INSURANCE COMPACT COMMISSION

**MEMORANDUM**

**TO:** **IIPRC Management Committee**

**FROM:** **Product Standards Committee**

**DATE:** **March 13, 2017**

**SUBJECT:** **Recommendation Pursuant to Section 119 of the Rulemaking Rule for Changes and Clarifications to certain Uniform Standards Effective Between January 1 and July 3, 2011 (Phase 7) Subject to the Five-Year Review Process**

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The Product Standards Committee ("PSC") of the Interstate Insurance Product Regulation Commission ("IIPRC") is charged with reviewing, drafting and recommending proposed drafts of Uniform Standards for consideration and adoption by the Management Committee. In carrying out its charge, the PSC has conducted a review of the Uniform Standards effective between January 1 and July 3, 2011 and is recommending amendments to certain provisions within these Uniform Standards.

The PSC presents this recommendation pursuant to §119 of its Rule for the Adoption, Amendment and Repeal of Rules for the Interstate Insurance Product Regulation Commission ("Rulemaking Rule") which requires the Commission to substantially review its rules, including Uniform Standards, every five years. The PSC performed the review of these Uniform Standards in accordance with the Procedures for Implementing §119 of the Rulemaking Rule as adopted by the Management Committee on March 2, 2012 ("Procedures").

The Notice of Five-Year Review for Uniform Standards Effective between January 1 and July 3, 2011 was issued on January 5, 2016. Comments were submitted by the Oregon Insurance Division, the Pennsylvania Department of Insurance, the Industry Advisory Committee, Zurich American Life Insurance Company and Pacific Life Insurance Company.

Pursuant to the Procedures, the IIPRC Office presented a report and recommendation to the Product Standards Committee on October 11, 2016. The IIPRC Office Report and Recommendation provided a detailed description of the submitted comments and suggested changes as well as changes or amendments proposed by the IIPRC Office based on these comments and internal challenges faced in applying or implementing the Uniform Standards. The PSC requested public written comments on the IIPRC Office Report and Recommendation and during its consideration process held two public conference calls to receive comments on the report and the PSC recommendations.

The final Product Standards Committee Report and Recommendation is divided into four parts: 1) Substantive Changes (proposed amendments that would change or alter the meaning, application or interpretation of the provision); 2) Clarifications Changes (amendments to clarify the original or existing meaning, application, and/or intent of a provision); 3) Conforming Amendments (amendments to existing Uniform Standards where the substantive provisions of the amendments are included in other adopted Uniform Standards, and the amendments will have the same substantive effect on the application of the existing Uniform Standards as it does on in the other adopted Uniform Standard) and; 4) Technical Items (formatting, typographical, and/or drafting corrections). As part of the Five-Year Review process, the applicable changes adopted by the Commission in prior phases of the Five-Year Review process will be presented as conforming amendments to Uniform Standards subject to Phase 7.

As required by the Procedures, the PSC's recommendation to the Management Committee includes a summary of recommended changes and an explanation of the change in circumstances or underlying assumptions since the rule was last adopted, amended or reviewed, as well as comments raised but not recommended by the Committee with the reasons for not recommending these items. Since the conforming amendments were already summarized in prior phases of the Five-Year Review and since the technical changes are format and typographical corrections, these items are not detailed on the chart. The Summary of Five-Year Review Comments and PSC Recommendations for Uniform Standards in Phase 7 accompany this Transmittal Memo.

As was previously recommended in prior Five-Year Reviews, the PSC recommends that the proposed amendments apply only to new filings received after the effective date of the amendments. It is not necessary to resubmit previously approved forms to comply with these amendments, or to suspend use of previously approved forms that do not comply with these amendments.

This Summary will be posted to the Rulemaking Docket of the IIPRC Website (www.insurancecompact.org) and will have links to the applicable Uniform Standards showing the proposed Five-Year Review changes in redlined format. The PSC is available to respond to any questions to assist the Management Committee during its rulemaking process.

