

## **INDIVIDUAL DEFERRED NON-VARIABLE ANNUITY CONTRACT STANDARDS**

**Scope:** These standards apply to an individual deferred non-variable annuity contract that provides for a single premium, modified single premium, fixed or flexible premium payments over the life of a contract or for a limited payment period, and that provides for all funds to be held in the general account. The standards do not apply to an individual deferred non-variable annuity contract that provides for indexing, bonuses, modified guaranteed ~~annuities, or~~ market value adjustments ~~annuities~~, guaranteed death benefits, or guaranteed living benefits.

**Drafting Note:** Subgroup will return to the scope section above after it has included any additional benefit features.

As used in these standards the following definitions apply:

“Account value” is the total amount of premium paid, adjusted by partial withdrawals, specified charges and expenses, accumulated at interest periodically credited by the company, but at no less than the guaranteed minimum interest rate.

“Annuity value” (also called “maturity value” in the nonforfeiture model law referred to in these standards) is account value unless otherwise described in the contract.

“Cash surrender value” is the cash value reduced by indebtedness.

“Cash value” is the account value less any surrender charges and any final charges and expenses.

“Modified single premium” means a single premium paid in installments during the first contract year.

### **Drafting Notes:**

Other terms may be used in the contract provided they are consistent.

Although references to “age” or “annuitant” are being made in these standards, such references do not preclude the contract from having more than one annuitant.

The references to “contract” do not preclude Fraternal Benefit Societies from substituting “certificate” in their forms.

### **ADDITIONAL SUBMISSION REQUIREMENTS**

The following additional filing submission requirements shall apply:

- (1) All forms filed for approval shall be included with the filing. Changes to a previously approved form shall be highlighted. The specifications page of a contract shall be completed with hypothetical data that is realistic and consistent with the other contents of the contract and any required actuarial memorandum in support of nonforfeiture values.

- (2) If a filing is being submitted on behalf of a company, a letter or other document authorizing the firm to file on behalf of the company shall be included with the filing.
- (3) If the filing contains an insert page, an explanation of when the insert page will be used should be included in the filing.
- (4) If the specifications page of the contract contains variable items, the submission shall include the Statement of Variability. The submission shall also include a certification that any change or modification to a variable item shall be administered in accordance with the requirements in the Variability of Information section, including any requirements for prior approval of a change or modification.
- (5) If the contract provides for a benefit waiving surrender charges contingent on a declared interest rate, the company shall provide a certification that the owner will be provided a timely notification when the declared interest rate declines to a point at which the waiver of surrender charge benefit is available.
- (6) Include a certification signed by a company officer that the contract has a minimum Flesch Score of 50.
- (7) An actuarial memorandum shall be prepared, dated and signed by the member of the American Academy of Actuaries who provides the following information concerning the calculation of the nonforfeiture values:
  - (a) A description of the contract and contract provisions that affect nonforfeiture values;
  - (b) All maximum benefit, surrender and expense charges;
  - (c) The range of issue ages;
  - (d) The maximum maturity date. For contracts where the maturity date may not be changed at the option of the owner, this date is the fixed maturity date;
  - (e) A description of the basis used in the establishment of the initial nonforfeiture rate. "Basis" in this context means the specified period over which an average is computed that produces the value of the 5 Year Constant Maturity Treasury (CMT) Rate and also the period for which the initial nonforfeiture rate so determined will apply. (If there is no redetermination of the nonforfeiture rate under the contract, the period the initial nonforfeiture rate will apply may be the entire duration of the contract). As defined in these standards, pursuant to the NAIC Annuity Nonforfeiture Model Regulation, model #806, "nonforfeiture rate" is the interest rate used in determining the minimum nonforfeiture amount. This will be determined at issue (initial nonforfeiture rate) and, if applicable, for each subsequent redetermination period (redetermination nonforfeiture rate).
  - (f) A description of the redetermination method, if any, under the contract, including the redetermination date, basis, and period of applicability for all future redetermination nonforfeiture rates applicable to any values under the contract.

- (g) A nonforfeiture demonstration that the values of the contract comply with the NAIC Standard Nonforfeiture Law for Individual Deferred Annuities, model #805. The free partial withdrawal provision of the contract may be used in the demonstration of compliance, if applicable. The nonforfeiture calculations shall be presented in the format prescribed in Appendix A of these standards;
  - (h) Sample calculations of any nonforfeiture values for representative issue ages including issue age 60 if within the issue age range. The calculations shall properly reflect [partial](#) withdrawal amounts made during the surrender charge period that are not subject to any surrender charge;
  - (i) Certification as to the compliance with the NAIC Standard Nonforfeiture Law for Individual Deferred Annuities, model #805; and
  - (j) Certification that the procedures used in the determination and, if applicable, redetermination of the contract nonforfeiture rate or rates applicable to any values under the contract are in compliance with the NAIC Annuity Nonforfeiture Model Regulation, model # 806.
- (8) Certification by a company officer that written request will be made to and written approval received from the chief insurance regulator of the state of domicile of the company prior to the company exercising any contractual right to defer the payment of any cash [surrender](#) value, [partial](#) withdrawal, or loan value for a period of not more than six months.
- (9) If the contract is for use with more than one plan, the submission shall include a separate set of uniquely numbered specifications pages for each plan being submitted for approval, along with a separate actuarial memorandum for each plan. The company may not use the same contract form to provide alternate plans by making any features and benefits described in the contract as inapplicable by a zero entry or by indicating that the benefit is not applicable on the specifications page or in the contract. For example, the use of one contract with and without surrender charges is unacceptable.
- (10) A description of any innovative or unique features of each contract form.

