INDIVIDUAL LIFE INSURANCE AND ANNUITY
PRODUCT DEVELOPMENT SECTION

"A KNOWLEDGE COMMUNITY FOR THE SOCIETY OF ACTUARIES"

Product Matters!

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Comments from the Chair

A Look Ahead in 2006

by Elinor Friedman

I am honored to serve as the section chair this year. Serving on the section council is a very rewarding experience, and I enjoy working with all of the dynamic and energetic volunteers—council members, friends of the council and SOA staff.

I would like to thank the outgoing chair, Abe Gootzeit, and outgoing council members, Kelly Levy and Keith Dall, for all their work and leadership throughout their term. They have worked tirelessly toward executing section activities and providing members valuable services.

I am pleased to welcome the new council members who were elected to three-year terms—Christine Dugan, Dale Hall and Kent Scheiwe. They bring new ideas and energy to our council, and have already made significant contributions. I would also like to welcome back the incumbent members who continue to give generously of their time and energy:

- Jeff Beckley – vice chair
- Mary Broesch
- Mike Kaster
- Doug Robbins
- Nancy Winings

We are committed to continuing to improve and expand our member services. Towards the end of 2005 we conducted a survey of our members and we are in the process of analyzing your responses and will incorporate our findings into our plans. Many of our activities for the new year are well underway.

The 2006 SOA Spring Meeting will be held in Hollywood, Fla. on May 24 and 25. Jeff Beckley and Christine Dugan are the Product Development Section's co-representatives on the planning committee. This year's program will again contain several "embedded seminars"—consecutive sessions to enable the material to be covered in additional depth. Our section is actively

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participating in two of these: The Impact of Principles-Based Reserving on Product Development Actuaries, and Mortality and the Pricing Actuary.

Kent Scheiwe is the chair of the committee that is planning the 6th Annual Product Development Actuary Symposium to be held June 26 and 27 in an exciting new location—Las Vegas! Doug Robbins is leading the effort to create a post-symposium seminar on June 27 and 28, covering the impact of a principles-based reserve methodology on product development actuaries.

Planning for the 2006 SOA Annual Meeting is in the very early stages. Dale Hall is our section's representative on the planning committee.

We are also continuing to be very active in research. We have posted the final report for our "Analysis of Product Guarantees" research project on the SOA Web site. We have received an initial draft report for our "substandard annuities" research project and expect another draft soon. The section is also in the process of selecting a researcher to work on our next project; "Survey on Post-Level Premium-Term Lapse Rates." These research projects are being managed by project oversight groups (POG). The POG chairs for these research projects are Susan Kimball, Noel Abkemeier and Jeff Beckley, respectively.

In addition to the activities summarized here, we are planning webcasts, improvements to our section Web site and we will continue publishing interesting and relevant articles in our newsletter.

These activities require a considerable effort from volunteers. They also provide a wide variety of opportunities for members to get involved—please contact any council member or me if you are interested in volunteering. We will be happy to discuss the many benefits of volunteering and help you match your skills and interests to the projects. ☐

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Photos from the Annual Meeting in New York

The Council gathers in New York to plan the section's 2006 activities.

Standing left to right: Dale Hall, Mary Broesch, Mike Kaster, Abe Gootzeit, Nancy Winings, Elinor Friedman and Mike Bell (SOA life staff fellow).

Members of the Product Development Section gather for breakfast in the ballroom at the Annual Meeting in New York.

Managing the Risk of Lost Reinsurance Coverage

by Mary Broesch

The heart of a reinsurance arrangement is that a loss by the direct writer will be covered. The risk that coverage may be lost can be managed—practical steps can be taken to ensure that the ceding company and reinsurer remain in agreement about what business is and is not covered under the terms and conditions of the reinsurance agreement.

The reinsurance treaty is more important today than ever before. As business becomes more complex, so do the legal documents that define the intent of the parties. More detail is being added to treaties, and more time is spent negotiating language for rare and improbable events. As treaties evolve to reflect new circumstances, new wording will be tested and refined.

