

DATE: December 9, 2009
TO: IIPRC Management Committee
FROM: IIPRC Industry Advisory Committee (IAC)
SUBJECT: Company Testimony from 12-4-09 IIPRC Hearing

Attached is the Industry Advisory Committee and company testimony in writing from the December 4, 2009 public hearing on the uniform standards issued on October 29 that are listed below.

Guaranteed Living Benefits for Non-Variable Annuities
Guaranteed Living Benefits for Variable Annuities
Guaranteed Minimum Death Benefits for Variable Annuities

The testimony includes comments from:

- Cande Olsen of Actuarial Resources Corporation (representing the ACLI and the Industry Advisory Committee)
- Maureen Adolf of Prudential (Member of the Industry Advisory Committee)
- Bill Waldie and Steve Buhr of Aegon (Member of the Industry Advisory Committee)
- Elaine Leighton of John Hancock
- Dave Sandberg of Allianz Life

Note that in the written testimony from Dave Sandberg he also addresses a comment brought up at the hearing that a policyholder might become dissatisfied with the company's performance. Mr. Sandberg notes that this has no bearing on this issue as the Guaranteed Living Benefits rider itself has no non-guaranteed benefits. The benefit formula cannot change.

Please let us know if you have any questions or require any more information.

Submitted by:

IIPRC Industry Advisory Committee:

Maureen Adolf, Prudential
Steve Buhr, AEGON
Tom English, New York Life
Michael Gerber, NAIFA
Mary Keim, State Farm Insurance Company
Michael Lovendusky, ACLI
Amanda Mathiessen, AHIP
Gary Sanders, AHIA

Industry Advisory Committee Comments from 12-4-09 GLB Hearing

For Guaranteed Living Benefits for Variable and Non-Variable Annuities and Guaranteed Minimum Death Benefits for Variable Annuities (GLBs)

1. Cande Olsen - Actuarial Resources Corporation (For the ACLI and the Industry Advisory Committee)

- **The GLB feature is attached to either a variable or non-variable deferred annuity (most commonly a variable annuity).** It provides for minimum guarantees under specified conditions, most commonly the guarantee to be able to make minimum periodic withdrawals from the contract for life, even if the account value goes down to zero. The charge for this guarantee is deducted monthly from the account value, as long as it exists. The GMDB works in a similar way.
- **Such products are in great demand in today's economy** because they give consumers the benefit of both principle growth (the underlying annuity) and minimum income guarantees.
- The Industry Advisory Committee (IAC) supports **the GLB termination provision as currently drafted**, which allows the GLB to be terminated if the annuity's ownership is changed, except if the change is to essentially the same person (like changing ownership from a natural person to a trust in that person's name). **This would allow companies to terminate the GLB benefit upon sales to institutional investors.**
- **Furthermore, the GLB standard requires that such a termination provision must be disclosed in prominent print on the cover page or the first specifications page in the GLB form.**
- **This termination standard would only apply to the additional GLBs, and NOT to the underlying annuity contract.** This does not restrict the right of the owner to sell the underlying annuity.
- **If institutional investors are able to purchase such products from consumers, companies will need to increase the price of the product (i.e. the monthly charges).** This is to account for the fact that these institutional investors would then be able to take over contracts that would have otherwise been surrendered, and would utilize these benefits in a manner to optimize the profitability of these contracts, while individual annuity owners would not always be driven by a profit motive. Individual annuity owners will tend to utilize the benefits in a manner that best suits their individuals' needs and financial goals (i.e., when they decide to withdraw money, the amount of money to withdraw, the allocation of funds to the underlying annuity, and the decision, at any point along the way, to surrender the contract for cash, even if keeping the contract and taking the guaranteed periodic withdrawals would give them more money over the lifetime of the contract).

- What would then happen is that the additional costs associated with SOME owners selling their annuity contracts (with a GLB) to institutional investors would then need to be borne by ALL owners of this product. **This is a disservice to consumers who would like to purchase and keep this product.**
- **Currently companies are able to offer GLBs with such termination provisions at an affordable price.** Most states have approved this right.
- **In summary, the IAC supports the GLB standards as currently drafted for all the reasons given above**

2. Maureen Adolf - Prudential

VALUE OF ANNUITIES WITH GUARANTEED INCOME-FOR-LIFE RIDERS

- Policymakers recognize that the loss of traditional pension plans has resulted in a critical gap in the retirement security of Americans: the lack of monthly income in retirement.
- Retirees with lump sums from their 401(k) plans are not money managers; they tend to either hoard those sums money or outlive their nest eggs.
- While annuitizing fills this gap, few individuals do so.
- They are reluctant to give up access to and control over their money.
- They don't want to take the chance of their heirs losing an inheritance if they die.
- Guaranteed income-for-life riders to annuities offer a 21st century solution to this problem.
- Individuals can receive monthly lifetime income – say, 6% of the contract value at the time of retirement - from their annuities without having to annuitize.
- Their contract value grows from the date of purchase until they retire. If there is a market downturn during this time, they nevertheless receive monthly income based on a higher, protected value.
- These riders have become very popular as consumers have recognized their great value, especially during the recent market downturn. Prudential's optional lifetime withdrawal guarantee is elected by more than 90 percent of annuity buyers.
- Insurers price these products based on the assumption that most individuals will not begin taking monthly withdrawals until retirement. If such withdrawal guarantees were required to be subject to assignment - leading to adverse benefit utilization

experience for issuers - pricing for new sales would likely need to increase, harming consumers using these products for their intended purpose.

