

Annuity Nonforfeiture Model Regulation

On September 20th the LHATF held a conference call to continue discussions on the draft Annuity Nonforfeiture Model Regulation.

Chair Mike Batte stated that the NAIC (A) Committee will hold a conference call on Thursday at which time he plans to submit a proposed regulation on annuity nonforfeiture.

Four comments received on the current draft were discussed in this call.

First were the comments from Carole Salomone at Allianz. Allianz claims that the proposed method in Section 6B4 for calculating nonforfeiture benefits for equity-indexed annuities with more than one nonforfeiture rate is too labor-intensive and will be extremely costly for Allianz to implement. Allianz proposed a simplified method and showed that the nonforfeiture amounts are not significantly different. If their method is not acceptable, they would like to add wording that would allow the state to authorize alternative methods of calculation for individual companies.

Second were revisions from Katie Campbell of AK and Sheldon Summers of CA. They proposed a clarification in wording of the current Section 6B4, but maintaining the same methodology. They also added points to address policy loans and premium taxes.

Third, Chris Trost would like to retain a part of the language deleted in Section 6A. This section was originally deleted because it merely restated the SNFL; any potential inconsistency is to be avoided.

Last, Ata Azarshahi of Legacy Marketing Group and Donna Sivigny of Old Mutual Financial Network suggested that the regulation should use only one nonforfeiture rate in all cases. It is easier to maintain just one rate for administration purposes. Mike Batte stated that LHATF has flipped flopped back and forth on the decision to use one rate versus a dual rate, but could open the discussion again. Sheldon commented that using a weighted average rate would comply with the current regulation as written.

Katie moved to put in her revised wording from her August 18 email that clarifies the current method. She also added an Item 7 to allow a company to use a different method if not materially different than the current method and approved by the state commissioner. This would allow the Allianz method to be used, but hopefully allow the regulation to move forward to approval by the (A) Committee. There was some debate as to what "materially different" meant and if a percentage was needed in order to define it. Katie amended her motion to delete the newly added Item 7 and go with the exact wording from her 8/18 email. Following is that wording:



Section 6B

- (3) The minimum nonforfeiture amount for the contract is determined by calculating a nonforfeiture amount, without any reduction for indebtedness to the company on the contract including interest due and accrued on the indebtedness, for each equity-indexed and non equity-indexed benefit using the nonforfeiture interest rates described in this subsection, summing the results, and then deducting any indebtedness to the company on the contract including interest due and accrued on the indebtedness.
- (4) When contract value is transferred (see examples in Appendix B)
 - (a) from a benefit, the benefit's minimum nonforfeiture amount is reduced by the benefit's minimum nonforfeiture amount prior to the transfer multiplied by the proportion of the benefit's contract value that is transferred;
 - (b) to a benefit, the benefit's minimum nonforfeiture amount is increased by the sum of all reductions in minimum nonforfeiture amounts determined under (a) multiplied by the proportion of total contract value that is transferred to that benefit;
 - (c) for purposes of the calculations specified in (a) and (b) above, the contract value must first be reduced by any fees associated with the transfer.
- (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 or premium taxes paid by the company must be allocated to a benefit's minimum nonforfeiture amount based on the percentage of that benefit's contract value to the total contract value.

After some discussion on whether LHATF was just trying to get this done or really doing the right thing, a vote was taken to include the above language. The results were 5 yes, 1 no and 7 abstentions. Mike Batte will inform the (A) Committee that the motion carried but there was no clear consensus.

Diane Yandach, ASA, MAAA

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