1996 VALUATION ACTUARY SYMPOSIUM PROCEEDINGS

SESSION 1

Introduction and Overview

Steven A. Smith, Moderator

Donna R. Claire

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INTRODUCTION AND OVERVIEW

MR. STEVEN A. SMITH: The first speaker will be Tom Foley. Tom is a life and health actuary with the North Dakota Insurance Department. He has 25 years of experience as an actuary, including 10 years as chief actuary, having served at several companies as director of product development, vice-president, and actuary. Mr. Foley was responsible for product development and all actuarial pricing functions, creating life, term, and health plans. For the last year, he has been chairman of the Life and Health Actuarial Task Force of the National Association of Insurance Commissioners (NAIC). He will be speaking to us about what's going on in that task force.

Our second speaker will be Donna Claire, who is president of Claire Thinking. She is a general insurance consultant with a focus on asset and liability management, regulatory matters, and the corporate valuation actuary concept. She is also a member of the Practice Notes Task Force. She is a member of the Society of Actuaries Board of Governors and a newly elected vice-president of the Society. She is also a member of the American Academy of Actuaries Life Practice Council. Ms. Claire has authored and coauthored several papers on cash-flow testing, dynamic solvency testing, and valuation issues and has been a frequent speaker at professional meetings, including eight previous Valuation Actuary Symposia.

MR. THOMAS C. FOLEY: As Steve indicated, I have been chair this year of the Life and Health Actuarial Task force (LHATF) of the NAIC.

In the last year or two, we have been a liaison between the commissioners and regulators and the Society of Actuaries and American Academy of Actuaries working groups. We cannot emphasize enough that our task would be impossible without the great effort of those task forces.

What I want to do is report on some of the activities of the LHATF. The first item is the new mortality table for determining reserves for annuities. It was decided in the summer of 1995 that

we needed to update mortality for use in valuing annuities because of the significant improvement since the 1983 table basis.

We considered 1983a annuity table and projection scale G, and decided to use generation tables for valuation of both group and individual annuities. This was submitted to our parent committee in December 1995 without objection from any party.

In January of 1996, the companies writing individual life insurance noted that since the same mortality table that is used for annuity valuation purposes is also used to calculate settlement option rates, a generational table will not work. This is because the settlement option tables have to be in the policy form, which is not practical for a generational table So we decided to use the generation table for group annuities, but not for individual annuities.

For the individual table we recommend a Table 2000 which uses the 1983a Table, Projection Scale G for males, a half of Projection Scale G for females, and it brings that forward to the year 2000. There is significant discussion ongoing in actuarial circles that we need to do an annuity mortality study. The people in this room are gong to be clearly the prime drivers in whether we will be able to do that or not because we are going to need significant company cooperation in order to be able to do that study. I am sure there is not anyone in the room that is not aware that annuities are taking a much higher profile and becoming a much more significant portion of the premium income that we're collecting with each year. This is projected to continue to be the case in the future. So, the valuation of these is going to be more and more important.

In 1990 when the actuarial opinion and memorandum regulation came out, I'm sure that it made a significant change in your life in that now you have to opine not only on your domiciliary state's regulations and laws -- valuation regulations and laws -- but also on other states' regulations and laws where you're licensed.

There has been significant effort and discussion in the last several years that somehow we need to alter this. There has been an Academy committee that has been looking at this for at least a year. They made a four-pronged proposal to the LHATF in June of this year.

The first item is that we will go back to the actuarial opinion being focused primarily on the domiciliary states' laws and regulations, although other states' commissioners clearly have the authority to ask for their own requirements.

The second item is to basically eliminate the Section 7 exemption for small companies. So, all companies would be subject to Section 8 which leads to asset adequacy testing.

Another aspect is that the insurer would notify all states of any special domiciliary requirement that exists where they are licensed. What we are trying to do is set up a mechanism now where it can be easier for the companies and the regulators to get together on what the requirements actually are. To that end we are talking about setting up a central depository system that the NAIC may administer.

The comments that we have received so far on the four-point proposal basically have spoken only to Item 2: that we cannot eliminate the Section 7 exclusion for small companies.

The next topic is an update of the ongoing effort to update the life nonforfeiture law. Since the early 1980s, when fund-based products became prevalent in this country, the whole concept of what minimum nonforfeiture values should be has been visited and revisited and visited again. The LHATF has had an ongoing attempt to develop the second nonforfeiture law that would be applicable to both fund-based and nonfund-based products.

