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# AG33 Non-Elective Reserve Proposal Update

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The Life Actuarial Task Force (LATF) voted to expose for comment the reserve proposal of the American Academy of Actuaries' (Academy's) AG33 Non-Elective Incidence Task Force. The comment period ended May 14, 2014. Actuaries may want to begin estimating the reserve effect related to any potential revision to AG33 assuming the task force language is adopted. The main part of the reserve proposal is as follows:

1. For non-elective waiver-of-surrender-charge benefits other than mortality-based benefits, incidence rates greater than zero are not to be applied after the earlier of the end of the surrender charge period applicable immediately after the first premium is paid or when the cash value has been depleted.
2. For non-elective benefits other than mortality-based benefits, incidence rates greater than zero for non-elective benefits where it is unlikely that a contract owner would report a claim or make an election (such as collecting one benefit while other more valuable benefits exist in the contract) and which could thereby place a smaller reserve value on the contract's other benefits should not be considered to the exclusion of other incidence rates that would result in a larger reserve.



Insofar as this is considered a clarification of AG33, it will most likely be implemented on a retroactive basis.

In some companies, non-mortality waiver is categorized as an elective benefit with zero incidence rates. The revision will have no effect as incidence rates are already zero.

In companies where non-mortality waiver is categorized as a non-elective benefit, for most valuation processes waiver can be handled by changing the system to only use applicable incidence rates during the initial surrender charge period and zero thereafter.

Correct interpretation of the reserve proposal's second point is that a fully informed contract owner has to be very likely to take the non-elective benefit considering other benefits available in the contract. The contract owner is very likely to take the benefit when the non-elective benefit value is close to the greatest present value of the elective benefits. The bar is high and the burden of proof is on demonstrating that the contract owner collecting the non-elective benefit doesn't "leave money on the table."

Contract owners still hold the option of whether to report the incidence and whether to make a claim after a non-mortality incidence has occurred. If the contract owners don't see favorable relative value in the non-elective benefit compared to other benefits available in the contract, they are not very likely to make a claim.

Prior to final adoption of any revision, actuaries may want to begin estimating the reserve effect assuming the task force reserve proposal is adopted. ■



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