1997 VALUATION ACTUARY
SYMPOSIUM PROCEEDINGS

SESSION 1

Introduction and Overview

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INTRODUCTION AND OVERVIEW

MR. CHARLES D. FRIEDSTAT: I am a director with KPMG Peat Marwick in Chicago, the chairman of the Valuation Actuary Symposium Committee for this year, and moderator of this session.

The focus of this session is to give you a survey of recent developments in the financial reporting area. We hope that there will be some time for questions and answers, but virtually all the topics that we're dealing with here will be dealt with in far more detail at various sessions later on in the program.

We have two speakers at this session. Bob Wilcox has spent a long career in a variety of different positions. He has worked for insurance companies and has been a consultant. In the last several years, he has served as the insurance commissioner for the State of Utah. Currently, Bob works for Deloitte & Touche and is national director of insurance regulatory consulting. Bob will be speaking on the work of the Academy's Valuation Task Force. The committee is taking a blank piece of paper and looking at a possible new direction for statutory valuation procedures in the future.

Our second speaker is Donna Claire. Donna is president of Claire Thinking. She is an SOA vice president and, in my mind, one of the most active liaisons among the Academy of Actuaries, the Society and various NAIC committees. Donna will be speaking on current activities involving the NAIC, various Academy committees, and other developments affecting financial reporting.

MR. ROBERT E. WILCOX: My story really begins with a request from the NAIC Life and Health Actuarial Task Force (LHATF) at their meeting last December. At that time, they outlined what they wanted us to accomplish. First, they wanted a thorough study of the valuation methodologies having to do with life insurance, annuities, and health insurance. I should also indicate that when we last met with the NAIC in June, they suggested that we should also pay a fair amount of attention to the property and casualty issues with regard to valuation because they were very much interested in having some consistency across all product lines.

They had very broad objectives in mind. They were not interested in fixing small problems. They were looking at us to do an overall review. They did not want us to be constrained by past practice. This is where this blank piece of paper was suggested. We were to be looking at valuation from what would be the best way to attack the valuation issues rather than looking at the constraints that came from our past. They wanted us to consider practicality as well as the current state of actuarial science and where we anticipate actuarial science to go. They did not want us to come up with a standard that couldn't be done, but they were certainly interested in using the latest techniques and technology. They wanted us to consider the impact on the regulatory framework as part of the overall conclusions that we came to.

A little bit about the task force organization. We selected task force members who are all members of the Academy and who function primarily as a steering committee. I suggested to those who are in that role that if we should ever have to take a vote, they're the ones who will vote. But we've only done a couple of straw polls. We've never really had to vote yet. Because the objective of this group is to offer proposed guidance very much on a consensus basis, we try to reach a consensus on the issues as we go forward.

There are participants, and we invite all members of the Academy who are interested in this topic to participate in the process and to fully participate in the discussion. We've worked hard to make sure that there are no limitations on their participation. But we've also invited interested parties, those who may not be members of the Academy but are still interested in the process, to participate. They attend the meetings and give us all of their input as we go along. So it's really an open participation process. If this sounds interesting as we go along, we would invite any of you who would like to participate to attend our meetings and contribute your thoughts and ideas to the overall process.

One more part of our organizational structure. We've tried to create liaison with key groups: the Society of Actuaries, the Casualty Actuarial Society, the Conference of Consulting Actuaries, the primary trade groups, the American Council of Life Insurance (ACLI), the National Association of Life Companies (NALC), and the Health Insurance Association of America (HIAA). Of course, there's coordination with the Life and Health Actuarial Task Force of the NAIC and other groups at the NAIC, as well as committees working with risk-based capital, and the Actuarial Standards Board. We are looking forward to the time when we may be ready to recommend a need for a new standard of practice.

We've established a number of work groups, including one dealing with the current system's advantages and disadvantages. I'm going to spend some time talking about a group dealing with tax issues and a group that is producing an excellent paper on international valuation systems. We've received a first draft of that. The final report will be out within about a month and you'll see an excellent work product in terms of a summary of the principal valuation systems of a number of countries. There's a group working on valuation tools to identify all of the tools in our toolbox available to deal with valuation issues as we go forward. There's the group dealing with the reserve regulations and standards to identify what we'll need to change as a result. There's another group that is identifying the challenges to change, all of the areas where we're going to have to make a special effort in order to resolve issues as we go forward.

