Practice Note for the Application of Actuarial Guideline XXXIX

December, 2002

The following questions relate to the National Association of Insurance Commissioner's (NAIC) Actuarial Guideline XXXIX – Reserving for Variable Annuities with Guaranteed Living Benefits.

The American Academy of Actuaries (Academy) is the public policy organization for actuaries practicing in all specialties within the United States. A major purpose of the Academy is to act as the public information organization for the profession. The Academy is non-partisan and assists the public policy process through the presentation of clear and objective actuarial analysis. The Academy regularly prepares testimony for Congress, provides information to federal elected officials, comments on draft federal regulations, and works closely with state officials on issues related to insurance. The Academy also develops and upholds actuarial standards of conduct, qualification and practice and the Code of Professional Conduct for all actuaries practicing in the United States.

The purpose of this Practice Note is to provide guidance to the actuary for the application of Actuarial Guideline XXXIX. It should be noted that no representation of completeness is made; other approaches may also be reasonable and may be in or gain common use. This Practice Note has not been promulgated by the Actuarial Standards Board (ASB). The information in this Practice Note is not binding on any actuary and is not a definitive statement as to what constitutes generally accepted practice in this area.

The Academy welcomes your comments and suggestions for additional questions to be addressed by this Practice Note. Please address all communications to Steve English, the Academy's Senior Life Policy Analyst, at (english@actuary.org).

The members of the work group that are responsible for this Practice Note are as follows:

James W. Lamson, FSA, MAAA (Co-Chair)

Kory J. Olsen, FSA, MAAA (Co-Chair)

Cindy D. Barnard, FSA, MAAA

Thomas A. Campbell, FSA, MAAA

Donna R. Claire, FSA, MAAA

Franklin C. Clapper, Jr., FSA, MAAA

J. Timothy Gaule, FSA, MAAA

Timothy E. Hill, FSA, MAAA

Burton D. Jay, FSA, MAAA

Kerry A. Krantz, FSA, MAAA

Barbara J. Lautzenheiser, FSA, MAAA

David E. Neve, FSA, MAAA

Scott M. Priebe, FSA, MAAA

Table of Contents

[Section I: Minimum Reserve Requirements](#)....2

[Section II: Reinsurance](#)....4

[Section III: Asset Adequacy Analysis](#)....4

[Appendix A](#)....11

Section I: Minimum Reserve Requirements

The following questions relate to the reserve requirements in Section III(A) of the Guideline.

Q1. What does it mean to ignore the future VAGLB revenues and benefits in calculating the reserve specified in Section III(A)(1) of the Guideline?

A: In the calculation of the reserve specified in Section III(A)(1), many actuaries think it is appropriate in most cases for any projection of future benefits as may be required in applying the Commissioners' Annuities Reserve Valuation Method (CARM), other actuarial guidelines, Practice Note 31 - Special Issues for Variable Annuities, or other reserve requirements, do not include any benefits to be provided by VAGLBs, and for no recognition of any imputed or explicit future charges for VAGLB benefits to be made. This also applies to the calculation of Net Amounts at Risk under Actuarial Guideline 34.

Q2. How are imputed charges calculated?

A: Many actuaries believe that, conceptually, the imputed charge is the difference between the total contract charges on a policy with the living benefit, and what the base contract charges would be without the living benefit. They also believe that the imputed charge typically considers not only the cost of the benefit, but also the increased cost of capital and additional reserves the living benefit requires. This information may be readily available in the pricing documentation, or there may be other methods to calculate the charge.

Another method is a comparison of charges between products, with and without the living benefit. While this may be the easiest method, it may be the least reliable in many instances since there are many other factors influencing expense charges such as commissions, experience assumptions, and varying profit goals.

A third method involves using pricing methodology and the same profit target to calculate the expense charge by modeling the base policy with and without the living benefit over multiple stochastic or deterministic scenarios. When modeling the policy without the living benefits, the expense charges typically are decreased until the profit target is reached. The procedure could be similar to what will be used in the asset adequacy analysis for the living benefit.

