INSURANCE COMPACT COMMISSION

VIA EMAIL TO: RMazyck@naic.org

TO: Commissioner Kent Sullivan, Chair
c/o Reggie Mazyck, Staff Support
NAIC Life Actuarial (A) Task Force

FROM: Insurance Compact Office

DATE: August 21, 2020

SUBJECT: Proposed Amendments to NAIC Model #805

The Interstate Insurance Product Regulation Commission (Insurance Compact) is a multi-state public body that serves as an instrumentality of the Compacting States pursuant to enabling legislation to enact the Interstate Insurance Product Regulation Compact. The purpose of the Insurance Compact is to develop Uniform Standards for covered insurance product lines, promptly review filed products and approve those product filings that satisfy applicable Uniform Standards on behalf of the members of the Insurance Compact. Today the Insurance Compact performs these functions on behalf of 44 member states, the District of Columbia, and Puerto Rico.

The Insurance Compact Office has extensive experience in applying the Standard Nonforfeiture Law for Individual Annuities (Model #805) as specified by applicable Uniform Standards and wishes to provide background and practical demonstration as the Task Force is considering the proposed amendments. Since the beginning of 2019 alone, more than 140 deferred annuity products have been through complete prior approval by the Insurance Compact, including detailed and thorough actuarial review for compliance with nonforfeiture requirements.

As a preliminary matter, under the Compact Statute, the exclusive product content requirements applicable to forms filed with the Insurance Compact are the Uniform Standards. Several Uniform Standards refer directly to requirements in NAIC models. In the case of Model #805, the **Core Standards for Individual Deferred Non-Variable Annuity Contract** require a demonstration of compliance with the model. Prior instances of amendments to NAIC models that took immediate effect under the Uniform Standards upon NAIC adoption include Model #808 amendments in 2012 and Model #821 amendments also in 2012. In line with the uniformity promised by the Compact Statute, amendments to model provisions incorporated into the Uniform Standards apply independently of state adoptions of the model or amendments.

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The Insurance Compact Office offers the following background and sample calculations for your consideration to clarify and highlight the impact of a change in the minimum nonforfeiture interest rate (NFi) on minimum cash values provided by individual non-variable annuities and the fixed/indexed accounts of variable annuities.

Background

- Section 4 of Model #805 provides for a 12.5% premium expense load and a $50 annual contract charge. The minimum nonforfeiture values are determined by accumulating premiums net of the 12.5% expense load, less partial withdrawals, less the $50 annual contract charge at the NFi.

- Neither Model #805 nor the applicable Uniform Standards require that the guaranteed minimum interest rate (GMIR) be tied to the NFi even though that had been common practice by companies issuing non-variable annuity products. Currently only a minority of non-variable annuity products filed with the Insurance Compact tie the GMIR to the NFi. As market rates have lowered, the Insurance Compact has received and approved non-variable annuity product filings with low GMIRs, such as 0.1%.

- Although there is no floor on the GMIR in Model #805, the Uniform Standards prohibit a 0% or lower fixed account GMIR pursuant to Section 1.C(5). However, a 0% floor on index credits is allowed.

Sample Calculations

- The attached Excel spreadsheet shows the minimum nonforfeiture values for a simple single premium non-variable annuity product without additional features, such as bonuses.

- The demonstration in Columns A-H uses the current NFi of 1%, and assumes all funds are allocated to an index account with a credit rate floor of 0%. This demonstration shows that minimum nonforfeiture values do not come into play for almost 30 years due to the 12.5% premium expense load allowance.

- The demonstration in columns J-Q includes the formulas and allows for testing of any GMIR or NFi combination.

Because the minimum cash values in the retrospective test can impact the prospective test (Section 6 of Model #805), prospective test demonstrations are provided below the retrospective test demonstrations in the spreadsheet. These demonstrations reflect:

1. A maturity date equal to the later of age 70 or 10 years.

2. No surrender charge on or after the maturity date.

3. The maturity value equals the account value on the maturity date as required by the Insurance Compact Uniform Standards and that the account value on the maturity date be no less than the nonforfeiture value under the retrospective test on the maturity date. This requires calculation of an imputed rate that is used

to accumulate the account value and 1%+the imputed rate is used to discount the maturity value to the date of surrender.

4. Reducing the NFi below 1% does not impact the prospective test minimum cash values (i.e. discounted maturity values).

Conclusion

As explained above, a change to the nonforfeiture interest rate in Model #805 will apply to non-variable annuity products submitted for Insurance Compact review and approval. We encourage the Task Force to use the attached Excel spreadsheet to test the NFi values under consideration. If any further information would be helpful, please feel free to contact the Insurance Compact Office actuaries directly.

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