

Draft Annuity Non-Forfeiture Model Regulation

The Life and Health Actuarial Task Force (LHATF) held a conference call on July 16, 2004 to discuss the proposed Annuity Non-Forfeiture Model Regulation (ANFMR). Prior to the conference call, LHATF sent out the minutes of the San Francisco meeting, an agenda of the conference call, and a draft version of the ANFMR as of 6/10/2004. Participants of the conference call include insurance regulators from various states, insurance companies, American Council of Life Insurers (ACLI), and other interested parties.

Ms. Leslie Jones of South Carolina was the leader of the conference call. Minutes of the conference call are:

1. Slight changes to the wording of the draft model regulation have been made since the March 2004 NAIC meeting in San Francisco. The draft document was exposed for comments. The wording changes include, but are not limited to, (a) clarifying the term “basis” for determining the average of 5-year Constant Maturity Treasury Rate (CMT), (b) proposing the definition of substantive equity indexed participation as annual option cost of 25 basis points, and (c) changing the Section 7 of ANFMR for equity indexed annuities. LHATF did not receive any comment on the wording changes before the conference call.
2. During the March 2004 NAIC meeting, the topic of “premium bucket” was revisited. The issue is whether it is appropriate to allow different minimum non-forfeiture standards for different premium deposits or transfers within a contract. Regulators had expressed concerns about this issue in the past. Since the March meeting, LHATF received two comment letters from two parties: ACLI and Hartford Life.
3. The discussion of premium bucket concept dominated the conference call.
4. ACLI expressed that the concept of premium bucket approach makes sense and that there is no regulation prohibiting such approach. Hartford Life also supports the premium bucket approach.
5. Regulators’ concerns focus on the proper procedure and the associated complexities in applying non-forfeiture rates for partial withdrawals and transfers of funds within a contract. Additional complexities may exist for products such as market value adjustment annuities. Regulators also wonder whether such complexities can be written clearly in a regulation. As indicated in the March 2004 NAIC meeting, regulators need numerical examples to demonstrate the premium bucket concept before changing their position.



6. Regulators and interested parties also discussed the legal interpretations of the standard non-forfeiture law for deferred annuities on whether premium bucket is allowed.
7. Regulators voted on whether to continue the discussion on premium bucket concept. The result was seven yes, two no, and one abstain. Further discussion on this topic will take place in the upcoming September 2004 NAIC meeting in Anchorage.
8. The conference call came to an end. Other agenda items, such as the appropriateness of defining substantive equity indexed participation as annual option cost of 25 basis points, were not discussed.

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