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NEWS AND NOTES

March 2012

This Newsletter has the same theme, DECLINING INTEREST RATES. Hope you are not tired of that.

Valuation Interest Rates

The Moody's index which determines valuation interest rates is holding at a level (if it continues through June 2012) that would require a 3.5% life valuation rate in 2013. That would also require a 4.5% (or less) cash value interest rate by 2014. We believe our clients' products' cash values will be OK. Your planning for 2012 should budget for the almost certain need to revise life insurance reserve factors. We will calculate these for free because all clients will need them. Delivering them to you in your particular format may have some cost. You should also verify that all your gross premiums are higher than the new, higher, net premiums. Otherwise you could end up with deficiency reserves. Repricing is probably in order anyway due to low interest rates.

The same Moody's index that determines the life rates also determines the SPIA valuation rate but more…currently. The June 2011 index determined that the **2011** Single Premium Immediate Annuity (SPIA) valuation rate would be 5%, down from 5.25% in 2010. Continuation of current Moody's rates through June would result in a SPIA valuation rate of 4.25% for all of 2012. You should not use a higher rate to quote current SPIAs.

CMT 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 still 1%, just as last year. The Constant Maturity Treasury Rates that determine it have dropped further this year. They are far below the level needed to keep the annuity cash value 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 not using the low minimum guarantees form.

Single Premium Immediate Annuities

The issue of lifetime guarantees has been in the news. For years life companies enjoyed the advantage of providing the only guarantee that a person could not outlive their assets. Now some life (and property-casualty) companies want to sell that advantage to our competition. They guarantee that planned withdrawals from, for instance, a mutual fund, will not exhaust the fund. (They continue the scheduled withdrawals in the event of failure.) The Obama Administration has also proposed rules that will facilitate lifetime withdrawals from 401ks, etc. Maybe insurers should have promoted this advantage while it was their exclusive. It will be interesting to see how the mutual funds and banks promote this feature.

Actuaries are working to develop public policy promoting lifetime income. A SPIA is still the main vehicle. I understand the reluctance of a new retiree to tie up his or her lifetime accumulation at current low yields. However, the current low yields may persist for some time and that only increases the danger of out-living one's assets. Some insurers promote a program of gradually converting the savings into lifetime income. If low rates persist, it would be better to convert accumulations into SPIAs quickly. If interest rates rise, it would be better to convert savings later. For those of us that can't accurately predict future interest rates, a plan to gradually convert the accumulations might be best.

The source of funds for SPIAs, besides your own deferred annuities, is employee savings plans such as 401(a)s, 401(k)s and 403(b)s. An understanding of these plans is essential to providing good retirement advice to clients. There will be a presentation on the 401(a) plans at the Fraternal Society of Greater Pittsburgh seminar in May.

Interest Rates and Product Pricing

Quality corporate bonds are now yielding less than 4.5%. Single Premium Whole Life (SPWL) pricing is most sensitive to interest rates. If rates stay this low, SPWL should be repriced and probably redesigned around 3.5% reserves and perhaps 4% cash values. In the meantime, dividends can be reduced on the current SPWL product.

Death Claims Update

New York claims they found more than 52 million dollars for 28,000 of their citizens by requiring life insurance companies to check for New York insureds on the social security death files. Our clients had a wide range of experience. I hope FCSLA doesn't mind me bragging about them but they found no claims during this required search. They have been using the SS files for several years. Others among our clients found 3% of their paid up policyholders were deceased. Other states are beginning to act on this, starting with larger companies. It would probably be better to start this cleanup before the states force it on you. You might start with checking SS records for paid up policies on older insureds. Especially if you have policies beyond the valuation table's terminal age, you should find the owner or beneficiary and pay them. You might also review your compliance with escheat laws as some states are focused on the income they might receive during this process.

Commissions Disclosure

Last year our New York clients developed some experience with commission disclosure. This year the 401(k) providers will disclose their fees. That was part of the federal solution to our retirement income needs. We will send more information this summer.

Honors

Bob Bruce was recently honored by William Penn Association and First Catholic Slovak Ladies Association at their conventions. Well deserved!

We look forward to seeing you at the Fraternal Society of Greater Pittsburgh Seminar May 24, 2012!

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