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## Statutory Valuation Interest Rates for Life Insurance and Annuity Products

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### Maximum Statutory Valuation Interest Rates

**M**oody's Investors Service has released its June 2003 Corporate Bond Yield Averages Index. This index affects maximum interest rates under the 1980 Amendments to the Standard Valuation and Nonforfeiture Laws. This article reports the maximum statutory valuation and nonforfeiture interest rates for calendar year 2004 issues of life insurance products and the maximum statutory valuation interest rates for calendar year 2003 issues of annuity products. Looking ahead to next year, the maximum valuation interest rate for life insurance products could easily drop by 50 basis points if interest rates decline even slightly from the July 2003 levels.

The maximum statutory valuation interest rates for some typical insurance products are as follows below:

The calendar year 2004 maximum statutory valuation interest rates for life insurance products are the same as last year. Most of the maximum statutory valuation interest rates for calendar year 2003 issues of annuities decreased by 50 basis points although a few 75- and 25-basis point decreases were noted.

### Maximum Statutory Valuation Interest Rates for Future Years' Issues

The formulas used to determine maximum statutory valuation interest rates for life insurance products generally require large swings in yield indices before a change in the maximum valuation rate will occur. As previously shown, the maximum statutory valuation interest rate for calendar year 2004 issues of whole life insurance products will be 4.50 percent. For the whole life maximum statutory valuation interest rate to change for calendar year 2005 issues, one of the following scenarios must occur:

Target Maximum Statutory Valuation Interest Rate	Required 12-Month Mean for July 2003 - June 2004
4.00%	6.21% or less
5.00%	10.93% or greater

The Moody's average corporate bond yield index was 5.85 percent in June, 2003 and 6.26 percent in July, 2003. If the Moody's index drops slightly and produces a mean yield over the next 12-month period of no greater than 6.21 percent, a 4.00 percent maximum statutory valuation interest rate for calendar year 2005 issues of whole life insurance policies would be the result. The corresponding 12-month average that will cause a 50-basis point reduction in other life insurance products are 6.24 percent and 6.03 percent for guarantee durations of 10 years or less and more than 10 years but not more than 20 years respectively.

Note that a change in valuation interest rates will also cause a change in nonforfeiture interest rates. The reduced non-forfeiture interest rates (125 percent of the valuation rates) would be mandatory in 2006. There is a one-year grace period for nonforfeiture interest rate changes—a new interest rate is optional for the following year but mandatory for the succeeding year.

Many companies are currently contemplating a re-pricing effort to incorporate the 2001 CSO mortality table with an expectation that reserves and nonforfeiture value will be reduced. A reduction in the maximum valuation interest rate will act to increase required reserves and traditional cash values, somewhat offsetting the reduction due to the change in the mortality table. It would seem prudent to maintain a keen awareness of the Moody's indices over the near term so as to avoid a re-pricing of the re-priced 2001 CSO products. □

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Year of Issue	Whole Life Insurance	Typical Single Premium Deferred Annuity	Single Premium Immediate Annuity
2000	4.50%	5.75%	7.00%
2001	4.50%	5.50%	6.75%
2002	4.50%	5.50%	6.50%
2003	4.50%	5.50%	6.00%
2004	4.50%	N/A	N/A