Agenda Item 2. Receive Public Comments on the Initial IIPRC Office Report and Recommendations for the Uniform Standards Currently Subject to Five-Year Review (Phase 7). Mary Mealer, Chair of the Product Standards Committee (PSC), stated that the Committee would hear public comments organized by uniform standard rather than by the order of proposals within the report. She noted that the first discussion would be on the Individual Deferred Paid-Up Non-Variable Annuity Contract Standards, often called the Longevity Annuity standards.

Miriam Krol, representing the Industry Advisory Committee (IAC), summarized their feedback on the request to add period certain deferred income annuities to the scope of these standards. She stated that the IAC was not opposed to the IIPRC Office recommendation that the PSC consider a stipulated period certain for a minimum of five (5) years to be consistent with the Standard Valuation Law actuarial guideline (AG IX-B). In response to the PSC question regarding whether there would be a life contingency and if there is always a death benefit, Ms. Krol stated that there is no life contingency portion on a straight period certain annuity. The death benefit on a straight period certain annuity is the continuation of the guaranteed period certain payments to the beneficiary for the duration of the fixed period, or if permitted by the policy, the commuted value paid in a lump sum.

In reference to the proposed substantive change to add commutation to these standards, Ms. Krol stated that the IAC would be opposed to the potential consideration that commutation would only be available after annuity payments were made for a minimum of five years since this would significantly limit the value of the commutation feature on short period certain durations. Noting that financial circumstances can change significantly during the deferral period, she stated that the IAC believes the goal should be to provide the commutation as soon as the deferral period is over. Ms. Krol noted that the IAC was still researching the other questions posed by the PSC and would provide information at a later date.

The Committee next asked for comment on their questions related to the request from the IAC that the amount of additional income that dividends purchase should be based on the rates that applied to that premium deposit, rather than to treat dividends as additional premium payments. Ms. Krol noted that one of the ACLI member companies reports that it has 48 approvals for its participating (DIA) longevity product which was filed in 51 jurisdictions, and only one of the three states that did not approve the filing follows the IIPRC standards for paid-up additions purchased with dividends. In response to questions from the PSC about the IAC proposed language that dividends can be used to purchase additional income benefits using “current annuity purchase rates” or “the same guaranteed interest and mortality rate schedule used to determine the Annuity Income Payment amount at the time of the premium payment to which the dividend is related, and the attained age(s) of the annuitant(s) at the time the dividend is paid,” Ms. Krol confirmed that the company chooses one or the other at the time the contract is issued, and may not choose from the two rates at the time the dividend is applied to purchase an additional income.

Ms. Mealer asked if there were comments on the three longevity annuity clarification items. In reference to the first clarification item, the IAC noted that the final recommendation for Substantive item #4 should be applied to this item as well. Mass Mutual commented on clarification item #2, indicating that the challenge with the actuarial certification as clarified in an IIPRC weekly tip in July 2013, is that it may have unintended consequences especially when the company is no longer issuing new contracts. The IAC offered to work with the PSC on revisions to the certification.

The Committee next turned to comments about the Private Placement uniform standards and the Chair asked for a response to the PSC request to provide a more detailed explanation of why the IAC changed the § 3 Ownership provision in the two Private Placement Uniform Standards to make it optional (rather than required, as in the current standards) that in the event the owner ceases to be a qualified owner, the owner is permitted to exchange the contract for one offered by the company that does not require qualified owner status. Hartford Life Insurance explained that in addition to the need to comply with securities laws, companies and owners must comply with the portions of the Internal Revenue Code that affect product taxation. The goal is to allow the owner to continue coverage and terms as close to the original purchase as possible, and sometimes exchanging the contract for one offered by the company that does not require qualified owner status would not be the best option for the owner. The IAC's written comments contain examples of such scenarios.

Ms. Krol noted that the ACLI surveyed its members to see if there was a need or interest in developing Private Placement uniform standards for immediate variable annuity products and no company responded affirmatively.

The Chair next requested comments on the items in the report related to the Additional Standards for Overloan Protection Benefit. In response to the Committee request to further explain the need to add a maximum benefit age to this standard, Ms. Krol noted that in a preferred loan situation, with a zero net cost loan and a product design that stops charging cost of insurance rates at a certain age, it may not be in the best interest of an insured/owner to trigger the overloan protection benefit even if all other benefit requirements are satisfied.

The IAC also presented comments again requesting that a range that is deemed to be "reasonable and realistic" be included for minimum and maximum indebtedness percentage to avoid arbitrary determinations of what is reasonable or realistic. Ms. Krol stated that filings are in limbo because such a range has not been established. Karen Schutter, Executive Director of the IIPRC, responded stating that the overloan protection benefit and the standards are designed to prevent the policy from lapsing due to an excessive loan on the policy, and that it is her understanding that there have not been many filings that were challenged. She noted one filing where the indebtedness percentage was well below 90% and the potential for the overloan protection benefit to be triggered months or even years before the policy may lapse was significant. Ms. Krol stated that two companies have indicated they experienced problems with this provision and product filings.

The Chair requested comments on the Graded Death Benefit recommendations in the report. Ms. Krol asked for further clarification of the language proposed by the Pennsylvania Department of Insurance intended to convey how the premium and benefit characteristics of these policies may differ from other whole life insurance policies. Pennsylvania responded, explaining that the intent is that dollar amounts consistent with the annual premium would be presented for the natural-cause death benefit until such time as full benefits are payable. Pennsylvania also suggested that it may be helpful to clarify the existing language to state "the ultimate face amount for each policy year up until the year the ultimate face amount is payable for death by natural causes."

Ms. Krol addressed Clarification item #10 and comments from the Oregon Department of Insurance, stating that the suggestions may be inconsistent with Model #605, because the IAC believes the idea of limiting premiums was discussed and rejected in favor of disclosure. David Bolton of Oregon responded that the issue relates to what happens when the insured lives beyond the graded death benefit period and continues to pay very large premiums. Oregon would like a provision in the standards that the premiums collected for these types of policies cannot exceed 1.5 times the amount that is paid in the graded death benefit. Ms. Krol responded that she was would provide further response once she had time to review written comments.

Ms. Mealer asked if there were any further comments on any item in the draft report. No further comments were received.

Agenda Item 3. Any other matters.

Ms. Mealer stated that the Product Standards Committee will consider the comments and will now start the process of reviewing the initial draft and preparing Committee recommendations on each item. The PSC will seek guidance and feedback from the Actuarial Working Group where appropriate. She requested that the IAC provide their additional feedback on the unanswered questions within a week for the PSC's consideration. She noted that the PSC anticipates at least one more Public Call to allow feedback on the decisions the Committee makes before the recommendations go to the Management Committee.