AMERICAN ACADEMY of ACTUARIES

Nonforfeiture Survey Report

Presented by the American Academy of Actuaries' Life Products Committee's Nonforfeiture Work Group to the National Association of Insurance Commissioners' Life and Health Actuarial Task Force

Philadelphia, PA – June 2002

Nonforfeiture Work Group

Douglas J. Bennett, F.S.A., M.A.A.A., Chair
Andrew M. Erman, F.S.A, M.A.A.A., Vice-Chair

Noel J. Abkemeier, F.S.A., M.A.A.A.
William J. Cummings, F.S.A., M.A.A.A.
John F. Gies, F.S.A., M.A.A.A.
Stephen J. Preston, F.S.A., M.A.A.A.
Keith D. Osinski, F.S.A., M.A.A.A.
William J. Schreiner, F.S.A., M.A.A.A.
Roger K. Wiard-Bauer, F.S.A., M.A.A.A.
Donna R. Claire, F.S.A., M.A.A.A.
Frank P. Dino, F.S.A., M.A.A.A.
Barbara J. Lautzenheiser, F.S.A., M.A.A.A.
Walter S. Rugland, F.S.A., M.A.A.A.
Jan L. Pollnow, F.S.A., M.A.A.A.
Sheldon D. Summers, F.S.A., M.A.A.A.

The Work Group would also like to recognize the support of David J. Hippen and Jean B. Liebmann.

Introduction

As the Generalized Nonforfeiture Law work has developed over time, there has been an increased emphasis on the part of regulators on not only the guaranteed elements in a contract, but on the non-guaranteed elements (including dividends) as well.

The American Academy of Actuaries' Nonforfeiture Work Group (Work Group) has therefore been working to find a means whereby more flexibility can be brought into the determination of nonforfeiture values. Based upon the experience with the determination of non-guaranteed elements and the setting of dividends, this could be dependent upon a greater reliance on company decisions, including actuarial judgment. Consequently, we felt it would be instructive to evaluate the manner in which non-guaranteed element determination and dividend setting are managed, so it could be determined whether a similar process could be extended to the establishment of nonforfeiture values.

Summary

To determine the current practices in the determination and re-determination of non-guaranteed elements and dividend setting, the Work Group performed a survey of life insurance companies. The goal of this survey was to better understand if, and how, important decisions affecting policy values are carried out with consistency and in a responsible fashion over the course of normal business management. Specifically, the survey looks at the methodologies being used by companies when determining and re-determining non-guaranteed elements {including the extent to which Actuarial Standard of Practice (ASOP) 1 is affecting the work}.

The scope of this survey is limited to individual insurance.

The results are shown in Appendix B. This survey showed:

- All companies surveyed have an established process for determination and re-determination of non-guaranteed elements and dividends.

- Most of these processes are formalized. The remaining processes are carried forward as part of standard operating practices.

- Many of these processes are fully documented. Those that are not, still consistently follow a given approach that has become part of company procedures.

- Top management, either as a distinct policy or as part of the product approval process, approves the policies governing the determination and re-determination of these non-guaranteed elements and dividends. In addition, the Board, upon the recommendation of top management always approves the dividend resolution. In both cases, the policy itself has its roots in actuarial recommendations.

- The implementation of the policy governing the determination and re-determination of non-guaranteed elements and dividends is essentially the responsibility of the actuary, although there is some oversight by top management

- There is generally consistency from year-to-year in the principles underlying execution of the policy.

- Acquired blocks of business are generally treated similarly to inforce blocks of business, although strong consideration may be given to continuing the manner in which they previously had been managed.

While not a finding on the practices themselves, it is important to note than many of the participants indicated that the confidentiality of their processes is important. .

Conclusion

From these conclusions the Work Group needs input from the National Association of Insurance Commissioners' Life and Health Actuarial Task Force to determine which elements of the practices, and what additional practices, if any, are needed by the regulators to assure them that sound actuarial principles are being followed. These could then be incorporated in a Generalized Standard Nonforfeiture Law.

