



MEMORANDUM

TO: Management Committee

FROM: Product Standards Committee

DATE: July 25, 2018

SUBJECT: Gap Analysis of Individual Life and Annuity Uniform Standards and Proposed Priorities for Management Committee Review

Pursuant to the request from the Management Committee, the Product Standards Committee (PSC) in coordination with the Compact Office has prepared a gap analysis of the existing individual life and annuity Uniform Standards. The PSC began its review by holding a series of public calls seeking input on the following questions:

1. What individual life or annuity products or benefit features are companies filing with states rather than the Insurance Compact because of lack of Uniform Standards?
2. Where is product innovation heading resulting in a need for new or amended regulatory requirements and uniform standards?
3. What new products or benefits are consumers asking for that cannot be filed with the Insurance Compact due to lack of Uniform Standards?

The PSC received written and verbal feedback and several requests for products or benefit features that cannot currently be filed with the Compact because there are no Uniform Standards. Using this information, Compact staff looked at all applicable Compact-approved filings marked as Mix and Match and reviewed each Statement of Intent Schedule for the last 2 ½ years (January 2016 – May 2018). The Statement of Intent Schedule lists all state forms that have been approved or filed for use in the Compacting States with which the Compact-approved forms will be used. This review provided information regarding product detail, as well as information on state approval of these product designs.

Based upon this research, interested party feedback, regulator discussion, and inquiries made to the Compact regarding the availability of Uniform Standards, the Compact Office prepared, and the PSC considered and discussed the benefit features listed in the accompanying charts in its proposed work plan to fill in gaps within the individual life insurance and annuity Uniform Standards.

The items listed in the charts are sorted based on perceived priority – high, medium, and low. The priorities are based on the availability in the marketplace today, the volume the Compact staff noted during the SOI analysis,

as well as the number of inquiries received about filing such forms with the Compact. There are also several items identified as more appropriately addressed through the Five-Year Review process.

The PSC exposed the work plan for public comment and is now requesting the Management Committee's review and feedback. This work plan is not meant to definitively commence standard drafting for these benefits, nor is it a timeline. In other words, the focus of this phase was to identify what benefit features are generally allowed in states but outside the scope of the current individual life Uniform Standards and then to prioritize discussion of consideration of developing such Uniform Standards. It is possible, based on future discussion that recommendations will be made to *not* include one or more benefit features in future Uniform Standard development. At this time, the PSC has not determined the details of provisions of new Uniform Standards and awaits Management Committee review prior to further discussion on any of the items in the attached charts.

SUGGESTIONS FOR ADDITIONAL INDIVIDUAL LIFE UNIFORM STANDARDS / PROVISIONS

Item No.	Description of Product	Source	New or Amend Standard	Priority (High, Medium, Low)	Compact Office Comments
1	Waiver of Premium Triggers for Unemployment and Qualifying Events	Pennsylvania DOI and ACLI	AMEND -- Additional Standard for Waiver of Premium Benefits for Life Insurance Policies and potentially Waiver of Premium for Child Insurance	High	SOI schedule lists at list 9 different companies with Mix and Match filings with the Compact and the majority of states for these expanded waivers of premium. The Annuity Waiver of Surrender Charges can again be used as a starting point.
2	Waiver of Monthly Deduction Triggers for Unemployment and Qualifying Events	ACLI	AMEND -- Additional Standard for Waiver of Monthly Deductions Benefits for Life Insurance Policies	High	This is similar to #1 but for monthly deductions. We'd suggest working on the two standards together.
3	Waiver of Surrender Charge to waive some or all surrender charges similar to benefit and triggers for annuity waiver of surrender charges.	Pacific Life and ACLI	NEW -- Additional Standards for Waiver of Surrender Charges Benefit Feature for Life Insurance Policies	High	This is similar to the Waiver of Surrender Charges for Annuities and is a benefit feature we have been asked about for product filing. The Annuity standards can be used as a starting point for drafting
4	Overloan Protection for Whole Life	Pennsylvania DOI and ACLI	AMEND -- Amend scope of Additional Standards for Overloan Protection Benefit to include Whole Life Policies	High	The scope of the current Additional Standards for Overloan Protection Benefit is only for variable and non-variable adjustable life insurance policies. The Compact receives requests for this occasionally for Whole Life as well.

