on industry position.
Authority:	No comments on industry position.
Purpose:	Motion to accept was approved.
Applicability:	Opposed and regulators thought Dino's language is better.
Expense Allowance:	No comments on industry position.
Effective date:	Motion to use industry language approved. Discussed changing 2 years to 1 year. Motion to change 2 years to 1 year made but not seconded.

A motion was offered to expose and move the Guideline for adoption in June. The Chair requested each state to tell how they would vote.

The committee chair stated that he does not know why the industry is opposing the Guideline and what we are accomplishing. A vote by the LHATF Member states and their comments are set out in the table on the next page:

- IL Voted for NAIC adoption but state will most likely not adopt. Believe that Nonforfeiture is a state issue. Optional Guideline makes this a state issue.
- CA Agrees with IL. States this this is XXX of Nonforfeiture. Not sure whether CA will adopt.
- TX Agree with points made by IL and CA. Creates awareness with other states. Not sure if UL model reflects current experience. TX will adopt.
- CT Supports the Guideline but does not know if they will adopt.
- MI Support adoption, but does not know if the state will adopt.
- UT Not appropriate, needs to be adopted as a regulation and will vote against it.
- NE Not supportive due to cost and regulation vs. Guidelines as well as other concerns. State would not pass it.
- PA Abstained.
- OK Agree with NE. OK would not adopt.
- MN Personally supportive. MN has not supported the UL Guideline.
- FL Sponsored and kept this issue alive. Will support and pass in the State. this is the same as XXX. It gives value to the insured.
- SC Borrowed from CA and uses disclosure guidelines. Unsure whether it would provide support and would need to study the Guideline.
- AK Does not support actuarial Guidelines.

Motion passed.

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