Q3. If a combined charge is made for both VAGLBs and Guaranteed Minimum Death Benefits (GMDBs), how is the charge usually determined for just the VAGLB portion?

Some actuaries believe that a charge for the VAGLB can be imputed as described in question Q2.

Q4. Can an approximation be used to calculate the sum of aggregate VAGLB charges?

A: The Guideline implies that the accumulation of the VAGLB charges should be performed on a seriatim basis, but the actuary may consider reasonable approximations. Since the formulaic reserve required in Section III(A)(2) is subject to asset adequacy analysis, it is believed that reasonable methods oftentimes may be used to approximate the sum of the aggregate VAGLB charges if the approximation methods used are substantially accurate and reasonably easy to review. Many actuaries use approximations when the detailed valuation of an item would be complicated, time consuming, or incommensurate with the size and importance of the liability.

The approximation methodology might depend on whether the charge is made daily, monthly, or annually, since the implication of the Guideline is that the VAGLB charges need to be accrued for the reserve even if the charge does not occur until the end of a period. Three examples of approximation methods for the additional charges accrued during a period are:

1. Additional VAGLB charges for a period = Total fund charges multiplied by the ratio of the VAGLB charge rate to the total fund charge rate.

2. Additional VAGLB charges for a period = VAGLB charge rate multiplied by the average fund for that period.

3. If accounting entries are made as deductions of charges for the benefit occur, then an accounting system balance may serve as a reasonable reserve estimate in some cases.

The actuary typically exercises professional judgment in deciding the length of the approximation period. Some actuaries may use monthly average fund values and some may use quarterly values.

Q5. Should surrenders, deaths, and ineligibility for the VAGLB be considered when determining the reserve required by Section III(A)(2)?

A: According to the Guideline, "the sum of the aggregate VAGLB charges from the date of issue to the valuation date" should only be for "VAGLB benefits in force (i.e., contracts still in force and still eligible for the VAGLB)." This implies that the sum of aggregate VAGLB charges may be released for contracts that are no longer in force due to death or surrender, as well as for contracts that are no longer eligible for the VAGLB. Using actuarial judgment, actuaries oftentimes use approximate methods to calculate the release of VAGLB charges due to surrender, death, or ineligibility.

Q6. Are the charges accumulated with interest?

A: The Guideline refers to the "sum of the aggregate charges for the benefit." This implies that interest need not be considered.

Section II: Reinsurance

The following questions relate to ceded and assumed reinsurance reserves determined under Section III(B) of the Guideline.

Q7. How are VAGLB gross reinsurance premiums calculated when the reinsured rider contains both a VAGLB and a GMDB?

A: If a reinsurance treaty covers both a VAGLB benefit and a GMDB benefit with a combined premium, then the logic for allocating the reinsurance premium between the VAGLB benefits and GMDB benefits usually would be the same as discussed for direct company charges in question Q3.

Q8. How is a reserve credit determined for non-proportional reinsurance, such as an aggregate cap on benefit payments?

A: Some actuaries believe this can only be measured accurately by modeling the impact of the reinsurance over a broad range of scenarios. The modeling usually directly recognizes the impact of any non-proportional features of the reinsurance program, such as aggregate claim caps, reinsurance premiums that vary with the net amount at risk, and/or deductibles.

Q9. Is the Asset Adequacy Analysis supporting the VAGLB reserve performed on a ceding company's reserve before or after deduction of the reinsurance reserve credit?

A: See Q25 for the answer to this question.

Section III: Asset Adequacy Analysis

The following questions relate to the specific asset adequacy analysis of the VAGLB reserve as required in Section III(C) of the Guideline.

Q10. Is the asset adequacy analysis, required by the Guideline, the same as the asset adequacy analysis required by Section 3 of the Standard Valuation Law to support the Actuarial Opinion?

