

MEMORANDUM

TO: Life and Health Actuarial Task Force
Accident and Health Working Group
Interested Regulators and Interested Parties

FROM: John Engelhardt

DATE: November 24, 2009

SUBJECT: Materials for Discussion at the Life and Health Actuarial Task Force Winter National Meeting

At the 2005 Spring National Meeting in Salt Lake City, the Life and Health Actuarial Task Force agreed to adopt a three-week rule on the submission of items relative to which substantive discussions are anticipated. This coincides with the deadline for the *Life and Health Actuarial Subscription* (Actuarial Mailing). The deadline for the 2009 Winter National Meeting was the opening of business, Nov. 16, 2009. Shown below are the agenda items for the Life and Health Actuarial Task Force, as well as the correspondence submitted prior to the deadline.

The October and November Actuarial Mailings are now on NAIC's Web site. The Actuarial Mailing is available for regulators through I-SITE/StateNet—<https://i-site.naic.org/>. Please print or download a copy of each to bring to the Winter National Meeting. The Actuarial Mailing is available for non-regulators through NAIC's online ordering system at www.naic.org/store_home.htm or through a yearly hardcopy subscription. Please note that the NAIC cannot guarantee the hardcopy subscription will be shipped in time for the national meetings, so it is suggested that all meeting attendees purchase the electronic Actuarial Mailings online.

It is recommended that you bring the last six months of the Actuarial Mailings to the Meeting. There will be power strips available for use with laptops at the meeting.

It is the responsibility of the submitter to bring to the meeting 125 copies of any material that was not submitted in time to be included in the November Actuarial Mailing.

Thank you for your attention to this matter.

THURSDAY, DECEMBER 3:

Life and Health Actuarial Task Force

8:00–8:15 a.m., Agenda Item 1, Call to Order/Roll Call

8:15–9:15 a.m., Agenda Item 2, Mortality Tables and Margins

Valuation Table Team Update of Society of Actuaries & American Academy of Actuaries Joint Project Oversight Group, dated Dec. 3, 2009 (November 2009 Actuarial Mailing, Attachment 4, pg. 6).

9:15–9:30 a.m., Agenda Item 3, Payout Annuity Mortality

9:30–10:00 a.m., Agenda Item 4, PBR for Variable Annuities (VM-21)

Memo from American Academy of Actuaries Annuity Reserve Work Group to Larry Bruning (KS), dated Nov. 13, 2009 (November 2009 Actuarial Mailing, Attachment 5, pg. 12).

Proposed VM-21 from John Engelhardt (NAIC), dated July 6, 2009 (July 2009 Actuarial Mailing, Attachment 10, pg. 68).

10:00–10:15 a.m., Break

10:15–11:45 a.m., Agenda Item 5, Net Premium Reserves in VM-20

Document from John Bruins (American Council of Life Insurers), dated Oct. 27, 2009 (November 2009 Actuarial Mailing, Attachment 6, pg. 84).

11:45 a.m.–1:15 p.m., Lunch

1:15–2:00 p.m., Agenda Item 6, Default Costs on Existing Fixed Income Investments in VM-20

Report of the American Academy of Actuaries Life Reserves Work Group Asset Subgroup on Existing Asset Default Costs: A Prescribed Methodology for VM-20, dated November 2009 (November 2009 Actuarial Mailing, Attachment 7, pg. 87).

2:00–3:00 p.m., Agenda Item 7, PBR Life (VM-20)

Draft VM-20 Requirements for Principle-Based Reserves for Life Products, dated Nov. 12, 2009 (November 2009 Actuarial Mailing, Attachment 12, pg. 133).

Proposed Amendments to June 12, 2009, and Nov. 12, 2009, VM-20 – Requirements for Principle-Based Reserves for Life Products (November 2009 Actuarial Mailing, Attachment 13, pg. 169).

VM-20 Outstanding Issues Table, dated Nov. 12, 2009 (November 2009 Actuarial Mailing, Attachment 14, pg. 223).

