#### Actuarial Guideline XLIII

CARVM FOR VARIABLE ANNUITIES

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Section I) Background

The primary purpose of this Actuarial Guideline (Guideline) is to interpret the standards for the valuation of reserves for variable annuity and other contracts involving certain guaranteed benefits similar to those offered with variable annuities. The Guideline codifies the basic interpretation of the Commissioners Annuity Reserve Valuation Method (CARVM) by clarifying the assumptions and methodologies that will comply with the intent of the Standard Valuation Law. It also applies similar assumptions and methodologies to contracts that contain characteristics similar to those described in the scope, but that are not directly subject to CARVM.

For many years, regulators and the industry have struggled with the issue of applying a uniform reserve standard to these contracts and, in particular, to some of the guaranteed benefits referenced above. Formula-based approaches make assumptions about product design, contract holder behavior and economic relationships and conditions. The economic volatility seen over the last few decades, combined with an increase in the complexity of these products, have made attempts to use these approaches for measuring economic-related risk less successful.

The Guideline addresses these issues by including an approach that applies principles of asset adequacy analysis directly to the risks associated with these contracts and guarantees. In developing the Guideline, two regulatory sources were looked to for guidance. First, the Standard Valuation Law requires that CARVM be based on the greatest present value of future guaranteed benefits. Second, the NAIC Model Variable Annuity Regulation (VAR) states that the “reserve liability for variable annuities shall be established pursuant to the requirements of the Standard Valuation Law in accordance with actuarial procedures that recognize the variable nature of the benefits provided and any mortality guarantees.”

During 2019 this Guideline was amended to follow the reserve requirements provided in VM-21 of the Valuation Manual. This was done for uniformity for all coverages within scope regardless of whether they were issued prior to or on and after the operative date of the Valuation Manual. This was also done to reflect the extensive analysis carried out by the NAIC, Oliver Wyman consulting for the NAIC, and industry participants for improvements to the variable annuity framework.

**Section II) Scope**

A) The Guideline applies to contracts, and product features on contracts, issued on or after January 1, 1981 and no later than December 31, 2016, whether directly written or assumed through reinsurance, falling into any of the following categories:

1) Variable deferred annuity contracts subject to the Commissioner’s Annuity Reserve Valuation Method (CARVM), whether or not such contracts contain Guaranteed Minimum Death Benefits (GMDBs), or Variable Annuity Guaranteed Living Benefits (VAGLBs);

2) Variable immediate annuity contracts, whether or not such contracts contain GMDBs or VAGLBs;

3) Group annuity contracts that are not subject to CARVM, but contain guarantees similar in nature[[1]](#footnote-1) to GMDBs, VAGLBs, or any combination thereof; and

4) All other products that contain guarantees similar in nature to GMDBs or VAGLBs, even if the insurer does not offer the mutual funds or variable funds to which these guarantees relate, where there is no other explicit reserve requirement.[[2]](#footnote-2)

If such a benefit is offered as part of a contract that has an explicit reserve requirement and that benefit does not currently have an explicit reserve requirement:

a) The Guideline shall be applied to the benefit on a standalone basis (i.e., for purposes of the reserve calculation, the benefit shall be treated as a separate contract);

b) The reserve for the underlying contract is determined according to the explicit reserve requirement; and

c) The reserve held for the contract shall be the sum of a) and b).

B) The company may elect to apply these requirements to contracts, whether directly written or assumed through reinsurance, falling into any of the categories defined in Section II.A. and issued prior to January 1, 1981

C) The Guideline does not apply to contracts falling under the scope of the NAIC Model Modified Guaranteed Annuity Regulation (Model #255); however, it does apply to contracts listed above that include one or more subaccounts containing features similar in nature to those contained in Modified Guaranteed Annuities (e.g., market value adjustments).

D) Separate account annuity contracts that guarantee an index and do not offer GMDBs or VAGLBs are excluded from the scope of the Guideline.

Section III) Reserve Requirements

A) Reserves shall be determined by following the requirements in VM-21 from the version of the NAIC Valuation Manual applicable for that valuation. For purposes of determining reserves, at the election of the company, the contracts subject to these requirements may be aggregated with the contracts subject to VM-21 of the Valuation Manual. Alternatively, the company may elect to not aggregate the contracts subject to these requirements with those subject to VM-21 of the Valuation Manual, and value these as a separate group of contracts.

B). The development of the reserves shall be documented following the requirements in VM-31 of the NAIC Valuation Manual applicable for that valuation.

Section IV) Effective Date and Transition

A) This Actuarial Guideline applies for valuations on or after January 1, 2020. The phase-in provisions of VM-21 also apply for the contracts and product features subject to the Guideline.

B) A company may elect to apply these requirements for the valuation on December 31, 2019 in lieu of the requirements of the prior version of this Guideline. If so elected, the reserves will be established by following the requirements of VM-21 from the 2020 NAIC Valuation Manual and the documentation requirements of VM-31 from the 2020 NAIC Valuation Manual

1. The term “similar in nature,” as used in sections II)A)3) and II)A)4) is intended to capture both current products and benefits as well as product and benefit designs that may emerge in the future. Examples of the currently known designs are listed in footnote #2 below. Any product or benefit design that does not clearly fit the Scope should be evaluated on a case-by-case basis taking into consideration factors that include, but are not limited to, the nature of the guarantees, the definitions of GMDB and VAGLB in VM-01and whether the contractual amounts paid in the absence of the guarantee are based on the investment performance of a market-value fund or market-value index (whether or not part of the company’s separate account). [↑](#footnote-ref-1)
2. For example, a group life contract that wraps a GMDB around a mutual fund would generally fall under the scope of the Guideline since there is not an explicit reserve requirement for this type of group life contract. However, for an individual variable life contract with a GMDB and a benefit similar in nature to a VAGLB, the Guideline would generally apply only to the VAGLB-type benefit, since there is an explicit reserve requirement that applies to the variable life contract and the GMDB. [↑](#footnote-ref-2)