I. ISSUES

A. Risk-Based Capital

The Life Capital Adequacy Subcommittee (LCAS) continues to make significant progress working with the NAIC's Capital Adequacy Task Force (CADTF) to develop a solution for C-3 risk for equity guarantees (C-3 Phase 2), which would replace the traditional factor-based approach with a non-formulaic approach based on internal models. At the NAIC 2005 Spring National Meeting in Salt Lake City, UT, the CADTF received the LCAS' final report, and voted to expose the draft for consideration at its Summer Meeting in Boston. The CADTF is still working toward an implementation date of year-end 2005.

The LCAS is presenting at the C3 Phase 2 Seminar on May 4-5. The LCAS will be having its next quarterly meeting in Washington, DC on May 6.

B. Reserving

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 Risk-Based Capital (RBC) C-3 Phase 2 approach. The work group is examining the effectiveness of such a methodology, identifying and commenting on regulatory and practicality issues. At the spring NAIC meeting the VARWG provided an update on the draft Actuarial Guideline to the Life and Health Actuarial Task Force (LHATF), which it submitted at the December meeting.

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 also been formed to begin looking at the current practice notes. Work has been completed on the variable annuities practice note and has previously been completed on asset adequacy and reinsurance. Work is underway on an annuity nonforfeiture CARVM Note. Work is ongoing by the Universal Life Work Group (Dave Neve & Tom Kalmbach, Co-chairs) to fulfill a charge by NAIC regarding the development of a principle-based approach to determine both reserve and capital requirements for universal life products with secondary guarantees, term, and VUL. The group hopes to submit a first draft of a new reserve standard at the June NAIC meeting. Members of the Life Financial Soundness/Risk Management Committee continue work on a new approach to revising the Standard Valuation Law. Using an enterprise risk management framework, the committee is looking to work with the NAIC on applying the principles underlying the C-3 Phase 2 project. The new work group on life insurance tax issues continues to discuss issues surrounding its mission.
C. Products

The Life Products Committee (LPrC) has been actively involved in 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, members of the Annuity Nonforfeiture Implementation Work Group continued their dialogue with NAIC staff 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 the 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 provide an opinion as to the usefulness and viability of the test in today's deferred annuity marketplace. The group expects to make a presentation at the NAIC's summer meeting.

Committee members have also continued to be involved in educating legislators (both in the U.S. and internationally) on gender-neutral pricing of life insurance and annuities.

D. Accounting

The Life Financial Reporting Committee (LFRC) is continuing its work on a Purchase GAAP monograph. An initial draft (for peer review) should be completed by mid-2005. LFRC has updated the 2004 Practice Note on Anticipated Common Practices Relating to AICPA Statement of Position 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 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*.

The LFRC will hold its next quarterly meeting in June, in Boston.

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 International Actuarial Association (IAA) and American Council of Life Insurers (ACLI) joint research project concerning the potential effect of financial statements on life insurers of the interaction of methods of asset measurement.

Both the LCAS and Life Valuation Subcommittee have been monitoring the IAA Insurer Solvency Assessment Working Party's draft report.
II. PEOPLE ISSUES

New Academy staff
Amanda Yanek is the new Life Policy Analyst.

New Committee Volunteers
Arthur Panighetti is the chairperson of the newly formed Tax Work Group.
Andrew Erman is the chairperson of the newly formed Annuity Nonforfeiture Section 6 Work Group.

III. BOARD OF DIRECTORS/EXECUTIVE COMMITTEE ATTENTION
None.

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.
Steve English attended the NAIC 2004 Winter National Meeting.

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

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VI. KEY ISSUES/PRIORITIES FOR 2005

The Life Practice Council held its annual Fall Planning Session on September 8, 2004 in Anchorage, AK. The council's key issues for 2005 are as follows:

- The council will continue to maintain a strong relationship with the NAIC on issues such as risk-based capital, valuation, and product development. Projects are currently being completed in the areas of statutory reserve and risk-based capital requirements for variable annuity products, revising the standard nonforfeiture and valuation laws, and financial services modernization.

- The council will continue in its efforts to become more proactive and address issues from a non-formulaic approach as it expands its role at the state, federal, and international levels. Efforts are underway to focus more on legislative bodies (e.g., National Conference of Insurance Legislators, the US Congress, and the International Actuarial Association), as well as regulatory agencies such as the US Department of Treasury and Internal Revenue Service.

- The council will continue to work with the Financial Reporting Council to prepare a monograph on purchase GAAP (generally accepted accounting principles) as well as commenting on issues surrounding the American Institute of Certified Public Accountants, the Financial Accounting Standards Board, and the International Accounting Standards Board.
• The council will continue to update and create new Practice Notes to aid the actuarial profession. Notes are currently being drafted on asset adequacy analysis, reinsurance reserve credits, Financial Accounting Standard 133, Statement of Position 03-1, and variable annuities (capital and reserves).

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