AMERICAN ACADEMY of ACTUARIES

October 9, 2001

Commissioner Frank M. Fitzgerald
Michigan Division of Insurance
P.O. Box 30220
Lansing, MI 48909-7720

Commissioner M. Diane Koken
PA Insurance Department
1326 Strawberry Square
Harrisburg, PA 17120-0046

Re: Comments on Standards of Life Insurance Products

Dear Commissioners Fitzgerald and Koken:

On behalf of the American Academy of Actuaries' (Academy) Life Products Committee, I would like to commend you and the Speed to Market Working Group for its efforts to streamline the approval process for life insurance products. We were pleased to learn of the emphasis you have placed on adding new products to the review facility. We wish to comment on two of the provisions in the recently released standards on Individual Flexible Premium Universal Life Insurance.

Under the section titled "Nonforfeiture Values – Computation of Values," item number (1)(b), the standards require a limit on the guaranteed maximum cost of insurance rates for a standard insured. We do not believe that this limitation is part of the NAIC Model Laws and Regulations applicable to Individual Flexible Premium Universal Life Insurance. We further feel that this provision is actuarially inappropriate.

The NAIC Model Laws and Regulations specify a mortality table for use in determining Universal Life (UL) reserves and in determining a surrender charge schedule applicable to UL product designs. However, the rules are silent on any level of charges, whether it is premium loadings, administrative charges, or specifically the cost of insurance rates. We feel that the limitation included in the above-cited standard will lead to the undesirable outcome of creating a rule that does not currently exist.

Further, the Life Products Committee, through two of its subcommittees, has determined that this restriction on cost of insurance rates is actuarially inappropriate. The maximum tables referenced in the Coordinated Advertising, Rate, and Form Review Authority (CARFRA) standards are based on an aggregate of business that, in many cases, is less than a company's current experience. Roughly one third of companies have aggregate mortality in excess of the promulgated tables. Additionally, the majority of insurance companies have standard risks where the expected mortality is in excess of the promulgated tables, since the development of preferred underwriting categories has raised most of the industry's residual standard mortality experience.

For the affected companies and underwriting categories, this standard may result in inadequate rates, which could lead to other significant actuarial considerations.

Under the section titled "Nonforfeiture Values – Computation of Values", item number (1)(f), the standards require a guaranteed minimum interest rate of two percent. Similar to the previous discussion points, we feel that this limitation is not contained in the NAIC Model Laws and Regulations, and we believe that this provision could also be actuarially inappropriate.

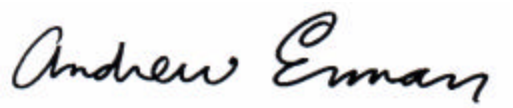
The NAIC Model Laws and Regulations specify interest rates for nonforfeiture purposes and for valuation purposes, but they do not reference a minimum rate in the context used by the CARFRA standards. Again, we feel that this requirement will have the undesirable result of creating a restriction that does not currently exist.

Further, this committee is concerned that in a decreasing interest rate environment, an arbitrary limitation on interest rates could pose a solvency threat to insurance companies. For example, Japan recently had interest rate levels such that a required two percent minimum return would have created a significant amount of risk on the books of their insurers. We feel that this limitation needs to be removed or modified.

The Academy's Life Products Committee will continue to monitor the activities of your Working Group and will offer comment on concerns of an actuarial nature. Those concerns could include issues that may involve insurer solvency or other actuarial aspects of NAIC Model Laws and Regulations. We also support recognition of membership in the American Academy of Actuaries in any standards you might approve for actuaries.

Thank you for this opportunity to comment, and we look forward to supporting your efforts.

Sincerely,



Andrew M. Erman
Chairman, Life Products Committee
American Academy of Actuaries' Life Practice Council

cc: Eric Nordman, Bob Card, Andy Beal

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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.