Underwriting and Business Exceptions

For fully underwritten life insurance, it is becoming more common to put underwriting guidelines in the treaty, including preferred criteria, age and amount requirements, the application and what underwriting manual is used. This documents how risks will be selected and classified, and defines the risk profile of new business reinsured. It will also facilitate future audits of reinsured business.

Since underwriting involves judgment, there are particular instances when a deviation from published guidelines can be justified. Underwriting exceptions can be managed so the risk profile of the business reinsured does not change. An assumption about the level of underwriting exceptions a direct writer makes should be included in the product and reinsurance pricing. Reinsurance coverage should not be affected by an underwriting exception.

Underwriting exceptions can be distinguished from business decisions, which are a violation of the issue or underwriting rules—with no justification. Many times business decisions are made under pressure from producers who need a certain rating or classification to make the sale. Business decisions may or may not be covered in a reinsurance agreement.

Reinsurers price in aggregate for a block of risks based on the underwriting philosophy and practices of the direct writer. Interpreting the automatic requirements to include strict adherence on a case-by-case basis to the underwriting guidelines specified in the treaty expands the original intent. This interpretation could imply that underwriting exceptions are not covered, while traditionally, they are.

Too many underwriting exceptions or business decisions may result in adverse mortality experience. Mortality experience of special underwriting programs may also be unfavorable. For example, under "table shave" programs, direct writers issue a slightly substandard life (up to Table 2 or 4) as a standard risk. There may be situations where a substandard life, rated Table 6 or higher, was brought down to Table 4 to qualify under the table shave program and ultimately issued standard. This will negatively affect mortality for both the standard and substandard classes.

Reinsurer Audits

Reinsurer audits are more frequent and strict today. In addition to unfavorable mortality experience, reinsurers have much larger blocks to monitor in the wake of their huge growth driven by 90/10 first-dollar quota share deals. As reinsurers have become more sophisticated with their systems, there has been a paradigm shift from reviewing a random list of individual cessions to reviewing an automated file of a group of cessions. Underwriting and administration audits today are more focused on specific issues, concerns or cases.

Audits are an important risk management tool to ensure all business is properly ceded and administered according to the treaty terms and provisions. Certain cases ceded automatically may be questioned or coverage may be denied if the treaty was violated. Audits command a considerable amount of time and energy from both parties. Unintentional clerical or administrative errors uncovered during an audit are corrected under the errors and omissions (E&O) clause in the treaty. However, E&O is not meant to cover underwriting decisions.

Treaty Language

Today, reinsurers are promoting new E&O language, primarily driven by concerns of their retrocessionaires. For example, reinsurers want to put a three-year limit on the return of past reinsurance premiums on lapsed policies that were reported as active to the reinsurer. If new E&O language is similar to recommended ACLI language, the provision will read "there is no reinsurance coverage if treaty parameters are not satisfied." In addition, negligent or deliberate acts or repetitive errors in admin- istration are not covered.

When a ceding company does not comply with treaty provisions, it is at risk for losing coverage it thought it had. While the treaty has always defined what risk is and is not covered, reinsurers are taking a more active role today in reviewing and analyzing risks ceded to them, as well as refining and updating treaty language.

Suggestions for Direct Writers

Prudent direct writers can minimize inadvertent loss of reinsurance coverage. Here are some suggestions:

- Document agreement of what risk is and is not covered
- Express clearly the intent of the parties in the treaty
- Execute treaties and amendments promptly
- Review and negotiate new treaty language prior to a quoting opportunity
- Be responsive and honest, and provide accurate information
- Use technology to build/improve processes
- Comply with treaty terms and conditions
- Create and maintain good working relationships with reinsurers

Good management of underwriting exceptions, business decisions, reinsurer audits and treaty language reduces the risk of losing reinsurance coverage. ☐

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NAIC December '05: The Push Toward Principle-Based Continues

by Donna R. Claire

The past NAIC meeting was held in Chicago in December 2005.

The December 2005 NAIC meeting was held in Chicago. As could be expected, the temperature outside was frightful—but there were a number of interesting meetings inside to keep everyone occupied. The Life and Health Actuarial Task Force (LHATF) spent most of their time on "principle-based" initiatives. These principles-based initiatives are important to product development actuaries since the level of reserves and capital will affect the pricing of the products. In addition, the effort may extend to nonforfeiture.

