



Update on AG38 and Principle Based Reserving

Hartford/Springfield Actuaries Club
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Agenda

- AG38
 - Background
 - Recent Activity
 - Next Steps
- Principle Based Reserves
 - Background
 - Recent Activity
 - Next Steps
- Other

AG38

AG38 Background

Valuation of Life Insurance Model Regulation 830 (XXX)

- All Life Insurance policies EXCEPT
- Revised Version Adopted 1999

Actuarial Guideline XXXVIII (AG38)

- Reg XXX application to various product designs
- First adopted in 2003
- Amended 2005 - 2007

AG38 Background (Continued)

Some Regulatory Actuaries Are Concerned

- Some reserve levels are less than intended
- Level playing field

NAIC Spring 2011 Meeting Actuarial Task Force Focus

- UL contracts providing a No Lapse Guarantee
- With multiple schedules of charges or credits

AG38 Recent Activity

Mar 2011 – NAIC Actuarial TF Discussion

Sep 2011 – NAIC Actuarial TF Exposure

Nov 2011 – Commissioner WG established

Jan 2012 – Commissioner WG Resolution Framework

“...ULSG and Term UL products...”

Mar 2012 – Resolution Framework adopted by NAIC

Apr 2012 - Commissioner WG hires Actuarial Consultant

AG38 Resolution Framework Adopted by NAIC

In-Force Business

- Create closed block of business
- Adequacy evaluated by actuary on stand alone basis
- All states would rely on decision reached

Prospective Business

- Formulaic approach prior to effective date of PBR

A number of important questions are not answered

- Part of Framework adopted by NAIC

AG38 Next Steps

NAIC Commissioner WG

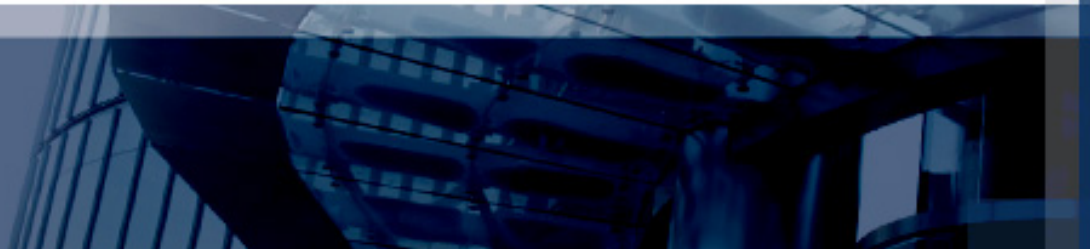
- Answer questions and recommend implementation plan
- Targeting proposal August 2012 NAIC meeting

Industry

- ACLI forming consensus view
- Participate in discussions and regulatory surveys

PBR

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What is a Principle Based Approach?

Reserving Methodology

- Captures the material risks, benefits and guarantees
- Uses risk analysis and risk management techniques
- Permits the use of company-specific experience
- Results in Reasonably conservative reserves and RBC

PBA Legal Framework

NAIC Model Standard Valuation Law

- Allows principle-based reserves (PBR)

NAIC Valuation Manual

- How to do PBR – principles and reserve requirements
- Process for uniform PBR adoption and updating
- Review and data collection requirements
- Similar to RBC framework and Accounting Practices and Procedures Manual

Principle-based RBC fits in current RBC framework

Selected Sections of Valuation Manual

- VM-20 Life Reserving
- **VM-21 Variable Annuities**
- **VM-22 General Account Annuities**
- **VM-25 Health Reserves and VM-26 Credit Life and Disability**
- VM-30 AOMR and VM-31 Reporting and Documentation:
- VM-50 Experience Reporting and VM-51 Experience Reporting Formats

* **VM-21 & 25 no changes. VM-22 not part of this VM**

VM Potential Implementation Timeline

- 2009 NAIC adopted revised SVL
- Adoption of the Valuation Manual
 - Pending (at least) VM-20 testing
 - VM won't include PBR for fixed annuities (VM-22)
- 2011 NAIC initiates VM-20 Impact study
- 2012 Valuation Manual re-exposed for comment
- 2012 Fall/Winter NAIC Adopts ?
- 2013 State Legislature adoption process begins?
- Earliest effective date of the VM appears to be 1/1/2015
 - 42+ state legislatures will have to adopt in 2013 and 2014

PBA Reserves for Life Products (VM-20)

Minimum Reserve is greatest of

- Deterministic Reserve (DR)
- Stochastic Reserve (SR)
- Net Premium Reserve (NPR)
- Cash Surrender Value

Exclusion Tests

- Can be applied to certain products on an optional basis
- Separate test for DR and SR

Valuation Manual Outstanding Issues

- Aggregate Margin
- Net Premium Reserve
- Scope
- Feedback loop

Other PBA Reserving Issues

Variable Annuities

- AG 43 (formerly known as VACARVM)
- C-3 Phase 2 (C3P2) Risked Based Capital

Non-Variable Annuity PBR

- LATF has VM-22 on its 2012 charges

Questions & Answers