## **VARIABILITY OF INFORMATION**

- (1) The company may identify items that will be considered variable only in the specifications page. The items shall be bracketed or otherwise marked to denote variability. The submission shall include a Statement of Variability that will discuss the conditions under which each variable item may change.
- (2) Any change or modification shall be limited to only new issues of the contract and shall not apply to in force contracts.
- (3) The following items shall only be changed upon prior approval:
  - (a) Guaranteed minimum interest rates unless:

- (i) The guaranteed minimum interest rate is equal to or greater than the nonforfeiture rate;
  - (ii) The lower end of the range of the guaranteed minimum interest rate is not less than 3%; or
  - (iii) The lower end of the range of the guaranteed minimum interest rate is less than 3% and the minimum nonforfeiture value parameters are disclosed in the contract as required in Item (4) under NONFORFEITURE VALUES ~~whenever the contract guaranteed minimum interest rate is less than 3%~~;
- (b) Nonforfeiture rate redetermination method;
  - (c) Guaranteed maximum expense charges;
  - (d) Guaranteed maximum surrender charges;
  - (e) Guaranteed maximum partial withdrawal charges;
  - (f) Guaranteed annuity purchase rates;
  - (g) Death benefit available under the contract; and
  - (h) Minimum premium amounts for any contract with a flat contract fee.
- (4) In addition to the items listed in Paragraph (3) above, a change or modification to any other item not specifically listed that may affect the derivation and compliance of contract values with any required minimum nonforfeiture values shall also be subject to prior approval. All submissions for approval of a change shall be accompanied by a demonstration, if applicable, signed by a member of the American Academy of Actuaries, that the contract continues to comply with the NAIC Standard Nonforfeiture Law for Individual Deferred Annuities, model #805.
- (5) The company may also identify product specifications that may be changed without prior notice or approval, as long as the Statement of Variability presents reasonable and realistic ranges for the item. These items include interest rate guarantee periods, any redetermined nonforfeiture rate, persistency of anniversary interest rates or credits, tiering levels, expense charges, minimum premium amount for any contract that does not provide for a flat contract fee, maximum premium amount, minimum partial withdrawal amounts, minimum loan amounts, amounts available for any penalty free partial withdrawals, charges for supplemental benefits and options, and any ages assumed in the calculations of benefits and options. A zero entry in a range of values on the specifications page for tiering levels, expense charges, or other fees applicable under the contract is acceptable. A zero entry in a range of values on the specifications page for any benefit or credit provided for in the language of the contract is unacceptable. Any change to a range requires a refiling for prior approval and shall be accompanied by a demonstration, if applicable, signed by a member of the American Academy of Actuaries, that the contract continues to comply with the NAIC Standard Nonforfeiture Law for Individual Deferred Annuities, model #805.

- (6) Notwithstanding Paragraph (1) above, items such as the insurance department address and telephone number, company address and telephone number, officer titles, and signatures of officers located in other areas of the contract may be denoted as variable and changed without notice or prior approval.

## **READABILITY REQUIREMENTS**

- (1) The contract text shall achieve a minimum score of 50 on the Flesch reading ease test or an equivalent score on any other approved comparable reading test. See Appendix B for Flesch methodology.
- (2) The contract shall be presented, except for specifications pages, schedules and tables, in not less than ten point type, one point leaded.
- (3) The style, arrangement and overall appearance of the contract shall give no undue prominence to any portion of the text of the contract or to any endorsements or riders.
- (4) The contract shall contain a table of contents or an index of the principal sections of the contract, if the contract has more than 3,000 words printed on three or fewer pages of text or if the contract has more than three pages regardless of the number of words.

## **GENERAL FORM REQUIREMENTS**

### **COVER PAGE**

- (1) The full corporate name, including city and state, of the company shall appear in prominent print on the cover page of the contract. Examples of prominent print include print that is in all capital letters, contrasting color, underlined or otherwise differentiated from the other type in the form.
- (2) A marketing name or logo may be also used on the contract provided that the marketing name or logo does not mislead as to the identity of the company.
- (3) The company's complete mailing address for the home office or the office that will administer the contract shall appear on the cover page of the contract. The cover page of the contract shall include a telephone number of the company and, if available, some method of Internet communication. The telephone number of the insurance department where the contract is delivered or issued for delivery is also required on either the cover page or the first specifications page.
- (4) Two signatures of company officers shall appear on the cover page of the contract.
- (5) The contract shall contain a right to examine provision that shall appear on the cover page of the contract or be visible without opening the contract.
- (6) A form identification number shall appear at the bottom of the form in the lower left hand corner of the form. The form number shall be adequate to distinguish the form from all others used by

the company. The form number shall include a prefix of ICCxx (where xx represents the year the form was submitted for filing).

