



AMERICAN ACADEMY *of* ACTUARIES

*Objective. Independent. Effective.™*

November 2, 2022

Peter Weber  
Chair  
Index-Linked Variable Annuity (A) Subgroup  
National Association of Insurance Commissioners (NAIC)  
cc: Scott O'Neal

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

Dear Pete:

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

First, the work group recommends a drafting note that clarifies that the actuarial guideline only addresses Interim Values and does not preclude having a market value adjustment (MVA) apply on the Index Strategy Term end date, because:

- It is important that there be continuity in the values provided to the consumer.
- It simplifies the consumer’s understanding of the product.

Second, the work group recommends a drafting note that clarifies that the use of an MVA in the calculation of the adjustment to the Fixed Income Asset Proxy for the Hypothetical Portfolio Values remain optional, because:

- Insurers 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 an MVA adjustment to the Fixed Income Asset Proxy.
- Contract holders may prefer products where insurers manage duration risk versus assessing an 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 principle-based

---

<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.

approach to handling the MVA adjustment to the Fixed Income Asset Proxy may be appropriate.

Third, the work group recommends the edits shown in the attached redline version *Actuarial Guideline ILVA Nonforfeiture Requirements for Index Linked Variable Annuity Products* draft to accomplish the following:

- Providing clarity on the MVA as an adjustment to the Fixed Income Asset Proxy, in which the maturity of the MVA adjustment is distinct from the length of the Index Strategy Term.
- 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