A: The purpose of the Guideline as stated in Section I is to provide an interpretation of "the standards for the valuation of reserves," and to address "the calculation of reserves for VAGLBs to be held in the General Account." This implies that the asset adequacy analysis required by the Guideline is separate from any asset adequacy analysis required by Section 3 of the Standard Valuation Law to support the Actuarial Opinion.

However, some actuaries believe the analysis performed to comply with the Guideline may be incorporated into the "company-wide" analysis supporting the Actuarial Opinion.

Q11. Does the asset adequacy analysis of the VAGLB Reserve need to be performed if the company qualifies for a Section 7 Opinion under the Actuarial Opinion Memorandum Regulation (AOMR in effect prior to the adoption of revisions in 2001 by the NAIC?

A: The Guideline does not provide for exceptions from the requirement of asset adequacy analysis of the VAGLB Reserve. This suggests that an asset adequacy analysis is probably still required under the Guideline despite a company's qualification for a Section 7 Opinion under the AOMR.

Q12. What does it mean to do a standalone asset adequacy analysis?

A: Section III(C) of the Guideline states that the "appointed actuary must perform a standalone asset adequacy analysis of the VAGLB Reserve." The use of the term "VAGLB Reserve" in this sentence indicates that the reserve to be tested is only the reserve defined in Section III(A)(2), ignoring any other reserves held for any other benefits under the contract (i.e., ignoring the reserve defined in Section III(A)(1)). This indicates that only the benefits, expenses, and charges associated with the VAGLB benefit are to be brought into the asset adequacy analysis, including the investment returns on the assets selected to back the VAGLB reserve. Any benefits, expenses, and charges arising from any other benefits under the contract are to be ignored when doing the asset adequacy analysis required by the Guideline.

However, to satisfy the Guideline, most benefits and contract provisions of the policy will need to be projected in the asset adequacy analysis to appropriately model the "standalone" VAGLB benefit. For example, the projection of surrenders, deaths, transfers between different investment accounts, and other similar contingencies typically would be considered in the analysis of the VAGLB Reserve.

Q13. What methods are used to perform asset adequacy analysis for VAGLBs?

A: ASOP 22 – *Statements of Opinion Based on Asset Adequacy Analysis by Actuaries for Life or Health Insurers*, paragraph 3.3.2 states, "[c]ash flow testing is generally appropriate where cash flows of existing assets, policies, or other liabilities may vary, or where the present value of the combined asset, liability, or other cash flows may vary under different economic or interest rate scenarios." Some actuaries interpret this to mean that cash flow testing is the most appropriate form of asset adequacy analysis for VAGLBs. Either stochastic or deterministic scenarios can be used to perform such testing on VAGLBs. Consistent with ASOP 22, the actuary may consider performing sufficiently thorough modeling to satisfy himself/herself that all VAGLB cash flow risks have been adequately measured. In particular, the actuary may want to consider the impact of adverse fund returns for each asset class modeled.

Q14. How are assets selected for the purpose of performing the asset adequacy analysis?

A. According to ASOP 22, paragraph 3.3.1, "the actuary should choose a block of assets such that the book value of those assets is no greater than the book value of the reserve and other liabilities being tested." Some actuaries believe that the selection of assets for this purpose should be consistent with the method used to select assets for the asset adequacy analysis used to support the Actuarial Opinion. For example, if a company has segmented its assets to allocate assets to different product groups for the asset adequacy analysis used to support the Actuarial Opinion, then they also believe that the assets selected to support the asset adequacy analysis as required by the Guideline should be taken from the product segment that includes the VAGLB benefit.

If hedging instruments are purchased to help manage the risk of VAGLBs, some actuaries usually select existing hedging instruments, at their statement value, as the first assets selected before selecting other assets. Only to the extent that these hedging instruments are selected would they include the projected cash settlements (if any) of any such hedges in the asset adequacy analysis.

