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Mr. Mike Boerner, Chair
Life Actuarial Task Force
Texas Department of Insurance
Mail Code 305-3A
PO Box 149104
Austin, TX 78714-9104

Reference: VM-20 Mortality Assumption Exposed at the June 19, 2012 Conference Call

Dear Mike,

We are pleased to submit the following comments regarding the VM-20 Mortality Assumption discussed and exposed at the June 19 Life Actuarial Task Force (LATF) conference call. As you know, the mortality assumption will be one of the most significant assumptions for principles based reserves (PBR). Therefore, we appreciate LATF and the Academy for their great work and efforts in developing the appropriate rules for the mortality assumption.

We commend LATF and the American Academy of Actuaries in proposing a number of significant changes to the mortality assumption. In the prior recommendation, the Academy proposed 20 deaths (X) per exposure year for determining the sufficient data period. In the latest recommendation, the Academy proposed a minimum number of deaths of 50 regardless of the number of exposure years. This change in determining sufficient data period is consistent with credibility theory and published actuarial papers.

The Academy also recommended new margins that vary by credibility of experience. This is also a significant improvement over the prior proposal where there was a single set of margins regardless of the credibility of the business.

We understand LATF's concern regarding the original Academy proposal that allowed companies with zero or very low credibility to use their own data in the early years. We think that this part of the Academy's proposal needs some modifications but not to the extent as proposed in the latest LATF exposure document.

We also believe the changes that were made in the latest exposure draft concerning schedules for grading company mortality experience into industry tables were not reasonable. This is especially true for companies with a highly credible book of business where the actual experience is different from the industry experience for a significant number of years. These companies would be forced to begin grading into the industry experience by the fourth year after the sufficient data period and completely grade into the industry table by the 8th year after the sufficient data period. We believe the currently proposed short grading schedule would result in a disconnect in both the level and slope of the mortality assumption. In fact, we think the Academy's original recommendation of grading schedule is more reasonable for a highly credible book of business than the proposal in the latest exposure draft.

We also think that the permitted exposure years should not be reduced from 3-10 years to 3-7 years for two reasons. First, a longer exposure period dampens the impact of anomalous or non-recurring events. Essentially, a longer exposure period will enable a company to use a more stable actual mortality experience for developing their mortality assumption. Second, a small or a medium size company may not be able to use a significant portion of their experience if the exposure period is limited to 7 years. In such cases, these companies will be at a disadvantage compared to large-size companies.

Overall, we think the proposed structure for PBR mortality is sound and we agree with many of the provisions in the latest Valuation Manual. However, we are concerned that some of the recent changes to the proposed mortality assumption are overly conservative as outlined above. Furthermore, such changes would produce an unreasonably high level of redundant statutory reserves, which is contrary to LATF's goal of right-sizing reserves.

We will continue to assess and test the latest exposure draft to determine its impact and will provide additional comments as more testing results become available.

We look forward to a discussion of these issues at the next LATF conference call.

Sincerely,

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