February 28, 2025

Rachel Hemphill
Chair, Life Actuarial (A) Task Force
National Association of Insurance Commissioners

Re: APF 2024-16

Dear Chair Hemphill:

On behalf of the Life Products Committee (Committee) of the American Academy of Actuaries,[1] I appreciate the opportunity to provide comments to the Life Actuarial Task Force (LATF) regarding APF 2024-16 re exposed for comment until February 28, 2025[2].

We have included some history at the end of this letter that informed our analysis and evaluation of the proposed APF and the edits we suggest to address our concern that requiring each set of guarantees to comply with the nonforfeiture requirements of Model 585 causes difficulty in managing compliance with Model 808. Our suggested edits incorporate the "safe harbor" concept of using the highest interest rate guarantee as a minimum, which we believe is consistent with the Model 585 requirements and could be acceptable for demonstrating compliance.

Our concern can be illustrated using a simple example: Two accounts both having the same maximum COIs and expense charges but two different "guaranteed rates" of 0% and 2%. If each set of guarantees must comply with nonforfeiture requirements of Model 585, does that mean the contract has multiple potential nonforfeiture rates? What happens when there is transfer of funds between accounts? Another concern would be what interest rate would be used when calculating paid up nonforfeiture values? See attached documents for additional examples and comparisons. These issues are amplified when multiple sets of guaranteed charges and interest rates are available. At the end of this letter, we propose enhanced guidance note language to address individual account testing but not those associated with managing transfers between multiple sets of guarantees when more than just the guaranteed interest rate is different between accounts.

[1] The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For 60 years, the Academy has assisted 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.

[2] **APF 2024-16**

If guaranteed interest rates are allowed to be lower than the guaranteed nonforfeiture rate per the current guidance note, then we believe the guidance should assist in understanding what the appropriate single guaranteed nonforfeiture rate used for testing should be when other guaranteed interest rates are available in the policy. Our suggestion is that the highest interest rate guarantee that does not exceed the maximum standard nonforfeiture law interest rate may be a reasonable boundary for the Model 585 demonstrations and helps align with Model 808.

The attached PDF shows that a higher discount rate generally results in significantly lower Initial Expense Allowances (IEAs) and hence also lower unamortized unused IEAs. For issue age 25-55, there are exceptions caused by the cumulative effect of slightly slower amortization much further out than contracts apply surrender charges (which is usually no more than 20 years) which are de minimis in magnitude (values shown in green). Even at ages 65 and 75, where the IEAs are capped at $60 per $1000 and hence unaffected by interest rates, the differences in unamortized unused IEAs caused by slower amortization at higher interest rates are immaterial.

We feel that the amended language below adds more clarity on the testing should LATF decide to keep the requirement of each set of guarantees meeting the requirements of Model 585, and it incorporates the "safe harbor" concept of using the highest interest rate guarantee as a minimum for compliance with Model 585 as the extension of Model 808.

Guidance Note: For flexible premium universal life insurance policies as defined in Section 3.D of the Universal Life Insurance Model Regulation (#585), this is not intended to prevent an interest rate guarantee less than the nonforfeiture interest rate. However, for policies issued after Jan. 1, 2026 where the cash surrender value is based on more than one set of guaranteed interest crediting rates, expense charge rates, and/or cost of insurance rates[3] (whether applicable only to portions of the policies' cash surrender values or alternatively to the policies' entire cash surrender values as a whole) the policies must comply with nonforfeiture requirements reflecting each set of guarantees on a standalone basis when applying Universal Life Insurance Model Regulation (#585). In the demonstration of compliance for each set of guarantees on a standalone basis:

1. *the benefit charges must reflect applicable guaranteed cost of insurance rates*
2. *the administrative and acquisition expense charges must reflect the applicable guaranteed expense charge rates and*
3. *the interest rate used in (1) accumulating premiums, benefit charges, administrative expense charges and acquisition expense charges, (2) calculating initial and additional expense allowances using the applicable CSO table, and (3) amortization of unused initial and additional expense allowances using the applicable CSO table must all be at*

[3] We feel this terminology is more accurate than "mortality" when describing charges made by the insurer in computing cash surrender values, notwithstanding that the guaranteed maximum cost of insurance rates are based upon CSO mortality tables.

least equal to the applicable guaranteed interest crediting rates (but not higher than the maximum nonforfeiture interest rate).[4]

In verifying that the initial acquisition expense charges and any surrender charges meet nonforfeiture requirements, it is acceptable to demonstrate compliance using (a) the set of expense charges from item 2 above producing the highest initial excess acquisition expense charges and (b) and interest rate for items 3 that is at least as great as the highest guaranteed interest rate for any set of guarantees but not greater than the maximum standard nonforfeiture law interest rate with the applicable CSO table in calculating initial and additional expense allowances and amortization factors.

