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The Life Actuarial (A) Task Force of the NAIC solicits comments on this draft. Comments should be sent to John Engelhardt, NAIC, at JEngelha@naic.org by October 19, 2011. After comments have been received, the document will be reviewed and discussed by the Task Force at its Fall National Meeting. The release of this draft is the first phase of the NAIC's deliberative process on this issue, and is not intended as a final determination at this time. Once the Task Force completes its work, the matter will be further considered and discussed by the Life Insurance and Annuities (A) Committee and NAIC Plenary under the open and transparent process established by the NAIC.

Life Actuarial (A) Task Force
Statement on Actuarial Guideline XXXVIII
The Application of the Valuation of Life Insurance Policies Model Regulation (Model 830)

Some companies are holding reserves for universal life insurance products with shadow account secondary guarantees that do not fully reflect the benefits of the secondary guarantees as required pursuant to the NAIC model laws, regulations and actuarial guidelines: *Standard Valuation Law* (#820), the *Valuation of Life Insurance Policies Model Regulation* (# 830) and Actuarial Guideline XXXVIII *The Application of the Valuation of Life Insurance Policies Model Regulation* (AG 38). The lowest schedule of premiums is required to be used in calculating reserves to reflect the key benefit of the secondary guarantee of paying lower premiums to keep the policy in force. However, some companies have used much higher premiums which produce reserves significantly less than the minimum required. These reserves do not properly reflect the full benefits of the secondary guarantee as required by the law, regulation and guideline.

For example, LATF has specifically identified products that have multiple sets of charges and/or interest credits applied to the shadow account where the policy design applies a specific set of charges and/or interest credits when the shadow account is zero or less. This alternative set of charges is typically much higher than what would be applied if a policyholder pays just enough to keep the shadow account one cent above zero and, therefore, artificially increases the premiums used in the reserve calculation. The correct application of the requirements and Actuarial Guideline XXXVIII, Section 8, Step 1, for these product designs - and all other product designs subject to AG 38 - is to derive the "minimum gross premiums" that represent the lowest schedule of premiums a policyholder could pay to satisfy the secondary guarantee. For the product design described above, the lowest schedule of minimum gross premiums a policyholder could pay to reflect the benefits of the secondary guarantee is derived by applying the secondary guarantee with the lowest set of charges and/or highest crediting rates.

Furthermore, for these product designs there is technically a secondary guarantee for each schedule of charges and/or interest credits. When a policy contains more than one secondary guarantee, Model 830 requires reserves to be calculated using the secondary guarantee that produces the greatest reserves ignoring all other secondary guarantees.

LATF believes the requirements are clear and no changes or clarifications are needed to these requirements.

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