SVL2

As chair of the Academy's SVL2 (Standard Valuation Law update) steering committee, I gave the update to LHATF on the overall principles-based approach. The Academy has a number of groups working on this project. A principles-based approach means calculating reserves and capital by capturing all material risks of the products, and it would permit the use of company experience. The point is to develop reserves and capital requirements that are reasonable to cover the risk, but not too high, which would stifle business. For an overview of this project, go to *www.actuary.org/risk.asp*. The time frame for this project is quite short, and various pieces will be rolled out as they are finished; e.g., the C-3 Phase 2 RBC changes are effective for this year end. Other pieces of a principles-based approach are rolling out over the next year or two. I have also committed to arranging a quarterly webcast about a month after each LHATF meeting to give everyone an overview on the principles-based efforts.

Joint CADTF/LHATF Subgroup

Mike Boerner of Texas gave the report of a joint Capital Adequacy Task Force/LHATF regulatory task force working on principles-based issues. This includes drafting the changes needed to the SVL, and developing regulations on governance and peer review issues. Note that there is an Academy work group called RIGPWG (the Regulatory Interface, Governance and Peer Review Work Group) that is working with this group on these issues. The CADTF/LHATF subgroup expects to meet by conference call twice before the March NAIC meeting, and the RIGPWG typically has weekly calls. These issues are quite important to the principles-based approach.

VA-CARVM

Tom Campbell gave an Academy update on this project, which is a principles-based reserve requirement for variable annuities. LHATF voted to expose an updated actuarial guideline on this, which includes some changes from the prior version to bring it more in line with the RBC C-3 Phase 2 project, as well as revisions to a standard scenario floor as recommended by the ACLI. It is anticipated that this guideline will be effective by year-end 2006. Note that LHATF did adopt an extension of the sunset provision in Actuarial Guideline 39, "Reserves for Variable Annuities with Guaranteed Living Benefits" from January 1, 2006, to January 1, 2008. However, the current Actuarial Guideline 39 will be rescinded upon the adoption of Actuarial Guideline VACARVM.

LRWG

Dave Neve and Tom Kalmbach gave the Academy's Life Reserve Working Group (formerly known as the ULWG) presentation. As they had committed, they presented LHATF with a proposed model regulation and three proposed actuarial guidelines so that a principles-based approach could be implemented. LHATF overwhelmingly (by a vote of 13-1) voted to expose these documents for comment. There is still additional work needed on possible accompanying actuarial standards of practice, and more work is needed on products such as variable life. This group's goal is to have final regulations and actuarial guidelines ready for adoption by December 2006, with state rollout of the principles-based approach in 2007. There has been a tremendous amount of work done by a very talented group of people in a fairly short (18 months so far) time frame. Kudos to all!

Preferred Mortality

Larry Gorski gave the update on this joint SOA/Academy/Regulator project. One of the areas that would assist a principles-based approach is to have mortality tables that reflect the industry's current mortality classes, i.e., which have separate preferred mortality tables/factors. Over 40 companies have contributed data to a new experience study that includes preferred risk breakdowns. There are subgroups on such items as data validation, underwriting criteria and implementation. More information on this project can be found on the SOA Web site at: *www.soa.org*. The experience tables should be completed by the fall of 2006, with delivery of all items, including preferred mortality tables/factors, by April 2007. It is also anticipated that these tables could be used as interim tables if the principles-based approach is not yet adopted by all states by 2007.

ACLI Proposal for Interim Reserve Relief

The ACLI presented a proposed interim solution to the "AG38" (the term reserves and UL shadow account actuarial guideline) problem. It involves a different mortality table than the one mentioned previously, plus reopening AG38 for some changes, such as adding lapses to the deficiency reserve piece. LHATF scheduled a conference call in February of 2006 to discuss this.

The Life and Health Actuarial Task Force (LHATF) spent most of their time on "principle-based" initiatives.

Actuarial Guideline ABC

LHATF revised proposed Actuarial Guideline ABC, which is the projection of guaranteed nonforfeiture benefits under CARVM. This guideline explains what interest rates should be used in projecting nonforfeiture benefits when doing reserving under the new nonforfeiture law for annuities, which allows for the minimum nonforfeiture interest rates to be changed over the life of a contract.

