

## **ADDITIONAL STANDARDS FOR GUARANTEED MINIMUM DEATH BENEFITS for Individual Deferred Variable Annuities**

**Scope:** These standards apply to guaranteed minimum death benefits (GMDB) that are built into individual deferred variable annuity contracts, individual deferred indexed linked variable annuity contracts or added to such contracts by rider, endorsement or amendment. The GMDB feature provides for a minimum guarantee under specified conditions for the contract death benefit.

**Mix and Match:** These standards are available to be used in combination with State Product Components as described in Section 111(b) of the Operating Procedure for the Filing and Approval of Product Filings.

**Self-Certification:** These standards are not available to be filed on a self-certification basis in accordance with the Rule for the Self-Certification of Products Filed with the Interstate Insurance Product Regulation Commission.

As used in these standards, the following definitions apply:

The term “GMDB form” refers to a GMDB feature that is either built into the contract or added by rider, endorsement or amendment on or after the date of issue of the contract.

The terms “GMDB charge rate,” “initial GMDB charge rate,” and “maximum GMDB charge rate” refer to percentages that are applied to the same base amount, as specified in the contract (e.g. account value or guaranteed benefit base) to produce a dollar amount GMDB charge which is then deducted from the account value. “GMDB charge rate,” “initial GMDB charge rate,” and “maximum GMDB charge rate” may also refer to a formula to produce a dollar amount GMDB charge (e.g. a percentage plus a flat dollar amount or a just a flat dollar amount).

“Covered Person(s)” is the person or persons whose death will result in the death benefit being payable.

“Guaranteed Benefit Base” is the amount used to determine the value of the GMDB.

“Reset” is a change in the guaranteed benefit base, for any reason, except for additional premium payments.

“Step-up” is a reset that is an increase.

“Proportional Withdrawal Amount” is the amount by which the guaranteed benefit base could be reduced, when the account value is reduced by a withdrawal or excess withdrawal. It is equal to the guaranteed benefit base (immediately preceding the withdrawal or excess withdrawal), multiplied by the ratio of the withdrawal (or excess withdrawal) including any surrender charge over the account value (immediately preceding the withdrawal or excess withdrawal).

“Waiting period” means any minimum time period the contract must be in force before the GMDB is payable.

**Drafting Note:** These definitions are only for the purpose of defining these terms as they are used in this standard. It does not suggest that these terms must be used in the contract. Other terms may be used, provided they are defined and used consistently. Or the same terms can be used in different ways, as long as they are clearly defined in the contract. In addition, these definitions are not intended to dictate specific product designs, as long as the elements of the product design are mathematically equivalent to (or better than) the elements defined above.

## **§ 1 ADDITIONAL SUBMISSION REQUIREMENTS**

### **A. GENERAL**

The following additional filing submission requirements apply:

- (1) If a GMDB feature is provided by attachment to the contract by rider, endorsement or amendment, include:
  - (a) A listing by filing jurisdiction of the types of contracts with which the GMDB form will be used, including the contract form numbers, the corresponding approval date for these contracts and any filing identification number.
  - (b) A statement as to whether the GMDB form will be made part of the contract at issue or is intended for use after the date of issue of a contract, or both.
  - (c) A statement as to whether the GMDB form is intended for use with new issues and/or in force business.
  - (d) A description of the GMDB feature for all types of contract forms with which the benefit will be used.
  - (e) Any contract pages or provisions referenced in the GMDB form.

### **B. ACTUARIAL MEMORANDUM**

- (1) The actuarial memorandum required by the Individual Deferred Variable Annuity Contract Standards or Individual Deferred Indexed Linked Variable Annuity Contract Standards to which these GMDB standards are attached, and which is prepared, dated and signed by the member of the American Academy of Actuaries, shall include the following information about the GMDB feature:
  - (a) A description of the GMDB feature, including any formulae or methodology used to determine GMDB amounts;

- (b) A description of any elements used in determining the GMDB amounts and any guarantees or ranges associated with these elements;
- (c) Any age limitations on adding the GMDB feature;
- (d) Any conditions that may reduce or terminate the GMDB feature;
- (e) What forms of death benefits are available (e.g. spousal guarantee with a payout for the survivor of two covered persons);
- (f) Whether the GMDB charge rate or other elements of the GMDB vary by issue age, attained age, duration or other criteria;
- (g) Examples showing the derivation of the following GMDB amounts over the potential life of the contract, under both positive and negative economic scenarios:
  - (i) The potential changes in the guaranteed benefit base before or at the date of death, illustrating all the types of options for increases and decreases. The example(s) shall include, if applicable, the derivation of proportional withdrawal amounts;
  - (ii) The change in the account value related to any of the changes to the guaranteed benefit base in item (i) above.
- (h) A description of the GMDB charge rate, including how it is applied to produce the GMDB charge.

### **C. VARIABILITY OF INFORMATION**

- (1) Guaranteed elements used in determining GMDB amounts or any other product specifications 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 the contract.
- (2) The maximum GMDB charge rate may be considered a variable item and marked to denote variability.
- (3) A zero entry in a range for any benefit or credit is unacceptable, and any change to a range requires a refiling for prior approval.