- (7) The contract shall contain a brief description that shall appear in prominent print on the cover page of the contract or is visible without opening the contract. The brief description shall contain at least the following information:
  - (a) A caption of the type of annuity coverage provided; for example, flexible premium deferred annuity contract, fixed premium deferred annuity contract, single premium deferred annuity contract, modified single premium deferred annuity contract, or limited payment period flexible premium deferred annuity contract.
  - (b) An indication as to whether the contract is participating or nonparticipating.
  - (c) An indication that the contract contains a benefit waiving surrender charges, if applicable.

### **SPECIFICATIONS PAGE**

- (1) The specifications page shall include the amount of the single or initial premium to be paid; the date, schedule and mode of premiums (if applicable); and any limitations on premium amounts and/or time frames applicable to the payment of premiums.
- (2) The specifications page shall disclose all charges used in determination of the account value, [cash value](#), cash surrender value, annuity value and death benefit.
- (3) The specifications page shall include any guaranteed minimum interest rates and their duration. In the situation where the guaranteed minimum interest rate under the contract is tied to the nonforfeiture rate and the nonforfeiture rate is subject to redetermination, the guaranteed minimum interest rate shown on the specifications page shall be the initial guaranteed minimum interest rate.
- (4) If the nonforfeiture rate under the contract is to be redetermined, the specifications page shall disclose the initial nonforfeiture rate and the period of redetermination. If the guaranteed minimum interest rate is tied to the nonforfeiture rate, a statement in prominent print shall be included to the effect that the guaranteed minimum interest rate under the contract may change after the indicated period of redetermination.
- (5) The specifications page shall include the date annuity payments are scheduled to begin under the contract i.e. the maturity date ~~or annuity date~~.
- (6) If the contract does not provide any cash surrender [value](#) benefits or death benefits prior to annuitization, a statement to that effect shall be included in prominent print on the cover page or the first specifications page.
- (7) If in any year the death benefit is less than the account value, a statement to that effect shall be included in prominent print on the cover page or the first specifications page.

(8) If the contract utilizes the minimum nonforfeiture values under the NAIC Standard Nonforfeiture Law for Individual Deferred Annuities, model #805, in the determination of the minimum contract values applicable under the contract, the minimum nonforfeiture value parameters (expense loads and initial nonforfeiture rate) shall be disclosed on the specifications page.

## **FAIRNESS**

- (1) The contract shall not contain inconsistent, ambiguous, unfair, inequitable or misleading clauses, provisions that are against public policy as determined by the Interstate Insurance Product Regulation Commission, or contain exceptions and conditions that unreasonably affect the risk purported to be assumed in the general coverage of the contract.

## **CONTRACT PROVISIONS**

### **AMENDMENTS**

- (1) The contract shall not provide for unilateral amendments that reduce or eliminate benefits or coverage, or impair or invalidate any right granted to the owner under the contract, except as stated in Paragraph (2) below and for amendments to conform to changes in any applicable provisions or requirements of the Internal Revenue Code.
- (2) The contract may permit the company to make unilateral changes in the contract for guaranteed annuity purchase rates for any new premiums received after issue and interest credited to those amounts. For contracts that reserve the right to make such unilateral changes, the contract and any tables of guaranteed annuity purchase rates shall clearly indicate that any new premiums received may be subject to different guarantees and shall provide for advance notification of the change. The contract also shall provide that the change shall apply only to any new premiums received, and interest credited to those amounts. The change shall be made by the use of an endorsement subject to the applicable prior approval requirement.

**Drafting Note:** These standards are modified, as required or permitted by law, to enable fraternal to implement their respective articles and bylaws. See Appendix C.

### **ARBITRATION**

- (1) Only arbitration provisions that permit voluntary post-dispute binding arbitration shall be allowed in contract forms. With respect to such a provision, the following guidelines apply:
  - (a) Arbitration shall be conducted in accordance with the rules of the American Arbitration Association ("AAA"), before a panel of 3 neutral arbitrators who are knowledgeable in the field of life insurance and appointed from a panel list provided by the AAA.
  - (b) Arbitration shall be held in the city or county where the contract owner or beneficiary lives.

- (c) The cost of arbitration shall be paid by the company, to include any deposits or administrative fee required to commence a dispute in arbitration, as well as any other fee including the arbitrator's fee.
- (d) Where there is any inconsistency between these guidelines and AAA rules, these guidelines control.

**Drafting Note:** These standards are modified, as required or permitted by law, to enable fraternal to implement their respective articles and bylaws. See Appendix C.

## **ASSIGNMENT**

- (1) The contract shall contain an assignment provision. The contract shall not include any restrictions on the availability of contract assignments, except in situations where restrictions are required for purposes of satisfying applicable laws or regulations.
- (2) The contract shall describe procedures for assignments and shall state that assignments, unless otherwise specified by the owner, shall take effect on the date the notice of assignment is signed, subject to any payments made or actions taken by the company prior to receipt of this notice.
- (3) The contract may state that the company shall not be liable for the validity of the assignment.

**Drafting Note:** Restrictions on assignment in contracts such as right of first refusal or first offer provisions are prohibited by Item (1).

