

NAIC UPDATE

The Actuaries' Club of the Southwest

Douglas C. Doll

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This document is incomplete without the accompanying discussion; it is confidential and intended solely for the information and benefit of the immediate recipient hereof.

Life and Health Actuarial Task Force (LHATF)

- LHATF currently has 18 members, including Arkansas, New Mexico, Oklahoma and Texas
 - Chaired by Leslie Jones (South Carolina)
- Supported by A&H Working Group
 - Chaired by Julia Philips (Minnesota)
- Official charges updated annually
- Matters can be followed via
 - Annual subscription to monthly mailings
 - Email notification of conference calls/handouts
 - Drafts of acts/regulations on NAIC website
 - Academy reports to NAIC

C-3 Phase II

- This is both RBC and reserves for VAs
- RBC has been delayed until 2005 – they could not finish in time
- Holdups
 - Standard scenario
 - Mortality assumption
 - Hedging
 - Transition/smoothing

C-3 Phase II (continued)

- Capital Adequacy Task Force exposed the following
 - Academy's recommendations
 - June 3 version of standard scenario
 - ACLI April 26 letter on smoothing/transition
 - Alternative factors using 100% MGDB mortality
- LHATF exposed
 - Actuarial guideline for reserves
- Conference calls to discuss oversight/validation

Annuity Nonforfeiture Law and Regulation

- Law adopted March 2003
 - Guaranteed minimum 5-year Treasury less 1.25%, and between 1.00% and 3.00%
 - EIAs get up to 1.00% less, but same cap/floor
- Regulations being drafted
 - Changing method
 - EIA reduction
 - Value triggered method – yes
 - Premium buckets – not yet
- Reserve guideline

General Nonforfeiture Project

- This project is 18 years old!
- In March 2004, LHATF affirmed a desire to pursue a broad revision
- The Academy plans to develop a “Non-Guaranteed Element Plan Blueprint”
- The ACLI plans to actively oppose restrictions on non-guaranteed elements

Revisions to the Standard Valuation Law

- LHATF had been considering patch work changes, e.g., deficiency reserves
- Recently asked Academy for comprehensive proposal
- Academy is taking a broad “three pillar” view
 - Technical reserves and capital
 - Regulatory oversight
 - Disclosure
- Academy will present possible framework in September
- Also discussed: replace states’ laws with NAIC centralized reserve requirements (like RBC)

Actuarial Guideline 38 (“AXXX”)

- There are UL products with secondary guarantees designed in such a way that the formula reserves in AXXX are less than traditional designs
- This became an issue in March as result of presentations/rumors
- LHATF now has “smoking gun” and is upset – wants to enforce spirit of AXXX
- Possible actions
 - Letter to all states to enforce
 - Bring to attention of ABCD
 - Will not change AXXX

Deletion or Amendments to Various Models

- Will modify VA and MGA model regulations
- Considering deletion of interest-indexed annuity model regulation

2005 GRET

- Society of Actuaries updated GRET factors using 2003 annual statement data
- Approximate changes from 2003 GRET
 - Branch office – increase 15%
 - Home service – decrease 3%
 - Direct marketing – increase 75%
 - Other – decrease 6%

A&H Working Group Issues

- Life/health blank reporting consistency
 - Certain changes exposed for comment
- Premium deficiency reserves
 - Will discuss why required and how calculated
- 1985 Cancer Claims Cost Table review
 - Society of Actuaries will create a new table
- Long-Term Care/Medicare Supplement
 - See subsequent slides

Long-Term Care

- Model reserve regulation revised last December
 - Included minimum standards for mortality and lapse
- Long-Term Care Working Group Issues
 - In response to request from Long-Term Care Working Group, are addressing several issues
 - Most will simply require changes to regulation guidance manual
 - Higher nonforfeiture for limited pay?
 - ACLI supports guidance manual, not law change

Medicare Supplement Premium Refund/HRI Impact Project

- Starting 2006, many people may opt out of prescription drug benefits and elect Medicare benefits
- Large “lapse” may trigger premium refunds – a fix is being considered
- Principles are needed for adjusting future premium rates – will plan to do this by December

Rate Filing Task Force

- Academy Task Force working since late 1999 on redraft of Guidelines for Filing of Rates for Individual Health Insurance Forms
- Two major issues
 - Closed block problem
 - Making the individual health market more attractive
- May 12 report represents thousands of hours of work
 - Detailed report
 - Computer model of major medical market

Rate Filing Task Force (continued)

- Four alternative solutions to closed block problem
 - Individual medical pooling
 - Prefunding
 - Inter-block subsidy – durational pooling
 - Inter-block subsidy – rate compression
- LHATF to use model to evaluate proposals and make recommendations

NAIC Meetings

- Held quarterly
- LHATF meetings typically are Thursday/Friday prior to official meeting; therefore, are free
- Official meeting typically Saturday through Tuesday
- \$500 registration fee, but can attend one session for free
- Upcoming meetings in Southwest
 - December 2004 – New Orleans
 - September 2005 – New Orleans
 - December 2006 – San Antonio