



## NAIC Fall Meeting in Atlanta

# LHATF Shines Light on "Shadow Accounts"

## 1999 Regulation XXX No Loopholes Here!

The Life and Health Actuarial (Technical) Task Force (LHATF) at the fall meeting in Atlanta discussed Regulation XXX and the potential loophole some companies were hoping to exploit. Their examination of Regulation XXX found no such loophole and any product under

Regulation XXX is clearly required to reserve properly for long-term guarantees in the spirit of XXX. The use of "Shadow Accounts" was then discussed. While a product having a "Shadow Account" would still be acceptable, the use of the "Shadow Account" to calculate the reserves is not. Any product issued under Regulation XXX must exhibit the traditional "humpback" pattern of reserves.

Larry Gorski (Illinois) then told the other regulators of wording used in a product in Illinois. The language sounded acceptable but on closer inspection it was an attempt to avoid adequate reserves. All Regulators have agreed that companies will not be allowed to use creative methods to avoid adequate reserves and they will share information with each other when they encounter a company trying to circumvent Regulation XXX.

## SVL Update

The LHATF discussed the changes to the Standard Valuation Law (SVL) pursuant to the Regulatory Confidentiality Initiative. These changes were exposed to industry several months ago and there has been no response. It was moved and adopted to send the changes to the "A" Committee.

## AOMR Update

The LHATF reviewed the redline draft which was finalized at the interim meeting in Kansas City in August. The issues were revisited which had been changed or removed from the previous versions of the draft. In the redline version the new State of Domicile language is incorporated into the draft. It was moved to expose the redline draft to industry for comments with plans to approve it at the winter meeting in San Francisco. A conference call is planned to review the comments before the meeting in December.

## GIC Bailout Update

The AAA Guaranteed Investment Contracts (GIC's) with Credit Rating Downgrade Provisions Working Group presented their preliminary report to the LHATF. The Working Group felt bailouts triggered by insurer downgrades are a risk management issue. There are also several liquidity issues which the Working Group needs to address.

A conference call was set up to look into the issue of insurance companies developing investment products with GIC's.

A motion was passed to have the "A" Committee look into the public policy issues of GIC's with credit rating downgrade provisions.

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## NF-ZZZ Update

The AAA Equity Indexed Products Nonforfeiture Working Group reported on the status of proposed Actuarial [Guideline NF-ZZZ](#). The issue yet to be decided is the proper treatment of excess interest declared on equity indexed annuities. There are four different methods which are being considered. The third or "Option C" which states, "statutory minimum values are not affected by excess interest credits" seems to be the most popular option.

[Sheldon Summers \(California\)](#) has suggested a possible fifth option. At renewal require that the statutory minimum values for continuing policyholders during the renewal and any subsequent renewal periods be as great as that for new policyholders. [Steve Preston \(American Academy of Actuaries\)](#) has been asked to look into this fifth definition and report back.

## XYZ Update

The Innovative Products Working Group of the LHATF discussed [Frank Dino's \(Florida\)](#) proposed [Guideline XYZ](#) addressing nonforfeiture values for universal life policies with secondary guarantees. After the discussion it was decided to revise the draft and present it at the winter meeting in San Francisco.

A motion was approved to let Frank Dino (Florida) expand the issues involved to principles and not limit the scope only to universal life products.

## ZZZZ Update

The AAA Equity Indexed Universal Life Working Group presented their report on The Application of the Commissioners Reserve Valuation Method (CRVM) to Equity Indexed Life Insurance Policies.

The LHATF will hold the report on [Guideline ZZZZ](#) for review.

## VAGLB Update

The AAA Variable Annuities with Living Benefits (VAGLB's) Working Group reported on their progress. The "Keel" method while it seems to work well for some groups doesn't work for other groups. The data was tried with different time intervals and 38 years yielded the best curve from the data.

A conference call will be set up to further discuss this topic.

## UVS Update

The AAA Unified Valuation System (UVS) Task Force reported to the LHATF on their progress. They covered some examples of how values would differ under the current statutory system and the new UVS. The UVS Task Force will continue to meet monthly to work on the many issues involved in finalizing the UVS.

## SNFL Update

The LHATF discussed the new Standard Non Forfeiture Law (SNFL) and coordinating the tables so companies could not pick which table they would use. This would help eliminate the possibility of companies choosing a table to penalize customers.

Another issue discussed was how much regulation there should be on group plans.

The work on the new SNFL will continue and has become even more important with the possibility of the new CSO mortality table.

## New DI Tables

The Accident & Health Working Group discussed the new tables for Individual Disability Income Policies. It was decided that no changes to the tables would be made until they receive the report from the Group Disability Income Working Group.

