

November 14, 2023 referred to PSC  
with ILVA subgroup revisions based on comments received.

**CORE STANDARDS FOR INDIVIDUAL DEFERRED INDEX LINKED VARIABLE  
ANNUITY CONTRACTS  
(Commonly Marketed as Registered Index Linked Annuities)**

**Scope:** These standards apply to an individual deferred indexed-linked annuity contract exempt from the NAIC Model 805 on the basis that it is a variable annuity and includes index-linked crediting features that are built into contracts (with or without unitized subaccounts) or added to such by rider, endorsement, or amendment and credits interest based on the performance of an index ~~with caps on returns subject to index parameters such as caps~~, participation rates, spreads or margins, trigger or step rates, or other crediting elements and ~~with risk of negative returns may lose value~~ subject to limitations ~~on loss~~ such as a floor or a buffer. Additional standards apply for other features including bonuses, modified guaranteed/market value adjustments, guaranteed death benefits, guaranteed living benefits, enhanced withdrawal benefits, waiver of surrender charge benefits, tax qualified plan provisions, and private placement.

**Drafting Note:** The reference to these specific crediting elements and limitations in the scope is not intended to limit the scope of the standard to products with only these crediting elements and limitations. Other crediting elements, features and limitations are permitted unless specifically prohibited. An annuity with a minimum guaranteed return greater than zero is not within the scope of these standards.

**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.

**Separate Accounts:** Approval by the Interstate Insurance Product Regulation Commission of an insurance product filing in compliance with this Uniform Standard shall not be deemed as regulatory approval of the company's use of separate accounts which are guaranteed in whole or in part by the general account. Action from the Member State, both domiciliary state and if applicable, state of issue, may be required before an insurer may use an Interstate Insurance Product Regulation Commission approved policy or other product component backed by funds associated with a separate account. If the product contains separate accounts, all aspects of the separate account with respect to its operation, maintenance, insulation, and producer licensing will be governed by applicable state law (both domiciliary and if applicable, state of issue). Upon a company receiving Interstate Insurance Product Regulation Commission approval that a policy or contract complies with the applicable Uniform Standards; the company shall ensure it has the necessary authorizations to use the separate account in the Compacting States based on state law requirements for separate accounts.

**Drafting Note:** The Interstate Insurance Product Regulation Commission will maintain a comprehensive listing of member states with requirements before an insurer may use an Interstate Insurance Product Regulation Commission approved policy or other product component with separate accounts which are guaranteed in whole or in part by the general account.

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As used in these standards the following definitions apply:

“Account value” is the total amount of premium adjusted by partial withdrawals, transfers, specified charges and expenses and accumulated with interest periodically credited by the company; and

- (1) “Non-variable account value” means the portion of the account value ~~funded solely by the general account~~ that is accumulated with interest at a guaranteed minimum interest rate greater than or equal to zero percent.
- (2) “Variable account value” means the portion of the account value funded through a unit-linked separate account that is accumulated with interest that directly reflects the investment performance of the separate account assets.
- (3) “Indexed linked variable account value (ILVA)” means the account value or portion/s of the account value ~~funded by the general account or separate account/s and~~ that is accumulated with interest based on the performance of an index ~~with subject to index parameters such as caps on returns~~, participation rates, spreads or margins, or other crediting elements and ~~limitations on loss~~ may lose value subject to limitations such as a floor or a buffer.

“Annuity value,” also called “maturity value” in the NAIC *Standard Nonforfeiture Law for Individual Deferred Annuities*, model #805, referred to in these standards.

“Cash surrender value” is the cash value reduced by indebtedness.

“Cash value” is the account value less any surrender charges.

“Index” means a benchmark designed to track the performance of a defined portfolio of securities used to determine index credits that is well-established, publicly available, and where the source of the benchmark is external to the company.

“Index Strategy” means a method used to determine index credits with specified index or indices and a cap, buffer, floor, participation rate, spread, margin or other index crediting element.

“Index Strategy Term” means the period of time from the term start date to the term end date over which an index changes and index credit are determined;

“Interim Value” means the Strategy Value at any time other than the start date and end date of an Index Strategy Term.

“Nonforfeiture rate” is the interest rate used in determining the minimum nonforfeiture amount for any non-variable account value in compliance with NAIC *Annuity Nonforfeiture Model Regulation*, model #806 and NAIC *Standard Nonforfeiture Law for Individual Deferred Annuities*, Model #805, except that the minimum nonforfeiture rate must be consistent with the minimum nonforfeiture interest rate prescribed in the law of the state in which the policy is delivered or issued for delivery. The nonforfeiture rate will be determined at issue (initial nonforfeiture rate) and, if applicable, for each subsequent redetermination period (redetermination nonforfeiture rate).

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"Strategy Value" means the value attributable to an Index Strategy used in determining contract values including death benefit, withdrawal amount, annuitization amount or surrender values. The Strategy Value at the beginning and end of an Index Strategy Term is equal to the portion of the ILVA attributable to the Index Strategy after application of any index returns.

**Drafting Notes:**

Other terms may be used in the contract provided they are consistent.

Although references to "age" or "annuitant" are being made in these standards, such references do not preclude the contract from having more than one annuitant.

The references to "contract" do not preclude Fraternal Benefit Societies from substituting "certificate" in their forms.

**§ 1 ADDITIONAL SUBMISSION REQUIREMENTS**

**A. GENERAL**

The following additional filing submission requirements shall apply:

- (1) All forms filed for approval shall be included with the filing. Changes to a previously approved form shall be highlighted. The specifications page of a contract shall be completed with hypothetical data that is realistic and consistent with the other contents of the contract and any required actuarial memorandum in support of nonforfeiture values and interim values.
- (2) If a filing is being submitted on behalf of a company, include a letter or other document authorizing the firm to file on behalf of the company with the filing.
- (3) If the filing contains an insert page, include an explanation of when the insert page will be used.
- (4) If the specifications page of the contract contains variable items, include the Statement of Variability. The submission shall also include a certification that any change or modification to a variable item shall be administered in accordance with the requirements in the Variability of Information section, including any requirements for prior approval of a change or modification.
- (5) If the contract provides for a benefit waiving surrender charges contingent on a declared interest rate, the company shall provide a certification that the owner will be provided a timely notification when the declared interest rate declines to a point at which the waiver of surrender charge benefit is available.
- (6) Include a statement that the contract is subject to federal jurisdiction and accordingly the Flesch requirements do not apply.

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- (7) Where separate accounts and funds available at issue under the contract are described in the application form, a copy of the application form to be used for the contract, if not concurrently submitted for approval, shall be submitted informationally at the time of submission of the annuity contract.
- (8) Include a certification by a company officer that written request will be made to and written approval received from the chief insurance regulator of the state of domicile of the company prior to the company exercising any contractual right to defer the payment of any general account cash surrender value, partial withdrawal, or loan value for a period of not more than six months;
- (9) Include any innovative or unique features of each contract form; and
- (10) If the product contains a variable account value or an ILVA, include a statement from the company, if applicable, that "The separate accounts underlying the filing comply with or have been authorized by the State of domicile, including Commissioner approval if required."

