

Previous semi-annual reports of the (C4) Technical Subcommittee have mentioned the work of the Society of Actuaries Committee on Valuation and Related Problems. The (C4) Technical Subcommittee understands that this Society of Actuaries committee is still active, and that a task force has been created to study interest rate fluctuations. During the year 1981, the (C4) Technical Subcommittee hopes to obtain additional information about the activities of the Society of Actuaries in this area.

3. American Academy of Actuaries Subcommittee, Organization and Membership

At its November, 1980, meeting, the (C4) Technical Subcommittee decided in favor of a proposal that a new American Academy of Actuaries subcommittee should be formed. This American Academy of Actuaries subcommittee would work with the (C4) Technical Subcommittee on matters pertaining to life insurance.

This American Academy of Actuaries subcommittee was intended to be parallel to the existing American Academy of Actuaries Subcommittee for Liaison (Health Insurance). Please see the accident and health topic "American Academy of Actuaries Subcommittee Studies" for more information about the parallel subcommittee.

The new American Academy of Actuaries Subcommittee for Liaison (Life Insurance) has now been organized. Ardian Gill is chairman. The other members of this new American Academy of Actuaries subcommittee are: Wilbur M. Bolton, Gordon C. Boronow, Gary E. Dahlman, Stephen H. Frankel, Richard W. Kling, William K. Krisner, and John C. Lounds.

This new American Academy of Actuaries subcommittee has already done useful work in reviewing certain proposed actuarial guidelines for the (C4) Technical Subcommittee. The (C4) Technical Subcommittee has also asked this new American Academy of Actuaries subcommittee to study the topic "Completely Flexible Life Plans (Universal Life Insurance Plans)."

For additional information on these related topics, please see the topic headings "General Discussion of Life Actuarial Guidelines" and "Completely Flexible Life Plans (Universal Life Insurance Plans)" in this section of this report.

Attachment 17 to this report gives addresses and telephone numbers for the members of this new American Academy of Actuaries subcommittee, and it states the charge for this subcommittee.

4. Completely Flexible Life Insurance Plans (Universal Life Insurance Plans)

This topic was discussed under the topic heading "Special Life Insurance Plans" in the (C4) Technical Subcommittee's December, 1980, report, along with certain other plans which are discussed under the topic heading "Other Special Life Insurance Plans" in this report.

The completely flexible life insurance plans typically provide for the retrospective determination of cash values, in a manner analogous to the usual determination of cash values for annuities. The life insurance provided by these policies is paid for at regular intervals by deduction from the gross premium or the cash value which has already been built up, using the insured's current attained age and a special schedule of term insurance rates. The policyholder has great flexibility in changing the benefit structure and the pattern of premiums under such policies. The insurance company guarantees a specific rate of interest for accumulation of cash values at the date of issue of the policy, but the company may later declare interest at a higher rate.

The completely flexible life insurance plans are sometimes called "universal life insurance plans." Other names for such products are "total life insurance plans" and "open life insurance plans." Such plans are relatively new, having been first developed in the last two or three years.

It appears that many states are currently approving at least some of these plans, although there have been problems in trying to apply the standard valuation law and the standard nonforfeiture law for life insurance to them.

The December, 1980, revisions of the standard valuation law and the standard nonforfeiture law for life insurance allow the commissioner of insurance for each state to issue a regulation pertaining to these types of policies. Thus, such policies would no longer have to be "forced into a mold," which was intended for more traditional plans, in the calculation of reserves and nonforfeiture values.

The (C4) Technical Subcommittee needs to develop a model regulation for these policies, which would be available for commissioners to adopt. This is a high-priority project, since it is hoped that the regulation can be developed in time to promote uniformity among the different states.

During the period covered by this June, 1981, report, the (C4) Technical Subcommittee has been reviewing papers prepared by different individuals who are interested in these policies. These papers present different positions as to how the nonguaranteed benefits provided under these policies should be treated for the purpose of calculating reserves.

The (C4) Technical Subcommittee has also been made aware of a special group of these policies, where the insurance company guarantees at the date of issue of the policy that the rate of interest declared will not be less than the rate determined from some external index. This special group of policies has been described as "indexed" plans. They present special concerns about reserves and company solvency. There is also an analogy to variable life insurance, but of course the reserves are not held in a separate account.

The new American Academy of Actuaries Subcommittee for Liaison (Life) has been asked to assist the (C4) Technical Subcommittee in developing a model regulation. This American Academy of Actuaries subcommittee expects to have general comments on the completely flexible life insurance plans at the June, 1981, meeting of the (C4) Technical Subcommittee, but does not expect to have a discussion draft of a model regulation in time for that meeting.

The Variable Products Technical Advisory Committee and the American Council of Life Insurance have also been invited to comment on these plans.

Hopefully, the model regulation can be developed during the year 1981 since this project is considered so urgent.

The following other life insurance topics are closely related to this topic: "Revision of the Standard Valuation Law and the Standard Nonforfeiture Law for Life Insurance;" "American Academy of Actuaries Subcommittee, Organization and Membership;" "Other Special Life Insurance Plans;" and "Variable Life Insurance and Variable Annuities." There is also a potential relationship to the life insurance topic "Matching of Assets and Liabilities, and Minimum Surplus" and the "joint" topic "Companies Earning Lower Interest Rates than the Rate Assumed in Their Reserves"—especially in connection with the "indexed" plans.

5. Other Special Life Insurance Plans

This topic will consider the balance of the types of plans which were discussed under the topic heading "Special Life Insurance Plans" in the (C4) Technical Subcommittee's December, 1980, report, other than the completely flexible life plans. These other types of plans would include adjustable life insurance plans, indeterminate premium life insurance plans and single premium life insurance plans with specified minimum death benefits.

The adjustable life insurance plans are life insurance policies which offer a variety of options to the policyholder, but which are contractually modified every time the policyholder elects an option. A definite amount can always be calculated as the present value of future insurance benefits, and there is a definite pattern of future premiums at any specific time. Reserves and cash values can be calculated prospectively, as they are calculated for traditional life insurance policies. The (C4) Technical Subcommittee has concluded that these adjustable life insurance plans do not require any further attention.

The indeterminate premium life insurance plans allow the insurance company to unilaterally adjust the gross premium rate from time to time, subject to certain constraints in the policy. For example, the policy may state the maximum premium rate which the company can charge under any conditions. (Indeterminate premium life insurance plans are sometimes called "adjustable premium plans," but they should not be confused with the adjustable life insurance plans described in the preceding paragraph.)

Single premium life plans with specified minimum death benefits allow the insurance company to unilaterally adjust the death benefit from time to time, subject to a specified minimum death benefit and possibly to other constraints in the policy.