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September 16, 2022

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

Re: Exposure 5 of the Proposed Actuarial Guideline ILVA, Nonforfeiture Requirements for Index Linked Variable Annuity Products

Dear Mr. Weber,

On behalf of the American Academy of Actuaries<sup>1</sup> Index-Linked Variable Annuity Work Group (the “work group”), I appreciate the opportunity to provide comments on the proposed actuarial guideline.

The work group recommends that the use of market value adjustment (MVA) in the calculation of the Fixed Income Asset Proxy for the Hypothetical Portfolio Values remain optional for the following reasons:

- Insurance companies may manage duration risk of their assets with a basket of bonds or other methods, therefore equity risk transfer to the policyholder would not be necessary through a MVA adjustment to the Fixed Income Asset Proxy.
- The two Guiding Principles outlined in the exposure draft do not require alignment of an ILVA to VA, in that the Fixed Income Asset Proxy can be at book value without an MVA.
- Contract holders may prefer insurance companies manage durations risk versus assessing a MVA to strategy values.
- MVAs can add complexity to products.
- Many MVAs tend to expire after the surrender charge period, which leads to different approaches to managing assets supporting policies after the surrender charge period (as the liability duration for these products may vary). Therefore, a more principles-based approach to handling the Fixed Income Asset Proxy may be appropriate.

Attached is a redline version, from the clean version (all NAIC changes accepted) of the *Exposure 5* draft. The work group’s comments on the redline version address the following concerns:

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<sup>1</sup> 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.

- MVA optionality to be included in the Fixed Income Asset Proxy.
- Additional clarity.

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](mailto:barrymoilanen@actuary.org)

Sincerely,

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