American Academy *of* Actuaries

February 17, 2011

Kim O'Brien
Executive Director
NAFA

Re: Comments on Annuity Disclosure Model Regulation

Dear Kim:

On December 14, the NAIC "A" Committee Annuity Illustration Subgroup Chair Jim Mumford asked the Annuity Illustrations Work Group (AIWG) of the Life Products Committee of the American Academy of Actuaries[1] to "reach an agreement with NAFA on fixing 6F (8), (9), (16)" of the 10/18/10 draft of the Annuity Disclosure Model Regulation (Model Regulation).

We have reviewed the NAFA recommendation described in your November 22, 2010 letter. We are not in disagreement with the basic premise of this recommendation, but we believe changes in the Model Regulation are needed to properly implement this approach. In order to show the sources of and reasons for various recommended changes and edits, we have attached Exhibits A through C, the content of which are described below. Exhibits D through F include additional information and analysis of alternatives.

Exhibit A shows the AIWG's interpretation of NAFA's recommended changes to the Model Regulation, taken from your November 22, 2010 letter. It also includes earlier changes to F.(8) recommended by Utah and by the AIWG. Changes from the Model Regulation are shown in track changes format.

Exhibit B shows the AIWG's suggested changes in track changes format, after all NAFA changes were accepted (in other words, AIWG's changes to Exhibit A). It also includes comments explaining why the changes were made. The changes we suggested are intended to address two major issues: (1) to ensure that the requirements include enough detail so that the preparer of the illustration knows what is required; and (2) to ensure that the prospective contract owner will be able to compare illustrations from one company to another as easily as possible. **Exhibit C** shows a clean copy of our suggested changes to your recommendation.

Basing high and low scenarios on account value growth (our interpretation of the NAFA recommendation) is valuable since it shows a customer the maximum and minimum amount the account value would have increased under the required scenarios. On the other hand, basing high and low scenarios on index value growth (the original AIWG suggestion) makes it easier to compare illustrations from one company's product to another. **Exhibit D** shows the changes that would need to be made to Exhibit C to base the high and low scenarios on index value growth, rather than account value growth.

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[1] The American Academy of Actuaries is a 17,000-member professional association whose mission is to serve the public on behalf of 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.

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Exhibit E compares the original NAFA recommendation (Exhibit A) with the NAFA recommendation with suggested changes (Exhibit C) and the Index Value Growth alternative (Exhibit D).

As we were analyzing section F.(9), it came to our attention that section G.(4) was not consistent with section F.(9). The attached **Exhibit F** shows the changes that we believe would make the two sections consistent.

Please let us know if you have comments or questions on the attached. We would be happy to set up a conference call at your earliest convenience to answer any questions.

Sincerely,

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

Cc: Jim Mumford
Steve Ostlund

EXHIBIT A

AIWG Interpretation of NAFA Recommendation
(Recommendation Based on Account Value Growth)

(8) The non-guaranteed illustrated values~~, except for fixed indexed annuities,~~ shall be ~~reflective~~no more favorable than ~~of~~ current non-guaranteed elements and shall not include any assumed improvement of such elements. Additionally, the credited interest illustrated at any future duration shall reflect any expected reductions that will occur after expiration of an initial guaranteed or bonus period;

(9) ~~(a)~~ In determining t~~T~~he non-guaranteed illustrated values ~~of~~for a fixed indexed annuity, the non-guaranteed element(s) (such as caps, spreads, participation rates or other interest crediting limitations) used in calculating the non-guaranteed illustrated interest rate shall be no more favorable than the corresponding current element(s) and shall be applied to the historical performance using index durations required in Section 6H. ~~shall be based on a continuation of current non-guaranteed elements. Index-based interest shall reflect the historical performance of the index over at least a 10 year period and provided that the illustration shows both a scenario of an increase in the index and a scenario of a decrease in the index, over the period of time chosen~~ The illustration shall provide at least two scenarios of such historical performance. One shall depict a historical period favorable to policy performance as compared to historical averages and one shall depict a historical period unfavorable to policy performance as compared to historical averages;

(~~b~~a) The scenarios ~~shown~~used should ideally reflect the irregular nature of ~~the~~that index and trigger ~~all~~every type~~s~~ of index-based limitation~~s~~ included in the contract;

