

IIPRC Office Report and Recommendations for the Uniform Standards  
Currently Subject to Five-Year Review (Phase 7)  
Certain Uniform Standards Effective Between January 1, 2011 and July 3, 2011

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## SUBSTANTIVE CHANGE ITEMS

5-Year Review, Phase 7 (Certain Uniform Standards Effective Between January 1, 2011 and July 3, 2011)

### **Substantive Change Items**

Substantive change items are proposed amendments to the Uniform Standards that would change or alter the meaning, application or interpretation of the provision. Substantive change items would likely impact not only the Uniform Standards but product filings submitted to the IIPRC and would be the equivalent to a change in an individual state's laws or regulations. When looking at the substantive change items, the scope of review should consider whether circumstances or underlying assumptions have changed since the last time the rule was adopted, amended or reviewed.

#### **List of Substantive Change Items**

1. Period Certain Payments for Individual Deferred Paid-Up Non-Variable Annuities
2. Commutation for Individual Deferred Paid-Up Non-Variable Annuities
3. Dividends used to Purchase Paid Up Additions
4. Private Placement – Ceasing To Be a Qualified Owner
5. Private Placement Plans – Liquidity and Availability of Funds
6. Private Placement Uniform Standards for Immediate Variable Annuity Contracts
7. Age Requirements For Overloan Protection
8. Premium And Benefit Characteristics For Graded Death Benefits

## SUBSTANTIVE CHANGE ITEMS

5-Year Review, Phase 7 (Certain Uniform Standards Effective Between January 1, 2011 and July 3, 2011)

### 1. INDIVIDUAL DEFERRED PAID-UP NON-VARIABLE ANNUITIES AND PERIOD CERTAIN PAYMENTS

**APPLIES:** The Scope and §3G (3) of the Individual Deferred Paid-Up Non-Variable Annuity Contract Standards (Commonly Marketed as Longevity Annuities)

#### **CURRENT PROVISION:**

**Scope:** These standards apply to an individual deferred paid-up non-variable annuity contract with no cash surrender values prior to the commencement of annuity payments that provides for a single premium or flexible premiums over the deferral period of the contract or for a shorter limited payment period, and that provides for specified income payments beginning on a specified income commencement date for each premium paid. It provides for all funds to be held in the general account.

#### **§ 3G. CONTRACT VALUES AND GUARANTEES**

(3) The contract shall provide that the income payable on the income commencement date is payable for the annuitant's lifetime (with or without a guarantee period).

#### **COMMENTS:**

*Industry Comment:* The Industry Advisory Committee (IAC) requested that the IIPRC consider allowing Period Certain Deferred Income Annuities within the Scope of these uniform standards. The IAC observes that today's retirees and near retirees face the challenge of ensuring the assets they have saved for retirement will be able to fund the full length of their retirement. A Deferred Income Annuity (DIA) is one product that an individual can utilize as part of their retirement planning to guarantee a portion of the retirement income needs.

The IAC notes that since these standards were initially adopted, the market has developed for period certain DIA's as another option that permits more conservative investors to make the choice of the guaranteed certainty of securing outcomes instead of the flexibility to earn more (or less) that comes from remaining fully liquid. They explain that a DIA yields more income over a Single Premium Immediate Annuity per dollar invested since deferring the income start date eliminates the low end of a normal yield curve. The insurance company can offer greater income per dollar if it does not have to provide liquidity in those early years of deferral when short term rates are typically low.

The IAC notes that a period certain DIA will not be preferred by everyone, but it is an attractive option that is currently being sold in today's marketplace and is approved by many Insurance Compact member states.

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*IIPRC Office Comments/Observations:* The IIPRC Office notes that similar requests have been raised by filers within the last few years, and since the uniform standards do not currently allow for period certain DIA's, the filers were required to file the products state by state. With the evolution of the marketplace, insurance companies face a competitive disadvantage when products must meet the limitations in the current standard and yet these products are generally accepted in the majority or more of Compacting States.

The IIPRC Office notes that in early 2015, the Actuarial Working Group discussed adding period certain DIAs to these uniform standards and did not identify any actuarial issues. They suggested that the Product Standards Committee (PSC) review the proposal and also suggested setting a limitation on the minimum income period to make sure the product fulfills an income need rather than providing a lump sum payment.

*IIPRC Office Recommendation:* The IIPRC Office recommends that the PSC review whether these products are being approved at the individual state level; whether there are any restrictions or limitation, and consider the following amendments to the Scope and §3 G.(3). Although the IAC suggested four years as the minimum period and 20 years as the maximum, the IIPRC Office recommends that the PSC consider a 5 year minimum to be consistent with the Standard Valuation Law actuarial guideline (AG IX-B ) that states "A series of payments over less than five years otherwise qualifying as an annuity shall be considered equivalent to a lump sum."

**Scope:** These standards apply to an individual deferred paid-up non-variable annuity contract with no cash surrender values prior to the commencement of annuity payments that provides for a single premium or flexible premiums over the deferral period of the contract or for a shorter limited payment period, and that provides for specified income payments beginning on a specified income commencement date for each premium paid. Income payable on the commencement date is payable for the annuitant's lifetime (with or without a guarantee period) or for a stipulated period of time. It provides for The standards require all funds to be held in the general account.\*

(\* Note that the IAC has also suggested changes to the Scope for commutation under Substantive item #2)

### § 3G. CONTRACT VALUES AND GUARANTEES

- (3) The contract shall provide that the income payable on the income commencement date is payable for the annuitant's lifetime (with or without a guarantee period) or for a stipulated period certain for a minimum of five (5) years with a maximum deferral period of twenty (20) years.

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### 2. COMMUTATION FOR INDIVIDUAL DEFERRED PAID-UP NON-VARIABLE ANNUITIES

**APPLIES:** Various provisions of the Individual Deferred Paid-Up Non-Variable Annuity Contract Standards (Commonly Marketed as Longevity Annuities)

#### **CURRENT PROVISIONS:**

**Scope:** These standards apply to an individual deferred paid-up non-variable annuity contract with no cash surrender values prior to the commencement of annuity payments that provides for a single premium or flexible premiums over the deferral period of the contract or for a shorter limited payment period, and that provides for specified income payments beginning on a specified income commencement date for each premium paid. It provides for all funds to be held in the general account.

There is currently no commutation provision in these uniform standards.

#### **COMMENTS:**

*Industry Comment:* The IAC requests consideration of the addition of commutation provisions to the Individual Deferred Paid-Up Non-Variable Annuity Contract Standards. They note that products that provide guaranteed lifetime income are effective for planning for a secure retirement. A deferred income annuity (DIA), which is similar to a single premium immediate annuity (SPIA) but is designed to delay the commencement of annuity payments, is one such product. The IAC states that while DIAs are sometimes used as end-of-life longevity insurance, the vast majority of DIAs are purchased by individuals at or near retirement with relatively short deferral periods and that purchasing a DIA permits the owner to receive significantly more guaranteed income than SPIAs and other types of deferred annuities offer.

The IAC notes that under the existing standards, DIAs do not include an option to access all or a portion of the remaining guaranteed payments under the contract. Even though very few consumers elect to use these SPIA liquidity features, distributors often cite them as important to overcoming consumer reluctance to commit funds to income annuity products.

It is the IAC's position that allowing commutation on a DIA product after income begins will enhance the appeal of the product and overcome consumer reluctance to commit funds to these contracts. The commutation feature would allow the policy owner to withdraw up to 100% (subject to applicable tax rules) of the discounted value of their remaining guaranteed payments at any time. Only payout options that provide for a guaranteed period would be eligible, including period certain, cash refund, and installment refund. While, similar to SPIAs, a commutation feature should not be actively marketed and the suitability process should keep the need to access a commutation feature to a minimum. The IAC

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submitted a redlined draft of suggested revisions to these standards to include commutation provisions.

*IIPRC Office Comments/Observations:* The IIPRC office notes that it has received requests from filers to add commutation riders to longevity products or to file a longevity product that includes a commutation provision. Companies have noted that single premium immediate annuities that are subject to the Individual Immediate Non-Variable Annuity Contract Standards allow for commutation and there does not appear to be a reason the Individual Deferred Paid-Up Non-Variable Annuities should not. The IIPRC Office notes that at the time these uniform standards were developed, most regulators believed the purpose of the product was to protect against outliving the annuity benefits, and commutation would defeat that purpose; however as the IAC notes, the purpose of DIAs has expanded since the uniform standards were initially adopted.

*IIPRC Office Recommendation:* The IIPRC Office suggests that the PSC research whether member states have any prohibition or restrictions on commutation for DIAs and that the Committee seek recommendations from the Actuarial Working Group regarding the IAC's suggested change to the Scope (which includes the period certain language in Substantive Item 1) and the addition of the following provision for commutation of annuity payments, that, with some DIA specific limitations, is modeled after the commutation provisions in the Individual Immediate Non-Variable Annuity Contract Standards. The IIPRC Office also suggests that the PSC consider whether, if period certain annuities and commutation are added to this standard, the Committee wishes to restrict commutation until annuity payments have been made for the same period of time as the minimum payout period for period certain annuities. If the provision is recommended, the IIPRC office will work with the PSC to propose amendments to other impacted provisions in the uniform standards.

**Scope:** These standards apply to an individual deferred paid-up non-variable annuity contract with no cash surrender values prior to the commencement of annuity payments that provides for a single premium or flexible premiums over the deferral period of the contract or for a shorter limited payment period, and that provides for specified income payments beginning on a specified income commencement date for each premium paid. ~~It provides for~~ Income payable on the commencement date is payable for the annuitant's lifetime (with or without a guarantee period), or for a stipulated period certain. A commuted value of some payments may be provided after the annuity payments have commenced. The standards require all funds to be held in the general account.

### F. COMMUTATION OF ANNUITY PAYMENTS

(1) The contract may contain a provision providing for the commutation of any life contingent or non-life contingent annuity benefits payable to the annuitant or

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- beneficiary; provided, however, that participating contracts may not provide for the commutation of future dividend payments. Such commutation shall only be available after the annuity payments have commenced. The available commutation benefit shall be limited to the lesser of the following: (a) 100% of the commuted value of non-life contingent annuity benefits, (b) 60% of the commuted value of combined life contingent and non-life contingent annuity benefits. For policies that offer a return of premium death benefit (e.g., cash refund or installment refund options), the annuity payments made prior to the death benefit shall be considered non-life contingent.
- (2) The contract shall state that the commuted value shall be payable in a lump sum only.
- (3) The contract shall state that the payment of any non-commuted future life contingent or non-life contingent annuity benefits to which the owner may be entitled under the contract after the commutation shall not be affected by the payment of the commuted value of any life contingent or non-life contingent annuity benefits.
- (4) (a) The contract shall state that the owner may, at any time while a commutation benefit is available, request information on the commuted value of any life contingent or non-life contingent annuity benefit, including information on the current replacement ratio for the annuity payments. Unless the interest rate or rates and the mortality table, if any, used in determining the commuted value are included in the contract at issue, the replacement ratio shall be defined in the contract as (i)/(ii) where (i) and (ii) are defined as follows:
- (i) The actual commuted value to be paid; and
- (ii) The commuted value calculated on the basis of the current pricing assumptions used in the determination of prices for the same type of income being commuted and for new contracts of the same class of contracts. If new contracts of this class of contracts are not currently being issued, then the amount determined under this item (a)(ii) shall be calculated on the basis of the current assumptions for new annuitizations of the same type of income being commuted.
- (b) If the interest rate or rates and the mortality table, if any, used in determining the commuted value are included in the contract at issue, the following statement, or a statement to the same effect, shall be included in the contract as part of the description of the interest rate or rates used in determining the commuted value: “The commuted value of any remaining

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annuity payments is always less than the sum of those benefit payments and the higher the interest rate the lower the commuted value.”