Pre-Need Mortality

Roger Annin discussed a pre-need mortality study currently being undertaken by the SOA. This market typically issues policies with little or no underwriting, so the 2001 CSO table may be inadequate in this market.

Update to the General Nonforfeiture Law

Barbara Lautzenheiser gave a brief update on the Academy's work on revisions to the standard nonforfeiture law. Work is continuing with the tax group of the Academy to determine the possible tax implications of various proposals.

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Life Risk-Based Capital

The Life Risk Based Capital Working Group held a two-hour teaching/ question-and-answer session on the Risk-Based Capital C-3 Phase 2 rules (at 8:00 to 10:00 a.m. on Saturday morning!) It was quite informative. The Academy arranged to have it audio-taped. The session is available from *www.actuary.org*.

GRET Table

The executive and plenary committees of the NAIC adopted the new generally recognized expense table to be utilized by companies using industry expenses for life insurance sales illustrations in 2006. This report is available from the SOA. The factors have some large differences from the factors currently being used, so for a company that is using the GRET factors, this new report should be examined.

Summary

I expect that, in 2006, much work will be devoted to the principles-based approach. The principles-based approach will give companies a chance to right-size reserves and capital. It will also give actuaries a lot more responsibility to get things right. ☐

New Mortality and Underwriting Surveys

by Al Klein

Al Klein, FSA, MAAA, is a consulting actuary with Towers Perrin in Chicago, Ill. He can be reached at Al.Klein@towersperrin.com.

The Society of Actuaries' Mortality and Underwriting Survey Committee recently met and decided to perform three new surveys. They will be on:

(1) Older-age underwriting,
(2) Business decisions / exceptions from both the reinsurers' and direct companies' perspectives and
(3) Mortality tables and adjustments used in setting pricing assumptions.

Over the next several months, as each survey becomes available, it will be sent out as a blast e-mail with a link to the survey. We appreciate your past participation and encourage your continued or new participation to help make each of these new surveys a success. The more of you participate, the closer we can come to capturing the actual industry results!

Some of the recent past surveys include surveys on preferred underwriting from both the reinsurers' and direct companies' perspective, risk management and mortality improvement. These, and the other surveys that the committee has completed, are available in the research section of the SOA Web site. One of the benefits of participating in the survey is that you get to see the results prior to it being posted on the Web site. The final report on a recently conducted simplified issue survey will be available approximately mid-2006.

If you have any questions or would like to help with any of the surveys, you can reach me at (312) 201-5284 or *al.klein@towersperrin.com*. ☐

Features

Guaranteed Living Benefits Experience Study

by Susan J. Sell

Guaranteed living benefits (GLBs) have been drivers of deferred variable annuity (VA) sales for the past several years in the United States. Recently, The Variable Annuity Research & Data Service (VARDS®) Quarterly Sales and Asset Survey reported that 78 percent of VA sales during the first half of 2005 were of products that offered a guaranteed minimum withdrawal benefit (GMWB), a popular form of GLB. Similarly, 52 percent of such sales offered a guaranteed minimum income benefit (GMIB) and 28 percent of such sales offered a guaranteed minimum accumulation benefit (GMAB).

Milliman, Inc. recently conducted a survey of leading variable annuity insurers to better quantify the current dynamics of the GLB market. The scope of the Milliman survey included variable annuities that offered any type of GLB during calendar year 2004 and during the first quarter of 2005. Fifteen carriers participated in the survey, which suggests there is great interest in this topic.

Overall, total VA sales (with and without GLBs) of survey participants averaged \$4.2 billion during calendar year 2004 and \$1.0 billion during the first quarter of 2005. During 2004, survey participants reported that, on average, over 87 percent of total VA sales were of products that offered GLBs. This average increased to nearly 92 percent during the first quarter of 2005. Responses ranged from nearly 27 percent to 100 percent for survey participants during 2004. The range was 77 percent to 100 percent for the first quarter of 2005. This increase is not surprising since some survey participants first entered the GLB market late in 2004.