3. Bill Waldie and Steve Buhr - Aegon

- I have been involved with development and marketing of annuity products for over 29 years. During this time the industry has made considerable advancements in providing products that will help consumers in making their savings last during their lifetime.
- Few consumers really know what their cash flow needs will be in retirement. The GLB lifetime withdrawal rider on an annuity provides the consumer with choice and flexibility. They can start and stop the withdrawals and start them again. They can take out the full amount of the guaranteed withdrawal or a smaller amount if less is desired. They have access to their annuity for additional withdrawals (with some adjustment to the GLB rider withdrawal amount) if needed.
- Compare these riders to the immediate annuity where once lifetime payments begin, they continue, until the annuitant's death, not adjustable, with no liquidity options.
- When we price the rider we include our experiences of consumers' sporadic behavior for withdrawing funds from their annuity.
- It has been stated that the consumer should be able to change their mind if the annuity no longer fulfills their needs and be able to sell the annuity with the rider intact. If the consumer no longer wants the guaranteed withdrawals, they can cash out their annuity for the annuity surrender value. If they would sell their annuity to a third party, where there is no insurable interest in the consumer, the insurance company would cancel the rider since it no longer applies to the original policyholder.
- If the insurance company was prevented from cancelling the rider when the policy is sold, the third party would most likely utilize the withdrawal benefit to the fullest extent. This would alter the pricing assumptions and would require the cost of these riders to be increased considerably for all potential policyholders.

4. Elaine Leighton - John Hancock

- John Hancock supports the IIPRC Standards for Guaranteed Living Benefits for Variable Contracts. Guaranteed Living Benefits provide valuable protection to our contract owners who elect these optional benefits to protect their retirement income. The recent market volatility illustrates the value of these benefits to the consumer. In order to maintain affordability for the individuals purchasing these benefits, we support the GLB termination provision, allowing the termination of the GLB Benefit upon an ownership change to any entity other than those described in the standard.

- These benefits are designed and priced for sale to individuals. Individuals make decisions about how to utilize the benefits according to their own personal needs, preferences, financial objectives and risk tolerance. The range of results that these personal decisions generate is reflected in the assumptions used in pricing the benefits. If institutional investors are permitted to purchase these benefits, companies will need to change their assumptions about policyholder behavior.
- Utilization will no longer depend on individual needs, preferences, financial objectives and risk tolerance but the financial objective of the institutional investor. The result will be increased prices for the individuals that these benefits are designed to protect.
- We support strong disclosure to the consumer clearly describing any limitations on the benefits including prominent disclosure of the impact of any change in ownership. We believe the standards as written strengthen disclosure requirements and provide additional protection to the consumer.

5. Dave Sandberg - Allianz Life

- **This product is a promise of a lifetime guaranteed income stream.** It is not an asset in the traditional sense as an item that is meant to be liquid and resold for other assets. It has additional consumer value because it is sold with a bundle of choices to allow the policyholder to receive their value from the product in both the accumulation and de-accumulation phases of the underlying product
- **This product is more expensive if a secondary market is allowed.** The pricing assumes and expects that people will act to maximize their personal and unique potential to benefit from this product. Because the product has many options the risk exposure to the company of any individual choice is diversified between all policyholders as well as between the likely half dozen options for taking value from the base product and riders (such as adding additional premiums, free partial withdrawals, changes in investment buckets). If the lifetime benefit can be sold off as a single option, the product becomes one where the concentrated exposure to a smaller pool of users increases the risk to the company and will require additional capital.
- **Mandates a cost to consumers who do not want the benefit.** The extra cost for those who desire greater liquidity must be paid for by those who do not desire or need the liquidity. This restricts the consumer choice of those who do not need the liquidity.
- **Consumer choice is maximized with the current right to restrict.** The market has every opportunity (and the rights) today to sell policies that contain the right to sell off the lifetime income. If this protection is greatly desired by consumers in the market, they already have the right to buy these types of policies.
- **The GLB benefits, by definition, must perform as promised.** The benefits guarantee a level of income. The possibility suggested (by a witness at the 12/4/09 hearing) that a policyholder might become dissatisfied with the company's performance has no bearing on this issue as the rider itself has no non-guaranteed benefits. The benefit formula cannot change. (Note that this comment was not made by Mr. Sandberg on

12/4/09, but he felt strongly that this impression needed to be corrected, even if after the fact.)