

WSR 21-07-037

OFFICE OF THE

INSURANCE COMMISSIONER

[Filed March 10, 2021, 9:35 a.m.]

Technical Assistance Advisory (TAA) 2021-02¹

¹ This advisory is an interpretive policy statement released to advise the public of the office of insurance commissioner's current opinions, approaches, and likely courses of action. It is advisory only. RCW 34.05.230(1).

The purpose of this TAA is to summarize current law and to remind insurers of the rule and application of the Universal Life Reserve Valuation Method.

The insurance commissioner issues this TAA to assist insurers in complying with the Washington Universal Life (UL) regulations found at chapter 284-84 WAC, and specifically the insurance commissioner's Reserve Valuation Method set out in WAC 284-84-030.

This guidance applies to all policies issued in Washington on or after January 1, 1987. It differs slightly from the NAIC UL Model Regulation. The difference results from WAC 283-84-030's inclusion of subsection (6), quoted below, which reflects a drafting note in the NAIC UL Model:

(6) To the extent that the insurer declares guarantees more favorable than those in the policy (contractual guarantees), such declared guarantees shall be applicable to the determination of future guaranteed benefits.

This rule requires that the valuation interest rate be no higher than any contract guaranteed interest rate (including the 0% implicit guarantees in Indexed UL contracts). Variable UL (VUL) is generally exempt. However, accounts or segments within VUL policies that include fixed interest guarantees must not be reserved at interest rates higher than the fixed interest guarantees. If an Indexed UL policy (or an indexed segment of a UL policy) has a zero floor, its implied guarantee of 0% would be the maximum valuation interest rate. This would also apply to the guaranteed interest rate included in any secondary guarantee.

The NAIC UL Model Regulation (Model #585) and Washington UL regulations (chapter 284-84 WAC) are part of Appendix A of the Valuation Manual. However, these regulations are not applicable to the reserve calculation for Principle-Based Reserves Universal Life with Secondary Guarantees policies. VM-20 section 3 supersedes these regulations for policies subject to Principle-Based Reserves (PBR) that meet the definition of "Universal Life with Secondary Guarantees."

Neither cash flow testing requirements nor Valuation Manual provisions conflict with or supersede these UL regulation reserve requirements. The rule remains in effect under chapter 48.74 RCW. There also does not appear to be any provision for ignoring these requirements due to any perceived immateriality of the additional reserves. Therefore, we expect all companies with policies issued in Washington on or after January 1, 1987, to hold reserves according to these requirements by year end 2020.

To the extent that valuations are compliant with the Valuation Manual and PBR, but are regulated by standards that do not refer to NAIC Model #585 (the NAIC UL Model Regulation), they are exempt from the requirements of WAC 284-84-030(6) for policies issued on or after January 1, 2020.

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