- (c) Upon receipt of a request for information on the commuted value of any life contingent or nonlife contingent annuity benefit, the company shall provide the owner notification of the following:
  - (i) The amount payable and the “as of” date of calculation;
  - (ii) In the case of partial commutation, the amount of the remaining payments; and
  - (iii) Unless the interest rate or rates and the mortality table, if any, used in determining the commuted value are included in the contract at issue, the current replacement ratio. The current replacement ratio is the replacement ratio as of the date of the calculation.
- (d) The contract shall state that upon receipt of a request from the owner for the payment of the commuted value:
  - (i) If the company has already provided the applicable commutation information described above in Item (c), the company shall pay the commuted value within 15 days of receipt of the request.
  - (ii) If the company has not provided the applicable commutation information described above in Item (c), the company shall do so within 15 days of receipt of the request. Upon receipt of the information, the owner may accept or reject the company’s commuted value offer and notify the company accordingly. If the owner accepts, the company shall pay the commuted value within 15 days of receipt of such notification.
- (e) The contract shall state that the actual commuted amount payable will be determined as of the designated date of payment.
- (5) The contract may limit the period of time during which the right to any commuted value is available. If the period of time any commuted value is available is limited by age or duration, or triggered by some event, that limitation shall be indicated on the contract specifications page.
- (6) Commutation may be limited to a certain portion of the life contingent or non-life contingent annuity benefits. Any such limitation shall be indicated in the contract.
- (7) The interest rate used to calculate commuted values can be adjusted for changes in interest rates, if any, between the issue date and the commutation date.

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### 3. DIVIDENDS USED TO PURCHASE PAID UP ADDITIONS

**APPLIES:** §3 R. (4) of the Individual Deferred Paid-Up Non-Variable Annuity Contract Standards (Commonly Marketed as Longevity Annuities)

#### CURRENT PROVISION:

#### § 3 CONTRACT PROVISIONS

#### R. 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. Dividends used to purchase additional income benefits shall be subject to the same requirements of this standard as additional premium payments made after issue.

#### COMMENTS:

*Industry Comment:* The IAC states that the current provision requires companies to treat dividends used to purchase additional income as if they were additional premium payments. They note that since a dividend is basically a refund of premium, they believe that it is only fair that the amount of additional income it purchases should be based on the rates that applied to that premium deposit. The IAC notes that a nationwide filing that includes a provision stating that dividends used to purchase paid-up additions are based on the premium that the dividend is associated with has been approved in all states.

*IIPRC Office Comments/Observations:* The IIPRC Office notes that during the Five Year Review of the Individual Immediate Annuity Contract Standards, the PSC recommended that those standards be amended for consistency to contain requirements that the contract describe the available dividend options including identification of the automatic option and that dividends used to purchase additional income benefits are subject to the same standards as additional premium payments made after issue. During that time, the IAC did not object to these requirements.

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*IIPRC Office Recommendation:* The IIPRC Office does not have a specific recommendation, but suggests that given the IAC statement that a contract that includes a provision stating that dividends used to purchase paid-up additions are based on the premium that the dividend is associated with has been approved in all states, that the PSC review the suggested revision and determine if the provision should be amended to permit dividends used to purchase additional income to be based on the rates that applied to that premium deposit.

- (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. Dividends can be used to purchase additional income benefits ~~shall be subject to the same requirements of this standard as additional premium payments made after issue using:~~
- (a) “Current annuity purchase rates”, as defined in Section B (1)(c) of this standard, or
  - (b) The same guaranteed interest and mortality rate schedule used to determine the Annuity Income Payment amount at the time of the premium payment to which the dividend is related, and the attained age(s) of the annuitant(s) at the time the dividend is paid.

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### 4. PRIVATE PLACEMENT - CEASING TO BE A QUALIFIED OWNER

**APPLIES:** §3 E. Ownership, §3 F. Partial Withdrawals, §3 I Policy Exchange, and §3 M Transfers of the Additional Standards for Private Placement Plans for Individual Variable Adjustable Life Insurance Policies.

§3 D. Ownership, §3 E Partial Withdrawals, §3 K. Surrenders and §3 L Transfers of the Additional Standards for Private Placement Plans for Individual Deferred Variable Annuity

#### **CURRENT PROVISIONS:**

Additional Standards for Private Placement Plans for Individual Variable Adjustable Life Insurance Policies:

#### **E. OWNERSHIP**

- (3) The policy shall only be sold or transferred to a qualified owner. The policy shall state that the owner must be a qualified owner to make payments into the policy or to make transfers among the investment divisions, but that the owner is eligible to exchange the policy for a plan of life insurance currently being offered by the company that does not require qualified owner status, as described in the POLICY EXCHANGE section below, or to surrender the policy for cash, all subject to the liquidity dates and liquidity notice periods specified in the policy.
- (4) If the policy has multiple owners, they shall all be qualified owners.

#### **F. PARTIAL WITHDRAWALS**

- (1) The policy may limit to qualified owners the ability to make partial withdrawals. The policy may state that the company has the right, at their discretion, to arrange for partial withdrawals (or a full surrender) if the company determines that the owner has ceased to be a qualified owner.
- (2) The policy may defer partial withdrawals until the next liquidity date.

#### **M. TRANSFERS**

- (1) The policy may require that only qualified owners are permitted to transfer funds into an exempt account.

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

#### **D. 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

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designation is effective. The contract shall not include any restrictions on change of owner other than for purposes of satisfying applicable laws or regulations, or the requirement that the new owner be a qualified owner.

- (2) The contract shall only be sold or transferred in a transaction that is exempt from registration under the Securities Act of 1933, as amended.
- (3) The contract shall only be sold or transferred to a qualified owner. The contract shall state that the owner must be a qualified owner to make payments into the contract or to make transfers among the investment divisions, but that the owner is eligible to exchange the contract for an annuity currently being offered by the company that does not require qualified owner status, as described in the CONTRACT EXCHANGE section below, or to surrender the contract for cash, all subject to the liquidity dates and liquidity notice periods specified in the contract.
- (4) If the contract has multiple owners, they shall all be qualified owners.

### **E. PARTIAL WITHDRAWALS**

- (1) The contract may limit to qualified owners the ability to make partial withdrawals. The contract may state that the company has the right, at their discretion, to arrange for partial withdrawals (or a full surrender) if the company determines that the owner has ceased to be a qualified owner.

### **K. SURRENDERS**

- (1) If the company determines that the owner has ceased to be a qualified owner, and the owner does not elect to exchange the contract for an annuity that does not require qualified owner status, the contract may require that the contract be surrendered. If the owner declines the opportunity to exchange and is required to surrender the contract, the contract shall state that surrender charges may apply.

### **L. TRANSFERS**

- (1) The contract may require that only qualified owners are permitted to transfer funds into an exempt account.
- (2) The contract may require that any transfers to an exempt fund be applied to a non-exempt fund or the general account until the next liquidity date of the exempt fund. The transfer allocated to the exempt fund will then be the value in effect as of the applicable liquidity date.

### **COMMENTS:**

*Industry Comment:* The IAC notes that the current uniform standards lack alternatives for the insurer to consider when addressing situations where a qualified owner ceases to be a qualified owner. The IAC believes that this flexibility is desirable to allow each insurer to

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address compliance based on its interpretation of the applicable laws and regulations. They suggest adding alternatives for the insurer that include (a) requiring a surrender, (b) requiring a policy exchange, or (c) requiring a transfer of funds from the exempt fund(s) to a non-exempt fund or the general account.

*IIPRC Office Comments/Observations:* The IIPRC Office has heard comments from insurance companies indicating that some aspects of the Additional Standards for Private Placement Plans would benefit from greater detail so that the standards more closely reflect the products currently in the marketplace. A review of product filings indicates that less than a dozen filings have been made with the IIPRC under these two uniform standards since they were adopted, a potential indication of the need for revision.

*IIPRC Office Recommendation:* The IIPRC Office suggests that the PSC consider the following amendments suggested by the IAC to provide alternatives in situations where a qualified owner ceases to be a qualified owner and to provide further clarity within the applicable provisions. The IIPRC Office also suggests that the IAC provide further explanation detailing why the insurance company should not be required to provide for an exchange to a life insurance policy currently being offered by the company that does not require qualified owner status.

### Additional Standards for Private Placement Plans for Individual Variable Adjustable Life Insurance Policies:

#### **E. OWNERSHIP**

- (3) ~~The policy shall only be sold or transferred to a qualified owner.~~ The policy shall state that the owner must be a qualified owner to make payments into the policy or to make transfers among the investment divisions; If the owner ceases to be a qualified owner, but that the owner may be is-eligible to exchange the policy for a plan of life insurance currently being offered by the company that does not require qualified owner status, as described in the POLICY EXCHANGE section below, or the owner may be required to surrender the policy for cash, all subject to the liquidity date(s) and specified redemption liquidity notice periods specified in the policy.
- (4) If the policy has multiple owners, they shall all be qualified owners at the time they become owners.

#### **F. PARTIAL WITHDRAWALS**

- (1) The policy may limit to qualified owners the ability to make partial withdrawals. ~~The policy may state that the company has the right, at their discretion, to arrange~~

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~~for partial withdrawals (or a full surrender) if the company determines that the owner has ceased to be a qualified owner.~~

- (2) The policy may defer partial withdrawals from an exempt fund until the next liquidity date(s).

### M. TRANSFERS

- (1) The policy ~~may~~ shall require that only qualified owners are permitted to transfer funds into an exempt fund account.
- (2) The policy may require that any transfers to an exempt fund be applied to a non-exempt fund or the general account until the next liquidity date of the exempt fund. The transfer allocated to the exempt fund will then be the value in effect as of the applicable liquidity date.
- (3) If the owner ceases to be a qualified owner, the policy may provide that the company reserves the right, at its discretion, to require a transfer from an exempt fund to a non-exempt fund or the general account.

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

### B. CONTRACT EXCHANGE

- (1) The contract may state that if at any time the owner ceases to be a qualified owner, the owner shall be permitted or required to exchange the contract for an annuity currently being offered by the company that does not require qualified owner status, subject to any conditions described in the contract.
- (2) With respect to the new contract, the following applies:
- (a) A contract exchange shall not trigger a new contestable period, unless additional premium is paid. If additional premium is paid, contestability may apply to the additional premium for up to two years beginning with the date of issue of the new contract. The new contract may include an exception to the incontestability provision for fraud in the procurement of the new contract when permitted by applicable law in the state where the contract is delivered or issued for delivery.
- (b) If a contract contains a reinstatement provision or other contract provision that references the subject matter of Paragraph (2)(a) of this section, the contract references shall be consistent with such Paragraph.

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- (c) A contract exchange shall not trigger a new surrender charge period, unless additional premium is paid. If additional premium is paid, the new surrender charge period may apply to the additional premium beginning with the date of issue of the new contract.

### D. 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 restrictions on change of owner other than for purposes of satisfying applicable laws or regulations, or the requirement that the new owner be a qualified owner.
- (2) The contract shall only be sold or transferred in a transaction that is exempt from registration under the Securities Act of 1933, as amended.
- (3) ~~The contract shall only be sold or transferred to a qualified owner.~~ The contract shall state that the owner must be a qualified owner to make payments into the contract or to make transfers among the investment divisions, ~~but that~~ If the owner is ceases to be a qualified owner, the owner may be eligible to exchange the contract for an annuity currently being offered by the company that does not require qualified owner status, as described in the CONTRACT EXCHANGE section ~~below~~, or the owner may be required to surrender the contract for cash, all subject to the liquidity date(s) and specified redemption liquidity notice periods ~~specified in the contract~~.
- (4) If the contract has multiple owners, they shall all be qualified owners at the time they become owners.