## Accident & Health Rate Filing Guideline

The Accident & Health Working Group discussed the Rate Filing Guideline and the issue of companies using a large one-time loss to justify increasing their future rates.

The Working Group is planning to conduct an e-mail discussion followed up with a conference call about three weeks prior to the winter meeting in San Francisco.

## LTC Rate Adequacy

The Accident & Health Working Group discussed the issue of Long-Term Care Rate Adequacy. It was decided to divide this issue into subgroups to better work on these areas. [Tom Foley \(Kansas\)](#), [Frank Dino \(Florida\)](#), and [Julia Philips \(Minnesota\)](#) have volunteered to look into this issue of setting up the subcommittees.

## Medical Supplement Compliance Manual

The National Association of Insurance Commissioners (NAIC) staff presented a draft copy of a Medical Supplement Compliance Manual to the LHATF for discussion purposes. The draft will be studied by regulators and industry and details will be worked on in future meetings.

## Health Reserves

## Guidance Manual

The AAA Health Reserves Guidance Manual Working Group presented the latest draft of the manual which includes revisions from the interim meeting held in Kansas City this August. Regulators will study the manual and discuss it at a later date when time allows.

## New CSO Table

The Society of Actuaries (SOA) CSO Task Force presented their plan for the new CSO Tables they are trying to create. In the spring of 2000 they will have the tables from the '90 - '95 study.

The Task Force plans to produce for the LHATF.

1. The experience table.
2. A paper on how to reflect company experience.
3. A paper discussing a formula version of the experience table.

The time line for the project has been established:

- Set the structure of the table by the 2<sup>nd</sup> quarter 2000.
- Finalize research by the 3<sup>rd</sup> quarter 2000.
- Draft version of the table and the paper on the formula by the 4<sup>th</sup> quarter 2000.

Some questions the Task Force will be looking to answer are:

- How would this table be used?
- Would it replace CSO 1980 or could a company choose between the two tables?
- Which issues will be involved with the new table?
- Which of these issues should be addressed by the SOA and which should be addressed by the LHATF?

It was decided that as these issues are defined the LHATF should proceed on their issues and not wait until the experience table has been completed.

## XXXX Update

The Variable Life (VL) Reserves Working Group made a presentation to the LHATF on proper reserving for Universal and Variable Life products under XXX. The Working Group will now finish the report and present it at a future meeting.

## Med Sup Issue Paper

The American Academy of Actuaries (AAA) reported that everything is on schedule to present their Medical Supplement Issue Paper at the winter meeting in San Francisco.

### Now Available!!!

#### XXX Handbook

A new reference book, written by **James Van Elsen**, on the new XXX regulation. Only \$350 plus s&h.

#### XXX Spreadsheet

This Excel spreadsheet will calculate reserves for the new XXX regulation. It can also calculate New York Regulation 147, 1995 XXX, unitary, and segmented reserves. Extremely flexible input allows you to calculate factors for profit studies and valuation programs. Only \$250 plus s&h.

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## Fathers' Corner

**Jim** - Sarah is conquering yet another sport, bowling. Never doing anything halfway, this summer Sarah and her partner won **First Place in the Iowa Games** in the 11-year-old and younger age bracket.

To keep the edge on her game she is

currently participating in four leagues. Sarah passed a bowling milestone this summer breaking the 200 barrier as she bowled a 201.

Her partner in two of these leagues is her grandfather, who took up bowling at age 81. One big advantage of taking up bowling at 81 versus taking up golf at 81 is it is much easier to bowl your age than to golf your age.

**Terry** - We are finding out that what my old economics professor said was true. He asked if any of us had heard of "TANSTAAFL?" As we would later learn, this means, "There Ain't No Such Thing As A Free Lunch." You would be surprised, or maybe not, just how much you can spend on a \$5 horse. Since the start of the school year they have not had the chance to go and see her every day like they could do this summer. Next spring, however, the fun will start as "BJ" will be old enough to break so the girls can ride her.

With fall here, my daughters, like all other 12-year-olds girls, have turned their thoughts to FOOTBALL. Yes, it is time for 5<sup>th</sup> and 6<sup>th</sup> grade YMCA flag football. In one game Erin ran a kickoff back for a **touchdown** and Megan ran for **two touchdowns** off of halfback passes. They picked the week I was at the NAIC meeting in Atlanta to do this, so I missed seeing it!

Their team is the **Broncos** (which didn't really thrill them because they are both **BIG Chiefs fans**) and they have only lost one game this year. This week they play the **Cowboys**, the only unbeaten team (until the play us). Then the season is over and we all go into withdrawal until basketball season starts.