Q15. How should hedging strategies be incorporated in the asset adequacy analysis?

A: ASOP 7 – *Analysis of Life, Health, or Property/Casualty Insurer Cash Flows*, Section 3.4.2 states that, "[t]he actuary should consider … the insurer's use of derivative contracts, including strategies to mitigate asset, policy, or other liability cash flow risk." Some actuaries believe that it is usually not prudent to include a hedging strategy, other than assets already purchased, unless the strategy is clearly defined and has been approved by the appropriate governance body of the company such as the Board of Directors. The actuary may wish to use the Academy's Life Capital Adequacy Subcommittee December 2002 Report, Recommended Approach for Setting Regulatory Risk-Based Capital Requirements for Variable Products with Guarantees (Excluding Index Guarantees), which is available at www.actuary.org, for more guidance in this area.

Since very few hedging strategies are perfect, some actuaries usually choose to reflect the hedging strategy shortcomings (e.g., basis risk, counter-party nonperformance risk, inability to execute risk, market jump risk) in the asset adequacy analysis.

Q16. How are the scenarios determined for VAGLB asset adequacy analysis?

A: As stated in ASOP 22, Section 3.3.3, the appointed actuary should be satisfied that the assumption bases chosen are appropriate. This may depend on a number of considerations. For example, if there is a significant potential exposure to VAGLB market risk, the actuary may determine that relatively extensive scenario modeling may be necessary. Some actuaries believe that the scenarios generally can be determined using stochastic or deterministic methods, reflecting the impact of market volatility on fund returns and the resulting VAGLB cash flows. One possible method for generating stochastic scenarios is discussed in the paper, A Regime Switching Model of Long-Term Stock Returns by Mary Hardy, published in the April 2001 issue of the *North American Actuarial Journal.* The actuary may wish to use the Academy's Life Capital Adequacy Subcommittee December 2002 Report, Recommended Approach for Setting Regulatory Risk-Based Capital Requirements for Variable Products with Guarantees (Excluding Index Guarantees), which is available at www.actuary.org, for more guidance in this area.

In certain situations, the actuary may decide that conservative simplified testing may be reasonable (e.g., using drops and small recoveries). As stated in ASOP 7, Section 3.10.1, "[t]he actuary should determine whether the scenarios analyzed reflect a range of conditions consistent with the purpose of the analysis of cash flows." One consideration may be the potential exposure for the company. In some cases, the actuary may determine that conservative simplified testing may be all that is needed. However, in other cases, the actuary may determine that stochastic scenarios and modeling will need to be developed.

ASOP 7, Section 3.10.1 also states, "the actuary should consider a sufficient number of scenarios to reasonably represent the underlying variability of the asset, policy, or other liability cash flows." Some actuaries would say that 100 stochastic scenarios are sufficient while another would say that 10,000 are required. One way to test the sufficiency of the number of scenarios is to perform the analysis twice with different sets of stochastic scenarios and evaluate whether the difference in results is material.

Certain VAGLB products contain guaranteed annuitization rates based on a prescribed interest rate and mortality table. Prescribing an interest rate introduces an element of interest rate risk. Some actuaries believe this risk should be explicitly modeled by incorporating fixed interest rates into the scenario generation process. Such an approach may require a greater number of scenarios than if fixed interest rates were not incorporated. Other actuaries believe that it is adequate to simply use a historically conservative (low) interest rate for the purpose of evaluating the cost of the guaranteed payments.

Q17. Should the same tests of materiality be applied in the asset adequacy analysis in Section III(C) of the Guideline as is applied in support of the Actuarial Opinion?