### E. PARTIAL WITHDRAWALS

- (1) The contract may limit to qualified owners the ability to make partial withdrawals. ~~The contract may state that the company has the right, at their discretion, to arrange for partial withdrawals (or a full surrender) if the company determines that the owner has ceased to be a qualified owner.~~
- (2) The contract may defer partial withdrawals from an exempt fund until the next liquidity date(s).

### K. SURRENDERS

- (1) If the ~~company determines that the~~ owner ~~has~~ ceases to be a qualified owner, and the owner does not elect to exchange the contract for an annuity that does not require qualified owner status, the contract may require that the contract be surrendered. The contract shall describe any surrender charges that may apply ~~if~~

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the owner declines the opportunity to exchange and is required to surrender the contract, ~~the contract shall state that surrender charges may apply.~~

### L. TRANSFERS

- (1) The contract ~~shall~~ may require that only qualified owners are permitted to transfer funds into an exempt ~~fund~~ account.
- (2) The contract may require that any transfers to an exempt fund be applied to a non-exempt fund or the general account until the next liquidity date of the exempt fund. The transfer allocated to the exempt fund will then be the value in effect as of the applicable liquidity date.
- (3) If the owner ceases to be a qualified owner, the contract may provide that the company reserves the right, at its discretion, to require a transfer from an exempt fund to a non-exempt fund or the general account.

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### 5. PRIVATE PLACEMENT PLANS – LIQUIDITY AND AVAILABILITY OF FUNDS

**APPLIES:** Definitions, §3B. Death Benefit Proceeds, §3C. Deferral and Valuation of Payments, §3D. Loans, §3G. Payment of Premiums, §3K Reports to Owner, §3L Surrenders and §3M Transfers of the Additional Standards for Private Placement Plans for Individual Variable Adjustable Life Insurance Policies.

Definitions, §3B. Deferral and Valuation of Payments, §3C. Loans, §3F. Payment of Premium, §3I. Reports to Owner, §3K. Surrenders and §3 L Transfers of the Additional Standards for Private Placement Plans for Individual Deferred Variable Annuity.

#### CURRENT PROVISIONS:

Additional Standards for Private Placement Plans for Individual Variable Adjustable Life Insurance Policies:

“Liquidity date” is a date established for the purpose of accepting funds for premium payments, loan repayments, or transfers into an exempt fund; or processing fund withdrawals for death benefits, surrenders, partial withdrawals, loans, or transfers from an exempt fund. Liquidity dates may be unique for a particular exempt fund or type of transaction. And within those funds or transactions there could be multiple liquidity dates.

#### B. DEATH BENEFIT PROCEEDS

- (1) For that portion of the policy that is invested in an exempt fund, interest shall not accrue until the liquidity date of the applicable exempt fund.
- (2) The additional 10% interest rate on death benefits shall not apply any earlier than 31 calendar days after the liquidity date of the applicable exempt fund.

#### C. DEFERRAL AND VALUATION OF PAYMENTS

- (1) The policy may provide that the company reserves the right to defer the determination and payment of any benefits (e.g. death benefits, surrenders, partial withdrawals, loans and transfers) attributable to the exempt fund until the next liquidity date, subject to a liquidity notice period, as specified in the policy. Alternatively, the policy may provide that the company reserves the right to defer a specified percentage of the payment until the next liquidity date.

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- (2) If the company chooses to defer surrender payments as in C.(1) above, the policy may provide that all insurance coverage ends on the date the surrender request is received (or some later date as requested by the owner and agreed to by the company.) Such provision shall state that on that date all cost of insurance charges will be discontinued and the death of the owner after that date will not trigger a death benefit payment, even if the cash value has not been fully paid out.

### **D. LOANS**

- (1) The policy may limit to qualified owners the availability of loans.
- (2) The policy may defer loans from the exempt fund until the next liquidity date.
- (3) The policy may state that the repayment of loans be made to a non-exempt fund or the general account until the next liquidity date of the exempt fund. The repayment allocated to the exempt fund will then be the value in effect as of the applicable liquidity date.

### **G. PAYMENT OF PREMIUM**

- (1) The policy may limit to qualified owners the ability to pay additional premiums.
- (2) The policy may require that the net premium be applied to a non-exempt fund or the general account until the next liquidity date of an exempt fund. The net premium allocated to the exempt fund will then be the value in effect as of the applicable liquidity date.

### **K. REPORTS TO OWNER**

- (1) The policy shall state that the annual report will include at least the following:
  - (a) An indication, if applicable, that the cash value and death benefit shown in the report are not available until the liquidity date as described in the policy.

### **L. SURRENDERS**

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- (1) If the company determines that the owner has ceased to be a qualified owner, and the owner does not elect to exchange the policy for a plan of life insurance that does not require qualified owner status, the policy may require that the policy be surrendered. If the owner declines the opportunity to exchange and is required to surrender the policy, the policy shall state that surrender charges may apply.
- (2) The policy may defer surrenders, but not any later than the next liquidity date.

### **M. TRANSFERS**

- (1) The policy may require that only qualified owners are permitted to transfer funds into an exempt account.
- (2) The policy may require that any transfers to an exempt fund be applied to a non-exempt fund or the general account until the next liquidity date of the exempt fund. The transfer allocated to the exempt fund will then be the value in effect as of the applicable liquidity date.

### Additional Standards for Private Placement Plans for Individual Deferred Variable Annuity:

“Liquidity date” is a date established for the purpose of accepting funds for premium payments, loan repayments, or transfers into an exempt fund; or processing fund withdrawals for death benefits, surrenders, partial withdrawals, loans, or transfers from an exempt fund. Liquidity dates may be unique for a particular exempt fund or type of transaction. And within those funds or transactions there could be multiple liquidity dates.

### **B. DEFERRAL AND VALUATION OF PAYMENTS**

- (1) The contract may provide that the company reserves the right to defer the determination and payment of any benefits (e.g. death benefits, surrenders, partial withdrawals, loans and transfers) attributable to the exempt fund until the next liquidity date, subject to a liquidity notice period, as specified in the contract. Alternatively, the contract may provide that the company reserves the right to defer a specified percentage of the payment until the next liquidity date.

### **C. LOANS**

- (1) The contract may provide for a loan provision.

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- (2) The contract may limit to qualified owners the availability of loans.
- (3) The contract may defer loans from the exempt fund until the next liquidity date.
- (4) The contract may state that the repayment of loans be made to a non-exempt fund or the general account until the next liquidity date of the exempt fund. The repayment allocated to the exempt fund will then be the value in effect as of the applicable liquidity date.

### **F. PAYMENT OF PREMIUM**

- (1) The contract may limit to qualified owners the ability to pay additional premiums.
- (2) The contract may require that the net premium be applied to a non-exempt fund or the general account until the next liquidity date of an exempt fund. The net premium allocated to the exempt fund will then be the value in effect as of the applicable liquidity date.

### **I. REPORTS TO OWNER**

- (1) The contract shall state that the annual report will include at least the following:
  - (a) An indication, if applicable, that the cash value and death benefit shown in the report are not available until the liquidity date as described in the contract.

### **K. SURRENDERS**

- (1) If the company determines that the owner has ceased to be a qualified owner, and the owner does not elect to exchange the contract for an annuity that does not require qualified owner status, the contract may require that the contract be surrendered. If the owner declines the opportunity to exchange and is required to surrender the contract, the contract shall state that surrender charges may apply.
- (2) The contract may defer surrenders, but not any later than the next liquidity date.

### **L. TRANSFERS**

## SUBSTANTIVE CHANGE ITEMS

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- (1) The contract may require that only qualified owners are permitted to transfer funds into an exempt account.
- (2) The contract may require that any transfers to an exempt fund be applied to a non-exempt fund or the general account until the next liquidity date of the exempt fund. The transfer allocated to the exempt fund will then be the value in effect as of the applicable liquidity date.

### COMMENTS:

*Industry Comment:* The IAC noted that the existing Private Placement Standards address policies and contracts that contain investment options that are valued and available for investment or redemption each business day; however, it has become commonplace for private placement products to offer investment options with limited availability and/or limited liquidity. Examples of investment options with these limitations include private funds, including hedge funds, and certain managed accounts.

The IAC notes that when there are limitations on availability, the terms of the limitations may vary by investment option. They may include the requirement of a notice period (typically 5 days for hedge funds) before a contribution can be made, and may involve limitations on dates when funds can be accepted, such as the first business day of each month.

The terms of the limitations may also vary by investment option and may include the requirement of a notice period before redemption can be effective and limitations on dates when funds can be redeemed. There may be periods of time between the effective date of a redemption and the date the valuation can be completed and unit values determined, or the date the cash is available for disbursement. Cash disbursements may also occur in multiple payments.

The IAC believes it is appropriate to amend the standards so that these relatively complex features can be better understood and so that standardized methods for addressing them are provided to regulators and companies. Proposed changes include:

1. Definitions of new terms to address limited availability, including “contribution”, “contribution date” and “contribution notice period”.
2. Definitions of terms to address limited liquidity, with the inclusion of different terms due to the fact that valuation and liquidity may occur on different dates, including a revised definition of “liquidity date” and new terms “redemption”, “redemption date” and “redemption notice period”.

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3. Expanding the Deferral and Valuation of Payments section to address limited liquidity considerations. This generally permits deferral of payments from the separate account until separate account funds are disbursed. For life insurance, it also permits deferral of claim payment until the valuation has been completed and the death benefit can be accurately determined.
4. Adding new provisions (Policy Transactions for the life insurance standard and Contract Transactions for the annuity standard) to add clarity for use of the limited availability and limited liquidity terminology.
5. Clarifying other sections to address the limited availability and/or limited liquidity considerations.

*IIPRC Office Comments/Observations:* The IIPRC Office notes that industry representatives have suggested more detailed standards for private placement products since shortly after they were adopted. A review of product filings indicates that less than a dozen filings have been made with the IIPRC under these two uniform standards since they were adopted, a potential indication of the need for revision. Providing more specific guidance may promote increased filings and assist reviewers in expediting the review of these products.

*IIPRC Office Recommendation:* The IIPRC Office has no specific recommendation, but suggests that the PSC review member state filing requirements for private placement products to determine if there are any limitations or considerations regarding the following amendments suggested by the IAC:

### Additional Standards for Private Placement Plans for Individual Variable Adjustable Life Insurance Policies:

As used in these standards the following definitions apply:

“Contribution” is an investment into an exempt fund resulting from an allocation of net premiums, repayment of loans or transfers into an exempt fund. A contribution may be subject to a specified minimum amount.

“Contribution date” is the date established for the purpose of allowing contributions into an exempt fund. Contribution dates may vary for each exempt fund.

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“Contribution notice period” is the minimum number of days of advance notice required before a contribution date if a qualified owner intends to make a contribution. Contribution notice periods may vary for each exempt fund.

~~“Liquidity date” is a date established for the purpose of accepting funds for premium payments, loan repayments, or transfers into an exempt fund; or processing fund withdrawals for death benefits, surrenders, partial withdrawals, loans, or transfers from an exempt fund. Liquidity dates may be unique for a particular exempt fund or type of transaction. And within those funds or transactions there could be multiple liquidity dates.~~

“Liquidity date” is a date that redemptions from an exempt fund are received by the company. Liquidity dates may vary for each exempt fund or type of redemption. Each liquidity date has a corresponding redemption date. There are situations where a single redemption date may result in multiple liquidity dates.

