



AMERICAN ACADEMY *of* ACTUARIES

Life Practice Council Cycle Report
Vice President: Dave Sandberg
Staff Liaison: Amanda Yanek
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I. ISSUES

A. Risk-Based Capital

The Life Capital Adequacy Subcommittee (LCAS) made significant progress with the National Association of Insurance Commissioner's (NAIC) Capital Adequacy Task Force's (CADTF) solution for C-3 risk for equity guarantees (C-3 Phase 2), which would replace the traditional factor-based approach with a non-formulaic (principles-based) approach based on internal models. At the NAIC summer meeting in Boston, MA, the C-3 Phase 2 RBC Report was adopted by the NAIC Life RBC Working Group, the Capital Adequacy Task Force and the Financial Condition (E) Committee. In October, the Life Risk-Based Capital C-3 Phase 2 Instructions received final adoption by the NAIC during a conference call of the Executive and Plenary Committees. The Recommendation was for implementation December 31, 2005.

The LCAS presented at the C3 Phase 2 Seminar on May 4-5, 2005. The next seminar is scheduled for April 23, 2006.

Work has begun on C-3 RBC requirements for life products under a principles-based reserving approach.

B. Reserving

Members of the Life Financial Soundness/Risk Management Committee's SVL2 Work Group continue work on a new approach to the Standard Valuation Law. The goal is to have reserving and solvency standards that are principles based, rather than formula based. A major component of a principles-based system would be peer review. Members of the SVL2 Work Group gave a presentation on principles-based reserves and solvency to the NAIC's Life Insurance and Annuities (A) Committee on August 23 in Minneapolis and also presented a webcast on January 12th.

The Variable Annuity Reserve Work Group (VARWG) is continuing work surrounding the development of a reserve methodology for variable annuity products that use the principles of the proposed RBC C-3 Phase 2 approach. The work group is examining the effectiveness of such a methodology, and identifying and commenting on regulatory and practicality issues. At the winter NAIC meeting, the VARWG provided an update on the draft Actuarial Guideline to the Life and Health Actuarial Task Force (LHATF).

The Life Valuation Subcommittee's (LVS) Practice Note Steering Work Group is charged with determining which existing life practice notes should be updated and determining

areas where new practice notes may be needed. Various subgroups have been formed to begin looking at the current practice notes. Work has recently been completed on the variable annuities practice note and was previously completed on practice notes on asset adequacy and reinsurance.

Work is ongoing by the Life Reserves Work Group (LRWG) (formerly known as the Universal Life Work Group) to fulfill a charge by the NAIC regarding the development of a principles-based approach to determining both reserve and capital requirements for universal life products with secondary guarantees, term, and VUL. The Life Reserves Work Group gave a presentation on principles-based reserves and solvency to the NAIC's A Committee on August 23. The group submitted a first draft of a possible Model Regulation and three possible Actuarial Guidelines for the valuation of reserves at the winter NAIC meeting. In addition, the LRWG has visited with a number of state insurance departments to discuss the new reserving approach. Note that the work of this group has recently been expanded to cover traditional life insurance.

The Life Practice Council's Experience Subcommittee, with Larry Gorski as Chair, continues work with the Preferred Mortality Project Oversight Group.

C. Products

The Life Products Committee (LPrC) has been actively working with LHATF on both the Annuity Nonforfeiture and General Nonforfeiture projects. For more than two years, members of the committee have been presenting both oral and written reports at NAIC national meetings.

At the spring NAIC meeting in Salt Lake City, members of the Annuity Nonforfeiture Implementation Work Group continued their dialogue with NAIC on the latest draft version of the Annuity Nonforfeiture Model Regulation.

The Nonforfeiture Improvement Work Group is continuing its progress on identifying reasons (and solutions) on why/how current nonforfeiture law should be revised. Members of the group provided an outline to LHATF at the Salt Lake City meeting, laying out a possible structure for a revision of the nonforfeiture laws.

The LPrC continues to monitor the work of the NAIC's Interstate Compact National Standards Working Group. The committee recently formed a new work group to review the prospective test contained in the Standard Nonforfeiture Law for Individual Deferred Annuities and provided an opinion as to the usefulness and viability of the test in today's deferred annuity marketplace. The group made a presentation to the NAIC Working Group at the summer meeting.

D. Accounting

The Life Financial Reporting Committee (LFRC) has updated the 2004 Practice Note on Anticipated Common Practices Relating to AICPA (American Institute of Certified Public Accountants) Statement of Position (SOP) 03-1: Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts. They are now working with the AICPA on the many important implementation issues of the SOP and looking at additional questions to add to the practice note.

The committee also completed a practice note on the application of the Financial Accounting Standards Board's (FASB) Derivatives Implementation Group Statement 133 Implementation Issue No. 36, *Embedded Derivatives: Modified Coinsurance Arrangements and Debt Instruments That Incorporate Credit Risk Exposures That Are Unrelated or Only Partially Related to the Creditworthiness of the Obligor under Those Instruments*.

E. International

Various groups within the Life Practice Council (LPC) have begun to focus more attention on the international front. LFRC will follow (and support as needed) the efforts of the International Actuarial Association (IAA) and American Council of Life Insurers (ACLI) on international accounting issues.

In addition, LFRC and both the LCAS and LVS will follow the joint IAA/International Association of Insurance Supervisors (IAIS) project on best estimates and risk margins.