**Summary of Five-Year Review Comments and PSC Recommendations**
**For Uniform Standards in Phase 7 of the Five-Year Review**
**Uniform Standards Effective between January 1, 2011 and July 3, 2011**

**March 13, 2017**

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| **RECOMMENDED SUBSTANTIVE CHANGE ITEMS** | | | |
| 1. | Period Certain Payments for INDIVIDUAL DEFERRED PAID-UP NON-VARIABLE ANNUITIES *(Cross-Reference to IIPRC Office Report – Substantive Change Item #1)* | *Industry Comments:* The Industry Advisory Committee (IAC) requested that the IIPRC consider allowing Period Certain Deferred Income Annuities (DIA) within the Scope of the Individual Deferred Paid-Up Non-Variable Annuity Contract Standards. They note that since these standards were initially adopted, the market has developed for period certain DIA's as another option for retirement planning to guarantee a portion of the retirement income needs. A DIA is an option that is currently being sold in today's marketplace and is approved by many Insurance Compact member states.<br><br>*IIPRC Office Comments/Observations*: The IIPRC Office noted that similar requests have been raised by filers and since the uniform standards do not currently allow for period certain DIA's, the filers were required to file the products state by state. These products are generally accepted in the majority or more of Compacting States. In early 2015, the Actuarial Working Group discussed adding period certain DIAs to these uniform standards and did not identify any actuarial issues. | The Product Standards Committee (PSC) agreed that DIA's with period certain are currently in the marketplace and recommends that the Scope of these standards be amended to include a statement that income payable on the commencement date is payable for the annuitant's lifetime (with or without a guarantee period) or for a stipulated period of time. The PSC also recommends revising §3G.(3) to provide that any stipulated period certain is for a minimum of five (5) years with a maximum deferral period of twenty (20) years. |
| 2. | Commutation for INDIVIDUAL DEFERRED PAID-UP NON-VARIABLE ANNUITIES *(Cross-Reference to IIPRC Office* | *Industry Comments:* The IAC requested consideration of the addition of commutation provisions to the Individual Deferred Paid-Up Non-Variable Annuity Contract Standards. They noted | The PSC referred this request to the AWG for review and recommendation. The AWG had no actuarial concerns with adding commutation provisions as proposed by the IAC, subject to limitations, including |

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| | *Report – Substantive Change Item #2)* | that in the current marketplace, the vast majority of DIAs are purchased by individuals at or near retirement with relatively short deferral periods. The IAC stated that allowing commutation on a Deferred Income Annuity (DIA) product after income begins will enhance the appeal of the product and overcome consumer reluctance to commit funds to these contracts<br><br>*IIPRC Office Comments/Observations*: The IIPRC Office noted that it has received requests from filers to add commutation riders to DIAs or to file a product that includes a commutation provision. Single premium immediate annuities that are subject to the Individual Immediate Non-Variable Annuity Contract Standards allow for commutation. The Office noted that the purpose of DIAs has expanded since the uniform standards were initially adopted. | that contracts may not provide for the commutation of future dividend payments or for commutation of life only income benefit options. For life income options with a period certain the available commutation benefit shall be limited to the lesser of 100% of the commuted value of the period certain income benefits, or 60% of the commuted value of the combined life contingent and period certain income benefits. For period certain only income options the available commutation benefit shall be limited to 60% of the commuted value of the period certain income. The AWG also recommended adding a definition of period certain annuities. The PSC agreed with the AWG recommendations. |
| 3. | Dividends Used To Purchase Paid Up Additions in the INDIVIDUAL DEFERRED PAID-UP NON-VARIABLE ANNUITIES *(Cross-Reference to IIPRC Office Report – Substantive Change Item #3)* | *Industry Comments:* The IAC noted that the current provision requires companies to treat dividends used to purchase additional income as if they were additional premium payments. Since a dividend is basically a refund of premium, the IAC believes that the amount of additional income it purchases should be based on the rates that applied to that premium deposit.<br><br>*IIPRC Office Comments/Observations*: The IIPRC Office noted that during a recent 5 Year review, the Individual Immediate Annuity Contract Standards were revised to include the current language in the | The PSC referred this request to the AWG for review and recommendation. The AWG recommended and the PSC agreed to amend the provision to allow dividends used to purchase additional guaranteed income payments benefits to be determined using current annuity purchase rates or the same interest and mortality rates schedule used at the time of the premium payment to which the dividend is related was paid and the attained age at the time the dividend is paid. |

