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May 29, 2018

Mr. Reggie Mazyck
Life Actuary, Life Actuarial (A) Task Force
National Association of Insurance Commissioners
Via Email: RMazyck@naic.org

Re: Exposed Actuarial Guideline [#], *Application of Section 6 of the Standard Nonforfeiture Law for Individual Deferred Annuities Model 805*

Dear Mr. Mazyck,

The Life Products Committee of the American Academy of Actuaries¹ is pleased to provide comments on the exposed Actuarial Guideline [#], *Application of Section 6 of Model 805* (the model).

We have reviewed the exposure draft and compiled our comments and questions below. At this time, we have refrained from providing an overall assessment on the exposed Actuarial Guideline, because we would like to better understand the underlying intentions of the Life Actuarial Task Force (LATF). We look forward to working with LATF in the coming months to further discuss the proposed guidance and are happy to provide technical support as LATF works to refine the Actuarial Guideline.

Scope. The application of this Actuarial Guideline will impact our analysis, so the following clarifications would be helpful:

- What is the intended scope of this Actuarial Guideline?
- How is this Actuarial Guideline intended to work with Actuarial Guideline III?

Lack of Uniformity. The “Purpose and Scope” section of the exposure draft describes the goal of assuring uniform application and enforcement of the prospective test. We note that the exposure leaves room for the following multiple interpretations:

¹ The American Academy of Actuaries is a 19,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

- The recognition of market value adjustments in the prospective test;
- The interest rate used to calculate the “minimum nonforfeiture amount” in the demonstration of compliance;
- The “minimum interest rate guaranteed in the contract” for the “projected account value;”
- The “minimum interest rate guaranteed in the contract” for a fixed indexed annuity with or without a fixed account option;
- How to address flexible premium contracts in compliance testing;
- How to address nonguaranteed bonuses in compliance testing (e.g., interest rate or persistency bonuses); and
- The format for demonstration of compliance with the standard nonforfeiture law (SNFL).

Minimum Nonforfeiture Amount. We note that the definition of “minimum nonforfeiture amount” does not recognize rider charges, which is inconsistent with the recognition of rider charges in the proposed prospective test.

Maturity Date. The model specifies that the maturity date for optional maturity contracts is the anniversary following the later of age 70 or 10 years. Is the intention to apply the same rule for fixed maturity contracts, regardless of the maturity date specified in the contract? We note that the effect of this will be to limit surrender charge schedules to 10 years, which may not have been the original intent of the model.

Testing. We note that the draft Actuarial Guideline would seem to require periodic compliance testing after contract issue. We would like to contemplate this further, as we do not immediately see any value in ongoing testing. It would seem like a contract that would comply with this Actuarial Guideline at issue should continue to comply in all future years, making ongoing testing and certification unnecessary.

As we contemplate the testing section further, we note the following questions:

- Who is responsible for testing after issue and at what frequency?
- Are contracts expected to pass the prospective test on a continuous or curtate basis? If curtate and on each anniversary, using beginning-of-year or end-of-year values?
- Is it the intent of testing after issue that surrender charges could be overridden for an inforce contract in the future? How would this be stated to a prospective buyer or in the contract? How would a company calculate reserves if cash values are unpredictable? It seems like there could be potential for unintended consequences in product designs, such as high surrender charges until actual surrender.
- What is the intent of requiring multiple interest rate scenarios for testing?

Examples. We do not understand the two examples – is one at issue and the other after issue? An interpretation of results would be helpful. We would also find value in seeing (1) an example with a market value adjustment and (2) an example where a contract passed the test at issue but later fails.

Terminology.

- We believe the term “specified rate” is potentially confusing, as it is not a rate specified anywhere in the contract. We recommend using a more descriptive term (e.g., “levelized rate”).
- The term “net considerations” is already defined in the model, so we recommend using a different term in the Actuarial Guideline when describing a different concept.
- In the “How the Projected Account Value is determined” section, what are “guaranteed minimum accumulation benefits” and how do they differ from interest and bonuses?

Consistency with Interstate Insurance Product Regulation Commission (IIPRC) standards. We note that the exposure deviates from the IIPRC standards in some places. If the intention is to mirror the IIPRC standards, it may be simpler to have an Actuarial Guideline that points to the IIPRC standards.

We hope these comments are helpful, and would be to provide additional support as LATF works to refine the Actuarial Guideline. Should you have questions regarding these suggestions, please contact Ian Trepanier, the Academy’s life policy analyst, at trepanier@actuary.org.

Sincerely,

Laura Hanson, MAAA, FSA
Chairperson, Life Products Committee