



**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

INSURANCE BULLETIN 08-03: Annuity Actuarial Issues
ISSUED February 7, 2008 (REVISED October 24, 2008)

To: All Life and Annuity Insurers
From: Linda Bohrer, Director, Insurance Market Regulation Division
Fred Heese, Director, Insurance Company Regulation Division
Re: Annuity Actuarial Issues

The purpose of this bulletin is to clarify some of the laws affecting annuity contracts issued in the State of Missouri, as well as to remind carriers of certain provisions in the law. It is important that carriers have specific, consistent guidance on these issues that are of special concern to Missouri, including those resulting from administrative and other differences among states.

Rescinded and Inoperative

The IIPRC, LHATF and the department are currently reviewing the details supporting bulletin 08-03. Any clarification from LHATF contrary to the substance of this bulletin may result in further DIFP action concerning this bulletin. Companies filing annuities should be aware of the contents of 08-03. A company may choose at this time to provide filings in compliance with 08-03 or choose to wait to file forms at a later time.

1) FPDA Valuation Interest Rate

Some insurers have erroneously ignored future interest guarantees on annuity considerations in determining the maximum statutory valuation interest rate if those guarantees did not exceed the long-term life insurance maximum valuation rate. Valuation interest for flexible premium deferred annuity (FPDA) contracts which guarantee interest on future considerations (and variable FPDA contracts with one or more accounts that include fixed interest guarantees) must consider those guarantees, even if the future guarantees are below the long-term whole life rate. This can result in a maximum valuation rate which is 0.25% lower than the maximum valuation rate permitted for single premium deferred annuity (SPDA) contracts. (See RSMo §376.380.2.(3)(c) .)

2) Cash Values in Deferred Annuities

The Standard Nonforfeiture Law for Deferred Annuities (SNFL), RSMo §376.671 and §376.669, do not permit reductions in cash surrender value except for loans and withdrawals. Any non-variable deferred annuity contract whose cash value formula could result in a decrease in cash value would violate RSMo §376.671 and/or §376.669. The Commissioner's Annuity Reserve Method (CARVM) which calculates reserves for deferred annuities must presume that the cash values do not decrease. (See RSMo §376.380.1(2)(e) .)

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3) Annuities with Market Value Adjustments (MVAs)

The Standard Nonforfeiture Law for Deferred Annuities (SNFL), RSMo §376.671 and §376.669, do not permit cash surrender values to decrease (except for withdrawals and indebtedness). If a market value adjustment (MVA) has the potential to reduce cash surrender value below a previously credited amount, it violates RSMo §376.671 and/or §376.669.

Further, the maximum potential a MVA would have to be valued in setting CARVM reserves under the Standard Valuation Law, RSMo §376.380.1(1)(e). This law requires the actuary to set reserves equal to the greatest possible present value of future benefits.

Annuities with MVA features that comply with 20 CSR 400-1.150, the Modified Guaranteed Annuity (MGA) Rule, avoid violations of the two situations described above. Having the MVA annuity in a separate account avoids violation of RSMo §376.671 and §376.669, and avoids having to consider the maximum potential value of the MVA in CARVM. Annuities with MVA features that do not comply with the MGA rule will be considered in violation of RSMo §376.671 and/or §376.669 and the Standard Valuation Law, RSMo §376.380.1(1)(e), regardless of any caps, floors, or limits on the MVA.

Reasonable equity requires that downward adjustments in cash surrender values must be similar in magnitude to upward adjustments that take place when changes in reference interest rates are similar in magnitude. (See 20 CSR 400-1.150(5)(A)3.) MVA formulas should not include penalties for surrender that unreasonably exceed expected changes in market values of investments. In typical MVA formulas, loads greater than 0.25% tend to produce unacceptably inequitable and excessive downward adjustments in cash value.

A separate account does not automatically require Securities and Exchange Commission (SEC) registration as a security. The SEC determines registration requirements. It does subject the contract to the state rules regarding variable contracts, including company and agent licensure.

Any questions should be addressed to:

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