### Section 6: Requirements for the Additional Standard Projection Amount

C. Prescribed Assumptions

4. Partial Withdrawals

Partial withdrawals required contractually or previously elected (e.g., a contract operating under an automatic withdrawal provision, or that has voluntarily enrolled in an automatic withdrawal program, on the valuation date) are to be deducted from the Account Value in each projection interval consistent with the projection frequency used, as described in Section 4.F, and according to the terms of the contract. However, if a GMWB contract’s automatic withdrawals results in partial withdrawal amounts in excess of the GMWB’s guaranteed maximum annual withdrawal amount, such automatic withdrawals shall be revised such that they equal the GMWB’s guaranteed maximum annual withdrawal amount. However, for tax qualified contracts with ages greater than or equal to the federal required minimum distribution (RMD) age, if the prescribed withdrawal amount is below the RMD amount, the withdrawal amount may be reset to the RMD amount.

**Guidance Note:** Companies are expected to model withdrawal amounts consistent with the RMD amount where applicable and where practically feasible; however, it is understood that this level of modeling sophistication may not be available for all companies.

For any contract not on an automatic withdrawal provision as described in the preceding paragraph, depending on the guaranteed benefit type, other partial withdrawals shall be projected as follows but shall not exceed the free partial withdrawal amount above which surrender charges are incurred and may be floored at the RMD amount for tax qualified contracts with ages greater than or equal to the federal RMD age:

a. For contracts in the Accumulation Reserving Category, the partial withdrawal amount each year shall equal the following percentages of account value, based on the contract holder’s attained age:

Table 6.2: Partial Withdrawals for Accumulation Reserving Category Contracts – Qualified

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Attained Age | Contracts without GLBs | Contracts with GLBs  prior to exercising |  |  |
| 59 and under | 1.65% | 0.95% |  |  |
| 60 – 64 | 2.10% | 1.15% |  |  |
| 65 – 69 | 2.35% | 1.40% |  |  |
| 70 – 74 | 3.95% | 2.70% |  |  |
| 75 – 79 | 4.80% | 4.30% |  |  |
| 80 and over | 6.30% | 5.80% |  |  |

Table 6.3: Partial Withdrawals for Accumulation Reserving Category Contracts – Non-Qualified

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Attained Age | Contracts without GLBs | Contracts with GLBs  prior to exercising |  |  |
| 59 and under | 1.60% | 1.15% |  |  |
| 60 – 64 | 1.60% | 1.15% |  |  |
| 65 – 69 | 1.60% | 1.15% |  |  |
| 70 – 74 | 1.60% | 1.65% |  |  |
| 75 – 79 | 1.60% | 1.65% |  |  |
| 80 and over | 1.60% | 1.65% |  |  |

b. For contracts in the Accumulation Reserving Category with a guaranteed living benefit and an account value of zero, the partial withdrawal amount shall be the guaranteed maximum annual withdrawal amount.

c. For contracts in the Accumulation Reserving Category with a guaranteed living benefit, partial withdrawals shall be projected to commence pursuant to the cumulative utilization rates shown in the table below. Once guaranteed living benefit withdrawals are projected to commence, the partial withdrawal amount shall be, for a lifetime guarantee, 100% of the guaranteed maximum annual withdrawal amount each year until the contract account value reaches zero, or for a non-lifetime guarantee, 70% of the guaranteed maximum annual withdrawal amount each year until the contract account value reaches zero.

Table 6.4: Utilization Assumptions for Accumulation Reserving Category Contracts with Guaranteed Living Benefits

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Qualification Status | Before 65 | 65 to 70 | 71 to 75 | 76 and above |
| Qualified | 16% | 35% | 80% | 95% |
| Non-Qualified | 16% | 35% | 50% | 65% |

d. For contracts in the Accumulation Reserving Category with a guaranteed living benefit and, in the contract year immediately preceding the valuation date, withdrew a non-zero amount not in excess of the guaranteed living benefit’s guaranteed maximum annual withdrawal amount, the partial withdrawal amount shall be:

i. for a lifetime guarantee, 100% of the guaranteed maximum annual withdrawal amount each year until the contract account value reaches zero, or

ii. for a non-lifetime guarantee, 70% of the guaranteed maximum annual withdrawal amount each year until the contract account value reaches zero.



e. There may be instances where the company has certain data limitations, for example, with respect to policies that are not enrolled in an automatic withdrawal program but have exercised a non-excess withdrawal in the contract year immediately preceding the valuation date. The company may employ an appropriate proxy method if it does not result in a material understatement of the reserve.

f. For contracts that do not offer withdrawal benefits, such as some contracts within the Payout Annuity Reserving Category and Longevity Reinsurance Reserving Category, this section is not applicable.

