STANDARD VALUATION LAW
INTEREST RATE
MODERNIZATION UPDATE

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Background

- **Request from LATF**: Modernize the process of setting valuation interest rates for all non-variable annuities (i.e., all except single premium immediate annuities (SPIAs))

- **Valuation Rates**: Must consider with Academy’s Annuity Reserves Work Group (ARWG) Framework
  - **ARWG’s Current Thinking**: continue to need valuation interest rates for all fixed products as current Commissioners Annuity Reserve Valuation Method (CARVM) reserve required for the under-development exclusion test ...even though valuation interest rate ultimately used in the reserve calculation may be different (to be determined)
Overall Approach

- **Initial Approach**: Build on phase one SPIA work
  - Single rate locked-in at issue, updated quarterly for new issues
  - Rates based on US Treasuries + VM-20 Spreads
  - Rates derived from typical Industry Asset Portfolios
    - Starting with same credit quality and bond maturities (2Y, 5Y, 10Y, 30Y) as SPIAs (per VM-22)
    - Representative portfolio varies by product characteristics with the goal of matching the duration of assets and liabilities at t=0
Overall Approach (cont.)

- Looking at method used to develop valuation rates under current framework
  - Solve for rate on modeled liabilities to equal modeled investment income on assets for different products and features
  - Examining three interest rate scenarios: level, rising, falling
  - Develop adjustments to relate portfolio yield at t = 0 to “solved-for” rate
  - Develop matrix of adjustments by product feature
    - Example: valuation rate = initial representative yield +/- adjustment(s)
Overall Approach (cont.)

- Initial list of differentiating features:
  - Guarantee Period
  - Surrender Charge Period
  - Market Value Adjustment (MVA)
  - Partial Free Withdrawals (PFW)
  - Guarantees on Future Premiums
  - Guaranteed Living Benefits (GLB)
Questions?

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