



AMERICAN ACADEMY *of* ACTUARIES

May 11, 2010

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

Dear Mr. Mumford:

The minutes of the National Association of Insurance Commissioners (NAIC) Annuity Disclosure Working Group's March 26, 2010 meeting indicated that a number of issues remain outstanding with respect to the development of Annuity Illustration Guidelines. While preliminary decisions were made at this meeting, the chairman asked for comments on the decisions. The position of the American Academy of Actuaries¹ Annuity Illustration Work Group (Academy WG) with regard to these topics follows. Since the ACLI's December 2, 2009 draft of the Annuity Illustration Guidelines (ACLI Draft Illustration Guidelines) is the latest draft addressing the issues at hand, the Academy WG's comments will refer to that draft as needed when stating our position.

a. When to include an illustration

As stated in the Academy WG's March letter, a requirement to use an illustration for all sales of a product, if used for some, would help to ensure the consistency of information available to prospective purchasers.

b. What Annuitization Rate to use in an Illustration

As stated in the Academy WG's March letter, we believe that the current rate in effect at the time the illustration is prepared, not a previously declared current rate, should be used.

c. Timing of use of illustrations

The Academy WG has not taken a specific position as to when during the sales process the illustration should be provided. However, note that last year the Academy WG edited the "Purpose" section of the original ACLI Draft Illustration Guidelines to read as follows: "Such illustrations should.....provide sufficient information (in addition to the Buyers Guide and other required disclosures) for the consumer to make an informed decision about the purchase." The Academy WG continues to support that position.

d. Illustration Template

¹ The American Academy of Actuaries is a professional association with over 16,000 members, whose mission is to assist public policymakers by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualifications, practice, and professionalism standards for actuaries in the United States.

The NAIC Annuity Disclosure Working Group minutes indicate that it preferred a template requirement rather than only an illustration guideline. Contract provisions vary from company to company and a single mandated template design may not generate a satisfactory illustration for all product designs. As products and features evolve over time, illustration designs and layouts will need to evolve to enhance understanding of these benefits. As a result, it may not be practical to create a template at this time. Annuity illustration guidelines should provide a framework of rules and concepts for designing an illustration, and these should suffice as guidance for a clear and informative illustration. As previously noted in the Academy WG's March letter, the Academy WG believes that inclusion of a sample illustration along with the annuity illustration guidelines would serve to clarify the guidelines.

The Academy WG has also made a number of additional changes to the sample annuity illustration presented at the March 26 meeting. A copy of the updated sample annuity illustration is attached. The changes made to the sample illustration include:

- 1) Edits made to ensure that terms and phrases were used consistently throughout the illustration.
- 2) Changes made to the wording of the column headings. These changes were made so that the illustration would use language more easily understood by a consumer having an average understanding of annuities. Explanations and footnotes explaining the MVA provision were also edited for the same purpose.
- 3) Edits to the additional page containing the sample MVA explanation and MVA graphs. The explanations of the graphs have been expanded and the graphs themselves were simplified.

The Academy WG also took another look at the ACLI Draft Illustration Guidelines in relation to the review of the sample illustration. In addition to the edits recommended in previous correspondence and oral presentations, the Academy WG is recommending the following edits.

- 1) Include an additional bullet item in the 'General Rules' section regarding page numbering:
 - Each page should be numbered and disclose the total pages included in the illustration. For example: Page X of Y.
- 2) To add clarity to the description of the minimum durations to be shown on an illustration, edit this bullet as follows:
 - At a minimum, include numeric values at the following durations:
 - i) First 10 contract years or surrender charge period if longer than 10 years.
 - ii) Every 10th contract year thereafter or the end of the renewal surrender charge period if less than 10 years, but are not required to be shown beyond the later of 30 years or age 70.
 - iii) Required annuitization age or date.

3) The Academy WG believes that including the display of current annuitization values would serve to increase the consumer's understanding of annuity payout benefits and features contained in deferred annuity contracts. The ACLI Draft Illustration Guidelines currently include two bullets concerning annuitization benefits. It is recommended that these two bullets be combined into one bullet as follows:

- ~~• A display of at least one of the guaranteed annuity payout benefits available (may be done on a separate page).~~
- Brief description of the types of annuity income options available (may be done on a separate page). ~~A-~~ In addition, display the amount of at least one of the guaranteed annuity income options payout benefits available based on the guaranteed rates in the contract, at the later of age 70 or 10 years after issue, but in no case later than the maximum annuitization age or date in the contract. It is recommended that the illustration could also display the annuity payout income benefits based on currently available annuitization rates.

The ACLI Draft Illustration Guidelines are also attached for your convenience, showing the recommended changes of the Academy WG discussed in this letter in track changes format.

