AMERICAN ACADEMY *of* ACTUARIES

From the American Academy of Actuaries' Annuity Illustrations Work Group

Presented to the National Association of Insurance Commissioners'
Annuity Disclosure Working Group

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The American Academy of Actuaries is a 16,000-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.

Annuity Illustration Work Group

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As noted in the American Council of Life Insurers' (ACLI) December comment letter, the ACLI did not agree with all of the changes that the Academy's Life Annuity Illustration Work Group (the WG) had suggested for the Annuity Illustration Guidelines. The following provides additional explanation as to why the WG added or deleted certain items:

1) With regard to requiring the use of an illustration for all sales of a particular contract form, this requirement was suggested to create consistency with the requirements of the NAIC Life Insurance Illustrations model regulation. The WG is also of the opinion that this requirement would help to ensure consistency of information available to prospective purchasers. While the WG acknowledges that this is not inherently an actuarial issue, illustration actuaries have a great deal of experience and perspective in making this recommendation.

2) The ACLI response noted that some companies may have difficulty complying with the requirement that the current annuitization rate illustrated not exceed the current rate in effect as of the date of the illustration. Instead they felt this should be replaced with a requirement to use at least the current rate as of the prior calendar year end. It is the WG's view that this suggestion is not the best answer to that problem. In fact, in any situation where the rate is currently less favorable than the prior year end rate, there is a conflict with the guideline requirement that illustrated values not exceed current values. The proposed guideline includes in the rules section the following: "The nonguaranteed illustrated values must be reflective of current conditions and must not include any assumed improvement of any underlying assumptions." As such, use of a rate higher than the current rate would not be reflective of current conditions.

   The WG's position is that the requirement to use rates, whether annuitization rates or crediting rates, no more favorable than the current rates as of the date of the illustration, should be retained in the guidelines.

3) The WG believes that the name of the annuity should be descriptive and as such include terminology that would clearly describe the type of annuity. The WG is also is of the opinion that this requirement should apply to all annuities, whether illustrated or not.

   The reference to 'legal' name in the guidelines should be replaced with 'generic' name. The NAIC Annuity Disclosure Model defines the term "generic name" and requires that it be included in the disclosure document. Any additional requirements or definitions as to the generic name should not reside in the Illustration Guidelines but rather should be addressed in the stated definition of 'generic' in the Model.

4) The WG is of the opinion that the inclusion of a sample illustration would not create a template, but rather would clarify the application of the Illustration Guidelines. Perhaps a disclaimer could be included as a footnote to the sample indicating it is not a template.

Attached is a copy of a sample illustration based on the sample illustration provided by the ACLI in June and revised by the WG in September. This illustration reflects all the pertinent aspects of the ACLI guidelines as applied to the sample contract illustrated, which includes an MVA. The illustration includes the optional use of a graph to explain the MVA.

Also attached are suggested changes to the language in the buyer's guide explaining how the MVA works, which uses a graph to enhance the explanation.

[The following illustration is for illustrative purposes only and does not reflect specific characteristics of any actual product for sale by any company]

ABC Life Insurance Company

Marketing Name

Flexible Premium Fixed Deferred Annuity with a Market Value Adjustment (MVA)
An Illustration Prepared for John Doe by John Agent on mm/dd/yyyy
(Contact us at Policyownerservice@ABCLife.com or 555-555-5555)

Sex: Male	Initial Premium Payment: $100,000.00
Age at Issue: 54	Planned Annual Premium Payments: None
Annuitant: (if different than owner)	Tax Status: Nonqualified
Maximum Age at Which Annuity Payments Can Begin: 98	Withdrawals: Monthly Interest (to age 65)

Guarantee Period	5 Years
Initial Interest Rates	
First Year (reflects first year only interest bonus credit of 0.75%):	4.15%
Remainder of guarantee period:	3.40%
Market Value Adjustment Period:	5 Years
Minimum Guaranteed Interest Rate on Renewal:	3%

Annuity Options and Associated Income Values

At the time annuity payments are to begin, the periodic income amount will be determined by applying an income rate to the account value. Annuity options may include the following:

- Periodic payments for a certain number of years
- Periodic payments for annuitant's life
- Periodic payments for annuitant's life with payments guaranteed for a certain number of years
- Periodic payments for annuitant's life with payments continuing for life of survivor annuitant

Illustrated Annuity Option: Age 70, Life with payments guaranteed for 10-Year Period

	Account Value Basis	Purchase Rate/$1,000	Monthly Income
Guaranteed	$100,000	$5.00	$500.00
Non-Guaranteed	$100,000	$6.50	$650.00

