



# AMERICAN ACADEMY *of* ACTUARIES

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**Update Regarding a General Revision  
Of Life and Annuity Standard Nonforfeiture Laws  
From the American Academy of Actuaries' Nonforfeiture Improvement Work Group**

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

**Dallas, TX - December 2008**

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Nonforfeiture Improvement Work Group

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Since the Fall 2008 NAIC meeting, the American Academy of Actuaries (Academy) Nonforfeiture Improvement Working Group (WG) and its subgroups have continued to hold weekly and bi-weekly conference calls. The charge from LHATF to the WG 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 requested quarterly status report on the progress of the WG’s activities.

Since its last update to LHATF, the WG has continued its efforts at refining an appropriate actuarial methodology that could be used in the determination of minimum nonforfeiture mandates, with particular emphasis recently on the applicability of the methodology to the various types of deferred annuities currently in the marketplace.

In addition to planning to present in its final report an appropriate actuarial methodology to use in the determination of minimum nonforfeiture values, the WG also recognizes that there are significant public policy issues associated with mandating minimum nonforfeiture values for life and annuity products. The major public policy issues raised by WG members in this regard (in no particular order) are:

- Should any or all of the actuarial assumptions that might be used in determining the prefunding value that is the basis for minimum nonforfeiture benefits be restricted and/or regulated in any way (e.g., limit the assumptions used to those used in pricing; those based on company or industry experience; or those available in published data; etc.)?
- Where there are products that provide no cash surrender values or nonforfeiture benefits and where substantial prefunding is present, should minimum nonforfeiture mandates prohibit such products on public policy or other grounds (e.g. they may promote lapse supported pricing and policyholder subsidization, etc.) or should such products be offered subject to appropriate disclosure and suitability mandates?
- What regulatory framework is appropriate for each of the above possible approaches regarding minimum nonforfeiture mandate assumptions?
- When nonforfeiture benefits are included in a life or annuity policy, should a cash surrender value be required? (Note that the WG distinguishes between cash surrender values and other nonforfeiture benefits, such as extended term or reduced paid-up insurance.)
- When a cash surrender value is included in a life or annuity policy, should the cash surrender value be required to be actuarially equivalent (where actuarially equivalent includes the consideration of all relevant experience factors and is not restricted to the historically more narrow definition incorporating interest and mortality only) to the nonforfeiture benefit provided?
- Should the ultimate approach taken with respect to minimum nonforfeiture mandates attempt to “grandfather” (i.e., allow for the continuation of current product choices, structures and values) a segment of the existing life and annuity product marketplace?

The WG plans to continue its discussions on each of these issues in an effort to provide LHATF with a roadmap for nonforfeiture reform that is as comprehensive as possible. After pursuing further discussions, the WG intends to solicit feedback from LHATF at future date.