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| | | Individual Deferred Paid-Up Non-Variable Annuity Standards. | |
| 4. | Ceasing to be a Qualified Owner for ADDITIONAL STANDARDS FOR PRIVATE PLACEMENT PLANS FOR INDIVIDUAL VARIABLE ADJUSTABLE LIFE INSURANCE POLICIES and ADDITIONAL STANDARDS FOR PRIVATE PLACEMENT PLANS FOR INDIVIDUAL DEFERRED VARIABLE ANNUITY (*Cross-Reference to IIPRC Office Report Substantive Change Item #4*) | *Industry Comments:* The IAC suggested adding alternatives such as requiring a surrender, a policy exchange, or a transfer of funds to a non-exempt fund to provide the insurer and owner with options to consider when addressing situations where a qualified owner ceases to be a qualified owner. The IAC noted that alternatives allow for flexibility for various circumstances.<br><br>*IIPRC Office Comments/Observations*: The IIPRC Office has heard comments from insurance companies indicating that some aspects of the Additional Standards for Private Placement Plans would benefit from greater detail so that the standards more closely reflect the products currently in the marketplace. | The PSC referred this item to the AWG for review and recommendation. The AWG had no actuarial concerns and suggested that recommendations regarding changes to the standards should be made by the PSC. The PSC agreed that added flexibility when the owner ceases to be a qualified owner was desirable, but noted that the changes proposed by the IAC took away the choice for the owner to always exchange the policy or contract for one that does not require qualified owner status. The PSC agreed to the revisions proposed by the IAC with amendments to retain the owner's ability to exchange the contract for an annuity that does not require qualified owner status or to transfer funds from an exempt fund to a non-exempt fund in instances where the owner ceases to be a qualified owner. |
| 5. | Liquidity and Availability of Funds in the ADDITIONAL STANDARDS FOR PRIVATE PLACEMENT PLANS FOR INDIVIDUAL VARIABLE ADJUSTABLE LIFE INSURANCE POLICIES and ADDITIONAL STANDARDS FOR PRIVATE PLACEMENT PLANS FOR INDIVIDUAL DEFERRED VARIABLE ANNUITY (*Cross-Reference to IIPRC Office Report Substantive Change Item #5*) | *Industry Comments*: The IAC noted that the existing Private Placement Standards address policies and contracts that contain investment options that are valued and available for investment or redemption each business day; however, it has become commonplace for private placement products to offer investment options with limited availability and/or limited liquidity. The IAC suggested amending the standards to provide a uniform method for addressing limited liquidity and availability of certain funds. | The PSC referred this item to the AWG for review and recommendation. The AWG had no specific actuarial concerns related to the proposal. The PSC agreed with the suggested amendments to the standards to address liquidity and availability of funds. These changes include new definitions for contributions, liquidity and redemption, updating existing provisions to address availability of funds and deferral of payments, and adding the following new item for contract transactions:<br><br>**C. CONTRACT TRANSACTIONS** |

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| | | | (1) The contract may provide that contributions occur only on a specified contribution date and after the qualified owner satisfies the specified contribution notice period.<br><br>(2) The contract may provide that redemptions occur only as of a specified redemption date and after the qualified owner satisfies the specified redemption notice period. |
| 6. | Age requirements for the ADDITIONAL STANDARDS FOR OVERLOAN PROTECTION BENEFIT *(Cross-Reference to IIPRC Office Report Substantive Change Item #7*) | *Industry Comments:* The IAC suggested that insurers may want to specify a maximum age as a condition for exercising the overloan protection benefit, but currently the standards only permit specifying a minimum age. | Following the review of information from the IAC showing that in some situations it might not be in the best interest of an insured/owner to trigger overloan protection benefit even if all other benefit requirements are satisfied, and noting that the standards already require that there can be no charge if the benefit is never exercised, the PSC agreed to recommend the IAC suggested revisions to amend the specifications page requirement to allow for a minimum and maximum age requirement for exercising the benefit and to amend §3A.(2) to include a permissible maximum age. |
| 7. | Premium and Benefit Characteristics for ADDITIONAL STANDARDS FOR GRADED DEATH BENEFIT FOR INDIVIDUAL WHOLE LIFE INSURANCE POLICIES *(Cross-Reference to IIPRC Office Report Substantive Change Item #8*) | *Regulator Comment:* The Pennsylvania Department of Insurance noted that it is important that the policy specifications pages, schedules, and tables clearly convey how the premium and benefit characteristics of graded death benefit policies may differ most from other whole life insurance policies. They submitted suggested edits to the specifications page standards to improve such transparency.<br><br>*IIPRC Office Comments/Observations:* The IIPRC | The PSC referred this item to the AWG for review and recommendation. The AWG noted that the request was more of a disclosure and transparency issue than an actuarial request, and they had no actuarial concerns. Following a review of examples of products that specifically list the early duration reduced benefits for death from natural causes, the PSC agreed to Pennsylvania's suggestion to recommend amending the Specifications Page requirement to include a description of the how early |