3:00–3:15 p.m., Break

3:15–5:00 p.m., Agenda Item 7 (cont.), PBR Life (VM-20)

FRIDAY, DECEMBER 4:

Life and Health Actuarial Task Force

11:00–12:00 a.m., Agenda Item 1, PBR Reporting and Review (VM-30, VM-31)

Draft VM-30 – Actuarial Opinion and Memorandum Requirements, dated May 15, 2009 (June 2009 Actuarial Mailing, Attachment Twenty-Two, pg. 429).

Proposed Amendments to May 15, 2009, VM-30 – Actuarial Opinion and Memorandum Requirements (November 2009 Actuarial Mailing, Attachment 15, pg. 239).

Document from Fred Andersen (NY), dated Nov. 12, 2009 (November 2009 Actuarial Mailing, Attachment 16, pg. 253).

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12:00–1:30 p.m., Lunch

1:30–1:35 p.m., Agenda Item 2, Approve Minutes

LHATF Oct. 20, 2009, Minutes (November 2009 Actuarial Mailing, Attachment 26, pg. 277).

1:35–1:45 p.m., Agenda Item 3, Report of the AHWG

1:45–2:00 p.m., Agenda Item 4, Nonforfeiture Improvement

2:00–2:45 p.m., Agenda Item 5, PBR Process and Coordination (VM-00 and VM-01)

Draft VM-00 – Valuation Manual, dated Sept. 21, 2009 (September 2009 Actuarial Mailing, Attachment Nine, pg. 152).

Draft VM-01 – Definitions for Terms in Requirements, dated Feb. 18, 2009 (March 2009 Actuarial Mailing, Attachment Six, pg. 47).

Proposed Amendments to Sept. 21, 2009, VM-00 – Valuation Manual (November 2009 Actuarial Mailing, Attachment 8, pg. 104).

Document from John Engelhardt (NAIC), dated Nov. 13, 2009 (November 2009 Actuarial Mailing, Attachment 9, pg. 107).

Document from Mike Boerner (TX), dated Nov. 10, 2009 (November 2009 Actuarial Mailing, Attachment 10, pg. 108).

Document from Mike Boerner (TX), dated Nov. 10, 2009 (November 2009 Actuarial Mailing, Attachment 11, pg. 115).

VM-A – Valuation Manual Appendix A, draft dated Feb. 28, 2008 (April 2008 Actuarial Mailing, Attachment Nine, pg. 411).

Proposed Amendments to Feb. 28, 2008, VM-A – Valuation Manual Appendix A (November 2009 Actuarial Mailing, Attachment 17, pg. 256).

VM-C – Valuation Manual Appendix C, draft dated Feb. 28, 2008 (April 2008 Actuarial Mailing, Attachment Nine, pg. 412).

Proposed Amendments to Feb. 28, 2008, VM-C – Valuation Manual Appendix C (November 2009 Actuarial Mailing, Attachment 18, pg. 260).

2:45–3:00 p.m., Break

3:00–3:15 p.m., Agenda Item 6, PBR Experience Reporting (VM-50, VM-51)

VM-50 – Experience Reporting Requirements, draft dated Jan. 31, 2008 (April 2008 Actuarial Mailing, Attachment Nine, pg. 365).

VM-51 – Experience Reporting Formats, dated May 31, 2008 (June 2008 Actuarial Mailing, Attachment Thirteen, pg. 211).

Letter from Birny Birnbaum (Center for Economic Justice) to Various Commissioners, dated Sept. 23, 2009 (October 2009 Actuarial Mailing, Attachment 7, pg. 79).

Memo from Tom Rhodes (MIB) to Fred Andersen (NY), dated Oct. 13, 2009 (October 2009 Actuarial Mailing, Attachment 8, pg. 85).

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Memo from AAA Economic Scenario Implementation Work Group to Fred Andersen (NY), dated Nov. 2, 2009 (November 2009 Actuarial Mailing, Attachment 19, pg. 266).

E-Mail from Fred Andersen (NY) to Pete Weber (OH), dated Nov. 10, 2009 (November 2009 Actuarial Mailing, Attachment 20, pg. 268).