The existing nonforfeiture law has formula minimum cash values. It is the effort to bring fund-based products in under this same formula-driven umbrella that has caused the delay. In December 1994, the task force decided that what we needed to do was to take a fresh look at how we're going to update the life nonforfeiture law, and we went back to basic principles. Both the Society and

Academy committees were developed, and they spent significant amounts of time in 1995 and into 1996 working on a new way of going about calculating nonforfeiture values.

That brings us to the spring of 1996. In the spring of 1996, Walt Rugland, under the umbrella of the Academy, developed a working group that brought a proposal to the LHATF. We received this report a few weeks ago. In fact, during an all day meeting on September 4,1996 in Reno, with about 50 people -- 10 or 15 regulators and other interested parties -- we talked about how we could develop a new nonforfeiture law. Let us discuss this proposal.

Currently, we have formula minimum cash values, although we know because of the dividends and nonguaranteed elements that even though the formula minimum cash value at some age and duration may be $200 a thousand, the real action as far as our consumers are concerned takes place at $300 or $400 or $500 a thousand. So, the formula minimums, even though they're in place, are not providing any regulatory control, for our consumers. We want to provide a significantly different method.

I will first discuss the basics of the proposal, and then we can talk about where we think this is going to go. Please understand that this is very much an evolutionary process.

The basic premise is that the company, when it sells the consumer a policy, will strike a deal with that consumer. The deal is going to consist of up to three plans. There will be a plan for nonforfeiture; there will be a plan for how we are going to provide for nonguaranteed elements, credits and charges; and, there will be a plan for how dividends are going to be developed and paid.

It is conceivable that a given policy form could have all three plans, although it is more likely that most policy forms will have two of those three. There will be a nonforfeiture plan, and there will be either a nonguaranteed element plan or a dividend plan.

The nonforfeiture plan will present what the company's intention as to nonforfeiture values that will be provided to that consumer. One way that that can be done is the company can guarantee values,

not unlike what we do today. So at duration 12 this will be the guaranteed value for this given age and so forth. Once that's spelled out, then that will be the plan.

Another option is the plan can say this is how we are going to calculate nonforfeiture values, but values will not be guaranteed at issue. The nonforfeiture plan will describe how the nonforfeiture benefits values will be determined.

At this time, we are looking at cash as being only an optional requirement, which means that you can sell a policy without having a cash surrender value. So, presumably what one would have would be either extended term or reduced paid up or both, and the nonforfeiture plan would describe how those values are going to be calculated. The plan for nonguaranteed elements and the plan for dividends would describe how those are going to be provided in the future.

I am sure a question or two might come to mind about the degree of specificity that one would need in these plans. We are discussing at least two kinds of plans. A plan that the company would develop and, let's say for now, would keep in its home office. There would be a summary of that plan that would be provided to the consumer with the policy.

For example, if it was a nonguaranteed element policy there would be a summary of the nonguaranteed element plan. There would be a summary of the nonforfeiture plan, and this would describe in more or less detail how nonforfeiture values are going to be calculated. The plan that's given to the consumer could range from we will pay excess interest, to we will pay excess interest and it will be 200 basis points from our earnings rate, and our earnings rate is on a portfolio method.

It is anticipated that the plan that the company keeps at its home office will be very specific because this plan will follow a policy form forever. So if, for example, five, ten, or twenty years from now, there are subsequent generations of personnel at a company, they would need to be able to know how to carry out the intent of that plan. So the plan that is with the company needs to be very specific.

It's my sense that the level of specificity can indeed turn out to be a competitive edge for given companies. Some companies are going to want to be more specific in the consumer plan so they can point to that and get a competitive edge over a company who's not being as specific.

There was a lot of discussion about whether the company plan should be filed with the regulators. Should it be filed with the regulators and approved before it can be used?

I think it's safe to say at this point in time it will not be the case that it must be filed and approved with regulators before it can be used. It may turn out to be the case that it has to be filed for information purposes. It may be there are some jurisdictions that want to file for information purposes. There may be other jurisdictions that do not want to see the paper at all.

What are the downstream consequences of developing a plan for nonforfeiture, giving the policyholder a summary, and then five years from now the policyholder looks at that summary and says he or she is not being treated fairly or getting what he or she thought? What is the recourse? Well, presumably the policyholder would bring that to the regulator, and the regulator would then go to the company to investigate, in a more detailed manner, how the plan was put together and, indeed, whether the plan is being followed in the development of nonforfeiture values for that particular consumer.

