

# Life Products Committee Update

## What You Need to Know About Life and Annuity Activities

Cande Olsen – Chair, Life Products Committee

Linda Rodway – Chair, Annuity Illustration Work Group

John MacBain – Chair, Nonforfeiture Improvement Work Group

Linda Lankowski – Vice Chair, Life Products Committee; Chair, Life Settlements Work Group



# Agenda

- Life Products Committee Introduction—Cande Olsen
- Government Mandates Work Group—Cande Olsen
- Annuity Illustrations Work Group—Linda Rodway
- Nonforfeiture Reform: Challenges or Opportunities—  
John MacBain
- Life Settlements: A Guide for Consumers—Linda  
Lankowski
- Q&A



# Life Products Committee Introduction

Cande Olsen, FSA, MAAA

Chair, Academy Life Products Committee



# Introduction to Life Products Committee

**Description:** The Life Products Committee (LPrC) proactively provides actuarial support, advice, and communications on life and annuity products. The committee focuses on product features and their design, and may coordinate with other committees on financial and solvency based issues.

1. The committee communicates with and provides information to the membership base of the Academy when there are actuarial developments of interest to the membership body and that warrant additional communications
2. The committee also stands ready to respond to regulatory requests on product issues, and the group also proactively seeks areas where the Academy ought to be providing input to regulators
3. The committee engages in the development of public policy at the state, federal, and international levels



# Introduction to Life Products Committee

1. **Provides information to Academy membership on actuarial developments**

## **Examples of Accomplishments:**

- **June 2009:** Updated the Life Illustration Practice Note to better reflect current practices and to reflect the 2007 revision to ASOP No. 24
- **June 2009:** Co-sponsored a session at the Life Product Development Symposium that highlighted changes to ASOP #24 and the updated Practiced Notes
- **Sept 2009:** Participated in an SOA Webcast on Illustration Testing
- **May 2010:** Co-sponsored two sessions at the Life and Annuity Symposium
  - Beginners Guide to the Life Illustration Model Regulation and ASOP #24
  - Current Issues Complying with the Illustration Reg. and ASOP #24



# Introduction to Life Products Committee

- 2. Responds to regulatory requests on product issues and proactively seeks areas where the Academy ought to provide input to regulators**

## Examples of Accomplishments:

- **January 2010:** Provided comments to the Interstate Insurance Product Regulation Commission (IIPRC) on the proposed standards for Guaranteed Living Benefits on individual deferred annuities
- **May 2010:** Presented testimony at an NAIC public hearing on Stranger Originated Annuities
- **June 2010:** Sent letters to MA Governor and Senate leadership to urge support for bill to remove the requirement that the Savings Bank Life Insurance Company charge the same premiums for both male and female customers. The bill was signed into law by the Governor on July 27



# Introduction to Life Products Committee

- 3. The committee engages in the development of public policy at the state, federal, and international levels.**

## **Examples of Accomplishments:**

- **Fall of 2008:** Indexed Annuities Work Group sent comments to the SEC on the implications of categorizing fixed indexed annuities as securities
- **May 2010:** Worked with Pension Practice Council to respond to a request for information from the departments of Labor and the Treasury regarding lifetime-income options for participants and beneficiaries in retirement plans



# Why and How Work Groups are Formed

- Regulatory body may ask for Academy input on an issue (e.g., NAIC Annuity Disclosure Working Group asked for Academy input on Annuity Illustration issue)
- Issues that appear in the news may benefit from an unbiased Academy view of the pros and the cons (e.g., Life Settlements Consumer Guide)
- Work Group members are recruited from the LPrC membership, by advertisement on the Academy website, by networking, or by the annual volunteer survey



# Current LPrC Work Groups

- Life Illustrations Work Group
- Annuity Illustrations Work Group
- Nonforfeiture Improvement Work Group
- Life Settlements Work Group
- Government Mandates Work Group



# Government Mandates Work Group

Cande Olsen, FSA, MAAA

Chair, Academy Life Products Committee



# Government Mandates Work Group

- What is a government mandate?
- Why was the work group formed?
- What has the work group done?
- Status and next steps



# Government Mandates Work Group

- What is a government mandate?
  - Laws or regulations that:
    - Impact product design (e.g., product must have unisex pricing)
    - Limit product underwriting (e.g., certain health questions cannot be asked)
  - They may have intended or unintended consequences that are not well understood by policymakers or the public



# Government Mandates Work Group

- Why was the work group formed?
  - The LPrC did not have the time or resources to respond when bills including government mandates were introduced in individual states
  - The LPrC decided an educational paper covering the topic in general and a range of examples could be used as a ready resource when new mandates are introduced



