



# AMERICAN ACADEMY *of* ACTUARIES

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## **Report the American Academy of Actuaries' Valuation and Law Manual Team**

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

**November 1, 2006**

The American Academy of Actuaries is a national organization formed in 1965 to bring together, in a single entity, actuaries of all specializations within the United States. A major purpose of the Academy is to act as a public information organization for the profession. Academy committees, task forces and work groups regularly prepare testimony and provide information to Congress and senior federal policy-makers, comment on proposed federal and state regulations, and work closely with the National Association of Insurance Commissioners and state officials on issues related to insurance, pensions and other forms of risk financing. The Academy establishes qualification standards for the actuarial profession in the United States and supports two independent boards. The Actuarial Standards Board promulgates standards of practice for the profession, and the Actuarial Board for Counseling and Discipline helps to ensure high standards of professional conduct are met. The Academy also supports the Joint Committee for the Code of Professional Conduct, which develops standards of conduct for the U.S. actuarial profession.

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The Team would also like to recognize the following individuals for their valuable input: Dave Christianson, Dan Daveline, Cathy Lockett, and Joe Musgrove.

The Valuation Law and Manual (VLM) Team is working through considerations involved in the construction of a Valuation Manual (“Manual”). These considerations are based on the direction of current draft changes to the Standard Valuation Law worked on by the Life and Health Actuarial Task Force (LHATF). The objective of this team is to support LHATF in its efforts on the Law and the Manual. In fulfillment of that objective this status report indicates where the VLM Team will provide certain recommended outcomes for the Manual as presented to LHATF for its consideration.

The VLM Team currently has 42 members composed of actuaries and non-actuaries, including several regulators. To date, the team has drafted an outline of the Manual and identified a number of tasks which have been allocated over three Academy subgroups and one non-Academy accounting group.

Work of the first subgroup includes drafting the “Introduction” and the “Principles-Based Preamble” of the Manual. This group will also discuss considerations for the NAIC process to update the manual.

The second subgroup will address the construction of the manual to provide for both Principles-based (PBA) reserve requirements and non-PBA reserve requirements. This will involve integration of current non-PBA NAIC reserve models as well as the new PBA reserve requirements under development. A key to this work will be coordination with the Accounting Practices and Procedures Manual where the efforts of the accounting group are involved.

Experience reporting requirements are included in the work of the third subgroup along with the requirements for an annual PBA independent actuarial review and other PBA reporting requirements.

The Manual will provide the minimum standard of valuation for all life, health, and annuity products, including reserve requirements for those products subject to the Principles-based approach and those not subject to PBA valuation requirements. The general approach is to incorporate current NAIC models and those drafts anticipated to be adopted by the time the Manual becomes effective.

For variable annuity business with guarantees and similar business, in force on the effective date of the Manual, the valuation requirements will be those found in Actuarial Guideline VACARVM. For other business in force on the effective date of the Manual, valuation requirements will defer to the requirements of the adopting state as of that date.

For business issued on and after the effective date of the Manual, the Manual will apply PBA valuation requirements adopted by the NAIC as of that date. Such requirements are anticipated to reflect the work of the Academy Life Reserves Work Group for life reserves and to reflect the work of the Academy Annuity Reserves Work Group for non-variable annuities.

The Manual will specify which products must comply with the PBA reserve, reporting, and independent actuarial review requirements. It is anticipated that initially (and perhaps even long term for many health products), health products will not be subject to the PBA independent actuarial review requirements and the PBA reporting requirements.

The Manual will also address which current (and/or changed) requirements are allowed to continue as an acceptable alternative to applicable PBA requirements. Small company concerns are expected to be largely addressed here.

For any products for which new PBA requirements have not been adopted, the Manual will apply current NAIC valuation requirements.

Since PBA reserves will use more experience-based assumptions and greater company judgment than allowed in the past, it is important that companies review valuation assumptions and methods on an annual basis, and make updates as appropriate. The Manual will address this in three ways. First, the Manual will require the reporting and analysis of company experience to help establish and assess the reasonableness of assumptions. Second, the Manual will require an independent annual actuarial review of such assumptions and methods. Third, the Manual will provide the requirements so that commissioners are provided with the reporting information that can be tailored to monitor and assess Principles-based reserves.

Coordination between the Accounting Practices and Procedures Manual (APPM) and the Manual is being addressed. For example, reserve references from the SSAPs in the APPM will be altered to reference such requirements and any new requirements as provided for in the Manual. Current reserve requirements will be transferred from Appendices A and C in the APPM to corresponding appendices in the Manual.

In order to promote uniformity in applying requirements of the Manual, the Manual will have an appendix where interpretations and guidance would appear as needed. We still need to define the issues and considerations on the NAIC process that need to be addressed to provide for the development of such interpretation and guidance.

Accompanying this status report are drafts of the first two sections of the Manual. These sections are the Introduction and the Principles-Based Preamble. More work will continue on these sections as well as on the rest of the Manual which is currently in draft and outline form.

The Academy will continue to develop the Manual and support the Life and Health Actuarial Task Force in its work on the Manual and the Standard Valuation Law.

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