



AMERICAN ACADEMY *of* ACTUARIES  
*Presents*

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**INTRODUCTION TO PBA SEMINAR**  
**An Overview of a Principles-Based Approach to Reserves and Capital**

**Monday, June 9, 2008**

**Welcome and Overview of the Purpose and Goals of PBA**

This session will provide a general overview and introduction of the purpose and objectives of the principles-based approach (PBA) for reserves and capital. Why do we need to modernize the current formulaic reserve and RBC framework? What are the market and regulatory forces that have created the need for PBA? What are the benefits of moving to PBA for companies, regulators and consumers? What are the major challenges? How does PBA fit into the current activities in the international arena regarding solvency and financial reporting changes?

Speakers:

- Tom Campbell, FSA, MAAA  
*Vice President, Life Practice Council & Chair, Variable Annuity Reserves Work Group*
- Donna Claire, FSA, MAAA  
*Chair, Life Financial Soundness/Risk Management Committee*
- Mike Boerner, ASA, MAAA  
*Chair, Valuation Law Manual Team*
- Dave Neve, FSA, MAAA  
*Chair, Life Reserves Work Group*

**Key Elements of the PBA Framework**

This session will define the principles-based approach, and describe the key elements of the PBA framework. What aspects of the PBA framework are common to all products? What aspects are different? What are the common elements in the proposed PBA framework for reserves and capital, and what are the major differences between reserves and capital?

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- Tom Campbell, FSA, MAAA  
*Vice President, Life Practice Council & Chair, Variable Annuity Reserves Work Group*
- Dave Neve, FSA, MAAA  
*Chair, Life Reserves Work Group*

**Regulatory Perspective on PBA**

This session will provide a regulator's perspective regarding the principles-based approach, status of enabling changes to the Standard Valuation Law, status and basic construction of the Valuation Manual, timing considerations, key issues in the law and manual, coordination among NAIC groups, and efficiencies anticipated from the Valuation Manual. The regulatory perspective will be that of a Life Health Actuarial Task Force (LHATF) member and a state department of insurance actuary.

Speaker:

- Mike Boerner, ASA, MAAA  
*Chair, LHATF PBR Process & Coordination Subgroup*  
*Managing Actuary, Financial Program, Actuarial Division Texas Department of Insurance*

## **Q&A Session**

All of today's speakers will be available to answer your questions. Advance submissions are invited for topics that participants would like to see addressed at the seminar, in addition to follow-up questions on any of today's sessions. Questions can be emailed to [jones@actuary.org](mailto:jones@actuary.org).

**Tuesday, June 10, 2008**

## **PBA for Annuities**

This session will cover principles-based requirements for annuity products ranging from the C-3 Phase II requirements already in place for variable annuity products, to proposed reserve requirements such as AG VACARVM, and to those still in development (reserves for non-variable annuities and C-3 Phase IV, which could affect both variable and non-variable annuities). The key elements and issues pertaining to these products will be presented, along with an update on the status of adoption of AG VACARVM and progress reports on the efforts of the Academy Work Groups that are developing recommendations for these products. In addition, numerical examples of the calculation of the Stochastic Reserve and Total Asset Requirement for a small model office of non-variable annuity products will be provided. These examples will provide attendees with an understanding of the basic details of stochastic modeling and application of PBA requirements, including the application of the CTE measure and the effects of aggregation.

### **Speakers:**

- Tom Campbell, FSA, MAAA  
*Chair, Variable Annuity Reserves Work Group*
- Jim Lamson, FSA, MAAA  
*Chair, Annuity Reserves Work Group*

## **PBA for Life Insurance Products**

This session will cover a broad range of topics around the proposed PBA requirements for both reserves and capital for life insurance products. Will the new requirements apply for only new business, or for all in force policies? What are the basic calculation methodologies? Explanations of the deterministic and stochastic reserve components and the required cash flow modeling will be provided. How will reserves and capital be calculated for products that are not sensitive to changes in interest rates and equity markets? Are there simplified calculation methods? How are asset cash flows and reinvested assets determined in the calculation? How are reserve valuation assumptions determined? These are just some of the topics that will be covered in this comprehensive look at the proposed PBA requirements for reserves and capital for life insurance products.

### **Speakers:**

- Dave Neve, FSA, MAAA  
*Chair, Life Reserve Working Group*  
*Chair, Valuation Law Manual Team, Subgroup 1*
- Todd Erkis, FSA, MAAA  
*Chair, Life Capital and Reserve Practice Note*

## **Luncheon Speaker: Professional Responsibilities under PBA**

This section will focus on the increased professional accountability that will come from the increased responsibility of the actuary. Who is the actuary responsible to? What are the consequences of misstating reserves? What should the actuary do to mitigate his/her risk?

### **Speaker:**

- Donna R. Claire, FSA, M.A.A.A.  
*Representing the Academy Council on Professionalism*

## **Reinsurance under PBA**

The treatment of reinsurance within a principle-based approach presents several challenges, especially for reserves. The recommendations of the Academy's Reinsurance Work Group that have been included in various principles-based reserve proposals to address these challenges will be discussed, with emphasis on the recommended changes to risk transfer requirements applicable to treaties supporting business subject to principles-based reserves.

### **Speaker:**

- Tom Campbell,  
*Chair, Reinsurance Risk Transfer Subgroup*

## **PBA Tax Issues**

Recently the Treasury issued Notice 2008-18 to alert insurance companies to potential issues that may arise from principles-based reserves. The notice covers both life and annuity reserves. This session will summarize what this notice is, why Treasury published it and what the Treasury had to say. Understanding how principles-based reserves will affect the taxation of insurance companies is an important issue as principles-based reserves become a reality.

### **Speakers:**

- Tom Campbell, FSA, MAAA  
*Vice President, Life Practice Council and Chair, Variable Annuity Reserves Work Group*
- Todd Erkis, FSA, MAAA  
*Chair, Life Capital and Reserve Practice Note*

## **PBA Implementation Issues**

This session will address practical considerations on how to implement the new PBA requirements. What should companies be doing now to prepare for PBA? What structural and/or operational changes may be needed within the pricing, financial reporting, and modeling areas? The session will also present a sample "case study" of how a company might implement PBA for life products using a 12-step process.

### **Speaker:**

- Dave Neve, FSA, MAAA  
*Chair, Life Reserve Working Group*

## **Wrap-Up and Q&A Session**

All of today's speakers will be available to answer your questions. Advance submissions are invited for topics that participants would like to see addressed at the seminar, in addition to follow-up questions on any of the session of the seminar.