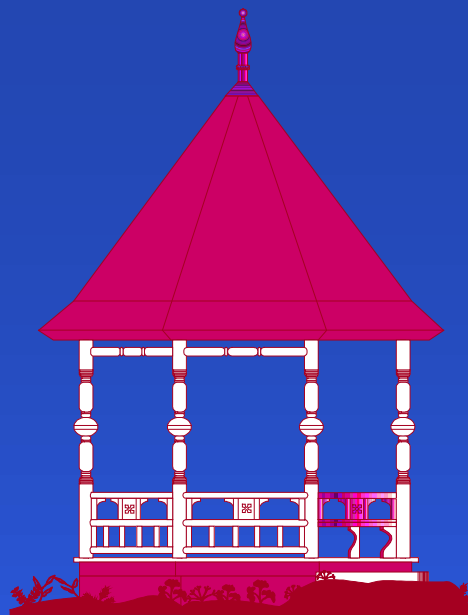


# Life & Annuity Disclosure (January 1997 & Beyond)

NALC Fall Conference, Cancun, Mexico

Thursday, October 17, 1996



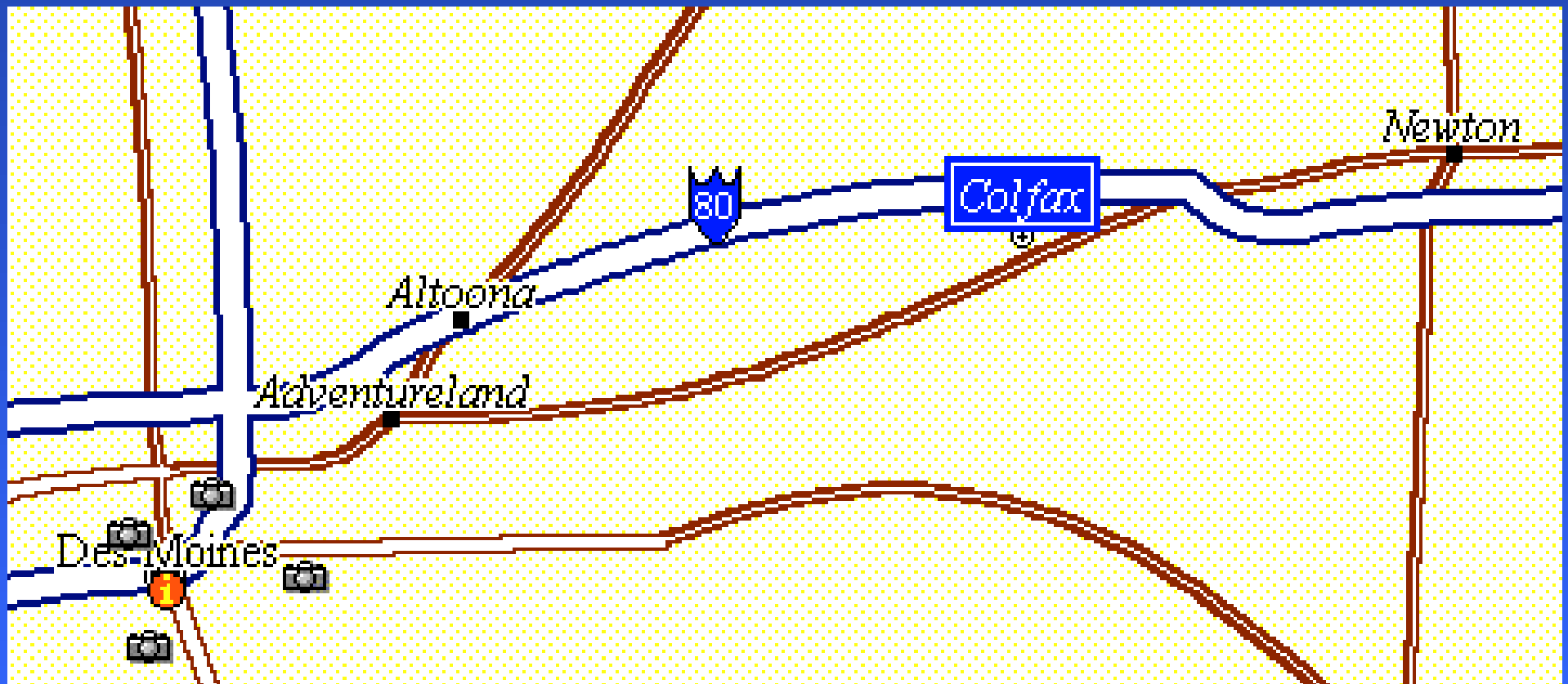
# Annuities & Other Miscellaneous Topics

