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**Statutory Valuation of Life Insurance Policies:
2001 CSO**

SOA Valuation Actuary Symposium

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Introduction

- Background
- Proposed Model Regulation
- Comparison to 1980 CSO
- Valuation Implications
- Tax Implications
- Product Implications
- Summary

Background

- SOA developed initial valuation table (VBT)
- AAA introduced loading and studied issues of moving to new table
- NAIC drafted model regulation (current draft 7/26/02)

Proposed Model Regulation: 7/26/02 Draft

- Adopted by regulation, not statute
- Effective date – January 1st following state adoption
- Permitted date – earliest likely is January 1, 2004
- Mandatory date – January 1, 2008

Proposed Model Regulation: 7/26/02 Draft (continued)

- May elect to adopt on a plan-by-plan basis prior to mandatory date
- Must use same table for both valuation and nonforfeiture values
- Current draft removed requirement for companies to submit experience mortality data electronically

Model Regulation Issues

- Basis for determining whether deficiency reserves are required
- Substandard, guaranteed and simplified issue, ETI
- Asset adequacy testing

Comparison to 1980 CSO: Structure

2001 CSO

- Terminal age of 121 years
- Constructed as select & ultimate
- 25-year select period

1980 CSO

- Terminal age of 100 years
- Constructed as attained age
- 10- and 20-year select factors

Comparison to 1980 CSO: Mortality Rates

- Ultimate rates range from 50% to 80% of 1980 CSO for ages 25 to 75
- Ratio generally increases with age (so slope of 2001 CSO is generally greater than that of 1980 CSO)
- Ultimate female smoker rates are higher than 1980 CSO for ages 57 to 74

Valuation Implications: Term

- 2001 CSO generally produces lower basic reserves
- Female smoker reserves are sometimes greater
- Differences are greater at younger ages and less at older ages
- Differences are greater for longer guarantee periods

Valuation Implications: Whole Life

- 2001 CSO reserves are 80% to 90% of 1980 CSO reserves, except for female smoker
- Female smoker 2001 CSO reserves are higher than 1980 CSO reserves at some durations and ages

Valuation Implications: Universal Life

- For first 5 durations reserves are generally lower
- Durations 6 and later generally have reserves equal to cash surrender value
- 2001 CSO has little impact on UL reserves

Tax Implications: IRC 807(d)

- Can use 2001 CSO for tax reserves upon 26th state adopting the table
- 3 year transition period
- 2001 CSO Ultimate
- 2001 CSO tax reserves are generally lower (except for female smokers)

Tax Implications: IRC 7702 and 7702(A)

- 2001 CSO becomes effective upon 26th state adopting the table
- Potential IRS audit and administrative issues for having different table for tax reserves than that used for 7702 and 7702 A
- 2001 CSO Ultimate
- Generally lower funding limits (except for female smokers)

Product Implications: Term

- Lower reserves and tax reserves increase profitability or allow for lower premiums
- Shift focus to longer term plans
- Decrease premium rates at younger and older issue ages

Product Implications: Whole Life

- Decrease premium rates
- Lower guaranteed cash values

Product Implications: Universal Life

- Recover “lost” COI profit through other loads
- Potentially delayed implementation of 2001 CSO to avoid reconfiguring loads to generate profit lost due to lower COIs

Summary

- Some issues still being discussed in model regulation
- Guidance needed on IRS issues, particularly transition rules
- Significant work in updating product portfolios
- Potential systems implications