Survey participants were also asked to report GLB election rates as a percentage of total sales of VAs that offered any GLB. On average, this election rate was 56 percent during calendar year 2004. The comparable figure for first quarter 2005 was over 60 percent. During 2004, GLB election rates ranged from nearly 12 percent to over 95 percent of total sales of VAs with GLBs offered by survey participants. During the first quarter of 2005, GLB election rates ranged from 12 to 97 percent for survey participants. It appears that the 12 percent election rate is an outlier, because the next lowest election rate reported by survey participants is about 41 percent.

Similar sales information was reported by GLB type (GMWB, GMIB, GMAB), with **averages** of participants' responses shown in the table below.

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GLB Election Rates as a Percentage of Total Sales of VAs that Offer Benefits

Sales Statistics	Calendar Year 2004	First Quarter, 2005
Guaranteed Minimum Income Benefit		
Total Sales of VAs that offer a GMIB	\$2.9 billion	\$641 million
GMIB Election Rates	52%	48%
Guaranteed Minimum Withdrawal Benefit		
Total Sales of VAs that offer a GMWB	\$4.2 billion	\$994 million
GMWB Election Rates	37%	40%
Guaranteed Minimum Accumulation Benefit		
Total Sales of VAs that offer a GMAB	\$1.5 billion	\$349 million
GMAB Election Rates	33%	34%

The GMWB election rates shown in the table on page 9 are based on standard (non-lifetime) GMWBs, with the exception of one lifetime GMWB response. The average sales of VAs with the GMWB feature exceed sales of other GLBs, reflecting the popularity of this benefit in recent years.

Based on the rates of those participants who contributed data by distribution channel, on average, election rates of GMIBs by distribution channel are more variable than those of GMWBs or GMABs as shown in the following table below:

Election Rates by Distribution Channel

Distribution Channel	GMIB	GMWB	GMAB
Career Agents	14%	20%	11%
Independent Producers	58%	27%	26%
Wirehouses	33%	30%	29%
Large/Regional Broker-Dealers	44%	25%	24%
Independent Broker-Dealers	46%	30%	25%
Banks	29%	31%	41%
Other (e.g. Direct)	63%	32%	31%

Survey participants also reported the percentage of in-force VA policies with GMIBs past the waiting period where a GMIB was exercised. A small number (four) of survey participants reported that some policies with GMIBs were past the contractual waiting period. Three of these four respondents did not have any GMIBs exercised once past the waiting period. One participant reported that 10 percent of its VA GMIB in force (for calendar year 2004 and for first quarter 2005) exercised this option once the waiting period had been satisfied. Note that these responses are based on the "in-the-moneyness" of the contracts at the time specified, and election rates might have differed significantly if "in-the-moneyness" had been different.

During calendar year 2004, the percentage of inforce VA policies with GMWBs where a GMWB was exercised was, on average, nearly 12 percent for survey participants. During the first quarter of 2005, the average GMWB exercise rate was also nearly 12 percent.

Based on survey results, it appears that, on average, VA customers that elect GLBs (with the exception of GMABs) pay relatively higher premiums than those VA customers that do not elect GLBs. The table below shows the average initial premium for VAs with GLBs for customers that elect a GLB versus customers that do not elect a GLB.

Average Initial Premium of VA

GLB	Policies With GLB	Policies Without GMIB
GMIB	$81,890	$69,526
GMWB	$85,184	$74,709
GMAB	$74,116	$83,809

Survey participants reported the average investment allocations for policies that do and policies that do not elect a guaranteed living benefit. The average of the allocations reported for each investment alternative is shown in the chart below.

Investment Allocation

Investment Alternative	Allocation for Policies that Elect a GLB	Allocation for Policies that Do Not Elect a GLB
Growth	24.8%	23.5%
Growth & Income	15.8%	15.2%
All Other Equity	13.9%	14.6%
Balanced/Asset Allocation	21.5%	14.0%
Balance/Other*	3.1%	2.3%
Corporate Bond High Quality	5.7%	6.1%
All Other FIxed Income Funds	3.9%	5.2%
Money Market	2.1%	3.7%
Fixed Interest/General Account	9.4%	15.2%

** Includes Balanced/Income, Balance/Convertible and Balanced/International funds*

Allocations are different for the two groups of policies for balanced/asset allocation funds, and the fixed/general account. It is not surprising that the amount allocated to balanced/asset allocation funds is greater for those policies electing a GLB since many GLBs have asset allocation requirements.

