

Standard Nonforfeiture Law; AG TAB

LHATF spent the first two-thirds of the call discussing the nonforfeiture project. The AAA Work Group summarized its survey of regulators:

- Regulators agree that the current law (SNFL) is inflexible, subject to manipulation and does not address new product developments well,
- A new SNFL should contain principles instead of specific formulas,
- There is divergence on the scope (e.g., life only, life and certain types of annuities, everything) of a new SNFL,
- Regulators also disagree about the need for mandating cash benefits,
- Material (not yet defined) pre-funding demands required nonforfeiture benefits,
- Market-value adjustments are acceptable, and
- Disclosure is not a panacea to allow companies a free rein.

The survey summary elicited the following comments:

- Northwestern Mutual reiterated its long-standing concern about middlemen (e.g., viatical companies) profiting at the expense of insureds,
- CA questioned whether companies with similar products could have differing nonforfeiture bases,
- NY wondered if a retrospective approach would work, but NW Mutual believes that it would either (a) be rate regulation or (b) lack muscle, neither of which is desirable,
- The AAA Work Group does not intend to propose regulation of non-guaranteed elements, but NY wants to assure that items credited can never be rescinded, and
- CT wondered how to handle combo products, such as life insurance with LTC benefits.

Expect more nonforfeiture surveys and discussions in the near (and far?) future.

LHATF had enough time left to discuss Actuarial Guideline TAB. NY and KS drafted a revision that expanded upon the requirements for deriving anticipated mortality based upon the availability and degree of credibility of experience. NY also added a provision that allows a Commissioner to reject a company's use of a specific table if it has not provided adequate justification. With the ACLI supporting the changes, LHATF voted unanimously to expose the revision for comment. Since it will meet the 30-day exposure rule, it could pass and be sent to the (A) Committee at the June meeting.

Donald P. Maves, FSA, MAAA

2 May 2007

