DATE: November 17, 2016

TO: IIPRC Product Standards Committee (“PSC”)

FROM: Industry Advisory Committee

SUBJECT: IIPRC 5 Year Review For Phase 7:

IIPRC Office Report and Recommendations Dated October 12, 2016
Additional PSC Comments Dated October 18, 2016

PSC Additional Comments: Substantive Item 2, Question 2

Proposed §3F(4)(a) states:

(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.

PSC’s comments:

The first sentence allows the owner to request some information, including "current replacement ratio." The second sentence outlines the calculation of the "current replacement ratio" in cases where certain information (interest rate and mortality) is not included in the contract.

What happens when the contract includes interest rate and the mortality table used in the determination of the commuted value? Is the company still required to provide the owner the "current replacement ratio value"? If yes, how is it calculated? Same way?

IAC Response:

Most companies do not include the interest rate and the mortality table used in the determination of the commuted value in an individual deferred paid-up non-variable annuity contracts. This is because even if a contract includes this information, the majority of contractholders would still
contact the company to request information about a commuted value, and the companies are more than willing to provide this customer service.

Yes, the companies will still be required to provide the current replacement ratio information upon request. The calculation of the ratio will either be based on the definition as specified in (i) and (ii) above, or based on another formula using mortality tables and interest rates included in the contract and filed for approval.

*Proposed §3F.(4)(c) states:*

(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.

*PSC Comment:*

Under (4)(c)(iii) the company appears to be required to provide the "current replacement ratio" only when interest rate and mortality table used to calculate commuted value are not included in the contract. Is the intention of this provision that as long as the basis for the commuted values is included in the contract, current replacement ratio value need not be provided?

*IAC Response:*

No. As we noted in our response to a question on 3F.(4)(a), companies would provide the replacement ratio even if it was calculated based on the company's own formula using interest rates and mortality tables in the contract. We do not want to leave it up to the policyholder to calculate the replacement ratio for themselves. In order to make this clear, we suggest changing item 4(c)(iii) to read as follows:

[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] The current replacement ratio. The current replacement ratio is the replacement ratio as of the date of the calculation.

By making this change, we would expect the company to provide the replacement ratio regardless of whether the interest rates or mortality tables were put into the contract.
**PSC Comment:**

With respect to the interest rate, what is meant by "included in the contract at issue"? Would a description like "current rate for immediate annuities issued by Us plus 200 bps" or "20 year Treasury rate plus 150 bps" count?

**IAC Response:**

Yes. Alternatively, a company may include a static rate, such as declared rate of 4%.

**PSC Comment:**

Would there be opposition to a limit on the interest rate? If not, do you have a recommendation for that limit?

**IAC Response:**

Yes the companies would oppose a limit on interest rates. The companies must have flexibility to reflect market interest rate volatility.

**Submitted by the Industry Advisory Committee:**

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