



AMERICAN ACADEMY *of* ACTUARIES

**Working Draft of Analysis of Potential Scope and Implementation Options
For Life Insurance Policy Reserves in VM-00
From the American Academy of Actuaries' Valuation Law Manual Team PBR Life Scope Subgroup**

**Presented to the National Association of Insurance Commissioners'
Life and Health Actuarial Task Force**

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This is a working draft of a report by the Valuation Law Manual Team PBR Life Scope Subgroup containing an analysis of potential scope and implementation options for Life Insurance Policy Reserves as outlined in VM-00, Section II of the Valuation Manual that is being developed by the VLMT PBR Life Scope Subgroup. It is being distributed to the NAIC Life and Health Actuarial Task Force for comment and input regarding the depth and breadth of the analysis. A final report will be subject to change.

Charge:

The subgroup is to perform analysis on the scope of Principle-based Reserves (PBR) for Life Products including the current scope in VM-00 and the more limited scope discussed by the NAIC's PBR EX Working Group regarding Term & Universal Life (UL) with secondary guarantees.

Considerations to Evaluate Alternatives:

A list of considerations to evaluate the alternatives is presented on page 3 of this document. The Subgroup recognized that there could be considerations in addition to those outlined below that are outside the scope of analysis for this Subgroup. These include tax considerations, product availability or potential price impacts.

Applicability beyond VM-20 products:

This analysis could be extended to other products outside of those impacted by VM-20. The current VM-00 indicates immediate implementation of PBR for Variable Annuity products as specified in VM-21. It is anticipated that decisions regarding implementation of PBR requirements for other products will be dependent on the development of a requisite VM-xx, and the implementation dates/phase-in for various product groups would be reviewed at that time. Although the attached considerations could be applicable to other PBR standards, it was beyond the scope of this Subgroup to provide analysis outside of the current VM-00 reserve requirements for Life Insurance Products.

Next Steps:

The Subgroup is requesting input from LHATF for additional alternatives or considerations that should be included in the analysis.

Upon receiving this input, the subgroup is available to perform an analysis of the pros and cons of the various alternatives, given the list of considerations.

Scope Alternatives Considered:

Three (3) distinct product groups were selected to represent a continuum of options. These three groups are defined as:

1. Term & ULSG = competitive term & UL with secondary guarantees (specific definitions would need to be constructed)
2. Excluded = pre-need, credit and group certificates other than individually underwritten certificates issued under a group life insurance contract as excluded in the 2/18/09 exposure draft of VM-00, Section II, Life Products.
3. All Other = individual life products not defined above.

Potential sources identified for definitions of these products are:

- existing descriptions of products in Appendices A & C of the APPM;
- existing state regulations;
- NAIC Model laws; and
- SSAP definitions.

Although the alternatives only indicate a 5-year phase in, other time periods (perhaps 3 or 7 years) may be considered. Optional implementation can be elected for specified blocks during the phase-in period. Once elected, this block of life contracts must continue to use the minimum reserve requirements of VM-20.

Current VM-00:

Term & ULSG: 5-year phase-in

All Other non-excluded products: 5-year phase-in

Alternative 1:

Term & ULSG: 5-year phase-in

All Other non-excluded products: open-ended optional implementation

Alternative 2:

Term & ULSG: Immediate implementation

All Other non-excluded products: open-ended optional implementation

Alternative 3:

Term & ULSG: Immediate implementation

All Other non-excluded products: 5-year phase-in

Alternative 4:

Term & ULSG: Immediate implementation

All other products are excluded

Considerations to Evaluate Alternatives (in question format):

Does the Alternative...

GENERAL

1. Result in a level playing field across companies, e.g.:
 - a. Does it provide similar opportunity to companies for early implementation?
 - b. Does it provide consistency across companies?
 - c. Does it provide similar requirements for different sizes of companies or sizes of blocks of business?
 - d. Does it provide consistency across life product types?
 - i. allows aggregation for products with redundancies;
 - ii. consistent expense, interest and mortality assumptions (if applicable).
2. Provide options if the VM-20 requirements don't produce anticipated results?
 - a. Has sufficient testing of the methodology been performed for products impacted?
 - b. If unanticipated results do occur, does it provide time to modify the requirements prior to mandating reporting?
3. Assure that unanticipated external consequences, if any, are kept to a minimum?
 - e.g. what if rating agencies don't understand impact of changes in reporting?
4. Address limitations of formulaic reserves?
 - a. Allows the use of company experience?
 - b. Implements a reserve method that reflects inherent risks or embedded derivatives in products?
5. Provide for ease of internal/external auditability?
6. Provide simpler reserve methodologies for simpler products?

INDUSTRY IMPACT

7. Have the potential to produce unintended industry consequences?
 - a. What types of consequences?
 - b. How does the alternative impact the potential magnitude of these results?
8. Give companies time to implement the requirements of VM-20?
 - a. Systems
 - b. Experience analysis
 - c. Assumption development
9. Create additional experience and financial reporting administrative system changes?
 - At what level?
10. Allow companies to implement VM-20 based on budgetary and experienced staff constraints?

REGULATORY/PUBLIC IMPACT

11. Give regulators time to establish processes and procedures to evaluate the PBR reserves?
12. Allow comparability of financial statements?
13. Pose challenges in drafting a clear scope to differentiate which products are subject to VM-20 requirements at what times?