A: ASOP 7, Section 3.7 states that "[t]he actuary may determine that certain asset, policy, or other liability cash flows will not be analyzed if these asset, policy, or other liability cash flows may be reasonably expected not to have a material impact on the overall results. The analysis need not be refined if, in the judgment of the actuary, further refinement would not result in a materially different actuarial opinion, report, or recommendation." In applying this to the asset adequacy analysis required for the VAGLB Reserve under the Guideline, material differences in results would likely be different than for the analyses performed in support of the Actuarial Opinion. Thus, depending on the circumstances, an aspect of the asset adequacy analysis that may be considered immaterial for purposes of supporting the Actuarial Opinion may nonetheless be considered material for the analysis performed under the Guideline.

Q18. Does the VAGLB asset adequacy analysis required by Section III(C) of the Guideline need to be discussed in the Actuarial Memorandum?

A: The revised AOMR adopted by the NAIC in 2001 states in Section 7, paragraph B that the Actuarial Memorandum, "shall demonstrate that the analysis has been done in accordance with the standards for asset adequacy referred to in Section 5D of this regulation and any additional standards under this regulation." The AOMR also requires in that paragraph "identification of any explicit or implied guarantees made by the general account in support of benefits provided through a separate account or under a separate account policy or contract and the methods used by the appointed actuary to provide for the guarantees in the asset adequacy analysis."

The asset adequacy analysis supporting the VAGLB reserve needs to be discussed in the Actuarial Memorandum to the extent the analysis is used to support the company asset adequacy analysis and Actuarial Opinion. ASOP 22 guides the actuary in the use of the analysis in the company asset adequacy analysis. In meeting with Academy representatives, various NAIC regulators have indicated that they would prefer to see the asset adequacy analysis supporting the VAGLB reserve and a description of the reserve basis documented in writing, either in the Actuarial Memorandum or in a separate document.

ASOP 41 – *Actuarial Communications,* guides the actuary when preparing the documentation of the asset adequacy analysis supporting the VAGLB reserve.

Q19. If there are no explicit VAGLB charges, how should VAGLB charges be imputed for the purpose of the asset adequacy analysis supporting the VAGLB reserve?

A: Many actuaries typically use a method consistent with the approach used to determine imputed VAGLB charges, when calculating the VAGLB reserve defined in Section III(A)(2) of the Guideline as described in question Q2.

Q20. How does the actuary use the results of the analysis to determine whether the VAGLB reserve is adequate?

A: According to ASOP 22, paragraph 3.4, the actuary should use professional judgment in determining what considerations apply in judging whether the results from the asset adequacy analysis are satisfactory.

In following these standards, some actuaries will consider whether the reserves being analyzed are adequate under moderately adverse conditions (as suggested by paragraph 3.4.2 of ASOP 22). Where scenario testing is used, this may take the form of reviewing the results at specific percentiles, ranges of percentiles, or both. Where a range is used, such review may involve consideration of not just the magnitude of the results over the range, but also the size of any unfavorable results at the ends (i.e., highest percentiles) of the range.

Paragraph 2.15 of ASOP 22 defines moderately adverse conditions as "[c]onditions that include one or more unfavorable, but not extreme, events that have a reasonable probability of occurring during the testing period." Some actuaries believe that, for VAGLBs, this implies that the percentiles and/or ranges of percentiles that need to be reviewed involve percentiles greater than the 50th percentile of results ranked from most favorable to least favorable. This is due to the risk profile of VAGLBs, where there typically is a probability of high losses under a small number of scenarios.

In addition, some actuaries may include in the determination of reserve adequacy consideration of the results of any sensitivity tests performed on assumptions such as mortality, surrenders, partial withdrawals, fund transfers, and annuitizations.

Q21. If the VAGLB reserve under Section III(A)(2) is increased as a result of the asset adequacy analysis required by Section III(C) of the Guideline, in what section of the annual statement is the reserve increase held?

A: The purpose of the Guideline as stated in Section I is to provide an interpretation of "the standards for the valuation of reserves," and to address "the calculation of reserves for VAGLBs to be held in the General Account." Some actuaries believe that this implies that any reserve increase resulting from the asset adequacy analysis should be combined with the VAGLB reserve defined in Section III(A)(2) and held in the same section of the annual statement reserve exhibit.

