

**Product Standards Committee and Actuarial Working Group Recommendations on Public Comments
To Management Committee on Incidental GMDB Uniform Standards**

1. Ohio comment: Is it appropriate make consistent both instances of “account value” in the descriptions of incidental GMDB in (i) and (ii), as to whether account value excludes “bonuses that are not fully earned”?

Current Provision:

As used in these standards the following definition of Incidental GMDB applies:

1. (a) A death benefit less than or equal to the greater of:
 - (i) **The account value, excluding any bonuses that are not fully earned,** or
 - (ii) (A) The accumulation of premiums (adjusted for withdrawals), at a specified interest rate of 10%.
(B) The death benefit provided by (1)(a)(ii)(A) shall not exceed 250% of premiums (adjusted for withdrawals). For the purposes of demonstrating compliance with the above requirements, a level, compound interest rate shall be used.
2. A death benefit equal to or less than a percentage of the “earnings” or “gain” on the contract **(defined as the account value less premiums paid plus withdrawals),** provided that the amount of the death benefit in addition to the account value is no greater than 50% of the gain on the contract; or
3. A death benefit based on a combination of an “accumulation” death benefit (1 above) and a death benefit based upon the “gain” of the contract (2 above), provided that the combined amount does not exceed the greater of the two death benefits described in 1 and 2 above.

Conclusion: Yes, both instances should be worded consistently.

Recommendation: Revise item (ii) as follows,

A death benefit equal to or less than a percentage of the “earnings” or “gain” on the contract (defined as the account value, **excluding any bonuses that are not fully earned, less premiums paid plus withdrawals), provided that the amount of the death benefit in addition to the account value is no greater than 50% of the gain on the contract; or**

2. Life Insurance Company of the Southwest comment: Requested further consideration of persistency bonuses in light of exclusion of unearned bonuses from account value. The comment also noted a correction to remove the Subsection (a) element from the current provision and renumber accordingly.

Current Provision: The comment suggests revisions to the definition of Incidental GMDB copied above.

Conclusion: The Actuarial Working Group does not see the proposed standards as restricting persistency bonuses in any significant way. The AWG welcomes examples of benefit designs that are in the public interest but would not be allowed under the proposed standards as currently worded.

Recommendation: Barring further information about persistency bonus designs that are in the public interest but would not be allowed under the proposed standards as currently worded, no further revisions outside of the suggested renumbering are recommended.