The survey results support the perception that guaranteed living benefits are popular. It is expected that GMWBs in particular will remain popular given the introduction of lifetime benefit guarantees. Lifetime GMWBs have been offered by some companies for some time, but recently have become a "must have" feature and are becoming more common. Carriers that introduced a lifetime GMWB early on attributed their VA sales success to this feature. The election of such lifetime GMWBs will likely increase over time as they are included in more VAs and as they are positioned as a strong alternative to annutiization. ☐

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Annuitization Doesn't Have to Be a Bad Word

by Garth Bernard

Income (i.e., immediate) annuities are insurance products that benefit from mortality pooling, so they can generate the highest level of lifetime "income now" per dollar of retirement assets put to work. Including an income annuity as a portion of a retirement portfolio often results in an immediate increase in the level of income generated by that portfolio while at the same time ensuring that a portion of the total income is payable for a lifetime.

However, income annuities are the most under-appreciated financial instruments that exist in a financial advisor's tool-kit today. Annuitization is treated as a bad word. Many advisors will not recommend an immediate annuity because of misperceptions associated with the product and a lack of awareness about the value they provide, and when and how to use them.

So the real question is how to overcome these misperceptions. The answer is education. Here are the common misperceptions and the basic answers that advisors need to know so that they can do the best possible job for their clients:

- **Comparing apples to oranges. Advisors confuse "income now" with "income later."** For example, GMIB and GMWB features protect "income later" from market downside risk. If the market goes down when you eventually need "income now", you would be happy that you had purchased that protection because of the minimum safety net of income provided. However, if the market goes up, you would not necessarily want to exercise the option since the minimum guarantee would likely be substantially lower than alternative ways of deploying your account value to generate lifetime income.
- **All-or-nothing.** The biggest misperception is thinking that the entire retirement portfolio should be used to purchase an immediate annuity. This is likely to be unsuitable, and frankly makes no sense. It's not whether to annuitize, but what portion of the portfolio to annuitize and when to do so.
- **Lack of liquidity.** It's true that the traditional immediate fixed annuity has no liquidity. But, the portion of the portfolio not allocated to the income annuity can serve as the source of liquidity. Also, innovations in income annuity design are providing substantial liquidity for the portion of the portfolio allocated to the income annuity.
- **Loss of "unspent" inheritance on early death.** Certain income types that have always been available, such as lifetime income with a guarantee period, installment and cash refund annuities, can guarantee that the entire amount allocated to the income annuity is returned to the client and their heirs in the form of income payments in the event of premature death even while longevity remains protected.

- **Loss of control of assets.** Immediate variable annuities give the client investment choices upon which income payments are based. These choices are as diverse as those now available in deferred variable annuities.
- **Purchasing an income annuity is an irrevocable choice.** There are several income annuities available today that provide full revocability during a two- to five-year time frame. This is a form of "buyer's remorse" and allows the client ample time to decide if the purchase decision was right for them.
- **Does not keep up with inflation.** Any alternative that does adjusts for inflation will have to start with a lower initial initial income, and will take a long time to catch up. An immediate variable annuity provides the potential for income payments to outperform inflation with a suitable choice of investment mix from among the funding options of the annuity.
- **Immediate variable annuities expose the client to possible loss of income.** Look for an immediate variable annuity that can provide a floor on the income payments. These floors can be a level or increasing percentage of the initial income payment, or they can be provided indirectly via an allocation of the income payments to the general account.
- **Producers and advisors are not adequately compensated for the income annuity recommendation.** This is a fair comment. Income solutions potentially require more time and effort on the part of producers. Many producers have built an "asset book" on which they receive trailing commissions based on assets under management. If that "asset book" is converted to an "income book," these income trails are lost. Thus innovation in the area of compensation is demanded. A recent development is the creation of "income trails," which is a form of compensation based on a percentage of the income payments generated by the income annuity.