4:00–4:30 p.m., Agenda Item 8, PBR Reinsurance (VM-20)

4:30–5:00 p.m., Agenda Item 9, Other Matters

E-Mail from John Morris (PricewaterhouseCoopers) to John Engelhardt (NAIC), dated Oct. 14, 2009 (October 2009 Actuarial Mailing, Attachment 10, pg. 88).

Memo from John Bruins (American Council of Life Insurers) to Larry Bruning (KS), dated Oct. 14, 2009 (October 2009 Actuarial Mailing, Attachment 11, pg. 89).

Memo from Larry Bruning (KS) to Joseph Fritsch (NY), Statutory Accounting Principles (E) Working Group, dated Oct. 20, 2009 (November 2009 Actuarial Mailing, Attachment 21, pg. 270).

E-Mail from Wayne Stuenkel (Protective Life) to Leslie Jones (SC), dated Oct. 20, 2009 (November 2009 Actuarial Mailing, Attachment 22, pg. 271).

E-Mail from Rob Frasca (Ernst & Young) to John Engelhardt (NAIC), dated Nov. 10, 2009 (November 2009 Actuarial Mailing, Attachment 23, pg. 272).

Proposed Amendment to September 2008 Actuarial Guideline XLIII – CARVM for Variable Annuities (November 2009 Actuarial Mailing, Attachment 24, pg. 275).

E-Mail from James Jakielo (CT) to Larry Bruning (KS) and Leslie Jones (SC), dated Nov. 6, 2009 (November 2009 Actuarial Mailing, Attachment 25, pg. 276).

FRIDAY, DECEMBER 4:

Accident and Health Working Group

8:00–8:10 a.m., Agenda Item 1, Call to Order/Roll Call/Adopt Minutes

8:10–9:00 a.m., Agenda Item 2, Medicare Supplement Refund Formula Subgroup

9:00–9:30 a.m., Agenda Item 3, Health Actuarial Opinion Subgroup

Memo from William Weller (Consultant, America’s Health Insurance Plans) to Alan Furan (OH), dated Oct. 8, 2009 (October 2009 Actuarial Mailing, Attachment 12, pg. 90).

Draft Actuarial Opinion Section of the Health Annual Statement Instructions, dated Oct. 13, 2009 (October 2009 Actuarial Mailing, Attachment 13, pg. 100).

Memo from William Weller (Consultant, America’s Health Insurance Plans) to Alan Furan (OH), dated Nov. 13, 2009 (November 2009 Actuarial Mailing, Attachment 27, pg. 278).

9:30–9:45 a.m., Break

9:45–10:00 a.m., Agenda Item 4, Rate Filing Guidelines Subgroup

E-Mail from Dan Keating (FL) to John Engelhardt (NAIC) and Julia Philips (MN), dated Oct. 9, 2009 (October 2009 Actuarial Mailing, Attachment 14, pg. 107).

Rate Filing Subgroup Report to the Accident and Health Working Group, December 2009 (November 2009 Actuarial Mailing, Attachment 28, pg. 281).

10:00–10:30 a.m., Agenda Item 5, PBR Health Subgroup (VM-25)

Draft VM-25 – Health Insurance Reserves Minimum Reserve Requirements, dated Oct. 23, 2009 (October 2009 Actuarial Mailing, Attachment 5, pg. 54).

10:30–10:45 a.m., Agenda Item 6, Other Matters

ACLI Pension Protection Act Presentation, dated Nov. 4, 2009 (November 2009 Actuarial Mailing, Attachment 29, pg. 283).