5. Full Surrenders

For contracts that offer surrender benefits, base lapse and full surrender rates shall be dynamically adjusted upward (or downward) when the actual credited rate is below (or above) the competitor rate. For contracts with a guaranteed living benefit, base lapse and full surrender rates shall be further adjusted based on the ITM of the rider value. The following formula shall be used:

𝑇𝑜𝑡𝑎𝑙 *Lapse* = (𝐵𝑎𝑠𝑒 𝐿𝑎𝑝𝑠𝑒 x *GMIR Factor* + 𝑅𝑎𝑡𝑒 𝐹𝑎𝑐𝑡𝑜𝑟 x *MVA Factor*) × 𝐼𝑇𝑀 𝐹𝑎𝑐𝑡𝑜𝑟

where:

ITM Factor

𝐼𝑇𝑀 𝐹𝑎𝑐𝑡𝑜𝑟 = 1 if ITM ≤ 1.25 and AV ≠ 0

𝐼𝑇𝑀 𝐹𝑎𝑐𝑡𝑜𝑟 = (1.25 ÷ 𝐼𝑇𝑀)² if ITM > 1.25 and AV ≠ 0

*ITM Factor* = 0 if AV = 0

𝐼𝑇𝑀 *= GAPV* ÷ 𝐴𝑐𝑐𝑜𝑢𝑛𝑡 𝑉𝑎𝑙𝑢𝑒

**Guidance Note:** 𝐼𝑇𝑀 = 1 for contracts in the Accumulation Reserving Category with no guaranteed living benefits or guaranteed death benefits.

Rate Factor

𝑅𝑎𝑡𝑒 𝐹𝑎𝑐𝑡𝑜𝑟 = 𝑀𝑎𝑟𝑘𝑒𝑡 𝐹𝑎𝑐𝑡𝑜𝑟 × 𝑀𝑎𝑥*(0, 1 – 5 × (1-CSV/AV))*

MVA Factor

*MVA Factor* = 0 when MVA is in effect; 1 when MVA is not in effect

GMIR Factor

For indexed annuities:

*GMIR Factor* = 1.00

For fixed annuities:

*GMIR* 𝐹𝑎𝑐𝑡𝑜𝑟 = 1.25 if GMIR ≤ 1.0%

*GMIR* 𝐹𝑎𝑐𝑡𝑜𝑟 = 1.00 if 1.0% < GMIR ≤ 2.5%

*GMIR Factor* = 0.70 if GMIR > 2.5%

Market Factor

𝑀𝑎𝑟𝑘𝑒𝑡 𝐹𝑎𝑐𝑡𝑜𝑟 = –1.25 × (𝐶𝑅 − 𝑀𝑅)X if CR ≥ MR

*M*𝑎𝑟𝑘𝑒𝑡 𝐹𝑎𝑐𝑡𝑜𝑟 = 0 if MR > CR ≥ (MR − BF)

𝑀𝑎𝑟𝑘𝑒𝑡 𝐹𝑎𝑐𝑡𝑜𝑟 = 1.25 × (𝑀𝑅 – 𝐵𝐹 − 𝐶𝑅)X if CR < (MR − BF)

X = 2.0 during Surrender Charge Period, 2.5 at Shock, and 2.5 thereafter

Minimum and Maximum Lapse (not applicable if AV = 0)

*Minimum Lapse* = 0.5%

*Maximum Lapse* = 90%

Crediting Rate (CR)

For indexed annuities:

*CR* = the options budget (or value of the options supporting the index crediting strategy, as appropriate), at the time of the projection

For fixed annuities:

*CR* = the crediting rate, at the time of the projection

Market Rate (MR)

*MR* = the market competitor rate at the time of the projection

For indexed annuities and fixed annuities with Interest Guarantee Period < 2 Years:

*MR* = Max (3-month Treasury rate, 5-year Treasury rate plus 50% A / 50% AA spread) minus Pricing Spread

For fixed annuities with Interest Guarantee Period ≥ 2 Years:

*MR* = N-year Treasury rate plus 50% A / 50% AA spread minus Pricing Spread

N = 5-year Treasury rate for 2 years ≤ Interest Guarantee Period < 5 years

N = 7-year Treasury rate for 5 years ≤ Interest Guarantee Period < 7 years

N = 10-year Treasury rate for Interest Guarantee Period ≥ 7 years

Pricing Spread = 0% (since already reflected in selection of credit spread)

Buffer Factor (BF)

*BF* = a buffer factor where dynamic lapses do not occur, 50bps

Base Lapse

*Base Lapse* = Determined using the following tables:

Table 6.5: Base Lapse Rates for Indexed Annuities with no Guaranteed Living Benefits

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Years Before or After Surrender Charge Expiration | Attained Age | | | |
| Before 60 | 60 to 69 | 70 to 79 | 80 and above |
| 5 yrs or more after expiry | 6.5% | 7.0% | 6.0% | 5.0% |
| 4 yrs after expiry | 8.0% | 8.5% | 6.5% | 5.0% |
| 3 yrs after expiry | 8.5% | 9.5% | 7.0% | 5.5% |
| 2 yrs after expiry | 11.0% | 12.0% | 9.0% | 7.0% |
| 1 yr after expiry | 15.0% | 17.5% | 13.5% | 9.0% |
| Upon expiry | 33.5% | 41.5% | 37.0% | 23.5% |
| 1 yr to expiry | 4.5% | 3.5% | 4.0% | 4.0% |
| 2 yrs to expiry | 4.0% | 3.5% | 3.0% | 3.0% |
| 3 yrs to expiry | 2.5% | 2.0% | 2.0% | 2.0% |
| 4 yrs to expiry | 3.0% | 2.5% | 2.5% | 2.5% |
| 5 yrs or more to expiry | 2.0% | 2.5% | 2.0% | 1.5% |