I want to talk for the next few minutes about the advantages and disadvantages of our current system. First of all, the advantages. This system has been in place for nearly a century-and-a-half. It has served us well in many respects and we should not discard it without some very careful consideration. But if you look at the advantages and disadvantages, you'll see many things that are listed as advantages are also listed as disadvantages. Much of that depends on your perspective, and I hope that you'll come to an understanding that we're really trying to give consideration to both fairly.

First of all, there are issues having to do with standardization. The current system provides consistency; consistency from year to year, from company to company, and it is a good system from that point of view. It is difficult for a practitioner to manipulate. There isn't much room to deviate from the standards and from the rules. It facilitates audit and examination. Certainly the insurance examiners from the various departments like it from that point of view in that they have numbers to tick off as they go through the information. It provides a good basis for tax reserves and gives a consistent basis from which to build risk-based capital to give us the overall protection that we're looking for. It's relatively simple to determine and validate. It facilitates the automation of the calculations. It's independent of the complexity of many of the other liabilities and assets on the balance sheet. It enables small companies with limited resources just as well as the large sophisticated companies to comply with the law. It provides a good deal of historical conservatism.

It has produced adequate reserves for many years, and the use of conservative assumptions results in a perceived conservatism as well as an actual conservatism. The cash value floor on many of the reserves adds more conservatism and with asset adequacy analysis there is an additional perspective added to the valuation. By adding Asset Valuation Reserve (AVR) and risk-based capital, there's a pretty adequate solvency measure involved. With the Interest Maintenance Reserve (IMR) the book value of the liabilities is consistent with the book value of the assets. So you can see that there are many advantages to the system as it currently exists, but there are some disadvantages as well and you'll actually see this as a longer list.

There are many product designs in the current situation and the current environment that are not adequately addressed. Products with multiple benefits, GICs, universal life, equity-indexed products, and variable products are not adequately addressed in the current standard. It's clear that today we're operating in a changed economic environment, and there is insufficient latitude in the current valuation structure to accommodate that. There are some lines of business that are not covered, and there's a lack of clear direction in terms of new product design. When there is a new product design, how do you fit it into the system and how do you deal with it?

Neither individual company nor industry emerging experience is reflected. Mortality, lapse and morbidity assumptions, are often used for all products. As I say, they're not based on company or industry projected experience, and there's no provision at all for an emerging experience. The valuation interest rates are not based on the actual earned rates, and they ignore the degree of matching that we determine exists. The expenses are implicit. The actual expenses are not reflected and actual expense allowances are not related to the actual acquisition costs.

There are risks that are not appropriately addressed. It ignores investment risk differentials. The deterministic approach is not always appropriate. There are times when a stochastic approach for determining reserves is a much more appropriate way to go and it's not provided for. It's based on guarantees and largely ignores policyholder expectations -- the nonguaranteed elements. Future flexible premiums are ignored and small product differences sometimes can provide very different reserves.

Implicit margins present some specific issues. The level of adequacy or conservatism is difficult to measure. There are implicit margins in interest, mortality, and morbidity. Additional implicit conservatism in the methodologies and those implicit margins provide for the expenses and risks and particularly the nonguaranteed elements. It's really unclear what level of adequacy for those provisions is provided under the current structure.

Asset adequacy testing covers up a lot of the other problems with the system, but not all companies are required to perform asset adequacy testing. Formula reserves may be excessive when the asset adequacy on analysis indicates a lower reserve would be adequate. But there's no provision for moving reserves downward to match testing. If the formula reserves are inadequate so that extra reserves are required, those extra reserves are not tax deductible.

There are inconsistencies across product lines. The focus of the valuation requirements depends on the type of contract, that is life, health, and annuities. There are different strategies for each that are not really consistent. The reserves do not adequately support the contracts with multiple benefits.

If you have a life benefit and health benefit in the same contract, it's really not provided for in an adequate fashion. There are inconsistent assumptions required for primary versus secondary benefits, and the methodologies are different, with the Commissioner's Reserve Valuation Method (CRVM) for life, the Commissioner's Annuity Reserve Valuation Method (CARVM) for annuities, the gross premium valuation for health, and inconsistent aggregation requirements. Sometimes we're required to maintain reserves on a policy-by-policy or contract-by-contract basis, and other times we're required to aggregate with no real consistency across those issues.