**B. ACTUARIAL REQUIREMENTS**

- (1) An actuarial memorandum shall be prepared, dated and signed by the member of the American Academy of Actuaries who provides the following information:
  - (a) A description of the contract and contract provisions that affect contract values;
  - (b) All maximum benefit, surrender and expense charges;
  - (c) The range of issue ages;
  - (d) For an ILVA:
    - (i) A description of the index or indices used as the basis for amounts credited to the contract, including a description of the interim value formula or methodology and all elements used in determining the amount credited or interim values, including but not limited to, index-linked caps, participation rates, index allocations, interest allocations, periods, terms, buffers, floors, and spreads. Any guarantees or ranges associated with these elements shall be included;
    - (ii) An example showing the derivation of the amount credited based on an assumed value of each index and crediting method available under the contract including sample calculations of Interim Values under positive, flat (or zero), and negative index changes that illustrate each feature of the Interim Value calculation;
    - (iii) A description of each element used in determining the market value of the Hypothetical Portfolio including formulas, methodologies and assumptions used to calculate the value of the Fixed Income Asset Proxy and the value of the Derivative Asset Proxy for each Index Strategy and Index Strategy Term, as well as the data sources used in developing the assumptions;

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- (iv) The formula or methodology used to determine a market value adjustment (MVA), if any, including a description of each element used in determining the MVA and how the MVA formula is applicable for both upward and downward adjustments;
- (v) Interim Values must be consistent with the value of the Hypothetical Portfolio over the Index Strategy Term less a provision for the cost attributable to Trading Costs;
- (vi) Justification including the basis for trading costs reflected in the interim value. Justification may be demonstrated by either using actual trading costs at the time the interim value is determined or by using expected trading costs for the same or substantially similar derivative assets based on the trading costs in a recent historical period.
- (vii) The Hypothetical Portfolio value is the sum of the value of the Derivative Asset Proxy and either the book value of the Fixed Income Asset Proxy or market value of the Fixed Income Asset Proxy and shall comply with the following requirements:
  - 1. The Index Strategy Base equals the Strategy Value at the Index Strategy Term start date;
  - 2. The book value of the Fixed-Income Asset Proxy is assumed to be a hypothetical fixed income asset ~~with a maturity based on the maturity of the fixed income assets supporting the ILVA, and~~ with a yield that results in:
    - i. At the beginning of the Index Strategy Term, the book value of the Fixed Income Asset Proxy equal to the Index Strategy Base minus the Derivative Asset Proxy Value;
    - ii. At the end of the Index Strategy Term, the book value of the Fixed Income Asset Proxy, assuming no change in yield, projected to equal the Index Strategy Base;
  - 3. The market value of the Fixed Income Asset Proxy  
~~may be determined using a fair value methodology that must produce an initial market value of the Fixed Income Asset Proxy equal to the Index Strategy Base minus the Derivative Asset Proxy Value; or~~
    - i. is its book value using the yield specified in 2. ~~a~~Above with the book value adjusted using an MVA-appropriate for the maturity of the fixed income assets supporting the ILVA that produces results reasonably similar to changes in the market value of the fixed income asset proxy

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and provides reasonable equity to both the contract holder and insurance company; and/or

- ~~ii.~~ may be determined using an alternative methodology if the methodology produces a market value of the Fixed Income Asset Proxy at the beginning and end of an Index Strategy Term equal to the book value of the Fixed Income Asset Proxy;

Drafting Note: the alternative methodology in ii above, is intended to allow methodologies that result in values reasonably consistent with values resulting from the methodology in i.

- 4. If the book value of the Fixed Income Asset Proxy is used to determine the Hypothetical Portfolio value, an MVA may be applied to the Strategy Value.

Drafting Note:

An MVA applied to the strategy value under 4 above must comply with the IIPRC-A-07-I-3 *Additional Standards for Market Value Adjustment Feature Provided Through A Separate Account*.

- 5. Assumptions used to determine the market value of the Derivative Asset Proxy including implied volatilities, risk-free rates, and dividend yields must be consistent with observable market value inputs and parameters, whenever possible; ~~or if the Index Strategy cannot be supported using a package of standard put and call options, the Derivative Asset Proxy may be a derivative structure designed by the company based on sound financial theory and standard industry practice. The derivative structure must be designed and calibrated such that it closely matches the value of standard put and call options under most conditions and assumptions~~Valuation techniques may include the standard Black-Scholes methods, Monte-Carlo Simulation techniques, and other market consistent option valuation techniques for more complex options;

(e) For a non-variable account value

- (i) A description of the basis used in the establishment of the initial nonforfeiture rate applicable to any non-variable account value values under the contract. “Basis” in this context means the specified period over which an average is computed that produces the value of the 5 Year Constant Maturity Treasury (CMT) Rate and also the period for which the initial nonforfeiture rate so determined will apply. (If there is no redetermination of the nonforfeiture rate under the contract, the period the initial nonforfeiture rate will apply may be the entire duration of the contract);
- (ii) A description of the redetermination method, if the nonforfeiture rate applicable to any non-variable account value ~~value~~ under the contract is to be redetermined, including the redetermination date, basis, and period of applicability for all future

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redetermination nonforfeiture rates applicable to any non-variable account value values under the contract;

- (iii) A nonforfeiture demonstration that the values of the contract comply with the NAIC Standard Nonforfeiture Law for Individual Deferred Annuities, Model Law #805, but using the nonforfeiture interest rate as defined in these standards. The nonforfeiture calculations shall be presented in the format prescribed in Appendix A of these standards. The free partial withdrawal provision of the contract may be used in the demonstration of compliance, if applicable. For the purpose of the nonforfeiture demonstration, notwithstanding the language of the contract, the maturity date shall be the later of the tenth contract anniversary or the contract anniversary following the annuitant's 70th birthday, except as provided for by Items 3 and 8 of Appendix A. The maturity value used to demonstrate compliance with the prospective test shall be the contract account value. No surrender charge is permitted on or past the maturity date;
- (iv) Sample calculations of any non-variable account value nonforfeiture values for representative issue ages including issue age 60, if within the issue age range. The calculations shall properly reflect partial withdrawal amounts made during the surrender charge period that are not subject to any surrender charge;
- (f) For a variable account value or ILVA a demonstration that contract values comply with Section 7 of the NAIC Model Variable Annuity Regulation, model #250 not including Section 7B. For an ILVA, the net investment rate shall be determined consistent with the requirements for determining Interim Values in these standards. If the Hypothetical Portfolio value is determined using the market value of the Fixed Income Asset Proxy, the MVA may be included in the net investment return;

Drafting Note: Charges or fees that are not asset related may not be included in the net investment rate. An example of a charge that may be included in the net investment rate is a charge that is used to purchase options that fund increased caps or participation rates. Administrative charges that are not specifically related to asset management may not be included in the net investment rate. In addition, any MVA applied to the strategy value is subject to IIPRC-A-07-I-3 Additional Standards for Market Value Adjustment Feature Provided Through a Separate Account.

- (g) The following certifications and opinion statement, as applicable
  - (i) The market value adjustment applicable to the Fixed Income Asset Proxy, is expected to produce results reasonably similar to changes in the market value of the hypothetical fixed income asset and the formula provides for reasonable equity between the contract holder and the insurance company;
  - (ii) The same MVA formula or methodology is applied during a period when its application would result in an increase in the Fixed Income Asset Proxy as is applied during a period when its application would result in a decrease in the Fixed Income Asset Proxy;

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- (iii) The contractually defined Interim Values are consistent with the Interim Values produced using the Hypothetical Portfolio methodology for each combination of Index Strategy and Index Strategy Term over the Index Strategy Term less a provision for the Trading Costs;

Drafting Note: Actuarial Guideline 54 allows state approval of Interim Value methodologies that are “materially consistent” with the Hypothetical Portfolio. However, under this standard, Interim Values must be determined using a Hypothetical Portfolio methodology.

- (iv) Interim Values provide equity between the contract holder and the company as of the calculation date for all Index Strategies and Index Strategy Terms. ~~AG~~ The certification shall ~~describe the testing performed by the actuary in support of the certification. Testing must be performed for a sufficient range of positive and negative index changes to establish that equity between the contract holder and the company exists under any realistic economic scenario that may occur under the contract~~ be accompanied by illustrative examples that calculate Interim Values under realistic economic scenarios presented in the format prescribed in Appendix C of these standards;

**Drafting Note:** ~~Testing for equity does not involve testing. The illustrative examples do not need to span~~ 1000s of economic scenarios, but rather testing demonstrate the impact on Interim Values for specific realistic index changes over the Index Strategy Term. For example, for a buffer and cap strategy, testing the scenarios should include, ~~for a buffer and cap strategy,~~ at least the range of index changes from level of the buffer to the level of the cap. ~~Realistic index changes can be determined based on historical experience.~~

- (v) Assumptions used to determine the market value of the Derivative Asset Proxy including implied volatilities, risk-free rates, and dividend yields and other parameters are consistent with the observable market value prices of the derivative assets over the Index Strategy Term, whenever possible; Valuation techniques may include the standard Black-Scholes methods, Monte-Carlo Simulation techniques, and other market consistent option valuation techniques for more complex options;
- (vi) If applicable, expected trading costs are based on trading costs for the same or substantially similar derivative assets in a recent historical period;
- (vii) The separate account or general account assets backing the ILVA and any general account assets backing the non-variable account value 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 the index-linked portion of the contract. If the separate account is backing more than one product, then the aforementioned statement shall apply to the segment of



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the separate account (and any general account assets backing the non-variable account value) backing the index-linked variable portion of the product;

- (viii) The nonforfeiture demonstration for a non-variable account value complies with the NAIC Standard Nonforfeiture Law for Individual Deferred Annuities, Model #805, but using the nonforfeiture interest rate as defined in these standards, as modified by Section 1B of these standards;
- (ix) The procedures used in the determination and, if applicable, redetermination of the contract nonforfeiture rate or rates applicable to any non-variable account value under the contract are in compliance with the NAIC Annuity Nonforfeiture Model Regulation, Model #806 with references to NAIC Standard Nonforfeiture Law for Individual Deferred Annuities, Model #805, meaning the NAIC Standard Nonforfeiture Law for Individual Deferred Annuities, model #805 but using the nonforfeiture interest rate as defined in these standards.

