Brian Bayerle  
Senior Actuary  
June 17, 2020  
Mr. Mike Boerner  
Chair, NAIC Life Actuarial Task Force (LATF)  

Re: ACLI Comments on APF 2020-07 (Nonforfeiture Floor)  

Dear Mr. Boerner:  

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide comments regarding the APF 2020-07, which changes the cash value floor for the nonforfeiture rate in VM-02. ACLI continues to support this change, and we provide the following comments to address concerns raised by regulators.  

**Standard Nonforfeiture Law Addresses Timing Concerns**  

Several regulators expressed concern about the timing required for companies to reprice and refile depending on when adoption of federal legislation revising the Internal Revenue Code (IRC) §7702 would occur. The Standard Nonforfeiture Law provides companies 18 months to comply with a new lower rate; NAIC Model #808 Section 5c (H) (1) states the following:  

(1) At the option of the company, calculations for all policies issued in a particular calendar year may be made on the basis of a rate of interest not exceeding the nonforfeiture interest rate, as defined in this section, for policies issued in the immediately preceding calendar year.  

If this APF is passed, there is no additional pressure for companies to reprice this year versus a deferral on adoption. If the APF is adopted this year it provides companies more flexibility on timing for the newly priced products, assuming Federal action. Delaying action may actually create a worse situation for companies: companies cannot file until the NAIC adopts the Valuation Manual, and the Interstate Insurance Product Regulation Commission would need to update their standards quickly.  

**Greater Benefit to Consumers**  

A lower maximum nonforfeiture interest rate provides higher minimum benefits to consumers upon surrender. Higher nonforfeiture benefits encourages policyholders to continue paying premiums to build up greater value. Proponents of the floor would argue maintaining the floor may result in lower premiums, but this would be contingent on companies passing the savings of lower nonforfeiture

The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI’s member companies are dedicated to protecting consumers’ financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI’s 280 member companies represent 94 percent of industry assets in the United States.
benefits to consumers. If the 4% floor is removed, then such benefits are required to be passed to policyholders upon surrender.

**The Floor Will Alter Relationship between Valuation and Nonforfeiture Values**

Assuming the valuation rate updates to 3.0%, the calculated nonforfeiture rate will decrease to 3.75%. If the floor is kept at 4.0%, this is a 25bp higher discount rate companies can use, and breaks the 125% relationship between the nonforfeiture rate over the valuation interest rate. This difference would become more magnified if the valuation interest rate decreased even further; if the valuation interest rate decreased to 2.5% while retaining the 4.0% floor the margin increases to 60%. Increasing the margin on nonforfeiture would likely lead to more lapse-supported permanent policies. For such products, companies begin to profit from policyholders who lapse their policy, because it costs the company less to pay the surrender benefit than it does to keep the policy in-force.

**No Issues if Tax Code Is Not Changed**

Adopting this APF does not create any potential issues in the event the Federal Government does not act on legislation. The APF just links the nonforfeiture interest rate floor to the tax code, which is why the interest rate floor in VM-02 exists in the first place. If the APF is adopted and the tax code is not updated, then the nonforfeiture floor stays at 4%, consistent with current requirements.

We look forward to a discussion on this important issue.

Sincerely,

cc: Reggie Mazyck, NAIC