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| | | Office has not received questions from filers on this nor feedback that the presentation is confusing, but agreed that it is beneficial to provide the policyholder with as much information as possible regarding the benefits payable under the policy. | duration reduced benefits for death from natural causes are calculated, disclosure of the applicable interest rate or other coefficient, and tabular presentation of cash values and paid up nonforfeiture benefits, including a presentation of the early duration reduced benefits for death from natural causes and the ultimate death benefit for subsequent policy years. |
| **RECOMMENDED CLARIFICATION ITEMS** | | | |
| 1. | Available Dividend Options in the INDIVIDUAL DEFERRED PAID-UP NON-VARIABLE ANNUITY CONTRACT STANDARDS *(Cross-Reference to IIPRC Office Report – Clarification Item #1)* | *IIPRC Office Comments/Observations:* The IIPRC Office noted that filers sometimes overlook the requirement under §3R.(4) that dividends used to purchase additional income benefits are subject to the same requirements as additional premium payments made after issue. It may be helpful to filers if the provision was reformatted to draw more focused attention to this requirement. | Under Substantive Item #3, the PSC recommends amending §3R.(4) to allow dividends used to purchase additional guaranteed income payments benefits to be determined using current annuity purchase rates or the same interest and mortality rates schedule used at the time of the premium payment to which the dividend is related was paid and the attained age at the time the dividend is paid. The proposed revision includes reformatting which will draw attention to the requirements. |
| 2. | Additional Purchase Payments After Issue for INDIVIDUAL DEFERRED PAID-UP NON-VARIABLE ANNUITIES *(Cross-Reference to IIPRC Office Report – Clarification Item #2)* | *IIPRC Office Comments/Observations*: The IIPRC Office has issued filing guidance by way of a weekly tip to filers that the company should ensure that not only the income benefit from the initial premium but the income benefit from additional premium payments are greater than the guaranteed income benefit from individual deferred non-variable annuities including guaranteed living benefits. Companies have posed the practical dilemma of the impact of this interpretation when | The PSC referred this item to the AWG for review and recommendation. The AWG noted that some of the insurers' concerns tie to GLB's since in some situations companies can offer higher income with the GLB than can be supported from a pricing perspective with a longevity annuity. The AWG agreed that the IIPRC staff is applying the standards as intended, but acknowledged that in the situations where a company no longer offers new deferred income annuity contracts, it may become |

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| | | they cease issuing new longevity contracts and no longer have current annuity purchase rates as specified in §3B.(1)(c). The situation raises the question of what are "current rates" when there is not a current product offered for sale. The IIPRC Office notes that the requirements are unique to the Insurance Compact. | problematic. The AWG recommended and the PSC agrees that in situations where the company no longer issues new longevity contracts but does allow additional premiums after issue, it would be appropriate that in lieu of requiring that the guaranteed income benefits be greater than those guaranteed in the companies' non-variable deferred annuities at the time the additional premium is paid, to require disclosure of the amount of additional income benefit purchased under the existing contract in comparison with guaranteed income payments provided under any non-variable deferred annuity contract being offered by the company at the time the additional premium is paid. The PSC recommends revising §3B.(1)(c)and(d) as follows:<br><br>(c) The term "current annuity purchase rates," as used in item (b) above, requires that the income payments purchased by additional premiums are:<br><br>(i) Not less than that in a new contract subject to these standards for the same attained age and specified income commencement date if the company offers a deferred paid-up non-variable annuity contract subject to this standard at the time the additional premium is paid; or<br><br>(ii.) If the company does not offer a deferred paid-up non-variable annuity contract subject to this standard at the time the additional premium is paid, based on reasonable actuarial assumptions; ~~and~~ |

