

December 10, 1980

SUBJECT: INSURANCE

WITHDRAWN

Circular Letter No. 17 (1980)

TO: ALL AUTHORIZED LIFE INSURANCE COMPANIES

RE: RESERVE REQUIREMENTS CONCERNING INTEREST RATE GUARANTEES ON ACTIVE LIFE FUNDS HELD RELATIVE TO GROUP ANNUITY CONTRACTS

The purpose of this letter is to specify the minimum reserve requirements for the December 31, 1980 and later valuation years concerning interest rate guarantees on contributions received in the 1980 calendar year and prior calendar years under deposits and funds received relative to group annuity contracts.

The procedures to be followed are designated in attached Appendices 1, 2 and 3, according to the year in which contributions were received. Thus, Appendix 1 applies to contributions received in 1974 and prior, Appendix 2 to those received in 1975, and Appendix 3 to those received in 1976 and later. Please note that the ultimate valuation interest rate for all contributions received in 1975 and later is still 6%.

Kindly acknowledge receipt of this letter to:

Mr. Robert J. Callahan, Chief
Actuarial Valuation Bureau
New York State Insurance Department
Empire State Plaza
Agency Building One
Albany, NY 12223

Very truly yours,

ALBERT B. LEWIS

Superintendent of Insurance

APPENDIX 1 TO CIRCULAR LETTER NO. 17 (1980)

Reserve Requirements Applicable To Contributions Received In 1974 And Prior

The reserve procedures followed by companies in 1973 may be continued for the December 31, 1980 and later valuation years in relation to contributions received in 1974 and prior. Where less restrictive, the procedure explained in the following paragraph may be used.

With the approval of this Department, a company may use the following basis to determine the additional reserve for interest rate guarantees relating to contributions received in 1974 under Deposit Administration group annuity funds.

Interest Guarantee Factor = $[1 + (i[g] - i[p])^{<n>} - 1,$

Where: $i[g]$ = interest rate guaranteed under the contract

$i[p]$ = lesser of the net new money rate credited on group annuity funds received in 1974 or .075, but in no year greater than $i[g]$

n = number of guarantee years, and fractions thereof, remaining as of the valuation date

Where appropriate, recognition may be taken of turnover rates and of excess of purchase price over minimum reserve.

APPENDIX 2 TO CIRCULAR LETTER NO. 17 (1980)

Reserve Requirements Applicable To Contributions Received In 1975

As part of the determination of aggregate minimum group annuity reserves, a computation must be made of minimum reserves for deposit administration group annuity funds with interest rate guarantees. In making such computation with respect to funds received in calendar year 1975, the procedure and minimum standards described below shall be applicable for the December 31, 1980 and later valuation years. Where appropriate, recognition may be taken of turnover rates, of expense assessments against the fund and of excess of purchase price over minimum reserves. In no event shall the reserve be less than the transfer value, if any, of the fund.

Minimum Reserve = $C \times (1 + i[g])^{<n>} / (1 + i[p])^{<n>}$

Where: C = Contributions received in 1975

$i[g]$ = Interest rate guaranteed under the contract

$i[p]$ = Lowest of: (1) the net new money rate credited by the company on group annuity funds received in calendar year 1974 less .005, or (2) $i[g]$, or (3) $i[m]$, where:

$i[m]$ = .081 * for calendar years 1976 - 1980

.077 for calendar year 1981

.073 for calendar year 1982

.069 for calendar year 1983

.065 for calendar year 1984

.060 for calendar years 1985 and later

n = Number of guarantee years, and fractions thereof, remaining as of the valuation date

* This factor is equal to the average gross new money rate based on the reports of 37 companies for specified investments made in 1974 less .01.

APPENDIX 3 TO CIRCULAR LETTER NO. 17 (1980)

Reserve Requirements Applicable To Contributions Received In 1976 And Later

As part of the determination of the aggregate minimum group annuity reserves, a computation must be made of minimum reserves for deposit administration group annuity funds with interest rate guarantees including all such funds pertaining to possible purchase of group annuities whether such funds are held in a separate account or in a general account, whether shown as premiums, advance premiums, auxiliary funds, etc. and whether the liability is shown in Exhibit 8 or elsewhere. In making such computation, the procedure and minimum standards described below shall be applicable for the December 31 1980 and later valuation years giving recognition to the dates deposits were made. Where appropriate and with the approval of the Superintendent, recognition may be given to the extent and time of application of active life funds to purchase annuities, expense assessments against the fund, and excess of purchase price over minimum reserves. In no event shall the reserve be less than the transfer value, if any, of the fund. Approximate methods and averages may be employed with the approval of the Superintendent.

To the extent that the application of these valuation procedures and standards would require a company to establish aggregate minimum reserves for group annuities and related funds in excess of reserves which it would otherwise hold if these valuation procedures and standards did not apply, such company shall set up an additional reserve liability whether shown in its general account or in a separate account, whether shown in Exhibit 8 or elsewhere.

For funds received in calendar year 1976 or later, follow the minimum standards prescribed below:

- (a) Contracts having no guaranteed interest rates in excess of 6% on future contributions to be received more than one year subsequent to the valuation date: The minimum reserve shall be equal to the sum of the minimum reserves for funds attributable to contributions received in calendar years 1976 and later.

Where $V[y]$ = Minimum reserve for funds attributable to contributions received in calendar year y .

$$V[y] = [C[y] \times (1 + i[gy])^{<n>}] / (1 + i[py])^{<n>}$$

$C[y]$ = Portion of the guaranteed fund attributable to contributions received in calendar year y

$i[gy]$ = Interest rate guaranteed under the contract with respect to funds attributable to contributions received in calendar year y

$i[py]$ = Lowest of:

(1) the net new money rate credited by the company on group annuity funds received in calendar year y less .005, or

(2) $i[gy]$, or

(3) $i[my]$, where

$<i>my$ = (i) for calendar years $y + 1$ through $y + 10$, average gross new money rate less .01, where such rate is determined as follows:

((a))for each calendar year 1976-1979 in which contributions were received, it is based on

the reports of companies for specified investments made in calendar year $y - 1$.

((b))for each calendar year 1980 and later in which contributions are received, for the first valuation year, it shall be based on the estimated 12 months investments of approximately 15 leading companies for calendar year y ; and for subsequent valuation years, it shall be based on the actual 12 months investment experience for calendar year y of approximately 40 or more companies, except that, where the average gross new money rate exceeds 10%, such rate shall be reduced by one-half of the excess over 10%

(ii) for calendar years $y + 11$ and later, .060.

n = Number of guarantee years, and fractions thereof, remaining as of the December 31 valuation.

(b) Contracts having guaranteed interest rates in excess of 6% on future contributions to be received more than one year subsequent to the valuation date:

The same procedures as set forth under (a) above shall be used except that the deduction under (1) of $\langle i \rangle_{py}$ shall be .01 instead of .005 and the deduction under (i) of $\langle i \rangle_{my}$ shall be .015 instead of .01.

TABLE OF VALUES OF $\langle i \rangle_{my}$

(Effective For The December 31, 1980 Valuation)

Calendar Year y In Which Contributions Were Received	Value of $\langle i \rangle_{my}$ for Calendar Years $y +$ 1 Through $y + 10$	
	Type (a) Contracts	Type (b) Contracts
1976	.089	.084
1977	.087	.082
1978	.081	.076
1979	.084	.079
1980	.095	.090