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May 2, 2022

Mr. Peter Weber
Chair, Index-Linked Variable Annuity (A) Subgroup
National Association of Insurance Commissioners (NAIC)

Re: Exposure 2 of the Proposed Actuarial Guideline ILVA, Nonforfeiture Requirements for Index Linked Variable Annuity Products Supported by Non-Unitized Accounts

Dear Mr. Weber,

On behalf of the American Academy of Actuaries¹ Index-Linked Variable Annuity Work Group (the “work group”), I appreciate the opportunity to provide comments on the proposed actuarial guideline.

This is a complex topic with relationship to several product components such as filing requirements, Interstate Insurance Compact standards, disclosures, illustrations, marketing, and valuation that may need to be addressed separately. We offer the following conceptual comments for your consideration:

1. We suggest additional clarification in the scope of the proposed actuarial guideline that differentiates index-linked variable annuities (ILVAs) from variable annuities (VAs) and fixed-index annuities (FIAs). We note that ILVAs generally have the following characteristics:
 - a. Index-based crediting;
 - b. Risk of loss throughout the life of the contract;
 - c. No absolute floor applied to the Interim Value for withdrawals, surrender values, death benefits, or annuitized values;
 - d. Funding using a separate account, the general account, or both; and
 - e. Non-unitized structures.
2. We suggest that the guideline be based on two principles:
 - Interim Values provide equity to both the contract owner and the life insurance company; and
 - Interim Values are consistent with the market value of a Hypothetical Portfolio over the index term.

¹ The American Academy of Actuaries is a 19,500-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.

The other proposed principles in the draft relate to the derivative assets and their value. Thus, these principles are assumptions that need to be considered, but do not rise to the level of guiding principles for the guideline. Therefore, we suggest these other proposed principles be deleted.

3. A principal of consistency, in the generic sense, will allow each company to define consistency for its product. This may not be interpreted identically by each state regulator.
4. We suggest clarification on the demonstration of consistency. Is the intent to be symmetrical or to provide downside protection?
5. We suggest more clarification on the intended timing of the demonstration of consistency—in other words, is the demonstration to be performed solely on the basis of assumptions at issue? At the time of product filing? On a periodic basis? Etc.

We additionally propose the undermentioned specific language changes in the following sections:

Definitions:

We suggest adding “static” to the definition of “Derivative Asset Proxy” to help promote consistency in the application of the actuarial guideline:

“Derivative Asset Proxy” means a package of hypothetical static derivative assets designed to replicate credits provided by an Index Strategy at the end of an Index Term.

Text:

We suggest simplifying the description of Interim Value because Hypothetical Portfolio has previously been defined, defining the base to apply the hedge position, and combining the concepts of the two paragraphs into one:

Contracts in the scope of this guideline must provide Interim Values that are consistent with the value of the Hypothetical Portfolio over the index term, less a provision for the cost of unwinding the hedge positions not to exceed 10 bps of the Index Strategy Base.

Our work group appreciates the efforts of the Index-Linked Variable Annuity (A) Subgroup on this proposed actuarial guideline. If you have any questions or would like further dialogue on the above topics, please contact Amanda Barry-Moilanen, life policy analyst, at barrymoilanen@actuary.org.

Sincerely,

Beth Keith, MAAA, FSA
Chairperson, Index-Linked Variable Annuities Work Group
American Academy of Actuaries