



NATIONAL ALLIANCE OF LIFE COMPANIES

*An Association of Life and Health Insurance Companies*

November 4, 2021

Life Actuarial (A) Task Force  
Attention: Reggie Mazyck  
National Association of Insurance Commissioners (NAIC)  
Kansas City, Missouri

Dear Reggie,

I am the Executive Director of the National Alliance of Life Companies (the NALC), a trade group of more than fifty life insurance companies and associates that represents the interests of small and mid-sized insurers and their policyholders.

We are seeking guidance as it relates to the Standard Nonforfeiture Law and its interaction with Actuarial Guideline XXV (AGXXV), specifically the interest rate that is used in the calculation of the standard nonforfeiture rate.

The Standard Nonforfeiture Law defines the method and basis for calculating minimum guaranteed cash values and paid-up insurance rates. The maximum mortality table used in the calculation is the CSO table in effect when the policy was issued. The minimum interest rate used in the calculation is equal to 125 percent of the standard valuation interest rate. This rate was floored at 4 percent to align with the 4 percent minimum interest rate in 7702.

A recent change was made in VM-02 of the valuation manual so that this floor was modified (in case the 7702 rate was amended, which it eventually was) to remove the reference to the hard-coded 4 percent minimum rate and instead refer to the 7702 interest rate. With the minimum 7702 interest rate dropping to 2 percent, the maximum standard nonforfeiture interest rate is 3.75 percent (125 percent of the current valuation interest rate of 3 percent).

For calendar year 2021, the minimum rate will reduce to 2 percent, while the maximum rate will remain at 4.50 percent (SNFL rate for 2021, since such rate would change one year after the effective date change of the SVL rate). The allowable interest rates for calendar year 2022 will be a minimum of 2 percent (i.e., 7702 interest rate) and a maximum rate of 3.75 percent (SNFL rate). Companies have until Jan. 1, 2022 to comply with the new lower standard nonforfeiture interest rate.

AGXXV was written in context of a 4% floor on the nonforfeiture interest rate in both IRC 7702 and the standard nonforfeiture law. Specifically, it establishes the discount rate as 4.0%, 4.25%, or 4.5% depending on the limitation of the rate of annual increase. Because the 4% floor has been eliminated in the calculation of the nonforfeiture rate, now defined in VM-02, and the Section 7702 Insurance Interest Rate, compliance with AGXXV is not possible.

For illustration, a policy issued in 2022 will be subject to the following interest rates:

- Maximum nonforfeiture interest rate: 3.75%
- Minimum insurance interest rate: 2.0%
- Defined AGXXV Interest rate: 4.0%



NATIONAL ALLIANCE OF LIFE COMPANIES

*An Association of Life and Health Insurance Companies*

The resulting net single premiums for a 70-year-old male, nonsmoker, 2017 CSO mortality are as follows:

- Maximum nonforfeiture interest rate: .56883
- Minimum insurance interest rate: .73183
- Defined AGXXV Interest rate: .54957
- 

For \$1000 of insurance, the minimum cash value under the nonforfeiture law and VM-02 is 568.83 and the maximum cash value under IRC 7702 is 731.83. However, AGXXV limits the cash value to 549.57.

In addition to seeking guidance regarding the interaction between the Standard Nonforfeiture Laws and AGXXV we believe that AGXXV should be revised to determine if it is still appropriate to carve out specified nonforfeiture interest rates for policies with indexed benefits or if the revisions to VM-20 and IRC 7702 are sufficient for calculations of appropriate values. If it is determined that the practice should be continued, we propose that the guideline be revised to reference the rate calculated in VM-20 as the basis of the AGXXV rate to avoid any future conflicts.

Thank you.

Sincerely,

A handwritten signature in cursive script that reads "Jim Hodges".

Jim Hodges  
Executive Director  
NALC