

# **Guaranteed Nonforfeiture Basis Factor Assumptions**

**Nonforfeiture Modernization Work Group**

**Presented To**

**Life Actuarial (A) Task Force**

**National Harbor, MD**

**November 27, 2012**



## ➤ Background and Overview of Process To Date

- NFMWG detailed proposal presented November 2011
- Proposed approach – retrospective Gross Premium Nonforfeiture Method (GPNM)
- Approach distinguished between nonforfeiture (in kind) benefits and cash surrender values, if any
- NFMWG made no recommendation as to whether cash surrender values should be mandated; provided pros and cons



## ➤ GPNM Approach

- **A “three legged stool” approach:**
  - i. Actuarial methodology used to determine nonforfeiture values
  - ii. Enhanced consumer reporting and information process
  - iii. Enhanced regulatory information system and feedback loop
- **Actuarial methodology involves the determination of the amount of pre-funding of risks accepted/benefits provided under the policy**
- **Amount of such pre-funding is the nonforfeiture value, defined as the Required Policy Nonforfeiture Account (RPNA)**
- **Excess of premiums paid plus interest credits over benefit (risk) charges and expense charges**
- **Interest crediting, benefit (risk) charge, expense charge assumptions together called Guaranteed Nonforfeiture Basis (GNFB) factors; Non-Guaranteed Elements declared and credited are in addition**



## ➤ GNFB Assumptions

- Academy WG's proposed Framework for Reform states:  
“Nonforfeiture regulatory requirements should provide specific guidance with respect to required nonforfeiture value methodologies and general guidance with respect to the establishment of nonforfeiture value assumptions”
- WG report recommends “guardrails” be placed on choice of GNFB factors
- Idea is to provide an appropriate measure of pre-funding to ensure consumer value consistent with risks assumed



## ➤ Proposed Requirements For GNFB Factors

- Each GNFB factor must reasonably reflect how the corresponding risk factor experience is anticipated to emerge over the period it is in effect
- Each GNFB factor must be guaranteed over the period or periods stated in the policy
- Each GNFB factor and the period over which it is to apply must be clearly articulated in the policy
- The GNFB factors must be chosen so that, during the period the GNFB factors are guaranteed, the RPNA never becomes negative after becoming positive for the first time



## ➤ Proposed Requirements For GNFB Factors

- If specified premiums are contractually required to be paid and are actually paid, GNFB factors together with the premiums must fund the benefits provided given the risks assumed (including any endowment benefits) under the policy
- If specified premiums are not contractually required to be paid, the GNFB factors together with any premiums paid form the basis for the determination of the RPNA prior to any NGEs credited
- A qualified actuary should be required to certify annually, or at the time a product is filed, that all GNFB factors developed for business issued in that calendar year comply with this guidance
- An Actuarial Standard of Practice should be promulgated to guide the GNFB factor determination process

The establishment of GNFB factor guidance is necessarily an evolving process requiring input from various parties to the nonforfeiture reform process. The WG welcomes input from all parties on the elements covered in this report.

