

**NAIC UPDATE
SOUTHEASTERN
ACTUARIES
CONFERENCE MEETING
KEY WEST, FLORIDA**

JUNE 23-24, 2005

Presented by:
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**Major Areas of Life
& Health Activity**

- A. LHATF (Life & Health Actuarial Task Force)**
- B. Interstate Compact**
- C. Other Items**

A. LHATF

**Very Active In A Number
of Areas**

- 1) AG 38
- 2) AG VACARVM – C-3, Phase II
- 3) Annuity Nonforfeiture Law, Regulation and AG ABC
- 4) Standard Valuation Law 2 (Principles-Based Approach)

A. LHATF (cont'd)

- (1) ACTUARIAL GUIDELINE 38**
 - ❖ AG 38 has been highly controversial
 - ❖ Concerns about adequacy/redundancy of UL Secondary Guarantee reserves
 - ❖ Formulaic vs. “Principles-Based” approach
 - ❖ “Principles-Based” approach rejected by LHATF
 - ❖ Two versions of AG 38 were exposed for comment

A. LHATF (cont'd)

(1) ACTUARIAL GUIDELINE

38 (cont'd) ❖ Exposure Draft #1

- Allows current lower AG 38 Secondary Guarantee reserves until 1/1/03
- Applies somewhat higher Secondary Guarantee reserve requirements to policies issued retroactive to 1/1/03
- Applies LHATF proposed higher Secondary Guarantee reserve requirements to issues of 1/1/06 and later

A. LHATF (cont'd)

(1) ACTUARIAL GUIDELINE 38 (cont'd)

❖ Exposure Draft #2

- Allows current lower AG 38 Secondary Guarantee reserves until 7/1/05
- Applies LHATF proposed higher Secondary Guaranteed reserve requirements to issues of 7/2/05 thru 3/31/07
- Sunsets to current version of AG 38 on 4/1/07
- Premise is that “Principles-Based” valuation approach will be in place

A. LHATF (cont'd)

(1) ACTUARIAL GUIDELINE 38 (cont'd)

- ❖ In Boston, LHATF referred Exposure Draft #2 to “A” Committee
- ❖ “A” Committee took no final action on LHATF’s recommended version of AG 38
- ❖ “A” Committee will be setting dates for conference calls to consider Exposure Drafts #1 and #2 plus two other versions of AG 38
- ❖ LHATF’s work is done on AG 38

A. LHATF (cont'd)

(2) ACTUARIAL GUIDELINE VACARVM

- ❖ Clarifies CARVM for VA’s with certain guaranteed benefits
- ❖ Will replace AG 34 and AG 39
- ❖ Utilizes principle of asset adequacy analysis to VA risks (i.e. a Principles-Based approach)

A. LHATF (cont'd)

(2) *ACTUARIAL GUIDELINE VACARVM (continued)*

- ❖ Uses same concepts as proposed C-3, Phase II methodology for RBC
- ❖ Reserve the greater of:
 - The Standard Scenario Amount, and
 - The Conditional Tail Expectation (CTE) Amount

A. LHATF (cont'd)

(2) *ACTUARIAL GUIDELINE VACARVM (continued)*

- ❖ CTE amount involves stochastically generated scenarios using “prudent best estimate” assumptions
- ❖ Extensive guidance is provided with respect to establishing prudent best estimate assumptions and governance

A. LHATF (cont'd)

(2) *ACTUARIAL GUIDELINE VACARVM (continued)*

- ❖ Work is proceeding on a number of fronts
 - LHATF Standard Scenario subgroup
 - NY DOI doing tests on Standard Scenarios
 - AAA Variable Annuity Reserve AG
 - AAA Life Capital Adequacy Subcommittee

A. LHATF (cont'd)

(2) *ACTUARIAL GUIDELINE VACARVM (continued)*

- ❖ Current version of the proposed Guideline and LHATF conference calls on the issue are at **www.naic.org**

A. LHATF (cont'd)

(3) ANNUITY NF LAW, REGULATION AND AG ABC

- ❖ New Variable minimum NF rate Model adopted in over 40 states
- ❖ Accompanying Model Regulation not yet adopted by LHATF
- ❖ Provides guidance on contractual and actuarial requirements relative to implementing the Model (100 bp EI adjustment)

A. LHATF (cont'd)

(3) ANNUITY NF LAW, REGULATION AND AG ABC (cont'd)

- ❖ Outstanding LHATF issue is multiple versus one minimum NF rate when contract has fixed and EI components
- ❖ LHATF has exposed for comment the multiple rate interpretation
- ❖ Likely will not be resolved until Fall meeting in New Orleans

A. LHATF (cont'd)

(3) ANNUITY NF LAW, REGULATION AND AG ABC (cont'd)

- ❖ Proposed AG ABC clarifies CARVM interest rates under new NF variable minimum rate law for EIA's
- ❖ Guideline ABC decision deferred to resolution of NF Model Regulation

A. LHATF (cont'd)

(4) SVL 2 (PRINCIPLES- BASED VALUATION LAW)

- ❖ Two AAA UL Working Groups involved in consultation with LHATF (SVL II WG & UL WG)
- ❖ Many subgroups of the WG's are involved
- ❖ Governance is focus of one WG/conceptual framework is focus of the other

A. LHATF (cont'd)

(4) SVL 2 (PRINCIPLES-BASED VALUATION LAW)

- ❖ Both WG's presented interim reports to LHATF in Boston
- ❖ Reports are available at www.actuary.org

B. Interstate Insurance Product Regulation a Compact ("Compact")

- ❖ Part of NAIC Speed-to-Market initiative
- ❖ Outgrowth of CARFRA efforts
- ❖ States joining Compact cede life/annuity/ DI/LTC product filing/approval oversight to the Compact

B. Interstate Insurance Product Regulation a Compact ("Compact") (continued)

- ❖ Compact has been established
- ❖ Begins operation when 26 states join or states with 40% of life/annuity/DI/LTC premium
- ❖ Currently 17 states have joined (22% of premium)

B. Interstate Insurance Product Regulation a Compact ("Compact") (continued)

- ❖ Product Standards Working Group (WG) develops standards
- ❖ WG objective is a set of uniform product standards
- ❖ WG has developed uniform standards for life, deferred annuity, individual DI/LTC products

B. Interstate Insurance Product Regulation a Compact (“Compact”) (continued)

- ❖ Now working on applications, riders, and initial rate filing requirements for individual DI and LTC
- ❖ Other WG’s for Compact by-laws and operations, electronic portal requirements for filings, operational efficiencies

B. Interstate Insurance Product Regulation a Compact (“Compact”) (continued)

Info at **www.naic.org** click on Interstate Insurance Product Regulation Compact on left for more info and standards adopted to date