Perhaps the biggest benefit of allocating a portion of the retirement portfolio to income annuities is the efficiency. Assets not needed to generate income to be used to service other critical retirement financial needs such as healthcare and long-term care, as well as estate preservation and other needs.

In conclusion, advisors are faced with a unique opportunity to address a major challenge that will arise in the financial lifetimes of tens of millions of retirees and those approaching retirement. It is important that advisors understand the exceptional value proposition income annuities bring to the table and how these products relate to alternative solutions such as guaranteed living benefits on variable deferred annuities and systematic withdrawal programs.

However, in order for advisors to become more comfortable and confident with the income annuity products, carriers must describe the value proposition in a more compelling fashion than has been done historically. Carriers must also provide the support such as sales training, storyboards and sales aids that demonstrate how these products can be used as part of a total retirement solution to enhance the results for clients. In other words, carriers must engage advisors with specific support to demonstrate that including these products will more effectively meet their clients' retirement needs, and that not including these products within a solution exposes advisors to loss of their clients to those who provide more effective advice. ☐

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International Experience Study Update

by William R. Horbatt

The SOA has developed a new "tool" using Microsoft Access / Excel for international actuaries to conduct mortality and persistency studies in conjunction with the SOA's international experience study initiative. Professionally programmed, this new tool facilitates the work of international actuaries:

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- Company policy data, contained in an Access file, is easily input into the tool.
- It helps the actuary validate the quality of company data.
- The tool outputs persistency study and mortality studies in Excel spreadsheets.
- Data can be subdivided into meaningful categories for either company or international experience study purposes.

The tool has been beta tested in Argentina, Brazil, Italy and Poland during the summer of 2005, and the first production version is now available (free of charge) to actuaries participating in the SOA's international experience study. Comments made by users include:

> "The tool was even able to find a few inconsistencies we had in the original data. The graphs and tables output looked very useful. We were able to compare it with the tables we had developed last year."

> "In our opinion, the interaction with Excel spreadsheets makes the tool practical and easy to use, and the validation screen makes it safe."

The SOA intends to assist local actuaries conduct experience studies during 2006 in:

- Argentina
- Brazil
- Chile
- Guatemala
- Mexico
- Poland
- South Korea
- Taiwan

More countries will be added to the experience study as additional contributing companies are recruited. Please contact Ronora Stryker (*rstryker@soa.org*) or Bill Horbatt (*Horbatt@ActuarialConsortium.com*) for more information on either the SOA's international experience study or the new IES tool.

Additional information about the initiative can also be found on the SOA Web site at: *http://www.soa.org/ccm/content/areas-of-practice/life-insurance/experience-studies/2004-intl-exp-survey-report/* ☐

Spring Meeting PD-Sponsored Sessions

This year's spring life meeting will be at the Western Diplomat and Spa in Hollywood, Fla. on May 24 and 25. This meeting will continue the mini-seminar format introduced at the spring meeting last year in New Orleans. The goal of offering these seminars is to drill down deeper into current topics of interest. The Product Development Section will be offering two two-part seminars, plus another seven individual sessions. In addition, the section will sponsor a social event—details of which will follow shortly.

Seminar – The Impact of Principles-Based Reserving on Product Development Actuaries

The American Academy of Actuaries and regulatory actuaries have made significant progress on the development of a framework and principles for a principles-based reserve system. Adoption of a principles-based reserve system will impact product development actuaries as much as valuation actuaries. The first session of this two-session seminar will discuss the current status of principles-based reserving and its impact on the product development process. The session will also look at the importance of communication and share experiences from product actuaries already working in a principle-based reserving environment. The second session will explore the impact that principles-based reserving might have on life insurance products.

Seminar – Mortality and the Pricing Actuary

Mortality is a critical assumption to the product development actuary. An excessively conservative mortality assumption will result in a product that is not competitive. An aggressive mortality assumption can result in a product being unprofitable. Here's your chance to learn about current trends in preferred risk class mortality, gain a greater understanding of considerations for experience mortality assumptions at older issue ages, and compare and contrast differences in experience mortality assumptions for limited-issue and fully-underwritten products—all in one two-part seminar!

