



AMERICAN ACADEMY *of* ACTUARIES

---

**Status Report of the American Academy of Actuaries  
Nonforfeiture Work Group**

**Presented to the NAIC's Life and Health Actuarial Task Force  
September, 2001**

The American Academy of Actuaries is the public policy organization for actuaries practicing in all specialties within the United States. A major purpose of the Academy is to act as the public information organization for the profession. The Academy is non-partisan and assists the public policy process through the presentation of clear and objective actuarial analysis. The Academy regularly prepares testimony for Congress, provides information to federal elected officials, comments on proposed federal regulations, and works closely with state officials on issues related to insurance. The Academy also develops and upholds actuarial standards of conduct, qualification and practice and the Code of Professional Conduct for all actuaries practicing in the United States.

This report was prepared by the Academy's Nonforfeiture Work Group of the Committee on State Life Insurance Issues.

Douglas J. Bennett, F.S.A., M.A.A.A., Chair

Andrew M. Erman, F.S.A., M.A.A.A., Co-Chair

Noel J. Abkemeier, F.S.A., M.A.A.A.

Walter S. Rugland, F.S.A., M.A.A.A.

Donna R. Claire, F.S.A., M.A.A.A.

Donald E. Sanning, F.S.A., M.A.A.A.

Frank P. Dino, F.S.A., M.A.A.A.

William J. Schreiner, F.S.A., M.A.A.A.

Douglas C. Doll, F.S.A., M.A.A.A.

Sheldon D. Summers, F.S.A., M.A.A.A.

Barbara J. Lautzenheiser, F.S.A., M.A.A.A.

Roger Wiard-Bauer, F.S.A., M.A.A.A.

Stephen J. Preston, F.S.A., M.A.A.A.

The American Academy of Actuaries' Nonforfeiture Work Group has been having conference calls throughout the summer. The purpose of these calls has been to develop an approach to determine the extent of the methods and procedures that companies have in place for determining and re-determining non-guaranteed elements. It is our anticipation that such methods and procedures are rigorous and that an actuary (who must comply with actuarial standards of practice) is involved in the process. If this regulatory approach is working for the re-determination of non-guaranteed elements, is it then possible that a similar approach could be used for the regulation of nonforfeiture values?

Initially, we intended to survey actuaries with respect to Actuarial Standards of Practice No. 1 and 15. We hoped to show that in fulfilling their professional obligations, they were completing reports that documented their company's methods and procedures in a way that could be extended to the proposed approach for regulating nonforfeiture values.

The work group has subsequently determined that a better first step would be to study the content of the responses to Interrogatory 3 of Exhibit 8 of the annual statement. Interrogatory 3 requires companies, which have policies with non-guaranteed elements, to provide a description of the determination procedures and any changes during the year. Further, the appointed actuary is required to attest to the fact that the non-guaranteed elements are determined in accordance with generally accepted actuarial principles and practices. At least initially, this study would provide insight into the comprehensiveness of the methods and procedures that exist within each company and the extent to which the professionalism of the actuary can be relied upon.

At this point, we have begun to review a small sample of statements in order to better understand the ways in which companies comply with this annual statement requirement. It is still too early for us to draw conclusions.