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Valuation Actuary Handbook Now Available

By R. Stephen Radcliffe

The *Valuation Actuary Handbook* has been published and may be ordered by mail requesting it with a prepayment of $30.00 per book. Orders should be sent to the Society office. The purpose of this handbook is to provide assistance to all actuaries who need to use cash-flow testing to validate the appropriateness of reserves. It is a "how to" manual that contains the most up-to-date considerations and techniques for the valuation process. It also contains some helpful practical considerations. For example, there is one chapter that provides a legal analysis of the modern role of the valuation actuary and some important guidelines that will help limit the legal liability of the actuary in preparing the actuarial memorandum and required opinions.

This handbook contains a background and history of the development of the valuation actuary, a description of the several methods of analyzing cash flows to test for reserve adequacy, and several considerations on advising company management on solvency and solidity. Also included in the handbook are several appendices which describe the current status of the various professional and industry groups with respect to the valuation actuary concept. In particular, the committee report that describes how to handle the actuarial opinion and memorandum for the State of New York is included.

The construction and content of this handbook are not meant to promote any particular viewpoint on the issue of the valuation actuary. The valuation actuary concept is still in a state of flux, and there is a wide range of viewpoint. The authors of the handbook may represent or imply some of their own opinions about how a good valuation should be done. However, this manual is not an issues monograph. Instead, it is a resource aid for the practicing valuation actuary. The reader can choose for himself the best way to make a good valuation within the existing statutory requirements and professional guidelines.

This *Valuation Actuary Handbook* should be considered an open and growing document. More will be added later as new chapters are written. There is an open invitation to all professionals interested in this topic to continue this effort by making contributions to the manual. It is the best way to convert research on this subject into practical application.

This handbook represents many hours of work by several different authors who are expert on this subject. I think you will find this handbook to be an important part of the actuarial literature.

R. Stephen Radcliffe is Vice President & Chief Actuary at American United Life Insurance Co. He is the Technical Editor of the *Valuation Actuary Handbook*. He organized the 1985 and 1986 Valuation Actuary Symposia and is currently a member of the Board of Governors.

Could Par Whole Life Substantially Ease Valuation Actuary's Job?

By Armand de Palo and James F. Reiskytl

We wish to stimulate discussion of the appropriate valuation actuary guidelines for participating whole life policies. A more extensive discussion can be obtained from Mr. de Palo at his *Yearbook* address.

Participating policies that have a high probability of being self-supporting under all but the most adverse conditions may require little if any C-3 risk modeling. Their risks are significantly different from those of GICs, SPDAs, DAs and flexible-premium, interest-sensitive life plans and comparable products.

In our opinion, if dividends reflect current company experience as it emerges and the policies have been appropriately priced, i.e., with adequate margins, modest guarantees, etc., losses of the type the valuation actuary must consider will be unlikely. Any that do occur can be dealt with by a combination of reductions in surplus and/or dividends. Extensive cash-flow analysis of this business is a waste of time and resources and could give misleading results.

What must be done? The contract and its pricing margins, and the company's dividend philosophy and surplus must be examined to assure that margins are sufficient to offset both current and past losses. In particular, the valuation actuary should make evaluations and comparisons with other contracts (such as those listed) with respect to guaranteed interest rates; sensitivity of surrender rates to market interest rate fluctuations; availability of gains from other sources to offset C-3 losses; policy loan provisions; likelihood of continuing positive cash flow; method of allocating investment earnings (e.g., portfolio, Investment Year Method, outside index), and any other relevant factors. These might include asset diversity, quality, and liquidity and the effects of replacements or update programs.

If these considerations are favorable, then the analysis of risks that takes place in pricing should continue to be applicable and sufficient. Further periodic testing is needed only when events occur that were not anticipated in any of the scenarios tested when pricing, or when events play out a scenario under which premiums are known to be insufficient.

**Armand de Palo is Vice President and Life Actuary with Guardian Life Insurance Company in New York City.
James F. Reiskytl is Director of Tax & Financial Planning at Northwestern Mutual Life Insurance Co. He is a member of the Board of Governors of the Society of Actuaries.**

For Your Reading

Mathematics of Compound Interest, by Marjorie V. Butcher and Cecil J. Nesbitt (fifth printing). Available for $16.50 (U.S.), plus mailing cost, through

**Ulrich's Bookstore
P.O. Box 8607
Ann Arbor, MI 48017-8607
Attn: Customer Service**

or phone (313) 662-3201, Ext. 213. Other sources are the Actuarial Bookstore in Abington, CT; the Professional Book Distributors in Roswell, GA; and Evans Bookstore in Toronto, Ontario. (See SOA Catalogs.)