

## 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.

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Signature of Actuary

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

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

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## INTEREST-INDEXED ANNUITY CONTRACTS MODEL REGULATION

**This chart is intended to provide readers with additional information to more easily access state statutes, regulations, bulletins or administrative rulings related to the NAIC model. Such guidance provides readers with a starting point from which they may review how each state has addressed the model and the topic being covered. The NAIC Legal Division has reviewed each state's activity in this area and has determined whether the citation most appropriately fits in the Model Adoption column or Related State Activity column based on the definitions listed below. The NAIC's interpretation may or may not be shared by the individual states or by interested readers.**

**This chart does not constitute a formal legal opinion by the NAIC staff on the provisions of state law and should not be relied upon as such. Nor does this state page reflect a determination as to whether a state meets any applicable accreditation standards. Every effort has been made to provide correct and accurate summaries to assist readers in locating useful information. Readers should consult state law for further details and for the most current information.**

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**KEY:**

**MODEL ADOPTION:** States that have citations identified in this column adopted the most recent version of the NAIC model in a **substantially similar manner**. This requires states to adopt the model in its entirety but does allow for variations in style and format. States that have adopted portions of the current NAIC model will be included in this column with an explanatory note.

**RELATED STATE ACTIVITY:** Examples of Related State Activity include but are not limited to: older versions of the NAIC model, statutes or regulations addressing the same subject matter, or other administrative guidance such as bulletins and notices. States that have citations identified in this column **only** (and nothing listed in the Model Adoption column) have **not** adopted the most recent version of the NAIC model in a **substantially similar manner**.

**NO CURRENT ACTIVITY:** No state activity on the topic as of the date of the most recent update. This includes states that have repealed legislation as well as states that have never adopted legislation.

NAIC MEMBER	MODEL ADOPTION	RELATED STATE ACTIVITY
Alabama	NO CURRENT ACTIVITY	
Alaska	NO CURRENT ACTIVITY	
American Samoa	NO CURRENT ACTIVITY	
Arizona	NO CURRENT ACTIVITY	
Arkansas	NO CURRENT ACTIVITY	
California	NO CURRENT ACTIVITY	
Colorado	NO CURRENT ACTIVITY	
Connecticut	NO CURRENT ACTIVITY	
Delaware	NO CURRENT ACTIVITY	
District of Columbia	NO CURRENT ACTIVITY	
Florida	NO CURRENT ACTIVITY	
Georgia	NO CURRENT ACTIVITY	
Guam	NO CURRENT ACTIVITY	
Hawaii	NO CURRENT ACTIVITY	

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<b>NAIC MEMBER</b>	<b>MODEL ADOPTION</b>	<b>RELATED STATE ACTIVITY</b>
Idaho	NO CURRENT ACTIVITY	
Illinois	NO CURRENT ACTIVITY	
Indiana	NO CURRENT ACTIVITY	
Iowa	NO CURRENT ACTIVITY	
Kansas	NO CURRENT ACTIVITY	
Kentucky	NO CURRENT ACTIVITY	
Louisiana	NO CURRENT ACTIVITY	
Maine	NO CURRENT ACTIVITY	
Maryland	NO CURRENT ACTIVITY	
Massachusetts	NO CURRENT ACTIVITY	
Michigan	NO CURRENT ACTIVITY	
Minnesota	NO CURRENT ACTIVITY	
Mississippi	NO CURRENT ACTIVITY	
Missouri	NO CURRENT ACTIVITY	
Montana	NO CURRENT ACTIVITY	
Nebraska	NO CURRENT ACTIVITY	
Nevada	NO CURRENT ACTIVITY	
New Hampshire	NO CURRENT ACTIVITY	
New Jersey	NO CURRENT ACTIVITY	
New Mexico	NO CURRENT ACTIVITY	
New York	NO CURRENT ACTIVITY	



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<b>NAIC MEMBER</b>	<b>MODEL ADOPTION</b>	<b>RELATED STATE ACTIVITY</b>
North Carolina	NO CURRENT ACTIVITY	
North Dakota	NO CURRENT ACTIVITY	
Northern Marianas	NO CURRENT ACTIVITY	
Ohio	NO CURRENT ACTIVITY	
Oklahoma	NO CURRENT ACTIVITY	
Oregon	NO CURRENT ACTIVITY	
Pennsylvania	NO CURRENT ACTIVITY	
Puerto Rico	NO CURRENT ACTIVITY	
Rhode Island	NO CURRENT ACTIVITY	
South Carolina	NO CURRENT ACTIVITY	
South Dakota	NO CURRENT ACTIVITY	
Tennessee	NO CURRENT ACTIVITY	
Texas	NO CURRENT ACTIVITY	
Utah	NO CURRENT ACTIVITY	
Vermont		BULLETIN 110 (1996); BULLETIN 121 (1998) (Indexed life products).
Virgin Islands	NO CURRENT ACTIVITY	
Virginia	NO CURRENT ACTIVITY	
Washington	NO CURRENT ACTIVITY	
West Virginia	NO CURRENT ACTIVITY	
Wisconsin	NO CURRENT ACTIVITY	
Wyoming	NO CURRENT ACTIVITY	

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