

## INDEX-LINKED CREDITING FEATURE FOR DEFERRED NON-VARIABLE ANNUITIES

Scope: These standards apply to index-linked crediting features that are built-in to individual deferred non-variable annuity contracts.

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### ADDITIONAL SUBMISSION REQUIREMENTS

The following additional filing submission requirements shall apply:

- (1) The actuarial memorandum submitted with the form shall include the following information:
  - (a) A description of the index or indices used as the basis for the interest credited to the contract, and all elements used in determining the credited rate from an index, including but not limited to, index-linked interest caps, participation rates, index allocations, interest allocations, periods, terms, floors, and margins. Any guarantees or ranges associated with these elements shall be included.
  - (b) An example showing the derivation of the credited rate based on an assumed value of each index and crediting method available under the contract;
  - (c) An opinion statement that the company's investments backing the contract are appropriate considering the index used and including confirmation that this opinion is based on the actuary's review of the Company's documented investment policy as it relates to index-linked annuities; and
  - (d) If the company chooses to take an additional reduction in the initial nonforfeiture rate in accordance with Section 4C of the NAIC Standard Nonforfeiture Law for Individual Deferred Annuities, model #805, a demonstration of compliance with Section 4C. Compliance shall be demonstrated as described in Section 7B(1)-(3) of the NAIC Annuity Nonforfeiture Model Regulation, model #806, and include the certification required by Section 7B(3) of that Model Regulation, which is attached as the Index-Linked Appendix. The certification shall include a statement by the company that it will also comply with the annual certification requirements of Section 7B(4) of the Model Regulation.

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### VARIABILITY OF INFORMATION

- (1) The following items shall only be changed upon prior approval:
  - (a) Index or indices used in determining the credited rate.
- (2) Guaranteed elements used in determining the credited rate from an index may be changed for new issues without prior notice or approval, as long as the Statement of Variability presents reasonable and realistic ranges for each guaranteed element. At issue a single value within the range filed for the guaranteed element shall be applicable for the life of

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the contract. Any change to the range filed for a guaranteed element 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 contracts issued within the new range comply with the NAIC Standard Nonforfeiture Law for Individual Deferred Annuities, model #805.

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## **GENERAL FORM REQUIREMENTS**

### **COVER PAGE**

- (1) 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 with an index-linked interest option, if the index account is not optional, then flexible premium deferred annuity contract with index-linked interest.
  - (b) Disclosure that while contract values may be affected by an external index or indices, the contract does not directly participate in any stock or equity investment, if applicable.

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### **SPECIFICATIONS PAGE**

- (1) The specifications page of the contract shall include the index or indices used.
- (2) The specifications page shall include any guaranteed elements used in determining the credited rate from an index and a statement, if applicable, that:
  - (a) Index-linked returns do not include the portion of returns generated by the underlying index that come from dividends; and
  - (b) The elements used in determining the credited rate from the index are not guaranteed and can be changed by the company, subject to the guarantees in the contract, and that any such changes can affect the return.

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## **CONTRACT PROVISIONS**

### **AMENDMENTS**

- (1) The contract may provide for amendments made pursuant to the Discontinuation of or Substantial Change to an Index section of the standards.

### CONTRACT GUARANTEES

- (1) The guaranteed interest rate shall be stated numerically, if possible, or, if not, by formula.
- (2) Values of any elements used in determining a credited rate from an index and which are used in determining the account value, cash surrender value, annuity value and death benefit and are stated in the contract shall be guaranteed. Values of nonguaranteed elements shall not be included in the contract.
- (3) The contract shall indicate which elements are guaranteed and which may be changed at the discretion of the company. The contract shall also indicate that the right to change any of these elements is subject to any guarantees with respect to the element and that any change shall be based on future anticipated experience.

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### DISCONTINUATION OF OR SUBSTANTIAL CHANGE TO AN INDEX

- (1) The contract shall contain a provision indicating what occurs when any index is discontinued or the calculation of an index is substantially changed, with the provision being labeled as such. The provision shall state that if the index is discontinued or if the calculation of the index is changed substantially, the company may substitute a comparable index subject to approval by the Interstate Insurance Product Regulation Commission. The contract shall also specify that, before a substitute index is used, the company shall notify the owner and any assignee of the substitution.
- (2) The approval shall be contingent on the company providing the IIPRC with either confirmation that the index has been discontinued or documentation of the substantial change to the index and the reasons supporting the need for the index to be discontinued.

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Deleted: **Drafting Note To The Reviewer:** The documentation referenced in the Discontinuation of or Substantial Change to an Index provision above anticipates receipt from the company of a complete package of information with respect to the discontinuation or change, including any information to be provided to the contract holder. ¶

## **Index-Linked Appendix**

### **Initial Actuarial Certification of Compliance for Index-Linked Annuities with the NAIC Model Annuity Nonforfeiture Model Regulation**

For use with Equity-Indexed (referred to by the Interstate Insurance Product Regulation Commission as Index-Linked) Annuity contract forms at time of filing.

I, (state name and professional designation) am responsible for evaluating compliance with the NAIC Model Standard Nonforfeiture Law for Individual Deferred Annuities and the NAIC Annuity Nonforfeiture Model Regulation for (name of insurance company). I have reviewed (identify contract form) and am familiar with the NAIC Standard Nonforfeiture Law for Individual Deferred Annuities and the NAIC Annuity Nonforfeiture Model Regulation as they pertain to equity-indexed annuities. I have also reviewed the methodology that will be used in calculating and setting assumptions for the additional reduction in nonforfeiture rate for equity-indexed annuities. Based on my review, I certify that the methodology used for (identify contract form) meets the minimum requirements of the NAIC Model Standard Nonforfeiture Law for Individual Deferred Annuities and the NAIC Annuity Nonforfeiture Model Regulation.

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(Name of actuary)

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(Signature of actuary)

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(Date of certification)