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5	Allowing option to select installment payments only option for death benefit proceeds	Pacific Life, Nationwide and ACLI	AMEND -- Amend or clarify following sentence in general provision -- "Policy Providing for Payment of Proceeds in Installments" in Individual Life Insurance Policies that states "Death benefit shall always be available in a lump sum and installments are optional."	High	The Compact Office takes a strict interpretation that the lump-sum death benefit must always be available to the owner. We have issued objections to several policy forms and as a result of responses to pre-filing communications, companies may have filed directly with states rather than the Compact. Companies indicate Compacting States allow installment death benefit riders and some owners seek that option. Prioritizing this item is for the PSC to clarify if any change is needed to clarify the Compact application of this standard and to discuss the pros and cons of amending the provision to address an irrevocable installment option.
6	Guaranteed Minimum Income Benefit -- provides minimum amount of income distribution from a policy when specific conditions are met	Pacific Life, Nationwide and Pennsylvania DOI	NEW -- Additional Standards for Guaranteed Living Benefits for Variable and Non-Variable Adjustable Life Insurance Policies	Medium	Suggest referencing current uniform standards for GLB for Annuities

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Item No.	Description of Product	Source	New or Amend Standard	Priority (High, Medium, Low)	Compact Office Comments
7	Continuation of Premium - upon certain triggers including total disability and first death in second-to-die policy, the ability to credit some or all of the stipulated premium up to a specified age or event	ACLI	NEW -- Additional Standards for Continuation of Premium Benefits for Individual Life Insurance Policies or potentially amend the Waiver of Monthly Deductions Standard	Medium	The Waiver of Monthly Deductions, doesn't allow for the continuation of crediting the policy premium for total disability or for first death under the policy. The change in the standards would waive the policy charges (COIs, administration charges and rider charges) and credit the stipulated premium to the policy as long as total disability continues, up to a specified age. The other change would be that if the first insured dies, the stipulated premium will be credited to the policy for the period designated by the owner, with a specified maximum period and age. Waiver for total disability is approved in all states and the benefit following the death of the first insured has not yet been filed in the states. The Compact Office would consider this a low to medium priority; however if the Waiver of Monthly Deductions Standard was open to consider Item #3, the PSC should also consider this request at the same time.

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Item No.	Description of Product	Source	New or Amend Standard	Priority (High, Medium, Low)	Compact Office Comments
8	Universal Life with Non-Unitized Separate Account - an adjustable life insurance policy that is not required to vary in relation to the performance of an underlying separate account but instead have a guaranteed floor or negative interest crediting	ACLI	AMEND (OR possibly NEW) -- Individual Flexible Premium Adjustable Life Insurance Policy Standards	Medium	The Compact Office has received several requests for these type of products and has been informed several states have start allowing non-unit linked separate account products. Based on regulator discussion, this request, if considered in the future work plan, may require significant discussion and input from the Actuarial Working Group. The PSC may wish to group this with similar requests on the annuity side.
9	Premium Deposit Fund Riders	Pennsylvania DOI	NEW -- Additional Standards for Premium Deposit Fund for Individual Life Insurance Policies	Medium	The Compact Office has received several requests to review this type of form. Industry representatives have generally questioned whether the majority of Compacting States require this form to be filed for prior review and approval. Prioritizing this request adds a discussion of this issue to the work plan; during those discussions it can be determined if a standard should be developed.

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Item No.	Description of Product	Source	New or Amend Standard	Priority (High, Medium, Low)	Compact Office Comments
10	Short-Term Care Benefit Rider Standards	Nationwide	NEW -- Additional Standards for Short-Term Care Benefits for Life Insurance Policies	Low	Company commenter notes that these benefits added to a life policy are being filed with the states because the Compact does not have standards. The NAIC has a Short Duration Long Term Care Policies (B) Subgroup currently working on a Model. It may be beneficial to wait for their work product before considering, which is why this is listed as a lower priority.
11	Index-Linked Death Benefits for Whole Life Insurance Policies -- performance of a whole life insurance policy to have indexed account credits and/or indexed paid-up additions	Pacific Life and Pennsylvania DOI	NEW -- Additional Standards for Index-Linked Crediting Features for Whole Life Insurance Policies	Low	Suggest referencing Additional Standards for Indexed-Linked Crediting Features for Deferred Non-Variable Annuities . The Compact office has not received requests for this; companies may be filing directly with the states.
12	Standard for Innovative Benefit or Design Feature	Sandra K. Meltzer & Transamerica	New	Low	Further detailed discussion is needed including regulator input on the role of the Compact in development of innovative products. This is listed lower on priority list so that first gaps for current products in the market place are filled , the PSC can then consider if there is a way to address other innovative benefits or design features.