(h) For purposes of this section:

- (i) "Derivative Asset Proxy" means a package of hypothetical assets established at the beginning of an Index Strategy Term that is designed to replicate credits provided by an Index Strategy at the end of an Index Strategy Term;
- (ii) "Fixed Income Asset Proxy" is a hypothetical fixed income asset;
- (iii) "Hypothetical Portfolio" mean a portfolio of assets composed of a Fixed Income Asset Proxy and a Derivative Asset Proxy;
- (iv) "Index Strategy Base" means the notional amount used to determine index credits that does not change throughout the Index Strategy Term except for withdrawals, transfers, deposits, loans, and any explicit charges;
- (v) "Market Value Adjustment (MVA)" means a positive or negative adjustment applied to the fixed income asset proxy or strategy value in order to reflect an increase or decrease in the value of fixed income assets held by the company supporting the ILVA;
- (vi) "Trading Cost" means the additional cost of liquidating the derivative assets in the Derivative Asset Proxy or actual derivative assets supporting the Index Strategy at the time an interim value is determined that is not accounted for in the Derivative Asset Proxy calculation.

**C. VARIABILITY OF INFORMATION**

- (1) The company may identify items that will be considered variable only in the specifications page. The items shall be bracketed or otherwise marked to denote variability. The submission shall

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include a Statement of Variability that will discuss the conditions under which each variable item may change.

- (2) Any change or modification shall be limited to only new issues of the contract and shall not apply to in force contracts.
- (3) The following items shall only be changed upon prior approval:
  - (a) Guaranteed minimum interest rates unless:
    - (i) The guaranteed minimum interest rate is equal to or greater than the nonforfeiture rate;
    - (ii) The lower end of the range of the guaranteed minimum interest rate is not less than 3%; or
    - (iii) The lower end of the range of the guaranteed minimum interest rate is less than 3% and the minimum nonforfeiture value parameters are disclosed in the contract as required in Item (5) under NONFORFEITURE VALUES;
  - (b) Nonforfeiture rate redetermination method;
  - (c) Guaranteed maximum expense charges;
  - (d) Guaranteed maximum surrender charges;
  - (e) Guaranteed maximum partial withdrawal charges;
  - (f) Guaranteed annuity purchase rates;
  - (g) Index or indices used in determining amounts credited to the contract;
  - (h) For a variable account value, separate account valuation periods;
  - (i) Death benefit available under the contract; and
  - (j) Minimum premium amounts for any contract with a flat contract fee.
- (4) In addition to the items listed in Paragraph (3) above, a change or modification to any other item not specifically listed that may affect the derivation and compliance of contract values with any required minimum nonforfeiture values or affect derivation or compliance of the Hypothetical Portfolio or Interim Values with these standards shall also be subject to prior approval. All submissions for approval of a change shall be accompanied by a revised actuarial memorandum that demonstrates compliance with these standards.
- (5) The company may also identify product specifications that may be changed without prior notice or approval, as long as the Statement of Variability presents reasonable and realistic ranges for the

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item. These items include interest rate guarantee periods, any redetermined nonforfeiture rate, persistency of anniversary interest rates or credits, tiering levels, expense charges, minimum premium amount for any contract that does not provide for a flat contract fee, maximum premium amount, minimum partial withdrawal amounts, minimum loan amounts, amounts available for any penalty free partial withdrawals, charges for supplemental benefits and options, any ages assumed in the calculations of benefits and options, and the number of funds available for allocation. A zero entry in a range of values on the specifications page for tiering levels, expense charges, or other fees applicable under the contract is acceptable. A zero entry in a range of values on the specifications page for any benefit or credit provided for in the language of the contract is unacceptable. Any change to a range requires a refiling for prior approval and shall be accompanied by a revised actuarial memorandum signed by a member of the American Academy of Actuaries that demonstrates compliance with these standards.

- (6) For a variable account value, items such as Separate Account and funds available under the contract may be identified as a variable item and may be changed without notice or prior approval, as long as the new account or funds do not significantly alter the underlying structure of the contract. The Statement of Variability shall include a statement to that effect. An example of an unacceptable change would be the introduction of a Separate Account or fund with investment performance guarantees.
- (7) Notwithstanding Paragraph (1) above, items such as the insurance department address and telephone number, company address and telephone number, officer titles, and signatures of officers located in other areas of the contract may be denoted as variable and changed without notice or prior approval.
- (8) If the contract is for use with more than one plan, the variable item(s) for each plan shall be identified on the specifications page. The company may not use the same contract form to provide alternate plans by making any features and benefits described in the contract as inapplicable by zero entry or by indicating that the benefit is not applicable on the specifications page or in the contract. For example, the use of one contract with and without surrender charges is unacceptable. Examples of acceptable plans would include various surrender charge periods or initial guarantee periods (such as 3-year, 5-year, 7-year).
- (9) Guaranteed elements used in determining credited amounts 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 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 these standards.

**D. READABILITY REQUIREMENTS**

- (1) The contract shall be presented, except for specifications pages, schedules and tables, in not less than ten-point type, one point leaded.

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- (2) The style, arrangement and overall appearance of the contract shall give no undue prominence to any portion of the text of the contract or to any endorsements or riders.
- (3) The contract shall contain a table of contents or an index of the principal sections of the contract, if the contract has more than 3,000 words printed on three or fewer pages of text or if the contract has more than three pages regardless of the number of words.

**§ 2 GENERAL FORM REQUIREMENTS**

**A. COVER PAGE**

- (1) The full corporate name, including city and state, of the company shall appear in prominent print on the cover page of the contract. Examples of prominent print include print that is in all capital letters, contrasting color, underlined or otherwise differentiated from the other type in the form.
- (2) A marketing name or logo may be also used on the contract provided that the marketing name or logo does not mislead as to the identity of the company.
- (3) The company's complete mailing address for the home office or the office that will administer the contract shall appear on the cover page of the contract. The cover page of the contract shall include a telephone number of the company and, if available, some method of Internet communication. The telephone number of the insurance department where the contract is delivered or issued for delivery is also required on either the cover page or the first specifications page.
- (4) Two signatures of company officers shall appear on the cover page of the contract.
- (5) The contract shall contain a right to examine provision that shall appear on the cover page of the contract or be visible without opening the contract.
- (6) A form identification number shall appear at the bottom of the form in the lower left-hand corner of the form. The form number shall be adequate to distinguish the form from all others used by the company. The form number shall include a prefix of ICCxx (where xx represents the year the form was submitted for filing).
- (7) 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. The caption must include the word "variable"; for example, flexible premium deferred index-linked variable annuity contract, fixed premium deferred index-linked variable annuity contract, single premium deferred index-linked variable annuity contract, modified single premium index-linked deferred variable annuity contract, or limited payment period flexible premium index-linked deferred variable annuity contract;
  - (b) An indication as to whether the contract is participating or nonparticipating; and

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- (c) An indication that the contract contains a benefit waiving surrender charges, if applicable.
- (8) If applicable, the contract shall contain a statement, to the effect that contract values and benefits based on separate account assets are not guaranteed and will decrease or increase with investment experience, and the statement shall appear in prominent print on the cover page of the contract.
- (9) The contract shall contain the following disclosures for an ILVA:
  - (a) there is a risk of loss and loss may be greater if withdrawal, death, annuitization, transfer, or surrender occurs before the end of Index Strategy term;
  - (b) gains may be limited and are not guaranteed;
  - (c) while the contract values may be affected by an external index or indices, the contract holder does not directly participate in any stock or equity investment, if applicable; and
  - (d) If applicable, the Interim Value may reflect a negative return even if the index increases, may reflect a positive return even if the index decreases, and may be lower than the amount available on the Index Strategy term date.

