



AMERICAN ACADEMY of ACTUARIES

Objective. Independent. Effective.™

May 5, 2023

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

Re: Draft Core ILVA Standard after 4-10-23 call -Discussion Draft -2023
Compact Requirements for Index Linked Variable Annuity Products

Dear Chair Conway,

On behalf of the American Academy of Actuaries¹ Index-Linked Variable Annuity Work Group (the “work group”), I appreciate the opportunity to provide comments on the proposed IIPRC ILVA product standards.

The work group appreciates the efforts of the PSC ILVA subgroup in creating a discussion draft that reflects the Actuarial Guideline 54. We have the following comments on the Draft - Core Standards for Individual Deferred Index Linked Variable Annuity:

- Some terms could be defined more clearly. For example:
 - Some exist in multiple sections and are not always consistent in terminology. Assembling them in a single section would be beneficial.
 - Terms for index parameters such as “Buffer,” “Cap,” and “Floor” are not defined in other Annuity compact standards and may be better described in the statement of variability for their limitations and use in the strategy formula.
 - We note that the definitions of some of the index parameters have the effect of excluding certain product designs. If the definitions are intended to be used to limit product designs, an explicit approach provides more clarity.
- Relationship to Actuarial Guideline (AG) 54.
 - We note that the standard does not explicitly reference any requirement for compliance with AG 54.
 - Actuaries are required to comply with AG 54 when filing ILVA products individually through states or through the compact, therefore referencing AG 54 and removing overlapping requirements may eliminate redundancies or contradictions.
 - Practicing actuaries may find it useful and practical if the Core Standards explicitly define additional requirements or differences from AG 54.

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.

- The following are some examples where the Core Standards appear to differ from AG 54.
 - For the Fixed Income Asset Proxy, the Compact Standard requires MVAs whereas AG 54 allows for discretion by states and companies, in determining the market value of assets by a fair value methodology or by applying an MVA.
 - The Compact Standard limits trading costs to 10 bps whereas AG 54 allows for reasonable expected or actual costs.
 - We note that the reasonability of expected or actual costs may vary by account type.
 - Limitations for trading costs could be addressed in Compact Standards Section C., which could provide variability by issues such as index term, index strategy or the current financial environment.
- Below are some items in the Product Comparison Requirements within Section X and Appendix C that may benefit from additional clarification.
 - Many factors besides index crediting options impact product design including other consumer benefits, distribution channels, assets, option budgets, pricing, etc., so we question whether the proposed comparison will provide a sufficient comparison.
 - It is unclear whether the requirements from these sections will require IIPRC approval.
 - The sample product comparison format from Appendix C is not consistent with the requirement of Section X.
 - An explanation and numerical examples are in Section X and not Appendix C.
 - Are the numerical examples for a hypothetical product, the specific product being considered, and including all strategy options available or just the initial choice?
 - What products should be used for the comparison (i.e., only those product types that the company sells, if any)?
- Separate Account Section AA
 - ILVA products may utilize insulated or non-insulated separate accounts Therefore, this section may need to be updated for non-insulated separate accounts.
 - Section (e) describes the valuation of the Fixed Income Asset Proxy for ILVAs which is previously described in the Core Standards. We recommend removing this section.

Our work group appreciates the efforts of the Product Standard Committee ILVA subgroup on this draft Core Standards for Individual Deferred Index Linked Variable Annuity Contracts. If you have any questions or would like further dialogue on the above topics, please contact Amanda Barry-Moilanen, life policy analyst, at barrymoilanen@actuary.org

Sincerely,

Beth Keith, MAAA, FSA

Chairperson, Index-Linked Variable Annuity Work Group
American Academy of Actuaries