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Item No.	Description of Product	Source	New or Amend Standard	Priority (High, Medium, Low)	Compact Office Comments
13	Look-Back Periods that are Shorter than Majority of State Look-Back Periods (5 years v. 10 years)	Transamerica	AMEND -- Individual Life Insurance Application Uniform Standards	5 Yr Review	This appears to be a request more appropriately addressed through the 5 year review process
14	Monthly Deduction For Entire Reinstatement Period -- current Reinstatement Provision prohibits monthly deductions after grace period	ACLI	AMEND -- Remove last sentence of Subsection 4 of the Reinstatement Provision -- "Monthly deductions cannot be charged for the period of default beyond the grace period."	5 Yr Review	This appears to be a request more appropriately addressed through the 5 year review process
15	Expand Variability of Policy Form Provisions to Accommodate Agile Systems and Digital / Electronic Delivery	Transamerica	AMEND -- Variability of Information in the Uniform Standards for Life Insurance Policies	5 Yr Review	This appears to be a request more appropriately addressed through the 5 year review process. If presented, additional information would be helpful to understand how the Statement of Variability requirements limit companies ability to deploy forms / products.

Suggestions for Additional Individual Annuity Uniform Standards/Provisions

Item No.	Description of Product	Source	New or Amend Standard	Priority (High, Medium, Low)	Compact Office Comments
1	Index Variable and Structured Annuities -- annuities where a portion of the assets backing the index allocation are held in a separate account that is non-unitized and subject to daily adjustment to account for performance	ACLI	Either NEW -- Core Standards for Individual Structured Annuities or possibly amend the Scope of Core Standards for Individual Deferred Variable Annuity Contracts to address separate and general accounts	High	The Compact Office has been asked by several companies to develop Uniform Standards for annuity products that are non-unitized and provide certain guaranteed floors and has been informed several states have start allowing non-unit linked separate account products. Based on regulator discussion, this request, if considered in the future work plan, may require significant discussion and input from the Actuarial Working Group. The PSC may wish to group this with a similar request on the life side as well as items 2 and 3 on this list.
2	Fixed Indexed Annuity -- deferred annuity contract where interest credited to the contract value is partially or wholly dependent upon changes in the index where negative index performance may be passed to the contract owner by way of a reduction in the contract value	ACLI	Either NEW -- Core Standards for Individual Structured Annuities or possibly amend the Scope of Core Standards for Individual Deferred Annuity Contracts to address separate and general accounts	High	The Compact Office has been asked by several companies to develop Uniform Standards for annuity products that allow negative interest crediting. The PSC may wish to group this with a similar request on the life side as well as items 1 and 3 on this list.

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Item No.	Description of Product	Source	New or Amend Standard	Priority (High, Medium, Low)	Compact Office Comments
3	Index-Linked Variable Annuity -- an index-linked variable annuity with unlimited full pass through market value adjustments (MVAs), a buffer feature and no underlying mutual funds	Pennsylvania DOI and ACLI	This can be considered with Item #1 above, and use the same approach as agreed to with that request	High	The Compact Office has been asked by several companies to develop Uniform Standards for annuity products that allow product with these features. The PSC may wish to group this with a similar request on the life side as well as items 1 and 2 on this list.
4	Flexible Payout Options for Individual Deferred Income Annuities (Longevity Annuities) -- permitting longevity credits, equity-driven returns and flexible payout options within this	Pennsylvania DOI and ACLI	AMEND -- Individual Deferred Paid-Up Non-Variable Annuity Contract Standards	Low	This Uniform Standard was amended during five-year review in 2017 to add stipulated period certain and the option of a commuted value. Additional options were not suggested at that time.
5	First-to-Die Annuitization for Individual Deferred Income Annuities (Longevity Annuities) -- permitting payment to being on the first death of a joint owner	ACLI	AMEND -- Individual Deferred Paid-Up Non-Variable Annuity Contract Standards	Low	This Uniform Standard was amended during five-year review in 2017 to add stipulated period certain and the option of a commuted value. Additional options were not suggested at that time.

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Item No.	Description of Product	Source	New or Amend Standard	Priority (High, Medium, Low)	Compact Office Comments
6	Accelerated Death Benefit for Variable and Non-Variable Annuities	Nationwide and ACLI	NEW - Reference Accelerated Death Benefits for Individual Life Insurance Policies AND/OR AMEND Additional Standards for Incidental Guaranteed Minimum Death Benefits for Individual Deferred Non-Variable Annuities	Medium	Under five-year review, the Guaranteed Living Benefits Standards were amended to add qualifying event triggers but was not considered (or requested) for GMDB. The Compact office has heard from states that this product is being filed directly since the Compact does not have standards. The question has come up regarding the need for this product. Is the death benefit significantly higher than the account value? Restrictions were added to the Guaranteed Minimum Death Benefit standards to limit the death benefit, and accelerated death benefit for life products are often less than the full death benefit. Since the account value can generally be accessed, what is the purpose of this product?