



AMERICAN ACADEMY *of* ACTUARIES

Interim Report from the Joint American Academy of Actuaries-Society of Actuaries Review Team

Presented to the National Association of Insurance Commissioners' Life and Health Actuarial Task Force

Washington DC – June 2006

The American Academy of Actuaries is a national organization formed in 1965 to bring together, in a single entity, actuaries of all specializations within the United States. A major purpose of the Academy is to act as a public information organization for the profession. Academy committees, task forces and work groups regularly prepare testimony and provide information to Congress and senior federal policy-makers, comment on proposed federal and state regulations, and work closely with the National Association of Insurance Commissioners and state officials on issues related to insurance, pensions and other forms of risk financing. The Academy establishes qualification standards for the actuarial profession in the United States and supports two independent boards. The Actuarial Standards Board promulgates standards of practice for the profession, and the Actuarial Board for Counseling and Discipline helps to ensure high standards of professional conduct are met. The Academy also supports the Joint Committee for the Code of Professional Conduct, which develops standards of conduct for the U.S. actuarial profession.

Joint American Academy of Actuaries-Society of Actuaries Review Team

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The NAIC Life and Health Actuarial Task Force (LHATF) has requested the Joint AAA-SOA Review Team review the ACLI Proposed Preferred Mortality Version of the 2001 CSO Mortality Table (“Preferred Mortality Version of the 2001 CSO Mortality Table”) and “Endorse the tables – with modifications, if necessary – as a reasonable basis for statutory reserves relative to the current 2001 CSO mortality table, if appropriate.”

The ACLI proposed Preferred Mortality Version of the 2001 CSO Mortality Table was constructed using a methodology similar to the methodology used to construct the smoker/non-smoker versions of the 1980 CSO Mortality Table. However, choosing a mortality table from the group of tables classified as the Preferred Mortality Version of the 2001 CSO Mortality Table is based on actuarial judgment and not factually verifiable factors such as gender or smoking status. The objective of this Interim Report is to point out to the Life and Health Actuarial Task Force that a necessary, but not sufficient, condition for evaluating the Preferred Mortality Version of the 2001 CSO Mortality Table as a reasonable basis for statutory reserves is that the principles for the proper use of the tables must be established.

Proper use of the tables extends over many dimensions such as:

- (1) Determining whether (and how) business written under some forms of underwriting (paramedical, non-underwritten, guaranteed issue) could be eligible to be valued using the Preferred Mortality Version of the 2001 CSO Mortality Table,
- (2) determining the scope of products eligible to be valued under the Preferred Mortality Version of the 2001 CSO Mortality Table,
- (3) establishing the principles, requirements and restrictions underlying the actuarial calculations that are suggested for demonstrating proper use of the tables,
- (4) assessing the quality and clarity of professional guidance dealing with demonstrating the appropriateness of the choice of preferred mortality for actuaries tasked with this responsibility, and
- (5) establishing the contents of the actuarial certification and memorandum used to support the choice of Preferred Mortality Version of the 2001 CSO Mortality Table.

The following are a few illustrative questions arising from the items above:

1. If an insurer uses the preferred mortality tables, is an insurer required to use the residual standard mortality table for business not issued on a preferred basis, or can an insurer use the preferred tables for calculating reserves on all new business?
2. Can an actuary use lapse rates for demonstrating the acceptability of the use of a specific preferred mortality table?
3. How “granular” should a demonstration of qualification to use a specific preferred mortality table be? For example, should demonstration of qualification be on policy form basis, gender basis, policy size groupings? Should the demonstrations follow a cohort of business?
4. Can experience from business issued prior to the use of the preferred mortality tables be used to demonstrate qualification for use of preferred tables for new business? If “yes”, is the use of such experience limited to situations where all such business is written using exactly the same underwriting rules? Can business written under different underwriting rules be aggregated? If “yes”, what adjustments to the experience, if any, are necessary?
5. What is an acceptable basis for anticipated mortality? Can the direct writer of business utilize information from a reinsurer? What is acceptable practice when experience is available for early policy durations but not all policy durations?
6. Should demonstrations of qualification be performed net of reinsurance?
7. Must the reinsurer of a block of business with direct writer reserves based on the Preferred Mortality Version of the 2001 CSO Mortality Table use the same table as the direct writer of the business?
8. What table is used if a block of business fails to qualify for the use of preferred mortality table after previously qualifying?

The Joint AAA-SOA Review Team recommends that the NAIC Life and Health Actuarial Task Force evaluate the issues surrounding the proper use of the ACLI Proposed Preferred Mortality Version of the 2001 CSO Mortality Table and work towards reaching a consensus view concerning the issues discussed above and other relevant issues. The Life and Health Actuarial Task Force may wish to solicit input from the Society of Actuaries, the American Academy of Actuaries and the Actuarial Standards Board on tasks such as developing language for an actuarial certification and an Actuarial Standard of Practice and/or an Actuarial Practice Note.