



MEMORANDUM

TO: Insurance Compact Management Committee

FROM: Product Standards Committee

DATE: July 27, 2017

SUBJECT: Product Standard Committee Response to Comments Regarding Proposed Amendments to Uniform Standards Effective Between January 1, 2011 and July 3, 2011 (Phase 7 of the Five-Year Review of Uniform Standards)

The Product Standards Committee (“PSC”) of the Interstate Insurance Product Regulation Commission (“Commission”) presented the Management Committee (“Committee”) with its recommendations for the Five-Year Review of Uniform Standards effective between January 1, 2011 and July 3, 2011 (Phase 7). The proposed amendments were published on March 23, 2017 for a 60 day comment period and the Management Committee held a Public Hearing on June 26, 2017. Comments were received on only two of the proposed amended uniform standards, the Additional Standards for Private Placement Plans for Individual Deferred Variable Annuity Contracts and the Individual Deferred Paid-Up Non-Variable Annuity Contract Standards. The Management Committee has asked for the PSC’s feedback on these comments.

The attached summary chart contains the proposed recommendations from the PSC. As explained in the chart, the Committee agrees with the three clarifying technical revisions and is not recommending any substantive changes to the commutation provision in the Individual Deferred Paid-Up Non-Variable Annuity Contract Standards.

SUMMARY OF THE PRODUCT STANDARDS COMMITTEE RESPONSE TO COMMENTS REGARDING
AMENDMENTS TO UNIFORM STANDARDS EFFECTIVE BETWEEN JANUARY 1, 2011 AND JULY 3,
2011 (PHASE 7 OF THE FIVE-YEAR REVIEW OF UNIFORM STANDARDS)

	Standards Provision	Comment	Product Standards Committee (PSC) Response to Comments
1.	CONTRACT PROVISIONS: OWNERSHIP §3.F(3) of the Additional Standards for Private Placement Plans for Individual Deferred Variable Annuity Contracts	The Pennsylvania Department of Insurance noted that proposed amendments to these standards changed “liquidity notice period” to “redemption notice period,” but in this section the term is listed as specified redemption liquidity notice. They suggested striking the word liquidity from the last sentence.	The IIPRC Office noted that this was a technical error and the word liquidity should have been stricken. The PSC agreed with the following highlighted technical revision: (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 <u>if</u> the owner ceases to be a qualified owner, the owner may be 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, to transfer funds from an exempt fund to a non-exempt fund or the general account as described in the TRANSFERS section. If the owner takes no action, the owner may be required to surrender the contract for cash, all subject to the liquidity date(s) and <u>specified redemption liquidity</u> notice <u>periods specified in the contract.</u>
2.	CONTRACT PROVISIONS: CONTRACT VALUES AND GUARANTEES §3.H (3) of the Individual Deferred	Northwestern Mutual submitted comments proposing reformatting for this provision to clarify that the maximum deferral period does not	The PSC agreed to the following highlighted technical revision to make it very clear that the 20 year maximum deferral period does not apply to lifetime income:

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	Paid-Up Non-Variable Annuity Contract Standards	apply to lifetime income.	<p>(3) The contract shall provide that the income payable on the income commencement date is payable for:</p> <p>(a) the annuitant’s lifetime (with or without a guarantee period), or</p> <p><u>(b) for a stipulated period certain for a minimum of five (5) years with a maximum deferral period of twenty (20) years.</u></p>
3.	<p>CONTRACT PROVISIONS: ANNUITY PURCHASE RATES FOR ANY PREMIUMS PAID AFTER ISSUE</p> <p>§3.B (1) (c) of the Individual Deferred Paid-Up Non-Variable Annuity Contract Standards</p>	<p>Northwestern Mutual submitted comments suggesting language to clarify that the income benefit from additional premium payments applied to a dividend-paying DIA contract does not need to be greater than the income benefit from a DIA contract that doesn’t pay dividends</p>	<p>The PSC noted that the proposed amendments include revisions to these standards accommodating dividend and non-dividend paying contracts when dividends are used to purchase additional income, and concluded that it would provide further clarification to distinguish dividend and non-dividend paying contracts in the current annuity purchase rate definition. The PSC agreed with the IIPRC Office suggestion to use the term “class of annuitants” rather than the term “class of purchasers” suggested by Northwestern Mutual to be consistent with the term used in the actuarial certification required under Appendix A of the standards.</p> <p>The PSC agreed to recommend the following highlighted clarifying revision to the proposed standards:</p> <p>(c) The term “current annuity purchase rates,” as used in item (b) above, requires that the income payments purchased by additional premiums are:</p> <p>(i) <u>Not</u> less than that in a new contract</p>

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			<p>subject to these standards for the same <u>class of annuitants (annuitants of annuity contracts that are not expected to pay dividends shall be considered a separate class from annuitants of annuity contracts that are expected to pay dividends)</u>, attained age and specified income commencement date <u>if the company offers a deferred paid-up non-variable annuity contract subject to this standard at the time the additional premium is paid; or, and</u></p> <p><u>(ii.) If the company does not offer a deferred paid-up non-variable annuity contract subject to this standard at the time the additional premium is paid, based on reasonable actuarial assumptions;</u></p>
4.	<p>CONTRACT PROVISIONS: COMMUTATION OF ANNUITY PAYMENTS §3.F (1) of the Individual Deferred Paid-Up Non-Variable Annuity Contract Standards</p>	<p>Northwestern Mutual submitted comments questioning why the proposed amendments establish a 60% limitation on commutation when such a specific limit is not included in the Individual Immediate Non-Variable Annuity Contract Standards.</p>	<p>The PSC reviewed the comments and noted that the initial proposal submitted by the Industry Advisory Committee included the 60% limitation. The proposed addition of the commutation provision was discussed in great detail by the Actuarial Working Group and the PSC and fully vetted with interested parties before the recommendations for amendments were made to the Management Committee.</p> <p>The PSC agreed that they would not recommend further amendments to this provision since commutation is limited in order to assure that some income payments remain after the commutation so that it meets the original purpose of the contract to provide some amount (reduced though it</p>

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			<p>may be in the event of a commutation) of income payments for life, or for the elected certain period. They noted that the request that the commutation provision match the Individual Immediate Non-Variable Annuity Contract Standards is not sufficient in and of itself to justify further change since these two standards have different purposes.</p>
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