Methodology

The survey was conducted on a one-on-one basis by telephone with actuaries identified as having responsibility for the determination of non-guaranteed elements and the setting of dividends. Four members of the Work Group conducted the interviews over approximately a six-week period. Each interviewer was assigned approximately ten companies to contact. An interview guide was created to guide the actual interview (see Appendix A), but the interviewer was encouraged to take the time to explore answers in some depth and develop as complete an understanding of a particular company's methods and procedures as possible. In a few cases, the companies requested the guide prior to the actual interview, but in most cases there was no preparation on the part of the company.

The companies to be interviewed were chosen from two lists. One was made up of the 20 largest writers of contracts with non-guaranteed elements plus 30 other randomly selected companies. The other list included any mutual companies that were not included in the first list. Initially, it was planned to contact all companies on both lists, but time constraints made this not feasible. Ultimately, we contacted 43 companies and secured interviews with 27 of them.

Appendix A

Survey of Current Company Practices with Respect to the Setting and Re-determination of Non-Guaranteed Elements

Purpose

To better understand how actuaries are applying internal policies and procedures with respect to non-guaranteed elements and to contrast those policies against related procedures for distribution of surplus associated with participating insurance policies.

Survey

Explanatory Statement:

Over the last several years, the NAIC Life/Health Actuarial Task Force has been researching a new minimum nonforfeiture approach. Instead of the historic approach of statutory minimum values, the proposed nonforfeiture law approach would rely more heavily on company documentation of how policy values are to be determined and re-determined. This is currently limited to individual life insurance.

Towards that end, we have developed this survey, which will be used to collect information on how decisions affecting policy values are identified and documented over the course of normal business.

The information collected in this survey will be kept completely confidential. The results will be summarized such that procedures and practices of a specific company will be identified to neither the NAIC, nor any other party except the third-party consultants involved with the gathering of this information. Also, so as to avoid anti-trust implications, please do not disclose the level of values associated with any element associated with the determination or re-determination of non-guaranteed elements.
We appreciate your assistance in completing this survey. Can you please help us with the following questions?

Interview Guide

1) Is participating business, i.e., that which involves the distribution of surplus typically through policy dividends, a significant portion of your inforce business?
2) Is a significant portion of your inforce business based on non-guaranteed elements, e.g., setting an interest rate on a UL product?
3) Is a significant portion of your new business participating?
4) Is a significant portion of your new business based on non-guaranteed elements?

5) First, let's talk about when you're just releasing new products. I'm not talking about a new policy sale for an older product; we mean something for which you have just recently filed the product and are just beginning to sell the new product. Let's look at a non-participating policy that has non-guaranteed elements.

   a) Is the approach for setting the non-guaranteed elements formalized in writing, or is it "walking around" knowledge?

   b) Which group establishes the policy? (Senior Management, Board, Marketing, etc)

   c) For these new products, when your company sets the declared-rate, to what extent is the approach formulaic? For example, is the credited rate defined to be the earned rate less a spread?

      i) If it is formulaic, what are the items used in the formula?

      ii) Is it modified for more subjective factors, such as competitive benchmarking? If so, what are those factors?

      iii) Do you use an approach that is a blend?

      iv) How often is this set?

   d) How about the insurance costs – do you have a methodology or procedures for re-setting these rates?

      i) If it is formulaic, what are the items used in the formula?

      ii) Is it modified for more subjective factors? If so, what are those factors?

      iii) Do you use a blended approach?

      iv) How often is this set?

   e) And what about the expense charges – do you have a methodology or procedures for re-setting these rates?

      i) If it is formulaic, what are the items used in the formula?

      ii) Is it modified for more subjective factors? If so, what are those factors?

      iii) Do you use a blended approach?

      iv) How often is this set?

6) Now, let's look at when you're releasing a new product line for *participating* policies.

   a) Is the approach for setting the dividends formalized in writing, or is it "walking around" knowledge?

   b) Which group establishes the policy? (Senior Management, Board, Marketing, etc)

c) For the interest component of the dividend scale, to what extent is the approach formulaic? For example, does the pricing model simply use a credited rate to be the earned rate less a spread?

   i) If it is formulaic, what are the items used in the formula?

   ii) Is it modified for more subjective factors, such as competitive benchmarking? If so, what are those factors?

   iii) Do you use an approach that is a blend?

   iv) How often is this set?

d) How about the mortality component – do you have a methodology or procedures for re-setting these rates?

   i) If it is formulaic, what are the items used in the formula?

   ii) Is it modified for more subjective factors? If so, what are those factors?

   iii) Do you use a blended approach?

   iv) How often is this set?

e) And what about the expense component – do you have a methodology or procedures for re-setting these rates?

   i) If it is formulaic, what are the items used in the formula?

   ii) Is it modified for more subjective factors? If so, what are those factors?

   iii) Do you use a blended approach?

   iv) How often is this set?