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| | | | (d) Within 30 days of receipt of an additional premium payment, the company ~~will~~ shall provide the following to the owner:<br><br>(i.) Written confirmation stating the amount of the premium paid;<br><br>(ii.) The amount of the additional income benefit purchased, the income option, and the income commencement date;<br><br>(iii.) If the company no longer offers a new contract subject to these standards at the time the additional premium is paid, the company shall provide the owner with information on the income benefit, if higher than the amount in (ii) above, guaranteed under a non-variable deferred annuity contract that provides cash surrender values during the deferral period or on the income commencement date, including those with guaranteed income benefits, offered by the company to the same class of annuitants at the time the additional premium is received.<br><br>(iv.) ~~In addition~~ ~~T~~the written confirmation and, if applicable, comparison of guaranteed income payments in (iii) above, shall ~~will~~ provide the option to cancel the additional income by returning the confirmation document to the company, within 10 days of receipt of the confirmation, for the refund of any premium payment made. |

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| 3. | Actuarial Certification Requirements for INDIVIDUAL DEFERRED PAID-UP NON-VARIABLE ANNUITIES *(Cross-Reference to IIPRC Office Report – Clarification Item #3)* | *IIPRC Office Comments/Observations*: The IIPRC Office noted that it issues objections to and receives pre-filing questions from filers who are attempting to demonstrate compliance with the Standard Nonforfeiture Law (SNFL) as part of the certification for these uniform standards. The Office suggested that adding a phrase indicating that the certification referenced in this section is provided in lieu of a nonforfeiture demonstration would help to eliminate objections of this nature. | The PSC recommends clarifying §1B.(1)(g) by adding a phrase that the certification is in lieu of a nonforfeiture demonstration. |
| 4. | Qualified Owners in the ADDITIONAL STANDARDS FOR PRIVATE PLACEMENT PLANS FOR INDIVIDUAL VARIABLE ADJUSTABLE LIFE INSURANCE POLICIES and ADDITIONAL STANDARDS FOR PRIVATE PLACEMENT PLANS FOR INDIVIDUAL DEFERRED VARIABLE ANNUITY *(Cross-Reference to IIPRC Office Report – Clarification Item #4)* | *Industry Comment:* The IAC noted that the standards do not define an accredited investor or a qualified purchaser specifically, but do define "Qualified owner" which includes an accredited investor and a qualified purchaser. In addition, they note that a qualified owner includes a qualified client as the term is defined by the Investment Advisors Act of 1940 as amended. The IAC suggested that substituting the term "qualified owner" in the Scope provision and amending the definition of qualified owner to include a qualified client would add clarity. The IAC also suggested further clarifying changes to the Scope. | The PSC recommends adding clarifying language to the definition of qualified owner to indicate that the owner may be either an accredited investor or qualified purchaser or both, and adding a drafting note stating that certain exempt funds may be available only to qualified owners who are also "qualified clients" as defined by the Investment Advisors Act of 1940 or "qualified eligible purchasers" as defined by the Commodities Futures Act. |
| 5. | Policy Exchange Provision in the ADDITIONAL STANDARDS FOR PRIVATE PLACEMENT PLANS FOR INDIVIDUAL VARIABLE ADJUSTABLE LIFE INSURANCE POLICIES *(Cross-Reference to IIPRC Office Report – Clarification Item #5)* | *Industry Comment:* The IAC noted that the language in §3I.(2)(b) and (c) lacks clarity and it may be easier for companies and reviewers to understand if it was reworded.<br><br>*IIPRC Office Comments/Observations:* The IIPRC Office has not received questions from filers or regulators about this provision, but noted that if | The PSC recommends the following clarifying revisions to §3I.(2)(b) and (c) as suggested by the IAC:<br><br>(b) A policy exchange shall not trigger a new suicide exclusion period, unless the net amount at risk is increased. If the net amount at risk is increased, ~~the~~ a suicide exclusion ~~period applicable~~ may |

