

NAIC Update

ACSW Spring Meeting 2003

Michelle Gibbs

June 19, 2003

Topics

- 2001 CSO
- Actuarial Guideline AXXX
- Codification
- Actuarial Opinion and Memorandum Regulation (AOMR)
- Annuity Nonforfeiture
- General Nonforfeiture
- Risk Based Capital C3 – Phase II
- Variable Annuities with Guaranteed Living Benefits (VAGLBs)
- Other Life Insurance Issues
- Health Insurance

2001 CSO Update

- Mandatory effective date is 1/1/2009
- Texas was first to adopt effective: 5/1/2003
- Utah has also adopted effective: 6/13/2003
- States planning to adopt:
 - Arizona
 - Arkansas
 - California
 - Colorado
 - Illinois
 - Indiana
 - Kentucky
 - Louisiana
 - New Hampshire
 - North Carolina
 - North Dakota
 - Oklahoma
 - Oregon
 - Pennsylvania
 - Washington
 - Vermont

Actuarial Guideline AXXX

- Closes perceived loopholes in Model Regulation XXX
- Eight product designs targeted
- First six not controversial
- Seventh clarifies reserves for premium catch up provisions
- Eighth addresses guarantees that stay in force as long as the accumulation of premiums paid satisfy the no lapse guarantee requirement
- Items 1-7 effective retroactively with XXX; 8 effective at the latest of XXX and 1/1/2003

Codification

- Desire to create comprehensive guide
- Added into the NAIC Accounting Practices and Procedures Manual
- Most states incorporate the Manual directly into their life insurance laws
- Codification was automatic
- Effective year end 2002

Actuarial Opinion and Memorandum Regulation (AOMR)

- Codification adopted revisions to AOMR
- States allowed to accept opinions based on company's state of domicile rules
- Requires disclosure of amounts of reserves that would have been required had asset adequacy testing been performed

Actuarial Opinion and Memorandum Regulation (AOMR)

How do you know how much reserves are needed without performing the testing?

Actuarial Opinion and Memorandum Regulation (AOMR)

- Required all companies perform asset adequacy testing (essentially eliminated Section 7 opinions)
- LHATF clarified what was meant
- If the difference in the reserves would have a material impact for business issued in the last 2 years, asset adequacy testing should be performed
- Effective starting year end 2002 ?

Actuarial Opinion and Memorandum Regulation (AOMR)

- Existing laws supersede
- Individual states must adopt the revised AOMR
- To date, only Florida has adopted to be effective during 2003
- Most expected to adopt by 2004

Annuity Nonforfeiture

- New model law for annuity nonforfeiture interest rates
- Adoption will likely be soon
- Many states have passed emergency regulations
- Minimum rate allowed to be reduced to 125 bps less than 5 year CMT Treasury
- Under current environment, nonforfeiture rates would be below 1.5%
- Loads on SPDAs increased to 12.5% from 10% to equal FPDAs
- Eliminates ability for companies to make SPDAs look like FPDAs to attain higher first year expense charges

General Nonforfeiture

- New products constantly challenge nonforfeiture laws
- Regulators don't want to limit products that consumers want
- Need to ensure consumers understand the products they are buying

General Nonforfeiture

- Less nonforfeiture requirements
- More disclosure requirements
- Regulators agree on concepts:
 - Retrospective design
 - Minimum benefit
 - Cash values
 - Control over nonguaranteed elements

RBC C-3 Phase II

- Goal to provide better approach than factors
- Expected to be effective year end 2004
- Work Group recommends a modified conditional tail expectation (CTE) measure
- Only for variable annuities
- RBC is equal to the 90 CTE value plus starting liabilities less reserve
- Uses best estimate assumptions

Conditional Tail Expectation (CTE) Example

- Run projections for 100 scenarios
- Calculate the PV of accumulated surplus for each scenario
- Take bottom 10 (lowest PV)
- For any answers that are positive, set to 0
- Take average of these 10 values
- Equals the 90 modified CTE

VAGLBs

- Variable annuities with guaranteed living benefits
- Deferred and immediate
- Minimum accumulation benefits, minimum income benefits
- Considering reserve changes to be consistent with RBC for living benefit portion of reserve
- Would be based on CTE methodology
- Would emphasize adverse economic environments

Additional Life Insurance and Annuity Topics

- Proposed Model Regulation XYZ defines minimum cash values for universal life products with secondary guarantees
 - Postponed
- Proposed Actuarial Guideline for Reserves for GICs with Bailouts
 - Exposed; expected to be adopted soon

Health Insurance

- Long Term Care
- Credit Insurance
- Health Actuarial Certification Changes
- Experience Rating for Individual Medical Insurance