When ING USA Annuity and Life Insurance Company issues an annuity, one of the risks the company faces is the chance that contract owners will want to withdraw money from their annuities at a time when the market value of the investments backing their annuities is low.* The market value adjustment (MVA) provision allows contract owners to share some of that risk.

The MVA can increase or decrease the accumulation value of an annuity only if more than the free withdrawal amount is withdrawn or the contract is surrendered before the end of the guarantee period. Because the company and the contract owner share the risk on MVA annuities, a higher interest rate can usually be paid on MVA annuities than on similar annuities without MVAs.

The amount of the external index MVA is determined by a mathematical formula that measures changes in the interest rate environment since the contract was purchased.

Before the end of the guaranteed period, whenever more than the free withdrawal amount is withdrawn or the client surrenders the contract, the company makes a market value adjustment to the amount withdrawn to reflect changes in the interest rate environment since the beginning of the guaranteed period. The external index used to track changes in the interest rate environment is the Treasury Constant Maturity Series with a length equal to the guaranteed period. It is computed by the Federal Reserve and is published weekly in the Federal Reserve Statistical Release. The index rate at the beginning of the guaranteed period is compared to the index rate at the time of withdrawal or surrender. The amount withdrawn or surrendered is then adjusted, either up or down, based on the difference between the index rates and the time remaining in the guarantee period. In no case will the accumulation value ever be less than the premiums paid, less withdrawals, accumulated at least 1.5%.

Let’s look at an example (5-Year Guaranteed Period).

If your client places $100,000 into a contract with an interest rate of 4%, the accumulation value in three years will be $112,486. (Assume that the 5-year external index is 3% at issue.)

What if the client now chooses to surrender the contract at the end of the third year?

The company will first apply the MVA to the accumulation value. If the 5-year external index is 2% at this time, the MVA factor will be 0.0197, which means the company will increase your client’s accumulation value by 1.97%. If, on the other hand, the 5-year external index is 4%, the MVA factor will be -0.0191 and the company will decrease your client’s accumulation value by 1.91%.

Let’s take a look at the actual formula:

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\text{Market Value Adjustment} = \frac{(1 + a)^n}{(1 + b)^n} - 1
\]

* Withdrawals before age 59 1/2 may be subject to a 10% IRS penalty tax.