**B. SPECIFICATIONS PAGE**

- (1) The specifications page shall include the amount of the single or initial premium to be paid; the date, schedule and mode of premiums (if applicable); and any limitations on premium amounts and/or time frames applicable to the payment of premiums.
- (2) The specifications page shall disclose all charges used in determination of the account value, cash value, cash surrender value, annuity value and death benefit.
- (3) The specifications page shall include any guaranteed minimum interest rates and their duration. In the situation where the guaranteed minimum interest rate applicable to any non-variable account value under the contract is tied to the nonforfeiture rate and the nonforfeiture rate is subject to redetermination, the guaranteed minimum interest rate shown on the specifications page shall be the initial guaranteed minimum interest rate.
- (4) If the nonforfeiture rate applicable to any non-variable account value under the contract is to be redetermined, the specifications page shall disclose the initial nonforfeiture rate and the period of redetermination. If the guaranteed minimum interest rate is tied to the nonforfeiture rate, a statement in prominent print shall be included to the effect that the guaranteed minimum interest rate under the contract may change after the indicated period of redetermination.
- (5) The specifications page of the contract shall include the index or indices used.
- (6) The specifications page of contract shall include any guaranteed elements used in determining the credited rate from an index and a statement, if applicable, that:

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- (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.
- (7) The specifications page shall include the date annuity payments are scheduled to begin under the contract i.e. the maturity date.
- (8) If in any year the death benefit is less than the account value, a statement to that effect shall be included in prominent print on the cover page or the first specifications page.
- (9) If the non-variable account value under the contract utilizes the minimum nonforfeiture values under the *Standard Nonforfeiture Law for Individual Deferred Annuities*, model #805, in the determination of the minimum contract values applicable under the contract, the minimum nonforfeiture value parameters (expense loads and initial nonforfeiture rate) shall be disclosed on the specifications page.

**C. FAIRNESS**

- (1) The contract shall not contain inconsistent, ambiguous, unfair, inequitable or misleading clauses, nor contain provisions that are against public policy as determined by the Interstate Insurance Product Regulation Commission, nor contain exceptions and conditions that unreasonably affect the risk purported to be assumed in the general coverage of the contract.

**§ 3 CONTRACT PROVISIONS**

**A. AMENDMENTS**

- (1) The contract shall not provide for unilateral amendments that reduce or eliminate benefits or coverage or impair or invalidate any right granted to the owner under the contract, except as stated in Paragraph (2) below and for amendments to conform to changes in any applicable provisions or requirements of the Internal Revenue Code.
- (2) The contract may permit the company to make unilateral changes in the contract for guaranteed annuity purchase rates for any new premiums received and account transfers made after issue and any interest credited to and investment earnings on those amounts. For contracts that reserve the right to make such unilateral changes, the contract and any tables of guaranteed annuity purchase rates shall clearly indicate that any new premiums received and account transfers made may be subject to different guarantees and shall provide for advance notification of the change. The contract also shall provide that the change shall apply only to any new premiums received and account transfers made, and any interest credited to and investment earnings on those amounts, and that any more favorable prior guarantees then applicable associated with amounts transferred to a general account for the purpose of immediate annuitization will not be affected by the change. The change shall be made by the use of an endorsement subject to the applicable prior approval requirement.

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- (3) The contract may provide for amendments made pursuant to the Discontinuation of or Substantial Change to an Index section of the standards. The change shall be made by the use of an endorsement subject to the applicable prior approval requirement.

**Drafting Note:** These standards are modified, as required, or permitted by law, to enable fraternal to implement their respective articles and bylaws. See Appendix B.

**B. ARBITRATION**

- (1) Only arbitration provisions that permit voluntary post-dispute binding arbitration shall be allowed in contract forms. With respect to such a provision, the following guidelines apply:
  - (a) Arbitration shall be conducted in accordance with the rules of the American Arbitration Association ("AAA"), before a panel of three (3) neutral arbitrators who are knowledgeable in the field of life insurance and appointed from a panel list provided by the AAA;
  - (b) Arbitration shall be held in the city or county where the contract owner or beneficiary lives;
  - (c) The cost of arbitration shall be paid by the company, to include any deposits or administrative fee required to commence a dispute in arbitration, as well as any other fee including the arbitrator's fee; and
  - (d) Where there is any inconsistency between these guidelines and AAA rules, these guidelines control.

**Drafting Note:** These standards are modified, as required or permitted by law, to enable fraternal to implement their respective articles and bylaws. See Appendix B.

**C. ASSIGNMENT**

- (1) The contract shall contain an assignment provision. The contract shall not include any restrictions on the availability of contract assignments, except in situations where restrictions are required for purposes of satisfying applicable laws or regulations [including Rule 12h-7 under the Securities Exchange Act of 1934, as amended](#).
- (2) The contract shall describe procedures for assignments and shall state that assignments, unless otherwise specified by the owner, shall take effect on the date the notice of assignment is signed, subject to any payments made or actions taken by the company prior to receipt of this notice.
- (3) The contract may state that the company shall not be liable for the validity of the assignment.

**Drafting Note:** Restrictions on assignment in contracts such as right of first refusal or first offer provisions are prohibited by Item (1). [A company that relies on the exemption provided by Rule 12h-7 under the Securities Exchange Act of 1934 from the requirement to file reports pursuant to Section 15\(d\) of that Act may, for the purpose of complying with that regulation, require written notice by the contract owner to,](#)

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and acceptance by, the company to any assignment or other transfer of the contract and reserving the right to refuse assignments or other transfers at any time on a non-discriminatory basis.

**D. BENEFICIARY**

- (1) The contract shall contain a beneficiary provision. The provision shall describe the procedures for designating or changing the beneficiaries, or for selecting default beneficiaries as may be necessary, and indicating when such designation is effective. The contract shall not include any restriction on change of beneficiary other than for purposes of satisfying applicable laws or regulations.
- (2) The contract shall state that changes in beneficiary, unless otherwise specified by the owner, shall take effect on the date the notice of change is signed by the owner, subject to any payments made or actions taken by the company prior to receipt of this notice.
- (3) If irrevocable beneficiaries are referenced in the contract, the contract shall explain that such a beneficiary cannot be changed without the consent of the irrevocable beneficiary.

**E. CASH VALUE TABLE**

If the contract contains a cash value table based on the net premiums (gross premiums minus a contract expense charge), both the gross and the net premiums shall be disclosed on the page showing the cash value table and the table should be labeled as applying to, as applicable, an ILVA or non-variable account value. Cash value tables are not required to be included, however, if included in the contract, only guaranteed cash values shall be shown.

**F. CONFORMITY WITH INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION STANDARDS**

The contract shall state that it was approved under the authority of the Interstate Insurance Product Regulation Commission and issued under the Commission standards. The contract shall also state that any provision of the contract that on the provision's effective date is in conflict with the applicable Interstate Insurance Product Regulation Commission standards for this product type in effect as of the provision's effective date of Commission contract approval is hereby amended to conform to the Interstate Insurance Product Regulation Commission standards in effect as of the provision's effective date of Commission contract approval.

**G. CONTRACT GUARANTEES**

- (1) If a contract contains a non-variable account value, values of any interest rate used in the determination of the account value, cash value, cash surrender value, annuity value and death benefit, and stated in the contract shall be guaranteed. Values of nonguaranteed interest rates shall not be included in the contract.
- (2) Values of any expense charges, surrender charges and partial withdrawal charges used in determination of the account value, cash value, cash surrender value, annuity value and death



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benefit, and stated in the contract shall be guaranteed. Values of nonguaranteed expense charges, surrender charges, and partial withdrawal charges shall not be included in the contract.

- (3) For a non-variable account value, the guaranteed interest rate shall be stated numerically, if possible, or, if not, by formula.
- (4) Values of any elements used in determining a credited rate from an index and which are used in determining contract values and are stated in the contract shall be guaranteed. Values of nonguaranteed elements shall not be included in the contract.
- (5) 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.

