

We have comments regarding the draft of the Additional Standards for Incidental Guaranteed Minimum Death Benefits for Individual Deferred Non-Variable Annuities.

We appreciate that the most recent edits to the Standards create a “level playing field” for all bonus product designs. This was accomplished by excluding unearned bonuses from consideration as incidental death benefits. However, we question the appropriateness of effectively forcing unearned bonuses to be forfeited due to death. This requirement appears to be detrimental to contract owners. The requirement makes the sale of bonus products to older or unhealthy individuals questionable, because such contract owners may not live long enough to earn the bonus.

Please keep in mind that annuities are not used exclusively to meet a contract owner’s retirement income needs. Annuities are also used for estate planning purposes, because annuities can be a tax-efficient way for the contract owner to transfer assets to beneficiaries such as children. In some cases, life insurance products are unavailable due to poor health or age, but annuities offer a viable alternative.

Persistency bonuses are a common feature in annuity products. Persistency bonuses help to emphasize the long-term nature of an annuity contract. Persistency bonuses are intended to encourage owners to keep the contract in force for a prolonged period of time and to subsequently reward them for doing so. Rewarding only contract owners who have low mortality is generally not the underlying motive for persistency bonuses on annuity products.

Death benefits are a very common insurance component of annuity products. Most deferred annuity products provide a waiver of surrender charges at death so as not to penalize the contract owner for dying. Indeed, the Additional Standards for Waiver of Surrender Charge Benefit (IIPRC-AB-I-WSC) allow for surrender charges to be waived at death. Similarly, the inclusion of unearned persistency bonuses in the death benefit would provide the contract owner valuable protection against dying before the persistency bonus is credited. The inclusion of unearned bonuses in the death benefit is analogous to a waiver of surrender charges at death.

We suggest that the inclusion of persistency bonuses in a death benefit should be considered incidental. We believe that such bonuses should not be required to be forfeited due to the involuntary event of death.

We recognize that one purpose of the Incidental GMDB Standards is to limit the magnitude of death benefits in annuity contracts. However, we do not believe that the inclusion of unearned bonuses can result in excessive death benefits. There are at least two factors that limit the magnitude of bonuses:

1. The Additional Standards for Bonus Benefits for Individual Deferred Non-Variable Annuities (IIPRC-AB-02-I-BONUS) requires that all bonuses be included in the maturity value and bonuses cannot be forfeited after the maturity date. This requirement together with the prospective test of the Standard Nonforfeiture Law effectively limit the magnitude of bonus benefits.
2. From a pricing perspective, all benefits have a cost. Bonus benefits are no exception to this rule. Pricing considerations will always limit the magnitude of the bonus benefits offered by the insurer.

We propose the following edits to item 1 in the definition of Incidental GMDB. (Please note the clerical edits regarding the bullets and numbering of the subparts).

1. ~~(a)~~ — A death benefit less than or equal to the greater of:
 - ~~(i)~~ The account value plus any guaranteed bonuses that have not yet been credited to the account value, or, excluding any bonuses that are not fully earned, or
 - ~~(ii)~~ ~~(A)~~ The accumulation of premiums and any guaranteed bonuses, whether fully earned or not, (adjusted for withdrawals), at a specified interest rate of 10%.
 - ~~(B)~~ ~~(i)~~ ~~(A)~~ The death benefit provided by (1)~~(a)~~~~(i)~~~~(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.

These proposed edits allow for the inclusion of persistency bonuses in annuity death benefits while maintaining a “level playing field” for various product designs. Thank you for considering this proposal.