There has been a proliferation of additional requirements. The requirements that we developed are inflexible and difficult to change. The result is that there are additional requirements built up to fix each problem as it arises; we have asset adequacy testing, AVR, IMR, risk-based capital for special results for universal life and variable life. We have Guideline XXX, Guideline GGG, and Guideline XXXIII. We look to the *Examiners Handbook*, the annual statement instructions, specific state interpretations as each of the states produce circulars and bulletins, and even verbal requirements that we're expected to comply with. All of these requirements are to fix these various issues that arise that are not provided for by the standards. Then we find the situation where a particular fix is no longer needed, but it's not removed. It's just added upon. We find ourselves with a rather complex set of three different reserving systems: statutory valuation, GAAP valuation, and tax valuation.

Because of all of this, you would think that there would be a great deal of impetus to come to a comprehensive system that would work more easily. Arnold Dicke brought this quote to one of our first meetings, and I think that it's worth taking note of. It's a quote from a rather famous individual, Machiavelli: "It should be borne in mind that there is nothing more difficult to arrange, more doubtful of success, and more dangerous to carry through than initiating changes. The innovator makes enemies of all those who prospered under the old order and only lukewarm support is forthcoming from those who would prosper under the new. Their support is lukewarm, partly from fear of their advocacies who have the existing laws on their side and partly because men are generally incredulous, never really trusting new things unless they have tested them by experience."

So when you plug that into the equation, it may take more than one try before we're successful in getting this accomplished, but we're certainly making a good try of it now as we go forward.

One of the things that we tried to do in identifying a valid valuation system was first to identify our audiences. The numbers in Table 1 indicate the order in which we described these and then we ended up listing them in a reverse order for reasons that might make sense. Certainly creditors are interested in our ability to service debt. Reinsurers are interested in the ability to cover the liability on the ceding company's block of business and the reinsurer's ability to pay, and they are certainly interested in the solvency of both the ceding company and the reinsuring company. Guaranty associations want to know what sort of information is being provided to regulators. That is, are regulators in a position to take adequate regulatory measures against troubled companies and to make sure that the debts to policyholders are adequately identified?

TABLE 1

	Audiences	Needs From a Valuation System
8	Creditors	Ability to service debt
7	Reinsurers	Liability on ceder's block, reinsurer's ability to pay, ceder's solvency
6	Guaranty Association	Information to regulators, debt to policyholders
5	Tax Authority	Auditable, true measure of earnings
4	Investors	Earnings/value, buy/sell, management, comparability
3	Policyholders	Equity, ability to meet obligations, keep their promise -- the deal
2	Regulators	Current snapshot, trigger, protect policyholders
1	Management	Business plans, exposure to risk, risk/return, emerging results

The taxing authority certainly wants information that will be auditable and will properly relate to the basis of the taxes. If taxes are going to be related to earnings, then it needs to provide a true measure of earnings. One of the things that we discovered as we looked at international systems is that some systems work quite well that are driven off of factors other than earnings, so that may be an issue that, at some point, we will want to be addressed.

Investors in the enterprise want to know about earnings. They want to relate the earnings to value. They want to know whether to buy or sell the stock of the company. They want to be able to evaluate management and have comparability with other companies and other institutions. Policyholders certainly want to know that they're being protected from an equity point of view, and that the company has the ability to meet policyholder obligations. This last one is extremely important: the ability to keep their promises, too. You've seen this language coming up in the discussions on the new nonforfeiture law. I'm referring to the promise relative to the deal that is struck between the company and the policyholders.

Regulators actually requested this study. They are looking at a current snapshot of the company's financial picture. What they're really interested in is a trigger; that is, at what point is it appropriate for them to take action with regard to the company to place it under supervision or actually seize the company for purposes of rehabilitation or liquidation? That becomes a very important part of the valuation process. Our thinking has come around very much to the fact that providing information to the management and board of directors may be the most important function of the valuation. It isn't just a matter of what the current financial position of the company is; that is, is the company solvent? But will the company have the ability to perform on its business plans? That is, is the company viable? Is it viable in the marketplace? Is it going to be able to market the products that it intends to market and remain solvent and remain financially viable? This is a very important part of the valuation process.

