



SOCIETY OF ACTUARIES

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Comments from the Chair

by Deanne L. Osgood

I would like to congratulate Larry Stern on a successful term as Chairman of the Product Development Section Council! The Council made great strides in communicating with the membership and engaging members in Section activities. Under Larry's leadership, the Council developed a Section Web site, conveniently accessed through the Society of Actuaries site. Also, we successfully utilized the "blast fax" technology to obtain input from our members on various topics and to recruit speakers and other volunteers. *Thirty-five* individuals expressed interest in running for election to the Council for the 2001 term. This is a record for us! We hope that the interest and participation in Section activities continues.

Although Larry has remained active in the Section as a "Friend of the Council," his three-year term expired with the Annual Meeting in 2000. Additional retiring members include: Boris Brizeli and Kathy Anderson, Council Secretary. Also, we had an unusual year where we lost two valuable members, Barry Jacobson and Lilia Sham, during the second year of their three-year terms.

In addition to her duties as Secretary, Kathy represented the Council on the Life Practice Committee of the Society of Actuaries. Barry, Lilia, and Larry, in addition to existing Council member Ken McCullum, were instrumental in designing and executing the successful Distribution Economics

(continued on page 2)

New Flexibility for VUL Product Design in New York State Surrender Charge Limits Revisited

by Robert A. Hafner

Background

In the course of preparing a non-forfeiture compliance demonstration memorandum for a client, we developed an interpretation of the surrender charge limitations specified in New York's Regulation 77, which increases the maximum allowable surrender charges for renewal years. The amount by which renewal year surrender charges may be increased under this interpretation depends on the product design and, in particular, the amount and timing of "deferred acquisition and other charges" as defined by 11 NYCRR 54.7(b)(1)(xiii). This interpretation was presented to a representative of the New York State Insurance Department who accepted the interpretation after consulting with his superiors and departmental attorneys.

Foundation

Variable universal life non-forfeiture standards are specified in 11 NYCRR 54.7(b) by limiting policy surrender charges. The maximum initial surrender charges allowed are specified by one of two alternative limitations as found in subparagraphs (b)(2)(i) and (b)(2)(ii). The maximum renewal year surrender charges allowed are specified in paragraph (b)(3) as reductions to the maximum initial surrender charge established in paragraph (b)(2).

11 NYCRR 54.7(b)(3) reads as follows: "Any surrender charge in paragraph (2) of this subdivision must be such that *at the end of any policy year* it does not exceed the maximum initial surrender charge that would be allowed multiplied by the ratio of" [temporary life annuities immediate, i.e., $a_{x+t:15-t} / a_{x:15}$] "based on the mortality table and interest rate used in calculating the net level whole life annual premiums.

Furthermore, any such surrender charge may not exceed the maximum initial surrender charge less the sum of all deferred acquisition and other charges *made to date* against the policy value. For these annuity values, x is the age at which the surrender charge is created and t is the duration of the surrender charge." [emphasis mine]

Symbolically, these constraints may be expressed as follows:

I) $SC_t \leq SC_0 * a_{x+t:15-t} / a_{x:15}$ for $t = \{1, 2, \dots, 14\}$ and,

II) $SC_t \leq SC_0 - \sum_{s=1}^t DefAcq_{s+1}$ for $t = \{1, 2, \dots, 14\}$

(continued on page 3)

In This Issue

	Page
Comments from the Chair by Deanne L. Osgood	1
New Flexibility for VUL Product Design in New York State, Surrender Charge Limits Revisited by Robert A. Hafner	1
Federal DAC Tax by Matthew S. Easley & Stephen A. Sedlak	4
Annual Meeting in New Orleans	8
Win a Cruise for Two!	9
Product Development Section Meets in Chicago	10
Don't Forget To Vote In The Product Development Section Council Election!	11
2001 Meeting Editors Wanted:	12
Cruisin' on the Mississippi	12

Comments from the Chair

continued from page 1

seminar held last May. Boris single-handedly coordinated the development of the Pricing Innovations seminar held in June. Both seminars qualified for Professional Development credit. I thank the retiring members for their contributions during their terms and hope that they choose to stay involved with the Section in the years to come. We will miss the contributions of these individuals greatly!

I am pleased to introduce the starting line-up for the 2001 Product Development Section Council. Returning as the sole survivor of the Class of 1999 is Deanne Osgood, current Chairman of the Council. Joining Deanne are Mary

Bahna-Nolan, Vice Chairman, and Lorraine Mayne, Web site liaison. In addition, five new members were elected to the Council—Kevin Howard and Susan Kimball will serve one-year terms, and Noel Abkemeier, Anne Katcher, and Nancy Kenneally will serve three-year terms. We have a creative, energetic Council and are looking forward to serving the membership this year!

So, what has the Council been up to since the Annual Meeting? Together with the Society of Actuaries and the Reinsurance and Nontraditional Marketing sections, we sponsored a very successful *First Annual Product Development Actuary Symposium*, which was held in Chicago in May. A special thank you to Mary Bahna-Nolan, Kevin Howard, and Larry Stern who

joined me in representing the Product Development Section on the planning committee. Kevin Howard also did a tremendous job coordinating the sessions sponsored by our Section at the SOA Spring Meeting in Toronto. There was a grand total of 26 sessions that were sponsored or co-sponsored by the Section—a new record for us! Finally, believe it or not, the Annual meeting sponsored by the Society of Actuaries has already been planned and speaker recruiting is well underway.

We are focusing our efforts on professional development and continuing education during the remainder of the year. Planning is underway for a one-day seminar that will be held during the SOA Power Week in December focused on “financials for product development actuaries,” and the *Second Annual Product Development Actuary Symposium*, which will be held in early 2002. We also are exploring opportunities to offer the Product Development Boot Camp later this year. Previously offered in 1996 and 1998, the Boot Camp has been a valuable seminar for actuaries at all levels interested in Product Development. A bigger challenge for us is updating the educational CD-Rom entitled, “*a look at product development*,” originally produced in 1997, to be eligible for Professional Development credit. Details will be posted on our Web site as they emerge!

Please contact any member of the Product Development Section Council if you have any questions or comments, if you are interested in any of the seminar activities, or if you are interested in volunteering for any Section activities.

We look forward to hearing from you!

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