



September 30, 2020

Mr. Mike Boerner, Chairperson, Life Actuarial (A) Task Force (LATF)
National Association of Insurance Commissioners

Re: Model Law #805 Exposure

Mr. Boerner,

Thank you for the opportunity to provide additional comment on the Model Law #805 exposure. At your request, we have provided a spreadsheet to show how nonforfeiture values affect other, more dominant policy benefits at different nonforfeiture interest rates. We have also resubmitted our comment letter dated August 25, 2020, because it provides additional background on the mechanics of annuity nonforfeiture.

Nonforfeiture Value Tradeoffs

Nonforfeiture benefits provide a safety net for annuity consumers. As such, the nonforfeiture value protects consumers in worst-case scenarios, and nonforfeiture values rarely dominate consumer benefits in practice.

Nevertheless, nonforfeiture values have an impact on other, more dominant policy benefits because insurers reflect all scenarios in the pricing process. When the nonforfeiture interest rate is too high, insurers may need to decrease the more dominant policy benefits in order to support the nonforfeiture value. For example, annuities with lifetime income benefits may offer lower income amounts as a result of the higher nonforfeiture value.

Spreadsheet Demonstrations

We have provided a spreadsheet that allows users to compare two annuities side-by-side. The spreadsheet is pre-loaded with (1) a traditional fixed annuity, (2) a fixed indexed annuity, and (3) a fixed indexed annuity with a chargeable rider. You can use the spreadsheet to compare the impact of different minimum nonforfeiture rates on these pre-loaded annuities or you can choose to input your own assumptions in the shaded cells.

The spreadsheet illustrates how the nonforfeiture value can override rider charges in some product designs. When this happens, the amount available to support rider benefits decreases, so the policy benefits themselves must decrease.

| Actuarial Present Value of Net Rider Charges | | | |
|--|-------------------------|--------|--------|
| | Rider Charge Percentage | | |
| Nonforfeiture Interest Rate | 0.75% | 1.00% | 1.25% |
| 1.00% | 3,450 | 3,482 | 3,555 |
| 0.25% | 8,100 | 8,830 | 9,003 |
| 0.15% | 8,850 | 9,508 | 9,683 |
| 0.00% | 10,210 | 10,868 | 11,281 |

Assumes \$100,000 premium, 3% discount rate.

Note: values shown in spreadsheet are not reduced by lifetime withdrawals

The spreadsheet also illustrates how the account value interest rate and rider charge percentage affect whether the nonforfeiture value is the dominant policy benefit. When account value interest rates are changed from guarantees to best

estimates, nonforfeiture values do not dominate. Similarly, nonforfeiture values do not dominate when rider charges are zero or low.

Results

At Allianz, the difference between a 1% floor and a 0% floor equates to a difference of approximately **25% to 35%** of annual guaranteed income in our fixed indexed annuity policies, assuming the same investment risk and profitability targets. In a \$100,000 policy, that difference is approximately **\$750 to \$1,250** every year during income payout.

| Nonforfeiture Interest Rate | Annual Income | |
|-----------------------------|---------------|---------|
| | Low | High |
| 1.00% | \$3,900 | \$4,600 |
| 0.25% | \$4,400 | \$5,000 |
| 0.15% | \$4,500 | \$5,050 |
| 0.00% | \$4,650 | \$5,150 |

Assumes \$100,000 premium, 1.20% rider charge, issue age 55, income start age 65.

Source: Allianz full pricing model. Annual income rounded to the nearest \$50.

The current 1% nonforfeiture interest rate floor is unsupportable in today's low interest rate environment. Thus, we urge regulators to act swiftly to decrease the nonforfeiture interest rate floor to 0%, because insurers may otherwise need to decrease other, more dominant policy benefits in order to support the nonforfeiture value.

Thank you for the opportunity to provide these comments.

Regards,



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