## **§ 2 GENERAL REQUIREMENTS**

### **A. COVER PAGE**

- (1) If the GMDB feature is provided by attachment to the contract by rider, endorsement or

amendment, the following shall be included on the cover page:

- (a) At least one signature of a company officer if the GMDB form is added after the date of issue of a contract. Alternatively, the signature may be added at the end of the rider, endorsement or amendment.
  - (b) A statement to the effect that the GMDB form is made a part of the contract and that its provisions apply in lieu of any contract provisions to the contrary.
- (2) The GMDB form shall contain a brief description that shall appear in prominent print on the cover page of the GMDB form or is visible without opening the GMDB form. The brief description shall contain at least the following information:
- (a) A caption stating that a GMDB feature is provided; for example, single premium deferred variable annuity contract with guaranteed minimum death benefit provision or guaranteed minimum death benefit rider.
- (3) If the GMDB form provides for termination of the GMDB feature upon assignment or a change in ownership as permitted under paragraph (2)(f) of the TERMINATION section of this standard, the following statement shall be included in prominent print on the cover page or the first specifications page:

The purpose of the guaranteed minimum death benefit provided under this annuity contract is to provide security through a stream of monthly income payments to the owner. The guaranteed minimum death benefit will terminate upon assignment or a change in ownership of the contract unless the new assignee or owner meets the qualifications specified in the Termination provision of the guaranteed minimum death benefit.

## **B. SPECIFICATIONS PAGE**

- (1) The specifications page of the GMDB form shall include:
- (a) Effective date, if the GMDB form is an attachment to the contract;
  - (b) Any guaranteed elements which affect the GMDB feature, including, but not limited to, any maximum guaranteed benefit base, any waiting period, any minimum guaranteed bonus credits/percentages, any limitations on additional premium payments, any age limitations on the GMDB feature, and any investment allocations restrictions/limitations; and
  - (c) The maximum GMDB charge rate.
- (2) The specifications page may include the initial GMDB charge rate, provided it is subject to a guarantee and such guarantee is stated on the specifications page. Examples of

guarantees include:

- (a) For a particular time period;
- (b) For the life of the contract, provided no step-ups elected; or
- (c) For the life of the contract, provided no changes elected to investment allocations.

**Drafting Note:** If the maximum GMDB charge rate and the initial GMDB charge rate are one and the same, the contract need only refer to the GMDB charge rate.

- (3) The specifications page of the GMDB form shall state, if applicable, that:
  - (a) The GMDB charge rate is not guaranteed and can be changed by the company, subject to the maximum GMDB charge rate in the contract.
  - (b) The initial GMDB charge rate is guaranteed under the conditions stated in the contract and in effect when it was set. Utilization of step-ups, changes to investment allocations, or other changes may increase the GMDB charge rate, subject to the maximum GMDB charge in the contract.

### C. GMDB AMOUNTS

- (1) The GMDB form shall describe any formulae, methodology or assumptions used to determine the GMDB amount. The GMDB form shall describe:
  - (a) The calculation of the guaranteed benefit base. The value of the guaranteed benefit base shall be equal to the initial premium payment, increased by any additional premium payments, and may be further increased or decreased as follows:
    - (i) Increased under specified conditions (e.g. bonus credits received on specified dates, step-up provisions, percentage increases or roll-up amounts, etc.);
    - (ii) Decreased due to a reset that is triggered by a change that is stated in the contract (e.g. a change in covered person may trigger a reset to the account value);
    - (iii) Decreased due to a reset that is triggered by a decrease in the account value or an external index. Such reset shall not allow the guaranteed benefit base to fall below the sum of all premiums paid less the greater of (a) the dollar amount of any withdrawals previously made, and (b) the value of those same withdrawals in the proportion that each withdrawal reduced the account value on the date of the withdrawal;
    - (iv) Decreased due to a reset to the account value after a particular age;

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- (v) Decreased due to proportional withdrawals;
  - (vi) Increased or decreased based on changes made at the request of the owner;  
and/or
  - (vii) Decreased due to a GMDB charge.
- (b) How any reset provision works.
  - (c) How proportional withdrawals, if applicable, are determined.
- (2) The GMDB form shall describe any condition or limitations on the GMDB feature, including:
- (a) A statement, if applicable, in prominent print, to the effect that the guaranteed benefit base cannot be withdrawn in a lump sum.
  - (b) The maximum limit, if any, on the guaranteed benefit base.
  - (c) Any waiting period.
  - (d) Any limitations/conditions on availability of a reset.
  - (e) Any limitations on the investment options or allocations while the GMDB feature is in effect, and that the owner would be notified in writing if these limitations change.
  - (f) Any limitations on or triggers with respect to transfers among the separate account funds and/or the general account (including any index-linked funds) while the GMDB feature is in effect.
  - (g) How withdrawals and additional premium payments shall be allocated among the separate account funds and/or the general account, including any index-linked funds (e.g. prorated among accounts/funds or subject to some limitations).
  - (h) Any limitations on additional premium payments.
  - (i) Whether or not any premium payments are excluded in determining the guaranteed benefit base.
- (3) The GMDB form shall describe what happens when the account value becomes zero (e.g. any effect on contract values or contract rights).
- (4) The GMDB form shall describe the effect of any withdrawals on all GMDB amounts. The GMDB form shall describe the impact that exercising other contract benefits will have on

GMDB amounts.

