



AMERICAN ACADEMY *of* ACTUARIES

Update on Activities of the American Academy of Actuaries Nonforfeiture Modernization Work Group

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Background and Scope of Report

The NAIC's Life Actuarial Task Force (LATF) has requested the Academy's Nonforfeiture Modernization Work Group (WG) to keep it regularly apprised of its continuing discussions and recommendations with respect to various items that need to be addressed to implement the WG's proposed approach to nonforfeiture reform. This proposed approach, the Gross Premium Nonforfeiture Method (GPNM), was outlined in the August 2011 Report of the WG (Report) and is an approach intended to:

- Apply to policies issued after its adoption as a nonforfeiture mandate (would not change nonforfeiture requirements for policies issued prior to the new mandate);
- Replace, rather than augment, existing nonforfeiture mandates; and
- Distinguish between nonforfeiture benefits as being an "in kind" continuation of the benefits originally provided under the policy and cash surrender values as amounts payable on the voluntary discontinuation of the policy.

The WG's charge is limited to recommending a revised approach to nonforfeiture benefit mandates.

Summary of WG Activities Since Last Report

Since its latest Report to LATF in December 2013, the WG has continued to expand on the approach proposed in that Report for determining nonforfeiture benefits for Guaranteed Lifetime Withdrawal Benefits (GLWBs) contained in or added to fixed deferred annuities, including index linked deferred annuities. Those efforts have included:

- Considering various approaches to determining nonforfeiture benefits for GLWBs;
- Discussing the necessary Guaranteed Nonforfeiture Basis (GNFB) factors necessary to determine the GLWB nonforfeiture benefit under the approaches considered and whether constraints around those factors may be needed; and
- Developing a detailed Excel worksheet to illustrate the determination of the proposed nonforfeiture benefit for GLWBs under the approaches considered.

The worksheet illustrates the results produced under the three approaches to determining the GLWB nonforfeiture benefit considered by the WG in deciding on the proposed approach. These three approaches and the worksheet were presented to and discussed by LATF on a conference call on February 27.

Immediate Future WG Activities

The WG intends to continue to provide additional information on its activities to LATF regarding its proposal for GLWB nonforfeiture benefits under the GPNM. Such activities include defining the approach for variable deferred annuities and contingent deferred annuities, and providing guidance in the choice of the GNFB factors to be used in determining the nonforfeiture benefits. These GNFB factors include interest accumulation and discount rates and mortality assumptions. The intent of the WG is to review the impact of these factors on the nonforfeiture benefit calculations and, where appropriate, to recommend guardrails with respect to their determination.

In addition, at LATF's request, the WG plans to provide a report to LATF elaborating on the considerations involved in determining whether cash surrender values should be mandated, optional, or not permitted when a nonforfeiture benefit is required under the GPNM. This subject was covered only in a general fashion in Section VI of the WG's August 2011 Report because the focus of that Report and the proposed GPNM approach was to address the WG's charge to provide LATF with recommendations regarding the provision of nonforfeiture benefits.

The NFMWG appreciates the opportunity to provide this update to LATF and anticipates providing continuing additional reports on the applicability of the proposed GPNM approach to nonforfeiture for additional life insurance and annuity products and benefits.