

Non-Elective Incidence Reserve Proposal

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Actuarial Guideline 33 Non-Elective
Task Force



Agenda

- ✓ Report published to LATF August 2013
- ✓ Presentation to LATF December 2013
- ✓ Discussion on LATF call February 2014
- Discussion Today March 2014
 - Report AG33 Reserve Proposal
 - Standard Valuation Law
 - Alternative AG33 Reserve Proposal
 - Requested during LATF call
 - Discussion



Application of Incidence Rates (Report)

Since CARVM was adopted, there has been an increase in the types of benefits offered under certain annuity contracts, including enhanced death benefits, nursing home benefits, and various partial withdrawal provisions, including some depending on values other than the values used to determine cash values and which may allow for benefits to continue past the point where the cash value is zero.



Elective and Non-Elective Benefits (Report)

In some cases it may not be clear whether some benefits are elective or non-elective. The presence of certain types of non-elective benefits may affect other non-elective benefits and/or elective benefits. ~~For example, some annuity contracts offer benefits which vary depending upon the age of retirement. In such cases, t~~The Valuation Actuary should use judgment in making ~~this~~these determinations~~s~~, by considering factors such as the degree to which contract owner actions would be influenced by the availability of ~~the~~each benefit in the contract.



Incidence Rates in CARVM (Report)

For non-elective waiver-of-surrender-charge benefits other than mortality-based benefits, incidence rates greater than zero are not to be applied after the earlier of the end of the surrender charge period applicable immediately after the first premium is paid or when the cash value has been depleted.



Incidence Rates in CARVM (Report)

For non-elective benefits other than mortality-based benefits, incidence rates greater than zero for non-elective benefits where it is unlikely that a contract owner would report a claim or make an election (such as collecting one benefit while other more valuable benefits exist in the contract) and which could thereby place a smaller reserve value on the contract's other benefits should not be considered to the exclusion of other incidence rates that would result in a larger reserve.



Standard Valuation Law (SVL)

SVL (*See Section 5a. Reserve Valuation Method—Annuity and Pure Endowment Benefits*) requires the maximum present value held as the annuity reserve with exceptions:

- ❑ Accidental Death
- ❑ Disability

Note: Mortality is prescribed as a separate decrement.

- What annuity benefits are included under Disability?
- How well do the SVL and AG33 match?
- In AG33, what is the meaning of “...where no benefit options are available under the terms of the contract?”



Incidence Rates in CARVM (Alternative to Report)

For non-elective benefits where the SVL requires the “greatest present value” as described in Text paragraph 1 below, determine the present value available immediately after the occurrence of a contingent or scheduled event, compare the present value with the present value of elective benefits and use the maximum as the present value of non-elective benefits.



Discussion

Report:

- Non-mortality waiver-of-SC incidence turns off at end of initial SC period.
- For other similar benefits the contract owner must be likely to use the benefit.

Alternative:

- Unless an exception, an incidence table is used for a non-elective benefit and the present value is compared to elective benefits as if it were an elective benefit.
- Actuary interprets the SVL and what benefits are included in a maximum present value comparison.



Questions

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