

# Valuation, Products and Product Management in a Low Interest Rate Environment

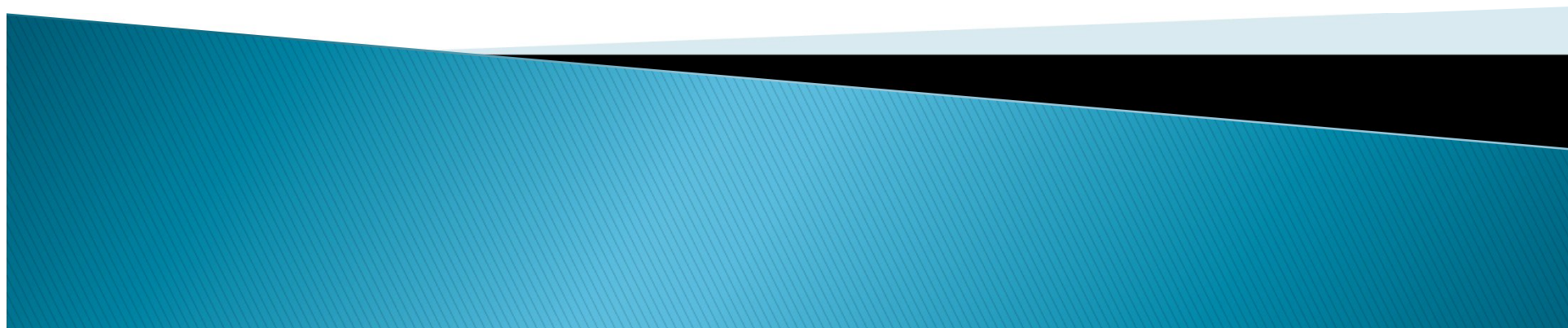
## Session C5

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# Topics to be Covered

- Sources of valuation and nonforfeiture interest rates
- Managing in force blocks of business
- Managing new business
- Questions



## Sources of Valuation and Nonforfeiture Interest Rates

- Standard Valuation Law – The reference interest rate is based on “the monthly average of the composite yield on seasoned corporate bonds, as published by Moody’s Investors Service, Inc.”
- Moody’s provided this information to the NAIC free of charge through October, 2011 and it was published on the NAIC website.
- For a period of time, Moody’s discontinued supplying the information to the NAIC free of charge.
- Some consulting firms gained access to the Moody’s interest rates and provided information on their websites.
- NAIC is again publishing the Moody’s interest rates on their website.



## Managing In Force Blocks of Business

- Typically, have managed interest sensitive business (life and annuity) through the credited interest rate.
- Subject to marketing considerations, companies were generally able to achieve target spreads.
- Large blocks of annuity business with 3%, 4% or greater guarantees.
- In the current low interest rate environment, achieving spreads has become difficult, if not impossible, for these blocks.



# Managing In Force Blocks of Business (continued)

## Flexible Premium Annuities

- If contractually permitted, some companies are, or are considering, limiting the amount of renewal premium they will accept on flexible premium annuities.
- Implementation varies considerably among companies
  - Annual amounts permitted.
  - Contracts to which the limit applies (4% guarantees versus 3% guarantees).



# Managing In Force Blocks of Business (continued)

## Flexible Premium Universal Life

- If contractually permitted, some companies are, or are considering, limiting the amount of non-scheduled premiums they will accept on universal life policies.
  - Much less common.
  - Exceptions for premiums required to keep the policy in force.
  - If a guideline premium contract, there are already limits on how much can be paid.
  
- If contractually permitted, companies might consider increasing expense charges or COI rates to offset lower interest spreads
  - Be sure your contract permits COI increases for other than mortality deterioration.
  - Even if it does, proceed with caution.
  - Litigation risk.



## Managing In Force Blocks of Business (continued)

### Traditional Whole Life

- If participating, decrease dividends to recognize reduced, or negative, interest spreads.
- If indeterminate premium, increase premiums to recognize future expected reductions in earned interest rates.
  - § Should not attempt to recover past losses.



# Managing In Force Blocks of Business (continued)

## Asset Strategies

- Invest longer to increase yields.
- Decrease quality to increase yields.
- Other asset classes, such as mortgages and real estate.
- Recognize the additional risk associated with each of these.





## Managing In Force Blocks of Business (continued)

### Other

- Sell blocks of business
- What are your companies doing?



# Managing New Business

## Flexible Premium Deferred Annuities

- Limit the amount of new first year premium that will be accepted in a year.
  - Maximum amount of premium.
  - Set a date after which no new premium will be accepted.
- Develop products based on the lower permitted guaranteed interest rate.
  - Depending on the index, can be as low as 1%.
  - Does not have to be greater than 3%.
  - Determine whether to use a lifetime guarantee or a periodic redetermination.
  - How will the rate be determined – point in time? Average over a specified period?



Questions?



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