

Bruce and Bruce Company

CONSULTING ACTUARIES

NEWSLETTER

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Interest Rates

Interest rates have risen significantly since the election. For instance, the 5 year Constant Maturity Treasury rose from 1.27% at the end of October to 1.60% at the end of November. Either way, those rates are well below what is needed to increase the minimum non-forfeiture rate for deferred annuities. That rate will remain at 1% for 2017.

The Moody's seasoned bond average rose from 3.87% in October to 4.20% in November. If it remains at 4.20% through next June, then:

The **2017 SPIA valuation rate** will fall from the 4.0% 2016 rate to 3.75% in 2017.

The **2018 life valuation rate** will remain 3.5%.

The **2019 life non-forfeiture rate** will remain 4.5%

Principles-Based Reserves (PBR) Update

Yes, Life Principle Based Reserves (PBR) finally passed and is effective for 2017. There is a three year period when its use is optional. Then there should be a small company exemption which will apply to most fraternal benefit societies. Deferred annuity PBR may be revealed this year.

Life Expectancy

For the first time in many years (or ever?) the life expectancy projection has declined. This was predicted by Dr. Oshansky, a demographer at the University of Illinois, in a presentation to the Academy of Actuaries meeting several years ago. The bases for his prediction: USA, as a nation, is getting fatter, as are many nations, but we are getting fatter faster; and the influx of immigrants. Dr. Oshansky's findings were ignored by the Actuarial profession, in that they immediately adopted new Annuity and Life mortality tables recognizing continuing improvement in mortality rates. The consequences of requiring higher reserves on annuity business with little or no reduction in gross rates for life business were felt by all. It remains to be seen if this latest report of declining life expectancy is merely an aberration, or, a new trend.

Weather

The Academy of Actuaries has embarked on a bold new venture. Predicting the weather. This project may seem to be afield of the Academy's fundamental purpose. But, emboldened, perhaps, by their success in predicting the long delay before we would see a slow rise in interest rates, they can certainly do no worse in weather prediction than the weather man or the Farmer's Almanac, whose predictions have been quite successful for a long period. Was it shortly after 2010, the Academy predicted interest rates would hover at a low level until about 2020 and then begin a long slow rise? This flew in the face of Regulators who predicted that there would be an immediate rise in interest rates, which would cause wholesale terminations of annuity policies, forcing insurers to sell assets at a loss and, possibly, fail. Their prediction, along with others, that this will be a long, hard winter, particularly in the upper Midwest, looks to be unassailable.

Health Insurance

The decision, many years ago, to exit the health insurance business is looking better all the time. The collapse of two Long Term Care Insurers stresses the risks involved and will impose heavy recovery fees to all insurers in the health insurance field who are also under the Guaranty Fund. The decision of Fraternal Societies to take care of their own failures (none) and stay out of the Guaranty Fund saves big bucks.

Department of Labor (DOL)

Still muddy. The DOL is dying hard on trying to classify Fixed Annuities as investments that are subject to their rules. The Fixed Indexed Annuity product seems to be the battleground. We have no one selling Indexed Annuities, but we still fear additional paper work will be required for Fixed Annuities. The December 2016 National Underwriter states: "The bottom line. The fiduciary rule is headed for an all-but-certain death. One way or other, the DOL's widely criticized conflict-of-interest regulations will not survive a united wall of opposition from Congress, the courts or the Republican administration of President Donald J. Trump."

2017 CSO Mortality Tables

These new Tables will be the standard Mortality Tables for use in determining Life Insurance product cash values and reserves. Almost always, but not always, the reserves and cash values will be lower than the reserves and cash values generated by the existing 2001 CSO Mortality Tables. Correspondingly, premiums might be lower, depending on the interest rate used in pricing and determining reserves and cash values.

The new 2017 CSO Mortality Tables will be applicable for males and female, smokers and non-smokers.

The new 2017 CSO Mortality Tables may be used in Plan Development as soon as January 1, 2017 but must be used after January 1, 2020. Each society/company has three years to decide upon and create new life insurance plans.

Contact us for further information about the possible impact on your society's/company's life insurance products.

2012 Immediate Annuity Reserve (IAR) Table

Many states have adopted this Table during the past 1-2 years. This reserve table is the required basis in many states now, for determining immediate annuity reserves for Single Premium Immediate Annuities (SPIAs) with Life Contingencies and Supplementary Contracts for Settlement Options with Life Contingencies.

The 2012 IAR Table is not applicable for SPIAs and Supplementary Contracts for a Fixed Period (Guaranteed Period or Period Certain only).

The appropriate reserve likely will be calculated by the society/company Appointed Actuary.

The greatest concern, for the society/company Home Office, is setting the Payment Amount when Life Contingencies are involved. Most likely, the 2012 IAR generated reserves will be higher than the single premium/proceeds used to determine the Payment Amount if a different, older, mortality table is used in the Payment Amount calculation, such as using the A2000 Table.

Each society/company may want to have Payment Amount factors calculated using the 2012 IAR Table. Such factors can be calculated for multiple interest rates and attained ages. The 2012 IAR Table includes projection factors to keep it up to date. Payment Amount factors should be updated annually.

With pride we announce that in the January 2017 issue of A.M. Best's Monthly Insurance Magazine, Best's Review, Bruce and Bruce Company was ranked as number 4 of the 25 Top Life Actuarial Firms, measured by volume of client reserves.

New is the year, new are the hopes and the aspirations.
New is the resolution, new are the spirits.

Our hope is that you have a promising and fulfilling New Year
that rewards all your endeavors with success.

We wish you a heartfelt and prosperous 2017.

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