

Standard Valuation Law Interest Rate Modernization Update



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Non-SPIA* Valuation Rates (*Single Premium Immediate Annuity)

- Must coordinate with the Annuity Reserves Work Group (ARWG)
 - Working plan is to develop valuation rates for products which pass under-development exclusion test
- Current Plan: Refresh current valuation rates using similar methodology as was used to develop current rates
 - Generally, calculate the weighted average yield over the life of the business, taking into account the time value of money
 - Specifically, calculate the present value of benefits and expenses using portfolio book yields (including realized gains and losses)
 - Determine single rate that will produce the same present value as described above.
 - Consistent with VM-20 Deterministic Reserve



Non-SPIA Valuation Rates

- Current Plan (cont.):
 - Examining three interest rate scenarios: level, rising, falling
 - Open issues
 - How to use valuation rates produced from the three scenarios.
 - Whether to retain single locked-in valuation rate at issue or require future unlocking
 - Same scope as current regime: produce valuation rates for all non-SPIA annuities
 - So as to cover any annuities that pass the under-development exclusion test



Non-SPIA Valuation Rates

- Contemplated Changes to Current Framework
 - New Reference Index: Treasuries + VM-20 Spreads
 - Potential Differentiators:
 - Surrender Charge Period
 - Market Value Adjustment
 - Partial Free Withdrawals
 - Single Premium vs. Flexible Premium
 - Multi-Year Guarantee vs. Annual Reset
 - Work Continues on Multi-Year Guarantee and Annual Reset Annuities
 - Proposed Effective Date: 1/1/23 (Consistent with ARWG)
 - May be part of field test



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