

**LHATF Conference Call on Reserve Implications of the New Annuity Nonforfeiture Standards and Update on Developing a Model Regulation Interpreting the Annuity Nonforfeiture Model Act**

The conference call was held to review the Report of the AAA Life Valuation Subcommittee on Annuity SNFL Impact on Reserves and the AAA Annuity Nonforfeiture Implementation Work Group's 2/26/04 exposure draft.

Regulators on the call included AR, CT, NM, ND, OH, PA, TX, UT, CA, IL, MO, MN, AK, SC, NE, FL, and NC. Other participants were insurance companies, ACLI, and other interested parties.

The AAA Life Valuation Subcommittee's report was presented by Kory Olsen. It summarized the variable nonforfeiture rate and the reset ability. Also presented were the various proposed options for the interest rate to use in CARVM projections along with each options pro's and con's.

Different opinions were expressed.

It was pointed out that if the rate was to be constant and consistent with the past, then 3% should be used. It was also mentioned that there is a desire to keep it simple. Several regulators agreed with this rate.

One regulator expressed the opinion that contracts would have a lifetime guarantee.

It was mentioned that possibly they should follow the practice note that was written when interest rates are tied to an index, the index being the nonforfeiture rate. But this would only apply if redetermination is used.

It was pointed out that if a contract was filed with a fixed rate without redetermination, that that rate would be appropriate.

A question was raised, if two similar polices were issued at the same time, one with redetermination and one without, would there be a difference. Specifically would the one with redetermination be treated adversely.

It was mentioned that it would be more of an issue if the valuation rate were less than 3%, so that the issue should be addressed now.

It was agreed that they would think about it and wait to decide. Also that there should be an actuarial guideline.



Next the revision to the Annuity Nonforfeiture Model Regulation was discussed.

This started with a presentation of the highlights and changes from the previous draft. One key addition was the inclusion of the value trigger methodology for when the nonforfeiture rate should change.

Connecticut disagreed with the value trigger and has rejected contracts with the feature. The opinion was that the feature was not permitted by statute. After discussion Connecticut was still against it, but agreed to review it again.

NY was OK with it for now and was drafting a note and wanted it to be part of the regulation.

Different levels were suggested for a trigger point, 25 and 50 basis points were mentioned as good limits. A draft will be written with a placeholder until everyone could agree. Basically the potential nonforfeiture rate is set and if the potential rate exceeded that actual nonforfeiture rate by some trigger limit, say 50 basis points, then the actual nonforfeiture rate would change.

It was recommended that the language used would be looked at very closely since this would be the first time the value trigger would be used.

Other changes discussed were:

The definition of equity indexed benefits – the index is defined to be of any type and is not restricted to equities.

The concept of premium buckets. The fact that each premium could have a different nonforfeiture rate without redetermination. It was questioned if they wanted to have this. While it was theoretically nice does it cause problems due to the level of complications.

Discussion would continue at the NY meeting.

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