

Interest rate to be used in CARVM

The Life and Health Actuarial Task Force (LHATF) held a conference call on July 29, 2004 to discuss the proposed Actuarial Guideline ABC. This guideline has been introduced to help clarify what interest rate should be used to project future guaranteed non-forfeiture benefits when calculating Commissioner's Annuity Reserves Valuation Method (CARVM) reserves.

Per the Standard Valuation Law, CARVM states "... the greatest of the respective excesses of the present values, at the date of valuation, of future guaranteed benefits, including *guaranteed nonforfeiture benefits*, provided by the contracts at the end of each respective contract year..."

The new Standard Nonforfeiture Law for Individual Annuities allows the nonforfeiture rate to be re-determined over the life of the policy. Under the old law, the nonforfeiture interest rate was 3%. The revised law bases the nonforfeiture rate on the five-year Constant Maturity Treasury Rate less 125 basis points (bps). The rate is floored at 1% and capped at 3%. The rate may be reset at a date predetermined in the contract. The nonforfeiture rate for Equity indexed annuities (EIAs) is allowed an additional reduction (offset) of up to 100 bps. The EIA offset may also be reevaluated in the future.

Thus the question becomes, when doing a CARVM projection, what interest rate should be used to calculate the future nonforfeiture benefits if the nonforfeiture rate is re-determined at some point in the future?

The guideline breaks the projection into 3 periods. (a) the period from the valuation date until the earlier of the EIA reevaluation date or the re-determination date, (b) the period from the EIA reevaluation date until the re-determination date (if the EIA reevaluation date occurs first), and (c) the period after the re-determination date.

For period (a), the nonforfeiture rate as of the valuation date would continue to be used. For period (b), the EIA offset would be set to 0. For period (c), the nonforfeiture rate would be 3%.

Essentially, the task force would like the nonforfeiture rate (i.e. as of the valuation date) to be used until the next re-determination date, at which point 3% would be used thereafter. "If in doubt, use 3%."

A considerable portion of the call was spent discussing whether or not the EIA reevaluation date could even be different from the nonforfeiture redetermination date. Most concluded that the new law did not prohibit using different dates.



This topic will be discussed further at the next NAIC meeting in Anchorage. The proposed guideline may be exposed for comments at that time.

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