**H. CONTRACT VALUES**

- (1) The contract shall define and describe the method of calculating all values and benefits provided under the contract including, but not limited to, values payable upon death, surrender of the contract for cash, partial withdrawal, and election of an income option. The contract shall also include a complete description of all fees, charges and credits used to determine these values.
- (2) For a variable account value
  - (a) The contract shall stipulate the investment increment factors to be used in computing the dollar amount of variable benefits or other variable contractual payments or values and shall guarantee that expense and mortality results shall not adversely affect the dollar amounts. Guaranteeing a range of values for expense and/or mortality factors shall satisfy this requirement. If a company reserves the right to change the expense and/or mortality factors after annuity payments have begun, the initial variable annuity payment shall be calculated using both the current expense and/or mortality factors and the guaranteed maximum expense and/or mortality factors. Expense” as used in this paragraph may exclude some or all taxes, as stipulated in the contract.
  - (b) In computing the dollar amount of variable benefits or other contractual payments or values under the contract, the annual net investment increment assumption shall not exceed 5% except with the approval of the Interstate Insurance Product Regulation Commission.
  - (c) In computing the dollar amount of variable benefits or other contractual payments or values under the contract, to the extent that the level of benefits may be affected by future mortality results after annuity payments have begun, the minimum standard for the mortality factor shall be determined from the Annuity 2012 Mortality Table, or any modification of that table not having a lower life expectancy at any age, or any annuity mortality table approved for use for this purpose by the National Association of Insurance Commissioners.

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- (3) The contract must provide Interim Values and must describe any formula or methodology used to determine Interim Values including
  - (a) All elements used in determining Interim Values; and
  - (b) How the interim value formula or methodology applies to upward and downward adjustments.
- (4) The contract shall explain the allocation to Index Strategies and any restrictions.
- (5) The contract shall identify ~~or~~ and describe each index available under the contract, either within the contract itself or on the specifications page.

**I. DEATH BENEFIT PROCEEDS**

- (1) The contract shall describe how the death benefit proceeds are determined and shall describe all death benefit options available under the contract. For purposes of this section, the individual whose death triggers the death benefit proceeds is the measuring life.
- (2) The contract shall contain a provision for the payment of interest on the death benefit, as follows:
  - (a) Interest shall accrue and be payable as follows:
    - (i) for variable annuity contracts subject to the Securities and Exchange Commission's (SEC) rules governing the liquidation of account values at the death of the measuring life, from the eighth day following the date that due proof of death is received by the company; and
    - (ii) for all other annuity contracts, from the date of death of the measuring life, unless the contract specifies that the contract remains in force until the date that due proof of death is received by the company;
  - (b) Interest shall accrue at the rate or rates applicable to the contract for funds left on deposit or, if the company has not established a rate for funds left on deposit, at the Two Year Treasury Constant Maturity Rate as published by the Federal Reserve. In determining the effective annual rate or rates, the company shall use the rate in effect on the date that due proof of death is received by the company or the date of death, as determined in Item (a) above; and
  - (c) Interest shall accrue at the effective annual rate determined in Item (b) above, plus additional interest at a rate of 10% annually beginning with the date that is 31 calendar days from the latest of Items (i), (ii) and (iii) to the date the claim is paid, where it is:
    - (i) The date that due proof of death is received by the company;

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- (ii) The date the company receives sufficient information to determine its liability, the extent of the liability, and the appropriate payee legally entitled to the proceeds; and
  - (iii) The date that legal impediments to payment of proceeds that depend on the action of parties other than the company are resolved and sufficient evidence of the same is provided to the company. Legal impediments to payment include but are not limited to (a) the establishment of guardianships and conservatorships; (b) the appointment and qualification of trustees, executors and administrators; and (c) the submission of information required to satisfy a state and federal reporting requirements.
- (3) The death benefit proceeds paid shall be at least equal to the death benefit of the contract and any riders that are payable, plus any dividend values in the contract at the time of death, less any indebtedness.
- (4) The contract may require that due proof of the death of the measuring life will consist of:
- (a) a certified copy of the death certificate of the measuring life, or other lawful evidence providing equivalent information;
  - (b) each claimant's completed claim form;
  - (c) each claimant's completed request for redemption form; and
  - (d) proof of each claimant's interest in the proceeds.

**J. DEFERRAL AND VALUATION OF PAYMENTS**

- (1) The contract shall describe any conditions and/or limitations on the deferral of any amounts payable upon surrender, partial withdrawal, election of a loan, transfer of funds, or death.
- (2) For values in a non-variable account value or ILVA, the company may reserve the right to defer payment of surrenders, partial withdrawals, and loans for a period of six months. If a company elects to exercise deferral, the company shall make a written request and receive written approval of the chief insurance regulator of the state of domicile of the company. There shall be no deferral of payment of any portion of the death benefit derived from the general account or non-unitized separate account.
- (3) For variable account value benefits or contractual payments, the contract may provide that the company reserves the right, at its option, to defer the determination and payment of all benefits for any period during which the New York Stock Exchange is closed for trading (except for normal holiday closing) or when the Securities and Exchange Commission has determined that a state of emergency exists that may make determination and payment impractical.
- (4) The contract may also include a provision to defer a transfer from the general account or non-unitized separate account for a period of up to six months. The contract shall state that the company

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will disclose to the owner the specific date on which the transfer will be effective, the reason for the delay, and the value of the transfer as of the date the request is received by the company.

**K. DISCONTINUATION OF OR SUBSTANTIAL CHANGE TO AN INDEX**

- (1) The contract shall contain a provision indicating the conditions under which a company may discontinue an index and what occurs when any index is an 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 company discontinues an index is discontinued or if the calculation of the index is changed substantially, the company may will 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. Each index used in determining amounts credited to the contract including any index substituted for another index under this section is subject to prior approval by the IIPRC.

**L. ENTIRE CONTRACT**

- (1) The contract shall contain a provision regarding what constitutes the entire contract between the company and the owner. No document may be included by reference.
- (2) If the application is to be a part of the contract, the entire contract provision shall state that the application is a part of the contract. All statements made by the applicant for the issuance of the contract shall, in the absence of fraud, be deemed representations and not warranties.
- (3) The “entire contract” provision shall not include any reference to the prospectus.

**Drafting Note:** These standards are modified, as required or permitted by law, to enable fraternal to implement their respective articles and bylaws. See Appendix B.

**M. GRACE PERIOD**

- (1) Fixed premium contracts shall contain a provision providing a grace period of at least 31 days.
- (2) For fixed premium contracts, the grace period provision shall describe what happens upon the failure to make premium payments during the grace period.

**N. INCONTESTABILITY**

- (1) The contract shall contain an incontestability provision and include the conditions of the provision.

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- (2) Coverage may be contested on a statement contained in an application made a part of the contract except on the basis of age and sex. If the company expects to rely on an application to contest the contract, the company shall attach the application as a part of the contract. The statement on which the contest is based shall be material to the risk accepted or the hazard assumed by the company.
- (3) The contestable period shall be no greater than two years from the date of issue of the contract during the lifetime of the person, or each of the persons, as to whom the application statements are required.
- (4) The contract may allow a separate contestable period no greater than two years after the date of any change requiring underwriting. The contest shall be limited to the change and the statements provided for the change.
- (5) The contract may only include the following exceptions to the incontestability provision:
  - (a) At the option of the company, provisions related to benefits in the event of total and permanent disability; and
  - (b) Fraud in the procurement of the contract, when permitted by applicable law in the state where the contract is delivered or issued for delivery.

**O. LEGAL ACTION**

- (1) A contract may include a legal action provision. If included, the provision shall state that a legal cause of action related to the contract shall comply with the laws of the state where the contract was delivered or issued for delivery.

