Proposed Changes to the Private Placement Uniform Standards from the PA Department of Insurance

February 22, 2017

The following are the Pennsylvania Department of Insurance’s suggested changes to the February 2017 drafts of the Additional Standards for Private Placement Plans for Individual Deferred Variable Annuity Contracts and the Additional Standards for Private Placement Plans for Individual Variable Adjustable Life Insurance Policies.

Pennsylvania notes that the PSC changed the Ownership provision in each standard such that one of two remedies (or both) must be available if the owner ceases to be a qualified owner. Under the prior standard, the only required remedy was a policy/contract exchange. Under the new revised standard, the PSC has added the option of allowing the policyholder to transfer funds from an exempt fund to a non-exempt fund or the general account. PA believes that the Surrender provision needs updated to be consistent with this revision to the Ownership provision.

The changes to Ownership provision is a consistency suggestion.

The suggested revisions to the February draft are highlighted in yellow.

Additional Standards for Private Placement Plans for Individual Deferred Variable Annuity Contracts §3 F Ownership – PA wants to add the word “the”

(3) 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 if the owner ceases to be a qualified owner, that 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 the owner may be required to surrender the contract for cash, all subject to the liquidity date(s) and specified redemption notice periods. 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 specified redemption liquidity notice periods specified in the contract.

§3 L. Surrenders – PA revisions highlighted in yellow

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, a remedy available under the contract, the contract may require that the contract be surrendered. The contract shall describe any surrender charges which may apply if the owner declines the opportunity to exchange and is required to surrender the contract, the contract shall state that surrender charges may apply.
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Additional Standards for Private Placement Plans for Individual Variable Adjustable Life Insurance Policies

§3 E Ownership: PA wants to add “if the owner ceases to be a qualified owner” for consistency

(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 if the owner ceases to be a qualified owner 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 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 policy for cash, all subject to the liquidity date(s) and specified redemption liquidity notice periods.

§3M Surrender PA revisions highlighted in yellow – similar to the proposed change to the Annuity standards

(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, a remedy available under the policy, 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.