December 15, 1982

SUBJECT: INSURANCE

WITHDRAWN

Circular Letter No. 30 (1982)
December 15, 1982

TO: ALL AUTHORIZED LIFE INSURANCE COMPANIES AND FRATERNAL BENEFIT SOCIETIES

RE: RESERVE TREATMENT FOR GUARANTEED INTEREST CONTRACTS WHICH PROVIDE INTEREST RATE GUARANTEE PERIODS SHORTER THAN THE GUARANTEE PERIODS FOR RETURN OF BOOK VALUE

This letter is intended to clarify the application of statutory minimum requirements to contracts that (a) guarantee interest rates for an initial period of duration A, (b) guarantee the return of book value after N years (where N exceeds A), and (c) permit withdrawals at the greater of book or market value if any interest rate guarantee during the N-year period is less than the initial interest rate guaranteed for duration A.

The recently enacted amendments to Section 205 specify minimum reserve requirements for guaranteed interest contracts which vary according to the duration of the guarantee. As amended, Section 205 defines the guarantee duration as the number of years for which the contract guarantees interest rates in excess of the calendar year statutory valuation interest rate for life insurance policies with guarantee durations in excess of 20 years. If the contract guarantees such excess interest for successive periods during the N-year period, but defines an expiration date for determining eligibility for book value withdrawal that is more than one year from the valuation date, the definition of guarantee duration in Section 205 may seem to be ambiguous. In effect, such a contract may have two guarantee durations, A for the interest rate guarantee and N for the guaranteed return of book value.

When the amendments to Section 205 were passed by the Legislature and signed by Governor Carey in late Spring, 1982, they provided for an effective date of January 1, 1982 for application of the valuation requirements for guaranteed, interest contracts. In turn, Section 205 recognizes two different valuation procedures, (1) valuation on an issue year basis (other than those with no cash settlement options), and (2) valuation on a change in fund basis.

Accordingly, for purposes of applying Section 205, for annual reserve valuation as of December 31, 1982, and later, a company must treat such contracts as having an N year guarantee duration. For 1982 issues or for 1982 changes in fund, whichever method of valuation the company chooses, any reserve in addition to those required on the basis of assuming an A-year guarantee duration may be built up over a period of five valuation years beginning with the 1982 valuation. For 1983 or later issues or 1983 or later changes in fund, whichever is appropriate, full reserves on an N year guarantee duration basis must be set up.

For contracts issued prior to January 1, 1982, or for changes in fund prior to January 1, 1982, whichever is appropriate, a company may continue to use whatever valuation procedures it deems appropriate to make good and sufficient provision for the liabilities thereunder, but if a guarantee duration shorter than N is used, the company shall submit an annual certification and an opinion of a qualified actuary, that the assets in support of such reserves make good and sufficient provision for such liabilities.

Please acknowledge receipt of this letter:

Mr. Robert J. Callahan, Chief
Actuarial Valuation Bureau
New York State Insurance Department
Empire State Plaza
Albany, NY 12257

Very truly yours,

[SIGNATURE]

ALBERT B. LEWIS

Superintendent of Insurance