## **BENEFICIARY**

- (1) The contract shall contain a beneficiary provision. The provision shall describe the procedures for designating or changing the beneficiaries, or for selecting default beneficiaries as may be necessary, and indicating when such designation is effective. The contract shall not include any restriction on change of beneficiary other than for purposes of satisfying applicable laws or regulations.
- (2) The contract shall state that changes in beneficiary, unless otherwise specified by the owner, shall take effect on the date the notice of change is signed by the owner, subject to any payments made or actions taken by the company prior to receipt of this notice.
- (3) If irrevocable beneficiaries are referenced in the contract, the contract shall explain that such a beneficiary cannot be changed without the consent of the irrevocable beneficiary.

## **CASH VALUE TABLE**

- (1) For any cash value table based on the net premiums (gross premiums minus a contract expense charge), both the gross and the net premiums shall be disclosed on the page showing the cash value table. Cash value tables are not required to be included, however, if included in the contract, only guaranteed cash values shall be shown.

## CONFORMITY WITH INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION STANDARDS

- (1) The contract shall state that it was approved under the authority of the Interstate Insurance Product Regulation Commission and issued under the Commission standards. The contract shall also state that any provision of the contract that on the provision's effective date is in conflict with Interstate Insurance Product Regulation Commission standards for this product type is hereby amended to conform to the Interstate Insurance Product Regulation Commission standards for this product type as of the provision's effective date.

## CONTRACT GUARANTEES

- (1) Any interest rate used in the determination of the account value, cash value, cash surrender value, annuity value and death benefit, and stated in the contract shall be guaranteed. Nonguaranteed interest rates shall not be included in the contract.
- (2) Any expense charges, surrender charges and partial withdrawal charges used in determination of the account value, cash value, cash surrender value, annuity value and death benefit, and stated in the contract shall be guaranteed. Nonguaranteed expense charges, surrender charges, and partial withdrawal charges shall not be included in the contract.
- (3) The contract shall indicate which items are guaranteed and which may be changed, at the discretion of the company. The right to change any of these items is subject to any guarantees with respect to the item and any change shall be based on future anticipated experience.

## CONTRACT VALUES

- (1) The contract shall define and describe the method of calculating all values and benefits provided under the contract including, but not limited to, values payable upon death, surrender of the contract for cash, partial ~~surrender~~[withdrawal](#), and election of an income option. The contract shall also include a complete description of all fees, charges and credits used to determine these values.

## DEFERRAL OF PAYMENTS

- (1) The contract shall describe any conditions and/or limitations on [the deferral of any](#) amounts payable upon surrender, [partial](#) withdrawal, election of a loan, or death.
- (2) The company may reserve the right to defer [payment of](#) surrenders, [partial](#) withdrawals and loans for a period of six months. There shall be no deferral of payment of any portion of the death benefit.

## ENTIRE CONTRACT

- (1) The contract shall contain a provision regarding what constitutes the entire contract between the company and the owner. No document may be included by reference.

- (2) If the application is to be a part of the contract, the entire contract provision shall state that the application is a part of the contract. All statements made by the applicant for the issuance of the contract shall, in the absence of fraud, be deemed representations and not warranties.

**Drafting Note:** These standards are modified, as required or permitted by law, to enable fraternal to implement their respective articles and bylaws. See Appendix C.

## **GRACE PERIOD**

- (1) Fixed premium contracts shall contain a provision providing a grace period of at least 31 days.
- (2) For fixed premium contracts, the grace period provision shall describe what happens upon the failure to make premium payments during the grace period.

## **INCONTESTABILITY**

- (1) The contract shall contain an incontestability provision and include the conditions of the provision.
- (2) Coverage may be contested on a statement contained in an application made a part of the contract except on the basis of age and sex. If the company expects to rely on an application to contest the contract, the company shall attach ~~to or endorse~~ the application as a part of the contract. The statement on which the contest is based shall be material to the risk accepted or the hazard assumed by the company.
- (3) The contestable period shall be no greater than two years from the date of issue of the contract during the lifetime of the person, or each of the persons, as to whom the application statements are required.
- (4) The contract may allow a separate contestable period no greater than two years after the date of any change requiring underwriting. The contest shall be limited to the change and the statements provided for the change.
- (5) The contract may only include the following exceptions to the incontestability provision:
  - (a) At the option of the company, provisions related to benefits in the event of total and permanent disability; and
  - (b) Fraud in the procurement of the contract, when permitted by applicable law in the state where the contract is delivered or issued for delivery.

