



# AMERICAN ACADEMY *of* ACTUARIES

---

**Update Regarding a General Revision  
Of Life and Annuity Standard Nonforfeiture Laws  
From the American Academy of Actuaries' Nonforfeiture Improvement Work Group**

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

**Minneapolis, MN – June 2009**

The American Academy of Actuaries is a 16,000-member professional association whose mission is to serve the public on behalf of 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.

Nonforfeiture Improvement Work Group

John MacBain, F.S.A., M.A.A.A., Chair

Noel Abkemeier, F.S.A., M.A.A.A.	Barbara Lautzenheiser, F.S.A., M.A.A.A.
Mary Bahna-Nolan, F.S.A., M.A.A.A.	Brian Lessing, F.S.A., M.A.A.A.
Doug Bennett, F.S.A., M.A.A.A.	Donna Megregian, F.S.A., M.A.A.A.
Tom Berry, F.S.A., M.A.A.A.	Cande Olsen, F.S.A., M.A.A.A.
Cal Birkey, F.S.A., M.A.A.A.	Arthur Panighetti, F.S.A., M.A.A.A.
Vernon Brogla, F.S.A., M.A.A.A.	Sandy Potasky, F.S.A., M.A.A.A.
Eric Carlson, F.S.A., M.A.A.A.	Linda Rodway, F.S.A., M.A.A.A.
Armand de Palo, F.S.A., A.C.A., M.A.A.A.	Larry Rubin, F.S.A., M.A.A.A.
Francis de Regnaucourt, F.S.A., F.C.I.A., M.A.A.A.	Gary Scofield, F.S.A., M.A.A.A.
Robert DiRico, F.S.A., M.A.A.A.	Mark Shickler, F.S.A., M.A.A.A.
Anthony Ferraro, F.S.A., M.A.A.A.	Randall Stevenson, A.S.A., M.A.A.A.
Alice Fontaine, F.S.A., M.A.A.A.	Eugene Strum, F.S.A., M.A.A.A.
Barbara Gold, F.S.A., M.A.A.A.	Wayne Stuenkel, F.S.A., M.A.A.A.
David Hippen, F.S.A., M.A.A.A.	Sheldon Summers, F.S.A., M.A.A.A.
Graham Ireland, F.S.A., M.A.A.A.	Andy Ware, F.S.A., M.A.A.A.
Dan Keating, F.S.A., M.A.A.A.	Peter Weber, A.S.A., M.A.A.A.

The charge from LHATF to the American Academy of Actuaries' Nonforfeiture Improvement Work Group (work group) is to:

*“Study the feasibility of a new nonforfeiture law for life insurance and annuities to replace the existing nonforfeiture standards. Provide quarterly status reports on this project.”*

This report constitutes the requested quarterly status report on the progress of the work group's activities.

Since the NAIC Spring 2009 National Meeting, the work group has continued to hold regular conference calls.

The work group continues to refine the approach to nonforfeiture reform it feels will accomplish the elements contained in its previously-articulated framework for reform. Those elements as of the date of this report are:

- Minimum nonforfeiture values should be based on the prefunding of benefits resulting from premium payments and credited values.
- Minimum nonforfeiture regulatory requirements should provide guidance with respect to minimum nonforfeiture methodologies and the establishment of assumptions; not explicitly defined values or parameters.
- In determining minimum nonforfeiture values, there should be no recognition of a change in insurability status since the date of policy purchase.
- Any minimum nonforfeiture methodology requirements should be the same for life and annuity products.
- Non-guaranteed elements (including dividends) should not be regulated by minimum nonforfeiture regulatory requirements until they are credited.

In addition, in considering any approach to nonforfeiture reform, the work group is cognizant of the need to establish a regulatory framework within which the actuarial aspects of the reform package will operate best for regulators, industry and consumers. Such a framework will include law(s), regulation(s), and ASOPs, within which, in addition to the proposed actuarial approach to reform, appropriate regulatory reporting, consumer disclosure, and industry statistical agent information requirements will be present.

The work group is currently reviewing the first draft of its proposed final report to LHATF covering the issues affecting the need for life and annuity nonforfeiture reform and a proposed actuarial basis for reform. In developing its nonforfeiture reform approach, the work group is attempting to respond to numerous deficiencies in the current formula-based nonforfeiture mandates that have become unresponsive to products emerging in the life insurance and annuity marketplace. Recently, LHATF's awareness of these deficiencies appears to have increased, as questions have been raised as to where new and innovative products should be “slotted” within

the existing regulatory framework for nonforfeiture mandate compliance purposes. In addition, as was mentioned in a prior work group update to LHATF, the product standards development activities of the NAIC Interstate Compact National Standards Working Group have also heightened the awareness of the need to act expeditiously on the issue of nonforfeiture mandate reform.

The work group appreciates the opportunity to keep LHATF apprised of its activities with regard to the charge assigned.