7) Now, let's talk about new business that you're still selling for existing and older products. What conditions might prompt you to change the formula for setting non-guaranteed elements?

   a) Historically, roughly how often was there a difference in the approach for new business sold on older products versus a new product? [Note to person performing the questionnaire – Ask about the individual specifics of how the approach is different if the response indicate that there is a difference. Go through all the questions in numbers 5 and 6, if necessary.]

   b) How often are the non-guaranteed elements evaluated, for new business sold on older products?

8) And what about inforce business. What might make you change the approach for setting non-guaranteed elements for these policies?

   a) Historically, how often has there been a difference between treatment of inforce business versus the anticipated treatment and the time the business was initially sold. [Note to person performing the questionnaire – Ask about the individual specifics of how the approach is different if the response indicate that there is a difference. Go through all the questions in numbers 5 and 6, if necessary.]

b) How often are the non-guaranteed elements evaluated, for inforce business?

9) Lastly, what about company acquisitions. If your company acquires a block of business, is it standard practice to re-evaluate the non-guaranteed elements for the inforce block?

   a) If so, what elements are reviewed?

   b) Can you describe for historical acquisitions by your company, which ones have prompted a re-evaluation of non-guaranteed elements? What were the conditions around which those elements were re-evaluated?

Survey of Current Company Practices with Respect to the Setting and Redetermination of Nonguaranteed Elements

May 2002

Survey – Questions 1-4

Interview Questions	Yes	No
1) Is participating business a significant portion of in-force?	15	6
2) Is business based on nonguaranteed elements a significant part of in-force?	19	2
3) Is participating business a significant portion of new business?	7	14
4) Is business based on nonguaranteed elements a significant part of new business?	19	2

Survey Question 6

For companies where participating business is a significant portion of new business…

Survey Question 6

a) Is the approach formalized or “walking around” knowledge?

Individual respondents answered:

- Formalized. Contained in pricing and design and embedded in dividend scale format.
- Formalized in dividend resolution.
- More “walking around” than formal, but embodied in dividend resolution.
- Formalized. Pattern of earnings determined in pricing and dividends maintain the pattern.

Survey Question 6, contd.

a) Is the approach formalized or “walking around” knowledge? (contd.)

Individual respondents answered:

- Dividends set using a dividend formula and profit objectives.
- Competitive needs and anticipated profit margins used in setting dividends.
- Dividend formula is formalized in writing.
- Senior management sets; approved by Board.

Survey Question 6, contd.

b) Who establishes the policy?

Individual respondents answered:

- Senior management.
- Board approves resolution annually.
- Board reviews total amount of dividend being paid.
- Chief actuary.
- Product Development/Actuarial with Senior Management approval.

Survey Question 6, contd.

c) How is the interest component determined?

Individual respondents answered:

- Portfolio rate basis. Loan usage is recognized. Recognizes purpose of product, e.g., cash accumulation vs. long-term death benefit. Manage by profit goals.
- Spread over pricing assumptions. Influenced by profit goals for total company group.
- Excess interest over pricing interest. Set annually.
- Variance from pricing assumption.

Survey Question 6, contd.

c) How is the interest component determined? (contd.)

Individual respondents answered:

- Interest component utilizes a mix between a formula and overall profit objectives. Dividends reset whenever necessary (no set timeframe).

- Component is formulaic and uses earned rate, spread, default costs and investment expenses. Process subjective in that Board approves total amount of dividend paid out and the ‘formula suggested’ dividends on a policy basis adjusted accordingly. Board utilized company financials and competitive factors when setting overall dividend. Dividends set once per year.

Survey Question 6, contd.

c) How is the interest component determined? (contd.)

