

Comments On:  
Preliminary Framework Elements for Fixed Annuity PBR

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I thank and congratulate the ARWG for this work.

I would like to comment on Slide 21, Aggregation.

The principles enunciated are focused on how the business is managed, particularly from a risk perspective. However, the fourth ARWG Pillar of Objective (Slide 2) calls for a process that is, among other things, auditable. I believe it is the intent of ARWG that the pillars on Slide 2 supersede the principles on Slide 21.

“Auditable” means that the process must facilitate the explanation of results. Qualified Actuaries performing reserve calculations have traditionally determined and analyzed reserves by product type. This facilitates insight and understanding when explaining results to company management, regulators and other actuaries.

The promise of PBR is that reserves will be “right-sized” relative to the company’s circumstances. In the case of deferred annuities, the conventional wisdom is that the current formula-based methods produce worst-case-scenario, overly conservative reserves; so, right-sizing the reserves should decrease them. On the other hand, the current formula-based reserves for immediate annuities generally understate reserves due to the lock-in of out-dated mortality and interest assumptions; so, right-sizing the reserves should increase them. In order to determine whether this promise has been kept, it will be necessary to determine reserves for deferred annuities and immediate annuities separately.

I therefore call for the establishment of VM-22 Reserving Groups which would, at a minimum, separate deferred and immediate annuities.

Thank you.

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