If we step back from this for just a moment, we see that, in reality, we have a similar situation today and we can take advantage of it. Right now Actuarial Standard of Practice 1 and 15 require that companies develop plans for how they're going to provide for nonguaranteed elements and dividends, respectively. Presumably those are developed in sufficient detail that subsequent generations of personnel could follow the original intent of the company at the point that they issued those contracts.

We now have a market conduct activity in most regulatory bodies which perform a study considering the company's plan with today's laws and regulations. The point I am trying to make is that this new arrangement that we are talking about is not all that different than what we could be doing today.

As indicated earlier, cash values would not be required but nonforfeiture values would be required. We had a lengthy discussion about the consequences of not requiring cash values. Will a secondary market develop? If so, does it help consumers or not? This clearly is a question that is going to have to be answered because that is one of the first questions the commissioners are going to ask when we take this proposal to them.

Until a couple of weeks ago, it was the intent that this new nonforfeiture law would replace the existing nonforfeiture law. If that is the case, then we have tax issues that are potentially raised, especially with the no-cash option. The proposal that is now being considered is that this new nonforfeiture law will be in addition to the existing nonforfeiture law. So, the current nonforfeiture laws would continue.

Companies would have the option of potentially, on a by-plan basis, using the new nonforfeiture law or continuing to use the existing one. That makes the effective date issues easier to handle. It makes the potential tax issues easier to handle. It also makes implementation easier, in that we need to get 50 jurisdictions to either get this in law and/or regulation.

One of the huge advantages of the new nonforfeiture law is it is going to provide product flexibility that we do not now have. It will be the case that for products that the companies choose to use the new nonforfeiture law that they could develop a plan that looked like a life insurance plan today but that a consumer's option could become a disability income plan, a long-term-care plan, an annuity plan for a period of time, or could become a home health care plan. It could turn into any kind of plan, and the same plan could function in all these different ways over the lifetime of a consumer.

We anticipate that this law will be applicable to life policies, annuity policies, and health policies. We think this is going to bring significant enhancement in product development capabilities to the industry at the very time when it desperately needs that in order to compete.

MS. DONNA R. CLAIRE: One of the things Tom has brought out, is that they have spent most of their time in the last year working on the standard nonforfeiture law, so there may not be all that

much news for valuation actuaries. I think the other important thing that you're getting from him is that the regulators really are trying hard to work for the best of both the companies and the industry in the future. It is very much an interactive process, and they are looking for feedback from all of us.

The first topic I am going to cover is illustrations. Some of you may wonder what the subject of illustrations is doing in a financial reporting session. However, in a number of companies, the illustration actuary and the valuation actuary are one in the same. Also, the work of the two may be linked.

As an update, the NAIC model regulation on illustrations requires that an actuary certify that the nonguaranteed values shown in illustrations do not exceed those in a disciplined current scale. It requires that this disciplined current scale be based on specified self-support and nonlapse-support tests. This is a major project of many companies in 1996.

A number of states expect to adopt this regulation within the next year or so. According to an update by Jim Van Elsen, the following states either already have or plan on taking action by January 1, 1997: Alaska, Colorado, Iowa, Louisiana, Nebraska, Nevada, North Dakota, North Carolina, Utah, Pennsylvania, and Wisconsin. South Carolina expected a July 1997 implementation date. In California, it is being proposed by regulation, which can go into effect on January 1, 1998. Texas and New York are also looking at potentially implementing this regulation next year.

There are many questions on this regulation and the accompanying Actuarial Standard of Practice. There is an Academy/Society of Actuaries task force developing practice notes on this issue. A second draft of this practice note is included in your handouts. As the questions go through a review process, they are also released on Actuaries Online. The regulators are also developing questions and answers. A draft of their questions and answers can also be found on Actuaries Online. We welcome your comments on the documents.

Another one of my duties at this symposium is to give an update on Practice Notes. This year it is real easy -- the life practice task force has been spending all their time on the illustration practice

notes, so the life valuation notes have no changes to this point. However, the most important way to keep these notes current is by getting input from you. Therefore, we have included a survey for all of you to fill out to update the information in the practice notes. We intend to use the information from these surveys to update the life practice notes as soon as possible. If you would like to help in the process, let us know -- we can always use fresh talent.

The last health practice note to come out was on small group; this was released late in 1995, and there are no new ones on the near horizon.

The statutory codification project of the NAIC has taken on a life of its own. It's purpose is quite good. The accountants were stating that they would not sign off on statutory annual statements or reports because they were not in compliance with generally accepted accounting principles (GAAP). So the NAIC is attempting to codify the current statutory principles so that they can be considered an Other Comprehensive Basis of Accounting (OCBOA), and accountants would therefore be able to sign off on their accuracy.

