Low Interest Rate Session
CAA Meeting

Presented by:

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Low Interest Rate Environment Team
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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