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

July 2012

Grant Hemphill

It is official! The move to a 3.5% life valuation rate for 2013 is on. We are working on this project now and we encourage you to do so as well. Several societies have begun the process.

Background: Valuation Interest Rates

The Moody's bond index which determines valuation interest rates is at a level that establishes a 3.5% maximum life valuation rate for policies sold in 2013. It also establishes a 4.5% maximum cash value interest rate for policies sold in 2014. It sets the Single Premium Immediate Annuity reserve interest rate at 4.25% maximum for 2012 sales. (If the index stays at the current level through June, 2013, the SPIA rate will drop to 4% next year.) It reduces the Deferred Annuity reserve interest rate to 3.75% maximum for 2012 sales, for most of our clients' products. (The Deferred Annuity rate depends on the product specifics.)

Next steps:

1. Your planning for the rest of 2012 must include revision of life insurance reserve factors. We are calculating these for the most common plans and reserve bases. Please contact us about delivering them to you. They should be in your system before you calculate any reserves for policies issued in 2013. That is probably for the first quarter 2013.
2. The 3.5% reserves come with higher net premiums. You should verify that all your gross premiums (for new sales) are higher than these new net premiums. Otherwise you could end up with deficiency reserves. If you send us your current gross premiums, we will check them for you. (We have the rates we sent you with any plan manual. However, some clients have modified them or chosen not to update rates, etc. Just to be sure, please send your current rates.)
3. If you have the indeterminate premium provision in any of your policy forms, you should raise the guaranteed maximum premiums to at least the level of the new net premiums. (You might have a table of maximum rates in some forms. These forms may need to be re-filed.) We will provide the net premiums with the new reserve factors. Again, we will check your maximum premiums for you if you send them to us.
4. Re-pricing is probably in order anyway due to low interest rates. This is especially true of Single Premium Life.
5. You should check all your current products to see if you have any with 5% or higher cash value interest rates. These must be modified or withdrawn by the end of 2013 but it may be expedient to modify them now while changing the reserves and, possibly, premiums.
6. We can discuss your specific state filing needs which will depend on what changes you need to make and the states where your products are approved. We can do the necessary filings or support your filings.
7. You should review the reserves you set up on 2012 Immediate Annuities and make sure the interest rate does not exceed 4.25%. We have reviewed the SPIA reserves provided clients from this office in 2012 and all are OK. Unless market rates increase before year end, you should not quote higher than 4% in 2013.
8. Your June 2012 Deferred Annuity reserves for 2012 issues should be valued at new, lower, maximum interest rates. If you guarantee higher than 3.5% (again depending on product specifics), your CARVM reserve could exceed the account value. For this and other reasons you should consider stopping such sales.

9. We are developing a set of substandard extra premiums to go with the 3.5% life reserves. Depending on when you last updated your extra premiums, these might be higher but are probably lower. This set of substandard extras will be adequate under the 2001 CSO at 3.5%.

Please do not put this work off. We strongly encourage getting to the reserves and the comparison of new net premiums to current gross premiums this Summer and Fall. There is some leeway for changes to cash values and some of the forms filings, but cash flow testing begins in November and year end valuation takes up most of January and February.

Constant Maturity Treasury Rates and New Annuity Sales

Many of you have filed new annuity products that allow the minimum cash value interest guarantee to vary between 1% and 3% as the market dictates. That minimum rate for 2012 is 1%, as determined last year. The Constant Maturity Treasury Rates that determine the minimum have dropped further this year. They are far below the level needed to keep the annuity cash value minimum rate at the 1% floor.

If you haven't filed products under this format, you should consider it. New York has rather publicly criticized companies for using minimum guarantees of 3% or more.

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

7/2012