Indiana Department of Insurance
August 1, 2024
Bulletin 275

NONFORFEITURE REQUIREMENTS FOR INDEX-LINKED VARIABLE ANNUITY PRODUCTS

This bulletin is directed to all insurers writing index-linked variable annuity products. Actuarial Guideline 54, "Nonforfeiture Requirements for Index-Linked Variable Annuity Products," ("AG 54") is effective for all Index-Linked Variable Annuity ("ILVA") contracts (including associated riders, endorsements, or amendments) issued on or after July 1, 2024. This is true regardless of when an insurance product filing was approved by the Indiana Department of Insurance ("Department"). Companies that have ILVA products approved in Indiana but have not yet demonstrated AG 54 compliance will need to do so in order to sell those products in Indiana after June 30, 2024.

The Department has been reviewing submissions for compliance with AG 54 since July 2023; therefore, ILVA product filings approved prior to July 1, 2023, will need to demonstrate AG 54 compliance. Companies can demonstrate compliance either by confirming the use of the Hypothetical Portfolio model as outlined in AG 54 for the Interim Value calculation, or by demonstrating that the contractually defined Interim Values are materially consistent with the Hypothetical Portfolio methodology.

For all filings, the actuarial memorandum should address the actuarial memorandum requirements of AG 54, including, but not limited to:

1. The actuarial certification statements specified in AG 54.
2. Descriptions of the value of the Fixed Income Asset Proxy, market value adjustment formula, if any; and the market value of the derivative asset proxy, including any trading costs.
3. Descriptions of all formulas and methodologies used to calculate these values for each Index Strategy and Index Strategy Term. These descriptions should include formulaic representation of the replicating derivatives for each strategy. They should also include description of the option valuation methods. In this regard, formulas need not be provided for standard Black-Scholes variants, but other valuation methods should be described formulaically. Any regular validation of derivative values to observable market values should be described.
4. Descriptions of all assumptions used to calculate these values, as well as sources for all assumptions. These descriptions should include any third party assumption sources, should describe the frequency with which assumptions will be updated, and should describe the level of granularity to be used in setting the assumptions (e.g. volatility surface). For all indices to be offered, the availability of market consistent assumptions should be described, along with any procedures to estimate assumptions for an index for which market consistent assumptions are not available.
5. The basis of any trading cost assumptions. If not based directly on market conditions on the valuation date, the method used to calculate the assumption and update frequency

should be described in detail, including a schedule demonstrating calculation of the current assumption.

All filings should demonstrate compliance with the Department's interpretations of AG 54, as follows:

1. The sum of the fixed income proxy and derivative proxy must be calibrated to the crediting base at the beginning of the crediting period.
2. Material consistency demonstrations should show contractual interim values, AG 54 interim values, and percentage differences for the tested scenarios. It is preferred that demonstrations be provided under a set of deterministic scenarios that capture the material range of consistency results. If stochastic-based demonstrations are provided, they should demonstrate the full distribution of stochastic results. Demonstrations based on an average of stochastic results are not acceptable.
3. The following valuation methods for the fixed income proxy are considered compliant with the AG 54 hypothetical portfolio method: market value, book value, or book value with market value adjustment ("MVA"). An MVA formula that is applied to a contract value other than the fixed income proxy book value or that contains adjustment factors that might inflate or bias the MVA is considered a deviation from the hypothetical portfolio method and requires a material consistency demonstration.

Questions regarding this bulletin should be directed to compliance@idoi.in.gov.

INDIANA DEPARTMENT OF INSURANCE

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