The girls drive my wife Lori crazy. She shakes her head as the girls and I watch football games together on Sundays. Lori, who wanted daughters, calls Erin & Megan the sons she never had.

# Annuity 2000 Update

## States Expected to Have 1/1/2000 or Earlier Effective Date (26 States)

- |             |            |              |               |
|-------------|------------|--------------|---------------|
| Alabama     | Illinois   | New York     | Utah          |
| Alaska      | Iowa       | North Dakota | Virginia      |
| Arkansas    | Louisiana  | Ohio         | Washington    |
| California  | Minnesota  | Oklahoma     | West Virginia |
| Connecticut | Nebraska   | Oregon       | Wisconsin     |
| Delaware    | Nevada     | Pennsylvania |               |
| Florida     | New Mexico | Rhode Island |               |

## States Consideration Adoption (9 States & DC)

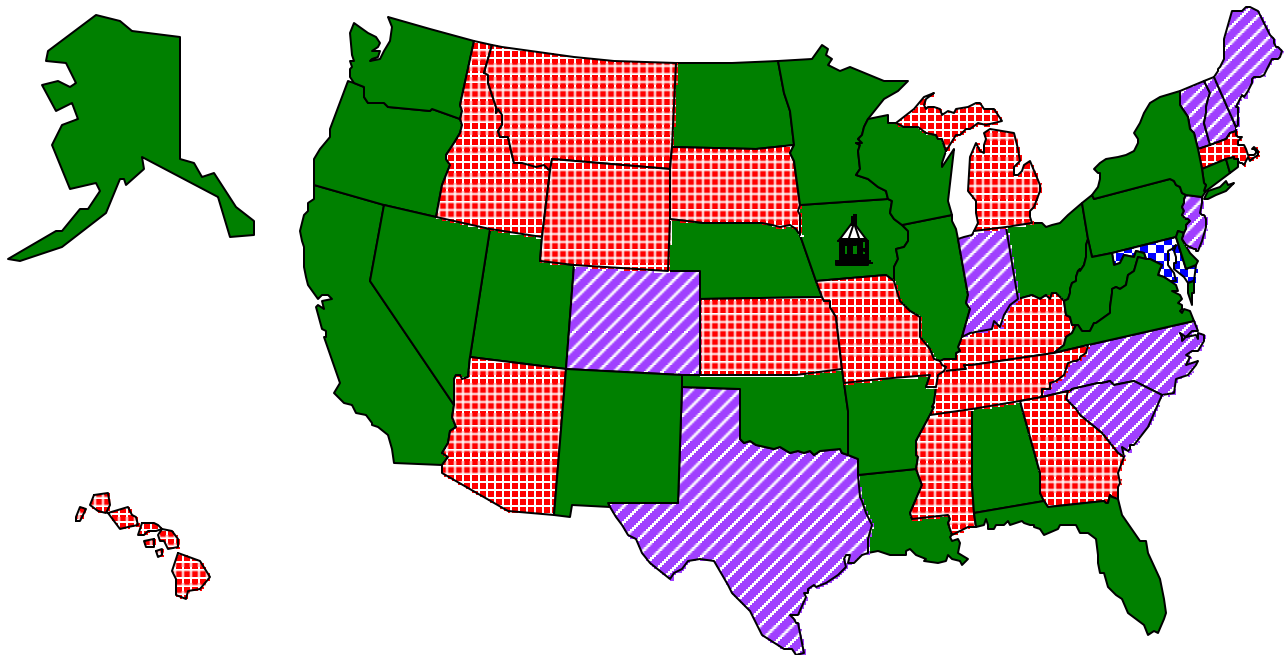
- |                      |               |                |         |
|----------------------|---------------|----------------|---------|
| Colorado             | Maine         | North Carolina | Vermont |
| District of Columbia | New Hampshire | South Carolina |         |
| Indiana              | New Jersey    | Texas          |         |

## States Not Regulated (1 State)

- Maryland

## States Not Planning Action (14 States)

- |         |               |             |              |
|---------|---------------|-------------|--------------|
| Arizona | Kansas        | Mississippi | South Dakota |
| Georgia | Kentucky      | Missouri    | Tennessee    |
| Hawaii  | Massachusetts | Montana     | Wyoming      |
| Idaho   | Michigan      |             |              |



# XXX Update

## States Likely to Adopt XXX Effective 1/1/2000 (25 States)

Arizona	Kansas	New Mexico	Pennsylvania
Arkansas	Maine	New York	Texas
California	Minnesota	North Carolina	Utah
Colorado	Montana	North Dakota	Vermont
Illinois	Nebraska	Ohio	Virginia
Indiana	Nevada	Oklahoma	Wisconsin
Iowa			

