

INTEREST-INDEXED ANNUITY CONTRACTS MODEL REGULATION

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Section 1. Definitions

“Interest-indexed annuity contract” means an annuity contract where the interest credits are linked to an external reference.

Section 2. Scope

This regulation applies only to individual annuity contracts.

Drafting Note: This regulation currently addresses only the indexing of interest credits. Should products be developed which involve the indexing of other factors such as expenses, this regulation may require modification.

Section 3. Initial Filing Requirements

The following information shall be submitted in connection with any filing of interest-indexed annuity contracts. All such information received shall be treated confidentially to the extent permitted by law.

- A. A description of how the interest credits are determined, including:
 - (1) A description of the index;
 - (2) A provision for a substitute method of crediting interest if the index is discontinued; a substitute must be approved by the insurance department;
 - (3) A formula showing the derivation of the crediting rate based on the value of the index;
 - (4) The frequency and timing of determining the crediting rate; and
 - (5) The allocation of interest credits, if more than one crediting rate applies to different portions of the contract value;
- B. A description of the insurer’s investment policy, including:
 - (1) The amount and type of assets currently held for interest-indexed annuity contracts;
 - (2) An opinion by the insurer’s actuary that the investments are appropriate considering the index being used;
 - (3) The amount (distribution) and type of assets expected to be acquired in the future for these contracts;
 - (4) How the insurer plans to address the risk that a sufficient quantity of appropriate investments may not be available; and
 - (5) How the insurer plans to address any mismatch risk inherent in the contract;
- C. If contracts are to be linked to an index for some specified period less than the time to the maturity date of the contract, the date of expiration of the period and any minimum guaranteed rates that apply thereafter; and

- D. A description of any interest guarantee in addition to or in lieu of the index and a description of how the insurer plans to address the risk that the indexed interest rate may fall below the minimum guarantee.

Section 4. Additional Filing Requirements

To the extent permitted by law, any material submitted as a result of the following requirements will be treated confidentially.

- A. Prior to implementation, a domestic insurer shall submit a description of any material change in investment policy or method of determining the interest credits. A change is considered to be material if it would affect the form or definition of the index or if it would significantly change the amount or type of assets held for interest-indexed annuity contracts.
- B. Annually, an insurer shall submit a description of the amount and type of assets currently held by the insurer to support its interest-indexed annuity contracts.
- C. Annually, an insurer shall submit a Statement of Actuarial Opinion by the insurer's actuary that the assets under interest-indexed annuity products are sufficient to cover the contractual obligations under the contracts. If the insurer is unable to issue such an opinion, additional assets shall be allocated to these products so that an opinion can be submitted.

Drafting Note: The American Academy of Actuaries is developing guidelines that will delineate the responsibilities of the actuary in signing a Statement of Actuarial Opinion. Section 6 contains a sample Statement of Actuarial Opinion which the Advisory Committee believes will satisfy its guidelines. If necessary, this regulation should be revised to conform with the Academy's guidelines.

Section 5. Valuation Requirements

- A. In filing the above items, the insurer demonstrates its ability to meet its future contractual obligations.
- B. In developing life insurance reserves for interest-indexed annuity contracts, the insurer shall be in compliance with the minimum requirements of the standard valuation law of this state. If the insurer does not issue an opinion as required in Section 4C of this regulation, the minimum reserves for interest-indexed annuity business will be 115 percent of the minimum reserves otherwise required.
- C. In the calculation of reserves for interest-indexed annuity contracts, future guarantees will be determined by assuming that future interest crediting rates will be equal to the statutory valuation interest rate for the contracts as defined in the standard valuation law.

Section 6. Statement of Actuarial Opinion for Interest-Indexed Annuity Contracts

I, _____, am _____
(name) (position or relationship to insurer)

for the XYZ Life Insurance Company (the insurer) in the state of _____.
(state of domicile of insurer)

I am a member of the American Academy of Actuaries [or if not, state other qualifications to sign annual statement actuarial opinions].

I have examined the interest-indexed annuity contracts of the insurer in force as of December 31, 19XX, encompassing ____ [number of] contracts and \$_____ of reserves.

I have considered the provisions of the contracts. I have considered the characteristics of the identified assets and the investment policy adopted by the insurer as they affect future insurance and investment cash flows under the contracts and related assets. My examination included such tests and calculations as I considered necessary to form an opinion concerning the insurance and investment cash flows arising from the contracts and related assets.

I relied on the investment policy of the insurer and on projected investment cash flows as provided by _____, Chief Investment Officer of the Insurer.

Drafting Note: If the actuary does not choose to rely on an investment officer for the projected investment cash flows, this statement should be modified to show the extent of the actuary's reliance. If the actuary has not examined the underlying records, but has relied on listings and summaries of contracts in force, an appropriate statement of such reliance should be included here.

The tests were calculated under various assumptions as to future interest rates, and particular attention was given to those provisions and characteristics that might cause future insurance and investment cash flows to vary with changes in the level of prevailing interest rates.

In my opinion, the anticipated insurance and investment cash flows referred to above make good and sufficient provision for the contractual obligations of the insurer under these contracts.

Signature of Actuary

Chronological Summary of Action (all references are to the Proceedings of the NAIC).

1988 Proc. 19, 19-20, 490-492, 600, 627 (adopted).