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Draft: 11/19/09

Life and Health Actuarial Task Force
Conference Call
November 13, 2009

The Life and Health Actuarial Task Force met via conference call Nov. 13, 2009. The following Task Force members participated: Scott H. Richardson, Vice Chair, represented by Leslie Jones (SC); Linda S. Hall represented by Katie Campbell (AK); Steve Poizner represented by Perry Kupferman (CA); Thomas R. Sullivan represented by Jim Jakielo (CT); Kevin M. McCarty represented by Dan Keating (FL); Glenn Wilson represented by Blaine Shepherd (MN); John M. Huff represented by David Hippen (MO); James J. Wrynn represented by William Carmello (NY); Mary Jo Hudson represented by Pete Weber (OH); Mike Geeslin represented by Mike Boerner (TX); and Kent Michie represented by Tomasz Serbinowski (UT).

Ms. Jones chaired the meeting.

1. Actuarial Guideline XLIII Issues

The Task Force reviewed the referral to the Statutory Accounting Principles (E) Working Group (Attachment XX-A) requesting that the impact on surplus from the change in basis be based on the difference between the reserve under the old and new methods as of the end, rather than the beginning, of the year. John Engelhardt (NAIC) reported that the referral had been sent and the Working Group will consider it at the Winter National Meeting.

Mr. Jakielo said because of the grade-in, there will be two points in time at which there would be a change in basis. Under the proposed methodology discussed during the Oct. 20 conference call, the amount of the difference changes each year during the grade-in. Tom Campbell (Hartford) said it would be easier to base the changes in basis on the difference as of Dec. 31, 2009. Mr. Jakielo said if there were a drastic change in the market, the volatility in these reserves could result in the 2009 change in basis disappearing in 2010.

Wayne Stuenkel (Protective Life) said Actuarial Guideline XLIII could be amended to define reserves at any date prior to the effective date as the previously calculated reserve plus a minimal amount, such as \$1,000. This change would make the calculation of the reserve at the beginning of 2009 easier.

Ms. Jones asked Mr. Engelhardt to draft an amendment to the actuarial guideline to reflect the grading method adopted on the Oct. 20 conference call. There is a method specified in the guideline to allocate the total reserve to each contract. This allocated reserve should be used to calculate to change in basis each year.

Mr. Campbell said interrogatory 9.2 of the annual statement was intended to identify the types of guarantees a company is making, the waiting period of each guarantee, the account values and the reserves. Actuarial Guidelines XXXIV and XXXIX had explicit reserves attributable to particular benefits. Under Actuarial Guideline XLIII there is only an aggregate reserve and there is no specific reserve for each guarantee. Mr. Campbell suggested that column 6 (gross reserve) of each row of tables in the interrogatory could be calculated using the reserve allocated to each contract by calculating the difference between the total reserve and the basic adjusted reserve, which would include any excess stochastic reserve. Ms. Jones said the Task Force should review the interrogatory next year.

Ms. Jones said there was a question on whether the extra reserve equal to the excess of the conditional tail expectation (CTE) amount over the standard scenario reserve under the Actuarial Guideline XLIII calculation should be reported in the Annuities section of Exhibit 5 or in the Miscellaneous Reserves section. Mr. Jakielo said that if the excess reserve were reported in the Annuity Reserves section, it could become part of an existing basis and it would be difficult to see the magnitude of the extra reserve or to track it from year to year. The Task Force did not express an opinion as to which section should contain the reserve, but did want the item to be kept separate.

Rob Frasca (Ernst & Young) discussed his comment letter about reflecting hedging strategies in the CTE amount. He said the guideline is written with the presumption that the inclusion of actively managed hedging strategies would reduce the reserve. If the inclusion of the hedging strategy results in an increase in reserve, he asked whether the guideline would be applied in a parallel manner. He also asked whether companies would have the option to elect to model future hedges and, if so, whether the reflection of hedges would only be elected when it provides a reduction in reserves.

Mr. Carmello said companies should not be able to pick and choose each year. Mr. Campbell said the American Academy of Actuaries' variable annuity practice note group is working on a similar question. Currently held hedges should be included in the modeling — but there are differences of opinion on the inclusion of future hedging strategies. He noted that the E-factor in Appendix 7 is meant to capture the accuracy of the modeling, and if the hedging strategy increases the reserve, the E-factor could be set equal to 1.

Having no further business, the Life and Health Actuarial Task Force adjourned.

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