## **LOANS**

- (1) A contract that develops cash value may provide for a loan provision.
- (2) The contract shall contain the conditions of a loan, if loans are available, including the following:

- (a) The contract shall contain a statement that the contract shall be the sole security for the loan.
- (b) The maximum loan amount shall never be greater than the cash surrender value of the contract, including the cash surrender value of any paid up additions. The contract shall indicate any maximum loan amount required under federal law, either as a dollar amount, a percentage of the cash surrender value, or a combination of both.
- (c) The contract shall describe the loan interest rate. The loan interest rate plus any added administrative fees shall be at a maximum fixed rate of 8% in arrears or a variable rate determined in accordance with the NAIC Model Policy Loan Interest Rate Bill, model #590. The company may not charge any additional fees or expenses for the loan.
- (d) The contract may provide that if interest on any indebtedness is not paid when due it shall be added to the existing indebtedness and shall bear interest at a rate no greater than the loan rate.
- (e) The contract may provide that existing indebtedness, including any due and accrued interest, may be deducted from the loan value or the proceeds of the loan. The contract may also provide that interest will be collected in advance to the end of the current contract year.
- (f) The contract shall permit repayment of the loan and describe any conditions related thereto.
- (g) The contract shall describe the effect of outstanding loans on the death benefit, cash [surrender](#) value and maturity value.
- (h) The contract may provide that if and when the total indebtedness including interest due and accrued equals or exceeds the cash value then the contract shall terminate, but not until at least 30 days' advance notice of termination shall have been mailed to the owner and any assignee of record.
- (i) The contract shall indicate the maximum number of loans allowed at any time, if any.
- (j) A description of how the interest rate credited to the portion of the ~~cash-account~~ value equal to the indebtedness is determined shall be included.

## **MATURITY DATE**

- (1) The contract may provide the owner with the right to change the maturity date. If the contract includes such a right and is intended to be tax qualified, the provision shall contain sufficient latitude to allow the contract to continue to be tax qualified.
- (2) The latest maturity date, if any, shall be defined in the contract.

## **MINIMUM PREMIUM/MAXIMUM PREMIUM**

- (1) The contract shall state the dollar amount of any minimum or maximum contract premium requirements.

### MISSTATEMENT OF AGE OR SEX

- (1) The contract shall contain a misstatement of age provision or, if the contract is written on a sex distinct basis a misstatement of age or sex provision, providing that the amount payable shall be such as the premium payments to the company would have purchased at the correct age or the correct age and sex.
- (2) Any overpayments/underpayments by the company on account of misstatement of age or sex shall, with interest at a rate specified in the contract but not exceeding 6%, be charged/credited against the current or next succeeding payments to be made by the company.
- (3) If there is more than one annuitant, the misstatement provision may provide that the amount payable may be adjusted due to the misstatement in the age or the age or sex, as appropriate, of any annuitant.

### NONFORFEITURE VALUES

- (1) The contract shall contain provisions at least as favorable to the owner as the following:
  - (a) A provision that upon cessation of payment of premiums under the contract, the company will grant a paid-up annuity benefit as specified in the contract. For single premium or modified single premium contracts, the company will grant a paid-up annuity benefit as specified in the contract.
  - (b) If the contract provides for a lump sum settlement at maturity or at any other time, a provision that upon surrender of the contract at or prior to the commencement of any annuity payments, the company will pay in lieu of a paid-up annuity benefit a cash surrender [value](#) benefit.
  - (c) A statement of the mortality table, if any, and interest rates used in calculating any minimum paid-up annuity, cash surrender [values](#) or death benefits that are guaranteed under the contract, together with sufficient information to determine the amounts of such benefits. The sufficient information includes all expense, partial withdrawal and surrender charges.
  - (d) A statement that any paid-up annuity, cash surrender [values](#) or death benefits that may be available under the contract are not less than the minimum benefits required by the NAIC Standard Nonforfeiture Law for Individual Deferred Annuities, model #805.
  - (e) An explanation of the manner in which the paid-up annuity, cash surrender [values](#) or death benefits are altered by the existence of any additional amounts credited by the company to the contract, any indebtedness to the company on the contract or any prior [partial](#) withdrawals from ~~or partial surrenders of~~ the contract.
- (2) A contract may provide the following:

- (a) If no premiums have been received under a contract for a period of two full years and the portion of the paid-up annuity benefit at maturity on the plan stipulated in the contract arising from premiums paid prior to such period would be less than \$20 monthly, the company may, at its option, terminate the contract by payment in cash of the present value of such portion of the paid-up annuity benefit, calculated on the basis of the mortality table, if any, and interest rate specified in the contract for determining the paid-up annuity benefit, and by that payment shall be relieved of any further obligation under such contract.
  - (b) For single and modified single premium contracts, if the paid-up annuity benefit at maturity on the plan stipulated in the contract arising from premiums paid prior to such period would be less than \$20 monthly, the company may, at its option, terminate the contract by payment in cash of the present value of such portion of the paid-up annuity benefit, calculated on the basis of the mortality table, if any, and interest rate specified in the contract for determining the paid-up annuity benefit, and by that payment shall be relieved of any further obligation under such contract.
- (3) If the contract provides for the redetermination of the nonforfeiture rate applicable under the contract, the contract shall include a description of the redetermination method to be used, including the redetermination date, basis, and period of applicability for all future redetermination nonforfeiture rates.
  - (4) If the contract utilizes the minimum nonforfeiture values under the NAIC Standard Nonforfeiture Law for Individual Deferred Annuities, model #805, in the determination of the minimum contract values applicable under the contract, the minimum nonforfeiture value parameters (expense loads and initial nonforfeiture rate) shall be disclosed on the specifications page.

