

## **ADDITIONAL STANDARDS FOR BONUS BENEFITS (for Individual Deferred Non-Variable Annuities)**

**Scope:** These standards apply to bonus benefits that are built into individual deferred non-variable annuity contracts, non-variable account value of individual deferred indexed linked variable annuity contracts or added to such contracts by rider, endorsement or amendment. ~~These standards do not apply to products with a zero (0) bonus.~~ The bonus benefit can be an interest bonus, a premium bonus, a persistency bonus or any other amounts/percentages that are credited to the premiums paid, account value, cash value, cash surrender value or annuity/maturity value under a specified condition, other than benefits of the type described above that are provided through any pattern of non-level interest rate guarantees that may be similar to but are not specifically referred to as bonuses or additional credits. The bonus benefit form may reference the bonus as a credit, enhancement, bonus or similar terminology.

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

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

As used in these standards, the following definitions apply:

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

### **§1. ADDITIONAL SUBMISSION REQUIREMENTS**

#### **A. GENERAL**

The following additional filing submission requirements apply:

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

- (d) A description of the bonus benefit for all types of contract forms with which the benefit will be used.
- (e) Any contract pages or provisions referenced in the bonus benefit form.

## **B. ACTUARIAL MEMORANDUM**

- (1) The actuarial memorandum required by the Core Standards for Individual Deferred Non-Variable Annuity Contracts to which these bonus benefit standards are attached, and which is prepared, dated and signed by the member of the American Academy of Actuaries, shall include the following bonus benefit information concerning the calculation of the nonforfeiture values (including both cash surrender values and nonforfeiture values):
  - (a) A description of the bonus benefit, including any formulae or methodology used to determine the bonus benefit and any requirements for the amount of premiums received or the level of account value attained, or any other conditions that must be met to receive the bonus benefit;
  - (b) A description of any elements used in determining the bonus benefit and any guarantees or ranges associated with these elements;
  - (c) An example showing the derivation of the bonus benefit; and
  - (d) A demonstration that the values of the contract, including any guaranteed bonus benefit, comply with the provisions of the NAIC Standard Nonforfeiture Law for Individual Deferred Annuities, model #805, as interpreted in the Core Standards for Individual Deferred Non-Variable Annuity Contracts to which these standards apply. Bonus benefit assumptions used in the nonforfeiture demonstration shall be disclosed in Appendices A-1 and A-2.

## **§2. VARIABILITY OF INFORMATION**

- (1) Guaranteed elements used in determining the bonus benefit 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 the NAIC Standard Nonforfeiture Law for Individual Deferred Annuities, model #805, as interpreted in the Core Standards for Individual Deferred Non-Variable Annuity Contracts to which these standards apply.
- (2) Any identifiable charge for the bonus benefit may be considered a variable item and marked to denote variability.

- (3) A zero entry in a range for any benefit or credit is unacceptable, and any change to a range requires a refile for prior approval.

### **§3. GENERAL REQUIREMENTS**

#### **A. COVER PAGE**

- (1) If a bonus benefit is provided by attachment to the contract by rider, endorsement or amendment, the following shall be included on the cover page:
  - (a) At least one signature of a company officer if the bonus benefit form is added after the date of issue of a contract.
  - (b) A statement to the effect that the bonus benefit form is made a part of the contract and that its provisions apply in lieu of any contract provisions to the contrary.
- (2) The bonus benefit form shall contain a brief description that shall appear in prominent print on the cover page of the bonus benefit form or is visible without opening the bonus benefit form. The brief description shall contain at least the following information:
  - (a) A caption stating that a bonus benefit is provided; for example, flexible premium deferred annuity contract with bonus provision.

#### **B. SPECIFICATIONS PAGE**

- (1) The specifications page of the bonus benefit form shall include any guaranteed elements used in determining the bonus benefit and a statement, if applicable, that:
  - (a) The elements used in determining the bonus benefit are not guaranteed and can be changed by the company, subject to the guarantees in the bonus benefit form, and that any such changes can affect the account value.
  - (b) There may be situations in which the bonus benefit may not be fully earned and the owner should read the bonus benefit, surrender charge and bonus benefit forfeiture provisions (or the provisions where those topics are addressed) of the contract carefully.
- (2) The specifications page of the bonus benefit form shall include any identifiable charge for the bonus benefit.
- (3) Separate policy forms must be submitted when the product is being offered with bonus and non-bonus features. Separate specifications pages to handle both cannot be accepted.
- (4) For variations in types of bonuses or guaranteed elements for bonus features, these benefits can be shown through different specifications pages, with a generic cover page indicating a bonus is present. Alternatively, separate policy forms may be submitted to reflect the variations.

