

**Agenda Item 2. Continue discussion and recommendation on Substantive Item #2  
Commutation for *Individual Deferred Paid-Up Non-Variable Annuities***

The Actuarial Working Group (AWG) discussed revisions to the industry proposed language for §3F.(1) of the standard that IIPRC staff prepared to clarify the intent of that section based on the working group's discussion on the November 30th call as well as subsequent communications with industry representatives. The AWG agreed that the replacement ratio requirement in §3F.(4) of the Industry Advisory Committee (IAC) draft addresses concerns with respect to the interest and mortality assumptions used in determining the commuted value.

The group considered the addition of a definition for Period Certain Annuity, and agreed to the IIPRC Office suggestion with a slight modification:

“Period certain annuity” means an annuity where the annuitant is guaranteed a specific payment amount for a set period of time. If the annuitant dies before the end of the period, the annuitant’s beneficiary or estate receives the remaining payments for the guaranteed period. For policies that offer a return of premium death benefit (e.g., cash refund or installment refund options), the income benefit payments made prior to the death benefit shall be considered period certain income.

The AWG agreed to suggest that the Product Standards Committee (PSC) consider the following revised language to §3F.(1):

F(1): The contract may contain a provision providing an option allowing the owner to elect, after income payments have commenced, commutation of the income benefit stream subject to the following:

(a) Participating contracts may not provide for the commutation of future dividend payments;

(b) Such commutation shall not be available for life only income benefit options;

(c) For life income options with a period certain the available commutation benefit shall be limited to the lesser of the following: (1) 100% of the commuted value of the period certain income benefits, or (2) 60% of the commuted value of the combined life contingent and period certain income benefits;

(d) For period certain only income options the available commutation benefit shall be limited to 60% of the commuted value of the period certain income.

**Drafting Note:** As an example of (c) above, if the income benefit stream is a life and 10-year period certain of \$100/month and commutation is elected after 1 year of payments, then using the applicable interest and mortality determined under Section 4(a), the commutation benefit is limited to the lesser of:

(1) the present value of 9 years of \$100/month payments; or

(2) 60% of the present value of the remaining certain and life \$100/month payments.

The lesser of (1) or (2) would be paid in a lump sum and the remaining payments adjusted accordingly. For example, if (1) is lower than (2) then residual payments may be 1) \$0 for the remaining 9 years of the period certain and then \$100/month for life; or 2) an actuarially equivalent reduced monthly payment for both the certain and life periods. If (2) is lower than (1) then the remaining payments would be \$40/month for the remaining 9 years of the period certain and for life.

The AWG discussed the requirement in §1(B)(1)(k) with respect to what is meant by “reasonable” mortality assumptions and whether this should be modified to prevent companies from using mortality assumptions with a static life expectancy (e.g. everyone dies at specific age, such as age 78.) In lieu of amending the language Tom Kilcoyne of Pennsylvania agreed to develop a drafting note that would provide some guidance for the AWG’s consideration.

### **Agenda Item 3. Discuss Substantive Item #3 Dividends Used To Purchase Paid Up Additions.**

The AWG discussed the request from the IAC to add a provision to the Individual Deferred Paid-Up Non-Variable Annuity Uniform Standards to allow the additional income purchased with dividends to be based on the interest and mortality assumptions that applied to the premium that generated the dividends, as well as the IAC responses to questions posed by the PSC. The IIPRC Office suggested some modifications to the IAC proposed revision to § 3R.(4) of the standard to clarify the intent.

The AWG agreed to suggest that the PSC consider the following revision:

The contract shall describe the available dividend options. If the contract provides for more than one dividend option, the contract shall identify the automatic option. Dividends used to purchase additional guaranteed income payments ~~benefits shall be subject to the same requirements of this standard as additional premium payments made after issue using~~ shall be determined using either:

(a) “Current annuity purchase rates”, as defined in B(1)(c) of Section 3 of this standard, or

(b) The same ~~guaranteed~~ interest and mortality rates ~~schedule~~ used to determine guaranteed income payments ~~the Annuity Income Payment amount~~ at the time of the premium payment to which the dividend is related ~~was paid~~ and the attained age(s) of the annuitant(s) at the time the dividend is paid.

**Agenda Item 4. Discuss Clarification Item #7 - Range For Minimum And Maximum Indebtedness.**

IIPRC staff provided an overview of the request from the IAC to add a specific minimum loan indebtedness percentage range to the Overloan Protection Standard. In response to questions from the AWG, the IAC stated that they wanted this range when the overloan benefit is exercised automatically as well as when the owner has an option. The IIPRC actuaries reported that the issue only came up on one or two filings and in those cases the company chose not to explain the reason for a low percentage. They also observed that setting a range could get into product pricing and very few if any IIPRC standards include a specific range for items allowed to be variable. It was noted that different companies may need to have different ranges due to product design or administrative decisions. The AWG concluded that it would not recommend any change to the current standard.

**Agenda Item 5. Any Other Matters.**

The Chair noted that this was the last call for the year and that members would receive notice in January when the AWG reconvened to review the final items for recommendations to the PSC for Phase 7 of the 5 Year review.