

Standard Nonforfeiture Law for Individual Deferred Annuities (SNLDA)

The following states were represented: NM, CA, CT, FL, MN, NY, PA, TX, UT, AK, KS, MN, NC, OH and NJ.

The Academy presented a draft version of the Annuity Nonforfeiture Model Regulation. The draft contained 2 methods of determining the initial nonforfeiture rate: date driven and acceptable value driven.

The date driven method requires that the company chose a date at which the initial rate will be determined. As an example, a company may chose that the 5 year Constant Maturity Treasury (CMT) Rate as of October 15th of the prior calendar year will be used to determine the initial crediting rate. If this method is used, on each October 15th the initial rate will be updated for new issues.

The acceptable value driven method suggests that a date would be selected for the initial rate, but that the future initial rates would be updated if the 5 year CMT rate moved a given number of basis points in either direction (say 50 or 75) from the initial rate. As an example, the same October 15th date could be used to establish the initial rate, but if the rates moved more than 50 basis points in either direction the initial rate for new issues would be updated. This adjustment would be both upward and downward.

Only CA supported the acceptable value driven method. Most of the other states voiced strong opposition to the acceptable value driven method. CT, MN and NY expressed that there is no provision for an acceptable value driven method in the law.

KS suggested that the nonforfeiture rate is already bound by 1 and 3 % and that the additional complexity of a value driven method is not warranted. The value driven method was also deemed not acceptable for contracts that have a redetermination provision.

On other matters, the group was split on whether the new regulation should require that the initial nonforfeiture rate be included in the contract.

All members agreed that it was not necessary to include, in the policy form, the method used for establishing the initial rate in the contract. Instead, the method should be disclosed as a part of an informational filing or included in the actuarial memorandum.

The Academy was asked to rework their draft based on the day's comments and be prepared to present an updated version at the December meeting.

Tim Gaynor, FSA, MAAA

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