

Agenda Item 2. Discuss the AWG suggested Revision and Drafting Note to §1(B)(1)(k) of the Individual Deferred Paid-Up Non-Variable Annuity Standards related to Substantive Change Item #2 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 the following revisions to the Industry Advisory Committee (IAC) proposed §1(B)(1)(i) and (k) to provide more clarity:

- (i) Sample calculations illustrating the methodology and formulas used in the commutation of any life contingent and non-life contingent annuity benefits. The actuary may use any reasonable assumptions, consistent with any applicable Actuarial Standards of Practice in determining the commuted values;
- (j) A description of the methodology applicable to the determination of the interest rate and/or net investment return, as appropriate, used in the calculation of the commuted value of any life contingent and non-life contingent annuity benefits; and
- (k) A description of the mortality assumption used in determining the commuted value of any life contingent annuity benefits. Any reasonable mortality assumption, consistent with any applicable Actuarial Standards of Practice and regulatory requirements, may be used..

Drafting Note: The commuted value must be calculated as an actuarial present value. A reasonable mortality assumption would be based on credible data, with margins appropriate for the intended purpose.

Agenda Item 3. Discuss Substantive Item #8 Premium And Benefit Characteristics For Graded Death Benefits 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 request from the Pennsylvania Department of Insurance to provide more transparency within the policy regarding the amount of death benefit paid for death from natural causes during the period of reduced benefits. The PSC agreed to make the following change to §2B to require that the company include a description of how the early duration reduced benefits for death from natural causes are calculated as well as presenting the early duration reduced benefits for death from natural causes and the ultimate death benefit for subsequent policy years:

B. SPECIFICATIONS PAGE

- (1) The specifications page shall show the annual premium and the dollar amounts of the early duration reduced benefits for death from natural causes ~~(or the formula for calculating the benefits)~~ and the ultimate face amount for each policy year up

until the year the ultimate face amount is payable. If the early duration reduced death benefit is equal to premiums paid plus interest, or according to some other simple calculation provided the result is no less than premiums paid plus interest, the specifications page shall ~~so state, along with the interest rate~~ describe the calculation and state any interest rate or other coefficient.

- (3) The tabular presentation of cash values and paid up nonforfeiture benefits, whether on the Specifications Page or otherwise, shall include a corresponding presentation of the early duration reduced benefits for death from natural causes and the ultimate death benefit for subsequent policy years.

Agenda Item 4. Discuss Clarification Item #2 - Additional Purchase Payments After Issue For Paid-Up Deferred Non-Variable Annuities in the IIPRC Office Report and Recommendations for the Uniform Standards Currently Subject to Five-Year Review (Phase 7).

IIPRC staff reviewed the AWG's discussion on the impact of the requirement that income payments purchased by additional premium be greater than that guaranteed for the same premium under any deferred non-variable annuity contract offered by the company at the time the additional premium is paid, including any guaranteed income benefits, particularly when companies cease issuing new contracts subject to these standards. The PSC agreed with the AWG's conclusion that in situations where the company no longer issues new longevity contracts but does allow additional premiums after issue, it would be appropriate that in lieu of requiring that the guaranteed income benefits be greater than those guaranteed in the company's non-variable deferred annuities at the time the additional premium is paid, to require disclosure of the amount of additional income benefit purchased under the existing contract in comparison with any higher guaranteed income payments provided under any non-variable deferred annuity contract being offered by the company at the time the additional premium is paid.

The PSC agreed to recommend the following revisions §3B(1) to address situations where a company no longer offers a paid-up deferred non-variable annuity subject to these standards, but the contract allows for additional premiums after purchase:

- (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 payments purchased by additional premiums are:
- (i) Not less than that in a new contract subject to these standards for the same attained age and specified income commencement date **if the company offers a deferred paid-up non-variable annuity contract subject to this standard at the time the additional premium is paid; or**
 - (ii.) If the company does not offer a deferred paid-up non-variable annuity contract subject to this standard at the time the additional premium is paid, based on reasonable actuarial assumptions; ~~and~~
- (d) Within 30 days of receipt of an additional premium payment, the company ~~will~~ shall provide the following to the owner:
- (i.) Written confirmation stating the amount of the premium paid;
 - (ii.) The amount of the additional income benefit purchased, the income option, and the income commencement date;
 - (iii.) If the company no longer offers a new contract subject to these standards at the time the additional premium is paid, the company shall provide the owner with information on the income benefit, if higher than the amount in (ii) above, guaranteed under a non-variable deferred annuity contract that provides cash surrender values during the deferral period or on the income commencement date, including those with guaranteed income benefits, offered by the company to the same class of annuitants at the time the additional premium is received.
 - (iv.) ~~In addition~~ The written confirmation and, if applicable, comparison of guaranteed income payments in (iii) above, shall ~~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.

Agenda Item 5. Begin discussion on comments regarding the Product Standards Committee Recommendations for the Phase 6 Five-Year Review Amendments to

Individual Long-Term Care Insurance Uniform Standards – Management of Benefits, with focus on whether comments change the PSC’s recommendation.

Karen Schutter, IIPRC, provided a summary of the history of the request by the IAC to add a provision to the standards that permits a policy form to include a non-duplication of benefits provision stating that the benefits provided for allowable expenses under all long-term care insurance policy forms covering the insured that are issued by the company or a subsidiary do not exceed the actual expenses incurred for the covered services or items. She also summarized the IAC responses to the questions posed by members during discussions with the Management Committee. She noted that the Management Committee has asked the PSC to first consider whether the comments and additional materials would change their recommendation that no such change be made to the standard, and regardless of that determination, to provide draft language for such a provision for the Management Committee’s consideration.

Several members of the PSC commented that the additional information and discussion has been beneficial and that they could support the concept as long as the consumer can make an informed decision regarding how the payments are made and which policy is considered first. Other members expressed continued reservations, noting concerns with how additional coverage would be marketed, questions about the suitability of subsequent additional policies, and lack of understanding of how benefits would be calculated.

Ms. Schutter stated that the PSC would continue its discussions on the February 28th call and that IIPRC staff would develop draft language for the Committee to review. She asked members to read the previously distributed documentation, including the IAC responses to questions dated December 28, 2016 since those responses may answer some questions members raised.

Agenda Item 6. Any other matters.

The Chair noted that the PSC recommendations for Phase 7 of the 5-Year review would be exposed for comments for the PSC Public Call scheduled for February 21st. The PSC will meet via a member call on February 28th to consider any comments made and to continue discussion on the Long-Term Care management of benefits issue.