Table 6.6: Base Lapse Rates for Fixed Annuities with no Guaranteed Living Benefits

|  |  |  |  |
| --- | --- | --- | --- |
| Years Before or After Surrender Charge (SC) Expiration | Interest Guarantee Period (IGP) | | |
| In Years where  IGP <= 1 Year\* | In Years where  IGP > 1 Year, and not in Year of IGP Expiry | In Year of an  IGP Expiry after IGP > 1 Year |
| 3 yrs or more after expiry | 3.0% | 2.0% | 55.0% |
| 2 yrs after expiry | 7.5% | 2.0% | 65.0% |
| 1 yr after expiry | 10.0% | 2.0% | 75.0% |
| Upon expiry | 25.0% | 6.0% | 75.0% |
| 1 yr to expiry | 2.5% | 1.0% | 70.0% |
| 2 yrs to expiry | 2.5% | 1.0% | 70.0% |
| 3 yrs or more to expiry | 2.5% | 1.0% | 70.0% |

\* includes floating rate structures

**Guidance Note:** Examples of how to apply the table above:

Example 1: For a contract with an initial 3-year IGP and 3-year SC period, then renewing into 1-year IGPs with no SC, the base lapse rates in contract years 1 to 7 would be 1%, 1%, 1%, 75%, 10%, 7.5%, 3%.

Example 2: For a contract with an initial 3-year IGP and 3-year SC period, then renewing into another 3-year IGP with 3-year SC period, the base lapse rates in contract years 1 to 7 would be 1%, 1%, 1%, 75%, 1%, 1%, 75%.

Example 3: For a contract with an initial 1-year IGP and 3-year SC period, then renewing into a 2-year IGP with no SC, the base lapse rates in contract years 1 to 6 would be 2.5%, 2.5%, 2.5%, 25%, 1%, 65%.

Table 6.7: Base Lapse Rates for Indexed Annuities and Fixed Annuities with Guaranteed Living Benefits, Prior to Utilization

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Surrender Charge Expiration Status and In-the-Moneyness (ITM) | Attained Age | | | |
| Before 60 | 60 to 69 | 70 to 79 | 80 and above |
| Prior to Expiry and ITM of: |  |  |  |  |
| Below 100% | 2.0% | 1.5% | 3.5% | 5.5% |
| 100% to 124% | 2.0% | 1.5% | 1.5% | 2.0% |
| 125% and over | 1.5% | 1.0% | 1.5% | 2.0% |
| At Expiry and ITM of: |  |  |  |  |
| Below 100% | 91.5% | 92.0% | 90.0% | 81.0% |
| 100% to 124% | 18.0% | 16.0% | 15.5% | 11.0% |
| 125% and over | 5.5% | 6.0% | 7.5% | 7.0% |
| After Expiry and ITM of: |  |  |  |  |
| Below 100% | 69.5% | 68.5% | 58.5% | 44.5% |
| 100% to 124% | 10.5% | 8.0% | 7.0% | 5.0% |
| 125% and over | 3.0% | 3.5% | 4.5% | 3.5% |

Table 6.8: Base Lapse Rates for Indexed Annuities and Fixed Annuities with Guaranteed Living Benefits, After Utilization

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Surrender Charge Expiration Status and In-the-Moneyness (ITM) | Attained Age | | | |
| Before 60 | 60 to 69 | 70 to 79 | 80 and above |
| Prior to Expiry and ITM of: |  |  |  |  |
| Below 100% | 1.0% | 1.0% | 1.0% | 5.5% |
| 100% to 124% | 1.0% | 1.0% | 1.0% | 1.5% |
| 125% and over | 1.0% | 1.0% | 1.0% | 5.5% |
| At Expiry and ITM of: |  |  |  |  |
| Below 100% | 9.0% | 32.5% | 14.0% | 0.0% |
| 100% to 124% | 2.0% | 3.0% | 2.5% | 19.5% |
| 125% and over | 1.5% | 1.0% | 1.0% | 4.0% |
| After Expiry and ITM of: |  |  |  |  |
| Below 100% | 3.5% | 10.5% | 4.5% | 0.0% |
| 100% to 124% | 1.5% | 1.0% | 1.5% | 1.5% |
| 125% and over | 1.5% | 1.0% | 1.0% | 3.0% |

Any lapse skew applied should be consistent with the company’s best estimate.

For contracts in which there is no account value or surrender benefit, such as some contracts within the Payout Annuity Reserving Category and Longevity Reinsurance Reserving Category, this section is not applicable.