



SOCIETY OF ACTUARIES

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## Highlights of the March 2000 NAIC Life and Health Actuarial Task Force Meeting

by Donald P. Maves

**T**he NAIC Life and Health Actuarial Task Force (LHATF) met on March 10 and 11 in Chicago.

### Accident & Health Working Group

This subgroup discussed the following projects:

#### Medicare Supplement Insurance

The group received a report from the American Academy of Actuaries Medicare Supplement Work Group. The purpose of this work group is to analyze the underlying causes of the trend toward steeply rising claim costs. The work group indicated that this report is preliminary and that it will continue to study claim data. However, it identified outpatient claim costs as one of the contributing factors of high claim costs and also noted that there are wide variations in claim costs by state.

LHATF discussed the creation of a subgroup of the Accident and Health Working Group to study and revise the current structure of Medicare Supplement standardized plans.

#### Health Reserve Guidance Manual

The manual is intended to be a source of guidance for appointed actuaries, but it will not supercede existing laws, regulations, and guidelines. Two subcommittees of this group have been formed to resolve issues relating to conservatism in reserves and the definition of premium deficiency reserves.

#### Disability Income Tables

Studies of morbidity data for three lines of business are in various stages of progress. The intent is to derive new valuation tables for group DI, individual DI, and credit DI.

The group DI study is not complete, although the Academy Subcommittee has submitted a preliminary report.

The working group voted to expose the March 3, 2000, draft of the Health Insurance Model Regulation. The model includes the new individual DI valuation table. The working group intends to act on the model at its June meeting.

The Academy subcommittee reported that a credit DI basic table had been finished. The next steps include development of a valuation table from the basic table, analysis of the impact of the new table, and exposure for comment.

#### HMO Rate Adequacy

Regulators intend to closely monitor reserve and capitalization issues because of increased frequency of managed care organization insolvencies.

### Life & Health Actuarial Task Force

The group discussed the following projects:

#### Unified Valuation System (UVS)

The main point of discussion was the viability analysis and report. Some regulators were skeptical of the value of a mandated written report, instead preferring face-to-face meetings to discuss companies' information and risk profiles. Other regulators thought that written viability reports were valuable but only if received on a timely basis. They would advocate eliminating other mandatory tasks in exchange for timely written viability reports. LHATF asked for sample reports to study at its June meeting.

The Academy numerical modeling group plans to produce a seminar in the fall to present its findings on valuation, covariance, and risk-based capital.

#### Policy Forms

LHATF noted that there is a high-level discussion in the NAIC of creating an umbrella organization for the review of life and annuity policy forms. This activity is a response to concerns that the

50-state approach is inefficient and puts life insurers at a disadvantage relative to other financial institutions.

#### AOMR

The Actuarial Standards Board (ASB) has revised two Actuarial Standards of Practice (ASOP) in response to proposed changes to the Actuarial Opinion Model Regulation (AOMR). The ASB has tried to accommodate small companies by relating the level of analytics required to the level of risk of the products and investments. Nevertheless, there is still opposition within segments of the industry to asset adequacy analysis. The official exposure for the revised ASOPs should occur by June.

#### Variable Life

New York adopted revised Reg 147 (i.e., its version of XXX) with applicability to variable life plans with secondary guarantees.

#### Equity Indexed UL

LHATF adopted guideline ZZZZ for the valuation of these products.

#### Nonforfeiture for Products With Secondary Guarantees

LHATF spent a lot of time discussing two issues: Should long term secondary guarantees have required cash values at all? If so, then at what level? LHATF members generally believe that the answer to the first issue is affirmative. The second issue triggered a long discussion about the viability of pricing these long-term guarantees aggressively. LHATF plans to study pricing issues thoroughly at its next meeting.

#### New Standard Nonforfeiture Law

LHATF spent considerable time discussing plans that have no stated method of calculating cash values except that it will be done in any manner that the company chooses. Two issues arose here also. First,

should this plan type be permitted? If so, should companies be prohibited from illustrating any values at all in sales material? Neither question was answered, but if LHATF ultimately answers the latter question affirmatively, then that may imperil the illustration of dividends on par policies. LHATF plans to discuss this issue quite thoroughly at its next meeting.

**Revisions to Guideline 9-A**

LHATF intends to create Guideline 9-C to deal with substandard annuities. It must resolve which substandard annuities would be subject to 9-C and the appropriate level of conservatism in such reserves.

**Variable Annuities with Guaranteed Living Benefits (VAGLB)**

The Academy committee intends to prepare a report for the next LHATF meeting. Topics covered in that report will include details of a general reserve

methodology, criteria for the Keel method to be used as a safe harbor, reserves for VAGLBs combined with minimum guaranteed death benefits, reserves for VAGLBs with significant interim benefits, and reserves for reinsurance.

**New CSO Mortality Table**

The Society of Actuaries committee has nearly completed the draft basic table and is on track to get a final valuation table done by the first quarter of 2001.

**Valuation and Nonforfeiture Over Age 100**

An Academy committee has just been formed and will begin research shortly.

**Products that Link Investment Returns to Specified Asset Pools in the General Account**

LHATF has not seen many of these products. The regulators are seeking

industry comments to determine the scope of this project.

**Nonforfeiture for Equity Indexed Annuities**

LHATF dropped this project.

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The next LHATF meeting will be held Thursday and Friday, June 8 and 9, 2000, in Orlando.

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**FINANCIAL REPORTING SECTION SEMINARS IN 2000**

Our Section continues to provide high quality continuing education and professional development related seminars. This year your Section Council has planned 6 seminars we think will be of keen interest to members of our Section. Mark your calendars for the following dates in 2000.

Basic GAAP	June 5	Fairmont Copley Plaza, Boston*
Advanced GAAP	June 6 - 7	Fairmont Copley Plaza, Boston*
XXX Certification	June 21	Hotel del Coronado, San Diego
Reinsurance	September 12-13	Hilton Washington Hotel, Washington DC
Embedded Value	October 12-13	Chicago
Nontraditional products — Stat and GAAP financial reporting	November 16-17	Wyndham Palace, Orlando

\* These 2 GAAP seminars are in Boston. This is a correction to an earlier notice you may have received.

The Basic and Advanced GAAP seminars were given in prior years and are back by popular request. The other four seminars contain all new material. For more information on the XXX Certification seminar, see the article by Larry Gorski on page 14.

In prior years we have had a few seminars that were filled to overflowing. This year we plan to keep enrollment limited to maintain a high-quality learning experience for the participants. So enroll early. Watch your mail for flyers, or call the Society offices for pre-registration.