Individual respondents answered:

- Interest component uses a crediting rate equal to the earned rate less a spread.
- Not subject to competitive factors.

Survey Question 6, contd.

d) How is the mortality component determined?

Individual respondents answered:

- Same principles as interest. Manage by profit goals.
- Set at issue. Study annually, but have made no changes.
- Difference from pricing mortality. Review annually.
- Variance from pricing assumption.
- Mortality component formulaic; set as a dividend mortality rate less guaranteed rate.

Survey Question 6, contd.

e) How is the expense determined?

Individual respondents answered:

- Same principles as interest. Manage by profit goals.
- Set at zero.
- Generally does not change.
- Variance from pricing assumption.
- Never modified. Monitor annually as part of Illustration Actuary activities.
- Set at pricing, but not changed subsequently. Review annually.

Survey Question 6, contd.

e) How is the expense determined? (contd.)

Individual respondents answered:

- Expense component utilizes a mix between a formula and overall profit objectives. Dividends reset whenever necessary (no set timeframe).
- Set based on company experience and reviewed annually.
- Expense component is a balancing item used to achieve corporate profit objectives and competitive performance.
- Expense factors may vary at issue based on product structure, but future changes based on changes in experience.

Survey Questions 5 & 7

For companies where nonguaranteed is a significant portion of new business…

Survey Questions 5 & 7

5a) Is the approach formalized or "walking around" knowledge?

Individual respondents answered:

- Profit measures must be met and these are formalized.
- "Walking around."
- Combination. Interest approach in writing for 15 years.
- Formalized; formalized in writing for annual statement purposes; formalized in pricing documents.
- Basis is formalized, but is becoming "walking around."
- Informal.

Survey Questions 5 & 7, contd.

5a) Is the approach formalized or “walking around” knowledge? (contd.)

Individual respondents answered:

- Profit objectives and pricing assumptions are in writing. These are determined on a product-by-product basis.
- Approach involves attempting to achieve profit and marketing objectives within any constraints by law. Since a great many factors can impact future profitability, precise events triggering revisions in nonguaranteed elements cannot be formalized in advance. Formalized approaches subject to change.
- Formalized only at high level – determines which kinds of experience might cause change in factors.

Survey Questions 5 & 7, contd.

5a) Is the approach formalized or “walking around” knowledge? (contd.)

Individual respondents answered:

- Guidelines and principles are in writing (e.g., maintain equity among policyholders, ROI objectives). Actuaries are required to document target ROI and how product operates.

- In-between formal and walking around. Not always in writing, but discussed and decided. Documented as part of a profit and nonguaranteed elements study. Annual review by chief actuary. Policy allows room around target, takes into account changing factors, includes external factors, e.g.,capital considerations, market competitiveness.

Survey Questions 5 & 7, contd.

5b) Who establishes the policy?

Individual respondents answered:

- Corporate Product Management.
- Actuarial; Actuarial/Senior management
- Chief Actuary, with modifications by Marketing
- Product actuaries, with approval by Chief Actuary
- Higher management; President
- Product Development/Actuarial

Survey Questions 5 & 7, contd.

5b) Who establishes the policy? (contd.)

Individual respondents answered:

- Board-designated committee establishes policy
- Senior management on a product-by-product basis
- Senior management
- Senior management and chief actuary (chief actuary translates corporate objectives into specific product goals)
- Product people – documented prior to annual meeting, reviewed by chief actuary

Survey Questions 5 & 7, contd.

5b) Who establishes the policy? (contd.)

Individual respondents answered:

- Senior management for much of it. Board approves changes. In end, Board blesses everything.

Survey Questions 5 & 7, contd.

5c) How is the declared rate set?

Individual respondents answered:

- Earned rate less spread (varies by product). Some values are adjusted to recognize market conditions. Generally reviewed annually, except monthly for SPUL.
- Maintain margin. Recognize competition. Quarterly review.
- Temporarily adjusted for competitive purposes. Monthly review.
- Target spread set. Some lag creates upward bias. Adjust 1-6 times annually.
- Portfolio yield minus stated spread.

Survey Questions 5 & 7, contd.

5c) How is the declared rate set? (contd.)