## **OWNERSHIP**

- (1) The contract shall contain an ownership provision. The provision shall describe the procedures for designating or changing the owner and indicating when the designation is effective. The contract shall not include any restriction on change of owner other than for purposes of satisfying applicable laws or regulations.
- (2) The contract shall state that changes in owner designation, unless otherwise specified by the owner, shall take effect on the date the notice of change is signed by the owner, subject to any payments made or actions taken by the company prior to receipt of this notice.
- (3) The contract shall state what happens on the death of the owner.

**Drafting Note:** Restrictions on change of owner in contracts such as right of first refusal or first offer provisions are prohibited by Item (1).

## **PARTIAL WITHDRAWAL**

- (1) A contract that develops cash values may provide for a partial withdrawal provision.

- (2) A contract shall contain the conditions applicable to a partial withdrawal.

## **PARTICIPATING CONTRACT**

A contract may be non-participating; however, if the contract is participating in the divisible surplus of the company, then the following shall apply:

- (1) The conditions of the participation shall be stated in the contract.
- (2) The contract shall provide that the company shall annually ascertain and apportion any divisible surplus.
- (3) The contract shall provide that the owner may receive any dividend paid in cash, unless the contract is intended to qualify under the Internal Revenue Code.
- (4) The contract shall describe the available dividend options. If the contract provides for more than one dividend option, the contract shall identify the automatic option.

## **REINSTATEMENT**

- (1) Fixed Premium contracts shall contain a reinstatement of the contract provision with respect to contracts for which the grace period has expired for nonpayment of premiums if the contract has not been surrendered and include the conditions of the reinstatement. The provision shall state that any other benefits provided by rider, amendment or endorsement terminating due to the lapse of the contract are covered under this provision.
- (2) The period of reinstatement may not be less than three years from the date of lapse.
- (3) Payment of overdue premiums may be required. Interest may be charged on overdue premiums at a rate not exceeding 6%.

## **REPORT**

- (1) The contract shall provide for the delivery, at least annually and without charge, of a report to the owner that serves to keep the owner advised as to the status of the contract and that provides any other information required under state or federal law, including the requirements of Items (2), (3) and (4) below.
- (2) The status report of the contract shall provide current information as of a date not more than four months prior to the date of mailing.
- (3) The contract shall provide for additional status reports to be made available to the owner upon request. The contract shall disclose the maximum charge for the report.
- (4) The contract shall state that the report shall contain at least the following information:
  - (a) The beginning and end dates of the current report period;

- (b) The account value, if any, at the beginning of the current report period and at the end of the current report period;
- (c) The amounts that have been credited or debited to the account value during the current report period. The credited and debited amounts must be identified by type; for example, premium payments, interest credits, persistency credits, expense charges, [partial](#) withdrawal amounts, withdrawal charges and cost of rider(s);

**Drafting Note:** Subgroup will return to subparagraph (c) above after it has included any additional benefit features.

- (d) The cash surrender value, if any, at the end of the current report period; and
- (e) The amount of outstanding loans, if any, at the end of the current report period.

## **RIGHT TO EXAMINE CONTRACT**

- (1) The Right to Examine Contract provision appearing on the cover page or that is visible without opening the contract shall include the following:
  - (a)
    - (i) If the contract is not a replacement contract, a period of ten days beginning on the date the contract is received by the owner, and at the discretion of the company a longer period may be filed; or
    - (ii) If the contract is a replacement contract, a minimum of thirty days beginning on the date the contract is received by the owner, or any longer period as may be required by applicable law in the state where the contract is delivered or issued for delivery;
  - (b) A requirement for the return of the contract to the company or the agent of the company;
  - (c) For the refund of any premiums if the contract is returned;

## **SETTLEMENT**

- (1) The contract shall specify a default settlement option at maturity. The default option shall be a life annuity with a period certain of at least five years unless otherwise provided under the Internal Revenue Code.
- (2) Whenever a death benefit is available under the contract, the contract shall contain a provision that settlement of the death benefit proceeds shall be made to the beneficiary upon receipt of due proof of death.

## **SETTLEMENT OPTIONS**

- (1) The contract shall contain a description of each type and form of settlement option provided in the contract. The guaranteed interest rate and mortality table, if applicable, being utilized for a designated settlement option shall be identified in the contract. In lieu of the interest rate and

mortality table disclosure, complete tables of guaranteed settlement option amounts may be included in the contract. If the company retains the right to change the guaranteed annuity purchase rates for any new premiums under the contract, this requirement shall apply to each set of guaranteed purchase rates used by the company under the contract. The effective date that applies to each set of purchase rates also shall be indicated.

- (2) The contract shall contain a provision stating that the annuity benefits at the time of their commencement will not be less than those that would be provided by the application of the cash surrender value to purchase a single premium immediate annuity contract at purchase rates offered by the company at the time to the same class of annuitants.

## **ADDITIONAL STANDARDS FOR FRATERNAL BENEFIT SOCIETIES**

The contract may include the following provisions:

### **MEMBERSHIP**

- (1) The certificate may include a provision stating that the annuitant and/or owner is a member and that the form that has been issued to evidence coverage is a certificate of membership and insurance.

### **MAINTENANCE OF SOLVENCY**

- (1) The certificate may include a provision setting forth the legal rights and obligations in the case of a fraternal's financial impairment.