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| | | revisions provide clarity, it would be beneficial for filers. | apply to the increased amount ~~shall not exceed~~ for up to two years beginning with ~~from~~ the date of issue of the new policy.<br><br>(c) If a policy contains a reinstatement provision or other policy provision that references the subject matter of Paragraph (2)(a) and/or (2)(b) of this section, the policy references shall be consistent with such Paragraphs ~~(2)(a) and/or (2)(b~~). |
| 6. | Exercising an Overloan Protection Benefit in the ADDITIONAL STANDARDS FOR OVERLOAN PROTECTION BENEFIT *(Cross-Reference to IIPRC Office Report – Clarification Item #6)* | *Industry Comment:* An Industry representative observed that because this section is written in a permissive voice they believe that the standard can be interpreted to mean that either of the noted conditions may be included in the contract, but that neither must be included.<br><br>*IIPRC Office Comments/Observations:* The IIPRC Office noted that reviewers do issue objections related to this provision and that there is confusion among some filers about what must be included within the form. The IIPRC Office requires filers to either state that the benefit will be exercised automatically or provide a procedure for notifying the owner when the benefit can be exercised and obtaining the approval to exercise the benefit from the owner. | The PSC recommends amending §3A.(4) to clarify that the policy must either state that the benefit will be exercised automatically or provide a procedure for notifying the owner when the benefit can be exercised and obtaining the approval to exercise the benefit from the owner. |
| 7. | Scope of the ADDITIONAL STANDARDS FOR CHANGE OF INSURED BENEFIT *(Cross-Reference to IIPRC Office Report – Clarification Item #8)* | *Industry Comment:* The IAC notes that the second sentence of the Scope of this uniform standard addresses change of insured for a policy, but does not address persons who may be insured under a rider, amendment or endorsement attached to a | The PSC notes that the current standards are clear but is not opposed to the proposed revisions for further clarity:<br><br>**Scope:** These standards apply to change of insured |

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| | | policy. While the IAC doesn't believe that the current language would prohibit it, they suggest adding other examples of use within the Scope. | benefits that are built into individual whole life insurance policies or individual variable or non-variable adjustable life insurance policies or added to such policies by rider, endorsement or amendment. A change of insured benefit allows the owner to exchange the insured covered by the policy<u>, or under a rider, endorsement or amendment attached to the policy,</u> for a new insured in whom the owner has an insurable interest or to exchange the policy for a new policy covering a new insured in whom the owner has an insurable interest. Change of insured benefits are most often used in the business insurance market to exchange insureds in the case of personnel departures, without having to purchase an entirely new policy and without upfront loads and surrender charges, <u>but may also be used in other situations, such as a change in marital status.</u> |
| 8. | Accelerated Death Benefits in the ADDITIONAL STANDARDS FOR CHANGE OF INSURED BENEFIT *(Cross-Reference to IIPRC Office Report – Clarification Item #9)* | *Industry Comment:* The IAC stated that it was not the intent that a change of insured be permitted if an accelerated death benefit has been made under the existing policy, and suggested adding language to this effect. | The PSC recommends adding a provision to §3A.(3) listing that no accelerated death benefit payment has been made under the policy at the time of the exchange as a permissible condition. |
| 9. | Actuarial Memorandum Requirements in the ADDITIONAL STANDARDS FOR GRADED DEATH BENEFIT FOR INDIVIDUAL WHOLE LIFE INSURANCE POLICIES *(Cross-Reference to IIPRC Office Report – Clarification Item #11)* | *IIPRC Office Comments/Observations:* The IIPRC Office noted that its actuaries frequently need to follow up with filers to obtain information on how the average amount of insurance and adjusted premiums are calculated for the nonforfeiture demonstration, and this delays the review process. The Office suggests clarifying language in the Actuarial Memorandum requirement to eliminate | The PSC recommends adding a statement that the actuarial memorandum must describe and provide an example of how average amount of insurance is determined in calculating adjusted premiums for the nonforfeiture demonstration, for clarity.<br>. |

