

## Index-Linked Crediting Features Checklist

Every effort has been made to ensure the accuracy of the information in this document. All parties should consult the Texas Insurance Code (TIC), the Texas Administrative Code (TAC), and other applicable laws.

### **Actuarial memorandum** - [28 TAC Section 3.62](#)

Page \_\_\_\_\_ : A description of the product.

Page \_\_\_\_\_ : A description of the index used:

Describe the external index used and the criteria for selecting a substitute index if the current index is no longer in existence or applicable. Advance notification would be provided to the insurance department on the substitute index, the rationale for replacing the existing index and the substitute index used for in-force contracts.

Page \_\_\_\_\_ : A description of how index-based benefits are calculated:

It must provide descriptions, complete with formula definitions, of how index-based benefits are calculated under level, up and down index scenarios. Include a description, complete with an algorithm, if any, of how the index-based benefits are set initially at product launch and how they are planned to be reset subsequent to product launch. If the policy contains a cap or floor for the indexed benefits, then the minimum cap and minimum floor for all indexed term periods should be addressed in the actuarial memorandum.

Page \_\_\_\_\_ : A demonstration of compliance with nonforfeiture requirements.

Page \_\_\_\_\_ : A description of the reserving method, including a statement as to what method will be used to value the index-based benefits.

Page \_\_\_\_\_ : A description of asset adequacy testing methodologies to be used to address product features unique to the index-based benefits.

### **Annuity contracts only** - [28 TAC Section 3.62](#)

Page \_\_\_\_\_ : For annuity contracts that provide substantive participation in an index benefit or other benefits as appropriate, provide a demonstration showing compliance with the following requirements pursuant to [TIC Section 1107.056](#).

- 1) Calculate the annualized option cost in the form of basis points for the entire index term period as of the beginning of the index term period:
  - (a) Use the contract's guaranteed product features, such as the guaranteed participation rate, guaranteed caps, etc.
  - (b) For the option cost, use a basis representative of the point in time at the beginning of the current index term period. The company cannot change this basis during the index term period.

- (c) Make no adjustments for persistency, death, utilization, etc.
  - (d) The method and parameters for the option cost shall be calibrated to capital markets-based option pricing.
- 2) If the annualized option cost meets the criteria for substantive participation, then a reduction is available equal to the lesser of 100 basis points and the annual cost basis value.
- Note:** The additional basis point reduction may not be applied to the Fixed Account.
- 3) The company shall provide an [Actuarial Certification of Compliance](#).

Page \_\_\_\_\_ : For index options with a fee, provide a certification by a qualified actuary that the charges for the index options are not included in the calculation of the minimum guaranteed contract values.

### **Hedging policy and investment plan** - [28 TAC Section 3.62](#) and [Section 3.11\(f\)](#)

Page \_\_\_\_\_ : The filing must include the company's hedging policy and a description of the investment plan used to fund this product, if not already addressed.

### **Certifications** - [28 TAC Section 3.11\(f\)](#)

Page \_\_\_\_\_ : An actuarial certification that any changes in the company's investment strategies or substitute index will be filed.

### **Required provisions** - [TIC Chapter 1701](#); [28 TAC Section 3.14\(3\)](#)

Page \_\_\_\_\_ : A prominent notice on the cover page that describes the contract's involvement with an external index and that while the values of the policy may be affected by an external index, the policy does not directly participate in any stock or equity investments.

Page \_\_\_\_\_ : Disclose all available index term periods.

Page \_\_\_\_\_ : The contract must clarify what happens upon expiration of an indexed term period and state any minimum guaranteed rates that apply thereafter.

Page \_\_\_\_\_ : Define the policy's value upon surrender during an indexed term period, at the end of the term period or any time prior to maturity.

Page \_\_\_\_\_ : Define the formula used to determine the indexed credits and the indexed value, for each investment strategy.

Page \_\_\_\_\_ : In the event the named index is discontinued, provide for use of a substitute index.

Page \_\_\_\_\_ : If premiums may be allocated to different indexed and/or fixed accounts, the policy must describe the allocation of interest credits.

**Note:** The minimum participation rate, maximum spread/margin, minimum cap, and minimum floormay be approved as variable material, with a statement of variability.

Page \_\_\_\_\_ : Disclose the guaranteed participation rate at issue. If the participation rate may be redetermined, the contract must disclose the minimum participation rate for all term periods.

Page \_\_\_\_\_ : Disclose the maximum index percentage used in determining the annual index rate of return, if a spread/margin is being used.

Page \_\_\_\_\_ : Disclose the minimum cap, if applicable.

Page \_\_\_\_\_ : Disclose the minimum floor, if applicable.

**Note:** Reference to a non-unitized separate account is acceptable for index-linked contracts.