DATE: December 28, 2016

TO: IIPRC Product Standards Committee (PSC)

FROM: Industry Advisory Committee

SUBJECT: IIPRC 5 Year Review For Phase 7: Longevity Standards

In October 2016, the IIPRC published its 5 Year Review Report and Recommendations for the proposed changes to the Longevity standards. On page 38 appears the following Clarification Item #2:

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;
(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
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 [red highlighting added by IAC]. 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 [red highlighting added by IAC].

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 [red
highlighting added by IAC]. 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 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
Distribution of deferred 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. [Red highlighting added by IAC.]

The red highlighting above explains the issues.

During the week of November 17, 2016, we received the following from the Product Standards Committee:

Clarification Item 2 - ADDITIONAL PURCHASE PAYMENTS AFTER ISSUE FOR PAID-UP DEFERRED NON-VARIABLE ANNUITIES

1. The PSC seeks input on the impact of the requirement that 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. How does this impact future development of annuity products? How should the IIPRC address 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)? Could the requirement prevent companies from filing new products under these Uniform Standards or result in filing new deferred non-variable annuity contracts state-by-state?

In response to the red-highlighted language above, as well as to other related questions posed above, we believe that the current language in the Authorization section and Section 3(B)(1)(c) provide a significant disincentive for a company to file longevity products with the IIPRC since doing so under the current standards would be detrimental to a company’s future development of annuity products, as well as to its business decision to stop making certain annuity products available in the marketplace (closing blocks of business). We also believe that the IIPRC Weekly Tip on Longevity Annuities issued on July 26, 2013 further exacerbates the problem.

Accordingly, we suggest making the following changes:

1. Change Appendix A as follows (changes shown in red):

“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 in the same distribution channel 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. It is not intended to apply to subsequent purchase payments made to this Individual Deferred Paid-Up Non-variable Annuity contract once it is no longer offered for sale.

Name of Actuary

Signature of Actuary

Date of Certification”

2. Change Section 3(B)(1)(c) as follows (changes shown in red):

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;

(c) For a contract still offered for sale, 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.”

3. For consistency with the changes suggested in items 1 and 2 above, withdraw the IIPRC Weekly Tip on Longevity Annuities issued on July 26, 2013.

We are available to discuss our suggestions.

Submitted by the Industry Advisory Committee:

Hugh Barrett, Mass Mutual Life
Chelsea Crucitti, IRI
Brian Deleget, Nationwide
Angela Hanson, Northwestern Mutual
Michael Hitchcock, Pacific Life
Steve Kline, NAIFA
Amanda Matthiesen, AHIP
Rod Perkins, ACLI