



Summary of Public Policy Issues Associated with Life & Annuity Nonforfeiture Reform from the American Academy of Actuaries Nonforfeiture Improvement Work Group

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

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Nonforfeiture Improvement Work Group

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At the Fall 2010 National Meeting, the Life and Health Actuarial Task Force (LHATF) tasked the Academy's Nonforfeiture Improvement Work Group (NFIWG) with preparing **a list of the public policy issues raised and discussed by the Work Group in the course of carrying out its primary assigned charge.¹**

This report constitutes the NFIWG's response to this additional charge. It should be noted that, in discussing each public policy issue, the NFIWG made one of three decisions with respect to how it would proceed to deal with the issue in its report. The three courses of action are:

1. The NFIWG takes a specific position on the issue in its report with reasons articulated for that position;
2. The NFIWG takes no specific position on the issue in its report, but outlines some possible courses of action with respect to the issue together with the possible pros and cons of each; or
3. The NFIWG articulates the issue in its report but takes no position on the issue in its report.

The public policy issues considered by the NFIWG in the preparation of its report, grouped by the position taken by the NFIWG, follow.

1. **The NFIWG takes a specific position on the issue in its report with reasons articulated for that position.**
 - Actuarial approach to be used in the determination of nonforfeiture mandates.
 - Use or non-use of economic values at the time values are elected for nonforfeiture/cash surrender value mandates.
 - Treatment of current forms of deferred annuities under nonforfeiture mandates.
 - Regulation or non-regulation of non-guaranteed elements as part of nonforfeiture mandates.
 - Use or non-use of changes in insurability status since issue in the determination of nonforfeiture/cash surrender value mandates if the provision for such changes is not provided for in the policy.
2. **The NFIWG takes no specific position on the issue in its report, but outlines some possible courses of action with respect to the issue together with the possible pros and cons of each.**
 - Whether cash surrender values should be required as an additional benefit under the policy when nonforfeiture values are present.

¹ The NFIWG's primary assigned charge 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."

- *De minimis* prescribed level of cash surrender values if they are mandated.
- Degree of regulatory establishment and oversight of nonforfeiture credits and charges assumptions.

3. The NFIWG articulates the issue in its report but takes no position on the issue in its report.

- Impact of proposed approach on the qualification of life insurance products as life insurance under IRC §7702 and §7702A and other tax issues.
- Sunset of current nonforfeiture mandates for all life and annuity products or a continuation of current mandates without expiry for some policy form types.