# STANDARD VALUATION LAW (SVL) INTEREST RATE MODERNIZATION UPDATE

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# Background

- Request from LATF: Modernize the process of setting valuation interest rates for all non-variable annuities (i.e., all except single premium immediate annuities (SPIAs))
- Current Plan: Refresh current rates
  - Retain single locked-in rate at issue
  - Same scope, i.e., produce rates for all non-SPIA annuities
- Caveat: Ultimate ARWG recommendation may impact SVL Work Group



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# Comparison of Current Method vs. Proposed Method

| | **Current** | **Proposed** |
|---|---|---|
| Methodology | Equate projected interest on assets with interest on reserves under rising and falling interest rate scenarios | Same (advantage of commercial actuarial software) |
| Differentiators | Plan type (A,B,C), cash settlements, guarantee duration, future interest guarantees, change in fund (52 rates) | To be determined, but likely some differences, e.g., length of surrender charge period |
| Reference Index | Moody's | Treasuries + VM-20 Spreads |
| Frequency of Updates | Annual | Quarterly |



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# Methodology Detail

- Looking at method used to develop valuation rates under current framework
  - Solve for rate on projected liabilities to equal projected investment income on assets for different products and features
  - Examining three interest rate scenarios: level, rising, falling
  - Develop adjustments to relate portfolio yield at t = 0 to “solved-for” rate
  - Develop matrix of adjustments by product feature
    - <u>Example:</u> valuation rate = initial representative portfolio yield +/- adjustment(s)



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# Questions?

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