

## The Impact of Valuation and Nonforfeiture Rate Changes on Life Products.

### Will You Need to File Policy Forms and Actuarial Memorandums?

Market interest rates have dropped to unprecedented low levels over the last few months, creating a substantial financial impact on insurers' life portfolios.

Two consequences have developed:

1. The valuation interest rate that has been steady since 2013 reduced for new business effective on January 1, 2021.
2. The maximum nonforfeiture interest rate reduced for new business a year later, on January 1, 2022.



#### What are these interest rates?

**Valuation Interest Rate.** The NAIC Standard Valuation Law and the laws passed by the state regulators set a mortality rate and an interest rate to be used for calculating statutory reserves for life insurance products. The formula for determining the interest rate to use in setting up reserves is based on a calculation that uses the lesser of the 12-month and 36-month averages of Moody's corporate bond yield indices. Since the average has fallen, the valuation interest rate is reducing from 3.5% to 3% for new business effective January 1, 2021. This generally means higher reserving factors for new business.

**Nonforfeiture Interest Rate.** The maximum life insurance nonforfeiture interest rate is based on the average of the Moody's corporate bond yield indices shown above for the valuation interest rate. The nonforfeiture interest rate is reducing from 4.5% to 4% for new business as of January 1, 2022. A decrease in this interest rate usually means an increase in cash values. Also, keep in mind that the HEROES Act, H.R. 6800 currently pending in the U.S. Congress, contains a provision amending Internal Revenue Code Section 7702 to reduce the life insurance nonforfeiture rate to less than 4%.

#### What Products are Impacted?

For most companies, all their life insurance products, even term insurance, are affected. These changes apply to contracts with interest rate guarantee durations of 20 years or longer as defined in the Standard Valuation Law.

#### What do Carriers Need to Do?

- Determine the impact of the lower valuation interest rate and if a higher reserve factor is warranted for new business. If a carrier provided a demonstration or statement of the reserving method as part of the original product filing, a filing may be required with the state insurance departments.

- Determine if the cash value factors for new business must be changed. Generally, a drop in a nonforfeiture interest rate means an increase in cash values. If the cash values are set forth in policy forms, they will require filing and approval by the state insurance departments. Under Interstate Compact Standards the nonforfeiture interest rate must be shown and cannot be changed without a filing.
- Carriers may also want to take this opportunity to update or change benefits in their policy forms as they evaluate premiums.

This interest rate reduction requirement gives carriers a relatively short period of time to evaluate the changes needed and call their actuarial and compliance resources into action to implement the new changes. [First Consulting](#) stands ready to assist your company with filings of actuarial memorandums and policy forms that may be required as a result of these new requirements.



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