Individual respondents' answers, contd.:

- Have rules for when to recognize a new segment. Manage to maintain aggregate profit target from pricing. Competitive considerations recognized at product development time.
- Spread determined at pricing. May be modified by senior management/chief actuary for market purposes, but not below a floor.
- A formula sets an initial course. If low rate, seek higher investment return while maintaining margin.

Survey Questions 5 & 7, contd.

5c) How is the declared rate set? (contd.)

Individual respondents' answers, contd.:

- Subjective consideration for competition about 25% of the time. Internal profit goals can cause a deviation.
- Competitive market/benchmarking against competitors.
- Not formulaic.
- Benchmarks, by product, are used. Overall spread is managed for the entire block and changes are made based on performance of product, rather than by element.

Survey Questions 5 & 7, contd.

5c) How is the declared rate set? (contd.)

Individual respondents’ answers, contd.:

- Review bi-weekly, but change only if significant.
- Process is formulaic using earned rate, a spread, and default costs. Competitive benchmarking not used.
- Declared rate is formulaic and uses a portfolio concept. Credited rate set using average portfolio rate less spread. Based solely on product series, not subjective factors. Declared rates set/reviewed at least monthly.
- Formulaic spread to anticipated portfolio rate.

Survey Questions 5 & 7, contd.

5c) How is the declared rate set? (contd.)

Individual respondents' answers, contd.:

- For interest rates, trial rate developed by subtracting nonguaranteed spread from earned rate. Spread is nonguaranteed element adjusted occasionally to meet profitability and marketing objectives. Competitive benchmarking incorporating anything that could affect profitability. Rates set whenever management suspects profitability and marketing targets not likely to be met.
- Target spread could change based on competitor benchmarking.
- Look more at entire package than specific component.

Survey Questions 5 & 7, contd.

5c) How is the declared rate set? (contd.)

Individual respondents answered:

- May deviate – some consideration given to competitive issues. Rates looked at monthly, but change less frequently.
- Not exactly formulaic, target spread could change based on, e.g., competitor benchmarking. If can achieve higher margins, will do so. Look more at entire product package rather than any specific component. Interest is reviewed monthly.
- Follow portfolio rate. Review quarterly.

Survey Questions 5 & 7, contd.

5c) How is the declared rate set? (contd.)

Individual respondents answered:

- Portfolio rate less spread. Spread in theory is fixed but could go plus/minus .25%. Policy not rigid. Market is monitored, but this is not crucial. Rates looked at monthly, but no set time for changes.

Survey Questions 5 & 7, contd.

5d) How is the insurance cost set?

Individual respondents answered:

- Formulaic approach with actual q_x, and recognition of reinsurance and expenses. Competition recognized when setting COI structure. Reviewed annually.
- No formulaic methodology. Adjust if need suggested by profitability and cash flow testing measures. Not modified by subjective factors. Reviewed when developing assumptions for cash flow testing.
- Experience basis. May decrease for specific inforce.

Survey Questions 5 & 7, contd.

5d) How is the insurance cost set? (contd.)

Individual respondents' answers, contd.:

- Repricing to maintain profit margins that were set at the time of product development. Competitive positioning recognized, too. Annual or biennial review.
- Determine profile of charges as part of design to match product use, e.g., early accumulation. Maintain the profile if experience shifts.
- No reset since 1990. Insufficient mortality experience.
- Based on pricing shifts.

Survey Questions 5 & 7, contd.

5d) How is the insurance cost set? (contd.)

Individual respondents’ answers, contd.:

- Experience-based multiple of table. Lowered once ten years ago– not reviewed in last seven years (very small line of business).
- Formulaic approach that includes both mortality and expenses in COI. Actual to expected reviewed quarterly, study annually, change every three to four years.
- Never have made an adjustment. Pricing profit goal managed in aggregate. No significant changes to support a rate change following review.

Survey Questions 5 & 7, contd.

5d) How is the insurance cost set? (contd.)

Individual respondents' answers, contd.:

- No well-defined or set methodology. Insurance costs examined only if mortality changes dramatically.
- No formal process. Product looked at in aggregate and compared to overall pricing target. Formal review conducted every 5 years.
- Insurance costs a function of product design and based on current pricing mortality tables. COLI is only product where competitive factors considered; this is rare. Insurance costs reviewed at high level annually, more thoroughly every 3-4 years.