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Contract Anniversary/ Age	Premium Payment	Illustrated Values before MVA *			Guaranteed Values before MVA*			Minimum Guaranteed Cash Surrender Value After Maximum MVA **
		Withdrawals	Account Value/ Death Benefit	Cash Surrender Value	Withdrawals	Account Value/ Death Benefit	Cash Surrender Value	
1 / 55	$100,000	$4,073	$100,000	$ 92,000	$4,073	$100,000	$ 92,000	$88,253
2 / 56	0	3,348	100,000	93,000	3,348	100,000	93,000	86,098
3 / 57	0	3,348	100,000	94,000	3,348	100,000	94,000	83,877
4 / 58	0	3,348	100,000	95,000	3,348	100,000	95,000	81,588
5 / 59	0	3,348	100,000	96,000	3,348	100,000	96,000	96,000
6 / 60	0	3,348	100,000	97,000	2,960	100,000	97,000	97,000
7 / 61	0	3,348	100,000	98,000	2,960	100,000	98,000	98,000
8 / 62	0	3,348	100,000	100,000	2,960	100,000	100,000	100,000
9 / 63	0	3,348	100,000	100,000	2,960	100,000	100,000	100,000
10 / 64	0	3,348	100,000	100,000	2,960	100,000	100,000	100,000
11 / 65	0	3,348	100,000	100,000	2,960	100,000	100,000	100,000
16 / 70	0	0	118,196	118,196	0	115,927	115,927	115,927
21 / 75	0	0	139,703	139,703	0	134,392	134,392	134,392
26 / 80	0	0	165,123	165,123	0	155,797	155,797	155,797
31 / 85	0	0	195,169	195,169	0	180,611	180,611	180,611
36 / 90	0	0	230,682	230,682	0	209,378	209,378	209,378
41 / 95	0	0	272,657	272,657	0	242,726	242,726	242,726
44 / 98	0	0	301,424	301,424	0	265,234	265,234	265,234

* Cash Surrender Values shown on this illustration are before the application of the Market Value Adjustment ('MVA'), if any. If the actual withdrawal occurs before the end of an MVA Period, the Cash Surrender Value you receive may be increased or decreased by an MVA. If interest rates increase after you buy your annuity or after the guaranteed interest rate for a subsequent MVA period is set, the MVA will likely decrease the amount you receive, but not below the minimum set by law. If interest rates decrease, the MVA will likely increase the amount you receive. The MVA has no effect on the Death Benefit. See page 4 of this illustration for additional illustrative information concerning the MVA.

**Minimum Guaranteed Cash Surrender Value after maximum MVA is the Guaranteed Cash Surrender Value floor as set by law.

This is an illustration not a contract

Ages shown are measured from the Annuitant's age at issue.

The Death Benefit upon the owner's death is your Annuity Contract's Account Value.

Current interest crediting rates are declared by the insurance company. Interest rates are shown as annual rates with daily crediting. Partial withdrawals, before the end of the Interest Guarantee Period will lower the actual interest rate credited.

During the Interest Guarantee Period, values developed from the Initial Premium Payment are illustrated using the Initial Guaranteed Interest Rate(s) shown, with an additional first year only interest bonus credit of 0.75%. On the Contract issue date, the interest rates will be guaranteed for the selected Interest Guarantee Period. After the Initial Interest Guarantee Period, a new renewal interest rate would be declared for the Interest Guarantee Period illustrated. The company's current Initial Guaranteed Interest Rate (without the bonus) is used to calculate the Illustrated Values after renewal and the Minimum Guaranteed Interest Rate is used to calculate the Guaranteed Values. The actual renewal interest rates will very likely NOT be the same as the illustrated renewal interest rates.

Free partial withdrawals of up to 10% of your Account Value, less partial withdrawals since the last Contract Anniversary, may be made each year without incurring Surrender Charges. Excess Withdrawals above this 10% level and full Withdrawals will be subject to Surrender Charges and an MVA (if applicable). Surrender Charges are applied to each Premium Payment and continue according to the applicable schedule below even after the Initial Interest Guarantee Period has ended.