(~~c~~b) If a limitation on index-based interest ~~included in the contract~~ is not triggered in the ~~scenario~~illustration (because no historical values of the index would have triggered it), the illustration shall so state;

(~~d~~c) The index-based interest rate used ~~beyond the historical period~~ should be no higher than the equivalent level interest rate for the historical period; and

(~~e~~d) If an index has not been in existence for at least 10 years~~ or more~~, the product shall not be illustrated. ~~for non-guaranteed values related to the index;~~

~~(16) The credited interest illustrated at any future duration shall reflect any expected reductions that will occur after expiration of an initial guaranteed or bonus period;~~

Comment [AIWG1]: AIWG added to agree with Utah's request.

Comment [AIWG2]: Per AIWG's original recommendation. Moved from F(16) below.

Comment [AIWG3]: The balance of changes in this and the following paragraphs are the recommended changes taken from the NAFA November 22, 2010 letter.

EXHIBIT B

AIWG Changes to NAFA Recommendation
(Recommendation Based on Account Value Growth)

(8) The non-guaranteed elements underlying the non-guaranteed illustrated values ~~, except for fixed indexed annuities,~~ shall be no more favorable than current non-guaranteed elements and shall not include any assumed future improvement of such elements. Additionally, ~~the credited interest~~non-guaranteed elements used in calculating non-guaranteed illustrated values at any future duration shall reflect any ~~expected~~planned ~~reductions~~changes, including any planned changes that ~~will~~may occur after expiration of an initial guaranteed or bonus period;

(9) In determining the non-guaranteed illustrated values for a fixed indexed annuity, ~~the non-guaranteed element(s) (such as caps, spreads, participation rates or other interest crediting limitations) used in calculating the non-guaranteed illustrated interest rate shall be no more favorable than the corresponding current element(s) and shall be applied to the historical performance using index durations required in Section 6H.~~ ~~T~~the index-based interest rate ~~illustration~~ shall be calculated for ~~provide at least two~~three different scenarios: ~~of such historical performance~~. One to reflect historical performance of the index for the most recent ten year period, calculated as of January 1 of the current year; ~~One shall depict a historical period favorable to policy performance as compared to historical averages and one shall depict a historical period unfavorable to policy performance as compared to historical averages;~~ one to reflect the historical performance of the index for the ten year period out of the last twenty years that would result in the least account value growth (the "low scenario"); and one to reflect the historical performance of the index for the ten year period out of the last twenty years that would result in the most account value growth (the "high scenario"). The following requirements apply:

(a) 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);

(b) If a fixed indexed annuity provides an option to allocate account value to more than one indexed or non-indexed account, the allocation used in the illustration shall be the same for all three scenarios;

(c) Ideally ~~T~~the lower and higher scenarios used should ~~ideally~~ reflect the irregular nature of ~~that~~the index and trigger every type of ~~index-based~~ ~~limitation~~adjustment to the index-based interest rate possible ~~included in~~under the contract. The effect of the adjustments should be clear; for example, additional columns showing how the adjustment is applied may be included. ~~;~~

~~(b)~~ If a particular ~~limitation~~adjustment to the ~~on~~ 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;

(~~c~~d) ~~The index-based interest rate used should be no higher than the equivalent level interest rate for the historical period~~If the historical period for the most recent experience of the index is a shorter period than needed to fulfill the requirements of Section 6.H, the remaining years of the illustration shall use the average account value growth rate for the historical period. This average growth rate is the geometric average of the annual account value growth rate over that historical period. The lower and higher scenarios need not fulfill the requirements of Section 6.H and may be shown on a separate page; and

(~~d~~e) If any index utilized in determination of an account value has not been in existence for at least 10 years, ~~the product~~index 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 non-indexed account, and one or more of those indexes has not been in existence for at least ten years, the allocation to such indexed account(s) shall be assumed to be zero.

Comment [AIWG4]: To agree with Utah's request.

Comment [AIWG5]: Moved from F.(16) per original AIWG recommendation (and was subsequently re-edited for clarity). All changes in this paragraph were made to be more accurate and precise.

