Brian Bayerle
Senior Actuary

September 22, 2020

Mr. Mike Boerner
Chair, NAIC Life Actuarial Task Force (LATF)

Re: ACLI Comments on NAIC Model #805 Exposure

Dear Mr. Boerner:

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide comments on the exposure of revisions to NAIC Model #805 on Standard Nonforfeiture Law for Individual Deferred Annuities. We appreciate the leadership of LATF and the Life Insurance and Annuities (A) Committee to address this critical issue for consumers.

Consistent with and expanding upon our July 20th letter, we believe the best course of action is to reduce the minimum nonforfeiture interest rate in Section 4 (B) (3) from 1% to 0%. We recognize that regulators must carefully balance consumer benefits against company surplus concerns, and we strongly believe 0% produces the best aggregate outcome of availability and product flexibility while best ensuring strong company surplus positions. We note that companies are constrained by the level of new money rates they are earning on new annuity considerations which limits how much can be credited to the consumer. Both market conditions and competitive pressures will continue to be considerations for insurers when determining credited rates regardless of the regulatory floor.

The current interest rate environment creates unique challenges on crediting rates. In 2020 the yields for the US 5-year and 10-year Treasuries have been as low as 0.19% and 0.52%, respectively. It is difficult to support the current 1.00% minimum guaranteed rate given these historically low interest rates. An annuity contract is a long-term commitment and requires that insurers maintain a long time horizon with respect to managing contract liabilities. Companies invest in long-duration assets to achieve a consistent yield for the duration of the policy. New premiums are invested at current rates which limits both the return and amount available to credit on those assets. Companies would appreciate greater flexibility to address the current environment. Greater flexibility will help promote expanded product availability to consumers.

The 0% floor will only be triggered in low interest rate environments, such as the one we are currently experiencing, and will only apply to newly-issued contracts. Companies will continue to use non-guaranteed crediting rates, bonuses, and other features in order to maintain market competitiveness and product differentiation.

As requested, we have quantified the effect of the proposed changes on the minimum nonforfeiture amounts. In the accompanying spreadsheet, we have included 10-year projected minimum nonforfeiture amounts at various nonforfeiture interest rates. This is intended to be a simplified example, so fees and charges other than $50 annual contract charge are omitted and assumes a 10-year prospective period.

Please note that while the minimum nonforfeiture amounts will decrease under this proposed change, maximum surrender charges will not increase, because they are based on a different interest rate ("the interest rate specified in the contract for accumulating the net considerations to determine maturity value"). We have also included maximum surrender charges at various interest rates in the spreadsheet for your reference.

We look forward to a discussion on this important issue.

Sincerely,

cc: Reggie Mazyck, NAIC