

DATE: March 7, 2016

TO: IIPRC Product Standards Committee (PSC)

FROM: Industry Advisory Committee

SUBJECT: IIPRC 5 Year Review: Phase 7

- Individual Deferred Paid-Up Non-Variable Annuity Contract Standards (Longevity Annuities), Dated January 15, 2011
- Additional Standards for Private Placement Plans for Individual Deferred Variable Annuity Contracts, Dated July 3, 2011
- Additional Standards for Private Placement Plans for Individual Variable Adjustable Life Insurance Policies, Dated July 3, 2011
- Additional Standards for Change of Insured Benefit, Dated July 3, 2011
- Additional Standards for Overloan Protection Benefit, dated July 3, 2011

Re: Longevity Annuities

We are attaching a copy of the January 15, 2011 standards which have been red-lined to show the changes we are recommending. Also attached is a document entitled “***Deferred Income Annuities: The Case for Commutation***”.

The draft now allows for period certain, commutation, and states that dividends used to purchase paid-up additions are based on the premium that the dividend is associated with. The previous standards required companies to treat dividends used to purchase additional income as if they were additional premium payments (§4.R.). Since a dividend is basically a refund of premium, we believe that it is only fair that the amount of additional income it purchases should be based on the rates that applied to that premium deposit.

A nationwide filing including commutation and a provision stating that dividends used to purchase paid-up additions are based on the premium that the dividend is associated with has been approved in all states.

Re: Additional Standards for Private Placement Plans for Individual Deferred Variable Annuity Contracts

Additional Standards for Private Placement for Individual Variable Adjustable Life Insurance

We are attaching copies of a red-lined draft of each of these standards reflecting the changes that we are recommending. We are also attaching a document entitled “*Rationale for Proposed Changes to the IIPRC Private Placement Standards*”.

Re: Change of Insured Benefit

Scope Section, Page 1, Second Sentence

To accommodate persons who may be insured under a rider, amendment or endorsement attached to a policy, we recommend changing the second sentence to say:

“A change of insured benefit allows the owner to exchange the insured covered by the policy, ***or under an rider, endorsement or amendment attached to the policy***, for a new policy covering a new insured in whom the owner has an insurable interest, or to exchange the policy for a new policy covering a new insured in whom the owner has an insurable interest.”

The last sentence in Scope states that the benefit is “Change of insured benefits are ***most often used in the business insurance market*** to exchange insured...[emphasis added].” Our companies have advised that other possible uses may involve an owner who purchased a policy on a spouse and in the case of divorce may elect to change the insured to someone other than the spouse. While we don’t believe that the current language would not allow this, we are not sure if others would agree. Accordingly, we suggest adding the following to the end of the current sentence: “, but may also be used in other situations, such as when an owner who purchased a policy insuring his or her spouse is divorcing such spouse and elects to exchange the insured for someone other than the spouse.”

§3. BENEFIT PROVISIONS

A. BENEFIT, Item (3), Pages 4-5

Since we don’t intend to allow the exercise of an exchange if an accelerated death benefit has been made under the existing policy, we recommend adding a new item (j):

“(j) That an accelerated death benefit payment has not been made under the policy at the time of the exchange.”

B. INCONTESTABILITY, Item (1)(b)(i), Page 3

E. SUICIDE, Item (1)(b)(ii), Page 3

We believe that the word “***plus***” is missing before the words “***the cash value***.”

We wish to confirm that “the cash value” is the account value less any surrender charges as defined in IIPRC-L-09-I, Individual Flexible premium Adjustable Life Insurance Policy Standards.

Re: Overloan Protection Benefit

§2. GENERAL FORM REQUIREMENTS

B. SPECIFICATIONS, Item (1), Page 3

We suggest that a company may want to specify a maximum age as a condition for exercising the benefit. Accordingly, we suggest changing the end of the first sentence as follows: ***“the minimum and maximum age required before exercising the benefit, and the minimum duration the policy must be in force before exercising the benefit.”***

§3. BENEFIT PROVISIONS

A. BENEFIT, Item (2)(b), Page 3

In conjunction with the §2. Change suggested above, we suggest changing the end of the item to say: ***“is at or above a specified minimum age or under a specified maximum age.”***

A. BENEFIT, Item (2)(f), Page 3

The standards require that a company show the minimum and maximum indebtedness percentage, as applicable, and that the variability filed for these be presented in “reasonable and realistic ranges”. In the absence of any guidance in the standards as to what this may allow, IIPRC filing experience has shown that the IIPRC actuary will not approve certain minimums, such as in the low 90% range. Some companies prefer to use a minimum percentage in the low 90% range and some may prefer a higher 90% range. One reason to use a lower 90% minimum is to allow the owner ample time to do his due diligence and discuss the consequences of an impending lapse with his advisers. Unless we include some range in the standards, the companies will be subject to an arbitrary opinion as to what is “reasonable and realistic”.

Accordingly, we suggest that a range that is deemed to be “reasonable and realistic” be included in the item.

Submitted by the Industry Advisory Committee:

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Jason Berkowitz, IRI
Tanya Gonzales, Great West Life
Angela Hanson, Northwestern Mutual
Steve Kline, NAIFA
Amanda Matthiesen, AHIP
Joseph Muratore, New York Life
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