Comment [AIWG6]: Moved to 9(a).

Comment [AIWG7]: Moved to 9(d) and expanded and clarified.

Comment [AIWG8]: Performance for the most recent 10 years was added to avoid having to compare high and low scenarios to an undefined "historical average."

Comment [AIWG9]: High and low scenarios defined as the most and least change over the period.

Comment [AIWG10]: Moved from the introduction to (9) and a few minor words changed.

Comment [AIWG11]: Clarifies handling of products with multiple indexed/non-indexed buckets.

Comment [AIWG12]: "limitation" replaced with "adjustment" since the effect can be up or down.

Comment [AIWG13]: Additional columns may be needed to show how adjustment are applied, if without them the illustration is misleading or confusing.

Comment [AIWG14]: Combined with item (c)

Comment [AIWG15]: Average account value growth is defined, but then only required to extend the most recent scenario to retirement; Extending the higher and lower scenarios to retirement could be confusing.

Comment [AIWG16]: Clarifies handling of products with multiple indexed/non-indexed buckets.

EXHIBIT C

Clean Copy After AIWG Changes
(Recommendation Based on Account Value Growth)

(8) The non-guaranteed elements underlying the non-guaranteed illustrated values shall be no more favorable than current non-guaranteed elements and shall not include any assumed future improvement of such elements. Additionally, non-guaranteed elements used in calculating non-guaranteed illustrated values at any future duration shall reflect any planned changes, including any planned changes that may occur after expiration of an initial guaranteed or bonus period;

(9) In determining the non-guaranteed illustrated values for a fixed indexed annuity, the index-based interest rate shall be calculated for three different scenarios: One to reflect historical performance of the index for the most recent ten year period, calculated as of January 1 of the current year; one to reflect the historical performance of the index for the ten year period out of the last twenty years that would result in the least account value growth (the "low scenario"); and one to reflect the historical performance of the index for the ten year period out of the last twenty years that would result in the most account value growth (the "high scenario"). The following requirements apply:

(a) 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);

(b) If a fixed indexed annuity provides an option to allocate account value to more than one indexed or non-indexed account, the allocation used in the illustration shall be the same for all three scenarios;

(c) Ideally the lower and higher scenarios used should reflect the irregular nature of the index and trigger every type of adjustment to the index-based interest rate possible under the contract. The effect of the adjustments should be clear; for example, additional columns showing how the adjustment is 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;

(d) If the historical period for the most recent experience of the index is a shorter period than needed to fulfill the requirements of Section 6.H, the remaining years of the illustration shall use the average account value growth rate for the historical period. This average growth rate is the geometric average of the annual account value growth rate over that historical period. The lower and higher scenarios need not fulfill the requirements of Section 6.H and may be shown on a separate page; and

(e) If any index utilized in determination of an account value has not been in existence for at least ten 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 non-indexed account, and one or more of those indexes has not been in existence for at least ten years, the allocation to such indexed account(s) shall be assumed to be zero.

EXHIBIT D

Alternative AIWG Recommendation
Showing Changes to Exhibit C
(Recommendation Based on Index Value Growth)

(8) The non-guaranteed elements underlying the non-guaranteed illustrated values shall be no more favorable than current non-guaranteed elements and shall not include any assumed future improvement of such elements. Additionally, non-guaranteed elements used in calculating non-guaranteed illustrated values at any future duration shall reflect any planned changes, including any planned changes that may occur after expiration of an initial guaranteed or bonus period;

(9) In determining the non-guaranteed illustrated values for a fixed indexed annuity, the index-based interest rate shall be calculated for three different scenarios: One to reflect historical performance of the index for the most recent ten year period, calculated as of January 1 of the current year; one to reflect the historical performance of the index for the ten year period out of the last twenty years that would result in the least ~~account~~index value growth (the "low scenario"); and one to reflect the historical performance of the index for the ten year period out of the last twenty years that would result in the most ~~account~~index value growth (the "high scenario"). The following requirements apply:

(c) 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);

(d) If a fixed indexed annuity provides an option to allocate account value to more than one indexed or non-indexed account, the allocation used in the illustration shall be the same for all three scenarios;