Thank you for your consideration of our comments.

Sincerely,

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

[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
Company Product 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: 95	Withdrawals: Monthly Interest (to age 65)

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

Annuity Income Options and Associated Income Values

At the time annuity income payments are to begin, the periodic income amount will be determined by applying an annuity income rate to the account value. Annuity income 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 the life of a survivor annuitant

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

	Account Value	Monthly Annuity Income Rate/\$1,000	Monthly Annuity Income
Based on Guaranteed Rates	\$116,183	\$5.00	\$580.92
Based on Current Rates	\$118,530	\$6.50	\$770.45

ABC Life Insurance Company

Company Product 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)

Contract Year/ Age	Premium Payment	Values Based on Current Rates before MVA*			Values Based on Guaranteed Rates			
		Withdrawals +	Value of Remaining Amount		Withdrawals +	Value of Remaining Amount		
			If you leave it in the contract (Account Value/Death Benefit) ++	If you terminate the contract (Cash Surrender Value before MVA)*		If you leave it in the contract (Account Value/Death Benefit) ++	If you terminate the contract	
						Cash Surrender Value before MVA*	Cash Surrender Value after Maximum MVA**	
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	118,530	118,530	0	116,183	116,183	116,183
21 / 75	0	0	140,097	140,097	0	134,984	134,984	134,984
26 / 80	0	0	166,057	166,057	0	156,829	156,829	156,829
31 / 85	0	0	196,826	196, 826	0	182,208	182,208	182,208
36 / 90	0	0	233,298	233, 298	0	211,693	211,693	211,693
41 / 95	0	0	276,527	276,527	0	245,952	245,952	245,952

* Values shown in these columns are before the application of any Market Value Adjustment ('MVA'). If you make a withdrawal before the end of five years, the amount you receive may be increased or decreased by an MVA. If the interest rate available on new contracts is LOWER than your initial guaranteed interest rate, the MVA will INCREASE the amount you receive. If the interest rate available on new contracts is HIGHER than your initial guaranteed interest rate, the MVA will DECREASE the amount you receive, but not below the minimum set by law. The MVA has no effect on the Death Benefit. See page 4 of this illustration for additional illustrative information concerning the MVA.

** Cash Surrender Value after the maximum MVA (if you terminate the contract) is the minimum value set by law.

+ The withdrawals illustrated are monthly interest credited to the contract. Since partial withdrawals of up to 10% of your Account Value may be made each contract year without incurring surrender charges, these interest withdrawals are not subject to surrender charges.

++ The Death Benefit upon the owner's death is the Account Value.

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

Interest rates shown are annual rates. The illustrated values reflect daily crediting and monthly withdrawals. Partial withdrawals, in excess of that illustrated will reduce the actual interest credited.

During the Initial Interest Guarantee Period, values developed from the Initial Premium Payment are illustrated using the Initial Guaranteed Interest Rate(s) currently declared by the insurance company, which include 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 Initial Interest Guarantee Period, subject to an MVA adjustment.

After the Initial Interest Guarantee Period, a new renewal interest rate will be declared annually for each year. The Initial Guaranteed Interest Rate (without the bonus) is used to calculate the Illustrated Values, and the Minimum Guaranteed Interest Rate is used to calculate the Guaranteed Values. The actual renewal interest rates are not subject to an MVA and will very likely NOT be the same as the illustrated renewal interest rates.

Partial withdrawals of up to 10% of your Account Value may be made each contract 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 is an illustration not a contract

This illustration should not be considered a guarantee or estimate of amounts to be paid. Illustrated Values are based on the company's current Initial Guaranteed Interest Rates and current annuity income rates continuing unchanged. These illustrated values are 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.

MVA-adjusted Cash Surrender Values (CSVs) Under Sample Scenarios

The graphs below shows MVA-adjusted Cash Surrender Values (CSVs) during the first five years of the contract, as illustrated on page 2 (\$100,000 single premium, a 5-year (60-month) MVA Period, and monthly withdrawals of interest) under two sample scenarios, as described below.

Graph #1 shows if the interest rate on new contracts is 3% LOWER than your initial guaranteed interest rate, the MVA will increase the amount you receive.

Graph #2 shows if the interest rate on new contracts is 3% HIGHER than your initial guaranteed interest rate, the MVA will decrease the amount you receive, but not below the minimum set by law, which in this scenario limits the decrease for the first 24 months.

These graphs and the sample guaranteed interest rates on new contracts used are for demonstration purposes only and are not intended to be a projection of how guaranteed interest rates on new contracts are likely to behave.

