



AMERICAN ACADEMY *of* ACTUARIES

Objective. Independent. Effective.™

Update on Activities of the American Academy of Actuaries Nonforfeiture Modernization Work Group

August 2015

The American Academy of Actuaries is an 18,500+ member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

Tom Berry, MAAA, FSA, Chairperson

Noel Abkemeier, MAAA, FSA
Susan Bartholf, MAAA, FSA
Armand De Palo, MAAA, FSA
Barbara Gold, MAAA, FSA
David Hippen, MAAA, FSA
Trevor Huseman, MAAA, FSA
Barbara Lautzenheiser, MAAA, FSA, FCA
Brian Lessing, MAAA, FSA
John MacBain, MAAA, FSA

Donna Megregian, MAAA, FSA
John Rose, MAAA, FSA, FCIA
Tomasz Serbinowski, MAAA, FSA
Dean Slyter, MAAA, FSA
Ryan Stowe, MAAA, FSA
Wayne Stuenkel, MAAA, FSA, CERA
Andrew Ware, MAAA, FSA
Mike Yanacheak, MAAA, ASA

Background and Scope of Report

Pursuant to its charge, the NAIC's Life Actuarial Task Force (LATF) has requested that the American Academy of Actuaries' Nonforfeiture Modernization Work Group (WG) prepare examples of how nonforfeiture values and benefits would be affected if current nonforfeiture requirements were replaced by the methodology advocated by the WG, the Gross Premium Nonforfeiture Method (GPNM), as described in the WG's August 2011 report¹ and further developed in updates to LATF since then. This report provides an update on the status of the WG's efforts in this regard.

Current Activity

The WG has been working on examples of nonforfeiture calculations for various life and annuity products currently in the insurance marketplace, for a planned-for presentation to LATF in November 2015. The examples will compare nonforfeiture benefits under the current requirements to nonforfeiture benefits determined in accordance with the GPNM.

For these examples, the focus will be on in-kind benefits rather than cash values. The WG recognizes that under revised requirements, cash values may be required for certain products, as they are today. Issues and questions relating to cash value requirements was the subject of the WG's March 2015 report² to LATF, the goal of which was to initiate discussion among stakeholders.

A product that the WG hopes to include in its next report is the Contingent Deferred Annuity (CDA). In May 2015, the WG provided comments³ on proposed changes to model 805 (Standard Nonforfeiture Law for Individual Deferred Annuities). The purpose of the changes was to clarify the status of CDA products with respect to nonforfeiture requirements. More recently, the NAIC Contingent Deferred Annuity (A) Working Group has requested comments on an exposure draft describing a "Cancellation" benefit that would be required upon termination of a CDA by the insurer or a third party. The WG's view is that termination benefits, whether initiated by the insured, the insurer, or a third party are appropriate for CDA's and insured-initiated nonforfeiture benefits should not, as the exposure draft proposes, be excluded. The WG expects to provide comments on the exposure draft.

Conclusion

The NFMWG appreciates the opportunity to provide this update to LATF and anticipates providing additional reports regarding nonforfeiture reform.

¹ http://www.actuary.org/files/publications/NFIWG_Final_Report_with_cover_8-22-11.pdf

² http://www.actuary.org/files/NFMWG_Report_to_LATF_March2015.pdf

³ http://www.actuary.org/files/NFMWG_SNFL_CDA_Comments_LATF_051315.pdf