(c) Ideally the lower and higher scenarios used should reflect the irregular nature of the index and 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 is 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;

(d) If the historical period for the most recent experience of the index is a shorter period than needed to fulfill the requirements of Section 6.H, the remaining years of the illustration shall use the average account value growth rate for the historical period. This average growth rate is the geometric average of the annual account value growth rate over that historical period. The lower and higher scenarios need not fulfill the requirements of Section 6.H and may be shown on a separate page; and

(e) If any index utilized in determination of an account value has not been in existence for at least ten 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 non-indexed account, and one or more of those indexes has not been in existence for at least ten years, the allocation to such indexed account(s) shall be assumed to be zero.

EXHIBIT E

Analysis of NAFA Recommendation and Alternatives

<table>
<tr><th rowspan="2"></th><th colspan="2">NAFA Recommendation
(Account Value Growth Scenario Basis)</th><th rowspan="2">Alternative AIWG Recommendation
(Index Value Growth Scenario Basis)
(Exhibit D)</th></tr>
<tr><th>Original
(Exhibit A)</th><th>With AIWG Changes
(Exhibits B/C)</th></tr>
<tr><td>1. Prescriptive in Nature?</td><td>Partially, but leaves much to the discretion of Company</td><td>Yes</td><td>Yes</td></tr>
<tr><td>2. Requires Illustration of Recent Historical Performance?</td><td>No, but the Company will need to consider recent historical performance to come up with historical averages</td><td>Yes</td><td>Yes</td></tr>
<tr><td>3. Defines Recent Historical Performance?</td><td>No, especially with regard to number of years to consider, what date to be measured from, and definition of the term “average”</td><td>Yes</td><td>Yes</td></tr>
<tr><td>4. Defines High and Low Scenarios</td><td>Very broad definition. Each company will interpret differently</td><td>Clear definition; result is that index period used will be the same for all companies only if they use the same index and the same formula for interest crediting (resulting in the same account values too)</td><td>Clear definition; result is that index period used will be the same for all companies with the same index, regardless of the formula used for index crediting (although account values will be different under different interest crediting formulas)</td></tr>
<tr><td>5. Shows maximum and minimum amount that account value could increase under required scenarios for index movement and non-guaranteed elements</td><td>There are no required scenarios</td><td>Yes</td><td>Maybe; the required scenarios for index movement and non-guaranteed elements do not focus on account value</td></tr>
<tr><td>6. Ability to compare products where interest crediting formula is the same</td><td>More difficult to compare products due to company choice of different scenario periods</td><td colspan="2">Easier to compare products</td></tr>
<tr><td>7. Ability to compare products where the interest crediting formula is different</td><td>More difficult to compare products, because no standard scenarios are defined</td><td>More difficult to compare products with different formulas for interest crediting since they would likely result in different index movement periods</td><td>Easier to compare products</td></tr>
<tr><td>8. Suggests additional columns to show how adjustments (caps, floor, etc.) would be applied</td><td>No</td><td>Yes</td><td>Yes</td></tr>
<tr><td>9. Clarification of intent when product includes more than one index or both indexed and non-indexed buckets</td><td>No</td><td>Yes, but may not address all issues</td><td>Yes, but may not address all issues</td></tr>
</table>

EXHIBIT F

G.(4)

A statement containing in substance the following:

For other than fixed indexed annuities:

This illustration assumes the annuity's current non-guaranteed elements will not change. It is likely that they **will** change and actual values ~~may~~will be higher or lower than those in this illustration.

The values in this illustration are **not** guarantees or even estimates of the amounts you can expect from your annuity. Please review the entire Disclosure Document and Buyer's Guide provided with your Annuity Contract for more detailed information.

For fixed indexed annuities:

This illustration assumes the index will repeat historical performance and that the annuity's current non-guaranteed elements (such as caps, spreads, participation rates or other interest crediting adjustments) will not change. It is likely that the index **will not** repeat historical performance, the non-guaranteed elements **will** change, and actual values will be higher or lower than those in this illustration.

The values in this illustration are **not** guarantees or even estimates of the amounts you can expect from your annuity. Please review the entire Disclosure Document and Buyer's Guide provided with your Annuity Contract for more detailed information