

PROJECT HISTORY - 2013

STANDARD NONFORFEITURE LAW FOR LIFE INSURANCE (#808)

1. **Description of the Project, Issues Addressed, etc.**

The project modified the *Standard Nonforfeiture Law for Life Insurance* (#808) to reflect changes necessitated by the protracted low interest environment. The nonforfeiture interest rate per annum for any policy issued in a particular calendar year is equal to 125% of the calendar-year statutory valuation interest rate for such policy as defined in the *Standard Valuation Law* (#820). A floor has been added to the calculation of the nonforfeiture interest rate equal to 4.00%, which is the annual effective rate used to determine the net single premium for purposes of the cash value accumulation test under Section 7702(b) of the Internal Revenue Code (IRC). The purpose of the floor is to ensure that, in a low-interest rate environment, traditional life insurance can continue to be issued in compliance with both state minimum nonforfeiture requirements and the maximum cash value requirements in Section 7702 of the IRC of 1986 (as amended). Life insurance contract holders that fail to comply with the requirements of IRC Section 7702 are subject to significant adverse federal income tax treatment, including current taxation of the gain on the contract.

2. **Name of Group Responsible for Drafting the Model and States Participating**

The 2013 members of the Life Actuarial (A) Task Force are: Texas (Chair), Ohio (Vice Chair), Connecticut, Florida, Kansas, Minnesota, Missouri, Nebraska, New Jersey, New York, Oklahoma, Oregon and Utah.

3. **Project Authorized by What Charge and Date First Given to the Group**

From 2002 to 2005, the Task Force was given the charge to review the *Standard Valuation Law* (#820) to determine if changes were necessary. In 2006, the charge was to review the *Standard Valuation Law*, related model regulations, and actuarial guidelines to determine if changes were necessary, particularly any that are needed to facilitate the implementation of a principle-based approach. In 2007, the request for model law development of the *Standard Nonforfeiture Law for Life Insurance* (#808) was approved. A subsequent request for model law development for the *Standard Nonforfeiture Law for Life Insurance* (#808) was approved in 2013.

4. **A General Description of the Drafting Process (e.g., drafted by a subgroup, interested parties, the full group, etc.). Include any parties outside the members that participated.**

An amendment proposal, including draft language, was submitted to the Task Force by the interested parties. The Task Force reviewed the proposal and made minor modifications.

5. **A General Description of the Due Process (e.g., exposure periods, public hearings, or any other means by which widespread input from industry, consumers and legislators was solicited)**

The Task Force discussed the proposal April 4, 2013, at the NAIC Summer National Meeting. The Task Force held public conference calls on this topic Sept. 10, 2013, and Oct. 10, 2013. Notice of each of these conference calls was posted on the NAIC website and emailed to approximately 375 interested parties. A draft of the document was released for comment Sept. 10, 2013; no comments were submitted to the Task Force relative to this project.

6. A Discussion of the Significant Issues (items of some controversy raised during the due process and the group's response)

Because of the protracted low-interest rate environment, there has been concern that the nonforfeiture interest rate would drop below 4%, resulting in traditional life insurance no longer continuing to be issued in compliance with both state minimum nonforfeiture requirements and the maximum cash value requirements in IRC Section 7702. During the Oct. 10, 2013, public conference call, a motion was made to adopt the revisions to the *Standard Nonforfeiture Law* (#). The motion passed unanimously by voice vote.

7. Any Other Important Information (e.g., amending an accreditation standard).

The *Standard Nonforfeiture Law for Life Insurance* (#808) is not an accreditation standard.

PROJECT HISTORY - 2012

STANDARD NONFORFEITURE LAW FOR LIFE INSURANCE (#808)

1. Description of the Project, Issues Addressed, etc.

The project modified the *Standard Nonforfeiture Law for Life Insurance* to reflect changes made in 2009 to the *Standard Valuation Law* to enable a principle-based valuation methodology. The *Standard Nonforfeiture Law for Life Insurance* defines an interest rate and a mortality table to be used in the calculation of minimum nonforfeiture values. The nonforfeiture interest rate was defined with reference to an interest rate determined by a formula in the *Standard Valuation Law*, and the changes to the mortality table would be accomplished by regulation. Under principle-based reserving the interest rate formula will not be used, and mortality table changes will be made in the Valuation Manual. The modifications to the *Standard Nonforfeiture Law for Life Insurance* specify that the interest rate and the mortality table will be defined in the Valuation Manual on and after the manual is operative.

2. Name of Group Responsible for Drafting the Model and States Participating

The 2012 members of the Life Actuarial (A) Task Force are: Texas (chair), Ohio (Vice Chair), Alabama, Connecticut, Florida, Kansas, Minnesota, Missouri, New Jersey, New York, Oklahoma, Oregon and Utah.

3. Project Authorized by What Charge and Date First Given to the Group

From 2002 to 2005 the Task Force was given the charge to review the *Standard Valuation Law* to determine if changes were necessary. In 2006 the charge was to review the Standard Valuation Law, related model regulations, and actuarial guidelines to determine if changes are necessary, particularly any that are needed to facilitate the implementation of a principles-based approach. In 2007 the request for model law development of the *Standard Nonforfeiture Law for Life Insurance* was approved.

4. A General Description of the Drafting Process (e.g., drafted by a subgroup, interested parties, the full group, etc). Include any parties outside the members that participated

Several regulators developed drafts of the required modifications. A subgroup of the Task Force was formed to make changes and made a recommendation to the Task Force. The Task Force made several modifications.

5. A General Description of the Due Process (e.g., exposure periods, public hearings, or any other means by which widespread input from industry, consumers and legislators was solicited)

The subgroup discussed the proposal at public conference calls on this topic on the following dates: May 3, 2011; June 1, 2011; June 28, 2011; July 6, 2011; August 2, 2011; September 8, 2011; October 15, 2011; and December 13, 2011. The Task Force held public conference calls on this topic January 30, 2007; February 9, 2009; January 12, 2011; May 26, 2011; June 28, 2011; and August 30, 2011. The Task Force also discussed the modifications at National Meeting in December 2008; March, 2011; and March, 2012. Notice of each of these conference calls was posted on the NAIC home page on the Internet and e-mailed to approximately 300 interested parties. Drafts of the document were released for comment January 30, 2007; December 5, 2008; March 24, 2011; June 1, 2011; and August 2, 2011. Several memos and letters were submitted to the Task Force relative to this project.

6. A Discussion of the Significant Issues (items of some controversy raised during the due process and the group's response)

Because of the current low interest rate environment there has been concern that traditional life insurance could not continue to be issued in compliance with both state minimum nonforfeiture requirements and the maximum cash value requirements in Internal Revenue Code (IRC) Section 7702. If the nonforfeiture interest rate would drop below 4% a traditional life insurance contract would not be able, in most cases, to comply with both state minimum nonforfeiture requirements and the maximum cash value requirements in Section 7702. The Task Force decided not to put in a requirement that the nonforfeiture interest rate could not be less than 4%.

At the Spring National Meeting in March 2012, a motion was made to adopt the revisions to the *Standard Nonforfeiture Law*. The motion passed with Alabama, Connecticut, Florida, Kansas, Minnesota, New York, New Jersey, Ohio, Oklahoma, Texas and Utah voting yes.

7. Any Other Important Information (e.g., amending an accreditation standard).

The *Standard Nonforfeiture Law for Life Insurance* is not an accreditation standard.