**D. DEATH BENEFIT**

- (1) If there is an option for the spouse to continue the contract in lieu of receiving the death benefit, the GMDB form shall state the effect, if any, on all the GMDB amounts, percentages, and conditions.
- (2) With respect to an option for the spouse to continue the contract,
  - (a) The GMDB form shall comply with the applicable state law where the form is delivered or issued for delivery, with respect to the coverage and benefits available to a person who is in a legally-sanctioned domestic partnership or civil union and to their families, or available to a person who is in a legally-sanctioned marriage with the insured and to their families; and
  - (b) Nothing in this provision shall be construed as requiring any company to provide coverage or benefits to any person who is in a domestic partnership, civil union or marriage or to their families in a state where such relationships are not legally recognized.

**E. GMDB CHARGE**

- (1) The GMDB form shall describe any elements used in determining the GMDB charge and any guarantees or ranges associated with these elements.
- (2) The GMDB form shall include a description of the GMDB charge, including how it is calculated (e.g. as a percentage of the account value or the guaranteed benefit base), how it is deducted (e.g. from the entire account value or from only the separate account portion of the account value via the mortality and expense charge), how often it is deducted, and how it affects the guaranteed benefit base, if at all. If the GMDB charge is included as part of another expense charge under the contract, the GMDB portion of that charge must be explicitly identified. If the GMDB charge rate varies based on the asset allocation model used, the GMDB form shall so state.
- (3) The GMDB form shall describe how the GMDB charge is allocated among the separate account funds and/or the general account (including any index-linked funds).
- (4) The GMDB form shall describe the conditions under which the GMDB charge rate could increase (e.g. a change in the asset allocation model or a step-up), what rights the owner has to accept or reject the increase, and that the owner will be notified in writing of such increase.
- (5) The GMDB form shall state, if applicable, that the GMDB charge rate will never exceed the maximum GMDB charge rate on the specifications page.

- (6) The GMDB form shall state under what conditions, if any, the GMDB charge will be waived.
- (7) The GMDB form shall describe the method and timing of deducting the GMDB charge from the account value (e.g. if the GMDB charge is deducted daily as part of the mortality and expense charge, if the GMDB charge is deducted in arrears, or if the GMDB charge is prorated for effective date of a change in the rate that is not at the beginning of a charge period).
- (8) The GMDB form shall state that if the GMDB is terminated, the GMDB charge shall be terminated.

**F. REPORT**

- (1) The GMDB form shall state that the annual report will contain at least the following:
  - (a) The guaranteed benefit base (i.e. the current death benefit amount).

**G. TERMINATION**

- (1) A GMDB form that is attached to the contract by rider, endorsement or amendment shall include the following termination conditions:
  - (a) Upon termination of the contract;
  - (b) After the remaining benefit amount is reduced to zero, if applicable; or
  - (c) Upon the annuitization start date.
- (2) A GMDB form that is built in or attached to the contract by rider, endorsement or amendment may include the following conditions for termination of the benefit feature or the rider, endorsement, or amendment:
  - (a) Upon written request from the owner;
  - (b) Upon payment of the death benefit (unless spousal continuation is an option and is chosen);
  - (c) Upon divorce, annulment, or dissolution of a marriage, if the form contains a spousal benefit;
  - (d) Upon transfers or changes to the investment allocations such that the resulting investment allocations no longer meet the requirements of the GMDB form;
  - (e) Upon change in a covered person under a GMDB form that isn't otherwise

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specifically allowed in the form;

- (f) Upon a change in ownership (or assignment) of the contract unless:
    - (i) The new owner or assignee assumes full ownership of the contract and is essentially the same person (e.g. an individual ownership changed to a personal revocable trust, a joint ownership of husband and wife changed to the surviving spouse when one of them dies, a change to the owner's spouse during the owner's lifetime, a change to a court appointed guardian representing the owner during the owner's lifetime, etc.); or
    - (ii) The assignment is for the purposes of effectuating a 1035 exchange of the contract (i.e. the rider may continue during the temporary assignment period and not terminate until the contract is actually surrendered);
  - (g) Upon reaching specified contract anniversaries, as specified in the GMDB form;
  - (h) Spousal continuation is elected and the surviving spouse is older than a specified age as of the date of the owner/annuitant's death;
  - (i) The contract is continued under a beneficiary continuation option; or
  - (j) Other termination conditions, as approved by the IIPRC.
- (3) If the GMDB form is attached to the contract by rider, endorsement or amendment, the GMDB form shall describe, if applicable, the procedure for reinstating the GMDB feature after termination.