



SOCIETY OF ACTUARIES

Article from:

The Financial Reporter

September 2001 – Issue 47



THE FINANCIAL REPORTER

NEWSLETTER OF THE LIFE INSURANCE COMPANY FINANCIAL REPORTING SECTION

NUMBER 47

SEPTEMBER 2001

Letter from the Editor

by Thomas Nace

This is a busy time of year for our Section! By the time you receive this, the election results for the Society Board of Governors, as well as for the Financial Reporting Section Council should be known. Congrats to all the newly-elected! Thanks to the others who were willing to contribute their time and energy to making our profession better. From that viewpoint, you are all winners.

In addition, there are two Society meetings quickly approaching — the Valuation Actuary Symposium, which will be held in Boston on September 13–14, and the Annual Meeting in New Orleans on October 22–24. In this issue, we preview the latter with two articles. One summarizes the various financial reporting sessions offered and the second describes special financial reporting events scheduled for that meeting.

The Annual Meeting also marks the changing of the guard for the office of Section Chairperson. Our current Chair, Mike Eckman, will relinquish his responsibilities to Barry Shemin, our new Chair. A big round of applause is in order for Mike for a job well done. It has been a pleasure working with Mike on the newsletter and I know all of the members on the Council are grateful for his leadership over the past year.

At the same time, let's congratulate Barry on his new assignment and provide him with all of our support in the coming year to insure that he will have a successful term.

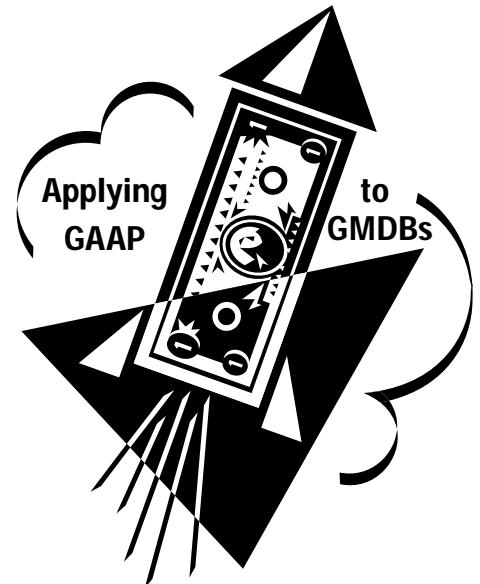
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Applying GAAP to GMDBs

by Karen Sasveld and David Heavilin

Variable annuities (VAs) are currently one of the hottest products on the market with sales of \$137.5 billion in 2000, up from \$122.9 billion in 1999. The popularity of these contracts has been further boosted by various guarantees that are designed to protect the value of certain benefits provided under the contract. The most common of these is the Guaranteed Minimum Death Benefit (GMDB), which uses one of a variety of mechanisms to enhance the value of the death benefit in the event of weak market performance.

Unfortunately, GAAP guidance has not quite kept pace with the development of these new features. While guidance for statutory reserves is now available in the form of Actuarial Guideline 34, actuaries continue to search existing GAAP guidance for a valid reserving methodology for GMDBs. The issue of reserving for these guarantees is particularly



important because of the disappointing performance in equity markets in 2000. At the end of 2000, the Dow Jones Industrial Average and S&P 500 lost 5% and 9% of their beginning of year values, respectively; the NASDAQ lost a whopping 40% of its year-end 1999 value. As a result, there is the potential for much larger payouts under GMDBs than at any previous time.

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Letter from the Editor

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With Mike stepping down, you will want to read his final Chair's Corner article, which appears in this issue. Mike offers his own personal thoughts on the future of statutory accounting and the effect on the actuary's role in the financial reporting environment.

While I'm talking about changing roles, I do not want to neglect mentioning that I will be resigning as Section newsletter editor at the end of this year. As such, we are in the process of trying

to recruit a replacement. See the "want ad" in this issue or call me if you think you might have an interest.

Our lead story in this issue deals with a topic somewhat neglected until recently — GAAP rules for GMDB (Guaranteed Minimum Death Benefits) associated with variable annuity products. The article is co-authored by Karen Sasveld and David Heavilin. The topic is part of a new SOP still in the works (and yet to be exposed) by AcSEC dealing

with non-traditional long duration contracts and separate accounts.

It just so happens that we are also able to provide you an overview of the entire SOP, thanks to David Scheinerman and Mary Saslow. Talk about synergy!

You will notice as you read through the newsletter that we have put together an issue that is jam-packed with some super technical articles. In addition to the two above just mentioned, we have the following:

Steve Grondin illustrates in his article a potential discontinuity in deficiency reserves that exists under XXX (i.e. where small changes in gross premium can account for large changes in deficiency reserves). Steve's insightful analysis is quite thought-provoking.

Joe Koltisko offers the first part of a two-part series of articles dealing with VOBA in a fair value environment. In this first part, Joe looks at the method described by Jim Milholland in an earlier issue of the newsletter (Issue #44) and relates it to the concept of fair value.

Ted Schlude does another bang-up job in summarizing the recent June NAIC Meeting. After reading Ted's review, you'll almost feel like you were there.

Thanks to all of the authors who contributed to this issue!

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THE FINANCIAL REPORTER

Issue Number 47

September 2001

Published quarterly by the Life Insurance Company Financial Reporting Section
of the Society of Actuaries
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Schaumburg, IL 60173

Phone: 847-706-3500

Fax: 847-706-3599

World Wide Web: <http://www.soa.org>

This newsletter is free to Section members. A subscription is \$15.00 for nonmembers. Current-year issues are available from the Communications Department. Back issues of Section newsletters have been placed in the Society library and are on the SOA Web Site. Photocopies of back issues may be requested for a nominal fee.

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