Out of this we developed three primary objectives and these are given in summary form which you will see detailed in our final report later this year. First, from group number one (the management and the board of directors) is the evaluation of the ability of a company to execute various business alternatives. This goes directly to the question of viability. Is this what regulators are interested in? It would be inappropriate for regulators, because of the general strategy and philosophy of this country, to want to intervene in the business plans of management. On the other hand, regulators are and should be very interested in making sure that management is getting this important valuation information.

What is the regulator interested in? The evaluation of the adequacy of resources relative to obligations. This is where we're looking for the trigger and that's a most important issue. Then there's the measurement of changes in resources relative to obligations; that is, are you producing an income statement that makes sense? Now as we've gone through these, we've come very much to the conclusion that we want one system that supports any and all of the accounting structures with which it has to deal. We should not be trying to create one valuation for statutory purposes, a different valuation for GAAP purposes, and yet a third valuation for tax purposes, let alone whatever else may come along. But we should be dealing with a single system that produces the information necessary to support all of these different structures.

I indicated to you that we had a working group looking at international things. As I said, the report in its comprehensiveness will be a great addition to actuarial literature. I have just a few observations about some of the things we've learned so far about these international systems and how it might apply to what we're doing. First of all, assets and liabilities should be valued consistently. Any system that is going to be effective must accomplish that purpose. The regulations need to provide flexibility. The valuation actuary must be able to clearly identify the needs of the various products and match that with appropriate flexibility. There needs to be a good working relationship with the accountants. The accountants are those responsible for producing the various financial statements, and they need to understand why we do what we do. It seems that in any country where the valuation system works, there is a high level of cooperation between accountants and actuaries. The valuation should cover all risks, not just some of the risks. The margins should be explicit, expressed as variances from the mean as opposed to implicit margins. When you look at a financial statement you should know exactly what level of conservatism is expressed in the numbers that you've seen.

In conclusion, I want to tell you that we are expecting to provide a concept report to the NAIC Life and Health Actuarial Task Force in December 1997. It will be just a concept report, but we hope to add to it a map of the next steps that can be followed in terms of carrying out the implementation of the concept statement. As I indicated before, if you're interested in participating, please do so.

MS. DONNA R. CLAIRE: Let's go from the profound to the practical. Basically, this is what the valuation actuaries have to worry about in 1997. First, the good news. There are very few changes that will affect 1997 year-end. The bad news is there are many more that are going to affect your work next year.

The first one that I'd like to talk about is statutory codification. This can have a major impact on many companies, potentially starting as early as 1998. The original purpose was quite good. Effectively, the accounts were tired of the 50 different state laws and said they would not sign an unqualified opinion unless the statutory statement would follow generally accepted accounting principles or the alternative, which is called Other Comprehensive Basis of Accounting (OCBOA). So a group was formed at the NAIC to come up with this comprehensive basis. This proved to be a bigger job than most people imagined. Effectively, what they're doing is coming up with a uniform standard where one really didn't exist before. This was advertised as surplus neutral; however, many companies have found that that isn't going to be the case. All the accounting papers have been written (of which there are something like 100), and they plan on releasing the total package sometime later this year. February 1998 is the date for the final set.

During the process, American Academy of Actuaries committees have been commenting on the actuarial issues. On the life side, this is headed by Henry Siegel of the Committee on Life and Health Financial Reporting. Most of those comments were accepted; however, that does not mean that actuaries or companies will not have to make major changes if this goes through. One set of companies it probably will have a major impact on are relatively small health companies that write in only a few states. Currently, state health reserving requirements vary widely by state.

Codification would force all companies to comply effectively with the model NAIC regulations, or else opinions from their auditors would be qualified.

Other companies are protesting other aspects of the papers. For example, as currently written, the Model Investment Law, also known as the "Pigeon Hole Approach," would effectively be adopted. You would have to follow this even if the state of domicile has not adopted it. There are also some states that are protesting it because you can sort of look at this as trampling on states' rights. Effectively there are people arguing this on both sides. However, there are a number of people who are really pushing for the project and, as I said, it is possible that this can potentially affect you as early as 1998. It is a project to watch closely.

