



FILING NOTICE 2012-2

DATE: September 19, 2012

FROM: Karen Z. Schutter
IIPRC Executive Director

RE: Rider Charges for Guaranteed Living Benefit Compliance with Non-variable Annuity Nonforfeiture Requirements

Statutory References: Articles VIII(4) and X of the *Interstate Insurance Product Regulation Compact* as adopted by Member States.

Operating Procedure References: Section 103 of the *Operating Procedure for the Filing and Approval of Product Filings*.

Uniform Standards References: *Additional Standards for Guaranteed Living Benefits for Individual Deferred Non-Variable Annuities (IIPRC-A-02-I-GLB)*; and *Individual Deferred Non-Variable Annuity Contract Standards (IIPRC-A-02-I)* (“Core Standards”).

Purpose: *Filing Information Notices explain steps or clarifications in the IIPRC’s process for filing and review of product filings under the applicable Uniform Standards. This Filing Information Notice only applies to the Uniform Standards referenced above.*

BACKGROUND:

The Interstate Insurance Product Regulation Commission (“IIPRC”) has adopted uniform standards covering individual deferred non-variable annuity contracts and associated benefit features as referenced above. The purpose of this Filing Information Notice is to provide guidance for nonforfeiture compliance for rider charges associated with guaranteed living benefits for individual deferred non-variable annuities.

The Core Standards require a demonstration and certification of compliance with the NAIC Standard Nonforfeiture Law for Deferred Annuities, NAIC Model Law #805, as modified by Paragraph (1)(f) of §1B of that standard. These nonforfeiture requirements (Model Law #805 § 4.A) limit the minimum value of a contract to an accumulation of 87.5% of gross considerations less prior withdrawals or partial surrenders and an annual contract charge, accumulated at specified minimum interest rates.

Section 11 of the Model Law #805 allows considerations for specified additional benefits to be disregarded in ascertaining the minimum nonforfeiture amounts. These specified additional



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benefits are explicitly listed as “additional benefits payable in the event of total and permanent disability, as reversionary annuity or deferred reversionary annuity benefits, or as other policy benefits additional to life insurance, endowment and annuity benefits”. (emphasis added).

The Guaranteed Living benefits are considered annuity benefits. As such, the charges for these additional benefits cannot be disregarded when determining compliance of the product with the minimum value requirements.

An additional benefit form can apply charges to the account value of a deferred non-variable annuity. The Model Law #805 §4.A minimum value requirements **do not allow for any reductions in minimum value for the rider charges. Rider charges are not withdrawals for purposes of this calculation.**

FILING PROCEDURES

To facilitate the submission and review of a product filing that contains guaranteed living benefits as part of a non-variable annuity contract, the actuarial memorandum should clearly outline how the rider charges impact the base policy values and nonforfeiture compliance of the combined policy and additional benefit feature.

One acceptable method of outlining compliance is to confirm that, per the form provisions, the charges for the additional benefit features are not included in the calculation of the minimum guaranteed values of the contract.