September 19, 2022

Mr. Peter Weber, Chair
Mr. Tomasz Serbinowski, Vice Chair
National Association of Insurance Commissioners
LATF Index-Linked Variable Annuity (ILVA) (A) Subgroup

RE: ILVA Subgroup Exposure of *Actuarial Guideline ILVA: Nonforfeiture Requirements for Index Linked Variable Annuity Products*

Dear Messrs. Weber and Serbinowski:

The American Council of Life Insurers (ACLI)[1] and the Committee of Annuity Insurers (CAI)[2] appreciate the opportunity to submit the following comments to the ILVA Subgroup on the Fifth Exposure of its *Actuarial Guideline ILVA: Nonforfeiture Requirements for Index Linked Variable Annuity Products*. We would also like to thank you for addressing our previous concerns about the effective date of the Guideline.

1. **Allow a Market Value Adjustment (MVA) Term Length equal to the Index Strategy Term in addition to the maturity of the Fixed Income Asset Proxy:** This option was included in the Fourth Exposure and should continue to be incorporated. Some companies are currently utilizing an approach that aligns the MVA term length with the Index Strategy Term. This approach allows consumers to connect the MVA applicability to their Index Strategy Term selection(s) while also enabling the company to design their ALM practice around the liability duration. Additionally, it takes into consideration specifications of the contract that can complicate tracking an MVA appropriate for the maturity of the Fixed Income Asset Proxy at an Index Strategy level.

[1] The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 280 member companies represent 94 percent of industry assets in the United States.

[2] The Committee of Annuity Insurers is a coalition of life insurance companies that issue annuities. It was formed in 1981 to address legislative and regulatory issues relevant to the annuity industry and to participate in the development of public policy with respect to securities, state regulatory and tax issues affecting annuities. The CAI's current 30 member companies represent approximately 80% of the annuity business in the United States.

2. **Requiring the Investment Base to equal the Strategy Value at the Index Strategy Term Start Date:** With all of the recent updates to the Actuarial Guideline, a specific technical inconsistency has been identified. We agree with the Subgroup that MVAs should be applied in a balanced manner that provides equity to both the contract holder and insurance company and be based on the market value of assets backing the Index Strategy. However, in situations where the maturity of the Fixed Income Asset Proxy is longer than the Index Strategy Term, we respectfully submit that the first sentence of the Text section implies that an MVA may not be allowed on the Index Strategy Term start date. This requirement will cause values that are inconsistent with both principles of the guideline (equity and values based on market values) and may lead to large differences in withdrawal values for clients (inequity between clients) depending on a single day of timing. We are pleased to provide examples to further illustrate this issue upon request. Given these issues, and that the sentence appears unnecessary in defining Interim Values, we request deleting the sentence or modifying it as follows (bold italics emphasizes new wording):

   *The Index Strategy Base must equal the Strategy Value (**excluding any market value adjustment**) at the Index Strategy Term start date.*

3. **Scope of MVAs:** With our consumers in mind, we respectfully request that the Subgroup maintain the level of MVA flexibility offered in previous exposure drafts and not impose a mandatory requirement of MVAs. This would allow companies discretion to provide an MVA or to bear that risk on behalf of consumers and additionally simplify the consumer experience in an unbiased manner. Consumers who purchase ILVAs do so primarily to participate in equity performance while maintaining a level of protection. We agree that contract values should be materially consistent with the market value of this equity exposure. However, interest rate exposure may not be a motivating factor for investing in ILVA contracts. We, therefore, request that the Actuarial Guideline contain language that allows for the flexibility provided in prior exposures.

4. **Clarification to the final sentence in the Drafting Note:** We respectfully request the edit below to increase clarity (bold italics emphasizes new wording):

   *No **additional** MVA is applicable to Strategy Values or Interim Values.*

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The ACLI and the CAI appreciate the opportunity to comment on the Fifth Exposure and we urge the Subgroup to consider our recommendations as it continues its progress towards a final AG.

Respectfully submitted,

AMERICAN COUNCIL OF LIFE INSURERS (ACLI)

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