



AMERICAN ACADEMY OF ACTUARIES

ANNUAL MEETING AND PUBLIC POLICY FORUM

2017

NOVEMBER 14-15 ★ FAIRMONT HOTEL WASHINGTON, D.C.

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Finding a Balance

The Role of Nonguaranteed Elements (NGEs) in Life Insurance and Annuity Contracts



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What Are NGEs?

Any element within a policy that (1) affects policy cost or value and (2) can be changed at the discretion of the insurer after issue

Examples of NGEs

- Life insurance: indeterminate premiums, dividends, cost of insurance charges, crediting rates, index parameters, expense charges, loan spreads, rider charges
- Annuities: crediting rates, index parameters, bonus rates, transfer fees, expense charges, rider charges, annuity purchase rates, dividends



Why Do NGEs Exist?

NGEs enable potentially lower costs than fully guaranteed policies in exchange for policyholders sharing a portion of policy risks, such as:

- Market risks (equities, interest rates, inflation)
- Insurance risks (mortality, longevity, morbidity)
- Policyholder behavior risks (persistency, anti-selection, liquidity)
- Regulatory/operational risks (reserves, capital, taxes, expenses)

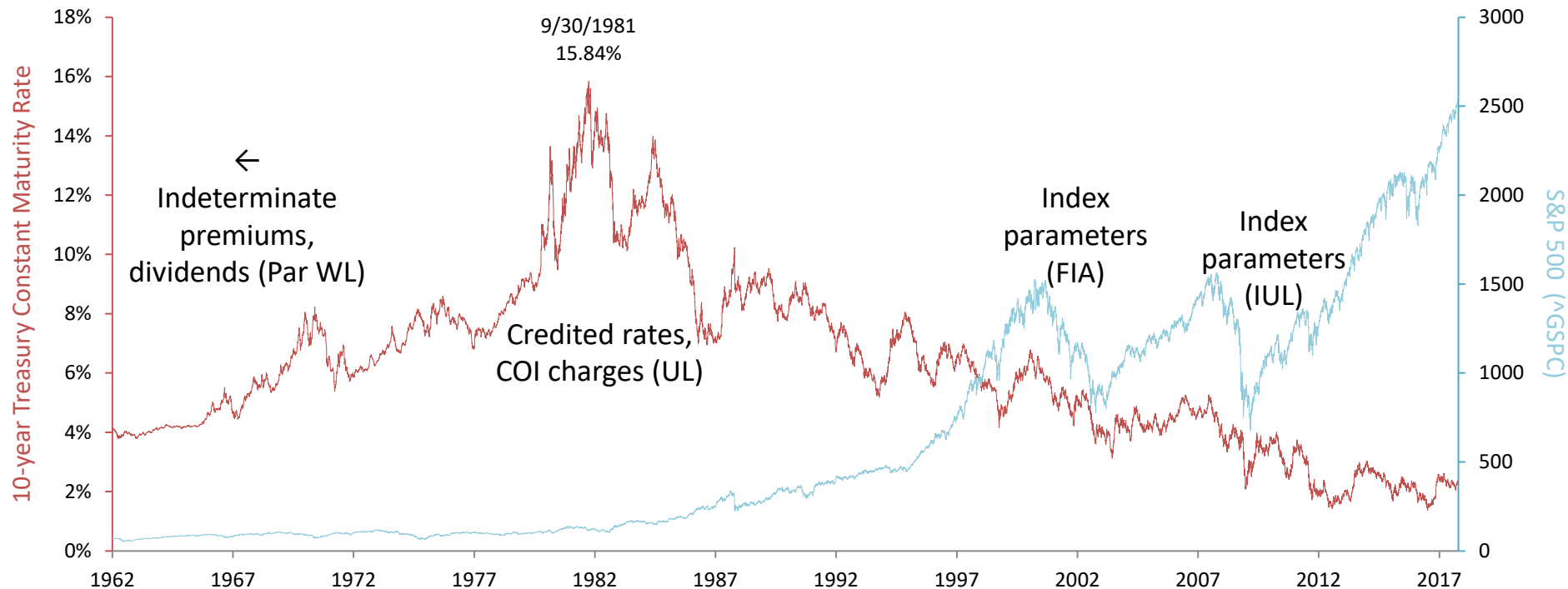


NGEs Have Pros and Cons

Pros	Cons
Benefits may be available at lower cost than fully guaranteed policies	Costs could increase or benefits could decrease, subject to guarantees
More product choices to meet consumer needs	Potential for consumer misunderstanding
Company able to manage products in line with emerging experience	More complex regulation and increased litigation risks



History of NGEs



Sources: Bureau of Labor Statistics, Yahoo! Finance



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Initial Perspectives

- Have NGE changes on inforce business become more prevalent in recent years? Why or why not?
- Is it better to make infrequent/larger changes or frequent/smaller changes to NGEs?
- Should NGE changes be tied to a specific shift in underlying experience?



Pricing Perspectives

- What are the key actuarial considerations when determining NGEs?
- What drives the difference between NGEs and their guarantees?
- How does the determination of NGEs vary by product type?
- How do risk mitigation programs impact NGEs?

