

# Understanding MVA

(Market Value Adjustment)

The MVA is essentially a comparison between the interest rate environment at the time the contract was issued and the interest rate environment at the time that it's surrendered. Generically, the interest rate environment is represented by a Treasury Constant Maturity Series (TCMS) rate with a time to maturity equal to the length of the contract. For instance, in a 5-year contract with a 5-year rate guarantee, the Carrier is comparing the 10 year TCMS rate at issue to the 10 year TCMS rate at the time of surrender.

To fund a fixed rate product, the Carrier is essentially purchasing a long term bond/investment. If they have to sell that investment prior to the end of the term, there is market risk in doing so, which is what the MVA provides a buffer to. Let's say, for example, that the Carrier purchased a long term bond that was paying 5%. If the client chose to surrender the contract 5 years later when a bond with the same characteristics was paying 7%, the Carrier is going to have to take a loss to get rid of that investment because no one would pay full price for the 5% bond when, for the same price, they could get one paying 2% higher. That loss is passed on to the client. It also works the opposite way. If the Carrier had a bond that was paying 5% and the client chose to surrender the contract 5 years later when a bond with the same characteristics was paying 3%, they're going to profit from getting rid of that investment because the market will pay more for their bond because it is paying more than the going rate. That profit is also passed on to the client.

So generically, the rate environment has a see-saw effect on the MVA. When compared to the initial MVA rate, if the current MVA rate is higher, the adjustment will be negative, and the higher it is the more negative it will be. If the current MVA rate is lower than the initial MVA rate, the adjustment will be positive, and the lower it is the more positive it will be.

## Resources

TCMS rates are stored on the IRAs website. [Click here to access](#). Most carriers update their MVA current rate once a month on the 1st of every month. The rate they use is the rate effective 5 business days prior to the beginning of that month. (For example in May, for a contract with a 10 year rate guarantee, they would use the 10 year TCMS rate effective on April 24th, which is 5 business days prior to the beginning of the month.)



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