AMERICAN ACADEMY *of* ACTUARIES

June 2, 2014

Mr. Mike Boerner
Chair, Emerging Actuarial Issues (E) Working Group
National Association of Insurance Commissioners

Dear Mike:

The Life Reinsurance Work Group of the American Academy of Actuaries[1] has reviewed the document entitled "Reinsurance Ceded Interpretation Question," submitted to the Emerging Actuarial Issues Working Group by John MacBain and Carl Harris, and appreciates the opportunity to comment.

For the reasons given below, we agree with the <u>result</u> of the proposed recommendation, but suggest the following revised statement of Recommendation:

> *The gross reserve established pursuant to AG 38, Section 8D, should be reported on a gross basis prior to any adjustment for reinsurance. In addition, the reserve credit for reinsurance on policies subject to AG 38, Section 8D should be calculated using current statutory requirements as stated in SSAP 61. SSAP 61 paragraph 37 states that, "The ceding entities reserve credit and assuming entity's reserve for yearly renewable term reinsurance shall be computed as the one year term mean reserve on the amount of insurance ceded. The ceding entity must use the same mortality and interest bases which were used for valuing the original policy before reinsurance." In complying with the requirement in the final sentence of the quoted language above, the ceding company should use the mortality and interest basis that would be applicable to the basic reserve calculation called for in AG38 Section 8D.a.1.*

Our conclusions are driven, not by theoretical actuarial reasoning about the "right" post-reinsurance reserve amount, but by the language used in the drafting of AG38, Section D, which is on a gross basis only. We believe that the recommendation as rephrased above is justified because AG38, Section 8D, as written, does not give the company access to methods proposed in VM-20 for calculation of the reserve credit for YRT reinsurance, nor does it alter the requirements of SSAP 61 for such reinsurance. Furthermore, some members of our Work Group observe that use of methods proposed in VM-20 for calculation of the reserve credit could result in a post-reinsurance reserve that is lower than the post-reinsurance reserve based on the methodology used for determining the reserve at year-end 2011.

[1] The American Academy of Actuaries is an 18,000-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.

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With regard to the final sentence of the Recommendation, stipulating mortality and interest basis, our Work Group notes that without such a clarification there may be ambiguity in determining the proper mortality and interest basis. This ambiguity exists since the calculation of the Section 8D gross reserve may involve two different sets of mortality and interest assumptions: one set applicable to the basic reserve calculated per Section 8D.a.1 and the other applicable to the modified deterministic reserve calculated per Section 8D.a.2. The Work Group believes that in this case the reserve credit should not differ based on the types of calculations required for the determination of the gross reserve and therefore should be based on current valuation standards for the basic reserve under 8D.a.1.

We thank you for the opportunity to comment on this issue. If you have any questions, please contact Academy Life Policy Analyst John Meetz (202-223-8196; meetz@actuary.org)

Sincerely,

Richard Daillak, FSA, MAAA
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