



AMERICAN ACADEMY *of* ACTUARIES

**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**

Washington, DC - September 2007

The American Academy of Actuaries is a national organization formed in 1965 to bring together, in a single entity, actuaries of all specializations within the United States. A major purpose of the Academy is to act as a public information organization for the profession. Academy committees, task forces and work groups regularly prepare testimony and provide information to Congress and senior federal policy-makers, comment on proposed federal and state regulations, and work closely with the National Association of Insurance Commissioners and state officials on issues related to insurance, pensions and other forms of risk financing. The Academy establishes qualification standards for the actuarial profession in the United States and supports two independent boards. The Actuarial Standards Board promulgates standards of practice for the profession, and the Actuarial Board for Counseling and Discipline helps to ensure high standards of professional conduct are met. The Academy also supports the Joint Committee for the Code of Professional Conduct, which develops standards of conduct for the U.S. actuarial profession.

Nonforfeiture Improvement Work Group

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The Nonforfeiture Improvement Work Group (NFIWG) of the American Academy of Actuaries Life Products Committee has conducted regular conference calls since the National Association of Insurance Commissioners (NAIC) Summer Meeting in June 2007. These calls have focused on developing an overall framework and proposal for reforming nonforfeiture mandates in accordance with the set of basic principles governing such reform that were distributed to the Life and Health Actuarial Task Force (LHATF) in December 2006.

NFIWG has concluded that any proposal for nonforfeiture reform should be accompanied by a detailed presentation of the regulatory issues and marketplace dynamics driving the need for change. Consequently, NFIWG felt it appropriate to step back from the proposals for change themselves and present in broad terms to LHATF the areas intended to be covered in its final Report. It is important to note that, as work proceeds on the various phases of the Report, this overview may be modified; LHATF will be promptly apprised of any such changes made by the NFIWG. The Report overview is intended to provide LHATF with information as to the direction being taken by NFIWG in accomplishing its charge. NFIWG anticipates making its final Report to LHATF by its December 2008 meeting.

ACADEMY NFIWG REPORT OVERVIEW

Section I

❖ Impetus For Nonforfeiture Reform

- Historical perspective on nonforfeiture mandates
- Competition in financial services industry
- Advances in technology
- Increased consumer awareness and access to information
- Rigidity of current formulaic approach to nonforfeiture minimums
- Existing legal framework forces companies to use complex and difficult to understand product designs to ensure compliance
- Current laws and varying interpretations result in inconsistent regulatory treatment of products with similar benefit guarantees (include examples)
- Current laws do not recognize any relationship between the value of prefunded benefits and a product's gross premiums

Section II

❖ Benefits Of Nonforfeiture Reform

- New approach would increase companies' ability to make available newer and more innovative products to serve consumer needs
- Potential for lower product costs to consumers under revised approach
- Current product designs could be simplified to be more understandable to the consumer
- New approach could increase the number of choices available to consumers to meet their insurance needs

Section III

❖ Impediments To Nonforfeiture Reform

- Varying regulatory views as to the objective(s) of nonforfeiture reform
- Federal tax treatment of products
- Resistance to change from segments of regulatory and industry sectors

Section IV

❖ Basic Principles Guiding Proposals For Nonforfeiture Reform

- Minimum nonforfeiture values should be based on prefunding resulting from premium payments and credited values
- Minimum nonforfeiture mandates should specify the nonforfeiture methodology, not quantitative amounts
- In determining minimum nonforfeiture values, there should be no recognition of a change in insurability status since the date of policy purchase
- Minimum nonforfeiture mandates should be stated as broadly as possible
- Any minimum nonforfeiture methodology requirements should be the same for life and annuity products
- Non-guaranteed elements (including dividends) should not be regulated by minimum nonforfeiture mandates until credited

Section V

❖ Issues Associated With Mandating Minimum Cash Values In Life Products

- Consumer protection
- Competition from life settlement industry
- Federal tax treatment of products

- Cost of minimum cash value mandate to consumer (include examples)
- Similar treatment of products with comparable guarantees

Section VI

❖ Basic Proposals For Nonforfeiture Reform

- Basic proposal without mandated minimum cash values
- Additions to basic proposal to incorporate requirements for and conditions applicable to minimum cash values if mandated

Section VII

❖ Future Direction Of Nonforfeiture Reform Activities