# Government Mandates Work Group

- What has the work group done?
  - Drafted a paper that includes:
    - Basic concepts of life and annuity pricing
    - Unintended consequences of not matching product prices with true risks
    - Role of anti-selection
  - Issues that are addressed include:
    - Definition of terms
    - Concepts of equity and fairness
    - Law of large numbers
  - Many examples are included



# Government Mandates Work Group

- Status and next steps
  - The paper is in the process of internal peer review
  - Once finalized, a communication plan will be developed to distribute the paper to policymakers and the public



# Annuity Illustrations Work Group

Linda Rodway, FSA, MAAA

Chair, Academy Annuity Illustrations Work Group



# Formation of Annuity Illustrations Work Group (AIWG)

- In 2009, NAIC and ACLI agreed that some guidelines were needed for annuity illustrations (especially fixed annuities with MVAs, because regulators were concerned that MVAs were not illustrated clearly)
- NAIC asked ACLI to draft guidelines and a sample illustration, which would ultimately be incorporated into the NAIC Model Annuity Disclosure Regulation
- NAIC asked the Academy to review the ACLI draft and become part of the ongoing review process
- The LPrC formed the AIWG from members of the Life Illustrations Work Group and members of the LPrC



# AIWG Comments on Fixed Annuity Illustration Guidelines

- ACLI initial draft generally reflected illustration formats currently used in the marketplace
- AIWG commented that the illustration should also:
  - State that this is an insurance product, not a bank CD
  - Include annuitization information
  - Include the effect of an MVA, including minimums and possible variability; graphs were encouraged
  - Reflect expected future reductions in credited interest
  - Reflect forfeitures of bonus interest, if any
  - Include charges for additional benefits



# AIWG Comments on Fixed Annuity Illustration Guidelines

- AIWG did not suggest an illustration actuary because the non-guaranteed elements were defined by the regulation
- AIWG said that a sample illustration would be very helpful to support and explain the guidelines, but did not endorse the NAIC recommendation for an illustration template
- AIWG worked with a consumer advocate to develop a plain vanilla sample illustration that consumers could understand



# AIWG Comments on Fixed Indexed Annuity Illustration Guidelines

- Late in the process the NAIC asked the ACLI to draft fixed indexed annuity illustration guidelines
- ACLI initial guidelines generally reflected the illustration formats currently used in the marketplace for fixed indexed annuity products
- Regulators did not point to any particular concern about fixed indexed annuity illustrations that were being used in the marketplace today



# AIWG Comments on Fixed Indexed Annuity Illustration Guidelines

- AIWG's comments on the ACLI fixed indexed annuities draft recommended that the illustration should be required to:
  - Assume continuation of current non-guaranteed elements
  - Reflect high and low scenarios of historical performance of the index (the exact nature still to be decided)
  - Describe any contractual loss of interest credits
- AIWG is still trying to grapple with certain issues:
  - Purpose of the illustration – To explain how the product works? Or to provide a projection of values?
  - Should there be a prescribed scenario(s) or should disclosure of the assumed growth in the index be enough?



# Next Steps

- NAIC has asked for AIWG comments on scenarios for fixed indexed annuity guidelines proposed by NAFA (National Association of Fixed Annuities) by February 15
- AIWG hopes to convince NAIC that development of a sample illustration for fixed indexed annuities before the model regulation is adopted would be helpful
- The changes to the Model Annuity Disclosure Regulation are expected to be adopted later this year



# Nonforfeiture Reform: Challenges or Opportunities

John MacBain, FSA, MAAA

Chair, Academy Nonforfeiture Improvement Work Group



# Academy Life Products Committee & Nonforfeiture

- Determination of appropriate nonforfeiture values for life insurance and annuity products has long been an actuarial issue
- Questions continue to be raised by both regulators and industry as to whether current nonforfeiture mandates are appropriate for today's fast changing and innovative product environment; there are many pros and cons on both sides
- Logical area for Academy input and involvement
- Excellent opportunity for Academy members who want to utilize their actuarial skills and training to deal with a very consumer-oriented issue



# Current Nonforfeiture Regulatory Reform

- Standard Nonforfeiture Law for Life Insurance (#808)
- Original version promulgated in 1940's
- Standard Nonforfeiture Law for Individual Deferred Annuities (#805)
- Original version promulgated in 1970's
- Both modified several times since their inception
- Universal Life Insurance Regulation (#585), Variable Life Insurance Model Regulation (#270), Model Variable Annuity Regulation (#250)
- The laws and the regulations prescribe minimum nonforfeiture values for a policy