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| | | unnecessary objections. | |
| **ITEM RAISED BUT NOT RECOMMENDED** | | | |
| 1. | Private Placement Uniform Standards for Immediate Variable Annuity Contracts – Amending the Scope of ADDITIONAL STANDARDS FOR PRIVATE PLACEMENT PLANS FOR INDIVIDUAL DEFERRED VARIABLE ANNUITY *(Cross-Reference to IIPRC Office Report Substantive Change Item #6*) | *Industry Comment:* An insurance company has requested that the Additional Standards for Private Placement Plans for Individual Deferred Variable Annuity be amended to also include immediate variable annuity contracts.<br><br>*IIPRC Office Comments/Observations:* The IIPRC Office has received prior requests to file a private placement product for a variable immediate annuity and was unable to accept the filings since there was no applicable standard. In discussions with staff and industry representatives, it was noted that there may be features in deferred variable annuity private placement products that are generally not available for immediate variable annuities and vice versa. | The PSC noted that there was no specific detail explaining the need for amending the Scope of the Private Placement Annuity Standards to include immediate variable annuities, and none was provided in follow up inquiries. They agreed that since it was not clear whether the standard could be amended or if separate standards were needed, members were not receiving an influx of state filings for these products, and the IAC survey of companies did not find support among industry representatives to make this change, that the PSC would not recommend amending the standard. |
| 2. | Range For Minimum And Maximum Indebtedness in the ADDITIONAL STANDARDS FOR OVERLOAN PROTECTION BENEFIT *(Cross-Reference to IIPRC Office Report – Clarification Item #7)* | *Industry Comment:* The IAC noted that the standards require that a company show the minimum and maximum indebtedness percentages, as applicable, and that the variability filed for these be presented in "reasonable and realistic ranges." In the absence of any guidance in the standards as to what this may allow, the IAC states that filing experience has shown that the IIPRC actuary will not approve certain minimums. The IAC suggests that that a range that is deemed to be "reasonable and realistic" be included for minimum and maximum indebtedness percentage limits. | The PSC referred this matter to the AWG for its review and recommendation. The AWG asked the IAC if it would be supportive of adding a minimum standard for when the overloan benefit is exercised automatically only, and the IAC stated that it wanted it for both. Based on the report from the IIPRC actuaries that the issue only came up on one or two filings and in those cases the company chose not to explain the reason for a low minimum percentage; the AWG's observation that setting a range could get into product pricing and that in general IIPRC standards do not include a specific range for items allowed to |

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| | | *IIPRC Office Comments/Observations:* The IIPRC Office noted that it believes there was one specific filing referenced anecdotally by the IAC and the minimum indebtedness percentage was well below the low 90% range. Since the Overloan Protection benefit was automatic, the actuary noted that the accumulation value could function normally for months or years before entering any Grace Period, so it did not appear the rider was functioning to protect the policy from lapsing. The Scope of these uniform standards states that the overloan protection benefit "prevents the policy from lapsing due to an excessive loan on the policy." The IIPRC Office reviews the ranges for reasonableness to assure that the product is providing the benefit outlined within the Scope of the Uniform Standards. | be variable, and the observation that different companies may need to have different ranges due to product design or administrative decisions, the AWG concluded, and the PSC agreed that it would not recommend any change to the current standard. |
| 3. | Limitations On Graded Death Benefits in the ADDITIONAL STANDARDS FOR GRADED DEATH BENEFIT FOR INDIVIDUAL WHOLE LIFE INSURANCE POLICIES *(Cross-Reference to IIPRC Office Report Clarification Item #10)* | *Regulator Comment:* The Oregon Insurance Division submitted comments requesting that the PSC discuss the following issues in reviewing the uniform standards for graded death benefits:<br><br>1. Preserve/improve a product standard that a single premium cannot exceed death benefits provided for non-accidents during the graded limited death benefit period.<br>2. Preserve/improve not allowing premium payments designs, other than a single premium, that cannot exceed the death benefit until after the graded death benefit period.<br>3. Preserve/improve not allowing continuing premium payments after paying 1.5 times the death | The PSC noted that the provisions in the current standards that limit reduced death benefits to the first three policy years and that require that the reduced death benefit never be less than the amount of premiums paid to the time of death with interest at the rate used to determine nonforfeiture values appear to address the first two issues. When asked how the third point could be addressed, a representative from the Oregon Department of Insurance suggested adding a standard to the Grade Death Benefit Standards that requires that premiums paid could not exceed 1.5 times the death benefit. The PSC noted that these standards are in addition to the Uniform Standards for Whole Life Insurance, but are not specific to small face amount and that the standards |

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| | | benefit provided.<br><br>*IIPRC Office Comments/Observations*: The IIPRC Office notes that the current uniform standards limit reduced death benefits to the first three policy years and that the standards require that the reduced death benefit never be less than the amount of premiums paid to the time of death with interest at the rate used to determine nonforfeiture values. | do not require rate filings for these products. Following further discussion, the PSC concluded that the existing standards adequately addressed concerns with graded death benefit products and they would not recommend further change. |