“Redemption” is a distribution from an exempt fund for death benefits, surrenders, partial withdrawals, policy charges, loans, or transfers from an exempt fund. A redemption of a portion of the exempt fund may be subject to a specified minimum amount.

“Redemption date” is the effective date for processing a redemption. After that date, the value of a redemption is no longer subject to exempt fund performance and the value of the redemption will instead be calculated as of that date. There are situations where there are multiple redemption dates for a requested redemption.

“Redemption notice period” is the minimum number of days of advance notice required before a redemption date if a qualified owner intends to request a redemption. Redemption notice periods may vary for each exempt fund or type of redemption.

### **B. DEATH BENEFIT PROCEEDS**

- (1) For that portion of the ~~policy that is invested~~ death benefit equal to the value of ~~in~~ an exempt fund, interest shall not begin to accrue until the liquidity date(s) of the applicable exempt fund following the receipt of due proof of death, as specified in the policy.
- (2) The additional 10% interest rate on death benefits shall not apply any earlier than 31 calendar days after the liquidity date of the applicable exempt fund.

### **C. DEFERRAL AND VALUATION OF PAYMENTS**

- (1) The policy may provide that the company reserves the right at its discretion to defer the determination ~~and payment~~ of any redemption except for a death benefit benefits (e.g. death benefits, surrenders, partial withdrawals, loans and transfers) attributable to ~~the~~ an exempt fund until the next liquidity redemption date, subject to a liquidity redemption notice period, as

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specified in the policy. ~~Alternatively, the policy may provide that the company reserves the right to defer a specified percentage of the payment until the next liquidity date.~~ The policy may also provide that the company reserves the right, at its discretion, to defer payment of any redemption until the liquidity date(s) associated with the next redemption date.

- (2) The policy may provide that the company reserves the right, at its discretion, to defer the determination and payment of the portion of the death benefit whose value is dependent on the amounts invested in an exempt fund until the valuation corresponding to the redemption date for the death benefit has been completed. The policy may also provide that the company may estimate the value of the exempt fund in making the determination of the portion of the death benefit that is not deferred. The policy may also provide that the company reserves the right, at its discretion, to defer payment of such portion of the death benefit equal to the value of such exempt fund until the next liquidity date(s) following receipt of due proof of death, subject to a specified redemption notice period.
- (23) If the company chooses to defer surrender payments as in ~~€ paragraph (1) above of this section~~, the policy may provide that all insurance coverage ends on the date ~~the~~ a surrender request is received (or some later date as requested by the owner and agreed to by the company). Such provision shall state that on ~~that such surrender~~ date all cost of insurance charges will be discontinued and the death of the insured owner after that date will not trigger a death benefit payment, even if the cash value has not been fully paid out.

### D. LOANS

- (1) The policy may limit to qualified owners the availability of loans.
- (2) The policy may defer loans from the exempt fund until the next liquidity date.
- (3) The policy may ~~require state~~ that the repayment of loans be allocated made to a non-exempt fund or the general account until the next contribution liquidity date of the exempt fund. The repayment allocated to the exempt fund will then be the value in effect as of the applicable contribution liquidity date.

### G. PAYMENT OF PREMIUM

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- (1) The policy ~~shall~~ ~~may~~ limit to qualified owners the ability to pay additional premiums.
- (2) The policy may require that the net premium be ~~allocated~~ ~~applied~~ to a non-exempt fund or the general account until the next ~~contribution~~ ~~liquidity~~ date of an exempt fund. The net premium allocated to the exempt fund will then be the value in effect as of the applicable ~~contribution~~ ~~liquidity~~ date.

### **J.** **POLICY TRANSACTIONS**

- (1) The policy may provide that contributions occur only on a specified contribution date and after the qualified owner satisfies the specified contribution notice period.
- (2) The policy may provide that redemptions occur only as of a specified redemption date and after the qualified owner satisfies the specified redemption notice period.

### **KL.** **REPORTS TO OWNER**

- (1) The policy shall state that the annual report will include at least the following:
  - (a) An indication, if applicable, that payment of the cash value and death benefit shown in the report may be deferred ~~are not available until the liquidity date as described in the policy.~~

### **LM.** **SURRENDERS**

- (1) If ~~the company determines that~~ the owner ~~has~~ ~~ceaseds~~ to be a qualified owner, and the owner does not elect to exchange the policy for a plan of life insurance that does not require qualified owner status, the policy may require that the policy be surrendered. The policy shall describe any surrender charges which may apply ~~if the owner declines the opportunity to exchange and is required to surrender the policy, the policy shall state that surrender charges may apply.~~
- (2) The policy may defer a redemption for a surrenders request as described in §3C. Deferral and Valuation of Payments. ~~but not any later than the next liquidity date.~~ If the determination and payment of a redemption attributable to an exempt fund is deferred for cash surrender, any required interest on the deferred payment shall not begin to accrue until the liquidity date(s) of

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the applicable exempt fund(s) for that portion of the cash value that is attributable to an exempt fund(s).

### **MN. TRANSFERS**

- (1) The policy may require that only qualified owners are permitted to transfer funds into an exempt account.
- (2) The policy may require that any transfers to an exempt fund be **applied allocated** to a non-exempt fund or the general account until the next **contribution liquidity** date of the exempt fund. The transfer allocated to the exempt fund will then be the value in effect as of the applicable **contribution liquidity** date.

#### Additional Standards for Private Placement Plans for Individual Deferred Variable Annuity:

As used in these standards the following definitions apply:

“Contribution” is an investment into an exempt fund resulting from an allocation of net premiums, repayment of loans or transfers into an exempt fund. A contribution may be subject to a specified minimum amount.

“Contribution date” is the date established for the purpose of allowing contributions into an exempt fund. Contribution dates may vary for each exempt fund.

“Contribution notice period” is the minimum number of days of advance notice required before a contribution date if a qualified owner intends to make a contribution. Contribution notice periods may vary for each exempt fund.

~~“Liquidity date” is a date established for the purpose of accepting funds for premium payments, loan repayments, or transfers into an exempt fund; or processing fund withdrawals for death benefits, surrenders, partial withdrawals, loans, or transfers from an exempt fund. Liquidity dates may be unique for a particular exempt fund or type of transaction. And within those funds or transactions there could be multiple liquidity dates.~~

“Liquidity date” is a date that redemptions from an exempt fund are received by the company. Liquidity dates may vary for each exempt fund or type of redemption. Each liquidity date has a corresponding redemption date. There are situations where a single redemption date may result in multiple liquidity dates.

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“Redemption” is a distribution from an exempt fund for death benefits, surrenders, partial withdrawals, contract charges, loans, or transfers from an exempt fund. A redemption of a portion of the exempt fund may be subject to a specified minimum amount.

“Redemption date” is the effective date for processing a redemption. After that date, the value of a redemption is no longer subject to exempt fund performance and the value of the redemption will instead be calculated as of that date. There are situations where there are multiple redemption dates for a requested redemption.

“Redemption notice period” is the minimum number of days of advance notice required before a redemption date if a qualified owner intends to request a redemption. Redemption notice periods may vary for each exempt fund or type of redemption.

### **C.** CONTRACT TRANSACTIONS

- (1) The contract may provide that contributions occur only on a specified contribution date and after the qualified owner satisfies the specified contribution notice period.
- (2) The contract may provide that redemptions occur only as of a specified redemption date and after the qualified owner satisfies the specified redemption notice period.

### **BD.** DEFERRAL AND VALUATION OF PAYMENTS

- (1) The contract may provide that the company reserves the right, at its discretion, to defer the determination ~~and payment~~ of any redemption benefits (e.g. death benefits, surrenders, partial withdrawals, loans and transfers) attributable to an the exempt fund until the next redemption liquidity date, subject to a redemption liquidity notice period, as specified in the contract. ~~Alternatively,~~ The contract may also provide that the company reserves the right, at its discretion, to defer a payment of any redemption until the liquidity date(s) associated with the next redemption date specified percentage of the payment until the next liquidity date.

### **CE.** LOANS

- (1) The contract may provide for a loan provision.
- (2) The contract may limit to qualified owners the availability of loans.
- (3) The contract may defer loans from an the exempt fund until the next liquidity date(s).

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- (4) The contract may require state that the repayment of loans be allocated made to a non-exempt fund or the general account until the next contribution liquidity date of the exempt fund. The repayment allocated to the exempt fund will then be the value in effect as of the applicable contribution liquidity date.

### **FH. PAYMENT OF PREMIUM**

- (1) The contract shall may limit to qualified owners the ability to pay additional premiums.
- (2) The contract may require that the net premium be allocated applied to a non-exempt fund or the general account until the next contribution liquidity date of an exempt fund. The net premium allocated to the exempt fund will then be the value in effect as of the applicable contribution liquidity date.

### **IK. REPORTS TO OWNER**

- (1) The contract shall state that the annual report will include at least the following:
  - (a) An indication, if applicable, that the payment of the cash value and death benefit shown in the report may be deferred ~~are not available until the liquidity date as described in the contract.~~

### **KM. SURRENDERS**

- (1) If the company determines that the owner has ceased to be a qualified owner, and the owner does not elect to exchange the contract for an annuity that does not require qualified owner status, the contract may require that the contract be surrendered. If the owner declines the opportunity to exchange and is required to surrender the contract, the contract shall state that surrender charges may apply.
- (2) The contract may defer a redemption for a surrenders request as described in §3D. Deferral and Valuation of Payments ~~but not any later than the next liquidity date.~~

### **L. TRANSFERS**

- (1) The contract shall may require that only qualified owners are permitted to transfer funds into an exempt fund account.

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- (2) The contract may require that any transfers to an exempt fund be allocated applied to a non-exempt fund or the general account until the next contribution liquidity date of the exempt fund. The transfer allocated to the exempt fund will then be the value in effect as of the applicable contribution liquidity date.

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### 6. PRIVATE PLACEMENT UNIFORM STANDARDS FOR IMMEDIATE VARIABLE ANNUITY CONTRACTS

**APPLIES:** Title and Scope of the Additional Standards for Private Placement Plans for Individual Deferred Variable Annuity

#### **CURRENT PROVISIONS:**

**Scope:** These standards apply to private placement plans that are built in to individual variable deferred annuity contracts. Private placement plans are variable annuities that are issued exclusively to an accredited investor or qualified purchaser, as those terms are defined by the Securities Act of 1933, as amended, the Investment Company Act of 1940, as amended, or the regulations promulgated under either of those acts, and provide for benefits that vary in relation to the performance of an underlying separate account where the investment funds in the private placement separate account are exempt from registration with the SEC under the Investment Company Act of 1940, as amended. Private Placement Plans may also offer non-exempt funds.

#### **COMMENTS:**

*Industry Comment:* An insurance company has requested that the Additional Standards for Private Placement Plans for Individual Deferred Variable Annuity be amended to also include immediate variable annuity contracts.

*IIPRC Office Comments/Observations:* The IIPRC Office has had at least three requests to file a private placement product for a variable immediate annuity and was unable to accept the filings since there was no applicable standard. In discussions with staff and industry representatives, it has been noted that there may be features in deferred variable annuity private placement products that are generally not available for immediate variable annuities and vice versa.