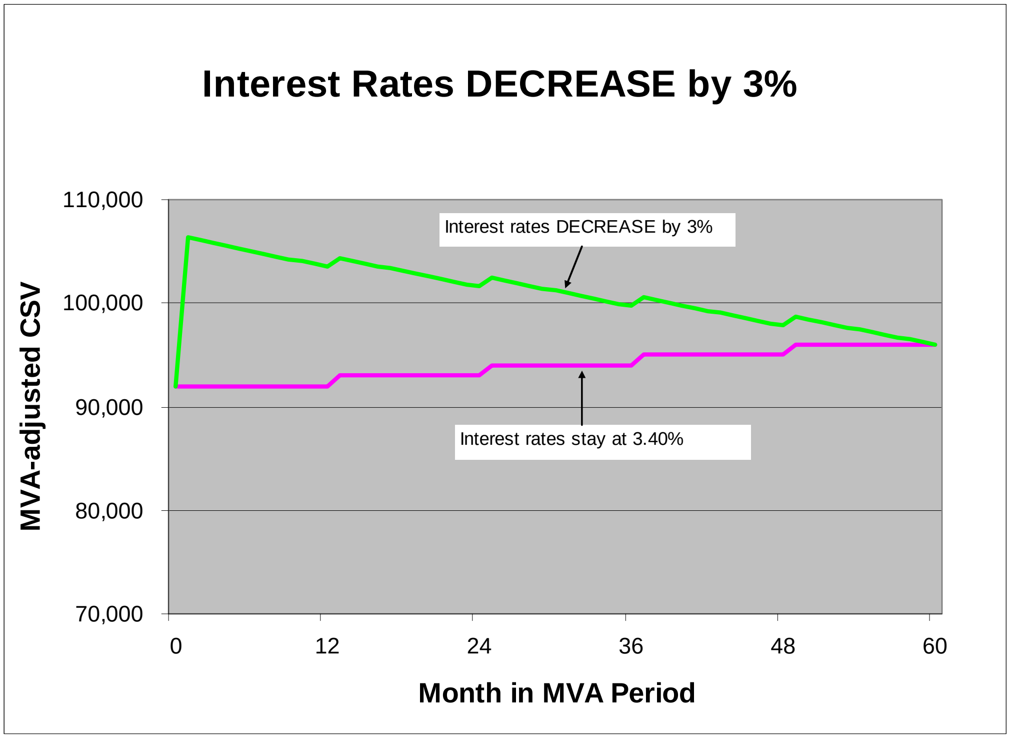
Surrender Charges:	**8%**	**7%**	**6%**	**5%**	**4%**	**3%**	**2%**	**0%**
Years Measured from Premium Payment:	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8+**

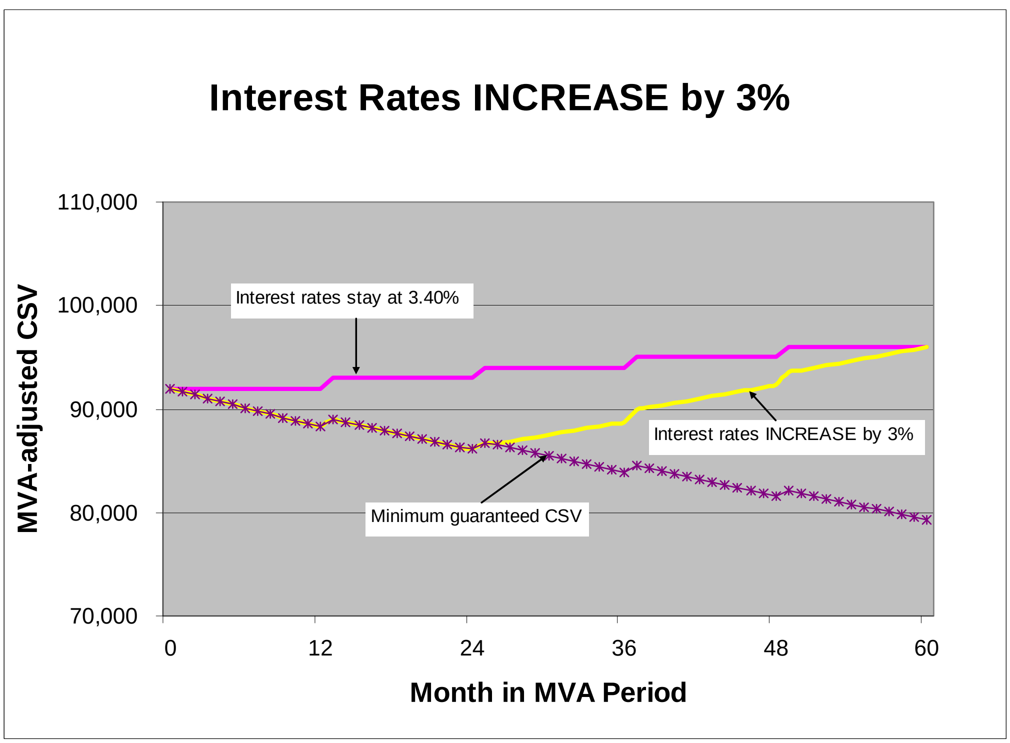
All Withdrawals are processed on a first in, first out basis, with the oldest Premium Payment with interest withdrawn first. Withdrawals will also reduce the Death Benefit and Cash Surrender Value. The Cash Surrender Values reflect the deduction of Surrender Charges as outlined above.

