

STANDARD VALUATION LAW INTEREST RATE MODERNIZATION WORK GROUP UPDATE

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Request from LATF

- “...we now respectfully request that the Academy establish a new working group focused on modernizing the process of setting valuation interest rates for all non-variable annuities (i.e., all except SPIAs).”



Overall Approach

- Initial Approach: Build on phase one SPIA work
 - Single rate locked-in at issue
 - Representative portfolio
 - Enhance to reflect additional complexity as needed
 - Look at method to used to develop current rates
 - Modeled Interest on Assets ~ Modeled Interest on Liabilities
- Initial List of Features to Differentiate on:
 - Liquidity
 - Interest rate guarantees
 - Guarantee duration
 - Guaranteed living benefits (GLB)



Overall Approach (cont.)

- Model annuity payments for representative annuities with various features
 - ▣ Determine impact of each feature on key rates to use
 - ▣ Determine appropriate adjustment to make to the interest rate
- Consider whether to determine rate at issue date, annuitization date, or vary it based on circumstances
- Coordinate with ARWG to develop rates for:
 - ▣ Modeled Reserves
 - ▣ Formulaic Reserves



Questions?



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