I've been spending most of my time on equity-indexed products for the last nine months. As most of you know, this is the latest hot product to hit the marketplace and it also took the regulators a little bit by surprise. Effectively, you have a billion dollar market with no real regulations that would directly apply to it. In trying to apply the current ones, it's sort of like putting a square peg into a round hole. They asked an Academy committee to look at all the actuarial issues regarding equity-indexed products. Again, equity-indexed products are ones that will, for example, for annuities, guarantee some percentage of principal, plus a minimum interest rate guarantee, and they will also pay additional interest such as 80% of the S&P increase over five or ten years.

I was put in charge of the Academy Task Force and quickly concluded that there really were a lot of actuarial issues on this product. We set up subgroups dealing with, for example, nonforfeiture, disclosure, market conduct and contract filing, reserving, accounting, reinsurance, tax issues, guaranty fund issues, SEC issues, asset valuation reserve (AVR), interest maintenance reserve (IMR), and risk-based capital issues, investment issues, and valuation actuary issues. We also concluded that this would be a huge project. I invited anyone who wanted to participate. We have about 50 people in one of the various subgroups or the main group.

The Academy has issued interim reports; the fourth one will be out very soon. Two of the major reports are already on Actuaries Online. The August 1997 one is making its way up, and the September 1997 one will also be up on Actuaries Online. A final report will be issued in December 1997.

Larry Gorski, who is a member of our task force, is writing the actuarial guideline for equity-indexed annuities. He is the regulator from Illinois. This draft will be discussed at the NAIC meeting in a few days. By the way, Larry's Halloween surprise letter to valuation actuaries issued normally in late October will mostly be on equity-indexed products this year. It is quite probable that certain states, such as Illinois, will adopt Larry's recommendations for this year-end. Therefore, if you're issuing the equity-indexed product, it is quite probable that you may have a reserve standard as early as this year that you will have to comply with.

There are two sessions at this meeting that will address valuation issues. They are Session 16 and 23. The co-chair of the Equity-Indexed Products Reserving Subgroup, Edwin Reoliquio, will present at both of those, as will other members of our task force.

There's an update on some of our old favorites: GGG, also known as Actuarial Guideline XXXIII, or the update to CARVM, or the reserving standard for annuities. The original GGG is fully effective by 1998 year-end. The clarifications, known as the update to Actuarial Guideline XXXIII, which states that CARVM really means you have to take into account every single possible pass to get the great present value of that benefit, including partial withdrawals followed by annuitizations, has passed through the NAIC and will become effective in 1998. However, you can ask your commissioner for a three-year grade-in on this. Workshop 33 will give more details on this subject.

Another favorite from last year is MMM or the Minimum Death Benefit Guarantees from Variable Annuities. This is one of those standards that looks at both the short- and long-term needs for companies that have the minimum death benefits on these products. The NAIC actual guideline is effective in 1998; however, certain states have already requested compliance with the provisions of this. More details on this will be discussed in Session 7.

There have been a number of questions on variable annuities; therefore, the first part of the practice notes has been drafted. That would include both the one on equity-indexed products and the one on variable annuities. The committees have been headed by Tom Campbell, so you can send comments on them to him or me. Again, Session 7 will discuss this practice note, too.

Illustrations is not necessarily a valuation topic; however, in a number of companies, the valuation and illustration actuary are the same people. Also, the work of the two are at least, hopefully, somewhat linked. As many of you know, about 20 states have adopted the life illustration regulation. There is a process that a practice note goes through. There's typically a small group that will answer questions. This group will share their work with each other. It's typically reviewed by the legal counsel of the Academy of Actuaries, and it is released to a wider audience for comments, such as valuation actuaries, at the Valuation Actuary Symposium. Then it goes back to the group which analyzes the comments and makes changes. It goes back to the Academy probably for a review by the committee that originally requested it and to an Academy vice president. Finally, it goes via a liaison to the ASB to make sure we're not writing standards. The 1996 illustration practice notes that we released in draft form at this meeting last year just became final recently.

We did get additional questions in on the 1997 illustration practice notes, so the same group headed by Woody Richen is answering additional questions. Again, comments on this are definitely welcome. You can contact Woody or me. I'm actually the Academy Life Practice Note Task Force Chairperson, so eventually all the life practice notes go through me, and I farm them out to the people who actually really do the work.

For your information, the annuity illustration regulation has not yet been written. It will be discussed at the NAIC meeting this week, and they are still technically saying that it will be done by year-end. At this point it looks like, at least for some annuities, a disclosure buyer's guide will be all that is necessary, not a full-blown illustration. For variable products, which is again something that the NAIC is looking at, my guess is after they do the annuity one, they'll come up with the variable rules. But that has not been written yet.