Survey Questions 5 & 7, contd.

5d) How is the insurance cost set? (contd.)

Individual respondents' answers, contd.:

- Would expect to change if there were increase in mortality; have not changed for improvements. Some retroactive change on recent issues if reduced for new issues.
- New products have different COIs due to different load structures.
- Same general methodology, process as interest rates.
- Similar to interest, may revise as part of evaluation of overall product package.

Survey Questions 5 & 7, contd.

5d) How is the insurance cost set? (contd.)

Individual respondents' answers, contd.:

- Review quarterly.
- Would change only if a significant change in experience – seldom happens.
- Continuous monitoring, but very infrequent changes.

Survey Questions 5 & 7, contd.

5e) How are the expense charges set?

Individual respondents answered:

- Initially, best estimate. Increasing costs absorbed into interest or mortality components. Annual review/study or monitor as part of Illustration Actuary activities. Change if appropriate.
- Experience basis or experience basis for initial level. Do not change/never modified after product development or during lifetime.
- Set at pricing. Low priority item. Generally don’t adjust. Insufficient experience to study.

Survey Questions 5 & 7, contd.

5e) How are the expense charges set?

Individual respondents answered:

- Recognize changes in COI.
- No well-defined methodology; expenses examined only if there are radical changes.
- No formal process. Product looked at in aggregate and compared to overall pricing target. Formal review conducted every 5 years.
- Same general methodology, process as interest rates.

Survey Questions 5 & 7, contd.

5e) How are the expense charges set?

Individual respondents answered:

- Corporate guidelines determine how expenses handled. Process is not formulaic; varies based on product. Subjective factors enter into determination with respect to expense allocation among products. Expenses reviewed monthly at a high level and more formally on an annual basis.
- Don’t have nonguaranteed charges for expenses.
- Primarily market driven.

Survey Questions 5 & 7, contd.

5e) How are the expense charges set?

Individual respondents answered:

- Expenses are reviewed annually.
- Almost never make changes in expenses.

Survey Questions 5 & 7, contd.

7a) How often was there a difference in approach for new business sold on older products versus a new product?

Individual respondents answered:

- Have not had differences in formula. Factors might be different due to different profit measures in a new series. New product may have different profit goals.
- Once, when the NAIC Illustration Regulation came out.
- A couple of times. Translated a change in COI into a change in interest for ease of implementation. Nevertheless, the approach was essentially the same.

Survey Questions 5 & 7, contd.

7a) How often was there a difference in approach for new business sold on older products versus a new product? (contd.)

Individual respondents' answers, contd.:

- Approach the same, but ROI goal may differ or influence of reinsurance may be different.
- Only one product at a time.
- No change in approach, only valuation rate changes. Seldom significant.

Survey Questions 5 & 7, contd.

7a) How often was there a difference in approach for new business sold on older products versus a new product? (contd.)

Individual respondents' answers, contd.:

- May have been changes caused by illustration regulation.
- Same methodology.

Survey Questions 5 & 7, contd.

7b) How often are the nonguaranteed elements evaluated for new business sold on old products?

Individual respondents answered:

- Annually or biennially.
- Interest, monthly; mortality, annually; expenses, less frequently.
- Continuous process.
- Seldom or as needed; not often.
- Not applicable now.
- Not less frequently than every 5 years

Survey Questions 5 & 7, contd.

7b) How often are the nonguaranteed elements evaluated for new business sold on old products? (contd.)

Individual respondents answered:

- Interest credited is reviewed periodically; other nonguaranteed elements not reviewed on a regular basis.
- Interest rate environment could change way we approach setting nonguaranteed elements. Approach varies on a product-by-product basis. Nonguaranteed elements evaluated at same intervals as new product sales.
- As needed, less often for expenses.

Survey Questions 5 & 7, contd.

7b) How often are the nonguaranteed elements evaluated for new business sold on old products? (contd.)