*IIPRC Office Recommendation:* The IIPRC Office suggests that the PSC review member state filing requirements and filed forms to determine if the states review private placement plans for immediate variable annuity contracts, and whether there are any variations with requirements for individual deferred variable annuity products. The IIPRC Office also suggests that the PSC solicit public feedback on interest in this matter and whether separate additional standards should be developed in lieu of amendments to the private placement standards for deferred variable annuity. If separate standards are recommended, the IIPRC Office suggests that the development be prioritized outside of the Five-Year Review process.

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### 7. AGE REQUIREMENTS FOR OVERLOAN PROTECTION

**APPLIES:** §2B.(1) of the Additional Standards for Overloan Protection Benefit

**CURRENT PROVISION:**

#### **§ 2 GENERAL FORM REQUIREMENTS**

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

- (1) The specifications page shall show, if applicable, the benefit charge, the minimum loan indebtedness percentage, the guaranteed minimum loan indebtedness percentage, the maximum loan indebtedness percentage, and the minimum age/duration the policy must be in force before exercising the benefit. These items may be considered as variable items and marked to denote variability.

#### **§3 BENEFIT PROVISIONS**

##### **A. BENEFIT**

- (2) The benefit form shall describe the conditions that must be met in order for the owner to be able to exercise the benefit. The conditions may include:
  - (a) That the policy is in effect for a specified number of years.
  - (b) That the insured (or which insured, if this is a joint last to die survivorship policy) is a specified minimum age.

#### **COMMENTS:**

*Industry Comment:* The IAC suggests that a company may want to specify a maximum age as a condition for exercising the benefit. Accordingly, they suggest changing the end of the first sentence of the Specifications Page requirements to include the minimum and maximum age required before exercising the benefit, and §3A.(2)(b) is under a specified maximum age.

*IIPRC Office Comments/Observations:* The IIPRC Office is unaware of any companies that have a maximum age to exercise an overloan protection benefit.

*IIPRC Office Recommendation:* The IIPRC Office suggests that the PSC ask the IAC to provide further explanation for the need for this added provision by explaining how circumstances or underlying assumptions have changed since the standards were initially adopted. In the event the PSC would like to consider this change, the following are revisions for the PSC's consideration:

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### § 2 GENERAL FORM REQUIREMENTS

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

- (1) The specifications page shall show, if applicable, the benefit charge, the minimum loan indebtedness percentage, the guaranteed minimum loan indebtedness percentage, the maximum loan indebtedness percentage, ~~and~~ the minimum and maximum age required before exercising the benefit, age/ and the duration the policy must be in force before exercising the benefit. These items may be considered as variable items and marked to denote variability.

### §3 BENEFIT PROVISIONS

#### **A. BENEFIT**

- (2) The benefit form shall describe the conditions that must be met in order for the owner to be able to exercise the benefit. The conditions may include:
  - (a) That the policy is in effect for a specified number of years.
  - (b) That the insured (or which insured, if this is a joint last to die survivorship policy) is at or above a specified minimum age or under a specified maximum age.

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### 8. PREMIUM AND BENEFIT CHARACTERISTICS FOR GRADED DEATH BENEFITS

**APPLIES:** §2B. of the Additional Standards for Graded Death Benefit for Individual Whole Life Insurance Policies

#### CURRENT PROVISION:

#### B. SPECIFICATIONS PAGE

- (1) The specifications page shall show the annual premium and the dollar amounts of the early duration reduced benefits for death from natural causes (or the formula for calculating the benefits) and the ultimate face amount for each policy year up until the year the ultimate face amount is payable. If the early duration reduced death benefit is equal to premiums paid plus interest, the specifications page shall so state, along with the interest rate.
- (2) The specifications page shall include a statement that if death occurs as the result of an accident at any time while the policy is in force, then the ultimate face amount shall be payable. The specifications page shall not display a death benefit payable due to natural causes and an additional death benefit payable due to accidental death, unless the accidental death benefit is referred to as a temporary accidental death benefit.

#### COMMENTS:

*Regulator Comment:* The Pennsylvania Department of Insurance noted that it is important that the policy specifications pages, schedules, and tables clearly convey how the premium and benefit characteristics of these policies may differ most from other whole life insurance policies. They submitted suggested edits to the specifications page standards to improve such transparency. They noted that the changes may not be effective if the standards permit all Cover Page and Specifications Page requirements to be compressed onto the Cover Page alone.

*IIPRC Office Comments/Observations:* The IIPRC Office has not received questions from filers on this nor feedback that the presentation is confusing, but agrees that it is beneficial to provide the policyholder with as much information as possible regarding the benefits payable under the policy.

*IIPRC Office Recommendation:* The IIPRC Office suggests that the PSC review the proposed clarification of requirements for the Specifications Page as proposed by

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Pennsylvania and modified by the IIPRC Office to make it clear that early duration reduced benefits must provide at minimum premiums paid plus interest and determine whether the proposed change provides greater clarity for the consumer.

### B. SPECIFICATIONS PAGE

(1) The specifications page shall show the annual premium and the dollar amounts of the early duration reduced benefits for death from natural causes ~~(or the formula for calculating the benefits)~~ and the ultimate face amount for each policy year up until the year the ultimate face amount is payable. If the early duration reduced death benefit is equal to premiums paid plus interest, or according to some other simple calculation provided the result is no less than premiums paid plus interest, the specifications page shall ~~so state, along with the interest rate~~ describe the calculation and state any interest rate or other coefficient.

(3) The tabular presentation of cash values and paid up nonforfeiture benefits, whether on the Specifications Page or otherwise, shall include a corresponding presentation of the early duration reduced benefits for death from natural causes and the ultimate death benefit for subsequent policy years.

*or alternatively*

(3) The table showing cash values and paid up nonforfeiture benefits shall be presented on the Specifications Page and include corresponding values for the early duration reduced benefits for death from natural causes and the ultimate death benefit for subsequent policy years.

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## CLARIFICATION CHANGE ITEMS

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### **Clarification Items**

Clarification items are proposed edits to clarify the meaning, application, and/or intent of a provision in the Uniform Standard. Clarification items would not change the meaning or effect of the provision or the current application and interpretation of the provision or Uniform Standard but would provide further or detailed explanation, description, or specification to the language in the Uniform Standard. The clarification items are compiled not only from suggestions or issues in the Comments but also from questions, issues, and circumstances that have arisen in the application and interpretation of the Uniform Standards by the IIPRC product and actuarial reviewers.

### **List of Clarification Items**

1. Available Dividend Options
2. Additional Purchase Payments After Issue for Paid-Up Deferred Non-Variable Annuities
3. Deferred Paid-Up Annuity Actuarial Certification Requirements
4. Private Payment Plans and Qualified Owners
5. Policy Exchange – Private Placement
6. Overloan Protection – Exercising Benefit
7. Range for Minimum and Maximum Indebtedness
8. Scope of Change of Insured Benefit
9. Change of Insured Benefit and Accelerated Death Benefits
10. Limitations on Graded Death Benefits
11. Actuarial Memorandum Requirements – Graded Death Benefit

## CLARIFICATION CHANGE ITEMS

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### 1. AVAILABLE DIVIDEND OPTIONS

**APPLIES:** §3 R.(4) of the Individual Deferred Paid-Up Non-Variable Annuity Contract Standards (Commonly Marketed as Longevity Annuities)

#### CURRENT PROVISION:

### § 3 CONTRACT PROVISIONS

#### R. 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. Dividends used to purchase additional income benefits shall be subject to the same requirements of this standard as additional premium payments made after issue.

#### COMMENTS:

*IIPRC Office Comments/Observations:* The IIPRC Office notes that filers sometimes overlook the requirement under §3R.(4) that dividends used to purchase additional income benefits are subject to the same requirements as additional premium payments made after issue. It may be helpful to filers if the provision was reformatted to draw more focused attention to this requirement. The IIPRC office notes that under Substantive Change Item 3, the IAC has asked to change the provisions in §3R.(4).

*IIPRC Office Recommendation:* The IIPRC Office recommends that if the current provision is not changed, that (4) be reformatted as follows to clarify the requirements:

- (4) The contract shall describe the available dividend options.

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- (a) If the contract provides for more than one dividend option, the contract shall identify the automatic option.
- (b) Dividends used to purchase additional income benefits shall be subject to the same requirements of this standard as additional premium payments made after issue.

## CLARIFICATION CHANGE ITEMS

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### **2. ADDITIONAL PURCHASE PAYMENTS AFTER ISSUE FOR PAID-UP DEFERRED NON-VARIABLE ANNUITIES**

**APPLIES:** §1B.(1)(g), §3B.(1), §3G.(1) and Appendix A of the Individual Deferred Paid-Up Non-Variable Annuity Contract Standards (Commonly Marketed as Longevity Annuities)

#### **CURRENT PROVISION:**

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

##### **B. ACTUARIAL MEMORANDUM 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:

(g) Certification that the income benefit provided under this contract is greater than that guaranteed at issue for the same premium under any non-variable deferred annuity contract offered by the company that provides cash surrender values during the deferral period or on the income commencement date. A sample format for such certification is shown in Appendix A; and

(h) If the contract permits supplemental premium payments, a description of what guarantees, if any, are offered on the paid-up annuity rates for future premium payments.

#### **§ 3 CONTRACT PROVISIONS**

##### **B. ANNUITY PURCHASE RATES FOR ANY PREMIUMS PAID AFTER ISSUE**

(1) If the contract allows additional premium payments after issue to be used to purchase additional income benefits, the contract shall provide for the following:

(a) Each additional premium payment will generate a paid up annuity with guaranteed income payments beginning on a specified income commencement date and based on a specified income option. If no income commencement date and/or income option is specified at the time of premium payment, the contract shall provide for default options for the income commencement date and/or income option;

(b) The annuity purchase rates used for such additional income benefits will be based on the attained age of the annuitant, the specified income commencement date and specified income option, and the company's then current annuity purchase rates, subject to any guarantees provided in the contract;

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(c) The term “current annuity purchase rates,” as used in item (b) above, requires that the income payment purchased by additional premiums are not less than that in a new contract subject to these standards for the same attained age and specified income commencement date; and

(d) Within 30 days of receipt of an additional premium payment, the company will provide to the owner written confirmation stating the amount of the premium paid, the amount of the additional income benefit purchased, the income option, and the income commencement date. In addition, the written confirmation will provide the option to cancel the additional income by returning the confirmation document to the company, within 10 days of receipt of the confirmation, for the refund of any premium payment made.

## APPENDIX A

### ACTUARIAL CERTIFICATION

For use with the Individual Deferred Paid-up Non-variable Annuity contract forms at time of filing.

I, \_\_\_\_\_, of \_\_\_\_\_ am a Member of the American Academy of Actuaries. I have reviewed the pricing and product specifications in respect to (identify contract form) and certify that the income benefit provided by the initial premium under this contract is greater than that guaranteed at issue for the same premium under any deferred annuity contract offered by the Company to the same class of annuitants that provides cash surrender values during the deferral period or on the income commencement date.

**Drafting Note:** This is intended to include any guaranteed income benefits at issue for any individual deferred non-variable annuity contract, including guaranteed living benefits.

\_\_\_\_\_  
Name of Actuary

\_\_\_\_\_  
Signature of Actuary

\_\_\_\_\_  
Date of Certification

### COMMENTS:

*Industry Comment:* Written comments were not submitted. Rather, the IIPRC Office suggests clarification as companies with approved filings have sought clarification about the scope of the certification in Appendix A and its impact with respect to additional purchase payments after issue of a contract approved under these Uniform Standards.

