

Actuarial Working Group
Member Call Summary
May 14, 2019

The Compact Office provided an overview and the Actuarial Working Group (AWG) discussed the referral from the Product Standards Committee (PSC) to review and make a recommendation regarding standards for index-linked variable annuities and fixed indexed annuities with pass through of negative returns. The AWG agreed to proceed with standards only for variable annuities, not fixed annuities.

The AWG discussed the *Additional Standards for Index-Linked Crediting Feature for Deferred Variable Annuities* initial draft and the following questions/issues/concerns were raised:

Pennsylvania:

1. Would like better differentiation between the first 2 types of index linked products in the referral from the PSC.
2. Suggested that there should be requirements regarding calculation of interim values and suggested that option pricing is a fairer calculation, noting that others think a formulaic approach is better because it is more easily understood by consumers.
3. The core variable annuity standard draft (which will be discussed on the next call) considers these products variable, but they are not really variable and wishes they would have been defined as registered products. Utah commented that in general it would be good to have uniform terminology (registered/nonregistered, variable/nonvariable, separate account/general account)

Utah:

1. Is there an objective way to tell whether a product should be filed under the general account or separate account standards? Pennsylvania suggested defining a 0% floor.
2. What is the applicability of an MVA in these separate account indexed-linked products. There is no NAIC model that works for these types of products.
3. Should the separate account assets be valued at market or book value?
4. Is it clear that separate accounts must be registered, and producers must be licensed to sell variable products?
5. Not concerned with pass through of negative returns but concerned with waiving nonforfeiture and thinks there should be some price, which could be a requirement to be subject to SEC requirements

There were no specific changes recommended to the draft standard on the call, but Compact staff suggested that members may wish to propose amendments to address interim values for discussion. It was noted that the PSC has been discussing addition of guidance in the group annuity standards to address state specific requirements related to guaranteed separate accounts, and if the AWG believes such language would be helpful in this standard, it could also be considered.

The Chair noted that for the next call, the AWG will review draft amendments to the core variable annuity standards as well as discuss any issues/concerns with application of the Compact MGA standard to the products. The Compact Office will send a notice and materials when the next call is scheduled.