

# Low Interest Rate Session CAA Meeting

**Presented by:**

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# Prognosis for Statutory Life Interest Rates

- To be set this coming July for following year
- Standard formulas based on long-term bond average

# 2013 Life Valuation Rates

- Highly likely that the “Long Life” rate will fall to 3.5%
- Will take effect with 1/1/2013 issues
- Other life valuation rates also likely to fall

# Impact of Lower Life Valuation Rates

- Higher statutory reserves for 2013 issues
- Tax reserve impacts
- Maximum Life NFO rate will change in 2014

## Impact of Lower NFO Rates

- Assume new NF rate will be 4.5% (rounded up from 4.375%)
- Takes effect 1/1/2014
- Will impact 2013 filing workload

# Prospects for Further Declines

- Next drop is to 3% valuation; 3.75% NF
- 3.75% NF will create challenges

# The Challenge of a 3.75% NF Rate

- IRC 7702 requirements conflict
- Guideline premium issues
- CVAT issues- more serious

# Possible Solutions

- Go to the States?
- Go to the Feds?
- Principles-Based Approach?



# Go to the States?

- Change Stat NF floor to 4% to match 7702
- Is this actuarially sound?
- Requires states to act. Will they?

# Go to the Feds?

- Lower the floor rate, at least for CVAT
- How low to go, and for how long?
- Concerns

# Principles-Based Approach

- NF rate is controlled directly by the NAIC, in one of the VMs (VM02?)
- Avoids delays and inconsistencies associated with individual states
- Make the case once, not 51 times.

# Other Solutions?

- Guideline premium plans don't have to match Guarantee to NF rate
- CVAT plans might be able to exploit two areas within 7702

# Possible CVAT Exploits

- 7702 is Endowment at 95 or 100; 2001 CSO goes to 121, so WL CSV at 100 is less than \$1,000 per K
- 7702 does permit endowments for LESS than full face amount

# Possible CVAT Exploits (cont'd)

- Need to decide how to handle PUAs
- Legal question- can PUAs be tested as part of the entire contract?
- (I am not a lawyer, so consult with your attorney)

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