*IIPRC Office Comment/Observation:* The IIPRC Office has issued filing guidance by way of a weekly tip to filers that the company should ensure that not only the income benefit from the initial premium but the income benefit from additional premium payments are greater than the

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guaranteed income benefit from individual deferred non-variable annuities including guaranteed living benefits. Section 3(B)(1)(c) is tied to the original certification in Section 1(B)(1)(g) and Appendix A. The Appendix A certification applies to any “new contract subject to these standards” and requires “income benefit greater than that guaranteed at issue for the same premium under any non-variable deferred annuity contract offered by the company that provides cash surrender values during the deferral period or on the income commencement date.” It appears the benchmark used in Section 3(B)(1)(c) for “income payment purchased by additional premiums” would be “income benefit greater than that guaranteed at issue for the same premium under any non-variable deferred annuity contract offered by the company that provides cash surrender values during the deferral period or on the income commencement date” along with the Drafting Note in Appendix A that it includes income payments from guaranteed living benefits.

Companies have posed the practical dilemma of the impact of this interpretation on future development of new deferred non-variable annuities with guaranteed benefit features or riders that may cause scenarios where the income benefit from these future products may produce greater income benefit than available on previously-approved deferred paid-up non-variable annuity products. Companies report the recently-issued Department of Labor fiduciary rules are necessitating changes that may cause future products to have enhanced benefit features and that companies with Compact-approved longevity annuity products may be disadvantaged in developing future non-longevity deferred non-variable annuity products if these future products must always be benchmarked or less than the income benefit for additional annuity payments under longevity products previously-approved by the Compact.

At least one company has indicated this situation is exacerbated when it ceased issuing new longevity contracts because it no longer had current annuity purchase rates as specified in Section 3(B)(1)(c). The situation raises the question of what are “current rates” when there is not a current product offered for sale.

*IIPRC Office Recommendation:* The IIPRC Office seeks verification that the current standard requires a company to always ensure income payments purchased by additional premium be greater than that guaranteed at issue for the same premium under any deferred non-variable annuity contract offered by the company that provides cash surrender value during the deferral period or on the commencement date, including any guaranteed income benefits. If so, the IIPRC Office recommends the Product Standards Committee confirm whether member states have a similar requirement that income payments from additional premium payments under state-approved paid-up annuities without cash surrender values must always be greater than income payments from any deferred non-variable annuities with cash surrender values. The Product Standards Committee may also want to seek input from filing companies and others on the impact of this requirement on future development of annuity products as well as how to address

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when companies cease issuing “new contracts subject to these standards” and do not have current annuity purchase rates as defined in Section 3(B)(1)(c). The Product Standards Committee should also consider whether this certification may prevent companies from filing new products under these Uniform Standards or result in filing new deferred non-variable annuity contracts state-by-state because these new contracts may cause a compliance issue with their Compact-approved longevity product filing. Once this input is received, the Product Standard Committee may consider amendments to clarify the benchmark for additional purchase payments after issue.

## CLARIFICATION CHANGE ITEMS

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### 3. DEFERRED PAID-UP ANNUITY ACTUARIAL CERTIFICATION REQUIREMENTS

**APPLIES:** §1B.(1)(g) of the Individual Deferred Paid-Up Non-Variable Annuity Contract Standards (Commonly Marketed as Longevity Annuities)

#### **CURRENT PROVISION:**

- (1) An actuarial memorandum shall be prepared, dated and signed by the member of the American Academy of Actuaries who provides the following information:
  - (g) Certification that the income benefit provided under this contract is greater than that guaranteed at issue for the same premium under any non-variable deferred annuity contract offered by the company that provides cash surrender values during the deferral period or on the income commencement date. A sample format for such certification is shown in Appendix A; and

#### **COMMENTS:**

*IIPRC Office Comments/Observations:* The IIPRC Office notes that it issues objections to and receives pre-filing questions from filers who are attempting to demonstrate compliance with the Standard Nonforfeiture Law (SNFL) as part of the certification for these uniform standards. The IIPRC Office notes that the certification referenced in this section is provided in lieu of a nonforfeiture demonstration.

*IIPRC Office Recommendation:* The IIPRC Office recommends that the following clarifying language be added to this provision:

- (g) In lieu of a nonforfeiture demonstration, ~~C~~certification that the income benefit provided under this contract is greater than that guaranteed at issue for the same premium under any non-variable deferred annuity contract offered by the company that provides cash surrender values during the deferral period or on the income commencement date. A sample format for such certification is shown in Appendix A; and

## CLARIFICATION CHANGE ITEMS

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### 4. PRIVATE PAYMENT PLANS AND QUALIFIED OWNERS

**APPLIES:** Scope and definition of “Qualified owner” in the Additional Standards for Private Placement Plans for Individual Deferred Variable Annuity and the Additional Standards for Private Placement Plans for Individual Variable Adjustable Life Insurance Policies

#### **CURRENT PROVISION:**

(Taken from the Variable Adjustable Life standard)

**Scope:** These standards apply to private placement plans that are built in to individual variable adjustable life insurance policies. Private placement plans are variable policies that are issued exclusively to an accredited investor or qualified purchaser, as those terms are defined by the Securities Act of 1933, as amended, the Investment Company Act of 1940, as amended, or the regulations promulgated under either of those acts, and provide for benefits that vary in relation to the performance of an underlying separate account where the investment funds in the private placement separate account are exempt from registration with the SEC under the Investment Company Act of 1940, as amended. Private Placement Plans may also offer non-exempt funds.

“Qualified owner” is an owner who is an accredited investor or qualified purchaser, as those terms are defined by the Securities Act of 1933, as amended, the Investment Company Act of 1940, as amended, or the regulations promulgated under either of those acts.

#### **COMMENTS:**

*Industry Comment:* The IAC notes that these standards do not define an accredited investor or a qualified purchaser specifically, but do define “Qualified owner” which includes an accredited investor and a qualified purchaser. In addition, they note that a qualified owner includes a qualified client as the term is defined by the Investment Advisors Act of 1940 as amended. The IAC suggests that substituting the term “qualified owner” in the Scope provision and amending the definition of qualified owner to include a qualified client would add clarity. The IAC also suggested further clarifying changes to the Scope.

*IIPRC Office Comments/Observations:* The IIPRC Office is not aware of any questions or confusion from filers regarding the Scope, but agrees that the proposed amendments would add clarity.

*IIPRC Office Recommendation:* The IIPRC Office recommends that the PSC consider the following amendments to the Scope and definition of “qualified owner” for clarity:

## CLARIFICATION CHANGE ITEMS

5-Year Review, Phase 7 (Certain Uniform Standards Effective Between January 1, 2011 and July 3, 2011)

**Scope:** These standards apply to private placement plans that are built in to individual variable adjustable life insurance policies. Private placement plans are variable policies that are issued exclusively to ~~an accredited investor or~~ qualified owners purchaser, ~~as those terms are defined by the Securities Act of 1933, as amended, the Investment Company Act of 1940, as amended, or the regulations promulgated under either of those acts,~~ and provide for benefits that vary in relation to the performance of an underlying separate account where the separate account invests in investment one or more funds ~~in the private placement separate account that~~ are exempt from registration with the Securities and Exchange Commission (SEC) under the Investment Company Act of 1940, as amended. Private ~~p~~Placement ~~p~~Plans may also offer non-exempt funds.

“Qualified owner” is an owner who is an accredited investor or qualified purchaser, as those terms are defined by the Securities Act of 1933, as amended, the Investment Company Act of 1940, as amended, or the regulations promulgated under either of those acts. The term may also include a qualified client, as the term is defined by the Investment Advisors Act of 1940, as amended, or the regulations promulgated under this act.

## CLARIFICATION CHANGE ITEMS

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### 5. POLICY EXCHANGE – PRIVATE PLACEMENT

**APPLIES:** §3I. (2)(b) and (c) in the Additional Standards for Private Placement Plans for Individual Variable Adjustable Life Insurance Policies

#### CURRENT PROVISION:

##### I. POLICY EXCHANGE

- (2) With respect to the new policy, the following applies:
- (a) A policy exchange shall not trigger a new contestable period, unless the net amount at risk is increased. If the net amount at risk is increased, contestability may apply to the increased amount for up to two years beginning with the date of issue of the new policy. The new policy may include an exception to the incontestability provision for fraud in the procurement of the new policy when permitted by applicable law in the state where the policy is delivered or issued for delivery.
  - (b) A policy exchange shall not trigger a new suicide exclusion period, unless the net amount at risk is increased. If the net amount at risk is increased, the suicide exclusion period applicable to the increased amount shall not exceed two years from the date of issue of the new policy.
  - (c) If a policy contains a reinstatement provision or other policy provision that references the subject matter of Paragraph (2)(a) and/or (2)(b), the policy references shall be consistent with (2)(a) and/or (2)(b).

#### COMMENTS:

*Industry Comment:* The IAC notes that the language in §3I. (2)(b) and (c) lacks clarity and it may be easier for companies and reviewers to understand if it was reworded.

*IIPRC Office Comments/Observations:* The IIPRC Office has not received questions from filers or regulators about this provision.

*IIPRC Office Recommendation:* The IIPRC Office has no specific recommendation, but agrees that the following language proposed by the IAC provides clarity.

- (b) A policy exchange shall not trigger a new suicide exclusion period, unless the net amount at risk is increased. If the net amount at risk is increased, ~~the a~~ suicide exclusion ~~period-applicable~~ may apply to the increased amount

## CLARIFICATION CHANGE ITEMS

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~~shall not exceed~~ for up to two years beginning with ~~from~~ the date of issue of the new policy.

- (c) If a policy contains a reinstatement provision or other policy provision that references the subject matter of Paragraph (2)(a) and/or (2)(b) of this section, the policy references shall be consistent with such Paragraphs (2)(a) and/or (2)(b).

## CLARIFICATION CHANGE ITEMS

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### 6. OVERLOAN PROTECTION – EXERCISING BENEFIT

**APPLIES:** §3A.(4) of the Additional Standards for Overloan Protection Benefit

**CURRENT PROVISION:**

#### **§3 BENEFIT PROVISIONS**

##### **A. BENEFIT**

- (4) The benefit form may state that the benefit will be exercised automatically once the conditions specified in the benefit form are met. Alternatively, the benefit form may provide a procedure for notifying the owner when the benefit can be exercised and obtaining the approval to exercise the benefit from the owner. The procedure shall include the following, if applicable:
- (a) Written notice at least 31 days before the end of the policy's grace period that the benefit can be exercised.
  - (b) That the owner must notify the company in writing within a specified period of time that is no less than the end of the policy's grace period that the owner wants to exercise the benefit.
  - (c) If the owner receives written notice less than 31 days before the end of the grace period, then an owner who wants to exercise the benefit must notify the company in writing within a specified period of time that is no less than 30 days after receiving the written notice.

##### **COMMENTS:**

*Industry Comment:* An Industry representative observed that because this section is written in a permissive voice they believe that the standard can be interpreted to mean that either of the noted conditions may be included in the contract, but that neither must be included. Unlike other sections that are very clear in what is required to be included in the benefit, they believed that this section lacks language that indicates that the form shall include either a statement that the benefit will be exercised automatically; or, alternatively, that the benefit shall provide a procedure for notifying the owner of exercise eligibility.

*IIPRC Office Comments/Observations:* The IIPRC Office notes that reviewers do issue objections related to this provision and that there is confusion among some filers about what must be included within the form. The IIPRC Office requires filers to either state that the benefit will be exercised automatically or provide a procedure for notifying the owner

## CLARIFICATION CHANGE ITEMS

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when the benefit can be exercised and obtaining the approval to exercise the benefit from the owner.

