

On Thursday, October 14, 2004, the Life and Health Actuarial Task Force (LHATF) had a conference call to continue the discussion of the Annuity Nonforfeiture model Regulation. Attending the call were the following LHATF member states: South Carolina, Alaska, Arkansas, California, Connecticut, Florida, Kansas, Minnesota, New Mexico, New York, Ohio, Pennsylvania, Texas and Utah as well as New Jersey and Virginia. In addition, there were numerous interested parties including representatives from the AAA, ACLI and National Underwriter.

The agenda for the call was:

- 1) Premium Buckets (clpv1005)
- 2) Prospective Test (macb1004)
- 3) Preliminary draft of revisions - Annuity Nonforfeiture Model Regulation (clpv1001)
- 4) Comment letter from Jeffrey P. Kuhn (kuhn1007)
- 5) Objectives for Nov. 15 Conference Call and the LHATF December 2004 meeting in New Orleans

Leslie Jones led the call.

Premium Buckets

The first item on the agenda was a continued discussion on premium buckets. A vote during the previous call had passed by a count of 5-4 to include premium buckets in the Annuity Nonforfeiture Model Regulation.

Frank Dino and Sheldon Summers proposed and seconded a motion to remove premium buckets from the model regulation.

Prior to the vote a discussion of the reasons for and against premium buckets were made. Many opposed felt that a reading of the law did not allow premium buckets. Also, that the intent was to provide a universal minimum nonforfeiture amount. It was pointed out that because of differences in how companies allocate policy fees, that there could be different minimums applied by company due to the differences in the allocation process between different premium buckets.

From a practical point of view, the time required to give full consideration to all situations related to premium buckets would delay exposing the model regulation.

N.Y. pointed out that it thought that premium buckets would help solvency issues by matching assets to liabilities.

The vote was held and the motion to exclude premium bucket from the model regulation passed by a count of 7 to 5 with 2 abstentions.



Prospective Test

The NAIC Compact Standards Working Group is in the process of developing a standard format for companies to use to demonstrate compliance of policy values with the SNFL for individual deferred annuities. During this process both the retrospective and prospective tests were considered. Two basic questions came up;

1. What interest rate should be used for the prospective test?
2. Is the prospective test still valid?

Sheldon Summers pointed out that the prospective test is in the law and recommended using 3%. He then asked for comments.

There was a short discussion on whether Actuarial Guideline ABC could handle both statutory and nonforfeiture. It was decided that the model regulation would be silent on this issue. There was a general leaning towards putting it in a guideline, but the feeling was that a guideline was not necessarily enforceable.

Preliminary Draft

The draft contained primarily technical corrections and clarifications. None opposed exposing it at this time. Attached is the revised version that is being exposed.

The next call is scheduled for Nov. 15.

Ron Takemoto, FSA, MAAA

19 October 2004

