



AMERICAN ACADEMY *of* ACTUARIES

May 28, 2002

To: NAIC Life and Health Actuarial Task Force

From: Academy Annuity Nonforfeiture Interest Rate Work Group

Re: Annuity Nonforfeiture Interest Rate

The American Academy of Actuaries (Academy) 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.

The nonforfeiture law is, and has always been, an important consumer protection law. Insurance contracts are necessarily complex financial instruments. Consumers rely on laws and regulations, such as the nonforfeiture law, to afford them a level of protection in these complex financial transactions. The National Association of Insurance Commissioners (NAIC) has given the assignment of reviewing the changes to this law to its Life and Health Actuarial Task Force (LHATF). This demonstrates the view of the NAIC, that this is an actuarial matter. Changes to the nonforfeiture law are important changes in public policy requiring actuarial analysis, for which the Academy should and is prepared to analyze in a clear and objective manner. Additionally, actuaries bear some responsibility for implementing the requirements of the current law and demonstrating compliance with it. This, too, demands the involvement of the Academy in any changes.

The Academy has created a new Annuity Nonforfeiture Interest Rate Work Group to address the annuity nonforfeiture interest rate. The Work Group's main charge is to review the current nonforfeiture law and determine a more appropriate interest rate (than the existing three percent) and an appropriate method to accomplish this objective. Such a rate and method needs to address company concerns to protect solvency if rates continue to decline, as well as the need to protect consumers by having a meaningful guaranteed nonforfeiture benefit.

If the LHATF believes that an interim (i.e., short-term) fix is desired, the Academy should play an important role. It is our recommendation that an appropriate indexing method for determining the minimum nonforfeiture interest rate should be determined. Further, the index should be something that can be hedged in the capital markets so that the nonforfeiture regulations are consistent with sound company practice. We also believe that an appropriate method for applying this rate needs to be developed and that such method recognizes other elements (allowable loads) that are in the existing nonforfeiture law. In addition, we continue to support a long-term solution of creating a new nonforfeiture law as well.

Sincerely,



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Chair, Academy Life Products Committee



Larry H. Rubin
Chair, Academy Annuity Nonforfeiture
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