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REPORTS ON TOPICS OF CURRENT INTEREST

REPORT ON ACTIVITIES OF THE JOINT ACTUARIAL COMMITTEE—ALC-LIAA

The Joint Actuarial Committee of the American Life Convention and the Life Insurance Association of America has been considering changes needed in the Standard Nonforfeiture and Standard Valuation laws in light of the high level of interest rates currently available and expected for future years. This topic has been under consideration since April, 1970, and a progress report was given to the Society at its 1970 spring meeting in Chicago. Activities have been particularly fast-moving in recent months, however. This is the first opportunity to make you, the profession, aware of certain important new developments. Specifically, the committee has now proposed that the maximum permitted rate for valuation and nonforfeiture purposes be raised from the current $3\frac{1}{2}$ per cent to 6 per cent for single premium individual annuities and all group annuities and to $4\frac{1}{2}$ per cent for annual premium annuities, all life insurance and benefits supplemental thereto, and all health insurance. At the same time, the committee proposed the adoption of two new annuity mortality tables, the 1971 Individual Annuity Mortality Table and the 1971 Group Annuity Mortality Table.

The appropriateness of higher interest rates is certainly underscored by current portfolio net earnings of companies, which averaged 5.30 per cent for 1970. Net new-money interest rates, comparable to the 6 per cent proposed for single premium annuities, are much higher—7.65 per cent was the net new-money rate for the first eight months of 1971 at Life Insurance Company of Georgia, for example. The annuity surplus strain, resulting from gross premiums based near new-money rates but reserves based at $3\frac{1}{2}$ per cent, appears to be a major problem, even for the largest companies.

The new valuation mortality standards for annuities are necessary because of the dramatic improvement in annuitant mortality since current standards were developed. It was concluded that a new mortality table would not be needed for life insurance, because improvements since the development of the 1958 CSO Table are far smaller than have ever been used in the past to justify a new table, because recent mortality has leveled off, and because of the belief in some quarters that insured mortality may show some tendency to increase in the future.

Another more recent project of the Joint Actuarial Committee is the determination of new statutory minimum capital and surplus requirements. A subcommittee has been appointed to study this situation. It appears likely that the new requirements will include a "game plan" approach for new companies, and possibly for some other companies, which will seek to prevent future insolvencies. These recently proposed requirements did not originate with the Joint Actuarial Committee but are the outcome of certain recent proposals for insolvency legislation which would require solvent companies to make up the deficits of insolvent ones.

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