

Actuarial Working Group
Member Call Summary
June 11, 2019

The Actuarial Working Group (AWG) continued discussions on the referral from the Product Standards Committee (PSC) to review and make a recommendation regarding standards for index-linked variable annuities.

The AWG discussed the *Additional Standards for Index-Linked Crediting Feature for Deferred Variable Annuities* (Additional Standards) revised draft. The Compact explained the basis for the one modification to the draft standard since the prior call, which was to include a clarification that all aspects of separate accounts including guaranteed separate accounts are subject to state law.

The group discussed adding interim value requirements into the draft standard. The Compact volunteered to draft proposed amendments to the Additional Standards to address interim values based on the suggestions by PA including a drafting note describing acceptable methodologies for determining interim values. The Compact will share that with the AWG along with a listing of the products identified as being within the scope of the draft Additional Standards for comments and suggested revisions prior to the next call of the AWG.

The Compact suggested and the AWG agreed to seeking feedback from companies, industry and other trade associations on the various separate account, SEC registrations and index linked variable annuity product questions raised during the call. The Compact will share a list of questions and seek approval on the questions from the AWG before sending them to those entities for their feedback.

Questions regarding separate accounts and SEC registration raised during the call include:

1. Are separate accounts legally necessary for these index-linked products or should they be required? Should the draft permit products backed by segregated accounts within the general account? The tentative decision was to only allow separate account products.
2. Should only products that are required to be registered be within scope?
3. If a product is registered voluntarily what are the marketing (including broker and disclosure requirements) and financial reporting requirements?
4. Registration of products under 1933 Act vs registration of separate accounts under 1940 Act (how do these interconnect)?
5. For unitized separate accounts, non-unitized separate accounts, and segregated accounts within a general account, are assets required to be valued at book value or market value?

The group discussed the significance of reviewing these products under the Variable Annuity Standards with respect to the nonforfeiture requirements. Utah suggested that the group should consider not just that there may be negative performance passed through to the contract holder, but rider charges may be deducted without limitations imposed by the Standard Nonforfeiture Law (SNFL) retrospective test floor. The group also discussed a design with a 0% floor backed by a non-unitized separate account and whether that would be within scope and therefore not subject to the SNFL requirements. The group suggested a question to the industry “What differentiates such a separate account product with a 0% floor and interim values from a comparable general account product (i.e. indexed annuity with a market value adjustment)?”

PA suggested that there may be several provisions such as the certification provision in the *Additional Standards for Market Value Adjustment Feature Provided Through a Separate Account* that the AWG should consider including in this draft Additional Standard.

The group ran out of time for discussion of the revisions to the *Core Standards for Individual Deferred Variable Annuity Contracts* and will take that draft up on a future call.

Update: 7/10/2019

The following are the questions posed to the Industry Advisory Committee with a response date of 8/9/2019:

1. Are separate accounts legally necessary for these index-linked variable products? If not, should separate accounts be required? What specific features of these products affect whether separate accounts should or should not be required?
2. What specific product design features and risk characteristics distinguish an index-linked variable annuity subject to variable annuity Compact standards from an index-linked non-variable annuity subject to non-variable annuity Compact standards?
3. What specific product or risk characteristics trigger SEC registration? Would a product subject to a Compact variable standard as proposed require registration with the SEC? Should registration with the SEC be required for index-linked variable products?
4. If a product is not required to be registered with the SEC, do companies register products with the SEC voluntarily? If registered voluntarily, what are the marketing (including broker and disclosure requirements) and financial reporting requirements?
5. Should the actuarial requirements including nonforfeiture requirements applicable to index-linked variable annuities vary based on the product guarantees (i.e. level of investment risk assumed by the contract owner)? For example, what is the rationale for applying variable annuity nonforfeiture requirements to an index-linked variable annuity with a stated floor of 0% but applying the non-variable (general account) annuity nonforfeiture requirements to a non-variable index-linked annuity with a market value adjustment?
6. What life or annuity products require registration under the 1933 Act but do not require registration of a separate account under the 1940 Act?
7. How do asset valuation requirements and reserve/RBC requirements differ between 1) unitized separate accounts, 2) non-unitized separate accounts, and 3) segregated accounts within the general account?