NAIC Separate Account Risk Working Group Listens to Commenters

By Helen Napoli

On June 5th, the National Association of Insurance Commissioners' (NAIC) Separate Account Risk (E) Working Group heard from four out of the nine commenters who submitted written comments on the NAIC's evaluation criteria, assessments and proposed recommendations regarding the insulation of separate accounts.

The NAIC asked interested parties to comment on all aspects of their exposure document, which included product groupings and their associated attributes; the NAIC's assessment of the various products, and the proposed recommendations for the various product groupings. The NAIC's Separate Account Risk (E) Working Group (SAREWG) addressed all products, including stable value that used separate accounts.

Only the American Council of Life Insurers (ACLI), the Committee of Annuity Issuers (Committee), the American Academy of Actuaries (Academy) and the SVIA, as well as Great West Life & Annuity Company supplemented their filed comments with oral presentations. The views from the four industry organizations (the first four entities referenced above) were remarkably similar in both their oral remarks and comment letter filings. All supported upholding and preserving the insulation status of stable value separate account contracts. They also stressed that the integrity of the general account and its relationship to insulated separate accounts should be preserved and evaluated using three principles. These principles are:

- Ensuring that adequate compensation is provided to the general account for any guarantees by the general account that serve as a backstop after all separate account assets are exhausted;
- Maintaining adequate reserves outside of the insulated separate account to support such guarantees; and
- Maintaining a comprehensive state regulatory regime for insulated separate accounts.

The four industry groups only diverged in the array of products they addressed in comments, with all but the SVIA covering products in addition to stable value. SVIA's comments were limited to insulated separate accounts used by stable value in defined contribution plans and were supportive of comments from the Committee, ACLI and the Academy. SVIA's latest Annual Stable Value Funds Investment and Policy Survey found that $67.5 billion was held in insulated separate accounts across all surveyed management segments. Gina Mitchell, SVIA's President, emphasized that stable value is uniquely positioned to fulfill the Employee Retirement Income Security Act (ERISA) and state fiduciary mandates of offering investments that both minimize the risk of loss as well as provide diversification of investments. She noted that studies have concluded that stable value investments for moderately and highly risk adverse investors under reasonable yield curve assumptions, should be a major component of an optimum portfolio to the exclusion of money market funds and the near exclusion of intermediate-term bonds. "Stable value grows more important to defined contribution plan participants as our population ages and becomes more risk adverse, which several recent studies have concluded has happened across almost all ages of investors," noted Mitchell. These trends help explain the increased use of stable value by defined contribution plan participants in both industry and SVIA surveys, said Mitchell.

The SAREWG thanked all commenters for their remarks and submissions and said they will be considering all the comments to determine their next steps over the coming months.

[1]The nine commenters included ACLI, Committee of Annuity Insurers, American Academy of Actuaries, SVIA, Meyers-Chatfield, Great West Life & Annuity Insurance Company, Jay Dununzio, Jonathan Mercier, and Chris Tobe. All but one (Tobe, who submitted several of his own writings) provided comments that specifically addressed the Exposure Draft and were supportive of insulated separate accounts.

[2]The SAREWG is comprised of 13 representatives from state departments of insurance and/or commissions including Alaska, California, Connecticut, Illinois, Iowa, Kansas, Minnesota, Missouri, Nebraska, New York, Ohio, Rhode Island and Virginia. The SAREWG is chaired by Blaine Shepherd who serves as Commissioner of Minnesota's Insurance Division in Minnesota's Department of Commerce.

[3]Great West Life & Annuity Company primarily addressed COLI BOLI products.

[4]SVIA's 17th Annual Stable Value Funds Investment and Policy Survey covered $701 billion in stable value assets at the end of 2012 across three management segments: individually managed funds for large defined contribution plans, commingled/pooled funds for small to mid-sized plans, as well as full service life insurance, which through their different investment offerings serve plans of all sizes.

First Quarter 2013 Data Shows Stable Value's Consistency and Strength

By Gina Mitchell

First quarter 2013 data from SVIA's Quarterly Characteristics Survey continues to demonstrate why plan participants are relying upon stable value. The quarterly survey, which covers 23 stable value managers, found assets under management of $452 billion, which was $5 billion more than the previous quarter.

Crediting rates continued to reflect the low-interest rate environment. The survey reported average crediting rates of 2.40 percent for the first quarter 2013, which was down slightly from 2.48 percent in fourth quarter 2012.

However, stable value continues to offer a significant premium over money market funds. iMoneyNet reported money market funds average returns for the first quarter 2013 were 0.17 percent and 0.25 percent for the fourth quarter 2012.

The other two data points captured in the survey showed an upward trend. Portfolio duration increased from 2.81 years in 2012's fourth quarter to 2.95 years in 2013's first quarter. Credit quality increased as well, rising to 8.55 (8 being AA and 9 being AA+) from 8.14 in the prior quarter.