



AMERICAN ACADEMY *of* ACTUARIES

Summary of Changes to Model Regulation and Actuarial Guidelines Principles-based Reserve for Life Products from the American Academy of Actuaries' Life Reserves Work Group

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

Washington, DC - June 2006

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The LRWG has continued to refine and modify the principles-based reserving approach for life products since the proposed Model Regulation and proposed Actuarial Guidelines were exposed for comment in December of 2005. These changes have been reflected in the revised documents that are attached. Also, the LRWG has received several suggested changes from regulators and interested parties that have been reflected in these revised drafts.

The LRWG is requesting that LHATF expose for comment these updated drafts at the June LHATF meeting.

The focus of this update has been on the Model Regulation. With a few exceptions, there have been only minor changes to the three Actuarial Guidelines to clarify existing wording and to make the guidelines consistent with the changes made to the Model Regulation (for example, to reflect the shift of an item from the guideline to the Model Regulation). Over the next few months the LRWG intends to perform a more rigorous review of changes needed to the three guidelines.

A summary of the major changes since the December drafts are listed below, along with the location of the change in the respective documents:

Model Regulation

Major changes:

1. Defined the approach to project asset cash flows on General Account equity investments. Section 7.C.3.b. and Section 7.E.
2. Added the considerations needed to reflect the special aspects of variable products. Section 7.C.2.b. and Section 7.G.3. and Section 7.H.5.
3. Added the option to perform reserve calculations on a date that precedes the valuation date. Section 7.A.3.
4. Expanded and clarified the approach to select the interest rate and equity return scenarios for stochastic modeling (which includes the option of “Predetermined Scenario Sets” to provide an alternative for companies to reduce the number of required Scenarios). Section 7.D.2.
5. Added a requirement for companies to annually submit results of experience studies. Section 9.
6. Definition of “Principles-based” has been updated to match the Academy’s definition that will be used for all products. Section 1.C.
7. Definition of “Prudent Best Estimate” has been updated to match the Academy’s definition that will be used for all products. Section 5.S. and Section 7.B.1.
8. Disclosure of the impact of aggregation is now required. Section 7.H.8.
9. Disclosure of an estimate of the aggregate assumption Margin is now required. Section 7.B.2.
10. Disclosure of embedded spread over Treasuries on starting assets is now required. Section 7.C.4.
11. A prescribed cap shall be imposed on the aggregate weighted average spread over Treasuries on reinvestment assets. Section 7.C.5.

Other changes:

12. Enhancements made to clarify the inclusion of combination policies in scope. Section 3.1.g.
13. The following items were added to the Definition section in Section 5:
 - a. Actuarial Report
 - b. Independent Reviewer
 - c. Predetermined Scenario Sets
14. The items to include in the Actuarial Report were expanded, and were moved from the guideline (AG DIS) to the Model Regulation. Section 6.B.1.

15. Added the requirement that the Actuarial Report be treated as confidential information. Section 6.B.3.
16. Added a requirement that the starting asset amount shall not be less than a prescribed percentage of the final Reported Reserve.
17. Clarified that the modeling of hedges is permitted for both the Deterministic Reserve and the Stochastic Reserve. Section 7.E.6.
18. Clarified that the path of Net Asset Earned Rates will exclude Separate Account investment returns (i.e. only based on investment returns of General Account assets). Section 7.F.1.
19. Clarified that the Stochastic Reserve shall include the deterministic reserves for all policies subject to the stochastic modeling exclusion.

Actuarial Guideline AG DIS

1. A test of the reliability of the Discounts Rates was added. Section III.C.
2. Items moved to the Model Regulation:
 - a. Disclosure of estimate of aggregate assumption Margin.
 - b. Disclosure of impact of aggregation on the Reported Reserve.
 - c. Disclosure of embedded spread in starting assets.

Actuarial Guideline AG MAR

Requirements for selecting Scenarios for cash flow model expanded to be consistent with Model Regulation.

Actuarial Guideline AG PBR Only minor wording changes.