



ADDENDUM MEMORANDUM

TO: All Life Insurance Practitioners
FROM: Simon Curtis, Chairperson,
Committee on Life Insurance Financial Reporting
DATE: January 10, 2001
SUBJECT: **Guidance for the 2000 Valuation of Life Policy Liabilities**

Document 20102

The purpose of this note is to provide an addendum to the Memorandum from the Committee on Life Insurance Financial Reporting (hereafter referred to as “CLIFR” in this note) to all life insurance practitioners, dated November 8, 2000.

Further to the issuance of said Memorandum (i.e., our ‘fall letter’), CLIFR believes it is appropriate to issue additional guidance to the appointed actuary on use of a factor based approximation to establishing the policy liability for segregated fund guarantees in the 2000 year-end valuation. This addendum was necessitated by CLIFR’s review of final total balance sheet requirements (TBSR) released by the Office of the Superintendent of Financial Institutions (OSFI), which are significantly different from the TBSR recommended in the August 1, 2000 Report of the Task Force on Segregated Fund Investment Guarantees.

As indicated in our fall letter, “CLIFR believes that establishing the liability for the guarantee element using stochastic techniques, where the stochastic investment return modelling follows the criteria and methodology laid out in the August 1, 2000 Report of the Task Force on Segregated Fund Guarantees, represents good actuarial practice. The committee recommends that this approach be followed for year-end 2000 for insurers with a material volume of guarantee exposure.” As well, “CLIFR recognizes that there may be situations where the exposure to this risk is immaterial and a simpler approach is warranted. In such circumstances, CLIFR recommends determining the policy liability for this risk by taking percentages of the total balance sheet requirement resulting from the application of the factor-based method outlined in Appendix D of the Task Force Report.”

In applying the percentage of the total balance sheet requirement approach, while actuaries may continue to apply the factors proposed in the CLIFR fall letter to the TBSR factors in the August Task Force Report to establish “factor” based policy liabilities, CLIFR would also like to make available an alternate set of factors that may be applied to the final OSFI total balance sheet requirement (which OSFI refers to as the Total Gross Calculated Requirement – TGCR) to determine the policy liabilities. This alternate set of factors is listed below:

	Original Fall Letter “F” Factors	Alternate “F” Factors
	(applied to August CIA Task Force Report Appendix D TBSR)	(applied to OSFI TGCR)
GMDB (all funds)	0.75	0.65
GM Mat benefits - money market	0.45	0.60
- bond	0.50	0.25
- balanced	0.55	0.30
- diversified equity	0.65	0.50
- intermediate equity	0.70	0.55
- aggressive equity	0.80	0.60
GMIB		
- intermediate equity	0.65	not applicable
- aggressive equity	0.75	not applicable
- other funds	0.50	not applicable

Actuaries should not apply the factors of the CLIFR fall letter to the final OSFI TGCR factors, and conversely, the alternate factors shown above should not be applied to the TBSR factors in the August Task Force Report.

This addendum to the fall letter was issued with the support of the Task Force on Segregated Fund Guarantees.

SC