## Appendix A

### GUIDELINES FOR APPENDICES A-1 AND A-2 FOR ANNUITY NONFORFEITURE MINIMUM VALUE COMPLIANCE

For Use With

#### INDIVIDUAL DEFERRED NON-VARIABLE ANNUITY CONTRACTS

(No Indexing, No Bonus Features, ~~Not~~ Modified Guaranteed/~~No~~ Market Value Adjustments, guaranteed death benefits, or guaranteed living benefits)

**Drafting Note:** Subgroup will return to the above to make any necessary adjustments after it has included any additional benefit features.

1. Compliance with the retrospective and prospective tests of nonforfeiture values shall be demonstrated based on minimum values that are the greater of:
  - i. Those using the contract guaranteed interest rates and maximum expense loads and
  - ii. Minimum nonforfeiture values based on a perpetual nonforfeiture rate of 3% per annum.If the contract utilizes the minimum nonforfeiture values in the determination of the minimum contract values applicable under the contract, the minimum nonforfeiture value parameters (expense loads and initial nonforfeiture rate) shall be disclosed on the specifications page.
2. For contracts where surrender charge scales are measured from the date of each premium payment (i.e. rolling surrender charges), minimum value compliance may be demonstrated assuming each premium payment is treated as a separate single premium contract. For purposes of determining the maturity date for each single premium, that date shall be the later of the tenth anniversary of the payment or the annuitant's 70<sup>th</sup> birthday unless the maturity date is fixed by the terms of the contract in which case the fixed maturity date should be used. If minimum value compliance is to be demonstrated in this fashion, the retrospective test minimum values shall be the greater of those based on the contract being treated either as a single contract providing for flexible premiums or as a single contract with each premium being considered a single premium contract.
3. For surrender charges measured from premium payment dates, the surrender charge percentages shown in Appendixes A-1 and A-2 for a contract year correspond to years measured from the date of each premium payment, not from the contract issue date.
4. The company must submit retrospective and prospective data, in the format prescribed in Appendixes A-1 and A-2, for whatever issue ages and premium payment patterns affect minimum value compliance.
5. Pursuant to Actuarial Guideline III, the maturity value for purposes of demonstrating compliance with the prospective (smoothness) test shall be the contract cash ~~surrender~~-value on the maturity date used for prospective test compliance.

6. Free withdrawal “window” periods shall be ignored for purposes of determining retrospective test compliance.
7. For purposes of demonstrating compliance with the prospective test and the maturity date used for that test, the “10<sup>th</sup> contract anniversary” or “the contract anniversary following the annuitant’s 70<sup>th</sup> birthday” should be considered as the first day of the year following the contract anniversary (not including any premium payments for that year) and the discounting process should be determined on a curtate (full integral year) basis.
8. CD annuity products, defined as those with surrender charges that periodically renew and credited interest rate guarantee periods that periodically renew, are compliant with the individual deferred annuity SNL tests provided:
  - i. The maturity date for prospective test nonforfeiture compliance is the later of the 10<sup>th</sup> anniversary of the issue date or the contract anniversary following the annuitant’s 70<sup>th</sup> birthday.
  - ii. The contract provides for a time period of at least 30 days at each renewal, during which the contract may be surrendered without surrender charges or other penalties.
  - iii. For prospective test compliance, testing should be performed only once at issue and the surrender charge should be set equal to zero (0) at every duration beyond the expiration of the initial interest guarantee period.
  - iv. In demonstrating prospective test compliance, for any period after the expiration of the first interest guarantee period, the guaranteed credited rate assumed should be the minimum rate guaranteed in the contract.
  - v. For a given interest guarantee period, the surrender charge percentage applicable at any renewal duration of that guarantee period should not exceed that for the comparable initial guarantee period duration.

Date: 11/16/07

As recommended by the Product Standards Committee

**APPENDIX A-1**

Deferred Non-Variable Annuity

Demonstration of Nonforfeiture Law Compliance – Retrospective Test

**Contract Form Specifications**

Issue Age:	60	Minimum Nonforfeiture Interest Rate:		3.00%			
		Minimum Contract Guaranteed Interest Rate(s):		4.00%			
Surrender Charge Type:	% Contract Value % Premium None	Measure Surrender Charges From:		Issue Date Premium Payment Date			
Free Withdrawal Type:	Contract Value Accumulated Interest Premiums Paid	Free Withdrawal %:		10.00%			
Contract Loads—>	% Premium:	5.00%	Per Contract:	\$30.00			
			Per Payment:	\$2.50			
Contract Year	<u>Premium *</u>	Guaranteed Contract Value EOY	Surrender Charge Percent	Surrender Charge	(A) Guaranteed Cash Value EOY	(B) NF Law Minimum Cash Value EOY	Excess (A)-(B)
1							
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\* For a modified single premium contract, all first contract year's planned premium payments shall be included as part of the initial premium.