## States Under Active Review of XXX (12 States)

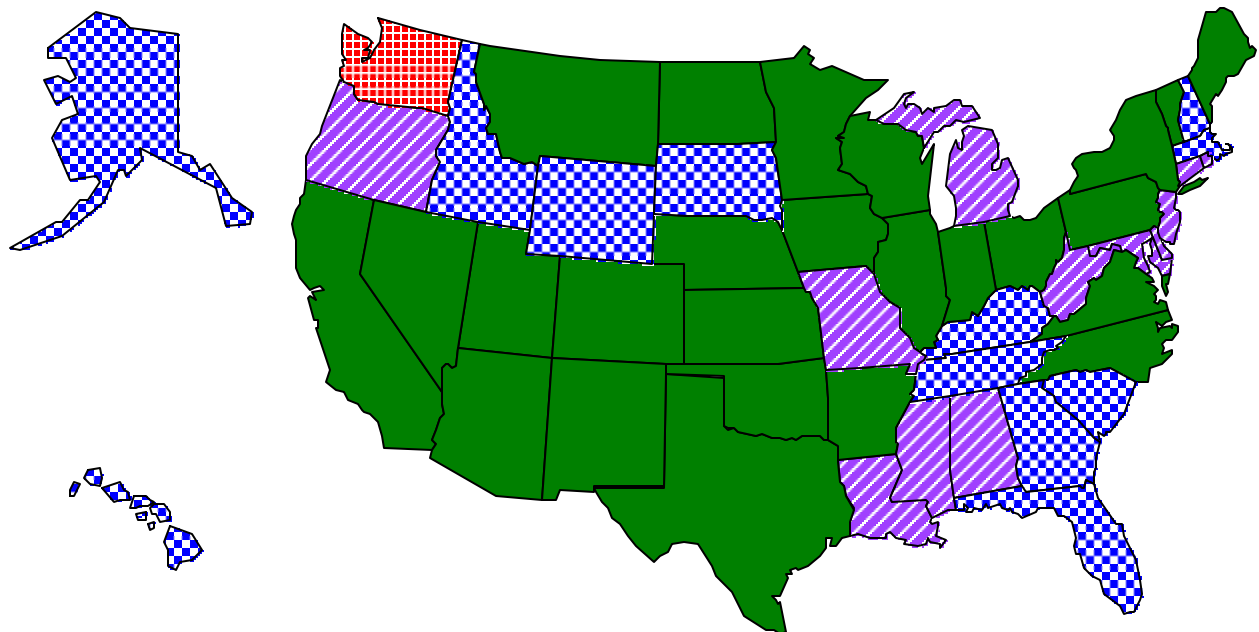
Alabama	Louisiana	Mississippi	Oregon
Connecticut	Maryland	Missouri	Rhode Island
Delaware	Michigan	New Jersey	West Virginia

## States Without a Current Position on XXX (12 States & DC)

Alaska	Hawaii	Massachusetts	South Dakota
District of Columbia	Idaho	New Hampshire	Tennessee
Florida	Kentucky	South Carolina	Wyoming
Georgia			

## States With Adverse Positions on XXX (1 State)

Washington Department making decision very soon as to direction to take. Options of action are 1) take no action, 2) move forward with NAIC model, 3) or move forward with the drafted version that does not contain the X factor.



# Illustration Regulation Update

## States Expected to be Effective on Or Before 9/1/1999 (32 States)

- |             |             |                |                |
|-------------|-------------|----------------|----------------|
| Alabama     | Kansas      | New Jersey     | Pennsylvania   |
| Alaska      | Louisiana   | New Mexico     | Rhode Island   |
| California  | Maryland    | New York       | South Carolina |
| Colorado    | Michigan    | North Carolina | South Dakota   |
| Connecticut | Mississippi | North Dakota   | Utah           |
| Delaware    | Missouri    | Ohio           | Vermont        |
| Illinois    | Nebraska    | Oklahoma       | Washington     |
| Iowa        | Nevada      | Oregon         | Wisconsin      |

## States Moving to Adopt (5 States)

- |         |         |               |       |
|---------|---------|---------------|-------|
| Indiana | Montana | New Hampshire | Texas |
| Maine   |         |               |       |

## States On Hold (8 States & DC)

- |                      |               |           |          |
|----------------------|---------------|-----------|----------|
| District of Columbia | Kentucky      | Minnesota | Virginia |
| Florida              | Massachusetts | Tennessee | Wyoming  |
| Hawaii               |               |           |          |

## States With No Plans To Adopt (5 States)

- |          |         |       |               |
|----------|---------|-------|---------------|
| Arizona  | Georgia | Idaho | West Virginia |
| Arkansas |         |       |               |

