

The 2012 Individual Annuity Reserving (2012 IAR) Table What Does It Mean

In December 2012 the National Association of Insurance Commissioners (NAIC) adopted revisions to the Model Rule For Recognizing a New Annuity Mortality Table For Use in Determining Reserve Liabilities For Annuities (Model #821). The regulation introduces the 2012 Individual Annuity Reserving (2012 IAR) Table which replaces the Annuity 2000 Mortality (a2000) Table as the valuation standard for new issues. While initially drafted to be effective January 1, 2014, this date was subsequently pushed back to January 1, 2015.

The a2000 Table is a static mortality table. It is based on mortality experience from the 1980's and 1990's with projected mortality improvement to the year 2000 but not beyond. 2012 IAR, on the other hand, is a generational table that incorporates projections for future mortality improvements. This is accomplished by applying projection factors (Projection Scale G2) to the 2012 Individual Annuity Mortality Period Life (2012 IAM Period) Table. The latter is akin to the a2000 Table. The new table applies to deferred annuities as well as those life annuities in payout status (immediate annuities as well as settlement options).

Although reserves will generally be higher for most ages, there are benefits to the new table. It is more durable and the hope is that it will remain the valuation standard for some time and not become outdated quickly. It should also assuage the fear that payout annuities, in particular, may be under-reserved given the mortality improvement not reflected in the a2000 Table.

To get a sense of what payout annuity reserves will look like under 2012 IAR, following is a comparison to a2000. The reserves are for a straight life annuity, a monthly payment of \$1,000, interest at 4% and for issue age 70.

At issue in 2015:

Male	a2000 = \$137,893	2012 IAR = \$155,203
Female	a2000 = \$152,141	2012 IAR = \$163,991

5 years later (age 75):

Male	a2000 = \$116,097	2012 IAR = \$132,577
Female	a2000 = \$128,360	2012 IAR = \$141,692

The increases are not insignificant.

A further example shows the generational nature of the table, again using the same case as above at issue age 70.

Male	at issue in 2015 = \$155,203	at issue in 2020 = \$157,524
Female	at issue in 2015 = \$163,991	at issue in 2020 = \$165,828

So, in addition to likely higher reserves, what are other considerations with the introduction of the new table?

1. First and foremost is the pricing of immediate annuities. The underlying mortality assumption will need to be updated to avoid undue reserve strain. As can be seen by the above reserve comparisons, this could impact payout rates by as much as 10%--more for younger annuitants, less when there are period certain guarantees. Implementation could be tricky given the generational nature of 2012 IAR. It involves much more than just switching out a table.
2. The settlement option provisions in all life and annuity contracts should be updated to reflect the 2012 IAR Table as the guaranteed settlement option mortality basis. It may no longer make sense to include tables of sample income amounts. This is not required as long as the mortality basis is set forth in the contract.
3. Illustration and valuation systems, both for deferred and payout annuities, must be updated. Companies that currently calculate payout amounts manually from tables may find the need to automate the process.