October 6, 1983

SUBJECT: INSURANCE

WITHDRAWN

CIRCULAR LETTER NO. 18 (1983)

October 6, 1983

TO: ALL AUTHORIZED LIFE INSURANCE COMPANIES AND FRATERNAL BENEFIT SOCIETIES

RE: MINIMUM RESERVES FOR INDIVIDUAL DEFERRED ANNUITIES OF BOTH THE FLEXIBLE PREMIUM AND THE SINGLE PREMIUM TYPE

A typical individual deferred annuity contract of either the flexible premium or the single premium type provides for the accumulation of a specified portion (as high as 100%) of each consideration at interest, subject to a specified contractual minimum interest rate each year. Higher interest rates are declared in advance periodically for a specified short period.

The typical contract provides prior to the annuity commencement date a cash surrender value equal to the accumulation fund less a surrender charge equal to a percentage of said fund. Such percentage may stay fixed but more often grades down to zero in 5 to 10 years after issue or after deposit.

The typical contract provides guaranteed annuity purchase rates set at a conservative level and provides for the application of more favorable rates in effect on the annuity commencement date based on 100% of the accumulation fund. During the deferred period, a death benefit equal to the accumulation fund is available.

Pursuant to Sections 73, 75 and 205 of the New York Insurance Law, the minimum valuation reserve for a contract of the above type shall be equal to the accumulation fund as of the valuation date further accumulated beyond the valuation date at any declared or contractual guaranteed interest rate in excess of the maximum permitted valuation interest rate to the date of expiry of such guarantee and then discounted back to the valuation date at the maximum permitted valuation interest rate. No future premiums need be considered for flexible premium contracts.

This procedure is equivalent to taking the greatest present value of any future cash value discounting back to the valuation date at the lower of the long term contractual guaranteed interest rate and of the maximum valuation interest rate. The use of the lower of these two rates is based in part on the fact that a portion of anticipated interest earnings in excess of the long-term guarantee is passed on to the policyholder in the form of higher short-term rates and assets should be at least as great as the base to which the interest is credited. This procedure eliminates the need to set up additional reserves for the waiver of the surrender charge.

For other than the typical individual deferred annuity contract described above, consideration will be given to requests for lower reserves. For example, if there is a surrender charge for withdrawal at the annuity commencement date, and if less than 100% of the accumulation value is used for application under the current purchase rate basis, then relief will be granted.

An insurer using the issue year valuation method under Section 205 may use either the date of issue of the contract or the date of declaration of the latest high interest rate, but should maintain consistency from year to year.

For issue years prior to 1982, an insurer may request high valuation interest rates subject to the approval of the Superintendent in accordance with Section 205.3(b).

An actuarial opinion and memorandum shall be required, where applicable, in accordance with Section 205.3(b-l)(B)(vi).

In case of an indexed interest rate, the interest rate in effect at the valuation date shall be used for comparison with the maximum valuation interest rate and the period of guarantee shall be extended until a new interest rate is to be determined.

This Department reserves the right to require higher reserves of indexed interest rates depending on the index, the determination of the rate, and the investments supporting the indexed interest rates.

Please direct any inquiries to Mr. Robert J. Callahan, Chief, Actuarial Valuation Bureau, at the letterhead address.

Very truly yours,

[SIGNATURE]

James P. Corcoran

Superintendent of Insurance