



AMERICAN ACADEMY *of* ACTUARIES

November 9, 2012

James W. Woody
Chief Financial Officer
National Association of Insurance Commissioners

Dear Mr. Woody:

The Life Practice Council of the American Academy of Actuaries¹ would like to commend the NAIC for the inclusion of a budget request of \$114,000 in 2012 and \$509,000 in 2013 for the purpose of “Actuarial Guideline 38/Principle-Based Reserving Implementation and Monitoring.”

To achieve the goals of a principle-based approach, we believe it is vital to establish a process to review and update the new regulatory principle-based reserving (PBR) methodology. We are encouraged by the inclusion of this budget item and by the recognition of the members of the NAIC’s Executive (EX) Committee and Internal Administration (EX1) Subcommittee that this is a “first step in developing a central review process” rather than a final solution. While further discussion of the responsibilities of the new, full-time actuary position will be needed, its creation through “Fiscal Impact 4” of the proposed budget is an important step in securing the necessary resources to provide essential support to the regulatory community. Within the current position description contemplated in the “Business and Fiscal Impact Statement”, we hope the scope of the support could range from assistance to individual state regulators in reviewing company filings to a comprehensive review of the PBR methodology.

As life practice actuaries involved in the development of risk management tools, we work with complex stochastic models and appreciate the importance of ongoing model validation and model assumption maintenance. In order for a stochastic model to be a credible analytical tool, the model’s calculation routines (e.g., the interest rate generator) must be calibrated with current conditions and the results must be evaluated for reasonableness. Similarly, the assumptions used in the model must reflect recent experience. A process to review the basis for assumptions is a necessary complement to a valuation method that incorporates stochastic modeling. For those reasons we are enthusiastic about the prospects of this budget item and support its inclusion.

The Life Practice Council of the American Academy of Actuaries has pledged its ongoing support of the new regulatory PBR methodology and of the review and update process. We are committed to continuing efforts, to provide actuarial resources to help educate and assist regulators, the NAIC and state legislators in the implementation of PBR.

Please contact John Meetz, the Academy’s life policy analyst (meetz@actuary.org; 202/223-8196) if you have any questions.

Sincerely,

Cande Olsen, Vice-President
Life Practice Council
American Academy of Actuaries

¹ The American Academy of Actuaries is a 17,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.