



AMERICAN ACADEMY *of* ACTUARIES

Report on Short Term Changes Needed to the Standard Nonforfeiture Law from the American Academy of Actuaries' Life Products Committee

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

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Changes are needed to the Standard Nonforfeiture Law (SNFL) in both the short term and the long term. In the short term, changes are needed to the SNFL to address consistency/dependency issues (i.e. links) when the changes to the Standard Valuation Law (SVL) are made for Principles Based Reserving (PBR). In the long term, we will need to make changes to the SNFL to address more general changes in the marketplace. That work effort is ongoing.

Short Term Issue - We reviewed the revised draft language of the SVL, the current language of the SNFL, and the Model Regulation recognizing the “2001 CSO Table for Use in Determining Minimum Reserve Liabilities and Nonforfeiture Benefits” to determine if there were any links requiring additional revisions to either model law.

General References to Cash Surrender Values in the Proposed PBR Model Law and Regulation

PBR Model Law (SVL-2)

2b.B. The Valuation Manual must specify

1. the valuation standards for all policies and contracts subject to this section under Section 2a, including standards for a Principles-Based Valuation; such standards may require that on each valuation date the reserve for any policy or contract may not be less than a minimum amount, such as the cash surrender value;

PBR Model Regulation

7.G.(4) The Deterministic Reserve

- (a) The deterministic reserve for each policy equals the greater of the cash surrender value on the valuation date for each policy and the seriatim reserve for each policy determined in Subsection G(3).

These statements link principles-based reserves to the cash surrender value but do not require any further changes to the SNFL

Mortality Table References

- **SVL** – The only reference to the SNFL is in Section 4A of the SVL where it refers to the operative date of Section 5c of the SNFL as the date the 1980 CSO Table, “or, any ordinary mortality table, adopted after 1980 by the National Association of Insurance Commissioners, that is approved by regulation promulgated by the commissioner” becomes effective for the SVL. Section 4A of the SVL is not applicable to PBR, so no changes to the SVL need to be made. We also reviewed the model regulation recognizing the “2001 CSO Table for Use in Determining Minimum Reserve Liabilities and Nonforfeiture Benefits.” This model regulation would be promulgated pursuant to Section 4A of the SVL, and since under PBR there is no reference to Section 4A of the SVL, no changes to this model reg need to be made.
- **SNFL** - Section 5c of the SNFL describes the required mortality table with no reference (or link) to the SVL. We also reviewed the model regulation recognizing the “2001 CSO Table for Use in Determining Minimum Reserve Liabilities and Nonforfeiture Benefits.” This model regulation would be promulgated pursuant to Section 5c of the SNFL, and so no changes to this model reg need to be made.

Note: Section 4A of the “2001 CSO Table” reg refers to the transition period between the effective date of the reg and January 1, 2009. It says “If the company elects to use the 2001 CSO Mortality Table, it shall do so for both valuation and nonforfeiture purposes.” Since by definition, election of a mortality table would only be for non-principles-based reserves or nonforfeiture values (whether attached to principles-based reserves or not), no change to this language is needed.

Interest Rate References

- **SVL** - No mention of the interest rate to be used for nonforfeiture in the SVL.
 - **SNFL** - Section 5c of the SNFL makes a reference to the SVL that will no longer be valid after the PBR changes to the SVL become effective. We believe the following change to Section 5c of the SNFL should be made.
- I. For any policy issued in a particular calendar year before the effective date of sections 1a and 2a of the Standard Valuation Law, the nonforfeiture interest rate per annum for any policy issued in a particular calendar year shall be equal to one hundred and twenty-five percent (125%) of the calendar year statutory valuation interest rate for such policy as defined in the Standard Valuation Law, rounded to the nearer one quarter of one percent (1/4 of 1%).
 - J. For any policy issued in a particular calendar year on or after the effective date of sections 1a and 2a of the Standard Valuation Law, the nonforfeiture interest rate per annum shall be equal to one hundred and twenty-five percent (125%) of the calendar year statutory valuation interest rate for such policy determined according to subsections 4b.B.(1) and 4b.B.(2) of the Standard Valuation Law, rounded to the nearest one quarter of one percent (1/4 of 1%).

J.K. Notwithstanding any other provision in this code to the contrary, any refiling of nonforfeiture values or their methods of computation for any previously approved policy form which involves only a change in the interest rate or mortality table used to compute nonforfeiture values shall not require refiling of any other provisions of that policy form.

K.L. After the effective date of this section, any company may file with the commissioner a written notice of its election to comply with the provision of this section after a specified date before January 1, 1989, which shall be the operative date of this section for the company. If a company makes no election, the operative date of this section for the company shall be January 1, 1989.

Note: 5c.J above refers to 4b.B.(1) of the SVL. 4b.B(1) further refers to “the reference interest rate defined in this section” and “the weighting factor defined in this section” which are defined in 4b.C and 4b.D of the SVL. Section 4b.E of the SVL refers to the alternative method for determining reference interest rates. We did not think it necessary to specifically refer to these provisions in our recommended changes to the SNFL, but would not be opposed to including them.