

## Annuity Nonforfeiture Model Regulation

On July 18<sup>th</sup> the LHATF held a conference call to continue discussions on the draft Annuity Nonforfeiture Model Regulation. The agenda for the call was as follows:

1. Introductory Comments.
2. Review of suggested changes to the 3/10/05 draft from Katie Campbell.
3. Discussion of the report of the American Academy of Actuaries (AAA) Annuity Nonforfeiture Section 6 Work Group.
4. Comments received but not discussed at the 2005 Summer National Meeting Submissions from Barbara Hilligoss (Standard Insurance) and Gretchen Hinkle (Integrity Life)).
5. Future Steps.

Attending the call were the following LHATF member states: NM, AK, AR, CA, CT, FL, KS, MN, NB, NY, OH, OK, PA, TX, UT, WV and AL as well as IL, MA, MS, NJ and NC. In addition there were many interested parties.

Sheldon Summers stated that at the Boston meeting he had proposed three alternatives for EIA's since there was little support for multiple rates at that time. However, since that time the current revisions to the model regulation have been made and he now feels that there is support for multiple rates. Consequently, he is withdrawing the suggestions.

Katie Campbell then gave a summary of revisions to the model regulation that reinserted the multiple interest rate concept that had been removed.

Section 3 B had the definition of an equity indexed benefit revised.  
Section 3 J which was the definition of substantive participation was deleted and moved to section 7 B 2. This will be revised to be less ambiguous.

The main changes were to Section 6:

6A was removed since it restated the SNFL and they wanted to avoid any inconsistencies.

6B became 6A and was changed to reference only non-EIA's.

6B was added for EIA's and defined how they should be handled. Following is an excerpt with the changes for EIA's:

For an annuity contract (or certificate) in which equity-indexed benefits are available the annuity contract (or certificate) may have more than one nonforfeiture rate applicable to the contract (or certificate) subject to the following

- (1) If the contract has a non equity-indexed benefit, the nonforfeiture interest rate applicable to the non equity-indexed benefit must be determined in compliance with [insert applicable reference to Section 4B of the Standard Nonforfeiture Law for Individual Deferred Annuities].



- (2) If an additional reduction is elected for equity-indexed benefits, reduced nonforfeiture interest rates may apply to each equity-indexed benefit for which the additional reduction is elected in compliance with [insert applicable reference to Section 4C of the Standard Nonforfeiture Law for Individual Deferred Annuities] and Section 7 of this regulation.
- (3) The minimum nonforfeiture amount for the contract is determined by calculating a nonforfeiture amount for each equity-indexed and non equity-indexed benefit using the nonforfeiture interest rates described in this subsection and summing the results.
- (4) In the case of a transfer from one benefit to another benefit (see examples in Appendix B)
  - (a) The percentage of a benefit's nonforfeiture amount that is transferred must equal the percentage of the benefit's contract value that is transferred; and
  - (b) The nonforfeiture amount and amount of the benefit's contract value transferred to and from a benefit must be equal.
- (5) In the case of a withdrawal from a benefit in which the amount of withdrawal exceeds the benefit's nonforfeiture amount, the insurer shall treat the excess withdrawal in a manner at least as favorable to the contractholder as deducting the excess withdrawal from the nonforfeiture amounts of other benefits in order from lowest to highest nonforfeiture interest rate.
- (6) Any contract charge must be allocated to a benefit's contract value based on the percentage of that benefit's contract value to the total contract value.

Appendix A was revised to reflect comments received from Gretchen Hinkle. The nonforfeiture rates should change only if the change is greater than 50 bp's, not equal to 50 bp's. The appendix was revised to reflect this.

Appendix B was revised to contain clarifying changes.

Katie Campbell then proposed to expose the draft for comment; Sheldon Summers seconded.

Sheldon also wanted to add an alternative method to Section 6 proposed by Allianz. Some discussion concerning the desire for only one method was held and it was decided that this could be addressed during the exposure period.

The vote was unanimous to expose the draft.

The call ended with a short discussion of the AAA Section 6 Workgroup report on the prospective test. The NAIC Interstate Compact National Standards Workgroup had requested the AAA to review and give comment on the prospective test. The AAA didn't like the prospective test and would not comment. The feeling was that while there wasn't any actuarial reason for the test, there may be other non actuarial reasons it exists. Comments were made that originally the prospective test was for annuities that had set maturity dates and benefits. The types of annuities sold today are not consistent with that type of annuity.

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