



August 28, 2023

ILVA Subgroup of the Product Standard Committee (PSC)
Interstate Insurance Product Regulation Commission (IIPRC)

Re: Draft Core ILVA Standard after 7-10-23 call and Response-to-commenters-after 7-10-23
Compact Requirements for Index-Linked Variable Annuity Products

Dear Katie Campbell,

The American Academy of Actuaries¹ Index-Linked Variable Annuity Work Group (the “work group”) appreciates the opportunity to provide the following comments on the proposed IIPRC ILVA product standards:

The work group’s comments on the “DraftCore-ILVA-Standard-after-7-10-23-call” exposure include:

On page two, we recommend the following redline changes to the definition of “non-variable account value” and “indexed linked variable account value,” making them mutually exclusive. We also recommend removing the language on general and separate accounts, as it is only pertinent for variable account value.

- (1) “Non-variable account value” means the portion of the account value ~~funded solely by the general account~~ that is accumulated with interest at a guaranteed minimum interest rate greater than or equal to zero percent.
- (3) “Indexed linked variable account value (ILVA)” means the ~~portion of the account value or portion/s of the account value funded by the general account or separate account/s and~~ that is accumulated with interest based on the performance of an index ~~with (subject to index parameters such as caps eaps on returns,~~ participation rates, spreads or margins), ~~or other crediting elements and limitations on loss such as a floor or a buffer,~~ and may lose value (subject to limitations such as floors or buffers).

Also, the Compact distinguishes the three account types as non-variable account value, variable account value, and ILVA. To maintain consistency in the standard, we would

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.

encourage the consistent use of “ILVA” throughout the document. For example, on page 26, Section Z, the reference to “ILVA account value” should be replaced with “ILVA.”

The work group’s comments on the “ILVA Subgroup response to comments on Initial Draft ILVA standards” document include:

- While the Compact’s standards are not consistent with *Actuarial Guideline LIV* (AG 54), the Actuary as well as the ILVA product are subject to AG 54. The statement on page 2 of the Subgroup’s response to the comments says, “An ILVA filed with the Compact would not be subject to AG 54, but rather to the applicable provisions prescribed in the standard,” may be viewed as inconsistent with applicability of the Actuarial Guideline.

For example, when scenario testing for equity of interim value between a contract holder and a company, AG 54 requires “a reasonable number of realistic economic scenarios,” while the Compact would require “any reasonable realistic economic scenario.” This difference could create uncertainty and inconsistency for both the actuary and the regulator.

Similar uncertainty would be introduced when the definition of Index used for a Market Value Adjustment is limited, with a different purpose, than the definition of Index used for Fixed Index Annuities in illustrations and AG 54. The definition of “index” in AG 54 means a benchmark designed to *track the performance of a defined portfolio of securities*. In contrast, the Compact definition of “Index” means a benchmark used to *determine index credits that are well-established, publicly available, and sourced outside of the company*.

- Guaranteed living benefits that have account value as a floor are a reasonable design that create equity between the company and contract holder.

The work group appreciates the efforts of the Subgroup on the draft Core Standards, as well as the opportunity to share some recommendations on the drafted language. We look forward to our continued engagement in this process and would welcome any questions you may have on these comments. Please reach out to the Academy’s life policy analyst, Amanda Barry-Moilanen (barrymoilanen@actuary.org), if we can offer further clarification or insight.

Sincerely,

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