

PROJECT HISTORY - 2008

PRENEED LIFE INSURANCE MINIMUM STANDARDS FOR DETERMINING RESERVE LIABILITIES AND NONFORFEITURE VALUES MODEL REGULATION (#817)

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

Research completed by the Deloitte University of Connecticut Actuarial Center and commissioned by the Society of Actuaries as a part of a study of preneed mortality determined that the 2001 CSO Mortality Table, currently recognized as the prevailing table for the purposes of calculating reserves and nonforfeiture values both on a statutory basis and on a tax basis, produced inadequate reserves for policies issued in support of a prearrangement agreement which provides goods and services at the time of an insured's death. The 1980 CSO Mortality Table was determined to produce adequate reserves for these policies and contracts.

Conversion to the 2001 CSO is mandatory on January 1, 2009, unless the regulation is adopted.

A few companies had already converted to the 2001 CSO and requested a transition period.

The proposed model regulation was expanded to include the use of 1980 CSO for determining minimum nonforfeiture benefits in addition to valuing reserves.

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

The Michael Villa (Homesteaders Life) worked on the Society of Actuaries group studying the preneed issue and prepared the initial draft of the model regulation.

The 2008 members of the Life and Health Actuarial Task Force are: Kansas (chair), South Carolina (Vice Chair), Alaska, Alabama, Arkansas, California, Connecticut, Florida, Kentucky, Minnesota, Missouri, Nebraska, New York, Ohio, Oklahoma, Texas, Utah and Vermont.

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

The Task Force had the following applicable charges during the time the model regulation was being considered:

2007 – Work on implementation of tables necessary for use in current valuation requirements

2007 – Study the feasibility of developing new valuation and nonforfeiture mortality tables for preneed life insurance.

2008 – Work on implementation of tables necessary for use in current valuation requirements.

2008 – Review and make recommendations on rules for appropriate reserve mortality tables for simplified issue and guaranteed issue forms of life insurance. Review and recommend, if appropriate, a revised structure for regulating these forms of life insurance to establish it as a class distinct from industrial and ordinary lines.

The implementation charge is a standing charge to the Task Force and the date of origination is unknown.

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

Michael Villa (Homesteader's Life) presented the initial draft of the proposed model regulation following the Society of Actuaries report of the status of the preneed mortality study. The study revealed that mortality on the 2001 CSO is significantly understated in the first few years of preneed insurance. The Task Force obtained permission to work on mortality table issues from the Executive Committee, including the drafting of proposed model regulations at the Summer 2007 National Meeting. Several proposed amendments to the proposed model regulation were submitted and considered by the Task Force.

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 matter at public hearings during the National Meetings in June and September 2007. In addition, the Task Force held public conference calls on this topic on the following dates: August 15, 2007; November 6, 2007; and February 7, 2008. Notice of each of these conference calls was posted on the NAIC's home page on the Internet and e-mailed to approximately 300 interested parties. Drafts of the document were released for comment on June 1, 2007; August 15, 2007; and January 8, 2008. Several memos and letters were submitted to the Task Force relative to this project. Most urged rapid adoption and a transition period. Due to the urgency of the situation addressed by the proposed model regulation and with encouragement from interested parties, the Task Force voted unanimously to adopt the model regulation with amendments on February 7, 2008, without an additional 30-day exposure period. The substantive amendments to the draft released for comment on January 8, 2008, were related to the issue of a transition period. They were the result of a compromise agreed to by regulators and interested parties. Interested parties expressed support of the amendments only if an additional 30-day exposure period was not required. The subject of the transition period was identified on the January 8, 2008, document as the topic of upcoming discussion, so any party interested in commenting on the transition rules could have participated in the amendment consideration discussion.

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

Issue #1 – Definition of “preneed” insurance. Preneed insurance is not well-defined. The study included policies and contracts used to fund funeral services and expenses. The issue of including limited underwriting and guaranteed issue policies was discussed. The ACLI requested that the regulation be limited to policies and contract used to fund funeral services and expenses. The Task Force decided the definition of preneed insurance could be determined by the State and offered several options for this definition. Additionally, the regulation included “similar policies and contracts”, which allows the commissioner to determine if limited underwriting and guaranteed issue policies are to use the 1980 CSO.

Issue #2 – Transition Period. Several companies had already converted to the 2001 CSO, as required by Model Regulation No. 814, which in Section 4B requires the 2001 CSO be used for all ordinary life insurance issued on or after January 1, 2009. Transition rules were established to allow companies to use the 2001 CSO until January 1, 2012, provided adequate reserves are established and a stand-alone asset adequacy study is provided to the commissioner to demonstrate the adequacy of reserves.

Issue #3 – Urgency. Due to the urgency of making this change, interested parties proposed changes that were substantive but indicated the need to adopt the model regulation quickly was more important than the changes proposed. Although the transition period was amended at the time the Task Force adopted the proposed model regulation, the Task Force voted unanimously to forward the model regulation without an additional 30-day exposure period. Interested parties voiced support of this and no objections to the action were expressed.

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

Although the Task Force adopted the model regulation without an additional 30-day exposure period for the revised transition rules, the model regulation is exposed for comment while awaiting action from the “A” Committee with comments forwarded to the “A” Committee staff support. The proposed model regulation is expected to have 30 days of exposure before being presented to the NAIC Executive and Plenary.