**APPENDIX A-2**  
 Deferred Non-Variable Annuity  
 Demonstration of Nonforfeiture Law Compliance –Prospective Test

**Contract Form Specifications**

Issue Age:	60	Minimum Nonforfeiture Interest Rate:	3.00%
		Minimum Contract Guaranteed Interest Rate(s):	4.00%
Surrender Charge Type:	% Contract Value % Premium None	Measure Surrender Charges From:	Issue Date Premium Payment Date
Free Withdrawal Type:	Contract Value Accumulated Interest Premiums Paid	Free Withdrawal %:	10.00%
Contract Loads—>	% Premium:	5.00%	Per Contract: \$30.00 Per Payment: \$2.50

Contract Year	Premium **	Guaranteed Contract Value BOY	Surrender Charge Percent	Surrender Charge	(A)	(B)	Excess (A)-(B)
					Guaranteed Cash Value BOY	Discounted Maturity Value* <del>In-Respect of</del> Based on Premis to Date	
1							
•							
•							
•							
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\* Each Maturity Value is defined as the projected cash value, based on the guaranteed interest rate(s), on the maturity date, which is the first day following the later of (1) the 10th contract anniversary, and (2) the contract anniversary following the annuitant's 70th birthday, unless the maturity date is fixed by the terms of the contract, in which case the fixed maturity date should be used. Each Maturity Value is discounted to the beginning of the contract year (BOY) shown.

\*\* For a modified single premium contract, all first contract year's planned premium payments shall be included as part of the initial premium.

## **Appendix B Flesch Methodology**

The following measuring method shall be used in determining the Flesch score:

- (1) For contract forms containing 10,000 words or less of text, the entire form shall be analyzed. For contract forms containing more than 10,000 words, the readability of two, 200-word samples per page may be analyzed instead of the entire form. The sample shall be separated by at least 20 printed lines.
- (2) The number of words and sentences in the text shall be counted and the total number of words divided by the total number of sentences. The figure obtained shall be multiplied by a factor of 1.015.
- (3) The total number of syllables shall be counted and divided by the total number of words. The figure obtained shall be multiplied by a factor of 84.6.
- (4) The sum of the figures computed under (2) and (3) subtracted from 206.835 equals the Flesch reading ease score for the contract form.
- (5) For purposes of (2), (3), and (4), the following procedures shall be used:
  - (a) A contraction, hyphenated word, or numbers and letters, when separated by spaces, shall be counted as one word;
  - (b) A unit of words ending with a period, semicolon, or colon, but excluding headings and captions, shall be counted as a sentence; and
  - (c) A syllable means a unit of spoken language consisting of one or more letters of a word as divided by an accepted dictionary. Where the dictionary shows two or more equally acceptable pronunciations of a word, the pronunciation containing fewer syllables may be used.
- (6) The term “text” as used in this section shall include all printed matter except the following:
  - (a) The name and address of the company; the name, number or title of the contract; the table of contents or index; captions and sub-captions; specifications pages, schedules or tables; and;
  - (b) Any contract language that is drafted to conform to the requirements of any federal law or regulation; any contract language required by any collectively bargained agreement; any medical terminology; any words that are defined in the contract; and any contract language required by law or regulation; provided, however, the company identifies the language or terminology excepted by the paragraph and certifies, in writing, that the language or terminology is entitled to be excepted by this paragraph.
- (7) At the option of the company, riders, endorsements, applications and other forms made a part of the contract may be scored as separate forms or as part of the contract with which they may be used.

## **Appendix C**

### **Fraternal Benefit Societies**

Fraternal Benefit Societies (“fraternals”) are subject to separate fraternal codes in all jurisdictions due to their unique structure, operations and legal obligations. The Drafting Notes included under the Scope, AMENDMENTS, ARBITRATION and ENTIRE CONTRACT standards, the section entitled ADDITIONAL STANDARDS FOR FRATERNAL BENEFIT SOCIETIES, and Appendix C are included in the standards to allow fraternals to experience the benefits of participating in the single point of filing and review process that the Interstate Insurance Product Regulation Commission offers, without jeopardizing their ability to meet their unique obligations and to operate as required or permitted by law.

By law, a fraternal is defined by five basic elements:

1. One without capital stock;
2. One conducted solely for the benefit of its members and their beneficiaries by providing life, health and annuity benefits and by operating one or more social, educational, charitable, patriotic, or religious purposes for the benefit of members and others;
3. One that is a benevolent and charitable institution and not for profit;
4. One operated on a lodge system that may carry out charitable and other activities; and
5. One that has a representative form of government with a governing body and direct election of its members.

The laws governing fraternals impact the standards in several ways. Fraternals are required by law to issue insurance contracts that incorporate the laws of the Society and the application for membership. Thus, the contract must consist not only of the contract or certificate issued, and the application for insurance, but also the application for membership and the articles and bylaws. Further, the laws governing fraternals require or permit that the articles and bylaws address the structure of lodges, membership requirements, form of governance, grievance procedures, and eligible beneficiaries. Any amendments to the articles or bylaws made after issuance of a certificate must be applied consistently to all members retroactively. However, no amendment shall eliminate or reduce contractual benefits.

By law, fraternals are membership organizations. Because of this, the law refers to the insurance forms issued to members of a fraternal as “certificates” or “certificates of membership and insurance”. Further, due to the membership requirements, fraternal certificates often include a provision stating that the annuitant and/or owner is a member and that the form that has been issued to evidence coverage is a certificate of membership and insurance. In addition, fraternal certificates may include a Maintenance of Solvency provision setting forth the legal rights and obligations in the case of a fraternal’s financial impairment.