

**Update of the American Academy of Actuaries'
Non-Forfeiture Improvement Work Group**

**Presented to the National Association
of Insurance Commissioners'
Life and Health Actuarial Task Force**

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Background

Since the Spring 2010 NAIC meeting, the American Academy of Actuaries' Nonforfeiture Improvement Work Group (NFIWG) has continued to hold regular conference calls. The charge from LHATF to the NFIWG is to:

“Study the feasibility of a new nonforfeiture law for life insurance and annuities to replace the existing nonforfeiture standards. Provide quarterly status reports on this project.”

This report constitutes the required quarterly status report on the progress of the NFIWG's activities designed to highlight the need for nonforfeiture reform and the fundamental actuarial concepts of any approach to reform.



INTRODUCTION TO NONFORFEITURE REFORM

- **Benefits Of Nonforfeiture Reform**
 - New approach could increase the number of product choices available to consumers to meet their insurance needs
 - Potential for lower product costs to consumers under revised approach
 - Current product designs could be simplified to be more understandable to the consumer



INTRODUCTION TO NONFORFEITURE REFORM

- Benefits Of Nonforfeiture Reform (continued)
 - New approach would increase companies' ability to make available newer and more innovative products
 - New approach would enhance regulatory oversight due to increased transparency and flexibility in minimum nonforfeiture mandates
 - Revised approach would provide minimum values that better reflect the guarantees inherent in the policy



INTRODUCTION TO NONFORFEITURE REFORM

- Impetus For Nonforfeiture Reform
 - Competition in financial services industry
 - Advances in technology
 - Increased consumer awareness and access to information
 - Rigidity of current formulaic approach to nonforfeiture minimums



INTRODUCTION TO NONFORFEITURE REFORM

- Impetus For Nonforfeiture Reform (continued)
 - Existing regulatory framework tends to lead companies to use complex and difficult to understand product designs to ensure compliance
 - Current laws and varying interpretations result in inconsistent regulatory treatment of products with similar benefit guarantees
 - Current laws do not recognize any relationship between the value of prefunded benefits and a product's gross premiums



INTRODUCTION TO NONFORFEITURE REFORM

- Challenges To Achieving Nonforfeiture Reform
 - General inertia and lack of motivation on the part of industry and regulators with respect to a desire to change minimum nonforfeiture mandates
 - Active resistance to change from segments of regulatory, consumer, and industry sectors
 - Varying regulatory views as to the objective(s) of nonforfeiture reform



INTRODUCTION TO NONFORFEITURE REFORM

- Challenges To Achieving Nonforfeiture Reform (cont.)
 - Multiple line combination products face multiple regulatory environments
 - Federal tax treatment of products and values
 - Lack of general understanding of current minimum nonforfeiture approach by legislators and regulators



INTRODUCTION TO NONFORFEITURE REFORM

- Basic Framework Guiding Nonforfeiture Reform Proposal
 - Minimum nonforfeiture values should be based on prefunding resulting from premium payments and credited values
 - Minimum nonforfeiture regulatory requirements should provide specific guidance with respect to minimum nonforfeiture methodologies and general guidance with respect to the establishment of assumptions, not explicitly defined values or parameters



INTRODUCTION TO NONFORFEITURE REFORM

- Basic Framework Guiding Nonforfeiture Reform Proposal (continued)
 - Revisions to minimum nonforfeiture mandates should incorporate parameters for a dynamic, contemporary and relevant approach to disclosure
 - Revisions to minimum nonforfeiture mandates should incorporate a well defined and purposeful approach to the statistical agency collection of the assumptions used in the determination of minimum nonforfeiture values



INTRODUCTION TO NONFORFEITURE REFORM

- Basic Framework Guiding Nonforfeiture Reform Proposal (Continued)
 - Minimum nonforfeiture values at any time should not be representative of the economic value of the policy at that point in time but rather be a retrospectively determined measure of the prefunding of benefits accrued to that point in time
 - In determining minimum nonforfeiture values, there should be no recognition of any change in insurability status since the date of policy purchase, other than those that may occur as a result of the exercise of specific contractual provision



INTRODUCTION TO NONFORFEITURE REFORM

- Basic Framework Guiding Nonforfeiture Reform Proposal (Continued)
 - Any minimum nonforfeiture methodology requirements should be the same for life and annuity products
 - Determination of non-guaranteed elements (including dividends) should not be regulated by minimum nonforfeiture mandates until credited; however, once credited, such amounts must be considered in any minimum nonforfeiture mandate