Simplified Issue and Guaranteed Issue Products

Suppose you've been asked to comment on whether or not your company should offer one of your fully underwritten products on a simplified issue or guaranteed issue basis. This session will provide an overview of products sold using simplified issue and guaranteed issue underwriting. The session will also discuss typical mortality assumptions, recent experience, and risk mitigation techniques as well as the market for these products.

Incorporating Policyholder Behavior in the Pricing of Products

Brush up on different ways companies incorporate policyholder behavior dynamics into pricing models. Incorporating policyholder behavior in the pricing of life insurance and annuity products continues to increase in importance as new "options" are offered to the policyholder.

There will be two sessions (not a seminar) at the meeting, which cover this subject—one will focus on life insurance while the other will address annuity products.

Life Insurance Riders – Hot or Not?

Don't miss out on this in-depth discussion of life insurance riders that are tried and true as well as up and comers. Riders covered will include critical illness and LTC riders and term ROP riders.

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6th Annual Product Development Actuary Symposium—Join Us in Las Vegas!

This year's Product Development Actuary Symposium will take place on June 26-27, 2006, at the Hyatt Lake Las Vegas Resort in Las Vegas, Nev.

The Society of Actuaries Product Development Section, in partnership with the Marketing and Distribution, Reinsurance and Actuary of the Future Sections, is honored to present a program that builds on the recent popularity of this symposium. The presenters and facilitators include industry experts and guest speakers. Mark your calendar to join us in June!

The symposium will be a day and a half, followed by post-symposium seminars. An optional golf event is being considered for symposium attendees on the day before the symposium begins. The opening session of the symposium will feature executives in insurance companies and/or marketing organizations discussing the current and future state of the life insurance industry. The luncheon speaker on the first day is expected to be an expert from a casino in Las Vegas who will discuss the mathematics behind the casino business.

Both days are filled with concurrent sessions. Most topics will be presented twice, giving attendees maximum opportunities to cover the topics of most interest to them. The sessions are designed to encourage attendee participation and interaction. The following is a list of session topics:

- Universal Life with Secondary Guarantees
- Securitizations/Using the Capital Markets
- Reinsurance Market Update/Retro Reinsurance
- Variable Annuity Guarantees/Policyholder Behavior
- Life Settlements/ Investor Owned Life Insurance
- Tillinghast Pricing Survey/ Stochastic Pricing
- SPIA Design and Pricing
- Product Pricing and Principle-Based Reserves
- Regulatory/ Tax Update for Life Insurance and Annuities
- Product Development Risk Management/ Hedging
- Life Insurance Market Update
- Indexed Product Update

For a complete description of the symposium, check the meetings/seminars, events page at *www.soa.org* in the coming months. We look forward to seeing you there! ☐

Spring Meeting PD-Sponsored Sessions • from page 15

Capturing The Retirement Dollar

Expand your understanding of the retirement marketplace and insurance products appropriate to fund retirement with this panel discussion and follow-up workshop. The financial services industry is vying to capture the retirement dollars of the aging baby boomers. The insurance industry has advantages and disadvantages when attempting to attract the retirement dollar. What is the size of the market and life insurers' penetration of the market? What are the competitors doing?

The Latest in Living Benefits

Join industry experts as they discuss Variable Annuity Guaranteed Living Benefits, which are expanding not only in variety and complexity, but also in significance in the variable annuity marketplace. Learn about the hottest-selling designs and newest trends in VAGLBs as well as pricing methodologies used, and risk mitigation techniques.

Pricing Competitive Products in a Low-Interest-Rate Environment

Today's low interest rate environment has existed much longer than most actuaries expected. This environment has made offering competitive insurance products challenging. Take part in this session to get a handle on the impact of low interest rates on product design and gain an understanding of methodologies for setting long-term interest assumptions.

Product Development Sponsored Research

Take this opportunity to learn about research sponsored by the Product Development Section. You will also have the opportunity to discuss the findings with the researchers, so you'll have a better understanding of the research and its applicability to your job. Research to be presented includes analysis of product guarantees, substandard annuities and term-lapse rates following the level premium period. ☐