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## CLARIFICATION OF THE SEPTEMBER 2012 FINANCIAL REPORTER ARTICLE TITLED, “Statutory Reserving for Fixed Indexed Annuities with Guaranteed Lifetime Withdrawal Benefits”

By Kush Kotecha, Ben Yahr, and James Collingwood

**W**e would like to offer the following clarifications to our article, “Statutory Reserving for Fixed Indexed Annuities with Guaranteed Lifetime Withdrawal Benefits,” published in the September 2012 issue of the *The Financial Reporter*.

In our article we stated:

- “The American Academy of Actuaries (AAA) Annuity Reserves Working Group (ARWG) has taken up the issue from the industry’s perspective ...”

We did not mean to imply that the AAA and any of their working groups act on behalf of the industry and/or are the voice of the industry. Rather, we desired to note that the ARWG brought this issue to the attention of the Life Actuarial Task Force (LATF) of the National Association of Insurance Commissioners based on observations of AAA membership. We want to clarify that the ARWG was representing the AAA and the actuarial profession only and not the industry.

- “... a reserve calculation tool was developed by the ARWG to illustrate the impact of allowing for utilization and lapses in determining the present value of benefits for the GLWB benefit under a modified AG33 approach.”

We would like to clarify that the main purpose of the tool developed by the ARWG was to demonstrate the calculation of statutory reserves under AG33 for fixed annuities with GLIBs and tabulate the level of reserves in relation to other measures. However, as an ancillary benefit, it optionally demonstrated the effect of including utilization and lapses in the calculation, which would provide insight into the GLIB calculation.

- “Noting that these products are similar to variable annuity products with guaranteed living benefits, the ARWG has also proposed using an AG43 approach to the Fixed Annuity Subgroup. ...”

We would like to clarify that the ARWG has not made this proposal nor have they taken a stance on whether any changes to current practices are advised. However, various individuals have made proposals similar to that described in the article to the Fixed Annuity Subgroup, but they have not been made or endorsed by the ARWG.

- Finally, “As a result, we expect to see companies with large blocks of this type of business explore the feasibility of obtaining a permitted practice from their state of domi-

cile to allow them to use a modified calculation approach (such as an AG43-like approach). Companies heading down this path will likely leverage the work products of the ARWG and the discussions with the Life Actuarial Task Force.”

To clarify, the ARWG has not developed any tools that address an AG43-like approach nor has the ARWG discussed such an approach with LATF.

The authors regret the issues noted above and any confusion they may have caused regarding the role of the AAA ARWG with regard to this topic. We look forward to continuing to follow the development of this topic and appreciate the efforts of the AAA to serve the actuarial profession.

The views expressed herein are those of the authors and do not necessarily reflect the views of, Ernst & Young LLP. ■



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