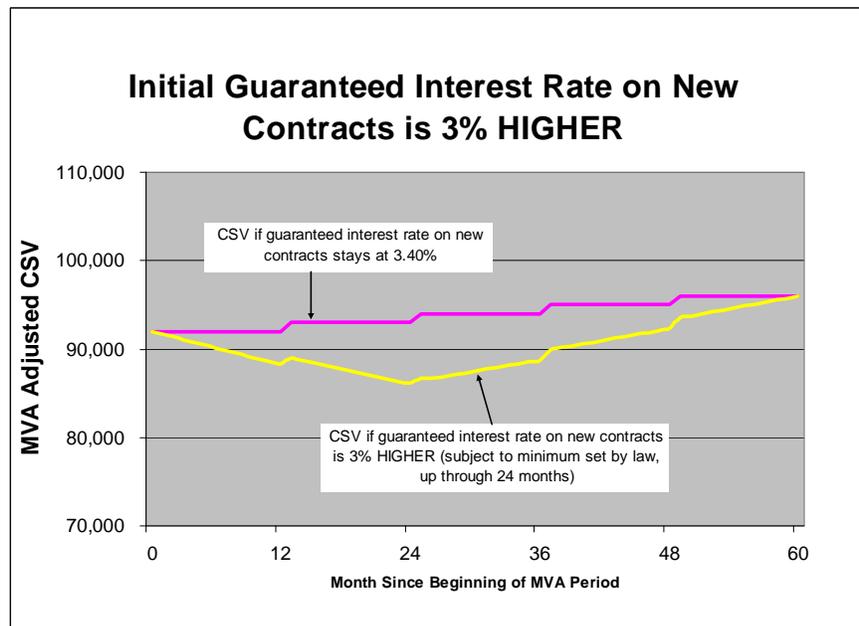
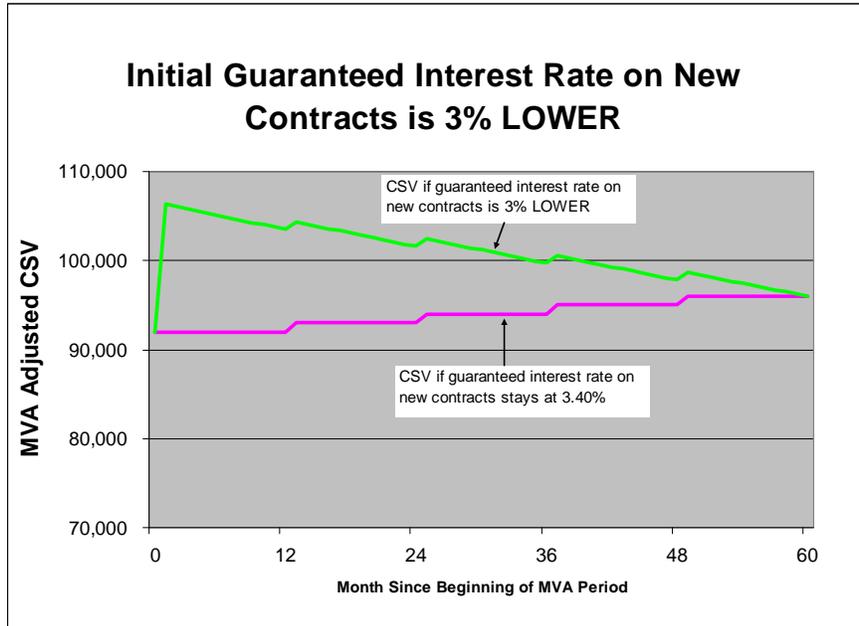


ILLUSTRATION GUIDELINES FOR FIXED DEFERRED ANNUITIES

Drafting Note: These guidelines are intended to set the standards for insurers preparing sales illustrations for specific prospective consumers of fixed deferred annuities. Such illustrations should supplement the Buyers Guide and other required disclosures, rather than try to duplicate them. The goal is to ensure that illustrations do not mislead annuity purchasers by making illustrations more understandable to consumers.

