KEY INTEREST RATES TO BE USED FOR LIFE INSURANCE ISSUES BEGINNING 2025

The purpose of this GBC Whitepaper is to keep you apprised of some developments related to changes to the valuation bases for life policies issued in 2025 and after, namely:

- As of January 1, 2025, reserves for newly issued life insurance policies must be valued with a discount rate no greater than **3.5%** (versus the 3% currently required)
- As of January 1, 2026, nonforfeiture values for newly issued life insurance policies must be valued with a discount rate no greater than **4.5%** (versus the 3.75% currently required), but companies may employ this change for plans issued on or after January 1, 2025 (i.e., in tandem with the reserve rate change).

We have been down this road several times over the past 20 years—in fact, as recently as 2021—but for the first time this century, we are seeing the Valuation Rates rise rather than fall. As such, the approach to this change, and our recommendations for how to navigate this transition, will differ from previous experiences.

Background:

Valuation Rate changes are nothing new—in fact, the valuation rates related to deferred annuity issues are revised annually, and those applicable to income annuities and settlement options are revised quarterly.

In contrast, the Valuation Rates which apply to life insurance do not tend to change very often. And yet, when they do, there is typically much work involved to prepare for the change. This is because such changes also involve corresponding updates/revisions to the products' nonforfeiture rates, which then often leads to discussions related to product pricing and design, as well as filing requirements. In fact, because these changes are so infrequent—and ripple industry wide—their impact tends to be intensified.

However, this Valuation Rate change exercise is likely to be different—and precisely because of the direction of the change.

For past transitions (most recently between 2020 and 2021, when the Valuation Rate dropped to 3.0%, and the corresponding nonforfeiture rate dropped to 3.75%), the reduction or drop of these (discounting) rates meant the reserves and nonforfeiture values they create *increased*—which would typically adversely impact the profit timing and profitability of a product, should no corresponding action be taken related to pricing/premium rate revisions.

For this transition (where the Valuation Rate is *rising* to 3.5%, and the corresponding nonforfeiture rate *rising* to 4.5%—the same Valuation Rate pairing in place for policies issued 2013 to 2020) the required minimum values underlying the products are falling.

The most obvious impact of this change is that the profit timing and profitability of a given product would be arguably improved, as required minimum reserves and cash values would be lower for a policy issued in 2025 versus one issued in 2024—assuming all other things, like premiums, being unchanged.

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This is an oversimplification, of course, but highlights the fact that companies/market players may **react differently across the industry**. For example, here are some approaches various companies might take:

- leave premiums unchanged, but lower the reserves and cash values related to their life product offerings to improve profits/profitability
- choose to do this and also reprice (i.e., lower premium rates), either right away or in the coming months, to leverage these rate/value changes
- do nothing at all, as their current products have reserves and cash/nonforfeiture values would remain sufficient/in compliance (albeit above) the minimum levels required in 2025

What's most important, however, is for you to consider/evaluate what you must do before January 1, 2025, and what you can choose/elect to do, and on a timeline which suits your organization.

What this means for you:

As the third example above illustrates, while Valuation Rate changes do often force a company to make changes or decisions related to its product portfolio, such actions are only *required* insofar as the changes lead to a product offering being in or out of compliance (e.g., re: required minimum values).

Therefore, when looking at what needs to be done in the run up to the end of 2024, first consider what you want to do in 2025:

Are you comfortable with your current product offerings? (i.e., no new products)

If yes, do you want to change/lower the reserves and cash values of these existing/filed/approved products?

If so, you will need to do (at minimum) the following two things:

1) **file an informational filing**, alerting jurisdictions that the minimum nonforfeiture values are changing

   ➔ This would be similar to what many companies did in 2020 (for 2021) to prepare for that transition.

2) **update your illustration and administrative system** with new values, though it is likely you would explore new plan codes as well, or at least issue-date sensitive mapping;

   ➔ Note, for current products which have been offered since before 2021, it is likely valid libraries/data already exist on this 3.5%/4.5% basis, and can be re-used.

(comments related to changing/lowering values continued on following page)

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ALSO, while not required, companies **might also consider re-pricing** the product as well. This would, of course, add more work to the project, but provide a company an opportunity to fold in other considerations (expenses, mortality experience, etc.).

➔ In this instance, it is important to check/verify whether an informational filing could still be used, when changing the reserves/nonforfeiture values. Specifically, most **products where premium rates were not required during the original filing**, can still re-use/re-purpose the existing form.

[An example of when an informational filing *cannot* be used for this purpose is a return of premium product, where any premium change would change the product as it was originally approved—and this would be the case regardless of any change to the valuation rate basis.]

If otherwise (i.e., prefer to keep your reserves/cash values on the present/2024 basis), you should evaluate whether there are still any **administration system considerations** (e.g., plan codes, issue date demarcation), such that you "keep your options open" should you decide to make a change later, after the January 1, 2025, date.

As for new product designs (i.e., on this new reserve/nonforfeiture value basis), these could make sense with the expected market reset which usually accompanies these valuation rate changes, but companies should, as usual, proceed with caution considering scope of such work (design, pricing, and filing timeline and congestion issues—in addition to system updates) given where we are in the calendar year.

We at GBC are available for any questions you might have on these matters, so please feel free to reach out when convenient.

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This document was developed for the purpose of providing to its intended audience an overview of items related to the topic of key interest rates used for life insurance calculations, including those for reserving and developing nonforfeiture values, as well as for parameters used in the determination of whether a product meets the criteria for life insurance for federal tax purposes. The comments and recommendations included in this document reflect solely the interpretations and views of its authors, and are not intended to represent formal guidance or instruction. This document has not been sanctioned by, or developed in conjunction with, any actuarial or insurance-related authority, industry organization, or governing body.