II. PEOPLE ISSUES

New Committee Volunteers

Darin Zimmerman is the new chair of the Life Financial Reporting Committee.

Cande Olsen is the new chair of the Life Products Committee.

John MacBain is the new vice-chair of the Life Products Committee.

Jim Lamson is the chair of the newly formed Annuity Reserves Work Group.

Larry Gorski is the chair of the newly formed Annuity Capital Work Group.

Nancy Bennett is the new chair of the Life Capital Adequacy Subcommittee.

Donna Claire is the new chair of the Life Financial Soundness/Risk Management Committee (formerly referred to as the SVL2 Work Group).

Bob DiRico is the chair of the newly formed Consistency: Principles, Summary, Definitions & Report Format Work Group.

Sheldon Summers is the chair of the newly formed Reinsurance Work Group.

Shirley Shao is the chair of the newly formed Regulatory Interface Governance & Peer Review Work Group.

Peter Boyko is the chair of the newly formed Life Capital Work Group.

Armand de Palo and Peter Marion are the co-chairs of the newly formed Tax Advisory Group to the Life Reserves Work Group.

III. BOARD OF DIRECTORS/EXECUTIVE COMMITTEE ATTENTION

Staffing and resources needed for principles-based development work.

It is the intention of the LPC to request Board approval at its next meeting in May, contingent upon Executive Committee sign-off, to form a new committee to act as a Steering Committee to develop the certification framework for principles-based reserving, build consensus for that framework, and coordinate the efforts of the various parties necessary to support the framework.

IV. EXTERNAL CONTACTS

With the start of the 109th Congress, Amanda Yanek will begin to meet on a regular basis with congressional staff contacts to discuss issues affecting life actuaries.

V. PUBLICATIONS

The following Life Practice Council public statements have been issued during the past year:

<u>Publication</u>	<u>Audience</u>	<u>Date</u>
Report: Modco status report	Cap. Adeq. TF	March 2005
Report: AG VACARVM	LHATF	March 2005
Report: Progress Report of ULWG	LHATF	March 2005
Report: Nonforfeiture Improvement	LHATF	March 2005
Report: LCAS Final C3 Phase 2	Cap. Adeq. TF	March 2005
Presentation: SVL2 Update	LHATF	March 2005
Report: VARWG Analysis Report	LHATF	March 2005
Summary: Suggested Changes to AG VACARVM	LHATF	March 2005
Draft Practice Note: VAPN	LHATF	April 2005
Draft Practice Note: Statement of Position (SOP) 03-1	AICPA	April 2005
Letter: AOMR Letter	Regulators	April 2005
Letter: LCAS Comment Letter	Cap. Adeq. TF	May 2005
Memo: LCAS Response to	Cap. Adeq. TF	June 2005

Comment Letters Report: Modco Issues	Cap. Adeq. TF	June 2005
Report: AG VACARVM	LHATF	June 2005
Report: VARWG Analysis Subgroup	LHATF	June 2005
Report: ULWG	LHATF	June 2005
Report: Nonforfeiture Improvement	LHATF	June 2005
Report: LCAS Final C3 Phase 2	Cap. Adeq. TF	June 2005
Report: SVL2 Recommendations	LHATF	June 2005
Report: Section 6 Work Group	Interstate Compact Work Group	June 2005
Letter: Comment Letter on ASOPs 4, 27 and 35	Actuarial Standards Board	September 2005
Letter: Comment Letter on ASOP 15	Actuarial Standards Board	September 2005
Report: ULWG	LHATF	September 2005
Reinsurance Practice Note	Actuarial Profession	October 2005
Variable Annuities Practice Note	Actuarial Profession	October 2005
Comment Letter on AG ABC	LHATF	October 2005
LFRC Comment Letter FAS 141	FASB	November 2005
Tax WG Issue Alert	Actuarial Profession	December 2005
LRWG Draft Model Regulation	LHATF	December 2005
LRWG Draft Actuarial Guideline DIS	LHATF	December 2005
LRWG Draft Actuarial Guideline MAR	LHATF	December 2005
LRWG Draft Actuarial Guideline PBR	LHATF	December 2005
VARWG Report	LHATF	December 2005
SVL2 Report	LHATF	December 2005

VI. KEY ISSUES/PRIORITIES FOR 2006

The council's key issues are as follows:

- The council will continue its work on principles-based reserves, capital, and product development methodology, at the same time maintaining a strong relationship with the NAIC as it moves forward in the creation of principles-based regulation for risk-based capital, valuation, and product development. The council will also be coordinating with the Actuarial Standards Board, the Society of Actuaries, and the American Institute of Certified Public Accountants in the development of the framework necessary to support principles-based reviews and certifications. Finally, the council will continue to update and create new practice notes on topics such as principles-based reserving and capital.
- The council will work with the Health and Pension Practice Councils to create coherent discussion and position papers on the affect of proposed federal tax initiatives on the private and social insurance sectors.
- Similarly, the council will help contribute to Academy and International Actuarial Association responses to the International Accounting Standards Board on accounting issues related to the Phase 2 Insurance Accounting Project.

VII. STRATEGIC PLAN ACTIVITIES

The LPC recently revised its Operational Plan for 2005 (based on the Academy's Strategic Plan - Directions).

