

Sec. 38a-459-14. Asset maintenance requirements for market value separate accounts supporting contracts other than index contracts

(a) An insurance company shall hold sufficient assets as a reserve in the general account, separate account, or supplemental accounts, as appropriate, such that the market value of the assets held in the separate account, plus the market value of any supplemental account, plus assets held in the general account as a reserve for guaranteed contract liabilities (valued in accordance with section 38a-78 of the Connecticut General Statutes), less the deductions provided for in subsection (b) of this section, equals or exceeds the value of guaranteed contract liabilities determined in accordance with subsection (f) of this section.

(b) In determining compliance with the asset maintenance requirement and the reserve for guaranteed contract liabilities in accordance with subsection (a) of this section, the insurance company shall deduct a percentage of the market value of the separate account or supplemental account asset or an amount attributable to a replicated (synthetic asset) transaction as follows:

(1) For debt instruments, the percentage shall be the National Association of Insurance Commissioners asset valuation reserve “reserve objective factor,” as set forth in the instructions for the National Association of Insurance Commissioners Annual and Quarterly Statement Blank, but the factor shall be increased 50 percent for the purpose of this subdivision if the difference in durations of the assets and liabilities is more than 184 days;

(2) For assets that are not debt instruments, the percentage shall be the National Association of Insurance Commissioners asset valuation reserve “maximum reserve factor,” as set forth in the instructions for the National Association of Insurance Commissioners Annual and Quarterly Statement Blank; and

(3) For replicated (synthetic asset) transactions, the market value of the separate account or supplemental account assets shall be decreased by an amount equal to the asset valuation reserve for the transaction as if the transaction were occurring in the general account, determined in accordance with section 38a-78 of the Connecticut General Statutes; but to the extent that the National Association of Insurance Commissioners asset valuation reserve maximum reserve factor, as set forth in the instructions for the National Association of Insurance Commissioners Annual and Quarterly Statement Blank, was not used in determining the amount of the deduction, the amount of the deduction shall be increased 50 percent for purposes of this subdivision.

(c) To the extent that guaranteed contract liabilities are denominated in the currency of a foreign country and are supported by separate account or supplemental account assets denominated in the currency of the foreign country, the percentage deduction for these assets under subsection (b) of this section shall be equal to the percentage deduction for a substantially similar investment denominated in the currency of the United States.

(d) To the extent that guaranteed contract liabilities are denominated in the currency of the United States and are supported by separate account or supplemental account assets denominated in the currency of a foreign country, and to the extent that guaranteed contract liabilities are denominated in the currency of a foreign country and are supported by separate account or supplemental account assets denominated in the currency of the United States, the deduction for debt instruments and replicated (synthetic assets) transactions under subsection (b) of this section shall be increased by 15 percent of its market value unless the

currency exchange risk has been adequately hedged, in which case the percentage deduction under subsection (b) of this section shall be increased by one-half percent. No guaranteed contract liabilities denominated in the currency of a foreign country shall be supported by separate account or supplemental account assets denominated in the currency of another foreign country without the approval of the insurance commissioner. For purposes of this subsection, the currency exchange rate on an asset is deemed adequately hedged if:

(1) It is an obligation of a jurisdiction that is rated in one of the two highest rating categories by an independent, nationally-recognized United States rating agency acceptable to the insurance commissioner or other governmental unit of the jurisdiction, or is organized under the laws of the jurisdiction; and

(2) At all times, the principal amount and scheduled interest payments on the principal are hedged against the United States dollar pursuant to contracts or agreements that are:

(A) Issued by or traded on a securities exchange or board of trade regulated under the laws of the United States, Canada, or a province of Canada;

(B) Entered into with a United States banking institution that has assets in excess of \$5 billion and has obligations outstanding, or has a parent corporation that has obligations outstanding, rated in one of the two highest rating categories by an independent, nationally-recognized United States rating agency, or with a broker-dealer registered with the Securities and Exchange Commission that has net capital in excess of \$250 million;

(C) Entered into with any other banking institution that has assets in excess of \$5 billion and that has obligations outstanding, or has a parent corporation that has obligations outstanding, rated in one of the two highest rating categories by an independent, nationally-recognized United States rating agency and that is organized under the laws of a jurisdiction that is rated in one of the two highest rating categories by an independent, nationally-recognized United States rating agency; or

(D) Entered into with an entity permitted under Title 38a of the Connecticut General Statutes enumerating permitted counterparties for currency hedging transactions.

(e) All or a portion of the amount needed to comply with the asset maintenance requirement may be allocated to one or more supplemental accounts. If the account contract or applicable law provides that the assets in the separate account shall not be chargeable with liabilities arising out of any other business of the insurance company, the insurance company shall maintain in a supplemental account or the general account the amount of any account assets in excess of the sum of the amounts contributed (net of withdrawals) by the contract holder, and the earnings attributable to the amounts contributed (net of withdrawals) by the contract holder.

(f) For purposes of this section, the minimum value of guaranteed contract liabilities is defined to be the sum of the expected guaranteed contract benefits, each discounted at a rate corresponding to the expected time of payment of the contract benefit that is not greater than the rate supportable by the expected return from the separate account and any supplemental account assets as described in section 38a-459-12(d)(5) of the Regulations of Connecticut State Agencies or as described in the actuarial memorandum. No rate described in this subsection shall exceed the blended spot rates.

(g) In calculating the minimum value of contract benefits :

(1) All guaranteed contract benefits potentially available to the contract holder shall be

considered in the valuation process and analysis, and the reserve held shall be sufficient to fund the greatest present value of each independent guaranteed benefit stream, including guaranteed annuitization options available.

(2) To the extent that future cash flows are dependent upon the benefit responsiveness features of an employer-sponsored plan, a best estimate or an estimate based on the insurance company's experience shall be used in the projections of the future cash flows. In addition, the valuation actuary shall periodically review the actual experience under the contract to validate the assumptions used. In projecting cash flows for contingent benefits involving mortality, mortality tables for these benefits prescribed or authorized by applicable law shall be utilized.

(3) The minimum value of guaranteed contract benefits under a contract issued to a pooled fund representing multiple employer-sponsored plans shall be determined so as to reflect projected plan sponsor contract value withdrawals available to the master plans in such pooled fund. Projections of such future cash flows shall take into account known plan sponsor withdrawals and an estimate of future plan sponsor withdrawals. The estimate shall be based on company experience and other relevant criteria and shall include a margin for adverse deviation from such company experience and other relevant criteria. An insurance company should determine a single valuation rate, consistent with subsection (f) of this section, that shall be determined equal to the lesser of the (i) expected return from the separate account or (ii) blended spot rate based on the duration of the separate account. The single valuation rate shall be used to model future market values of the separate account. Future credited interest rates shall be modeled according to the contractually defined crediting rate formula. Modeled future contract values shall reflect modeled future market values, modeled future credited interest rates, known future plan sponsor withdrawals, the estimate of future plan sponsor withdrawals, future withdrawals consistent with subdivision (2) of this subsection, and any remaining final payment at the modeled contract termination date. The present values of all withdrawals and termination payments modeled under this subdivision shall be discounted by using the single valuation rate and the modeled times of those withdrawals and payments. The sum of these present values shall be deemed the minimum value of the guaranteed contract liabilities for a pooled fund contract.

(Adopted effective June 1, 2002; Amended December 8, 2017)