**P. LOANS**

- (1) A contract that develops cash value may provide for a loan provision.
- (2) The contract shall contain the conditions of a loan, if loans are available, including the following:
  - (a) The contract shall contain a statement that the contract shall be the sole security for the loan;
  - (b) The maximum loan amount shall never be greater than the cash surrender value of the contract, including the cash surrender value of any paid-up additions. The contract shall indicate any maximum loan amount required under federal law, either as a dollar amount, a percentage of the cash surrender value, or a combination of both;
  - (c) The contract shall describe the loan interest rate. The loan interest rate plus any added administrative fees shall be at a maximum fixed rate of 8% in arrears or a variable rate determined in accordance with the NAIC Model Policy Loan Interest Rate Bill, model #590. The company may not charge any additional fees or expenses for the loan;

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- (d) The contract may provide that if interest on any indebtedness is not paid when due it shall be added to the existing indebtedness and shall bear interest at a rate no greater than the loan rate;
- (e) The contract may provide that existing indebtedness, including any due and accrued interest, may be deducted from the loan value or the proceeds of the loan. The contract may also provide that interest will be collected in advance to the end of the current contract year;
- (f) The contract shall permit repayment of the loan and describe any conditions related thereto;
- (g) The contract shall describe the effect of outstanding loans on the death benefit, cash surrender value and annuity value;
- (h) The contract may provide that if and when the total indebtedness including interest due and accrued equals or exceeds the cash value then the contract shall terminate, but not until at least 30 days' advance notice of termination shall have been mailed to the owner and any assignee of record;
- (i) The contract shall indicate the maximum number of loans allowed at any time, if any; and
- (j) A description of how the interest rate credited to the portion of the account value equal to the indebtedness is determined shall be included.

**Q. MATURITY DATE**

- (1) The contract may provide the owner with the right to change the maturity date. If the contract includes such a right and is intended to be tax qualified, the provision shall contain sufficient latitude to allow the contract to continue to be tax qualified.
- (2) The latest maturity date, if any, shall be defined in the contract.

**Drafting Note:** For the purposes of the non-variable account value nonforfeiture demonstration, notwithstanding the language of the contract, the maturity date shall be the later of the tenth contract anniversary or the contract anniversary following the annuitant's 70th birthday, except as provided for by Items 3 and 7 of the Guidelines to Appendix A.

**R. MINIMUM PREMIUM/MAXIMUM PREMIUM**

The contract shall state the dollar amount of any minimum or maximum contract premium requirements.

**S. MISSTATEMENT OF AGE OR SEX**

- (1) The contract shall contain a misstatement of age provision or, if the contract is written on a sex distinct basis a misstatement of age or sex provision, providing that the amount payable shall be

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such as the premium payments to the company would have purchased at the correct age or the correct age and sex.

- (2) Any overpayments/underpayments by the company on account of misstatement of age or sex shall, with interest at a rate specified in the contract but not exceeding 6%, be charged/credited against the current or next succeeding payments to be made by the company.
- (3) If there is more than one annuitant, the misstatement provision may provide that the amount payable may be adjusted due to the misstatement in the age or the age or sex, as appropriate, of any annuitant.

**T. NONFORFEITURE VALUES**

- (1) If the contract contains a non-variable account value, the contract shall contain provisions applicable to the non-variable account value at least as favorable to the owner as the following:
  - (a) A provision that upon cessation of payment of premiums under the contract, the company will grant a paid-up annuity benefit as specified in the contract. For single premium or modified single premium contracts, the company will grant a paid-up annuity benefit as specified in the contract;
  - (b) If the contract provides for a lump sum settlement at maturity or at any other time, a provision that upon surrender of the contract at or prior to the commencement of any annuity payments, the company will pay in lieu of a paid-up annuity benefit a cash surrender value benefit;
  - (c) A statement of the mortality table, if any, and interest rates used in calculating any minimum paid-up annuity, cash surrender value or death benefits that are guaranteed under the contract, together with sufficient information to determine the amounts of such benefits. The sufficient information includes all expense, partial withdrawal and surrender charges;
  - (d) A statement that any paid-up annuity, cash surrender value or death benefits that may be available under the contract are not less than the minimum benefits required by Section 7B of the *Model Variable Annuity Regulation*, model #250, using the nonforfeiture interest rate consistent with the minimum nonforfeiture interest rate prescribed in the law of the state in which the policy is delivered or issued for delivery;
  - (e) An explanation of the manner in which the paid-up annuity, cash surrender value or death benefits are altered by the existence of any additional amounts credited by the company to the contract, any indebtedness to the company on the contract or any prior partial withdrawals from the contract.
- (2) With respect to an ILVA or variable account value, the contract shall contain in substance the following provisions, or provisions at least as favorable to the owner upon cessation of payment of premiums under the contract:

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**Drafting Note:** (a), (b) and (c) are consistent with Section 7C(1), (2), and (3) of the *Model Variable Annuity Regulation*, model #250.

- (a) That the company will grant a paid-up annuity benefit on a plan described in the contract that complies with Section 7G of the *Model Variable Annuity Regulation*, model #250. The description shall include a statement of the mortality table, if any, and guaranteed or assumed interest rates used in calculating annuity payments;
  - (b) If the contract provides for a lump sum settlement at maturity or at any other time, that upon surrender of the contract at or prior to the commencement of annuity payments, the company will pay in lieu of a paid-up annuity benefit a cash surrender benefit described in the contract that complies with Section 7 of the *Model Variable Annuity Regulation*, model #250 and for an ILVA with the net investment rate consistent with the requirements for determining Interim Values in these standards; and
  - (c) A statement that a paid-up annuity, cash surrender value or death benefits that may be available under the contract are not less than the minimum benefits required by Section 7 of the NAIC *Model Variable Annuity Regulation*, model #250 and these standards, and an explanation of the manner in which benefits are altered by the existence of any additional amounts credited by the company to the contract, any indebtedness to the company on the contract or any prior partial withdrawals from the contract.
- (3) A contract may provide the following:
- (a) If no premiums have been received under a contract for a period of two full years and the portion of the paid-up annuity benefit at maturity on the plan stipulated in the contract arising from premiums paid prior to such period would be less than \$20 monthly, the company may, at its option, terminate the contract by payment in cash of the present value of such portion of the paid-up annuity benefit, calculated on the basis of the mortality table, if any, and interest rate specified in the contract for determining the paid-up annuity benefit, and by that payment shall be relieved of any further obligation under such contract; and
  - (b) For single and modified single premium contracts, if the paid-up annuity benefit at maturity on the plan stipulated in the contract arising from premiums paid prior to such period would be less than \$20 monthly, the company may, at its option, terminate the contract by payment in cash of the present value of such portion of the paid-up annuity benefit, calculated on the basis of the mortality table, if any, and interest rate specified in the contract for determining the paid-up annuity benefit, and by that payment shall be relieved of any further obligation under such contract.
- (4) If the contract provides for the redetermination of the nonforfeiture rate applicable to any non-variable account value under the contract, the contract shall include a description of the redetermination method to be used, including the redetermination date, basis, and period of applicability for all future redetermination nonforfeiture rates.
- (5) If the contract utilizes the minimum nonforfeiture values under NAIC *Standard Nonforfeiture Law for Individual Deferred Annuities*, Model Law #805, but using the nonforfeiture interest rate as



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defined in these standards, in the determination of the minimum contract values applicable to any non-variable account value under the contract, the minimum nonforfeiture value parameters (expense loads and initial nonforfeiture rate) shall be disclosed on the specifications page.

**U. OWNERSHIP**

- (1) The contract shall contain an ownership provision. The provision shall describe the procedures for designating or changing the owner and indicating when the designation is effective. The contract shall not include any restriction on change of owner other than for purposes of satisfying applicable laws or regulations, [including Rule 12h-7 under the Securities Exchange Act of 1934, as amended](#).
- (2) The contract shall state that changes in owner designation, unless otherwise specified by the owner, shall take effect on the date the notice of change is signed by the owner, subject to any payments made or actions taken by the company prior to receipt of this notice.
- (3) The contract shall state what happens on the death of the owner.

**Drafting Note:** Restrictions on change of owner in contracts such as right of first refusal or first offer provisions are prohibited by Item (1). [A company that relies on the exemption provided by Rule 12h-7 under the Securities Exchange Act of 1934 from the requirement to file reports pursuant to Section 15\(d\) of that Act may, for the purpose of complying with that regulation, require written notice by the contract owner to, and acceptance by, the company to any change in ownership or other transfer of the contract and reserving the right to refuse assignments or other transfers at any time on a non-discriminatory basis.](#)

**V. PARTIAL WITHDRAWAL**

- (1) A contract that develops cash values may provide for a partial withdrawal provision.
- (2) A contract shall contain the conditions applicable to a partial withdrawal.