This job is proving to be bigger than most people imagined. The NAIC is having a big six accounting firm work on these position papers for them. Effectively, it would develop a uniform standard of statutory accounting to be used for all states. This uniform standard, which at one point was advertised as "surplus neutral" appears to have the effect of increasing reserves for a number of companies. Whenever there was more than one accounting method currently being used, they appear to generally take the more conservative interpretation as being the right answer.

Their goal is to have drafts of all the accounting papers, of which there are almost 100, all released in 1996; with the entire set codified in 1997 for possible adoption.

The papers are on all aspects of statutory accounting. The papers that have caused the most comments to this point are treatment of some asset types, such as mortgages. (Writedowns are required quicker than they are done by some companies.) Recently, the drafts of papers on reserving and other topics of interest for actuaries have been released. Some of these are: Paper 50:

"Classifications and Definitions of Insurance Contracts in Force"; Paper 51: "Life Contracts"; Paper 52: "Deposit Type Contracts"; Paper 54: "Individual and Group Accident and Health Contracts"; Paper 55: "Unpaid Claims, Losses and Loss-Adjustment Experience"; Paper 56: "Universal-Life-Type Contracts, Policyholder Dividends, and Coupons."

These above papers have been commented on by an American Academy of Actuaries' Committee on Life Insurance and Financial Reporting group, under Henry Siegel of New York Life.

Some of the highlights from this are:

1. What is required for life insurance versus annuities needs to be made clearer. For example, depending on how one reads the requirements, the greatest present value of all benefits may have to be tested for certain benefits in life insurance contracts (others have read this section differently).
2. For universal life insurance, they appeared to have given up trying to understand exactly what it says, and state that reserving should be consistent with the model regulation (which I think only about 10 states have officially adopted).
3. The papers would cause any model law, regulation or actuarial guideline to be the basis for statutory accounting, even if the state did not adopt the regulation or law. This is especially a concern for health insurers, where few states have passed the current NAIC model regulations. This would also mean, for example "XXX" would be the standard as soon as the NAIC adopts it. There are advantages to this, in that the standard would be uniform between states, but it does appear to trample on state's rights.
4. Certain current statutory rules that are a bit strange may be changed by the adoption of this standard. For example, the current requirement to set up a liability for the "cost of insurance in excess of loading" would be eliminated. There would be other changes in due and deferred premiums and deficiency reserves that would make the accounting basis more consistent.

The original estimate was that this project would go through relatively smoothly. Recently, I have heard a number of concerns expressed. Some of the states do not like the fact that these requirements

may effectively supercede the duly passed legislation in their state. Some companies are protesting the additional surplus hit some of the requirements may have. At this time, it is anybody's guess as to what the final outcome will be.

Tom did a good job doing the life nonforfeiture, and he has more current data than I have. He reported on the September 4 meeting. Again, the thing that I'd like to point out is we are looking for involvement from a many people a possible.

Tom also went through the individual annuity valuation mortality. Remember, the group annuity stuff will be generational. It is expected to have a January 1, 1998 date. The SOA board did approve what is now called the Interim 2000 Table for individual annuities, which is exactly what Tom said, with some minor correction in Projection Scale G for males projected to the year 2000, one half of that projection scale for females.

Even though this will not be a statutory minimum until January 1, 1998, it does indicate that if you do happen to have a lot of annuities, and you are currently using the 1983a Table for your cash-flow testing, you may want to consider updating that annuity mortality information through the current date because right now all indications are that the current annuity mortality is not sufficient in a number of instances. I have also checked with New York, and that is probably the date that they're going with for what used to be Regulation 150 which will now be Regulation 151 for minimum reserving.

We urge you as members of your company, when you get the form from the SOA, to provide data. We really would like a real update on the individual side. Unfortunately, the real problem was we did not have enough industry data to update the table at this time because not enough companies contributed.

I would like to quickly go through some of your favorite requirements. There has been some confusion regarding the implementation of Actuarial Guideline 33, commonly known as GGG, which went into effect last year.

CARVM does state that the reserve should be the greatest present value of all possible benefits. The concern has been raised as to the treatment of multiple benefit streams, such as partial withdrawals followed by annuitization. The Life and Health Actuarial Task Force thought it was clear that these needed to be valued. It isn't. Therefore, and Academy task force headed by Steve Preston has been asked to develop any possible needed changes to Actuarial Guideline 33 to clarify this matter. Steve Preston will go into more details on this in Session 2 of the symposium.

