AMERICAN ACADEMY *of* ACTUARIES

January 30, 2012

Commissioner Eleanor Kitzman, Chairperson
Joint Working Group of the Life Insurance and Annuities (A) Committee and Financial Condition (E) Committee
National Association of Insurance Commissioners

Dear Commissioner Kitzman:

The American Academy of Actuaries[1] Life Valuation Subcommittee (Subcommittee) appreciates the opportunity to comment on the draft Framework exposed by the NAIC's Joint Working Group of the Life Insurance and Annuities (A) Committee and Financial Condition (E) Committee (Joint Working Group). Since the Academy's Life Practice Council has provided significant input and recommendations pertaining to principle-based reserves (PBR) over the past decade, we approve of the Joint Working Group's consideration of a PBR solution to the current reserving issue for universal life with secondary guarantees and Term UL products.

We are submitting comments to the section of the exposed draft Framework that affects the role of the actuary in determining reserves for in-force business. The draft Framework includes the establishment of a closed block of in-force business where the adequacy of statutory reserves is evaluated using asset adequacy analysis. If asset adequacy analysis forms the basis for evaluating in-force business, then the company's appointed actuary should continue to play a primary role in the calculation and evaluation of these reserves. The role of the appointed actuary and requirements of asset adequacy analyses are well established in the Standard Valuation Law (SVL), the Actuarial Opinion and Memorandum Regulation (AOMR) and Actuarial Standards of Practice (ASOPs). These applicable model acts, regulations and standards enumerate the duties and responsibilities of the company, the appointed actuary and the state insurance commissioner, and include the specific authority available to the commissioner in situations where an actuarial opinion is unacceptable.[2] The appointed actuary is a thoroughly tested concept, having been in place for nearly two decades.

We recognize the goal of the Joint Working Group to establish a common framework for the evaluation of reserves for these products and to provide a means for reviewing the resulting reserves and the overall effort to obtain more consistency between companies and statutory jurisdictions.

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[1] The American Academy of Actuaries is a 17,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

[2] For example, section 3C(2) of the SVL states "If the insurance company fails to provide a supporting memorandum at the request of the commissioner within a period specified by regulation or the commissioner determines that the supporting memorandum provided by the insurance company fails to meet the standards prescribed by the regulations or is otherwise unacceptable to the commissioner, the commissioner may engage a qualified actuary at the expense of the company to review the opinion and the basis for the opinion and prepare the supporting memorandum required by the commissioner."

We believe a structure to do this is currently in place and that structure already includes the appointed actuary. We recommend that the Joint Working Group include this structure in these discussions and in any proposed solution.

In addition, we call to your attention the discussion in the draft Framework concerning the merits of prescribed assumptions. Our intention is not to comment on the merits of using prescribed assumptions in the solution at this time, but we wish to point out that as the amount of prescription increases, the result will become more of a minimum reserve requirement than a required asset adequacy analysis. Should the Joint Working Group decide to make prescribed assumptions part of the solution, this distinction should be recognized.

We appreciate the work of the Joint Working Group and your willingness to consider our input. We will continue to follow the further deliberations of the Joint Working Group and provide input where necessary (e.g., potential federal income tax implications).

Please contact John Meetz, the Academy's life policy analyst (202-223-8196; meetz@actuary.org) if you have any questions or would like to discuss further.

Sincerely,

Alice Fontaine, Chairperson
Life Valuation Subcommittee

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