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NEWS AND NOTES

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This Newsletter has a theme, DECLINING INTEREST RATES. For our New York clients, we remind you of the fast-approaching initial deadline for claims reporting. See the Death Claims Update below.

Valuation Interest Rates

As we noted in July, the **2012** life insurance minimum valuation rate will remain unchanged at 4% and the cash value rate will remain 5%. The Moody's index which determines these rates dropped 70 basis points in the past two months. It is now at a level (if it continues through June 2012) that would require a 3.5% life valuation rate in 2013. That would also require 4.5% cash values by 2014. Your planning for 2012 should budget for the possibility of revised life insurance reserve factors and cash value factors.

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 will be 5%, down from 5.25% in 2010. Five percent would be a very high guaranteed rate for SPIAs given current investment opportunities. The October level of the Moody's index (if it continues through June 2012) would reduce the SPIA valuation rate to 4.25% in 2012. You probably should not use a higher rate to quote new SPIAs after 12/31/2011.

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 will again be 1%. The Constant Maturity Treasury Rates that determine it also dropped 50 bp in August. They are far below the level needed to keep the annuity cash value rate at the 1% floor.

American Academy of Actuaries Proposed Public Policy

The Academy is working on a draft of a policy in which they will essentially advocate lifetime annuities. They argue that the main retiree risk is outliving one's assets and the only way to guarantee lifetime income is...guaranteed lifetime income. Social security and traditional defined benefit pensions provide this. The IRA, TSA, and 401K plans may not. Single Premium Immediate Annuities are the way to convert other retirement assets into guaranteed lifetime income. This is a tremendous service you can provide your clients. Even in the current low interest rate environment, some portion of most retirees' assets should be converted. Some could be allowed to accumulate hoping for a better conversion rate at a higher interest rate later. Conversion at an older age also increases the monthly income. Financial planners often write about how to structure assets so as to provide lifetime income. They use

bonds and other fixed rate investments. Those efforts only approximate the need. A SPIA covers the exact risk...outliving one's assets.

We believe that besides outliving one's assets, the other major financial risk to retirement income is inflation eroding its purchasing power. SPIAs can have payouts that increase over time to help offset inflation.

Some attribute the lack of SPIA sales to a distrust of financial institutions and a dislike for the loss of control over assets. Can your society overcome the distrust of financial institutions? The loss of control issue is hard to overcome. SPIAs should not have a fixed cash value. Some companies do offer to "buy them back" at a value reflecting the current purchase rate of a new SPIA. This may also require minimal underwriting. This practice is usually not guaranteed.

Death Claims Update

New York is now requiring all companies doing business there to search for all their NY policyholders on the Social Security Death file. They must report on what claims they "should have paid". If you are in NY, you should be preparing your first report for filing at the end of October. If not in NY, you have some time to try to clean up these issues before the regulators in other states force you to do so. Other states are beginning to act on this, starting with larger companies. 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.

Annuity Suitability Update

By now, you have trained your agents on suitability and on your annuity products. You are also reviewing your agents' determination that each annuity sale is suitable. You are documenting and filing each review. It is now time to document your accomplishments in your annual report on compliance. We note the following state activity: Passed in CA, CO, CT, 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, IL, MA, MN, MI, KY, and TN. Since July, the only change is that CT passed the law.

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