As Tom mentioned, he asked me to speak on XXX because I don't think anyone at this point quite knows exactly what to do with it. Again, XXX is reserving for policies with nonlevel premiums or benefits, and most people look at it as a reserving requirement that actually affects all types of business. It's been adopted by the NAIC. It has had a real hard road basically because of the one-man campaign against it. New York, of course, has its own version under Regulation 147.

North Carolina and Illinois have actually acted on it, and both have an interesting caveat. Both of them said it would not be effective until other states adopt it. Illinois specifically says it's not effective until 51% or more of the population according to the 1990 census has adopted XXX or a substantially similar statute. So, roughly translated, other than New York, there won't be an XXX.

However, and there are a number of states that are planning to adopt maybe in the next year, including Colorado, Kansas, Maine, Wisconsin, West Virginia and Maryland, but the other states, as far as I know, have not yet adopted. However, that does not mean that unitary reserves are going to be accepted in all states. Especially with the nonadoption of XXX, this causes a major problem for a number of actuaries for the end of 1996.

There are certain states that do not expect to adopt the regulation on nonlevel premiums or benefits (XXX) that valuation actuaries need to watch out for in 1996. For example, Texas appears to be enforcing its Rule 3.309 on term reserving, which requires reserves to be set up on a segmented basis, similar to XXX, but without the relief of the new mortality tables.

By law, in Florida one must set up reserves for the current segment -- this requirement may also require reserves that may exceed those under XXX.

California has Bulletin 74-11 for 1996; actuaries who do not comply with this bulletin (which has similar requirements to XXX except that it does not allow the updated mortality tables) must provide an actuarial certification based on a gross premium valuation that the reserves for these products are adequate.

Session 31 is a panel discussion with regulators from Florida and California, so this panel should be interesting. In addition, Session 31 will have an update on what has fondly become known as the Larry Gorski "Halloween Surprise," given by Bruce Sartain of the Illinois Department.

An Academy task force, headed by Steve Preston and Tom Campbell, has done a great deal of work on the subject of how to reserve for variable products which have some sort of minimum death benefit guarantees. They are looking at the reserve required to fund both short-term (e.g., a immediate drop in values) and long-term (possible future loss) needs. They expect to propose an actuarial guideline on this at the September NAIC meeting. Several states, such as Connecticut, are looking to act on this quickly. Steve will provide an update on this in Session 2.

Tom also mentioned the "this state" requirement, where valuation actuaries have to certify that the reserves comply with the minimum aggregate standard of each state the company operates in. An Academy task force headed by Shirley Shao has issued its final report on this. It is available on Actuaries Online in the life and annuities section. Session 26 will give details on this.

Since these changes would require changes to a regulation that was adopted by most states already the adoption process, even if approved, would not be quick. Roughly translated at least for 1996 and probably for 1997 and possibly beyond, the actuary still must certify as to the adequacy of the aggregate reserve in each state that the opinion is filed in. A quick update on a couple of other topics.

There are a few more financial reporting issues that are getting some attention at the NAIC. One is a possible reserving standard for synthetic GICs. These products have a number of different features, so setting a single reserving standard is not easy. I expect that the regulatory group looking at this will have a paper out in a few months.

Another hot issue will be the reserving standard for equity-indexed annuities, where principal plus a minimum interest rate is guaranteed, and, in addition, there is a guarantee that the annuity will pay as much as, for example, 80% of the S&P 500 index over five, seven or ten years. It is currently one of the "new" products being issued, so there is a lot of attention being paid to it. So far, four states have not approved their issue -- New York, New Jersey, Vermont -- and the latest to recommend not approving them is North Dakota. Other states are wondering what reserving standard applies. One regulator has suggested that a Black-Scholes model to value the reserve requirements would be nice. So far, the official standard is Commissioner's Annuity Reserve Valuation Method (CARVM).

For this product, this typically translates into a minimum reserve of the cash value. It is very important for the valuation actuary to test the adequacy of the assets backing this product; there are typically options bought that would mimic the underlying guarantee with respect to the index. The valuation actuary should feel relatively comfortable that the options and other assets make reasonable provisions for the guarantees in the contract. A task force headed by Jim Greaton under the Academy's Committee on Life Insurance Financial Reporting has written a paper on this subject, so expect more on this soon.

