

Valuation Issues

Valuation Issues

New Valuation Mortality Tables

I. Background

- New Valuation Tables to replace 1980 CSO Tables for life insurance & ADB's
- SOA Taskforce: Valuation Basic Tables
 - SOA 1990-95 Experience Study
- AAA: 2001 CSO Tables

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New Valuation Mortality Tables

II. Key Considerations in Developing Valuation Basic Tables

- Male/Female Tables
 - 25 year select period
- Smoker/Non-Smoker Distinction
- Mortality Improvement

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New Valuation Mortality Tables

II. Key Considerations in Developing Valuation Basic Tables (cont.)

- Preferred Risks
- Aids Impact
- Extended Term Insurance

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New Valuation Mortality Tables

III. Loading Considerations (2001 CSO Tables)

- Stat reserves not materially less from underlying VBT's
- Reasonable provision for possible future adverse mortality experience
- Consistent margin methodology

Impact on Reserves: Proposed 2001 CSO Table
As a Percentage of the 1980 CSO Table

		After 10 yrs	After 20 yrs
Overall		78.0%	81.4%
Gender	Male	75.5%	79.3%
	Female	84.6%	86.5%
Plan	Whole Life	84.8%	86.0%
	20 Year Level Premium Term	67.1%	67.5%
	UL – Level Premium to Zero	94.3%	98.1%
Age	25	80.2%	84.1%
	35	74.2%	79.1%
	45	76.9%	80.5%
	55	78.3%	81.1%
	65	81.9%	84.2%

Source: Report of the American Academy of Actuaries CSO Task Force

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Proposed Actuarial Opinion and Memorandum Regulation

I. Current Regulation

- Section 7 not based on asset adequacy
- Section 8 based on asset adequacy
 - Interest rate scenarios mandated
- State Commissioners' authority

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Proposed Actuarial Opinion and Memorandum Regulation

II. Proposed Regulation

- Controversial Amendments
 - Section 7 eliminated
 - Commissioner may reject state of domicile opinions

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Proposed Actuarial Opinion and Memorandum Regulation

- Other Changes
 - Interest rate scenarios no longer mandated
 - Commissioner has authority to specify methods of actuarial analysis & assumptions
 - Tightening of language of reliance
 - Regulatory issues summary
 - Alternate options for non-domestic statements

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Proposed Actuarial Opinion and Memorandum Regulation

III. Concerns

- Increasingly detailed work
- More actuarial standards
- Higher costs for smaller companies

Valuation Issues Regulation XXX

I. Status of the Regulation

States Where Adopted: 35 (inc. NY)

States In Course of Adoption: 4

States Reviewing: 6

States With No Position: 4

States With Enabling Legislation But

Not Adopted: 1 (FL)

Valuation Issues Regulation XXX

II. Actuarial Standard of Practice #40

- Adopted by ASB 12/2000; eff. 5/1/2001
- Provides guidance to Appointed Actuaries
 - Selection of X factors for deficiency reserves
 - Compliance of X factors within XXX parameters

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Regulation XXX

- Compliance with Opinion and Actuarial Report
 - Internal doc supporting Opinion & Report
 - Guidance (Appendix 1) on Anticipated Mortality
 - Creation of X factor classes; hierarchy of experience
 - Handling of reinsurance
- www.actuary.org

Valuation Issues Regulation XXX

III. XXX Practice Note

- AAA Committee on Life Ins Fin Reporting
- Q & A format, practical X factor issues
- Q's dealing with reserve mortality X factors
- Not binding; excellent guidance
- www.actuary.org

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IV. Product Design Issues

- “Shadow Account” UL products
 - Subject to XXX reserve requirements?
 - Proposed Actuarial Guideline by LHATF of the NAIC
- “Non-Guaranteed” guarantees?
 - Rates increase if some external event, however unlikely

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Regulation XXX

- Affiliated company guarantee
 - Rates guaranteed thru affiliated P & C co.
- Guaranteed premium refund
 - Co. refunds excess premium if rates increase

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V. Market Impact of Regulation XXX

- Primary study by Conning & Conning, Hartford, CT
- “Independent” research firm subsidiary
- “Term Life and Regulation XXX: A Straw in Search of a Camel’s Back”
- 24 companies – 35% of first yr term life for 2000

Valuation Issues Regulation XXX

- Results of the Survey
 - No significant disruptions in term market (10%-11% annually)
 - Average premium increases for long duration guarantee plans 8.3% (20 yr), 12% (30 yr)

Valuation Issues Regulation XXX

- Results of the Survey (cont.)
 - Reasons
 - Lower increases
 - Influence of non-XXX states
 - Term writers expenses lower
 - “Managing price” higher priority

Valuation Issues Regulation XXX

- Other sources indicate
 - Guaranteed premium products will dominate
 - 80%-90% of sales fully guaranteed
 - Concern about “non-level playing field” between term and UL XXX reserve issues