AMERICAN ACADEMY of ACTUARIES

Summary of Changes to Model Regulation and Actuarial Guidelines Principles-based Reserve for Life Products from the American Academy of Actuaries' Life Reserves Work Group

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

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The Life Reserves Work Group (LRWG) has continued to refine and modify the principles-based reserving approach for life products since the proposed Model Regulation and proposed Actuarial Guidelines were exposed for comment in June of 2006. In addition, the LRWG has received several suggested changes from regulators and interested parties. These changes and suggestions have been reflected in the revised documents that are attached.

The LRWG requests that LHATF expose for comment these updated drafts at the September LHATF meeting.

Please note that the Actuarial Guideline PBR has been renamed as Actuarial Guideline PBR-VAL, and the information previously in AG-MAR has been merged into AG-PBR-VAL. This new, combined Actuarial Guideline now includes the requirements for setting valuation assumptions for life PBR reserves, including the requirements for setting assumption Margins.

Major changes to the Model Regulation include:

1) Incorporating the Greatest Present Value of Accumulated Deficiencies (GPVAD) method in the Stochastic Reserve calculation (Section 7.G.2).
2) Updating the stochastic modeling exclusion in light of the GPVAD changes (Section 7.G.5).
3) Expanding the discussion of Prudent Best Estimate Assumptions and Margins (Section 7.B.) to include:
    - Considerations that must be addressed when determining assumption Margins.
    - Disclosure of the impact of each assumption Margin on the reserve is now required.
    - Disclosure of the Margin Ratio (previously called the “Z-value”) is now required.
4) Expanded the section on reinsurance (Section 8). These changes included moving much of the material in the drafting notes to the Model Regulation wording and the new AG-PBR-VAL.
5) The use of Predetermined Scenario Sets provided by the NAIC has been dropped as an option for selecting scenarios for the Stochastic Reserve calculation, but the use of Proprietary Predetermined Scenario Sets developed by the company has been added (Section 7.D.2.iii).
6) Incorporating several changes to address the concerns of small companies
    - An option for a state to exempt a form/product from being valued under the principles-based approach (Section 3.A.)
    - Simplified approaches to determine Net Asset Earned rates (drafting note after Section 7.F.2.)
    - Allowing a company to increase the deterministic reserve in order the meet the stochastic modeling exclusion requirement (Section 7.G.5.).

Major changes in the AG PBR-VAL include (compared to the prior versions of AG-PBR and AG-MAR):

1) Added a new section that gives general considerations for setting best estimate assumptions (Section III.A)
2) Added a new section that gives general considerations for setting assumption Margins (Section III.B)
3) Specific guidance on setting Margins for assumptions has been added throughout the document in the respective assumptions sections.
4) The mortality assumption sectionhas been substantially revised.
    - Added additional guidance and requirements
    - Updated the credibility methodology to include an adjustment for variability in the number of claims for full credibility due to distribution of face amount. Credibility measure based on 90% confidence interval and a 5% margin of error (from a 3% margin of error.). This resulted in 1083 claims for full credibility before adjustment based on company face amount distribution.
    - Selection of the valuation mortality table is based on aggregate Seriatim Reserves that are used to determine the Deterministic Reserve rather than the Reported Reserve.
5) New section on setting reinsurance assumptions has been added (Section XI).

The most significant change in AG-DIS is adding a new section on Actuarial Certifications on page one.