

PROJECT HISTORY - 2009

VALUATION OF LIFE INSURANCE POLICIES MODEL REGULATION (#830)

1. Description of the Project, Issues Addressed, etc.

The project was to remove the restrictions on the mortality adjustment factors (X factors) in the deficiency reserve calculation required by the Valuation of Life Insurance Policies Model Regulation. The deficiency reserve calculation allows companies to adjust the valuation mortality to mortality that approximates the expected mortality by use of the X factors. The arbitrary restrictions in the model regulation prevent the use of mortality with the amount and slope similar to the expected mortality. The model regulation requires the appointed actuary shall annually opine for all policies subject to this regulation as to whether the mortality rates resulting from the application of the X factors meet the requirements for deficiency reserves. This opinion has to be supported by an actuarial report, subject to appropriate Actuarial Standards of Practice promulgated by the Actuarial Standards Board of the American Academy of Actuaries.

The reduction in deficiency reserve requirements that would result from the changes to the limitations on the use of X factors could result in reserves not being sufficient to provide for the payment of benefits and expenses and the establishment of statutory reserves during interim periods prior to the end of the projection period used in the asset adequacy analysis. Therefore, the Task Force, as part of the Regulatory Asset Adequacy Issues Summaries required of life insured companies each year, required the appointed actuary to make a statement as to the impact of the insufficiency of assets to support the payment of benefits and expenses and the establishment of statutory reserves during one or more interim periods.

2. Name of Group Responsible for Drafting the Model and States Participating

The 2009 members of the Life and Health Actuarial Task Force are: Kansas (chair), South Carolina (Vice Chair), Alaska, Alabama, Arkansas, California, Connecticut, Florida, Hawaii, Minnesota, Missouri, Nebraska, New York, Ohio, Oklahoma, Texas and Utah.

3. Project Authorized by What Charge and Date First Given to the Group

The initial charge was given to the Task Force in November 2008, by the Capital and Surplus Relief (EX) Working Group to consider the November 11, 2008, proposal from the American Council of Life Insurers. The proposal was rejected by the Executive Committee in January 2009. At the 2009 Commissioners Conference the Task Force was again charged with reviewing the proposal.

4. A General Description of the Drafting Process (e.g., drafted by a subgroup, interested parties, the full group, etc). Include any parties outside the members that participated

The initial drafts were provided by the American Council of Life Insurers. A subgroup of the Task Force made changes and made a recommendation to the Task Force. The Task Force made several modifications.

5. A General Description of the Due Process (e.g., exposure periods, public hearings, or any other means by which widespread input from industry, consumers and legislators was solicited)

The subgroup discussed the proposal at public conference calls on this topic on the following dates: March 27, 2009; March 31, 2009; April 7, 2009; April 14, 2009; April 21, 2009; and April 28, 2009. The Task Force held a public conference call on this topic on May 4, 2009, and June 3, 2009. Notice of each of these conference calls was posted on the NAIC's home page on the Internet and e-mailed to approximately 300 interested parties. Drafts of the document were released for comment on December 23, 2008, and May 4, 2009. The Task Force voted to adopt the modifications to the model regulation on June 3, 2009. The vote was eleven in favor (Alabama, Alaska, Arkansas, California, Connecticut, Minnesota, Missouri, Nebraska, Oklahoma, South Carolina, and Texas), two abstaining (Florida and New York) and one not voting (Ohio).

6. A Discussion of the Significant Issues (items of some controversy raised during the due process and the group's response)

7. Any Other Important Information (e.g., amending an accreditation standard).

This model regulation is not an accreditation standard.