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# Alert on New Valuation Rate Methodology for Payout Annuities and Similar Contracts

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The methodology underpinning statutory valuation rates for the products listed below is changing for contracts issued on or after Jan. 1, 2018:

- Single Premium Group Annuities (Pension Risk Transfer)
- Immediate Annuities
- Deferred Immediate Annuities (DIAs)
- Structured Settlements
- Payout Annuities (Settlement Options)
- Supplementary Contracts
- Living Benefits (GLWBs) and Contingent Deferred Annuities (CDAs) once account value is exhausted

There will now be different rates for “jumbo” contracts (initial premium greater than or equal to \$250 million) and “non-jumbo” contracts. Jumbo contracts will use a rate that is updated daily whereas non-jumbo contracts will use a rate that is updated quarterly. In addition, there will now be four different valuation rates; issue age and certain period will determine which valuation rate applies.

Proposed rate changes were adopted by the Life Actuarial Task Force (LATF) of the National Association of Insurance Commissioners (NAIC) and are now incorporated into the Valuation Manual under VM-22. These rates replace the rates from the Standard Valuation Law under CARVM for these products.

A high level comparison of the current method and the new method is shown in Table 1.

Table 1  
Comparison of Current and New Methods

		Current	New
A	Reference Index	Moody’s Long-Term Corporate Bond Index	Treasuries plus VM-20 Spreads
B	Credit Quality	Moody’s Index	Based on Average Life Insurer Bond Portfolio
C	Prudence	20% of reference rate in excess of 3%	VM-20 Baseline Defaults and Spread Deduction
D	Floor	None, bias toward 3%	None
E	Valuation Rate Buckets	One	Four to reflect duration differences
F	Frequency of Updates	Annual	Quarterly (non-jumbo) / Daily (jumbo)
G	Rounding	Nearest 25bp	Non-jumbo: nearest 25bp Jumbo: nearest 1bp

Look for a forthcoming FAQ document on either the Life Actuarial Task Force website ([http://www.naic.org/cmte\\_a\\_latf.htm](http://www.naic.org/cmte_a_latf.htm)) or the VM-22 website ([http://www.naic.org/cmte\\_a\\_latf\\_vm22sg.htm](http://www.naic.org/cmte_a_latf_vm22sg.htm)). Rates will be published by the NAIC at [http://www.naic.org/index\\_industry.htm](http://www.naic.org/index_industry.htm). ■



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