

Bruce and Bruce Company

CONSULTING ACTUARIES

916 SHERWOOD DRIVE, LAKE BLUFF, ILLINOIS 60044-2284

PHONE (847) 295-6200 FAX (847) 295-6206

(888) 278-2310

NEWS AND NOTES

August 2013

The change to a 3.5% life valuation rate for 2013 should be nearly finished. We encourage you to make sure the project is complete in your home office. Let us know how we can help. Even as that project is completed, we learn the new 2013-4 rates based on the latest Moody's index averages.

Valuation Interest Rates

The Moody's bond index which determines valuation interest rates is at a level that maintains the 3.5% maximum life valuation rate for policies sold through 2014. It also maintains the 4.5% maximum cash value interest rate for policies sold in 2015. It sets the Single Premium Immediate Annuity reserve interest rate at 4% maximum for 2013 sales. For the last six months the SPIA rate appeared headed for 3.75% but a 40 basis point jump in Moody's index in June brought the 2013 valuation rate back up to 4%. The Deferred Annuity reserve interest rate will be 3.5% maximum for 2013 FPDA sales, down from 3.75% in 2012. Your CARVM reserves will be higher when the 3.5% rate is reflected in your second quarter reserves. The new adjustable minimum rate for annuity non-forfeiture remains firmly stuck on 1%. That won't be official until October but it is unlikely to change.

You should verify that all your 2013 sales of life products are on plans that are being updated for 3.5% reserves. Also, review your current products' cash values. If any are calculated at more than 4.5%, they must be revised before 2014. State filings are required to revise the cash values.

In Force Policy Clean Up

In the current regulatory environment it is a good time to consider cleaning up in force records. States are looking for matured policies or policies whose insured is deceased. Actuaries often notice some matured policies (and so do the states' actuaries) in reserve runs. When policies exceed the maximum mortality table age or the endowment duration, the reserve is manually set equal to the face amount. This is an indicator that you have matured policies in your in force and that you might be a good candidate for a death claims master file audit.

New 2012 Immediate Annuity Valuation Table

A new table for valuing immediate annuities has been adopted by the NAIC and is being promoted in the states. Some have already adopted. It could become the valuation standard for 2014. As usual, it forecasts longer lifespan and will increase immediate annuity reserves. This one comes with a catch, however. It has annual, future, mortality improvement built into the table definition. Thus the annuity reserve standard will continue to increase each year in the future. On the flip side, your SPIA or supplementary contract quote (for a given issue age) should decline each year in the future. It will be hard to describe in the policy form. We suggest removing the table of settlement options the next time you revise your annuity contracts. It will be a challenge to manage this in illustration and administrative software.

Editor: Grant Hemphill, FSA, MAAA

317-509-4789

GHemphill@babco.us.com

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