**W. PARTICIPATING CONTRACT**

A contract may be non-participating; however, if the contract is participating in the divisible surplus of the company, then the following shall apply:

- (1) The conditions of the participation shall be stated in the contract.
- (2) The contract shall provide that the company shall annually ascertain and apportion any divisible surplus.
- (3) The contract shall provide that the owner may receive any dividend paid in cash, unless the contract is intended to qualify under the Internal Revenue Code.
- (4) The contract shall describe the available dividend options. If the contract provides for more than one dividend option, the contract shall identify the automatic option.

**X. REINSTATEMENT**

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- (1) Fixed Premium contracts shall contain a reinstatement of the contract provision with respect to contracts for which the grace period has expired for nonpayment of premiums if the contract has not been surrendered and include the conditions of the reinstatement. The provision shall state that any other benefits provided by rider, amendment or endorsement terminating due to the lapse of the contract are covered under this provision.
- (2) The period of reinstatement may not be less than three years from the date of lapse.
- (3) Payment of overdue premiums may be required. Interest may be charged on overdue premiums at a rate not exceeding 6%.

**Y. REPORT**

- (1) The contract shall provide for the delivery, at least annually and without charge, of a report to the owner that serves to keep the owner advised as to the status of the contract and that provides any other information required under state or federal law, including the requirements of Items (2), (3) and (4) below.
- (2) The status report of the contract shall provide current information as of a date not more than four months prior to the date of mailing.
- (3) The contract shall provide for additional status reports to be made available to the owner upon request. The contract shall disclose the maximum charge for the report.
- (4) The contract shall state that the report shall contain at least the following information:
  - (a) The beginning and end dates of the current report period;
  - (b) The account value and Interim Value, if any, at the beginning of the current report period and at the end of the current report period;
  - (c) The amounts that have been credited or debited to the account value during the current report period. The credited and debited amounts must be identified by type; for example, premium payments, interest credits, persistency credits, expense charges, partial withdrawal amounts, withdrawal charges and cost of rider(s);
  - (d) The cash surrender value, if any, at the end of the current report period; and
  - (e) The amount of outstanding loans, if any, at the end of the current report period.

**Z. RIGHT TO EXAMINE CONTRACT**

- (1) The Right to Examine Contract provision appearing on the cover page or that is visible without opening the contract shall include the following:

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- (a) (i) If the contract is not a replacement contract, a period of ten days beginning on the date the contract is received by the owner, and at the discretion of the company a longer period may be filed; or
- (a) (ii) If the contract is a replacement contract, a minimum of thirty days beginning on the date the contract is received by the owner, or any longer period as may be required by applicable law in the state where the contract is delivered or issued for delivery;
- (b) A requirement for the return of the contract to the company or the agent of the company;
- (c) For premiums paid to a non-variable account value and an ILVA ~~account value~~, the refund of any premiums paid if the contract is returned.
- (d) For premiums paid to a variable account value, if the contract is returned, either a refund of:
  - (i) The premiums paid; or
  - (ii) The separate account value plus any amount deducted from the portion of the premium applied to the account.

**AA. SEPARATE ACCOUNTS**

- (1) ~~If the contract includes~~ For a variable account value or ILVA within a the contract
  - (a) Shall explain the allocation to separate account funds and any restrictions (e.g. limitations on transfers between/among separate account funds and between the separate account and the general account).
  - (b) May contain a provision stating that the portion of assets of a separate account equal to the reserves and other contract liabilities with respect to the account shall not be charged with liabilities arising out of any other business the company may conduct. If the company's domiciliary state requires separate accounts to be insulated, the contract shall include this provision.
  - ~~(c) — Shall provide that income, gains, and losses, whether or not realized, from assets allocated to a separate account shall be credited to or charged against such account without regard to other income, gains or losses of the company.~~
  - ~~(d)~~ Shall identify or describe the separate accounts and funds available under the contract, either within the contract itself or on the specifications page.
  - ~~(e) — Shall specify the dates on which the assets of a separate account will be valued and provide that assets allocated to a separate account shall be valued at their market value on those dates.~~
  - (d) If there is no readily available market for assets in the separate account, then the contract shall specify how the assets would be valued.

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(2) For a variable account value within a contract

(a) Shall provide that income, gains, and losses, whether or not realized, from assets allocated to a separate account shall be credited to or charged against such account without regard to other income, gains or losses of the company.

(b) Shall specify the dates on which the assets of a separate account will be valued and provide that assets allocated to a separate account shall be valued at their market value on those dates.

**BB. SETTLEMENT**

- (1) The contract shall specify a default settlement option at maturity. The default option shall be a life annuity with a period certain of at least five years unless otherwise provided under the Internal Revenue Code.
- (2) Whenever a death benefit is available under the contract, the contract shall contain a provision that settlement of the death benefit proceeds shall be made to the beneficiary upon receipt of due proof of death.

**CC. SETTLEMENT OPTIONS**

- (1) The contract shall contain a description of the type(s) and form(s) of settlement option provided in the contract. The guaranteed interest rate and mortality table, if applicable, being utilized for a designated settlement option shall be identified in the contract. In lieu of the interest rate and mortality table disclosure, complete tables of guaranteed settlement option amounts may be included in the contract. If the company retains the right to change the guaranteed annuity purchase rates for any new premiums and account transfers made or varies guaranteed purchase rates between a non-variable account value, variable account value and ILVA, this requirement shall apply to each set of guaranteed purchase rates used by the company under the contract. The effective date that applies to each set of purchase rates also shall be indicated.
- (2) The contract shall contain a provision stating that the annuity benefits at the time of their commencement will not be less than those that would be provided by the application of the cash surrender value to purchase a single premium immediate annuity contract at purchase rates offered by the company at the time to the same class of annuitants if the company offers a single consideration annuity contract at the time to the same class of annuitants.

**§ 4 ADDITIONAL STANDARDS FOR FRATERNAL BENEFIT SOCIETIES**

The contract may include the following provisions:

**A. MEMBERSHIP**

**November 14, 2023 referred to PSC  
with ILVA subgroup revisions based on comments received.**

- (1) The certificate may include a provision stating that the annuitant and/or owner is a member and that the form that has been issued to evidence coverage is a certificate of membership and insurance.

**B. MAINTENANCE OF SOLVENCY**

- (1) The certificate may include a provision setting forth the legal rights and obligations in the case of a fraternal's financial impairment.

## APPENDIX A

### GUIDANCE FOR COMPLETING APPENDICES A-1 AND A-2 FOR ANNUITY NONFORFEITURE MINIMUM VALUE COMPLIANCE

For

#### NON-VARIABLE ACCOUNT VALUES

(No Bonus Features, No Modified Guaranteed/ Market Value Adjustments, No Guaranteed Death Benefits, No Guaranteed Living Benefits, No Two-Tier Annuities, No Enhanced Withdrawal Benefits or other minimum guarantees for separate account funds.)

1. Compliance with minimum nonforfeiture requirements shall be demonstrated by comparing the guaranteed cash values based on the contract guaranteed interest rates and maximum expense loads to the greater of:
  - i. For the retrospective test, minimum nonforfeiture values based on a perpetual nonforfeiture rate of 3% per annum; and
  - ii. For the prospective test, minimum nonforfeiture values using the contract guarantees assuming the minimum nonforfeiture interest rate is 3%.

If the contract utilizes the minimum nonforfeiture values in the determination of the minimum contract values applicable under the contract, the minimum nonforfeiture value parameters (expense loads and initial nonforfeiture rate) shall be disclosed on the specifications page.

**Drafting Note:** It is recognized that the actual minimum nonforfeiture interest rate could be lower than 3% consistent with the minimum nonforfeiture interest rate prescribed in the state in which the policy is delivered or issued for delivery. The 3% minimum nonforfeiture interest rate was chosen for the compliance demonstration because 3% would be the most stringent compliance scenario. If the contract guaranteed interest rate is linked to the minimum nonforfeiture interest rate, minimum nonforfeiture values will be at their highest levels when the minimum nonforfeiture interest rate is 3%. If the contract guaranteed interest rate is not linked to the minimum nonforfeiture interest rate, the effect of the minimum nonforfeiture interest rate on minimum nonforfeiture values would be most significant at 3%.

2. If the contract has non-level interest rate guarantees over the period of time for which interest rates are guaranteed, then, for purposes of the prospective test, the maturity value shall be discounted at an interest rate not to exceed one percent (1%) higher than the level imputed interest rate that produces a maturity value equal to that produced by the interest rates specified in the contract. The level imputed interest rate shall be derived such that gross considerations, net of any expense loads specified in the contract, accumulated at such level imputed interest rate equals gross consideration, net of any expense loads specified in the contract accumulated at the rate or rates specified in the contract.

