



AMERICAN ACADEMY *of* ACTUARIES

**Summary of Changes to the September 2006 AG VACARVM Exposure
from the American Academy of Actuaries' Variable Annuity Reserve Work Group**

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

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Variable Annuity Reserve Work Group

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Proposed Changes to the September 2006 Exposure of AG VACARVM

Items assumed to be OK with the VARWG (unless someone raises the item for more discussion)

1. throughout the document – changing “Prudent Best Estimate” to “Prudent Estimate” and “Best Estimate” to “Anticipated Experience”
2. pg 2 – Section I – changing “normal” to “standard normal”
3. pg 3 – Section I – addition of a footnote (#3) to Principle 3
The intent of Principle 3 is to describe the conceptual framework for setting assumptions. Appendix 9 provides the requirements and guidance for setting contractholder behavior and includes alternatives to this framework if the actuary is unable to fully apply this principle.
4. pg 6 – Section III(B)5) – Working Reserve – the VARWG decided not to recommend a change at this time
5. pg 6 – Section III(B)8) – Definition of Anticipated Experience changed from “. . . the actuary’s most reasonable estimate . . .” to “. . . the actuary’s reasonable estimate . . .”
6. pg 7 – Section IV(B), pg 17 – Section A2.1(B), and pg 21 – Section A3.3(B) – changing reference to meeting the requirements of the NAIC model reinsurance regulation to meeting the requirements for statutory accounting as reinsurance
7. pg 10 – Section A1.1.E)1) – removal of “and controlled” and addition of a foot note (#8) clarifying the intent of the term “received”
For purposes of this section, Net Revenue Sharing Income is considered to be received by the company if it is paid directly to the company through a contractual agreement with either the entity providing the Net Revenue Sharing Income or an affiliated company that receives the Net Revenue Sharing Income. Net Revenue Sharing Income would also be considered to be received, if it is paid to a subsidiary that is owned by the company and if 100% of the statutory income from that subsidiary is reported as statutory income of the company. In this case the actuary needs to assess the likelihood that future Net Revenue Sharing Income is reduced due to the statutory income of the subsidiary being less than future Net Revenue Sharing Income received.
8. pg 11 – Section A1.1.E) – addition of a discussion on alternative ideas on Revenue Sharing raised by others, including members of the LHATF VACARVM subgroup (not part of the Guideline and not a recommendation)
9. pg 16 – Section A1.6) – change to language on relationship to C3 Phase II (“two major differences” was changed to “several differences . . . and among them are two major differences”
10. pg 19 – Section A3.1(B)2) – clarification of guarantee duration used to determine *DR* within the Standard Scenario and deletion of the 50 bps reduction to the statutorily-derived valuation rate.
11. pg 21 – Section A3.3(B) – language clarifying reinsurance that is “too restrictive” within the Standard Scenario
12. pg 23 – Section A3.3(C)3) – addition of an “(“ that was inadvertently omitted
13. pg 24 – Section A3.3(C)7) – note asking for guidance on what is meant by “Guaranteed Maturity Annuity Benefit”
14. pg 25 – Section A3.3(D)1) – changes to the discount rate to be used in the calculation of the value of Aggregate reinsurance within the Standard Scenario that will allow the discount rate to be more consistent with the valuation rate used to calculate the Standard Scenario Amount for the underlying contracts
15. pg 25 – Section A3.3(D)2) – changes to the rate used to discount the value of approved hedges within the Standard Scenario from a five-year CMT to a one-year CMT, which is more consistent with the approach of using the projected value of the approved hedges one year after the valuation date
16. pg 26 – Section A3.3(D)3) – changes to the allocation of the value of hedges and the value of Aggregate reinsurance to clarify that the allocation is made only to those contracts that are supported by approved hedges and/or Aggregate reinsurance agreements
17. pg 30 – Section A4.1(E) – changes to language used in the description of CA under the Alternative Methodology
18. pg 55 – Section A8.3(D)2)h) – addition to the memorandum of the VAGLB lapse and withdrawal information required by Section A9.7)
19. pgs 57-60 – Sections A9.2) through A9.7) – changes to Appendix 9
 - a. pg 57 – Section A9.1) – deletion of “only to the extent justified by experience”

- b. pg 57 – Section A9.2) – addition of language clarifying the use of aggregate vs. individual margins
- c. pg 58 – Section A9.3) – clarification of the use of sensitivity testing in the setting of contractholder behavior assumptions
- d. pg 59 – Section A9.4) – clarification of guidance and requirements regarding situations where relevant and fully credible experience does not exist, including the removal of multiple occurrences of very similar guidance
- e. pg 59 – Section A9.5) – clarification of guidance and requirements regarding dynamic assumptions
- f. pg 59 – Section A9.6) – addition of term “approximately”
- g. pg 60 – Section A9.7) – clarification of the memorandum section dealing with lapse and utilization assumptions for guaranteed living benefits, including language that clarifies the confidentiality of the section if it is provided to the Domiciliary Commissioner on a standalone basis