



AMERICAN ACADEMY *of* ACTUARIES

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**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**

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**Nonforfeiture Improvement Work Group**

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The Nonforfeiture Improvement Work Group (NFIWG) of the American Academy of Actuaries' Life Products Committee has conducted regular conference calls since the National Association of Insurance Commissioners (NAIC) Summer Meeting in June 2007. These calls have focused on developing an overall framework and proposal for reforming nonforfeiture mandates in accordance with the charge assigned to it by the NAIC's Life and Health Actuarial Task Force (LHATF). That charge, as articulated by LHATF 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.”*

The NFIWG initially developed a set of basic principles to govern its review of any recommendations for nonforfeiture reform and those were distributed to LHATF in December 2006. As the discussions progressed, the NFIWG came to regard the elements embodied in these principles more as elements guiding the approach to reform rather than as fixed requirements for reform and therefore these principles have since been reconstituted as elements of a framework for nonforfeiture reform. Although the NFIWG may find that additional changes to these elements are necessary in the future, the current elements of that framework are:

- Minimum nonforfeiture values should be based on prefunding benefits resulting from premium payments and credited values
- Minimum nonforfeiture regulatory requirements should provide broad guidance with respect to minimum nonforfeiture methodologies and assumptions, not explicitly defined approaches 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

Most recently, the NFIWG's attention has been focused on the activities of its Proposals/Methodologies Subgroup (the Subgroup). The Subgroup's charge from the NFIWG is to:

- Define a proposal or proposals for nonforfeiture reform;

- Evaluate any proposal(s) for consistency with the elements of the framework for nonforfeiture reform developed by the NFIWG; and
- Recommend to the NFIWG as a whole any appropriate proposal(s) for reform.

The NFIWG intends that any proposal for nonforfeiture reform be accompanied by a detailed presentation of the regulatory issues and marketplace dynamics driving the need for change.

To date, the Subgroup has identified two potential approaches to nonforfeiture reform for further analysis. Both of these approaches have only been developed in broad terms at this point. In an effort to determine whether either of these methods optimally satisfies the framework for nonforfeiture reform, the Subgroup will be modeling the application of each of these proposed methodologies to various types of products in the marketplace today and to those considered products likely to emerge in the future.

In reviewing any proposed methodology, in addition to ensuring that the method satisfies the framework established for reform, the NFIWG also plans to evaluate the approach considering the following additional criteria:

- Is the approach flexible enough to be adapted to new products that may emerge in the future?
- Is the approach explainable and understandable to consumers and regulators?
- Can the approach be administered in a cost-efficient way?
- What is the appropriate regulatory framework within which the proposed methodology should operate (i.e., laws, regulations, actuarial guidelines, ASOPs, practice notes)?

At this point, the NFIWG is not prepared to recommend any approach to nonforfeiture revision to LHATF for formal consideration and input. Nor is the NFIWG soliciting input from LHATF at this time as a prerequisite for continuing its efforts on a reform proposal. Over the next six months, the NFIWG plans to solidify the details of any proposal(s) for reform and at that time will request timely input from LHATF and other parties to whom nonforfeiture reform is of interest.