

Standard Valuation Law Interest Rate Modernization Update



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SPIA Valuation Issues

- Reinvestment Risk
- Uneven cash flows
- Treatment of Non-Level Payments
 - AG IX-B Methodology: Does it still apply? If not, can it apply?
 - Use of actuarial judgment to match duration of liability to duration of valuation rate bucket (VM-22 2.A.3):
 - *“For contracts, certificates or contract features where the payments are not substantially similar, the actuary should apply prudent judgment and select the Valuation Rate Bucket with Macaulay duration that is a best fit to the Macaulay duration of the payments in question.”*



SPIA Valuation Issues (cont.)

- ▣ Application of AG-IXB methodology to VM-22 Rates
 - ▣ “Type A” valuation rates do not exist in VM-22
 - ▣ VM-22 valuation rates are published at different frequencies (quarterly and daily) rather than the annual rates specified in AG-IXB
- ▣ Duration Matching
 - ▣ Definition of “substantially similar”
 - ▣ Durations of Valuation Rate Buckets
 - ▣ Defining the discount rate to use in calculating duration



Next Steps

- Short Term
 - Work Group to provide guidance—e.g., Q&A
- Long Term
 - Consider drafting VM-22 Practice Note



Questions?

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