

Agenda Item 2 - Continue to Receive Feedback on the Following Questions Related to Life Insurance and Annuity Products

Mary Mealer, the Product Standards Committee (PSC) Chair summarized that in November of 2017 the Insurance Compact issued a Public Notice that the PSC wanted to hold public calls to exchange information on features of life insurance or annuities products in the marketplace today that are not within the scope of the current Uniform Standards, as well as the emerging or future life insurance and annuities products or benefits features that the regulators and the Insurance Compact should be aware of in developing insurance regulation and Uniform Standards. The Notice sought comment on the following three questions:

- What individual life or annuity products or benefit features are companies filing with states rather than the Insurance Compact because of lack of Uniform Standards?
- Where is product innovation heading resulting in a need for new or amended regulatory requirements and Uniform Standards?
- What new products or benefits are consumers asking for that cannot be filed with the Insurance Compact due to lack of Uniform Standards?

A public call was held on November 28, 2017 to hear feedback on the comments received at that time. Since that call two other sets of comments were received from Sandra Meltzer & Associates and from ACLI.

Sandra Meltzer representing Sandra Meltzer & Associates summarized their submitted comments, proposing the Compact develop a set of criteria for approving innovative life insurance products. Within the criteria, the insurer would describe the product and the benefit of the product for the consumer; explain any noncompliance with the Compact Uniform Standards and how the product would benefit consumers and why it is consistent with the Standards; and explain any exclusions as well as any costs of the benefit. In response to questions from the PSC about whether the concept was to have the Compact act as a testing ground for innovative products or to develop a Uniform Standard with enough flexibility for innovation, Ms. Meltzer stated that her preference was the latter. With this approach there would be parameters to evaluate the new product for viability as well as general compliance with appropriate standards.

Emily Micale, representing the ACLI, noted that their submitted comments included input from ACLI standing product subgroups, including life, annuities, disability and long-term care as well as their retirement plans committee, securities committee, and group insurance executive counsel. She stated that while the ACLI would like to keep the request to allow diagnostic testing questions to accommodate direct-to-consumer testing on their list, the ACLI would follow-up in writing at a later date with more justification pertaining to this issue. Compact staff advised that it would be helpful to hear from ACLI how consumers would benefit from allowing such questions. Compact staff also asked if such questions have been allowed on state approved applications or if states exclude questions related to such tests.

The Chair suggested reviewing ACLI's request by product type and asked if there were questions on the individual annuity list. .

Compact staff requested feedback addressing what current barriers exist preventing the hybrid index variable products from being filed with the Compact today.

A representative from Protective Life responded that separate account standards for market value adjustments do not allow for crediting of negative interest. The predominant concept of these hybrid products is that the contract owner contractually agrees to accept the risk for a certain measure of loss and there are currently no Compact Standards that permit products that operate in such a fashion.

The PSC Chair expressed concerns related to whether there would be a cap on potential losses, what type of investment vehicles would be involved, and what flexibility the Industry would desire. She stated that this type of information would be important in determining if a new standard would be needed and feasible, or if modifications to existing standards may be possible.

A representative from AXA Equitable advised that the company would be happy to share a description of their product, which was originally developed in 2010. Addressing the question of how this product is received when filed with Compacting states directly; she stated that in the 8 years since the product was introduced acceptance by regulators has grown. There are less objections now than there were in 2010, however there are still many state variations of the product. The company would like a Uniform Standard for this popular consumer product. A representative from Great West also offered to provide the Compact with high level product specifications related to their annuity product.

Industry was asked why requested changes to the Longevity Standards were not raised during the recently completed 5 Year Review process. Ms. Micale said that she would raise the question with ACLI's members and respond at a later date.

In reference to the request for a standard addressing a Waiver of New Charges Riders, Compact staff commented that they currently review such benefit features under existing Annuity Standards in situations where the new charges are waived if the account value exceeds a specific threshold. Industry was asked to verify if this is the type of feature that they are seeking. A representative from Rhode Island asked if the request for Waiver of New Charges would include triggers similar to Activities of Daily Living (ADL) triggers or if there would be other circumstances where new charges would be waived and if so, what those additional triggers would be.

Emily Micale responded that she was not sure anyone from the company requesting this consideration was on the call but she would follow-up to obtain additional information.

The Industry was asked if the request for Accelerated Death Benefit for Variable and Fixed Annuities is for a feature similar to what is available under the Individual Life Standards or if the request is to add triggers for ADL or cognitive impairment into an existing standard. Miriam Krol, consultant for ACLI, commented that this is a request to accelerate death benefits on annuities, similar to what is in place for life insurance. A representative from Securian confirmed that the request is for an additional benefit above and beyond the account value in the existing annuity.

The Chair asked if there were any questions for ACLI or its members regarding the requested new standards for Individual Life Products. A representative from Pennsylvania, inquired about index linked life insurance and whether the product contemplated would fall under the category of registered products or if current actuarial guidelines would allow flexibility for this type of product. He also asked if Actuarial Guideline 25 could be applied in the review of these products or if different actuarial guidelines would be required.

A representative from Pacific Life stated that from their perspective the request is for non-registered products, specifically Whole Life Products with an index linked paid-up addition feature, possibly an interest sensitive piece tied to an index. This representative was not able to address the question regarding Actuarial Guideline 25 but stated he would follow-up with company actuaries.

Compact staff commented that no description was provided regarding Waiver of Monthly Deduction triggers for unemployment and critical illness, but noted the Additional Standards for Waiver of Surrender Charge Benefit is in place for annuity contracts. Compact staff asked if any companies could provide details regarding which compacting states do not allow this on the life side.

A representative from Pacific Life responded that they haven't tried to file or analyze state laws in Compacting states but they are asking to include triggers similar to what are included in the Annuity Contract Standards, plus more. Regarding waiver of surrender charges for Adjustable Life policies, the company wants to include a customer option to choose a waiver of surrender charges, so in this case not everyone would receive the feature in the same way.

Compact staff noted that the request labeled "Income Protect Agreements" appears to be more appropriately called a request for an installment only death benefit. She noted that under the current standards, a lump sum payment must always be available; not only to the owner but to the beneficiary, and installment only riders or options are not permitted. Compact staff asked if companies were currently using Mix & Match because Compacting states currently allow such installments. A representative from Pacific Life confirmed that this benefit had been approved in 48 states.

A representative from Pennsylvania asked about Overloan Protection for Whole Life, stating that in some filings it isn't clear that the death benefit remains in effect, instead it appears the death benefit value diminishes to zero but the rider is still asserted to be in force. He asked if this is intended to be permitted or if there should be a small death benefit. A Penn Mutual representative stated the company's view is that some residual death benefit is intended but the absence of clear standards creates a struggle, and it is easier to accomplish under Universal Life.

Compact staff noted that ACLI also submitted comments related to Group Standards but the focus of this call was on Individual Life and Annuity Products. It was noted that the Compact has shared with the Industry Advisory Committee (IAC) as well as the PSC that this year's work agenda will include work on group annuity standards and work towards a process to allow the Group Uniform Standards to apply to other eligible groups.

A representative from Oregon stated that they had concerns with expanding products reviewed by the Compact beyond those clearly included in the Compact law and that they also had concerns with development of standards for review of new and innovative products. It was noted that they previously submitted comments on this issue.

Agenda Item 3 – Discuss Next Steps. The Chair noted that the PSC will review comments received today as well as the feedback received last November. The PSC will work to develop a plan of action that can be presented to the Management Committee in August regarding how to address any needed additional standards for Individual Life and Annuity Products.