*IIPRC Office Recommendation:* The IIPRC Office suggests that the PSC consider the following language to clarify that the benefit form must contain one of the two options for how the benefit will be exercised::

- (4) The benefit form ~~may shall state~~ either:
- (a) State that the benefit will be exercised automatically once the conditions specified in the benefit form are met; ~~or~~
  - (b) ~~Alternatively, the benefit form may P~~provide a procedure for notifying the owner when the benefit can be exercised and obtaining the approval to exercise the benefit from the owner. The procedure shall include the following, ~~if applicable~~:
    - (ai) Written notice at least 31 days before the end of the policy's grace period that the benefit can be exercised.
    - (~~b~~ii) That the owner must notify the company in writing within a specified period of time that is no less than the end of the policy's grace period that the owner wants to exercise the benefit.
    - (~~e~~iii) If the owner receives written notice less than 31 days before the end of the grace period, then an owner who wants to exercise the benefit must notify the company in writing within a specified period of time that is no less than 30 days after receiving the written notice.

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### 7. RANGE FOR MINIMUM AND MAXIMUM INDEBTEDNESS

**APPLIES:** §1B.(1) and §3A.(2)(f) of the Additional Standards for Overloan Protection Benefit

#### **CURRENT PROVISION:**

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

##### **B. VARIABILITY OF INFORMATION**

- (1) The company may identify product specifications that may be changed without prior approval, as long as the Statement of Variability presents reasonable and realistic ranges for the item. These items may include the benefit charge, the minimum loan indebtedness percentage, the guaranteed minimum loan indebtedness percentage, the maximum loan indebtedness percentage, and the minimum age/duration the policy must be in force before exercising the benefit

#### **§3 BENEFIT PROVISIONS**

##### **A. BENEFIT**

- (2) The benefit form shall describe the conditions that must be met in order for the owner to be able to exercise the benefit. The conditions may include:
  - (f) That the loan value or loan value plus accrued interest is more than or equal to a minimum loan indebtedness percentage of the policy's cash value after the deductions of the surrender charge and the benefit charge. The minimum loan indebtedness percentage may be specified in the benefit form or may be guaranteed not to be lower than the guaranteed minimum loan indebtedness percentage.

#### **COMMENTS:**

*Industry Comment:* The IAC notes that the standards require that a company show the minimum and maximum indebtedness percentages, as applicable, and that the variability filed for these be presented in "reasonable and realistic ranges." In the absence of any guidance in the standards as to what this may allow, the IAC states that filing experience has shown that the IIPRC actuary will not approve certain minimums, such as in the low 90% range. Some companies prefer to use a minimum percentage in the low 90% range to allow the owner ample time to do his due diligence and discuss the consequences of an impending lapse with his advisers. Other companies prefer higher percentages.

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Accordingly, the IAC suggests that a range that is deemed to be “reasonable and realistic” be included for minimum and maximum indebtedness percentage to avoid arbitrary determinations of what is reasonable or realistic.

*IIPRC Office Comments/Observations:* The IIPRC Office believes that the specific filing referenced anecdotally by the IAC as one where the IIPRC actuary “arbitrarily” decided the minimum indebtedness percentage was unreasonable contained an indebtedness percentage well below the low 90% range. The actuary noted that the accumulation value could function normally for months or years before entering any Grace Period, so it did not appear the rider was functioning to protect the policy from lapsing. The Scope of these uniform standards states that the overloan protection benefit “prevents the policy from lapsing due to an excessive loan on the policy.” The IIPRC Office reviews the ranges for reasonableness to assure that the product is providing the benefit outlined within the Scope of the Uniform Standards.

*IIPRC Office Recommendation:* The IIPRC Office does not recommend establishing an arbitrary minimum and maximum indebtedness percentage.

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### 8. SCOPE OF CHANGE OF INSURED BENEFIT

**APPLIES:** Scope of the Additional Standards for Change of Insured Benefit

#### **CURRENT PROVISION:**

**Scope:** These standards apply to change of insured benefits that are built into individual whole life insurance policies or individual variable or non-variable adjustable life insurance policies or added to such policies by rider, endorsement or amendment. A change of insured benefit allows the owner to exchange the insured covered by the policy for a new insured in whom the owner has an insurable interest or to exchange the policy for a new policy covering a new insured in whom the owner has an insurable interest. Change of insured benefits are most often used in the business insurance market to exchange insureds in the case of personnel departures, without having to purchase an entirely new policy and without upfront loads and surrender charges.

#### **COMMENTS:**

*Industry Comment:* The IAC notes that the second sentence of the Scope of this uniform standard addresses change of insured for a policy, but does not address persons who may be insured under a rider, amendment or endorsement attached to a policy. The IAC also observes that other possible uses for the standard may involve an owner who purchased a policy on a spouse and in the case of divorce may elect to change the insured to someone other than the spouse. While the IAC doesn't believe that the current language would not allow this, they suggest adding the following to the end of the last sentence: "but may also be used in other situations, such as when an owner who purchased a policy insuring his or her spouse is divorcing such spouse and elects to exchange the insured for someone other than the spouse."

*IIPRC Office Comments/Observations:* The IIPRC Office has not received questions on the Scope, and notes that the first sentence of the Scope specifically states that it applies to change of insured benefits that are "added to such policies by rider, endorsement or amendment." The IIPRC Office would use these standards to review any filing that fit within the Scope of the uniform standard, not just for the example listed; however clarification may be helpful.

*IIPRC Office Recommendation:* The IIPRC Office suggests that the PSC consider the following revisions to clarify the Scope of these standards:

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**Scope:** These standards apply to change of insured benefits that are built into individual whole life insurance policies or individual variable or non-variable adjustable life insurance policies or added to such policies by rider, endorsement or amendment. A change of insured benefit allows the owner to exchange the insured covered by the policy, or under a rider, endorsement or amendment attached to the policy, for a new insured in whom the owner has an insurable interest or to exchange the policy for a new policy covering a new insured in whom the owner has an insurable interest. Change of insured benefits are most often used in the business insurance market to exchange insureds in the case of personnel departures, without having to purchase an entirely new policy and without upfront loads and surrender charges, but may also be used in other situations, such as a change in marital status.

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### 9. CHANGE OF INSURED BENEFIT AND ACCELERATED DEATH BENEFITS

**APPLIES:** §3A.(3) of the Additional Standards for Change of Insured Benefit

#### **CURRENT PROVISION:**

#### **§3 BENEFIT PROVISIONS**

##### **A. BENEFIT**

- (3) The benefit form shall state that the owner must have an insurable interest in the new insured and shall describe any additional conditions that must be met to be able to exercise the benefit. The conditions may include:
- (a) Evidence of insurability under the company's underwriting guidelines currently in effect. For last to die survivorship policies:
    - (i) If the death benefit is increased, evidence of insurability may be required for the existing insured who will continue to be insured under the new policy; or
    - (ii) There may be limitations on the risk class of the new insured to ensure that the combined risk class limits for the new policy are met (e.g. at least one of the insured's must be standard).
  - (b) A minimum and maximum age of the existing and new insured, as applicable.
  - (c) That the existing and new insured are living on the exchange date.
  - (d) That the policy be in force a specified period of time before the benefit can be exercised.
  - (e) That the excess of any unpaid policy loan plus accrued interest over the loan value of the new policy be repaid before the change of insured can take effect.
  - (f) That if an assignment is in effect under the policy at the time of the exchange, that any assignee give written consent to the change of insured before the exchange date.
  - (g) That the policy may not be in the grace period.

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- (h) That any disability benefits available under the policy are not currently in effect.
- (i) That the cash value is not more than the maximum amount to qualify as life insurance under Section 7702 of the Internal Revenue Code, as amended.

### COMMENTS:

*Industry Comment:* The IAC states that it was not the intent that a change of insured be permitted if an accelerated death benefit has been made under the existing policy, and suggests adding language to this effect.

*IIPRC Office Comments/Observations:* The IIPRC Office has not received questions regarding this provision, but agrees that if the intent was not to include a policy that has had an accelerated death benefit paid, then this should be stated in the standards.

*IIPRC Office Recommendation:* The IIPRC Office suggests that the PSC consider the following addition to §3A.(3):

- (3) The benefit form shall state that the owner must have an insurable interest in the new insured and shall describe any additional conditions that must be met to be able to exercise the benefit. The conditions may include:
  - (a) Evidence of insurability under the company's underwriting guidelines currently in effect. For last to die survivorship policies:
    - (i) If the death benefit is increased, evidence of insurability may be required for the existing insured who will continue to be insured under the new policy; or
    - (ii) There may be limitations on the risk class of the new insured to ensure that the combined risk class limits for the new policy are met (e.g. at least one of the insured's must be standard).
  - (b) A minimum and maximum age of the existing and new insured, as applicable.
  - (c) That the existing and new insured are living on the exchange date.
  - (d) That the policy be in force a specified period of time before the benefit can be exercised.

## CLARIFICATION CHANGE ITEMS

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- (e) That the excess of any unpaid policy loan plus accrued interest over the loan value of the new policy be repaid before the change of insured can take effect.
- (f) That if an assignment is in effect under the policy at the time of the exchange, that any assignee give written consent to the change of insured before the exchange date.
- (g) That the policy may not be in the grace period.
- (h) That any disability benefits available under the policy are not currently in effect.
- (i) That the cash value is not more than the maximum amount to qualify as life insurance under Section 7702 of the Internal Revenue Code, as amended.
- (j) That an accelerated death benefit payment has not been made under the policy at the time of the exchange.

## CLARIFICATION CHANGE ITEMS

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### 10. LIMITATIONS ON GRADED DEATH BENEFITS

**APPLIES:** §3A.(6) and (7) of the Additional Standards for Graded Death Benefit for Individual Whole Life Insurance Policies

#### CURRENT PROVISION:

#### §3 CONTRACT PROVISIONS

##### A. DEATH BENEFIT

- (6) The period of reduced early duration death benefits for death from natural causes shall be not more than the first three policy years.
- (7) The amount of reduced early duration death benefits for death from natural causes shall not be less than the amount of premiums paid to the time of death with interest at the rate used to determine nonforfeiture values under the policy.

#### COMMENTS:

*Regulator Comment:* The Oregon Insurance Division submitted comments requesting that the PSC discuss the following issues in reviewing the uniform standards for graded death benefits:

- 1. Preserve/improve a product standard that a single premium cannot exceed death benefits provided for non-accidents during the graded limited death benefit period.
- 2. Preserve/improve not allowing premium payments designs, other than a single premium, that cannot exceed the death benefit until after the graded death benefit period.
- 3. Preserve/improve not allowing continuing premium payments after paying 1.5 times the death benefit provided.

*IIPRC Office Comments/Observations:* The IIPRC Office notes that the current uniform standards limit reduced death benefits to the first three policy years and that the standards require that the reduced death benefit never be less than the amount of premiums paid to the time of death with interest at the rate used to determine nonforfeiture values.

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*IIPRC Office Recommendation:* The IIPRC Office suggests that the PSC discuss the comments raised by the Oregon Division of Insurance and determine if additional clarifying language is needed within this section of the uniform standards.

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### 11. ACTUARIAL MEMORANDUM REQUIREMENTS – GRADED DEATH BENEFIT

**APPLIES:** §1B. of the Additional Standards for Graded Death Benefit for Individual Whole Life Insurance Policies

#### CURRENT PROVISION:

##### § 1 ADDITIONAL SUBMISSION REQUIREMENTS

#### 1. ACTUARIAL MEMORANDUM REQUIREMENTS

- (1) If the early duration reduced death benefit is equal to return of premiums with interest, the adjusted premium calculation for the nonforfeiture demonstration may use annual premiums in calculating the death benefit for the average amount of insurance.