Annuity valuation mortality. Again, the two tables, the 1994 Group Annuity Mortality (GAM) Table and what is now being called Table 2000 for individual annuities, will become the valuation standard as of January 1, 1998. However, even for this year-end, if you are doing immediate annuities, it is recommended that you look at the stuff because we are seeing that the annuitant mortality is decreasing.

Just a general update on practice notes. Last year at this symposium we had a survey of the current general practice. We received 54 responses. These will eventually be incorporated into life practice notes. At this point there are no new health practice notes and, for your information, the Academy is no longer releasing the full set each year.

As mentioned, I want to do a brief update on how life nonforfeiture is doing at the NAIC. There are three reasons for this. One, I happen to like the subject and try to fit it in anywhere I can. Two, it is the thing occupying most of the Life and Health Actuarial Task Force's time at this point. Three, if it does pass, it can have a profound effect on how companies do on their business.

The project is still alive. Walt Rugland released an Academy work paper on this subject. Tom Foley, who's the regulator from North Dakota, is apparently drafting a possible law on this. As Bob mentioned, one of the things that we discovered or concluded was you must make sure our policy expectations would go along with how the company expects to run the product. Clear disclosure is a key element. As of now, cash values would be made optional; however, nonforfeiture or alternative benefits, such as reduced paid up or extended term insurance, would be required. A plan for how nonforfeiture would be determined would need to be written, and the actuary would need to certify that the values illustrated and paid follow the plan. Again, this would be a major shift in the life insurance industry. It would also provide guidance for some of the products that Bob was mentioning and for combining life and health insurance, for example. It would also deal with new products where you'll need new valuation rules. If this product goes forward, I expect much more work on the valuation end. Bob's work will then take precedence as to how, if we have flexible nonforfeiture rules, the valuation system can accommodate them and how flexible we can be.

I have a brief update on XXX, officially known as the regulation for nonlevel premiums or benefits. It has had a tough road to adoption. A number of states have adopted it with the so-called Illinois provision which means that you need states representing 51% of the population to adopt it before it becomes law. New York, of course, already had it with Regulation 147. West Virginia has a January 1, 1998 date in their law, but it is possible that that will be changed and Wisconsin, I believe, has a January 1, 1999 date on their law. The ACLI group has voted to support adoption of XXX; however, just to fill in, the National Alliance of Life Companies (NALC), which generally represents small to medium-sized companies, is currently opposing it. However, if I had to guess, my best guess would be it would be effective probably January 1, 2000.

There is some work on long-term care insurance going on at the NAIC. No states have specifically adopted anything. This is one area where, if codification goes, the NAIC becomes a heck of a lot more important. More details on this will be given in Session 26.

It's always interesting to see what New York is up to. New York, in general, has become much more business friendly. Just for your information, the update to New York Regulation 126, known as Regulation 151, has not yet been adopted. This would be the guideline to actually tell you what valuation standards are. It would, in effect, also include such things as the minimum death benefit guarantee for variable annuities. The New York position, even though perhaps it's not quite in effect right now, will follow what is the old New York Regulation 126 in terms of valuation standards.

On the plus side, New York has adopted updates to what is known as Section 4228 of the New York law, which deals with expense limitations. This involves mostly commissions and related items for business sold in New York. It will, for example, allow commissions as a percentage of assets which has previously not been allowed in New York. This is sitting on the Governor's desk, so it is expected to become law shortly.

Another thing valuation actuaries have to worry about is complying with each state's standards. Last year I told you about the work the Academy committee headed by Shirley Shao had been doing on this. The Life and Health Actuarial Task Force did accept most of her recommendations. The changes recommended by Larry Gorski a couple of years ago are being incorporated into a possible update to this regulation. These recommendations are as follows. The actuary's opinion would be based on the state of domicile. The exemptions for small companies, the so-called Section 7 Exemptions, would be modified, so less companies would fall under the exemptions. Companies who are currently doing Section 7 opinions would have to do at least gross premium valuations. For health companies that is their current standard; however, this will affect some small life companies. Expect more on this in the near future.