Q22. What are some items that need to be considered when modeling VAGLBs?

A: Some actuaries typically consider items such as the following when modeling VAGLBs: lapses, surrenders, withdrawals, interest rate risks, the projection of the net amount at risk, utilization, the valuation of the stream of payments upon GMIB utilization and the projected valuation rate applicable at that time. Some actuaries believe it is preferable if the company's own experience is utilized along with actuarial judgment in setting these assumptions. If the company's experience is not credible, then it may be prudent to add an appropriate level of conservatism.

Q23. Can reserve redundancies from other reserves be used to offset a reserve inadequacy for the VAGLB reserve?

A: The Guideline specifies that the asset adequacy analysis "shall be performed on an aggregate basis for all contracts with VAGLBs." Since the asset adequacy analysis is performed solely for the VAGLB Reserve, it cannot be performed on a combined basis with non-VAGLB reserves *for purposes of compliance with the Guideline.* Therefore, under the Guideline, redundancies from other reserves cannot be used to offset any VAGLB reserve inadequacies.

Q24. How often does the asset adequacy analysis need to be performed?

A: The Guideline requires the asset adequacy analysis to be performed "consistent with the requirements of the NAIC Actuarial Opinion and Memorandum Regulation". The AOMR is "applicable to all annual statements filed with the office of the commissioner." This indicates that the asset adequacy analysis needs to be done no less frequently than annually. Some actuaries believe it is usually appropriate to maintain any reserve amount in excess of the accumulation of charges required by the asset adequacy analysis at that level until the next asset adequacy analysis.

Q25. Is the Asset Adequacy Analysis supporting the VAGLB reserve performed on a ceding company's reserve before or after deduction of the reinsurance reserve credit?

A: The Guideline states, "where the VAGLB is reinsured, the asset adequacy analysis *may* reflect reinsurance." Some actuaries believe that this implies the asset adequacy analysis should be performed on the reserve determined after deduction of the reinsurance reserve credit.

Reinsurance may be reflected in the analysis in many ways. For example, if cash flow testing is performed, reinsurance charges and benefits could be modeled in the projections of cash flow. However, the valuation actuary may have separate reinsurance analyses that have been performed that indicate that no explicit provision for reinsurance is needed, as no increase in the VAGLB reserve would result. The general purpose of asset adequacy analysis is usually to determine if the current statutory reserves (and supporting assets) are sufficient to support the net retained liability.

Appendix A

Reprinted with permission from the National Association of Insurance Commissioners (for purposes of making them available for practitioners)

Life and Health Actuarial Task Force
Conference Call
October 17, 2002

The Life and Health Actuarial Task Force met by conference call on Oct. 17, 2002. A quorum was present and Mike Batte representing Eric P. Serna (NM) chaired the meeting. The following Task Force members were present: Sheldon Summers representing Harry Low (CA); Allen Elstein representing Susan F. Cogswell (CT): Kerry Krantz representing Tom Gallagher (FL); Kevin Fry representing Nathaniel S. Shapo (IL): Blaine Shepherd representing James Bernstein (MN); William Carmello and Dennis Lauzon representing Gregory V. Serio (NY); Frank Stone representing Carroll Fisher (OK); Dana Fulton representing Diane M. Koken (PA); Mike Boerner representing Jose Montemayor (TX); and Tomasz Serbinowski representing Merwin Stewart (UT).

The purpose of the conference call is summarized in this excerpt from the minutes of the Sept. 10, 2002, meeting of the Task Force:

A conference call will be held in mid-October to receive comments on the draft. If no serious objections to the draft are raised, the Task Force expressed a desire to adopt the guideline on that call. Assuming that occurs, the Task Force intends to hold a joint conference call with the Life Insurance and Annuities (A) Committee a month prior to the Winter National Meeting. If the guideline is adopted by the A Committee on the joint call, it is hoped this will permit the Executive/Plenary to consider this matter at the Winter National Meeting.

