STANDARD NONFORFEITURE LAW FOR LIFE INSURANCE

Table of Contents

Section 1. Title
Section 1a. Definitions
Section 2. Nonforfeiture Benefits
Section 3. Computation of Cash Surrender Value
Section 4. Computation of Paid-Up Nonforfeiture Benefits
Section 5. Calculation of Adjusted Premiums
Section 5a. Calculation of Adjusted Premiums - Ordinary Policies
Section 5b. Calculation of Adjusted Premiums - Industrial Policies
Section 5c. Calculation of Adjusted Premiums By the Nonforfeiture Net Level Premium Method
Section 6. Nonforfeiture Benefits for Indeterminate Premium Plans
Section 7. Proration of Values; Net Value or Paid-Up Additions
Section 8. Consistency of Progression of Cash Surrender Values with Increasing Policy Duration
Section 9. Exceptions
Section 10. Effective Date

****

Section 5c. Calculations of Adjusted Premiums By the Nonforfeiture Net Level Premium Method

I. The nonforfeiture interest rate is defined below:

(1) For policies issued prior to the operative date of the valuation manual, the nonforfeiture interest rate per annum for any policy issued in a particular calendar year shall be equal to one hundred and twenty-five percent (125%) of the calendar year statutory valuation interest rate for such policy as defined in the Standard Valuation Law (§820) rounded to the nearer one quarter of one percent (1/4 of 1%), provided, however, that the nonforfeiture interest rate shall not be less than four percent (4.00%).

Drafting Note: For flexible premium universal life insurance policies as defined in Section 3D of the Universal Life Insurance Model Regulation (#585), this is not intended to prevent an interest rate guarantee less than the nonforfeiture interest rate.

(2) For policies issued on and after the operative date of the valuation manual the nonforfeiture interest rate per annum for any policy issued in a particular calendar year shall be provided by the valuation manual.

****
PROJECT HISTORY

STANDARD NONFORFEITURE LAW FOR LIFE INSURANCE

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

The project modified the Standard Nonforfeiture Law for Life Insurance (#808) to reflect changes necessitated by the protracted low interest environment. The nonforfeiture interest rate per annum for any policy issued in a particular calendar year is equal to 125% of the calendar-year statutory valuation interest rate for such policy as defined in the Standard Valuation Law (#820). A floor has been added to the calculation of the nonforfeiture interest rate equal to 4.00%, which is the annual effective rate used to determine the net single premium for purposes of the cash value accumulation test under Section 7702(b) of the Internal Revenue Code (IRC). The purpose of the floor is to ensure that, in a low-interest rate environment, traditional life insurance can continue to be issued in compliance with both state minimum nonforfeiture requirements and the maximum cash value requirements in Section 7702 of the IRC of 1986 (as amended). Life insurance contract holders that fail to comply with the requirements of IRC Section 7702 are subject to significant adverse federal income tax treatment, including current taxation of the gain on the contract.

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

The 2013 members of the Life Actuarial (A) Task Force are: Texas (Chair), Ohio (Vice Chair), Connecticut, Florida, Kansas, Minnesota, Missouri, Nebraska, New Jersey, New York, Oklahoma, Oregon and Utah.

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

From 2002 to 2005, the Task Force was given the charge to review the Standard Valuation Law (#820) to determine if changes were necessary. In 2006, the charge was to review the Standard Valuation Law, related model regulations, and actuarial guidelines to determine if changes were necessary, particularly any that are needed to facilitate the implementation of a principle-based approach. In 2007, the request for model law development of the Standard Nonforfeiture Law for Life Insurance (#808) was approved. A subsequent request for model law development for the Standard Nonforfeiture Law for Life Insurance (#808) was approved in 2013.

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.

An amendment proposal, including draft language, was submitted to the Task Force by the interested parties. The Task Force reviewed the proposal and made minor modifications.

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 proposal April 4, 2013, at the NAIC Summer National Meeting. The Task Force held public conference calls on this topic Sept. 10, 2013 and Oct. 10, 2013. Notice of each of these conference calls was posted on the NAIC website and emailed to approximately 375 interested parties. A draft of the document was released for comment Sept. 10, 2013; no comments were submitted to the Task Force relative to this project.

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

Because of the protracted low-interest rate environment, there has been concern that the nonforfeiture interest rate would drop below 4%, resulting in traditional life insurance no longer continuing to be issued in compliance with both state minimum nonforfeiture requirements and the maximum cash value requirements in IRC Section 7702. During the Oct. 10, 2013, public conference call, a motion was made to adopt the revisions to the Standard Nonforfeiture Law (#). The motion passed unanimously by voice vote.

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

The Standard Nonforfeiture Law for Life Insurance (#808) is not an accreditation standard.