AMERICAN ACADEMY *of* ACTUARIES

December 13, 2013

Blaine Shepherd
Chair, Separate Account Risk (E) Working Group
National Association of Insurance Commissioners

Dear Blaine:

The Separate Account Products Work Group (SAWG) of the American Academy of Actuaries[1] Life Practice Council appreciates the opportunity to provide comments on the Potential Actions/Recommendations exposed for comment on November 18, 2013 by the Separate Account Risk (E) Working Group (NAIC Working Group).

We offer the following comments on the following two recommendations:

1. Incorporate Suggested Principles for Insulating Separate Account Assets for Non-Variable Products

- The principles seem reasonable, but as with any set of principles, some of the details may need to be worked out before one can be sure that the principles are, in fact, the desired principles. The rest of our comments are provided in that light.
- Item 1.c. says, “Every product should be initially filed with an opinion provided by a qualified actuary as to the sufficiency of the pricing ensuring that the general account is adequately compensated for its provision of guarantees related to the contract liabilities for newly issued business.” It should be made clear that this opinion must cover the charges for the guarantee that assets in the separate account will be insulated. An additional sentence could be added that says, “Such guarantees would include the guarantee that assets in the separate account will be insulated.”
- Item 1.d. says, “For fair value separate accounts, reserves should be calculated to correctly reflect the nature of the liabilities and the underlying assets as well as to the adequacy of the assets, including risk charges, to meet future expected payouts.” We are not sure of the intent of this wording, but we are concerned that it is not completely accurate as it stands, since reserves don’t reflect the adequacy of the assets or risk charges. We suggest this sentence be changed to read, “For fair value separate accounts, reserves should be calculated to correctly reflect the nature of the liabilities and the yield on the assets.”

[1] The American Academy of Actuaries is a 17,500-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. Review and Consider Updating Revisions to SSAP No. 56 and Model #255

- One line in the italicized section following item 2.a., says, "it is emphasized that consideration of whether modified guaranteed annuities products should ever be classified as insulated products is still a topic for discussion." The SAWG believes that the overall policy of whether modified guaranteed annuities (MGAs) should be permitted to be classified as insulated products should be decided first, before considering the recommendations in item 2.a.
- If the NAIC Working Group decides to allow MGAs to be classified as insulated products, the requirement under item 2.a. that, "Recommended revisions would clarify that such transferred assets are non-insulated assets …" could be unworkable. Current practice usually includes transfers back and forth between the general account and the separate account, making implementation complex and confusing. A primary example is the establishment of initial reserves with a CARVM allowance, and the placement of assets in the separate account of only that reserve amount. Transfers into the separate account would then be made to recognize reserve increases resulting from the annual decrease in surrender charges. If these transfers were not insulated it would reduce insulation to an amount less than the premium paid by the purchaser. And even if accounting rules could be developed to reflect the principles laid out in item 1.b., it might be difficult to explain in the policy form. We suggest there is a need for additional discussion on this topic.

We will continue to follow this issue and offer additional comments as appropriate. In the meantime, if you have any questions, please contact John Meetz, the Academy's life policy analyst (202-223-8196; meetz@actuary.org).

Sincerely,

Cande Olsen, FSA, MAAA
Chairperson
Separate Account Products Work Group
American Academy of Actuaries