# Is there a need/impetus for change?

- Pros of maintaining current laws and regulations:
  - Fairly simple to determine minimums
  - E.g., life law values are unit-based
  - Have functioned pretty well over a long period (the “old shoe” rationale)
  - Underlying basis of these laws is well-understood by actuaries
  - Values based on funding benefits plus 1<sup>st</sup> year expense allowance
  - “It ain’t broke,…” theory



# Is there a need/impetus for change?

- Cons of maintaining current laws and regulations (i.e., reasons for change):
  - Current mandates are rule-based, not risk (principle) based
  - Values should better align with premiums paid/risks assumed
  - Current mandates not readily adaptable to new product designs and types of risks assumed
  - Increased administrative capabilities through technological developments allow for a less prescriptive approach to mandates
  - Beneficial product designs could be made available without adjustments solely to meet rigid mandates
  - Varying interpretations of current mandates lead to inconsistent treatment of products with similar guarantees but differing contractual structures



# What is a reasonable framework for change?

- Required nonforfeiture values should be based on prefunding resulting from premium payments and credited values
- Nonforfeiture regulatory requirements should provide guidance with respect to required nonforfeiture value methodologies and general guidance with respect to the establishment of assumptions, not explicitly defined values or parameters
- Revisions to nonforfeiture mandates should incorporate an approach to the statistical collection of industry NF assumption data that is appropriate to the regulators' purposes
- Required nonforfeiture values at any time should not be representative of the economic value of the policy at that point in time but rather be a retrospectively determined measure of the prefunding (of benefits) accrued to that point in time



# What is a reasonable framework for change? (continued)

- In determining required nonforfeiture values, there should be no recognition of a change in insurability status since the date of policy purchase, other than those that may occur as a result of the exercise of specific contractual provisions
- Any required nonforfeiture methodology requirements should be the same for life and annuity products
- The determination of non-guaranteed elements (including dividends) should not be regulated by nonforfeiture mandates. Once credited, however, such amounts must be considered in the determination of any required nonforfeiture values



# Any challenges to effecting change?

- General inertia and lack of motivation on the part of industry and regulators with respect to a desire to change nonforfeiture mandates
- Active resistance to change from segments of regulatory, consumer, and industry sectors
- Varying regulatory views as to the objective(s) of nonforfeiture reform



# Any challenges to effecting change?

- Multiple line combination products face multiple regulatory environments
- Federal tax treatment of products
- Lack of general understanding of current minimum nonforfeiture approach by legislators and regulators



# The Road Ahead

- Academy NFIWG report targeted for peer review completion and delivery to LHATF by mid-2011
- Catalyst for further discussion by regulators, industry and consumer groups
- Decisions on how to proceed with recommendations in report hopefully made in 2011
- Depending on those decisions, additional Academy work groups may need to be formed



# Life Settlements: A Guide for Consumers

Linda Lankowski, FSA, MAAA  
Chair, Academy Life Settlements Work Group



# Overview

- Life Settlements Work Group
- What Consumers Need to Know
- What We Don't Include
- Next Steps



# Life Settlements Work Group

- Why the Group was Formed
- Public Interest Document
- Neutrality
- Timeframe



# What Is a Life Settlement?

- Sale of Policy to Investor
- Simple Idea - Complicated Process



# Issues to Consider

- Insurable interest
- Options within the policy
- Complicated sales process
- Taxes
- What happens after the sale
- Need for Competent Advisors



# Insurable Interest

- Stranger Benefits from Your Death
- Privacy Concerns
  - During Sales Process
  - After Sale



# Options Within The Policy

- Forgotten since initial insurance purchase?
- Loan, Surrender, Withdrawal
- Accelerated Death Benefits
- Discuss with Beneficiary



# The Sales Process

- Parties Involved
- Gather Medical & Insurance Info
- Solicit Bids
- Sign 50+ Documents
- Consider Taxes



# Personal Information

- Medical Information (Attending Physician Statement from *each* MD)
- Financial Information
- Policy Information
- Privacy rules (HIPPA, etc.) not enforceable outside US



# Regulations

- Expansion of Viatical Settlement Regs
- Most Deal Only with Marketing
- Disclosure



# After the Sale

- Medical Information still being collected
- Policy may be sold to another Investor



# What We Don't Include

- Compensation
- STOLI
- Insurer Concerns
- Investor Concerns



# Final Thoughts

- Publication will be soon
- Need to get the word out
- New Work Group – Investors' Guide



# Conclusion

- The LPrC needs your help on these issues!
- The public and regulators need to hear the Academy's voice - and you are it!
- Are there issues you feel need to be communicated?
- Are these issues where you feel you can contribute?
- Then **LET US KNOW! GET INVOLVED!**



# Q&A

