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March 14, 2017

Mr. Felix Schirripa
Chair, VM-22 (A) Subgroup
Life Actuarial (A) Task Force
National Association of Insurance Commissioners

Dear Mr. Schirripa,

On behalf of the American Academy of Actuaries[1] Standard Valuation Law Interest Rate Modernization Work Group ("Work Group") I appreciate the opportunity to provide comment on the exposure, "VM-22 Maximum Valuation Interest Rates for Income Annuities."

In some cases the valuation rate in effect at the time of annuitization is the most appropriate maximum valuation rate. There are, however, other cases for which the valuation rate in effect when the original contract was issued would be a more appropriate rate (e.g., a deferred income annuity where assets were purchased to support annuitizations at the time the original contract was issued). This is in keeping with Principle 1 described in our January 2016 letter:

> *"Principle 1: The valuation rates should reflect the characteristics of the actual assets backing the liabilities with respect to the credit quality, duration, and timing of asset purchases."*

For this reason, we recommend that the default for the maximum valuation rate be the rate in effect at the time of annuitization. However, we also recommend that, with domestic commissioner approval, a company be allowed to use the rate in effect when the original contract was issued.

Below is suggested language for section 2.I. of the exposure:

> *Premium Determination Date – For Jumbo Contracts, this term means the date upon which the premium is determined by the insurance company and is committed to by the client. For Non-jumbo Contracts, this term is generally defined as the issue date. For supplementary contracts and annuitizations, this would normally be the date of election of the supplementary contract or annuitization, but a company may use the rate in effect when the original contract was issued with domestic commissioner approval.*

[1] The American Academy of Actuaries is an 19,000+ member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

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__Guidance Note:__ The domestic commissioner may want to consider: whether the company is following a consistent policy for similar products issued within the same calendar year, whether the policy is being established at the transition date to VM-22 or within the calendar year when the contracts are issued, and whether the policy is consistent with the investment strategy for assets backing the contracts.

The Work Group appreciates the efforts of the VM-22 Subgroup to address the issues related to the statutory regulations regarding the determination of statutory valuation interest rates for income annuities. If you have any questions or would like further dialogue, please contact Amanda Darlington, life policy analyst, at darlington@actuary.org or Heather Jerbi, Assistant Director of Public Policy at jerbi@actuary.org.

Sincerely,

Paul Hance, MAAA, FSA, CERA, Chairperson
Chris Conrad, MAAA, FSA, Vice Chairperson
SVL Interest Rate Modernization Work Group
American Academy of Actuaries