



AMERICAN ACADEMY *of* ACTUARIES

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

Re: Annuity Consumer Guides

The Annuity Illustration Work Group (AIWG) of the American Academy of Actuaries¹ reviewed the latest drafts of the Annuity Buyer's Guides distributed on May 15, 2012. While we did not have time to do in-depth analyses, we hope that these high-level comments will be helpful. Overall the documents need updating for new product designs, the structure can be simplified for better clarity, there are some instances of generalization that are not completely accurate, and there are instances of inconsistent terminology.

The format and organization of these guides could benefit from revision. Consistency of format and presentation would enhance readability, especially if a consumer receives multiple guides or an agent is referencing multiple guides. Also, if information that is repeated in every guide is presented only in the general guide, the shorter additional guides could focus more on specifics of that product.

The guides do not cover the full range of annuity products currently in the market. For instance, immediate annuities are described in the general guide, but there is no specific guide for that product. More recently developed annuity products, such as longevity annuities (a/k/a deferred income annuities) and contingent deferred annuities (a/k/a stand-alone living benefits) are not mentioned.

The following are some of the specific items we noted, as examples.

Annuity General Information Buyer's Guide

Page 1: What is an annuity.....“Every deferred annuity offers a way to take out some of your money each year without paying surrender charges”. There are some annuities that may not have this provision.

Page 2: Variable Deferred Annuities..... “You also may choose to put some of your money into a fixed account”. Not all variable annuities contain a fixed account.

While “premium” is the terminology in the Guide used for amounts remitted for many annuities, there are also contracts where the terminology used is “payment” or “deposit” for the amounts remitted to the insurer for the contract.

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.

Buyer's Guide to Fixed Deferred Annuities

Market Value Adjustment (MVA), contained in some fixed annuity product designs, is not mentioned as a provision that could reduce or increase a surrender or withdrawal value. We also still believe that a graphic illustration of MVA's, such as the example the AIWG suggested in April 2010, could provide explanation enhancing a consumer's understanding.

Buyer's Guide to Fixed Indexed Deferred Annuities

In recent years, Fixed Indexed products have been evolving. As such, a number of explanations of features and benefits may be inaccurate or missing.

The explanation of the minimum guaranteed return appears to require updating as most guarantees are now 1%. In addition, the formulas are incorrect.

While caps, spreads and participation are explained, newer products include additional calculation components and additional indexes. In addition, some products are registered with the Securities and Exchange Commission and marketed with a prospectus.

Buyer's Guide to Variable Deferred Annuities

With the more recent evolution of new products, some benefits/features should be updated.

This buyer's guide refers to caps and spreads reducing interest earnings in the separate account. These are indexed annuity contract components which are not, to our knowledge, used in Variable Deferred Annuity products, as defined by this buyer's guide.

Page 4, "What Optional Benefits Can I Choose?" states "Each rider will increase the cost of your annuity." However, there are some riders that do not have a charge or specific cost. Note also that the General Buyer's Guide, on Page 2, in "How Do I Choose Among the Types of Annuities?" says that the insurer usually charges for riders.

While we have noted a number of areas that need to be addressed, we think it would be premature for the AIWG to make a more detailed review and commentary at this time. After the NAIC Annuity Disclosure Working Group has determined its approach and proposed further revisions to the text, we would be happy to make a detailed review of the text and provide specific edits and comments.

Please feel free to contact John Meetz, the Academy's life policy analyst (meetz@actuary.org; 202/223-8196) if you have any questions.

Sincerely,

Linda Rodway, Chair
Annuity Illustration Work Group
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