



SOCIETY OF ACTUARIES

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Introduction to “Lifric”

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Lifric is the phonetic moniker for the American Academy of Actuaries’ Life Financial Reporting Committee (LFRC). Its key objectives are (1) to represent the viewpoints of life financial reporting actuaries in providing advice to financial rule makers, and (2) to provide practical guidance to life insurance financial reporting actuaries. Its main focus is on U.S. GAAP; although, more recently, international accounting standards have become increasingly important. LFRC’s activities are of direct interest to members of the Financial Reporting Section, many of whom are Academy members. Academy guidance is in the form of public documents, which are generally available free to members and nonmembers alike. The purpose of this article is to introduce the reader to LFRC in general. Subsequent articles will provide information about specific current financial reporting activities of LFRC.

Some may recall LFRC by its prior name a few years back as the Committee on Life Insurance Financial Reporting (COLIFR).

LFRC’s Place in the Academy

LFRC reports to the Academy’s Life Practice Council. Other committees of the Life Practice Council handle U.S. regulatory reserving and risk-based capital issues. LFRC handles U.S. and international GAAP issues, as well as certain financial reporting aspects of U.S. statutory statements. LFRC is comprised of experienced actuaries actively involved in financial reporting, with representatives from a variety of insurers and from the major public accounting and consulting firms. I chair the group, with Ken LaSorella as vice-chair. It is an active committee with a full agenda that meets regularly and has frequent teleconferences. Details about LFRC’s membership and activities can be found at <http://www.actuary.org/yearbook/life.htm#2> or by contacting the staff person, Steve English, at the Academy (*email English@actuary.org*).

Guidance Provided by LFRC

The Academy provides information using a variety of resources tailored to meet the specific situation at hand, including periodicals, reports and comment letters. General information about available resources can be found on its Web site at [actuary.org/resources.htm](http://www.actuary.org/resources.htm). For example, some of the recent guidance provided by LFRC includes the following:

- Frequently Asked Questions (FAQ) papers address select issues. An example is the draft FAQ on FASB Statement No. 133, which addresses

items related to computing the fair value of certain embedded policy benefit liabilities. LFRC will update this in 2004 for practice regarding modco reinsurance.

- Practice Notes are generally also in the form of Q&As, and set out common practices without judgment as to preference or suitability. Practice Notes address specific questions and to educate actuaries on newer issues. Practice Notes get updated as needed to reflect evolving practice. An example is the Practice Note on the AICPA Statement of Position (SOP) 03-1: Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts. LFRC will be updating this in 2004 for recent developments, including a recent Financial Accounting Standards Board (FASB) Staff Position paper and a Technical Practice Aid under development by the AICPA.
- White Papers are occasionally prepared to provide a comprehensive analysis of a specific topic. An example is the Academy’s White Paper on the “Use of Best Estimate and Risk Margins in Unpaid Claim Liabilities for Insurance Companies,” which is under development with the assistance of LFRC. This deals with the selection of the best estimates, with or without margins, among ranges of possible values and how this compares across different practice areas.
- Monographs are documents that set out the appropriate practices for a specific major item. An example is a monograph on purchase GAAP for life insurance, which LFRC will be developing for 2005.

It should be noted that the guidance provided by LFRC is generally advisory only, as only the Actuarial Standards Board or the financial rule-making bodies may set binding guidance. LFRC has at times been involved in providing education to actuaries on U.S.-specific issues by providing speakers for Society and Academy meetings.

Influence Provided by LFRC

LFRC takes an active role in helping to shape financial rules that involve actuarial viewpoints. For life reporting issues, LFRC will directly comment to rule makers, and at times will actively participate in the development of rules or guidance. In situations of a more general reporting nature, the Academy’s Financial Reporting Council (FRC) will take the lead.

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The FRC includes representatives from the various practice areas, i.e., LFRC plus its property and casualty, health and pension counterparts. To be proactive, the FRC has annual meetings scheduled with relevant rule making bodies, including the Securities and Exchange Commission (SEC), FASB, AICPA and the Public Corporations Accounting Oversight Board (PCAOB). These meetings serve to ensure that actuaries remain recognized by and available to the rule makers, and can provide input where most valued. The initial meeting with the recently formed PCAOB is an interesting example of this process. They request that actuaries take the lead in developing techniques for fair valuing employee stock options; although Wall Street prices equity options, they see actuaries as well-skilled in valuing long-term employee benefits.

The FRC is actively engaged in International Accounting Standards developments. This has relevance to all actuaries, even those working in firms that oper-

ate only in the United States, because FASB has a stated objective of convergence with international accounting standards. The International Actuarial Association (IAA) is developing its initial Practice Notes, and LFRC will be reviewing and commenting on the aspects of the exposure drafts that are related to life insurance.

Summary

In summary, LFRC, as part of the Academy, represents the actuarial profession to public policymakers regarding life financial reporting issues. So it is important that all life financial reporting actuaries are able to follow the activities of LFRC. This is especially true, given the trend in accounting and reserving away from prescriptive guidance toward principles-based guidance, where more reliance is placed on the relevant business specialists in determining the practice details. Finally, LFRC is an important source of guidance for practicing life financial reporting actuaries. We plan to inform you of our activities in future articles. §

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Other Changes to Original Exposure Draft

What else has occurred with this SOP since the original exposure draft was issued? First, the AcSEC received 10 comment letters to the exposure draft, including one from the American Academy of Actuaries' Life Financial Reporting Committee. The AcSEC's view of the comment letters was that the original draft SOP was confusing and its underlying principles were not well communicated. However, the AcSEC did not feel that any of the comments identified critical flaws in the SOP that would require major changes in the SOP's underlying guidance. Nor did the AcSEC feel that the SOP should be abandoned, as was suggested by at least one commenter.

Second, in an effort to respond to the comments received, the AcSEC modified the draft SOP to make the underlying theory more understandable. Gone are the concepts of inherent nature and primary benefit, which many found to be confusing and arbitrarily defined. The revised SOP includes a more straightforward presentation of the requirements that must be met for a contract to be considered substantially unchanged, including a flowchart of those requirements. Lastly, the AcSEC also acknowledged their concern for companies' ability to administer the provisions of the proposed SOP when it approved an alternative DAC accounting methodology for qualified internal replacements that resulted from a contract exchange. Under the alternative

methodology, the DAC amortization for the replacement policy would be a prospective only calculation, starting with the DAC allocated to the new contract from the original policy.

The AICPA Web site contains materials discussed in the AcSEC meetings, available at <http://www.aicpa.org/members/div/acctstd/general/mtgagen.htm>. Click on the April and July 2004 links to get the current draft of the SOP and other relevant information about the SOP discussed by the AcSEC. This link can also be checked in early September to get copies of an updated draft SOP that AcSEC will be discussing at their next meeting on September 8th and 9th. The original March 2003 exposure draft SOP can also be found on the AICPA Web site at http://www.aicpa.org/members/div/acctstd/edol/acctg_for_DAC_2003_03.asp.

What's Next?

The changes made in response to the comments received from the original exposure draft, along with changes suggested from the FASB, were significant enough for the AcSEC to vote to re-expose the SOP, and thus give us a rare second chance. To take advantage of this opportunity, actuaries should be prepared to provide quick feedback on the new exposure draft, when it is released later this year. Once the AcSEC and the FASB approve the final wording in the exposure draft, you will be able to get a copy of the document at the AICPA's Web site (<http://www.aicpa.org>) under "Exposure Drafts." §