AMERICAN ACADEMY *of* ACTUARIES

April 28, 2011

Jim Mumford, Chair
Annuity Disclosure (A) Working Group
National Association of Insurance Commissioners

Dear Mr. Mumford:

The Annuity Illustration Work Group of the American Academy of Actuaries[1] has reviewed the April 12, 2011 comments on the Annuity Disclosure Model Regulation submitted by the National Association for Fixed Annuities (NAFA). We have also met with NAFA to discuss their concerns.

Attached are recommended changes to specific paragraphs of the "Annuity Disclosure11 Drafting subgroup revisions" document in track changes format. We have included some comments on changes suggested by NAFA where there is still some disagreement. Unless specifically noted, we believe NAFA agrees with all of our recommended changes.

We also included some changes in response to the attached letter from California, as well as some other clarifying changes outside the fixed indexed annuity section that were recently brought to our attention.

Please let us know if you have any questions or would like to discuss this matter further.

Sincerely,

Linda Rodway, Chair
American Academy of Actuaries
Annuity Illustration Work Group

Cc: Kim O'Brien, Executive Director, NAFA

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[1] The American Academy of Actuaries is a 17,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

4.I “Market Value Adjustment” or “MVA” ~~means a contract~~ feature ~~of a deferred annuity~~is a positive or negative adjustment that may be applied to the account value and/or cash value~~could increase or decrease the value~~ of the annuity ~~a~~upon withdrawal, surrender, ~~annuitization~~ or death benefit payment or contract annuitzation based on either ~~on changes in~~ the movement of an index or ~~changes to~~ on the company’s current guaranteed interest rate being offered on new premiums or new rates for renewal periods, if that withdrawal, surrender, or death benefit payment or contract annuitization occurs at a time other than on a specified guaranteed benefit date.

Comment [AIWG1]: This definition was intended to follow the IIPRC definition of an MVA, but some of the wording was inadvertently left out (especially the last phrase, which is important for the definition of an MVA)

5.B. (3)(h) Impact of any rider, such as a guaranteed living benefit or long-term care rider;

Comment [AIWG2]: To ensure that including the effect of guaranteed living benefit riders are not overlooked.

6.E. Costs and fees of any type (including surrender charges) shall be individually described and explained.

Comment [AIWG3]: To address California comment.

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6. F. (9) In determining the non-guaranteed illustrated values for a fixed indexed annuity, the index-based interest rate and account value shall be calculated for three different scenarios: one to reflect historical performance of the index for the most recent ten (10) calendar years; one to reflect the historical performance of the index for the continuous ten (10) year period out of the last twenty (20) calendar years that would result in the least index value growth (the “low scenario”); one to reflect the historical performance of the index for the continuous ten (10) year period out of the last twenty (20) calendar years that would result in the most index value growth (the “high scenario”). The following requirements apply:

Comment [AIWG4]: NAFA believes that the low scenario should reflect the 10 year period with the **least indexed account value growth**, and that the high scenario should reflect the 10 year period with the **most indexed account value growth**. They believe that low and high scenarios that represent the extremes of what the interest crediting formula would produce for the **account value**, based on the last 20 years of experience is better information for the customer than the 10 year period of lowest and highest **index growth**. The AIWG prefers using **index growth** to determine the low and high periods, which is more consistent for all illustrations that use a particular index.

(a) The most recent ten (10) calendar years and the last twenty (20) calendar years are defined to end on the prior December 31, except for illustrations prepared during the first three (3) months of the year, for which the end date of the calendar year period may be the December 31 prior to the last full calendar year;

(b) If any index utilized in determination of an account value has not been in existence for at least ten (10) calendar years, indexed returns for that index shall not be illustrated. If the fixed indexed annuity provides an option to allocate account value to more than one indexed or fixed declared rate account, and one or more of those indexes has not been in existence for at least ten (10) years, the allocation to such indexed account(s) shall be assumed to be zero;

(c) If any index utilized in determination of an account value has been in existence for at least ten (10) calendar years but less than twenty (20) calendar years, the ten year periods that define the low and high scenarios shall be chosen from the exact number of years the index has been in existence;

(~~b~~d) The non-guaranteed element(s), such as caps, spreads, participation rates or other interest crediting adjustments, used in calculating the non-guaranteed index-based interest rate shall be no more favorable than the corresponding current element(s);

(~~c~~e) If a fixed indexed annuity provides an option to allocate the account value to more than one indexed or fixed declared rate account:

(i) ~~, T~~The allocation used in the illustration shall be the same for all three scenarios;

(ii) The ten (10) year periods resulting in the least and greatest index growth periods shall be determined independently for each indexed account option.

(~~d~~f) The geometric mean annual effective rate of account value growth over the ten (10) year period shall be shown for each scenario;

(~~e~~g) If the most recent ten (10) year historical period ~~for the most recent~~ experience of the index is shorter than the number of years needed to fulfill the requirement of subsection H, the ~~geometric mean annual effective rate over the initial historical period~~most recent ten (10) year historical period experience of the index shall be used for each subsequent ten (10) year period beyond the initial period ~~used to~~for the purpose of calculat~~e~~ing the account value for the remaining years of the illustration;

(~~f~~h) The low and high scenarios need not show surrender values (if different than account values), shall not extend beyond ten (10) years (and therefore are not subject to the requirements of subsection H beyond subsection H(1)(a)) and ~~shall~~may be shown on a separate page. A graphical presentation shall also be included comparing the movement of the account value over the ten (10) year period for the low scenario, the high scenario and the most recent ten (10) calendar year scenario; and

(~~g~~i) The low and high scenarios should reflect the irregular nature of the index performance and should trigger every type of adjustment to the index-based interest rate under the contract. The effect of the adjustments should be clear; for example, additional columns showing how the adjustment applied may be included. If an adjustment to the index-based interest rate is not triggered in the illustration (because no historical values of the index in the required illustration range would have triggered it), the illustration shall so state;

Comment [AIWG5]: We are fine with this change suggested by NAFA, but it should be noted that for companies with surrender charge periods that are 10 years or less that choose to show the account value only every 10 years after the initial 10 year period, either the geometric mean annual effective rate or the repeat of the index experience for the first 10 years will show the same result.

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6. H. Following the narrative summary, an illustration shall include a numeric summary which shall include at minimum, numeric values at the following durations:

(1) (a) First ten (10) contract years; or

(b) Surrender charge period if longer than ten (10) years (including any renewal surrender charge period(s));

(2) ~~(a)~~ Every tenth contract year ~~thereafter, but are not required to be shown beyond~~up to the later of thirty (30) years or age seventy (70); ~~or~~

Comment [AIWG6]: All the changes in this section are to address California's concerns that this section was not clear.

~~(b) The end of the renewal surrender charge period if less than ten (10) years, but are not required to be shown beyond the later of thirty (30) years or age seventy (70);~~ and

(3) (a) Required annuitization age; or

(b) Required annuitization date.

6.I.(5) Illustrations shall ~~include~~describe both the upside and the downside aspects of the ~~product~~contract features relating to the market value adjustment;

Comment [AIWG7]: This item was intended to address the descriptive part of the illustration, not the numerical part.