Individual respondents answered:

- We have always managed expected future profits by changing nonguaranteed elements as needed, but specific methods used to establish nonguaranteed elements for new products have frequently differed from methods used for older products. Interest rates reviewed quarterly. Expected profitability tested at least annually. Nonguaranteed elements subject to change any time it is determined that profitability targets will not be met.

Survey Question 8

For companies where nonguaranteed is significant portion of inforce…

Survey Question 8

a) How often has there been a difference between the treatment of in-force business and the anticipated treatment at the time the business was sold?

Individual respondents answered:

- Once, to correct an error
- Once lowered dividends to improve profit margins
- Only to address imposition of DAC Tax in 1991
- Not aware of conditions that would change how we set nonguaranteed elements on in-force policies.

Survey Question 8, contd.

a) How often has there been a difference between the treatment of in-force business and the anticipated treatment at the time the business was sold? (contd.)

Individual respondents answered:

- Approach might change due to new management or new regulatory requirements.
- Changes might occur as a result of interest rate environment; e.g., interest rate spread might vary based on level of interest rates. Methodology same for all business.
- Would change based on experience.

Survey Question 8, contd.

a) How often has there been a difference between the treatment of in-force business and the anticipated treatment at the time the business was sold? (contd.)

Individual respondents answered:

- Periodic review of the 5-year Financial Plan may prompt change in approach. Attempt to treat all business equitably. Occasionally (every 3-5 years) new business objectives receive greater priority and are able to obtain more favorable nonguaranteed elements.
- Steep declines in interest rates in 1990s led us to modify approach to varying degrees for virtually all products with nonguaranteed interest rates.

Survey Question 8, contd.

a) How often has there been a difference between the treatment of in-force business and the anticipated treatment at the time the business was sold? (contd.)

Individual respondents answered:

- Basis of redetermination for each product: Go through process to determine a) what are nonguaranteed elements? b) what is policy? c) what changes have occurred? d) are they in line with policy? Can't recall ever making change in policy, but policy broad (e.g., spread widening would need to have a reason). Have gone back and lowered mortality on recent issues when lowered for new issues.

Survey Question 8, contd.

a) How often has there been a difference between the treatment of in-force business and the anticipated treatment at the time the business was sold? (contd.)

Individual respondents answered:

- Feel no obligation on nonguaranteed business to pass back unanticipated profits, but wouldn't increase charges to increase profits beyond original expectations.
- On par business, experience is passed through.
- On par, can change profit goals. On nonpar, plan not to change after issue.

Survey Question 8, contd.

b) How often are the nonguaranteed elements evaluated for in-force business?

Individual respondents answered:

- Annually, or biennially; typically every 2-5 years.
- Interest, monthly; mortality, annually; expenses, less frequently.
- Infrequently, due to small scale.
- Periodically or as needed.
- Might change approach if determined that current approach likely to cause product to miss profit goals in future.

Survey Question 8, contd.

b) How often are the nonguaranteed elements evaluated for in-force business? (contd.)

Individual respondents answered:

- Elements other than interest rates reviewed no less often than once every 5 years.
- Interest rates evaluated quarterly.
- Nonguaranteed elements for in-force business evaluated every 5 years.

Survey Question 9

For companies that have acquired a block of business …

Survey Question 9

a) What elements are reviewed?

Individual respondents answered:

- All elements, but primarily mortality.
- All nonguaranteed elements.
- Nonguaranteed elements

Survey Question 9, contd.

b) Discuss your re-evaluation of nonguaranteed elements on an acquired block.

Individual respondents answered:

- Only major problems are addressed, because the company doesn't want to undermine the trust of the newly acquired sales force.
- Increased interest rates above the guaranteed rate in order to improve persistency.
- Investment portfolio adjusted and profit target brought in line with company standards.
- Once re-evaluated interest rate on SPWL block

Survey Question 9, contd.

b) Discuss your re-evaluation of nonguaranteed elements on an acquired block. (contd.)

Individual respondents answered:

- Elements may be rebalanced, but profit goal remains intact.
- We prospectively try to fit business in our methodology for evaluating nonguaranteed elements. All nonguaranteed elements are reviewed and impact the purchase price of the block.
- Primarily, re-evaluation is driven by the profitability of the block.
- Would not re-evaluate.
- Once increased interest on purchased block.