Another interesting twist is that the actuary would have to submit the Reserve Exhibits 8, 9, and 10 on both the state of domicile and the rules under the proposed codification. This would tell states what minimum guarantees or minimum reserve standards they feel comfortable with. If there's a major difference between codification and the laws of their state of domicile, they may have more information. If there is not, it is quite possible that they will accept the actuary's state of domicile opinion.

Also, to bring back some old favorites, the yield curve normalization, as suggested by Larry Gorski, will be part of this amended regulation. The Executive Summary that is now in effect in Illinois, California, and a few other states, will also be made part of this regulation. Again, because this regulation has to be adopted by the states it will not be effective in 1997, 1998, and possibly not even in 1999. It will be a long process, so the valuation actuary signing those opinions is still legally responsible to comply with the minimum standards of any state that they're filing in.

I'm going to give the overview of the SEC updates. The SEC is very interested in equity-indexed products. Right now they have a 21-page comment letter out asking for comments back by November 21st. The Academy group will be responding to this. Anyone in the market should read this, because it comes down to whether the SEC thinks equity-indexed products should be registered or not.

On the FASB side one interesting thing is that the fair value of liabilities project may not be dead. They have asked the Academy to provide information on this again and there is a group meeting with FASB this month. Another issue on the FASB side that will affect companies in 1998 is *FAS 130,* the one on reporting comprehensive income. It will require different GAAP statements to display income items, and because it's starting in 1998, that means it affects year-end 1997, as well.

The accountants are also interested in equity-indexed products. The AICPA and the Academy are meeting as we speak in Hilton Head, and I will be on a conference call tomorrow with them to discuss the equity-indexed products work that we're doing.

Before I tell you some things to watch for in 1998, I want to mention a couple of things you should watch for in 1997. California just sent out a bulletin reminding valuation actuaries that if they are replacing a valuation actuary, they have to notify the states as to the reason that there is a new one. They also need the approval of their company's board of directors. Also, just to remind you, if you stop being a valuation actuary in Pennsylvania, they want a letter from you making sure that there are no outstanding valuation issues. In Ohio and Connecticut they want the new actuary and the old actuary to jointly sign an opinion either stating what the outstanding issues are or that there were none. In states like New York, the new actuary is required at least to talk to the old one. So if you are a new valuation actuary in any company, make sure you update yourself on each state's requirements in this area.

Keep good records, and make sure you throw out all those nasty, old drafts. I was just told that I was going to get subpoenaed on some work I had done five years ago, not from any of the parties involved, but from a completely different company suing the company that I happen to work with. Luckily, because I was working for the state, they are stating that my work papers are not subpoenable. However, I talked to Lauren Bloom of the Academy staff, and if I had done work directly for the company, as an actuary, even though we put in caveats, it is subpoenable years later. Think about looking through your old files. Think about whether you want that work in court. If not, you may want to get rid of it. Do keep good records. Just in case you have to prove why you gave an opinion five years ago, you can justify why you think it was the right one. In other words, clean up your files, but keep a good paper trail.

A couple of things to watch for in 1998. Again, as Bob mentioned and as I have mentioned, there is a lot of work going on at the NAIC. Much of this may affect standards, so the ASB is reviewing all the standards such as reinsurance standards and the Dividend Disclosure 115 to see if they need updates right now. Another interesting thing for valuation actuaries is there has been dialogue all year between the regulators and the Academy ABCD on when they should bring things to the ABCD. Roughly translated, they do want the profession to stand behind them in terms of providing counseling or discipline as necessary, so I do expect there may be more cases coming before the ABCD in the future. Also, there will be work for the Standard Nonforfeiture Law (SNL) and the valuation standards as they come through, but this will not be immediate work.

As you can tell a great deal is happening. I will be keeping you informed on Actuaries Online. The Academy also will have a Web site, but it's not quite up yet. There is much to watch for and, hopefully, many interesting things will happen in the future.

MR. FRIEDSTAT: I will add one thing to what Donna said. I believe that the FASB does have an exposure draft out on derivative instruments and that may be relevant to many of your companies. I would encourage you, if it is relevant, to become familiar with it.

FROM THE FLOOR: If the yield curve normalization is required by some states but not by others, does this mean we have to do two complete sets of runs based on two starting yield curves and put together two different memoranda with the two sets of results?

MS. CLAIRE: It does mean that you get to do 14 as opposed to seven or 16, depending on your viewpoint scenarios. You can sort of combine them into one actuarial memorandum.