This illustration should not be considered a guarantee or estimate of amounts to be paid. Illustrated Values are based on the company's current Interest Crediting Rates and current annuity rates continuing unchanged. This is not likely to occur and actual results may be more or less favorable than those shown. Please refer to the Disclosure Documents and Annuity Buyer's Guide for more detailed information.

Sample Graphs of MVA-adjusted Cash Surrender Values (CSVs)

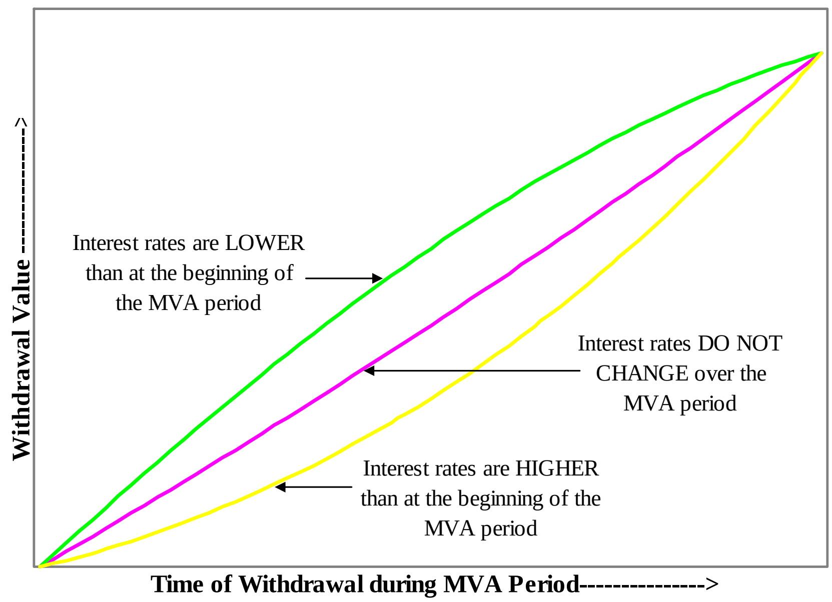
Graphs show the impact of possible interest rate changes on MVA-adjusted Cash Surrender Values (CSVs)
Based on $100,000 single premium, a 5-year (60-month) MVA Period, and monthly withdrawals of interest





MVA Explanation for Buyer's Guide to Fixed Deferred Annuities

Some annuities have a Market Value Adjustment (MVA) feature that is based on a formula in the contract. An MVA could increase or reduce the~~your annuity's~~ value of a withdrawal ~~if you withdraw more than the penalty-free amount~~during the period the MVA feature is in effect. In general, if interest rates are lower when you make ~~withdraw money~~a withdrawal than when the contract was issued, the MVA feature will increase the amount of your withdrawal~~your annuity's value~~. If interest rates are higher when you make a withdrawal than when the ~~annuity~~contract was issued, the MVA feature will reduce the amount of your withdrawal~~your annuity's value~~. The following graph shows how the MVA feature generally affects the contract value under different interest rate scenarios.



Note that this is similar to the way that the market value of a bond responds to changes in interest rates. Every MVA calculation is different, however, so check your contract and disclosure for details.

MVA Explanation for Buyer's Guide to Fixed Deferred Annuities

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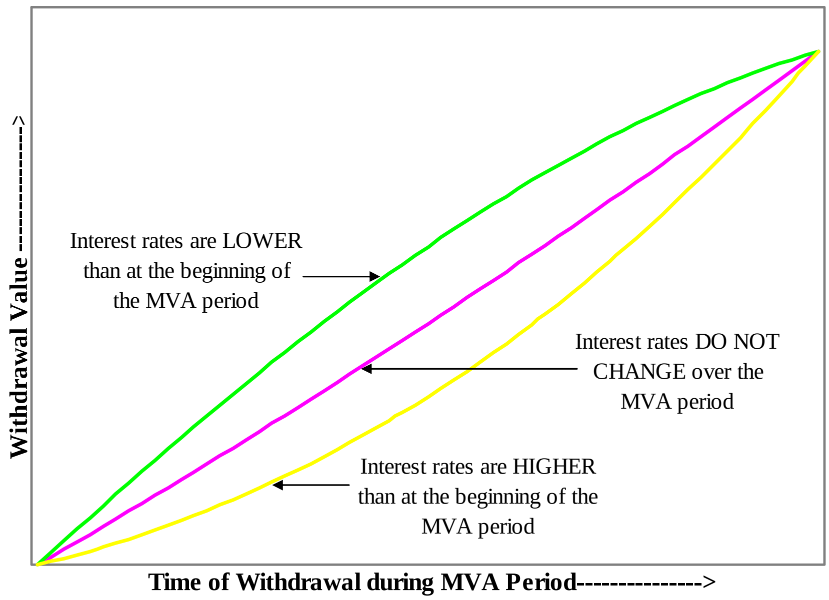

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