BRIEFING SHEET ON NEW UNIFORM STANDARD FOR INDIVIDUAL DEFERRED INDEX LINKED VARIABLE ANNUITIES (ILVAs)

Prepared by Compact Office

- May be referred to as ILVA, Registered Index-Linked Annuity (RILA), Hybrid Annuity, Structured Annuity, Buffer Annuity.
- Companies have submitted ILVAs to states for over 10 years and generally states have approved or otherwise permitted issuance of ILVAs as variable annuities.
- ILVAs are similar to fixed indexed annuities except ILVAs allow for negative return and prior to the end of the index term use an interim value to determine withdrawal, surrender, death and annuity benefits instead of the account value at the beginning of the term.
- ILVA products provide returns based on an index with 1) upside returns limited through application of caps, participation rates, or triggers, AND 2) downside returns limited to a floor or with a portion of downside returns absorbed by a buffer.
- ILVAs have generally been filed with the states as variable annuities and demonstrate compliance with variable annuity nonforfeiture provisions (NAIC Model 250 or similar state requirement), which essentially places a limitation on charges. ILVAs have been treated as exempt from NAIC Model 805 Standard Nonforfeiture Law for Individual Deferred Annuities (SNLDA), which requires a minimum floor on cash values.
- In 2022, the NAIC, through its Life Actuarial (A) Task Force, adopted Actuarial Guideline 54 (AG 54), effective on July 1, 2024.
- The purpose of AG54 is to specify 1) the conditions under which an ILVA is consistent with the definition of a variable annuity and thereby exempt from the SNLDA; and 2) the nonforfeiture requirements consistent with variable annuities.
- AG 54 defines the hypothetical portfolio methodology for determining interim values. If interim values are determined using a methodology other than the hypothetical portfolio methodology, AG 54 requires that the interim values must be materially consistent with the interim values resulting from the hypothetical portfolio methodology.
- The ILVA standard requires that the hypothetical portfolio methodology be used to determine interim values. Unlike AG 54, the ILVA standard does not allow other methodologies because no standard definition of materially consistent has been developed, which would allow the Compact to uniformly determine that the interim values are materially consistent with the interim values resulting from the hypothetical portfolio methodology.
- The Product Standards Committee is currently working on amendments for several annuity standards to allow for their use with ILVAs in addition to the Additional Standards for Market Value Adjustment Features Through a Separate Account being exposed at this time with the ILVA Standard.