

Principles-Based Reserving

New statutory reserve methodology for life, annuity, and health products

- **Current System:** Uses standard mortality tables and prescribed interest rates for broad categories of insurance products (formulaic approach)
 - *Does not properly capture the various risks
 - *Creates a reserve that is volatile and not comparable
- **New System:** Uses principles to govern reserve validation
 - *Capture the underlying risk in the insurance contract
 - *Can be applied across all product lines

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- Key component of PBR proposals:
 - *Reserve is based on the present value of future cash flows (benefits and expenses less premiums) using assumptions of future experience
 - *PBR reserve is the greater of:
 - Deterministic Method**-prudent best estimate assumptions over a single scenario
 - Stochastic Method**-statistical measure from a projection of cash flows over a broad range of scenarios
 - Sophisticated cash flow model is required

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Stage 1:

- *Standard Valuation Law
- *Standard Valuation Manual
- *NAIC Annual Statement
- *Accounting Practices and Procedures Manual
- *Prospective adoption
- *Planned effective date-January 1, 2010

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Stage 2:

- *New corporate development standards
- *Changes to the RBC calculation for PBR reserves
- *Changes to the Financial Examiners Handbook
- *Analyze difference in new standards with international standards

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Status of Project-Stage 1:

Planned Effective Date-January 1, 2010 with Prospective Adoption

Tentative Steps and Key Dates:

Standard Valuation Law	Adoption-December 2008
Standard Valuation Manual	Adoption-December 2008
Annual Statement	Draft proposal-Spring 2009
Accounting Manual	Draft SSAP-Spring 2009