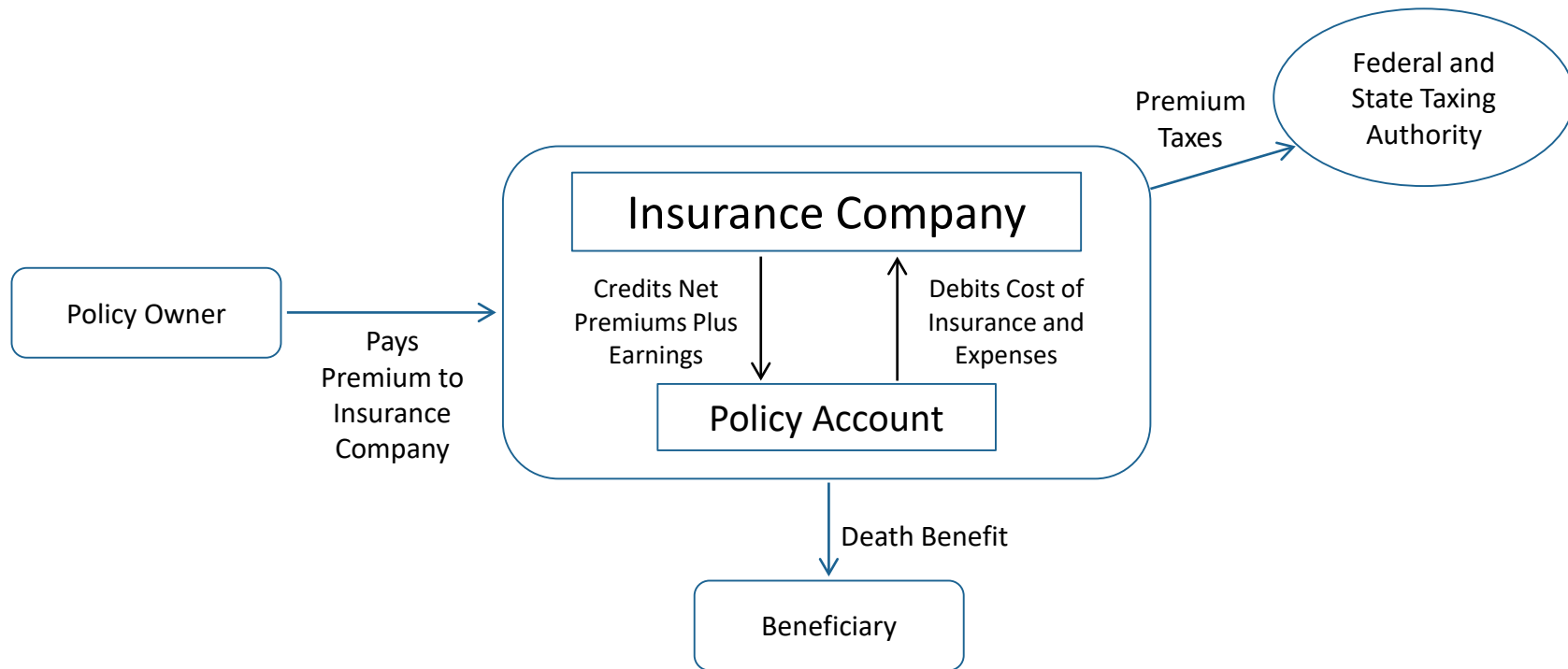


Advisory Perspectives

- How do you approach NGEs with your clients?
- What do clients care about when purchasing a new product?
 - When reviewing an existing product?
- How do illustrations fit into the purchasing process?
 - When reviewing an existing product?
- What is most confusing to clients?



Illustrative Example: Universal Life Diagram



Illustrative Example: Risk Spectrum



Regulatory Perspectives

- How do you balance consumer protection and company solvency in your role as a domestic regulator for life insurance companies?
- How do you view the recovery of past losses in NGE determination policies?
- What considerations do you use to evaluate a statement of variability during your review of an initial product filing?
- What type of consumer complaints has your department received regarding NGEs? How has your department handled these complaints?



Legal Perspectives

- Looking back, what themes have been common in NGE litigation?
- How does litigation impact insurers' NGE setting process?
- Does declining to make a change provide immunity from litigation exposure?
- What actuarial considerations have been key drivers in litigation?



Emerging Guidance

NY Regulation 210

- Actuarial challenges
- Legal considerations

TX HB 3370

- Should actuaries expect additional state activity in the future?



Summary

- How can actuaries help consumers avoid a negative experience?
- How do considerations for annuities vs. life insurance differ?
- What practices need to be in place to help manage consumer expectations?
- What practices can help mitigate litigation exposure?



NGE Resources

- NAIC Model Laws and Regulations
- Actuarial Standards of Practice (ASOPs)
- American Academy of Actuaries Practice Notes
- Interstate Compact (IIPRC) Standards
- State Laws/Regulations/Bulletins/Circular Letters
- American Academy of Actuaries NGE Work Group



Thank You

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