

## Actuarial Consulting Newsletter

### LHATF Considering ROP Term Guideline

The National Association of Insurance Commissioners' ("NAIC") Life & Health Actuarial Task Force ("LHATF") is considering a new actuarial guideline which would affect the nonforfeiture values for return of premium ("ROP") term policies. This proposed guideline ("CCC") can be found on the LHATF's website at: [http://www.naic.org/documents/committees\\_lhatf\\_AG-ccc.doc](http://www.naic.org/documents/committees_lhatf_AG-ccc.doc). As proposed, it would be effective for new policy forms filed on or after January 1, 2009, and all policies issued on or after January 1, 2010. Comments on the proposal may be sent to LHATF through John Engelhardt at: [jengelha@naic.org](mailto:jengelha@naic.org).

The guideline is applicable to policies which provide intermediate endowment benefits. The ROP policies are cited specifically within the scope of the regulation. The effect of the guideline would be to change the manner in which nonforfeiture values are calculated. It essentially creates a segment which ends at the endowment. As such, the endowment is fully funded during the "endowment period." This will likely increase the early cash surrender values for these policies.

Currently, these policies comply with nonforfeiture laws by funding for the benefit over the life of the policy. Some states have enforced the requirements of the smoothness test of Section 8 of the Nonforfeiture Law. Policies affected by the guideline will still be required to comply with this test.

Companies with these products will need to examine their contracts quickly. It is likely that the imposition of this guideline will necessitate an increase in premiums or make the products unviable. If refiling is necessary, much of 2009 will be needed to get the modified products to the market.

With a proposed effective date of January 1, 2009, the NAIC expects to pass it at the winter national meeting in Texas. As an actuarial guideline, it becomes effective in all states when adopted by the NAIC.



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## **ABOUT THE AUTHOR**

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He has served as the small company representative to the American Academy of Actuaries Life Practice Council, has been a member of the Society of Actuaries Smaller Insurance Company Council, and was the founding chairman of the NALC's Actuarial Committee.

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