STANDARD VALUATION LAW INTEREST RATE MODERNIZATION UPDATE

Chris Conrad, MAAA, FSA
Vice Chairperson, SVL Interest Rate Modernization Work Group

American Academy *of* Actuaries
Objective. Independent. Effective.™

NAIC 2018 Summer National Meeting – Life Actuarial Task Force - Boston, MA

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))
- Valuation Rates: Must consider with Academy's Annuity Reserves Work Group (ARWG) Framework
  - ARWG's Current Thinking: continue to need valuation interest rates for all fixed products as current Commissioners Annuity Reserve Valuation Method (CARVM) reserve required for the under-development exclusion test …even though valuation interest rate ultimately used in the reserve calculation may be different (to be determined)

Overall Approach

- **<u>Initial Approach</u>**: Build on phase one SPIA work
  - Single rate locked-in at issue, updated quarterly for new issues
  - Rates based on US Treasuries + VM-20 Spreads
  - Rates derived from typical Industry Asset Portfolios
    - Starting with same credit quality and bond maturities (2Y, 5Y, 10Y, 30Y) as SPIAs (per VM-22)
    - Representative portfolio varies by product characteristics with the goal of matching the duration of assets and liabilities at t=0

Overall Approach (cont.)

- Looking at method used to develop valuation rates under current framework
  - Solve for rate on modeled liabilities to equal modeled 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 yield +/- adjustment(s)

Overall Approach (cont.)

- Initial list of differentiating features:
  - Guarantee Period
  - Surrender Charge Period
  - Market Value Adjustment (MVA)
  - Partial Free Withdrawals (PFW)
  - Guarantees on Future Premiums
  - Guaranteed Living Benefits (GLB)

Questions?

- Chris Conrad, MAAA, FSA
  Vice Chairperson, SVL Interest Rate Modernization Work Group

- Ian Trepanier
  Life Policy Analyst
  American Academy of Actuaries
  Trepanier@actuary.org

American Academy *of* Actuaries

Objective. Independent. Effective.™