

Agenda Item 2. Discuss the AWG recommendations for Substantive Item #2 - Commutation for Individual Deferred Paid-Up Non-Variable Annuities in the IIPRC Office Report and Recommendations for the Uniform Standards Currently Subject to Five-Year Review (Phase 7).

The IIPRC staff provided an overview of the Actuarial Working Group's (AWG) discussion and recommendations. The Product Standards Committee (PSC) agreed to the AWG recommendation to add the following definition of "Period certain annuity," following the Scope in the standard:

"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 PSC also agreed with the AWG recommendation to revise the proposed language in §3F.(1) as follows to provide more clarity:

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.

Agenda Item 3. Discuss the AWG recommendations for Substantive Item #3 - Dividends Used to Purchase Paid Up Additions in the IIPRC Office Report and Recommendations for the Uniform Standards Currently Subject to Five-Year Review (Phase 7).

The PSC agreed with the AWG recommendation to add the provision requested by Industry Advisory Committee (IAC) with the following changes for further clarity of the intent:

- (4) 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 the AWG recommendations for Clarification Item #7 - Range for Minimum and Maximum Indebtedness in the IIPRC Office Report and Recommendations for the Uniform Standards Currently Subject to Five-Year Review (Phase 7).

The IIPRC staff summarized the IAC request to specify a minimum range for triggering the overloan protection benefit. The AWG recommended no change to the standards, noting particularly 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, well below 90%. 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 PSC agreed with the AWG recommendation to make no change to this provision in the standard.

Agenda Item 5. Discuss responses received from the Industry Advisory Committee to the questions from the PSC regarding the Additional Standards for Private Placement Plans for Individual Variable Adjustable Life Insurance Policies and Additional Standards for Private Placement Plans for Individual Deferred Variable Annuity and finalize recommendations.

The PSC reviewed the IAC responses to questions posed regarding proposed revisions to the Private Placement Uniform Standards. In reference to the definition of “qualified owner”, since there may be certain situations where funds require the owners to be “qualified clients” or

“qualified eligible purchasers” the PSC decided a drafting note rather than an additional sentence would provide more clarity. They also added “or both” to the definition to clarify that an owner may be an accredited investor, a qualified purchaser or both depending on circumstances.

“Qualified owner” is an owner who is an accredited investor or qualified purchaser or both, as those terms are defined by the Securities Act of 1933, as amended, the Investment Company Act of 1940, as amended, or the regulations promulgated under either of those acts. ~~The term may also include a qualified client, as the term is defined by the Investment Advisors Act of 1940, as amended, or the regulations promulgated under this act.~~

Drafting Note: Certain exempt funds may be available only to qualified owners who are also “qualified clients” as defined by the Investment Advisors Act of 1940 or “qualified eligible purchasers” as defined by the Commodities Futures Act.

The PSC also discussed concerns that the proposed revisions take away the choice for the owner to always exchange the policy or contract for one that does not require qualified owner status. While alternatives are available within the revised standards, none are required, but a company may require surrender. The PSC agreed to recommend the following revision to §3E – OWNERSHIP:

- ~~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 if the owner ceases to be a qualified owner, that the owner 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 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.

Agenda Item 6. Discuss Clarification Item #3 - Deferred Paid-Up Annuity Actuarial Certification Requirements in the IIPRC Office Report and Recommendations for the Uniform Standards Currently Subject to Five-Year Review (Phase 7).

The PSC agreed with the IIPRC Office recommendation to add the phrase “In lieu of a nonforfeiture demonstration” to §1B.(1)(g) of the Individual Deferred Paid-Up Non-Variable Annuity Contract Standards to assist filers and make it clear that a nonforfeiture demonstration is not required; rather the certification is in lieu of the demonstration.

Agenda Item 7. Any other matters.

The Chair noted that the AWG still needs to provide feedback on the few remaining items in the report and the next PSC call will be scheduled when the recommendations are received, most likely by February 7th. A public call will most likely be scheduled near the end of February.