April 14, 2021

Interstate Insurance Product Regulation Commission (IIPRC)
Actuarial Working Group
444 North Capitol Street, NW
Hall of the States, Suite 700
Washington, DC 20001-1509
comments@insurancecompact.org

RE: Brighthouse Financial Comments to the Draft Framework for Interim Values for Registered Non-Unitized Index-Linked Separate Account Annuities

Dear Actuarial Working Group,

Brighthouse Financial appreciates the opportunity to provide feedback to the Actuarial Working Group (AWG) regarding the Draft Framework for Interim Values for Registered Non-Unitized Index-Linked Separate Account Annuities.

Brighthouse Financial supports the AWG’s desire for a framework that is equitable to both the contract holder and the insurer. Brighthouse Financial also supports the American Council of Life Insurers’ position of a framework that allows for multiple Interim Value methodologies.

We respectfully urge the AWG to strongly consider our comments below in response to the recently raised questions as well as comments raised by other insurers prior to formalizing its Interim Value framework. The methodology currently used by Brighthouse Financial and other insurers is the pro-rata methodology.

We note to the AWG that there are considerable mechanical and supporting asset differences between Indexed-Linked Variable Annuities (ILVA) and unitized variable annuities.

Furthermore, there are multiple Interim Value methodologies that are already active and successful in the marketplace.

1. Are there areas of the proposed framework that require additional guidance or clarification?

The Draft Framework, including the edits reflected in the April 21, 2021 draft, are unclear in its acceptance of methodologies already active and successful in the marketplace. Additional guidance is needed as there are multiple equitable approaches to calculating the Interim Value, which are not specifically addressed and should be included in the framework.

The pro-rata methodology currently used by Brighthouse Financial and other insurers is transparent in the calculation of benefits to the contract holder and should be included among the allowable methodologies specifically within the guidance. To determine the Interim Value using the pro-rata methodology, contract performance is determined by utilizing the result of the Index Strategy, adjusted to reflect time elapsed between the start date of the Index Term and the calculation point in the Index Term.

For the contract holder, the pro-rata methodology provides access to key values at the beginning and end of the Index Term along with transparent and intuitive values between those points. Additionally, the pro-rata methodology is predictable and straightforward using defined elements provided in the contract.
terms in combination with easily accessible and observable index information. The Interim Value is provided on account statements and is available electronically daily making it simple for the contract holder to review and understand how it is determined.

The framework should also provide flexibility to support additional important features to contract holders, such as death benefits (e.g., return of premium, highest-anniversary death benefits, etc.), performance locking concepts, as well as future innovation in the registered index-linked annuity space.

2. Are there risks and/or expenses that are unaccounted for and need to be reflected?

Unlike unitized products, ILVAs have versions with and without product fees. For ILVAs without fees, some expenses within the product need to be reflected within the investment strategy. If the full investment value is passed through as with traditional VAs, this creates the key risk of those expenses being unsupported.

3. Does the proposed framework provide for interim values that are equitable to both the insurance companies and consumers? If not, provide specific examples of scenarios when the framework produces values that are inequitable to either party.

ILVAs use index performance to determine contract performance for each Index Strategy using several factors applicable to that Index Strategy for the Index Term. It is not the case that ILVAs provide the same performance outcome of unitized products. Additionally, the assets backing non-unitized separate accounts are also different from unitized separate accounts. In establishing a benchmark for ILVAs, separate account asset values diverge from Interim Values, and the degree of the divergence will vary compared to unitized products.

For ILVAs, separate account assets and Interim Value liabilities are disconnected. While Interim Values are equitable to both insurer and the contract holder, there is insufficient guidance regarding the tolerance between the value of the assets and the value of the liability (i.e., the interim value) within the framework to support the methodologies that are already active and successful in the marketplace.

Thank you for your consideration of our comments.

Sincerely,

[Signature]

Alan Assner
Head of Product Development