GENERAL RULES

- Illustrations shall not conflict with required disclosure.
- The nonguaranteed illustrated values must be reflective of current conditions and must not include any assumed improvement of any underlying assumptions.
- The crediting interest rate illustrated at any future duration shall reflect any expected reductions and shall not be greater than the current crediting interest rate unless the contract guarantees such greater rate at that duration.
- The annuitization rate illustrated shall not be greater than the ~~annuitization rate in effect on the last business day of the previous year~~ current annuitization rate (unless the contract guarantees are more favorable).
- Illustrations based on nonguaranteed crediting interest rates and nonguaranteed annuitization rates shall contain equally prominent comparisons to guaranteed crediting interest rates and guaranteed annuitization rates.
- Illustrations shall be concise and easy to read.
- Specific terms (e.g., “withdrawal”) defined in the annuity contract shall be used consistently throughout the illustration.
- The illustration shall not imply that the product is other than an annuity; nor should it utilize words such as “CD annuity,” “CD,” “savings account,” or other term that might imply the product is other than an annuity.
- The legal-generic name of the annuity must include the basic type of fixed deferred annuity (e.g. “Single Premium Deferred Annuity”, “Modified Single Premium Deferred Annuity”, “Fixed Premium Deferred Annuity” or “Flexible Premium Deferred Annuity”)
- Market Value Adjustments (MVA’s) shall be called Market Value Adjustments throughout the illustration.
- Illustrations shall illustrate both upside and downside aspects of the product features.
- Illustrations shall not illustrate benefits beyond the maximum annuitization age or date.
- Annuitization benefits shall be based on contract values that reflect surrender charges or any other adjustments, if applicable.
- Annuitization benefits illustrations shall show both annuitization rates and the dollar amounts of the periodic income payable.
- Graphs are recommended as a supplement to add clarity and help describe the annuity product.
- Each page should be numbered and disclose the total pages included in the illustration. For example: Page X of Y.

ILLUSTRATIONS SHALL CONTAIN THE FOLLOWING INFORMATION:

- The full corporate name of the issuer of the annuity and company contact information.
- The legal name of the annuity, and the company product name, if different.
- The annuitant and contract owner if different.
- Guaranteed Cash Surrender Values (based upon all contract guarantees).
- Current Cash Surrender Values (based upon currently crediting interest rates and other nonguaranteed policy elements).

- Cash Value (current and minimum guaranteed rate).
- Annuity Contract Account Value (current and minimum guaranteed rate).
- Death benefit, including the impact of any MVA and/or surrender charges.
- Premium amounts assumed.
- Bonus interest or similar features shall be described including any restrictions or limitations.
- Surrender charge rates applicable to initial and subsequent premiums or contract values.
- Information concerning the effect of premium taxes, if applicable.
- The effect on the annuity of death occurring prior to commencement of annuity income payments (e.g., spousal continuation, required distributions, owner death vs. annuitant death).
- The impact of partial withdrawals on contract values (both penalty free and those with penalties).
- Information concerning the federal tax status of the contract and any penalties applicable on withdrawal of values from the contract.
- MVA's, if included, shall be described on the illustration. Suggested language: "When you make a withdrawal the amount you receive may be increased or decreased by a Market Value Adjustment (MVA). If interest rates on which the MVA is based go up after you buy your annuity, the MVA likely will decrease the amount you receive. If interest rates go down, the MVA will likely increase the amount you receive."
- The potential effect of MVA's on the cash value. It is suggested the illustrative effect of the MVA be shown under at least one up- and one down-scenario (may be done on a separate page).
- Other optional benefits or features, if included, shall be described along with their additional cost, if any, to the policyholder (may be done on a separate page).
- Minimum guarantees and MVA floors and ceilings, not generic examples which are higher.
- The effect of early surrenders and any other conditions on the payment of bonuses.
- ~~A display of at least one of the guaranteed annuity payout benefits available (may be done on a separate page).~~
- For annuities sold as an IRA, qualified plan or in another arrangement subject to the required minimum distribution (RMD) requirements of the Internal Revenue Code, the effect of RMDs on the contract values.
- For annuities with recurring surrender charge schedules, the nature of how those charges recur.
- A statement to the effect that the values shown are not to be considered guarantees or estimates of amounts to be paid, and a reference to the required Disclosure Documents and Buyers Guide. Suggested language: "Values shown in this illustration should not be considered guarantees or estimates of amounts to be paid. Illustrated values show the company's current interest crediting rates and current annuitization rates continuing unchanged. Actual values may be more or less favorable than those illustrated. Please refer to the Disclosure Documents and Buyer's Guide provided with your Annuity Contract for more detailed information."
- At a minimum, include numeric values at the following durations:
 - i) First 10 contract years OR surrender charge period if longer than 10 years.
 - ii) Every 10th contract year thereafter OR the end of the renewal surrender charge period if less than 10 years, but are not required to be shown beyond the later of 30 years or age 70.
 - iii) Required annuitization age or date.
- Brief description of the types of annuity income options available (may be done on a separate page). ~~A-In addition,~~ display the amount of at least one of the guaranteed annuity income options payout benefits available based on the guaranteed rates in the contract, at the later of age 70 or 10 years after issue, but in no case later than maximum annuitization age or date in the contract. It is recommended that ~~T~~the illustration ~~could~~ also display the annuity payout income benefits based on currently available annuitization rates.

Effective Date of Guidelines

- These guidelines shall become effective [insert effective date] and shall apply to illustrations prepared on or after the effective date.

Drafting Note: There should be a one year lag in effective date from date of adoption for insurers to implement systems changes for compliance.