**Drafting Note:** This requirement is intended to produce comparable prospective test results for comparable maturity values and is considered appropriate in the context of all requirements in this standard, in particular the maturity date restrictions for purposes of the nonforfeiture demonstration.

3. For contracts where surrender charge scales are measured from the date of each premium payment (i.e. rolling surrender charges), minimum value compliance may be demonstrated assuming each

premium payment is treated as a separate single premium contract. For purposes of determining the maturity date for each single premium, that date shall be the later of the tenth anniversary of the payment or the annuitant's 70<sup>th</sup> birthday. If minimum value compliance is to be demonstrated in this fashion, the retrospective test minimum values shall be the greater of those based on the contract being treated either as a single contract providing for flexible premiums or as a single contract with each premium being considered a single premium contract.

4. For surrender charges measured from premium payment dates, the surrender charge percentages shown in Appendixes A-1 and A-2 for a contract year correspond to years measured from the date of each premium payment, not from the contract issue date.
5. The company must submit retrospective and prospective data, in the format prescribed in Appendixes A-1 and A-2, for whatever issue ages and premium payment patterns affect minimum value compliance.
6. Free partial withdrawal "window" periods shall be ignored for purposes of determining retrospective test compliance.
7. For purposes of demonstrating compliance with the prospective test and the maturity date used for that test, the "10<sup>th</sup> contract anniversary" or "the contract anniversary following the annuitant's 70<sup>th</sup> birthday" should be considered as the first day of the year following the contract anniversary (not including any premium payments for that year) and the discounting process should be determined on a curtate (full integral year) basis.
8. CD annuity benefits, defined as those with surrender charges that periodically renew and credited interest rate guarantee periods that periodically renew, are compliant with the individual deferred annuity SNL tests provided:
  - i. The contract provides for a time period of at least 30 days at each renewal, during which the contract may be surrendered without surrender charges or other penalties;
  - ii. For prospective test compliance, testing should be performed only once at issue and the surrender charge should be set equal to zero (0) at every duration beyond the expiration of the initial interest guarantee period;
  - iii. In demonstrating prospective test compliance, for any period after the expiration of the first interest guarantee period, the guaranteed credited rate assumed should be the minimum rate guaranteed in the contract; and
  - iv. For a given interest guarantee period, the surrender charge percentage applicable at any renewal duration of that guarantee period should not exceed that for the comparable initial guarantee period duration.

**APPENDIX A-1**

Non-variable Account value  
 Demonstration of Nonforfeiture Law Compliance – Retrospective Test

**Contract Form Specifications**

Issue Age:	60	Minimum Nonforfeiture Interest Rate:	3.00%
		Minimum Contract Guaranteed Interest Rate(s):	4.00%
Surrender Charge Type:	% Contract Value % Premium None	Measure Surrender Charges From:	Issue Date Premium Payment Date
Free Withdrawal Type:	Contract Value Accumulated Interest Premiums Paid	Free Withdrawal %:	10.00%
Contract Loads—>	% Premium:	5.00%	Per Contract: \$30.00 Per Payment: \$2.50

Contract Year	Premium *	Guaranteed Account Value <u>EOY</u>	Surrender Charge <u>Percent</u>	Surrender Charge	(A) Guaranteed Cash Value <u>EOY</u>	(B) NF Law Minimum Cash Value <u>EOY</u>	Excess <u>(A)-(B)</u>
1							
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\* For a modified single premium contract, all first contract year's planned premium payments shall be included as part of the initial premium.



**APPENDIX A-2**

Non-variable Account value  
 Demonstration of Nonforfeiture Law Compliance –Prospective Test

**Contract Form Specifications**

Issue Age:	60	Minimum Nonforfeiture Interest Rate:	3.00%
		Minimum Contract Guaranteed Interest Rate(s):	4.00%
Surrender Charge Type:	% Contract Value % Premium None	Measure Surrender Charges From:	Issue Date Premium Payment Date
Free Withdrawal Type:	Contract Value Accumulated Interest Premiums Paid	Free Withdrawal %:	10.00%
Contract Loads—>	% Premium:	5.00%	Per Contract: \$30.00 Per Payment: \$2.50

Contract Year	Premium **	<u>Guaranteed Account Value BOY</u>	<u>Surrender Charge Percent</u>	<u>Surrender Charge</u>	(A) Guaranteed Cash Value BOY	(B) Discounted Maturity Value* Based on Prens to Date	Excess (A)-(B)
1							
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- \* Each Maturity Value is defined as the Guaranteed Account Value on the later of (1) the 10th contract anniversary, or (2) the contract anniversary following the annuitant's 70th birthday. Each Maturity Value is discounted to the beginning of the contract year (BOY) shown.
- \*\* For a modified single premium contract, all first contract year's planned premium payments shall be included as part of the initial premium.

## APPENDIX B

### Fraternal Benefit Societies

Fraternal Benefit Societies (“fraternals”) are subject to separate fraternal codes in all jurisdictions due to their unique structure, operations and legal obligations. The Drafting Notes included under the Scope, AMENDMENTS, ARBITRATION and ENTIRE CONTRACT standards, the section entitled ADDITIONAL STANDARDS FOR FRATERNAL BENEFIT SOCIETIES, and Appendix B are included in the standards to allow fraternals to experience the benefits of participating in the single point of filing and review process that the Interstate Insurance Product Regulation Commission offers, without jeopardizing their ability to meet their unique obligations and to operate as required or permitted by law.

By law, a fraternal is defined by five basic elements:

1. One without capital stock;
2. One conducted solely for the benefit of its members and their beneficiaries by providing life, health and annuity benefits and by operating one or more social, educational, charitable, patriotic, or religious purposes for the benefit of members and others;
3. One that is a benevolent and charitable institution and not for profit;
4. One operated on a lodge system that may carry out charitable and other activities; and
5. One that has a representative form of government with a governing body and direct election of its members.

The laws governing fraternals impact the standards in several ways. Fraternals are required by law to issue insurance contracts that incorporate the laws of the Society and the application for membership. Thus, the contract must consist not only of the contract or certificate issued, and the application for insurance, but also the application for membership and the articles and bylaws. Further, the laws governing fraternals require or permit that the articles and bylaws address the structure of lodges, membership requirements, form of governance, grievance procedures, and eligible beneficiaries. Any amendments to the articles or bylaws made after issuance of a certificate must be applied consistently to all members retroactively. However, no amendment shall eliminate or reduce contractual benefits.

By law, fraternals are membership organizations. Because of this, the law refers to the insurance forms issued to members of a fraternal as “certificates” or “certificates of membership and insurance.” Further, due to the membership requirements, fraternal certificates often include a provision stating that the annuitant and/or owner is a member and that the form that has been issued to evidence coverage is a certificate of membership and insurance. In addition, fraternal certificates may include a Maintenance of Solvency provision setting forth the legal rights and obligations in the case of a fraternal’s financial impairment.

### Appendix [C](#)

For a [One Year] Segment Term\*:  
Interim Value Segment Return  
Less  
Market Value of Hypothetical Portfolio Return

<u>Volatility</u>	<u>Segment Index Performance</u>												
		<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>
<u>25%</u>	<u>30%</u>												<u>0%</u>
<u>25%</u>	<u>25%</u>												<u>0%</u>
<u>25%</u>	<u>20%</u>												<u>0%</u>
<u>25%</u>	<u>15%</u>												<u>0%</u>
<u>20%</u>	<u>10%</u>												<u>0%</u>
<u>20%</u>	<u>5%</u>												<u>0%</u>
<u>20%</u>	<u>0%</u>												<u>0%</u>
<u>20%</u>	<u>-5%</u>												<u>0%</u>
<u>20%</u>	<u>-10%</u>												<u>0%</u>
<u>25%</u>	<u>-15%</u>												<u>0%</u>
<u>25%</u>	<u>-20%</u>												<u>0%</u>
<u>25%</u>	<u>-25%</u>												<u>0%</u>
<u>25%</u>	<u>-30%</u>												<u>0%</u>

\*For segment terms longer than three years, quarterly demonstrations can be provided through the end of the segment term.