#### COMMENTS:

*IIPRC Office Comments/Observations:* The IIPRC Office notes that its actuaries frequently need to follow up with filers to obtain information on how the average amount of insurance and adjusted premiums are calculated for the nonforfeiture demonstration, and this delays the review process.

*IIPRC Office Recommendation:* The IIPRC Office recommends the following revision to this provision to add clarity and eliminate unnecessary objections:

- (1) If the early duration reduced death benefit is equal to return of premiums with interest, the actuarial memorandum must describe and provide an example of how average amount of insurance is determined in calculating adjusted premiums for the nonforfeiture demonstration. The adjusted premium calculation ~~for the nonforfeiture demonstration~~ may use annual premiums in calculating the death benefit for the average amount of insurance.

## CONFORMING AMENDMENTS

5-Year Review, Phase 7 (Certain Uniform Standards Effective Between January 1, 2011 and July 3, 2011)

### **Conforming Amendments**

Pursuant to Article III of the Bylaws of the Interstate Insurance Product Regulation Commission, the Commission established procedures for Conforming Amendments to Uniform Standards. A conforming amendment is an amendment to an existing Uniform Standard where the substantive provisions of the amendment are included in another adopted Uniform Standard and the amendment will have the same substantive effect on the application of the existing Uniform Standard as it does on in the other adopted Uniform Standard. As part of the Five Year Review process, the applicable changes adopted by the Commission in the Phase One process will be presented as conforming amendments to standards subject to Phases 2, 3 and 4 of the process. These items will be presented to the Management Committee for Conforming Amendments.

### **List of Conforming Amendments**

1. Conformity with Interstate Insurance Product Regulation Commission
2. Legal Action

## CONFORMING AMENDMENTS

5-Year Review, Phase 7 (Certain Uniform Standards Effective Between January 1, 2011 and July 3, 2011)

### 1. CONFORMITY WITH INTERSTATE INSURANCE PRODUCT REGULATION

COMMISSION (*Cross-Reference to IIPRC Office Report 8/13/13– Clarification Item #1*)

**APPLIES:** §3F. of the Individual Deferred Paid-Up Non-Variable Annuity Contract Standards (Commonly Marketed As Longevity Annuities)

## CONFORMING AMENDMENT

### § 3 CONTRACT PROVISIONS

#### 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 applicable Interstate Insurance Product Regulation Commission standards in effect as of the provision's effective date of Commission contract approval ~~for this product type as of the provision's effective date.~~

## CONFORMING AMENDMENTS

5-Year Review, Phase 7 (Certain Uniform Standards Effective Between January 1, 2011 and July 3, 2011)

2. **LEGAL ACTION** (*Cross-Reference to IIPRC Office Report 8/13/13–Clarification Item #4*)

**APPLIES:** §3 Contract Provisions of the Individual Deferred Paid-Up Non-Variable Annuity Contract Standards (Commonly Marketed As Longevity Annuities)

## CONFORMING AMENDMENT

### § 3 CONTRACT PROVISIONS NEW SECTION

#### **N. 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.

## **TECHNICAL ITEMS**

5-Year Review, Phase 7 (Certain Uniform Standards Effective Between January 1, 2011 and July 3, 2011)

### **Technical Items**

Technical items are proposed changes and corrections to the Uniform Standards to make formatting, typographical, and/or drafting corrections that would not change the meaning or effect of the provision, or the current application and interpretation of the provision or applicable Uniform Standards. Technical items would also encompass changes that would make the Uniform Standards consistent with one another where appropriate, in terms of formatting and wording. The IIPRC Office will insert and clearly distinguish technical items in the Uniform Standards. As has been the practice when making technical changes to the Uniform Standards during the rulemaking process, these technical items will not be specifically discussed unless there is a concern or question raised by members, regulators, or interested parties.

#### **List of Technical Change Items**

1. Inclusion of Table of Contents
2. Inclusion of Standard Title in Header
3. Mix and Match - Correction Of Reference
4. Income Option - Correction Of Reference
5. Change of Insured Benefit – Missing word

## **TECHNICAL ITEMS**

5-Year Review, Phase 7 (Certain Uniform Standards Effective Between January 1, 2011 and July 3, 2011)

### **1. INCLUSION OF TABLE OF CONTENTS**

**APPLIES:** All Uniform Standards subject to Phase 7 of the Five Year review.

**CURRENT PROVISION:** These Uniform Standards do not contain a Table of Contents.

#### **COMMENTS:**

*IIPRC Office Comment/Observation:* The IIPRC Office received a suggestion through the website to include a Table of Contents in all Uniform Standards.

*IIPRC Office Recommendation:* The IIPRC Office agrees with this suggestion and has been incorporating Table of Contents to all Uniform Standards as they become subject to Five Year review.

## **TECHNICAL ITEMS**

5-Year Review, Phase 7 (Certain Uniform Standards Effective Between January 1, 2011 and July 3, 2011)

### **2. Inclusion of standard title in header**

**APPLIES:** All Uniform Standards subject to Phase 7 of the Five Year review.

**CURRENT PROVISION:** These Uniform Standards do not contain the name of the Uniform Standard in the header.

#### **COMMENTS:**

*IIPRC Office Comment/Observation:* The IIPRC Office notes that the header currently provides the effective date of the standard, but does not identify the standard. It is sometimes difficult to identify the Standard when multiple Standards are viewed at the same time.

*IIPRC Office Recommendation:* The IIPRC Office recommends adding the title of the standard to the header of all Uniform Standards subject to this Five Year review.

## TECHNICAL ITEMS

5-Year Review, Phase 7 (Certain Uniform Standards Effective Between January 1, 2011 and July 3, 2011)

### 3. Mix and Match – CORRECTION OF REFERENCE

#### APPLIES:

Additional Standards for Graded Death Benefit for Individual Whole Life Insurance Policies

Individual Deferred Paid-Up Non-Variable Annuity Contract Standards (Commonly Marketed as Longevity Annuities)

Additional Standards for Private Placement Plans for Individual Deferred Variable Annuity

Additional Standards for Private Placement Plans for Individual Variable Adjustable Life Insurance Policies

Additional Standards for Change of Insured Benefit

#### CURRENT PROVISION:

**Mix and Match:** These standards are available to be used in combination with State Product Components as described in Section 110(b) of the Operating Procedure for the Filing and Approval of Product Filings.

#### COMMENTS:

*IIPRC Office Comment/Observation:* The reference to the applicable section in the Operating Procedure for the Filing and Approval of Product Filings requires updating to reflect adopted amendments.

*IIPRC Office Recommendation:* The IIPRC Office recommends that the reference be amended to refer to Section 111(b) of the Operating Procedure for the Filing and Approval of Product Filings.

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.

## **TECHNICAL ITEMS**

5-Year Review, Phase 7 (Certain Uniform Standards Effective Between January 1, 2011 and July 3, 2011)

### **4. INCOME OPTION - CORRECTION OF REFERENCE**

**APPLIES:** § 3L.(2)(e) of the Individual Deferred Paid-Up Non-Variable Annuity Contract Standards (Commonly Marketed as Longevity Annuities).

#### **CURRENT PROVISION:**

(2)(e) The contract shall contain the information specified in Paragraph (1) of Section F. **CONTRACT VALUES AND GUARANTEES** to allow the owner to estimate the value of the alternative income benefit available.

#### **COMMENTS:**

*IIPRC Office Comment/Observation:* The IIPRC Office notes that the references to Section. F **CONTRACT VALUES AND GUARANTEES** in this subsection should be references to Section G.

*IIPRC Office Recommendation:* The IIPRC Office recommends that the reference should be corrected to refer to proper provision within the standards.

(2)(e) The contract shall contain the information specified in Paragraph (1) of Section **FG**. **CONTRACT VALUES AND GUARANTEES** to allow the owner to estimate the value of the alternative income benefit available.

## **TECHNICAL ITEMS**

5-Year Review, Phase 7 (Certain Uniform Standards Effective Between January 1, 2011 and July 3, 2011)

### **5. CHANGE OF INSURED BENEFIT – MISSING WORD**

**APPLIES:** §3B.(1)(b)(ii) and §3E.(1)(b)(ii) of the Additional Standards for Change of Insured Benefit

#### **CURRENT PROVISION:**

#### **B. INCONTESTABILITY**

- (1) The benefit form shall state:
  - (a) That the maximum two-year contestable period as described in the policy shall be measured from the exchange date; and
  - (b) That the minimum amount that will be paid for a contested claim on the new policy will be at least equal to:
    - (i) For whole life policies, any premiums paid for the new policy plus any cash value of the existing policy applied under the new policy less any policy loans, partial withdrawals and dividends paid in cash or used to reduce premiums after the exchange date.
    - (ii) For adjustable life policies, any premiums paid for the new policy, the cash value of the existing policy on the exchange date, adjusted for policy loans and partial withdrawals

#### **E. SUICIDE**

- (1) The benefit form shall state:
  - (a) That the maximum two-year suicide exclusion period described in the policy shall be measured from the exchange date; and
  - (b) That the minimum amount that will be paid for death by suicide on the new policy will be at least equal to:
    - (i) For whole life policies, any premiums paid for the new policy plus any cash value of the existing policy applied under the new policy less any policy loans, partial withdrawals and dividends paid in cash or used to reduce premiums after the exchange date.

## TECHNICAL ITEMS

5-Year Review, Phase 7 (Certain Uniform Standards Effective Between January 1, 2011 and July 3, 2011)

- (ii) For adjustable life policies, any premiums paid for the new policy, the cash value of the existing policy on the exchange date, adjusted for policy loans and partial withdrawals.

### COMMENTS:

*Industry Comment:* The IAC noted that it appears the word “plus” is missing before the words “cash value” in §3B.(1)(b)(ii) and §3E.(1)(b)(ii).

*IIPRC Office Comment/Observation:* The IIPRC Office agrees with the IAC’s comment..

*IIPRC Office Recommendation:* The IIPRC Office recommends the following correction:

### B. INCONTESTABILITY

- (1) The benefit form shall state:
  - (a) That the maximum two-year contestable period as described in the policy shall be measured from the exchange date; and
  - (b) That the minimum amount that will be paid for a contested claim on the new policy will be at least equal to:
    - (i) For whole life policies, any premiums paid for the new policy plus any cash value of the existing policy applied under the new policy less any policy loans, partial withdrawals and dividends paid in cash or used to reduce premiums after the exchange date.
    - (ii) For adjustable life policies, any premiums paid for the new policy, plus the cash value of the existing policy on the exchange date, adjusted for policy loans and partial withdrawals

### E. SUICIDE

- (1) The benefit form shall state:
  - (a) That the maximum two-year suicide exclusion period described in the policy shall be measured from the exchange date; and
  - (b) That the minimum amount that will be paid for death by suicide on the new policy will be at least equal to:
    - (i) For whole life policies, any premiums paid for the new policy plus any cash value of the existing policy applied under the new policy less any policy loans, partial

## **TECHNICAL ITEMS**

5-Year Review, Phase 7 (Certain Uniform Standards Effective Between January 1, 2011 and July 3, 2011)

withdrawals and dividends paid in cash or used to reduce premiums after the exchange date.

- (ii) For adjustable life policies, any premiums paid for the new policy, **plus** the cash value of the existing policy on the exchange date, adjusted for policy loans and partial withdrawals.