AMERICAN ACADEMY of ACTUARIES

Non-Guaranteed Element Update
from the American Academy of Actuaries' Life Reserves Work Group

Presented to the National Association of Insurance Commissioners'
Life and Health Actuarial Task Force

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Model Regulation:

Add new definition:

NGE Spread: The provision that a company uses to adjust actual experience to determine each Non-Guaranteed Element. The NGE Spread can be positive or negative. For example, if a company credits interest to policyholders at a rate 1.20% lower than its net investment yield, then the NGE Spread is a negative one hundred and twenty basis points.

Revise section 7.J.

J. Treatment of Non-Guaranteed Elements

1. Non-Guaranteed Elements (NGE) are to be included in the models used to project future cash flows for both the Deterministic Reserve and the Stochastic Reserve. Where NGE are based on some aspect of experience plus the company's NGE Spread, future changes in the level of NGE can be reflected in the cash flow models based on the experience assumed in each Scenario. The intent is to model the determination of NGEs as the company would actually set them if experience unfolded in a manner consistent with the Scenario under consideration, but reflecting a Margin for uncertainty as described below.

2. As would be the case in actual practice, the projected NGE should not be assumed to change simultaneously with the change in projected experience, but only at the date following the recognition of a change in experience on which the company would normally implement a change.

3. When determining the NGE assumption for each Scenario, the actuary must take into consideration those factors that could cause the company to modify its current NGE scale and/or its current NGE Spreads, such as existence of contract guarantees.

4. Due to the uncertainty in the future level of NGE arising from factors such as those listed below, a Margin should be established on the NGE assumption that would result in an increase in the reserve compared to the reserve level that would result from assuming that each Non-Guaranteed Element equals the experience of the Scenario plus 100% of the current NGE Spread. Factors that must be considered when determining the Margin include:

    a. The company's ability to modify its Non-Guaranteed Element scale and/or NGE Spreads, and the company's past NGE practices and current NGE policies.
    b. Impact on policyholder behavior by maintaining the current Non-Guaranteed Element scale and/or NGE Spreads under the Scenario.
    c. Impact of the NGEs assumption on the competitive position of the product under the Scenario.
    d. The size of the Margin as measured by the disclosed Margin Ratio.

5. Any liability for dividends declared but not yet paid that has been established according to statutory accounting procedures as of the Valuation Date shall be reported separately from the Reported Reserve. Accordingly, where such a separate liability is reported on the statutory balance sheet as of the Valuation Date, any dividends that are included in the separate liability shall be excluded from the reserve cash flow projection.

Actuarial Guideline PBR-VAL: Eliminate NGE section