

Universal Life with Secondary Guarantees

Actuaries Club of Boston
Godfrey Perrott – June 8, 2005

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Discussion Topics

- Shadow Accounts
- AG38
- Riders
- ULWG and next steps



Shadow Accounts

- Disadvantage of Transparency
 1. Confusion (policyholder thinks shadow account is cash value)
 2. Opportunity for policyholder anti-selection



Shadow Accounts

- Typical Shadow Accounts parameters
 - Substantial percent of premium loads
 - Large interest rate bonuses
 - No surrender charges
 - Some have multiple Separate Account funds



Reserves and Regulators

- Shadow account designs can have lower AG 38 reserves than defined premium designs
- Some assert that this violates spirit of AG 38
- Companies are also doing stochastic testing of interest rates
- This results in holding an “economic” reserve if it is larger than AG 38



Riders

- Extended Maturity Option
- Accelerated Death Benefit
- True LTC
- “Asset Repositioning” sale



Actuarial Guideline XXXVIII (AG38)

- Currently, two drafts under consideration
 - 3/11/05 draft (Draft 5) – LHATF draft
 - 5/9/05 draft (Draft 6) – prompted by ACLI letter
 - (Letter from 10 CEOs)



AG38 – both drafts

- Similar reserve for similar guarantees
- Net premium approach



AG38 – 3/11/05 draft (Draft 5)

Specifics:

- Effective 1/1/06 no sunset
- Gross premium based on actual policy loads



AG38 – 5/9/05 draft (Draft 6)

Specifics:

- Effective date 7/1/05 to 3/31/07
- Intended to pressure for a principles-based valuation methodology
- Gross premium based on 7% load



AAA UL Working Group

The ULWG is working very hard to develop a principles based approach to valuation

- First UL products with secondary guarantees
- Second all UL products
- Third be able to roll out to all life insurance products
- Operating in parallel with Standard Valuation Law WG which is focused on professionalism and regulatory issues



Stay Tuned

There are two critical meetings this month:

- LHATF tomorrow and Friday
- ACLI Board Meeting June 24

The industry is working very hard to hold this compromise together through these two meetings





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