### **C. BONUS BENEFIT**

- (1) The bonus benefit form shall describe any formulae or methodology used to determine the bonus benefit, including any requirements applicable to the amount of premiums received or the level of account value attained, or any other conditions that must be met to receive the bonus benefit.
- (2) The bonus benefit form shall describe any elements used in determining the bonus benefit and any guarantees or ranges associated with these elements.
- (3) The bonus benefit form shall describe the effect of any bonus benefit credited to the contract on all contract values. The bonus benefit form shall describe the date the bonus benefit is to be credited and the order in which the bonus benefit will be credited to the contract values, relative to other contract charges and credits that could be applied on the same date.
- (4) If the bonus benefit is related to the premiums paid, the bonus benefit form shall disclose that the amount of the bonus benefit is not considered a premium payment, but is considered part of interest earnings.

### **D. BONUS BENEFIT GUARANTEES**

- (1) The values of any elements used in determining the bonus benefit and stated in the bonus benefit form shall be guaranteed. Values of nonguaranteed elements shall not be included in the contract.
- (2) The bonus benefit form shall indicate which elements are guaranteed and which may be changed at the discretion of the company. The bonus benefit form 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.

### **E. CONDITIONS UNDER WHICH BONUS BENEFIT MAY BE FORFEITED**

- (1) The contract may, at the option of the company, deduct from the account value the amount of any bonus benefit credited, provided the following conditions are met:
  - (a) The conditions for forfeiture are described in the contract;
  - (b) Forfeiture of the bonus will not reduce the cash value below the minimum nonforfeiture benefit as required under this standard; and
  - (c) No bonus will be forfeited on or after the maturity date, as defined in the NAIC Standard Nonforfeiture Law for Individual Deferred Annuities, model #805, as interpreted in the Core Standards for Individual Deferred Non-Variable Annuity Contracts, to which these standards apply.

- (d) A zero bonus is not acceptable under the conditions outlined.

**F. RIGHT TO EXAMINE CONTRACT**

- (1) The contract shall disclose that if the contract is returned under the right to examine provision, any bonus benefit credited will not be returned.

**G. TERMINATION**

- (1) A bonus benefit form that is attached to the contract by rider, endorsement or amendment shall include the following termination conditions:
  - (a) Upon written request from the owner;
  - (b) Upon termination of the contract; or
  - (c) Upon nonpayment of any identifiable charge.

## Appendix A

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

#### **For Use With**

#### **BONUS BENEFITS CONTAINED AS PART OF INDIVIDUAL DEFERRED NON-VARIABLE ANNUITY CONTRACTS OR NON-VARIABLE ACCOUNT VALUE OF INDIVIDUAL DEFERRED INDEXED LINKED VARIABLE ANNUITY CONTRATS**

Bonus Benefits are defined as benefits in individual deferred non-variable annuity contracts that provide an interest bonus, a premium bonus, a persistency bonus or any other amounts/percentages that are credited to the premiums paid, account value, cash value, cash surrender value or annuity/maturity value under a specified condition, other than benefits of the type described above that are provided through any pattern of non-level interest rate guarantees that may be similar to but are not specifically referred to as bonuses or additional credits.

For purposes of demonstrating compliance with the NAIC Standard Nonforfeiture Law For Individual Deferred Annuities, model #805 (the Law) as interpreted in the Core Standards for Individual Deferred Non-Variable Annuity Contracts to which these standards apply, and compliance with the requirements of the core Interstate Insurance Product Regulation Commission standards for individual non-variable deferred annuity products, the following requirements apply to Bonus Benefits:

- (1) For purposes of the retrospective test of the Law (Appendix A-1), any bonus amounts are not to be considered gross considerations.
- (2) For purposes of the prospective test of the Law (Appendix A-2):
  - i. The bonus amount, accumulated at interest using the rate or rates specified in the contract, is to be considered part of the contract maturity value.
  - ii. 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 rate or 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 considerations, net of any expense loads specified in the contract, plus the bonus accumulated at the rate or rates specified in the contract to the maturity date.

**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 the Core Standards for Individual Deferred Non-Variable Annuity Contracts to which these guidelines are attached, in particular the maturity date restrictions for purposes of the nonforfeiture demonstration. The introduction of this requirement shall not change any of the other core standard

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guidelines, e.g. for contracts where surrender charge scales are measured from the date of each premium payment, minimum value compliance may be demonstrated assuming each premium payment is treated as a separate single premium contract.

iii. For situations where the bonus is a non-guaranteed element (subject to change by the company within a pre-filed range), compliance is to be demonstrated, using these Guidelines, for the "worst case" scenario.

(3) The following additional information section shall be added to the top of Appendices A-1 and A-2:

Bonus Type:	Interest Bonus:	X% of Account Value
	Premium Bonus:	X% of [Initial/1 <sup>st</sup> Year/All] Premium(s)
	Persistency Bonus:	X% per year
	Other Bonus Type:	<i>[Describe]</i>

Level imputed interest rate: [X]%