A copy of the Sept. 10, 2002, draft of Actuarial Guideline MMMM - Reserves for Variable Annuities with Guaranteed Living Benefits is attached to the Sept. 10, 2002, minutes. Correspondence from the following individuals was discussed on the call: Steve Cooperstein (Steve Cooperstein & Affiliates) (Attachment A), Jim Jakielo (Connecticut Department of Insurance) (Attachment B), and Stephen Sedlak (Nationwide Financial) (Attachment C).

Following an extensive discussion, Mr. Krantz moved and Mr. Boerner seconded a motion to adopt the Sept. 10, 2002, draft, subject to the following changes:

- Change the last sentence of Section III.A(1) to read as follows: “For the purpose of determining future revenues and benefits for VAGLBs, a charge should be imputed in the event that there are no explicit VAGLB charges.”

- Change the last paragraph of Section III.B to read as follows: "For companies where VAGLB risk is assumed, the aggregate reserves for contracts with VAGLBs will be the sum of a) the aggregate direct VAGLB charges in proportion to the amount of reinsurance from the issue date of the contract to the effective date of the reinsurance contract and b) gross reinsurance premiums from the effective date of the reinsurance contract to the valuation date for VAGLB benefits in-force (i.e. contracts still in-force and eligible for the VAGLB) and subject to the asset adequacy analysis requirement in subsection C."

- Remove "of Section 6" from the next to last paragraph of Section III.C.

- Add a sentence to the last paragraph of Section III.C as follows: "However, if the inclusion of reinsurance in the asset adequacy analysis would increase the VAGLB reserve, then reinsurance must be reflected in the analysis."

During the discussion, it was noted that the correspondence from Mr. Sedlak raised the following question: How do VAGLBs affect the Actuarial Guidelines 33 and 34 process? Steve Preston (ING), Co-chair of the American Academy of Actuaries VAGLB Work Group stated that, according to the language in Section III.A(1), "you are effectively removing all evidence of a VAGLB. So now you have a product that doesn't have a VAGLB, for all intents and purposes. You go through the (Actuarial Guideline) 33 and 34 process as you would have had you had no VAGLB." Mr. Preston also noted that "there is similar language (in Actuarial Guideline 34) that says to calculate a MGDB reserve, you calculate a reserve with the MGDB and then you do the same thing without the MGDB." He stated that actuaries should not have difficulty in applying Section III.A(1), since they have been applying a similar requirement in Actuarial Guideline 34 for several years. No member of the Task Force expressed disagreement with Mr. Preston's observations.

Mr. Summers asked what impact adoption of this guideline will have on the Codification process. It was reported that the following response had been received from the NAIC staff supporting the Codification process: "The actuarial guidelines are never actually considered by the Statutory Accounting Principles (E) Working Group. Whatever is adopted by the Life and Health Actuarial Task Force through the December meeting is automatically included in the next hard copy publication of the Accounting Practices and Procedures Manual." It was noted that this suggests that Actuarial Guideline MMMM will not be a Codification standard for 2002 financial reporting, even if Actuarial Guideline MMMM is adopted by the Plenary at the Winter National Meeting.

The motion was adopted, with the following states voting "Yes": California, Florida, Illinois, Minnesota, New York, Pennsylvania, and Texas. Utah abstained. New Mexico, in its capacity as chair, did not vote. Connecticut and Oklahoma were not on the call at the time of the vote. (Subsequent to the call, Mr. Elstein requested that it be inserted in the minutes that he was inadvertently cut-off of the call, and that Connecticut would have voted in favor of the motion had it voted.) The adopted model is Attachment D.

Having no further business, the Life and Health Actuarial Task Force adjourned.