

Bruce and Bruce Company

CONSULTING ACTUARIES

916 Sherwood Drive, Lake Bluff, Illinois 60044
Phone (847) 295-6200 (888) 278-2310
Fax (847) 295-6206

NEWS AND NOTES

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Grant Hemphill

Valuation Interest Rates

The new valuation rates are now available. The 2012 life insurance valuation rate will remain unchanged at 4% and the cash value rate will remain 5%. The 2011 Single Premium Immediate Annuity (SPIA) valuation rate will be 5%, down from 5.25% in 2010. Five percent would be a very high guaranteed rate for SPIAs given current investment opportunities.

Urgent Annual Statement Follow-up

Interrogatory 7 on page 49 of your 2010 annual statement asks: Will Communication of Internal Control Related Matters Noted in Audit be filed with the state of domicile by August 1? We advised all clients to answer "Yes". We suggest you send a letter to the commissioner, the contents of which would include any language from your Auditor's letter to management dealing with any unremedied material weaknesses. You may file that letter in its entirety, if it contained any such items. In the event you had no such items, merely send a letter saying so. Also note that Interrogatory 36 asks "Will Management's Report of Internal Control Over Financial Reporting be filed with the state of domicile by August 1?" You might want to review both of these items with your auditor.

Death Claims

At the FSGP (Fraternal Societies of Greater Pittsburgh) Seminar May 20, David Del Biondo told us the next big thing for the regulators would be unpaid claims and escheat. That was coming true even as he spoke. Briefly, some large insurers have regularly checked the Social Security (SS) Administration's Death Claim register to see if their immediate annuitants were still alive. When they found a death, of course they stopped the payments. However, they failed to note that the same individual also had a life policy and they did not pay the claim. Bad facts lead to bad laws. New York is now requiring all companies doing business there to check the SS records and report on what claims they should have paid. An NAIC committee is reviewing this and targeting large companies first. States are also interested in claims not paid because the beneficiary wasn't found. They want to escheat those funds. Some fraternal policies may call for other action. If you are in NY, you must see how their July 5 Letter applies to you. If not in NY, you have some time to try to clean up these issues before the regulators force you to do so. You might start with checking SS records for paid up policies for older insureds. Especially if you have policies beyond the valuation table's terminal age, you should find the owner or beneficiary and pay them.

Annuity Suitability Update

We have worked with several clients on Suitability Questionnaires. This is the initial task. Written guidelines for determining suitability should follow. The required agent training should be underway. Are you asking writing agents if they have been trained or requiring proof? On a market conduct exam, the proof document would be best. Are your procedures set up for review of the completed questionnaires? It is not too soon to think about the annual report on your compliance. We note the following state activity: Passed in CA, CO, DC, HI, IA, IN, FL, MD, ND, NY, OH, OK, OR, RI, SC, TX, WI, and WV. There has been some legislative or regulatory activity in AK, CT, IL, MA, MN, MI, KY, and TN.

Excerpts from Illinois DOI Bulletin 2011-06 concerning their Civil Union Act and Q&A:

“The Act provides that the parties to a civil union are entitled to the same legal obligations, responsibilities, protections and benefits that are afforded or recognized by the laws of Illinois to spouses.”

“Therefore, beginning on June 1, 2011, and thereafter, all contracts of insurance issued by Illinois-licensed insurers on Illinois risks, or renewal contracts issued on Illinois risks, or contracts in force on that date, must comply with the Act. “

“Companies are not required to file amended policy forms with the Department prior to complying with the Act, but companies must administer both existing and newly-issued policies so that parties to a civil union and a marriage are provided identical benefits, protections, and financial security. New policy filings or amended policy filings made after June 1, 2011, should incorporate language indicating the insurer’s compliance with the Act.”

Note: The Illinois Department of Insurance recognizes that a civil union partner “...does not qualify for the same tax advantages provided to a married spouse under federal law, including the tax benefits afforded to the surviving spouse of an owner of an annuity.”

Grant Hemphill, FSA, MAAA
317-509-4789
GHemphill@babco.us.com

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