FASB has been relatively quiet with respect to life insurance companies. The most relevant new standard is probably *FAS 125* on "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This can affect certain life insurance assets such as securitized assets, dollar rolls, and repurchase agreements, and it would classify all mortgage-backed derivatives as "available for sale." This will be in force on January 1, 1997, so it is worth looking at.

To complete the list, there does not appear to be much exciting on the Securities and Exchange Commission front. They are looking at redoing the required disclosures on products, but I have not seen any draft on this.

As you can tell, a lot is happening on the statutory financial reporting side, but it is not happening all that quickly. The new requirements that will probably most effect actuaries for 1996 are the illustration requirements. I also strongly recommend looking at what certain states may require for term reserving in 1996. The new annuity mortality tables and XXX will probably be the major projects for 1997.

MR. SMITH: Donna, when you said that North Carolina and Illinois had adopted it with these forward looking dates, wouldn't you count New York as also having XXX for that 1990 census?

MS. CLAIRE: New York does qualify as substantially similar to XXX, and is in force currently.

MR. SMITH: That gets you up to 14% or something on that order. California is 12%. Texas is at 6% or 7%. Florida is 5% or 6%. If you're going to get to 51%, it would still apparently take a while.

MS. CLAIRE: Right. That's the point.

MR. FOLEY: Steve, I might indicate, having been involved in commissioner discussions about adoption of XXX, it's my sense, and I have not talked with any of them since Illinois came up with their way of adopting the effective date, that there may be many states that will adopt XXX using the Illinois effective date method. So, that may increase the probability that we will have that relatively soon.

MR. SMITH: When I first heard of the Illinois language, that is, that Illinois has adopted it, but it won't become effective until the later of January 1, 1997 or whenever states totaling 51% of the 1990

census population have adopted it, there were those people who told me, well, that means that if every state used that language, it would never be adopted. I'm not sure that that's the case.

MS. CLAIRE: That's not the case.

MR. FOLEY: That's exactly right.

MR. SMITH: I agree. I would think that Illinois is of the opinion that they have adopted it. It just has not yet become effective. So there is a difference between adoption date and effective date.

One other question again for Donna. You commented that once the statutory codification is in, since XXX will be in there, from an NAIC standpoint, that in order to get a clean statutory opinion from your auditor, you would have to hold XXX reserves included from the effective date of when the NAIC passed it, which would be March of 1995.

MS. CLAIRE: I think there may be a later effective date. I am not sure exactly what they will do with effective dates.

MR. SMITH: If XXX were not a prospective thing, and companies are still selling term policies on the old basis, it would be a very significant problem. XXX is supposedly being adopted on a prospective basis only, except in New York. Any other questions?

MR. LAWRENCE DYKSTRA: Representing a small insurance company, I have a comment about Donna's remark on the work that Shirley Shao is doing with regard to the changes in this state requirement. Our company has been filing Section 7 opinions two years out of the past three, since the new law was adopted, and during that third year when we're required to file a Section 8 opinion, our company incurs great expense to have the cash-flow testing done. I believe it is prudent for our company to do that, and I think it's good that our company does that once a year. Our company has a large and a strong capital position and redundant reserves, and every year the results of those tests

reveal that we're still in a strong capital position. We have always passed all seven of the New York seven tests.

But it's naive to think that that will not be a tremendous hardship on companies to do what they feel is appropriate in the area of asset adequacy under a new law that eliminates the Section 7 opinion. It's an expensive proposition for our company to hire consultants.

Our management is enlightened in the fact that there are some tremendous values to be obtained from doing cash-flow testing, and we've elected to purchase software to do cash-flow testing, but that also is a tremendous expense, and I guess even though our company has taken that step, I'd like to say that for other small companies, it's naive for us to sit around and say that that's not a hardship on those companies.

MS. CLAIRE: I should mention that Session 26 will go into the "this state" requirement a lot more. Shirley Shao will speak at another session. There is a task force under Shirley specifically dealing with the small company issues, and, again, you can talk to Shirley or Jim Van Elsen and Tom Herget, who are heading up the small company task force. Yes, we do want to come up with something that makes financial sense but also something that will give information to both management and regulators.

MR. JEFFREY L. HAMBECK: I noticed that Donna's slide on GGG seemed to say that CARVM under GGG would be looking at all possible benefits. Donna, in your opinion, does that require continuous CARVM?

MS. CLAIRE: No, it specifically does not require continuous CARVM. GGG is only supposed to define current law. In New York, for example, current law does say continuous CARVM, but it's written in such a way that if your state says it's continuous, it is. If it doesn't, it isn't. GGG does not change this.