

Product Standards Committee (PSC)  
Regulator Call Summary  
January 16, 2024

## **Roll call and Introductions**

Andria Seip, Chair of the Product Standards Committee, welcomed the committee members. She asked each member to provide some background about their duties.

## **Agenda Item 2. Review comments on the ILVA draft standard, the annuity application standard and the draft Amendments to the Additional Standards for Market Value Adjustment Feature For Modified Guaranteed Annuities and Index-Lined Variable Annuities and finalize**

Andria Seip asked Compact Office staff to discuss the remaining comments from the public call on the ILVA draft standards.

The first item was to consider the edits to the title of the *Amendments to the Additional Standards for Market Value Adjustment Feature For Modified Guaranteed Annuities and Index-Lined Variable Annuities*. The PSC accepted the edits.

The second item was to discuss the amendment to the annuity application standard to add an acknowledgment and product comparison for ILVA products. Andria Seip summarized the comments from the previous call. PSC members pointed out concerns about the amendment to the application. Some members said the proposed comparison was too limited to be of value to consumers. Others pointed out that some companies did not offer all of the product types being compared, so there would not be a level playing field among the comparisons. There were comments that this was more of a suitability issue and the responsibility of the agent and the company to determine if the product was suitable for the consumer. PSC members questioned the value of the comparison and suggested eliminating the requirement in the annuity application standard. There was discussion about the SEC regulation that will provide purchasers with disclosures tailored to ILVAs and highlight key information about these complex products. Andria Seip asked if the Compact Office could provide more information about the SEC requirements.

The Compact Office prepared a briefing memo that summarized the proposal. The members reviewed information about the new SEC requirements for ILVA specific disclosures in Form N-4 that will be required by June 1, 2024, for ILVAs/RILAs. The disclosures highlight the key features of ILVAs/RILAs that may substantially differ from other investment products which was the primary purpose of the acknowledgement. Members agreed that the acknowledgement was not needed due to state statutory best interest requirements, suitability oversight of the states, and product information disclosure requirements. Andria Seip asked PSC members if they agreed with

removing the amendments to the annuity application standards. The PSC members agreed to remove the amendment to the application standard.

Andria Seip asked Katie Campbell to discuss the remaining items from the public call. The PSC accepted the recommendations:

1. Allow fixed account MVA to not comply with Model 805:

**Recommendation:** No change to standard. The fixed/non-variable account must comply with Model 805 after any MVA.

2. Duration of MVA:

- A. Correct the MVA definition

“Market Value Adjustment (MVA)” means a positive or negative adjustment applied to the fixed income asset proxy or strategy value in order to reflect an increase or decrease in the value of the hypothetical fixed income assets fixed income assets held by the company supporting the ILVA.

**Recommendation:** Accept this correction.

- B. Add “The determination of the MVA in i above may be based on the duration of the Index Strategy Term, surrender charge period, or the fixed income assets backing the ILVA” to the Drafting Note.

**Recommendation:** Accept this suggestion

3. Clarify requirement for index substitution:

- A. Clarify title of provision

**Recommendation:** Revise title to “DISCONTINUATION OF OR SUBSTANTIAL CHANGE TO AN INDEX DURING AN INDEX STRATEGY TERM”

- B. Change “will substitute a comparable index” to “may substitute a comparable index”

**Recommendation:** Members recognized that a comparable index may not be available and should be addressed. In addition, members had concerns with the unlimited discretion for the insurer to discontinue an index in this provision in the draft standard, particularly if the index was a reason for a consumer to select a particular ILVA product. The members concluded that by keeping the “may,” the Standard should set forth limitations on when an insurer may discontinue an index to provide consumer safeguards. Taking this into consideration along with both the current and prior ACLI/CAI comments on this section, the following revisions were made to the section:

#### K. DISCONTINUATION OF OR SUBSTANTIAL CHANGE TO AN INDEX

(1) The contract shall contain a provision indicating the conditions under which a company may discontinue an index and what occurs when an index is discontinued, with the provision being labeled as such. The provision shall state that if the company discontinues an index, the company will substitute a comparable index, **if available**. The contract shall also specify that, before a substitute index is used, the company shall notify the owner and any assignee of the substitution.

(2) Each index used in determining amounts credited to the contract including any index substituted for another index under this section is subject to prior approval by the IIPRC.

(3) **The conditions under which a company may discontinue an index include discontinuation of the index, unavailability of index values, substantial change in the calculation of an index, loss of a company's license or permission to use an index, inability to hedge risks associated with the index, or similar conditions approved by the Interstate Insurance Product Regulation Commission.**

#### 4. **Clarify Separate Account disclosure requirement:**

Move the requirement in Subsection 3(AA)(1)(d) "If there is no readily available market for assets in the separate account, then the contract shall specify how the assets would be valued" to Section 3(AA) (2) so that it is only applicable to variable accounts.

**Recommendation:** Accept this correction.

#### 5. **Additional Revision based on a company question about the MVA requirements in the November 14, 2023, draft**

**Recommendation:** Clarify in Drafting Note under Section 1.B.1.(d)(vii)(3) that adjustments to an MVA are allowed as follows:

An alternative methodology that adjusts the full MVA determined under i. by a factor no lower than 0 and no higher than 1 will comply with i. and ii. above as long as 1) the factor is either level or varies only by duration; and 2) the resulting adjusted MVA results in values that continue to provide reasonable equity to both the contract holder and insurance company. Alternate MVA methodology drafting note:

The recommendations will be added to the draft standards. No edits will be recommended for the annuity application standards. Andria Seip said that this concludes the PSC's work on the ILVA

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contract standard and the Amendments to the *Additional Standards for Market Value Adjustment Feature For Modified Guaranteed Annuities and Index-Lined Variable Annuities*.

**Agenda Item 3. Review amendments to the scope of Other Standards to add references to ILVA and amendments to the calculation of the initial benefit base for Guaranteed Minimum Accumulation Benefit (GMAB) features under the Additional Standards for Guaranteed Living Benefits for Individual Deferred Variable Annuities**

PSC members received drafts of the amended standards in advance of the call. Andria Seip asked Katie Campbell to go over the amended standards. There were no questions. Andria Seip said these additional standards will be scheduled for a public call on February 13.

**Agenda Item 4. Discuss the review group whole life insurance draft uniform standards for nonemployer groups**

Andria Seip asked for volunteers to review the group whole life insurance draft uniform standards for nonemployer groups. Missouri, Iowa, Vermont, Maryland, and Oregon volunteered to review the drafts.

**Agenda Item 5. Any Other Matters**

Andria Seip said that the next meeting will be a regulator only call on January 30.