



SOCIETY OF ACTUARIES

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Editor's Notes

by G. Thomas Mitchell

This issue emphasizes a number of U.S. statutory valuation and tax issues for individual life insurance. The new XXX rules on valuation techniques and mortality rates are discussed by Veeta Ewan and Andrew Boyer from the viewpoint of universal life, particularly with secondary guarantees. I summarize various discussions that took place since the last issue on Larry Gorski's article on selection of the "X" factor, for mortality, the ratio of mortality used in reserves to a tabular standard.

Universal life gets more discussion in a letter from David Hippen, suggesting that the guaranteed maturity premium (the valuation net premium, if you will) for flexible premium contracts should be capped by the U.S. tax premium limits. Allan Ryan and I comment with two differing views.

Speaking of taxes further, Cherri Divin and Arthur Schneider outline a complex new IRS rule allowing remedies for companies that have inadvertently subjected U.S. life policies to become Modified Endowment Contracts subject to stricter taxation.

Jim Reiskytl brings us up-to-date on developments in Dynamic Financial Condition Analysis in the U.S. and Canada.

As fair value accounting looms up on the U.S. GAAP and international IASC fronts, Mike McLaughlin and Joan Lamm-Tennant summarize in amazingly succinct fashion the Fair Value Seminar earlier this year sponsored by the Section and New York University. Read this one slowly; it is chock full of insight, varying viewpoints, and condensed wisdom.

Your Section continues to be quite active. Shirley Shao covers much of the Section's activities and hope for the future in her Chair's comments. We are very thankful for her active and imaginative leadership this last year. Ed Robbins updates us on the money (plenty of it in the till) and also the Mexico City seminar, part of an ambitious and well received series of seminars around the world. Thanks to Ed, Shirley and many others for their efforts in this area.

Finally, thanks for the opportunity to be your editor. Thanks to all the authors, editorial review board, Joe Adduci at the Society, and Section officers and Council members for all the support. Best wishes to Tom Nace, the new editor.

G. Thomas Mitchell, FSA, is President, Aurora Consulting, Inc. in St. Louis, Missouri, and is editor of The Financial Reporter.

Canterbury Tales of Fair Value (Fair Value of Life Insurance Seminar—March 1999)

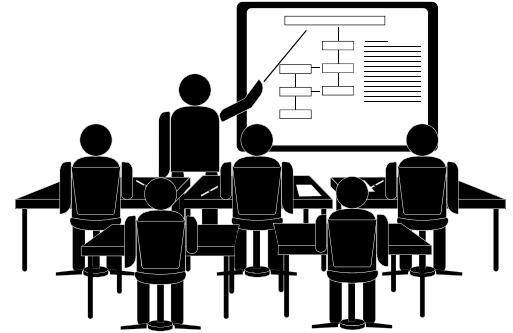
by Mike McLaughlin & Joan Lamm-Tennant, Ph.D.

Members of the POG (project oversight group) for this conference, wondered aloud, in a planning conference call, whether there had been enough new developments in fair value reporting of life insurance business to justify another conference. After all, SFAS 115 had been around since May 1993. Stock company analysts and management had come to terms with the idiosyncrasies of mixed (fair value and book value) accounting. One survey concluded that SFAS 115 was a "non-event."

Nonetheless, it had been over three years since the previous Society of Actuaries conference on fair values of insurance business was held in December 1995. Despite some uncertainty as to the likely quality and quantity of conference content, the POG decided to carry on regardless.

The conference, presented by New York University Salomon Center and the Society of Actuaries and sponsored by Deloitte & Touche LLP, Ernst & Young LLP, and Milliman & Robertson, Inc., was held in New York on March 18-19, 1999, at the NYU Stern School of Business.

With over 110 registrants from several



countries including the United States, Canada, the UK, Japan, and the Netherlands, participants enjoyed a detailed and diverse review of the subject. Speakers included actuaries, accountants, academics, investment bankers, rating agencies, analysts, and senior company management. Five refereed papers were presented by their authors; 16 other invited presenters gave views based on their own specialized perspectives.

As to content, no one was disappointed.

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