



MEMORANDUM

TO: Insurance Compact Management Committee

FROM: Product Standards Committee

DATE: August 2, 2019

SUBJECT: Group Annuity Certificate Uniform Standards for Employer Groups

The Product Standards Committee (“PSC”) of the Interstate Insurance Product Regulation Commission (“Commission”) is charged with developing proposed drafts of Uniform Standards. In carrying out its charge, the PSC has finalized the draft *Group Annuity Certificate Uniform Standards for Employer Groups* and is recommending that the Management Committee initiate the rulemaking procedure¹ with respect to this proposed standard.

Pursuant to §103 of the *Rule for Adoption, Amendment and Repeal of Rules for the Interstate Insurance Product Regulation Commission*, on November 5, 2018 the Commission issued notice requesting comments on a draft proposal for the *Group Annuity Certificate Uniform Standards for Employer Groups*. The draft was developed with input from several group annuity insurers who are members of the Group Annuity and Pension Compliance Association, as well as review of state requirements and filed certificates in the marketplace today. Because group annuity certificates do not vary greatly based on the type of group annuity product, a decision was made to draft one set of Uniform Standards that could be used for any group annuity product filed with the Insurance Compact.

The Committee recommends these uniform standards not be available for Mix and Match to be used in combination with State Product Components as described in §111 of the *IIPRC Operating Procedure for the Filing and Approval of Product Filings*. The PSC also recommends that the standards be available for use in combination with IIPRC-approved group life insurance and annuity forms and that filings submitted under these Uniform Standards be subject to prior review and approval and not self-certification.

Based on feedback from interested parties, the PSC exposed updates to the draft for public comment and held two public calls to obtain further input. Written comments were received from a representative of a member state and from the ACLI.

Most comments were technical or clarifying in nature, but there were two areas of more detailed discussion and consideration. The first item is regarding the Flesch Score requirements. All Insurance Compact Uniform Standards with Flesch Score requirements provide for a minimum

¹ The rulemaking procedure is set forth in the Rule for Adoption, Amendment and Repeal of Rules for the IIPRC.

Flesch Score of 50. ACLI provided feedback indicating that for group annuity certificates, 26 states and the District of Columbia have a minimum Flesch Score requirement of 40, and 15 states and Puerto Rico do not have any minimum Flesch Score requirement, with 9 states also exempting group annuities from having to file group annuity certificates. Therefore, they requested that the minimum Flesch score requirement be reduced from 50 to 40. The PSC discussed this request and concluded that although they understood the companies' request and rationale, they were not comfortable establishing a Uniform Standard that would result in certificates that could be more difficult for the certificateholder to read. It was noted that during development of individual annuity Uniform Standards, the Flesch Score of 50 was higher than most states as well; however, companies have adapted to this standard.

The other item of discussion was a proposed addition of detailed language regarding death benefit proceeds and how benefits and interest are calculated, similar to language now found in the individual annuity contract standards. Industry representatives explained that group annuity certificates issued to Plan participants are not permitted to provide accumulation and/or investment features. Rather, qualified retirement plans use group annuity certificates to meet their fixed and defined obligations under ERISA and the Internal Revenue Code to provide retirement benefits to participants. The death benefits that a qualified plan may provide are typically limited in form under ERISA and the Internal Revenue Code to qualified preretirement survivor annuities or qualified joint and survivor annuities. As a result of these discussions, the PSC agreed not to add the language found in the individual annuity contract Uniform Standards.

The PSC is available to respond to any questions or requests for information to assist the Management Committee.