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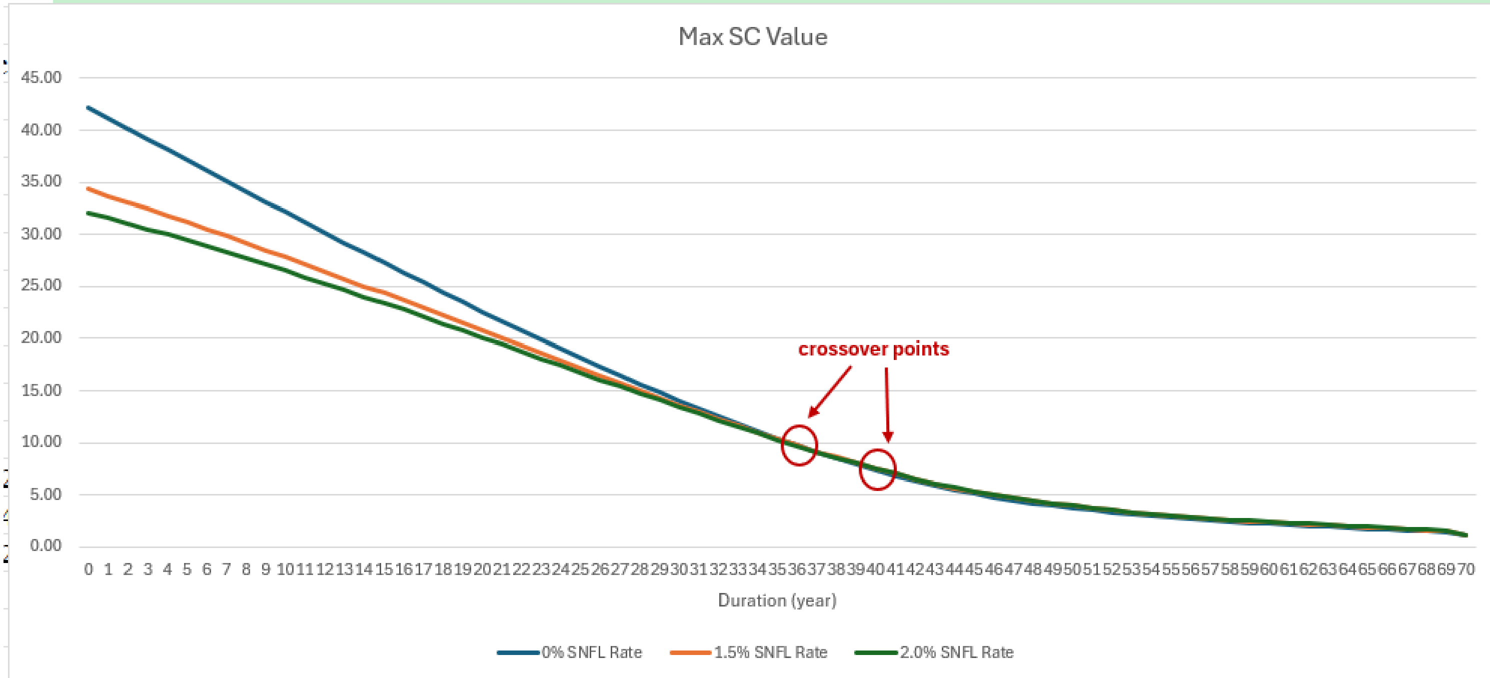
Thank you for the opportunity to provide these comments. If you have any questions or would like to discuss these comments further, please contact Amanda Barry-Moilanen, the Academy's policy project manager, life.

Sincerely,
Donna Megregian, MAAA, FSA Chairperson, Life Products Committee

American Academy of Actuaries

[4] This makes it clear that when doing this calculation, you must use the same interest rate throughout the calculation. This avoids the possibility of using one rate for (2) and a different rate for (3). i.e. not using 2% for the initial expense allowance and 0% for the amortization.

Example Male, Issue age 45:



NFF comparisons at different interest rates

SC demo.xlsx

History:

As we continue to review the history of the development of Model 585 as an extension of Model 808, we see some phrases/words are potentially leading to different interpretations and confusion, especially the words "guaranteed" interest rate or mortality. Model 585 refers to guaranteed mortality and interest, while Model 808 refers to guaranteed mortality and a rate of interest not greater than the nonforfeiture interest rate (Model 808 Section 5c.H). At the time of drafting of Model 585, guaranteed nonforfeiture interest rates in contracts were lower than the maximum Model 808 nonforfeiture interest rate, but the lower guaranteed interest rate was equal to and assumed to be the guaranteed nonforfeiture interest rate for the policy. Eventually, these guaranteed nonforfeiture bases of mortality and interest rates were removed from the policy form but are still filed with states when doing nonforfeiture demonstrations as a single rate for a contract to calculate minimum nonforfeiture values and paid-up nonforfeiture benefits.

Our previous letter suggested changing the word "mortality" in the APF to "cost of insurance rates" because a UL contract's net cash surrender value mechanics rely on guarantees maximum cost of insurance rates, not mortality. We believe guaranteed mortality refers to the underlying guaranteed nonforfeiture basis of a contract which is dependent upon the “CSO mortality table.” By extension, guaranteed interest for calculation within Model 585 would connect to Model 808 more so if it is understood to be the guaranteed nonforfeiture rate, which by the guidance note’s standard, could be higher than the guaranteed rate.

The current wording in the APF seems to require the lower guaranteed interest rate to equal the nonforfeiture interest rate for the purpose of calculating Model 585 nonforfeiture values rather than tying it to a Model 808 nonforfeiture rate which many understand to be a single rate for a contract. As our previous letter indicated, a single interest rate simplifies calculations and connects IRC Section 7702 to Model 808 and thereby Model 585 more simply than working with multiple guaranteed nonforfeiture interest rates for the purposes of all the calculations for which Model 585 never contemplated.