James N. Van Elsen, FSA, CPA, FLMI, MAAA

Van Elsen Consulting

Colfax, Iowa

# Where is Colfax, Iowa? (for Jack)



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# Presentation Outline

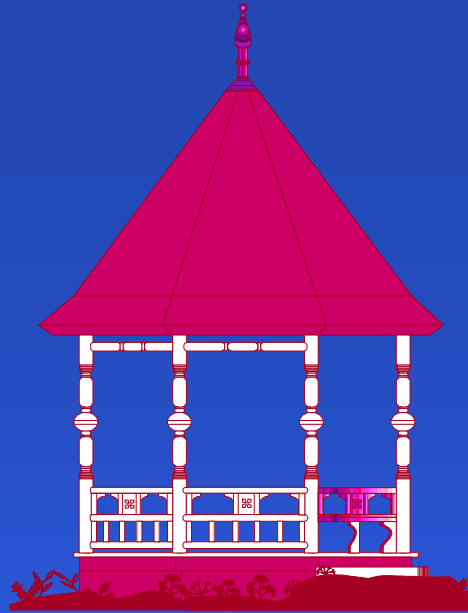
- What is an Annuity?
- First Proposal
- Latest Proposal
- Other Issues



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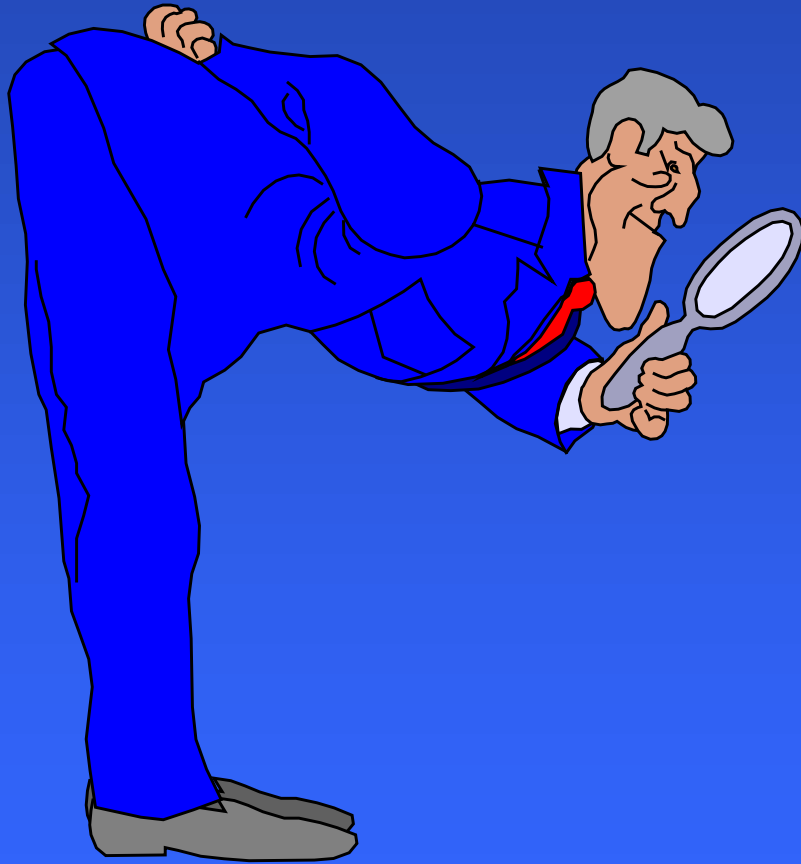
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What is an Annuity?

# A New Itty



“A financial product that provides a series of payments & contains a mortality risk.”



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# But . . .

## Excludes following:

- ▼ Structured settlements not involving life contingencies
- ▼ Products w/ lump sum only, fixed amount only or period certain only payouts
- ▼ Pre-need annuities

## Includes following:

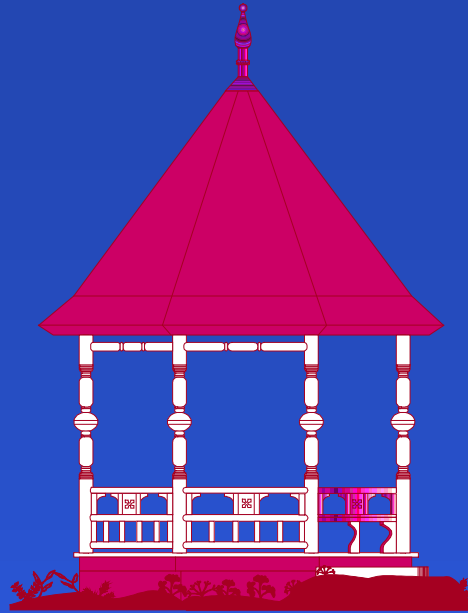
- ▼ Disability income
- ▼ Long-term care
- ▼ Life insurance
- ▼ Workers' compensation
- ▼ Many others



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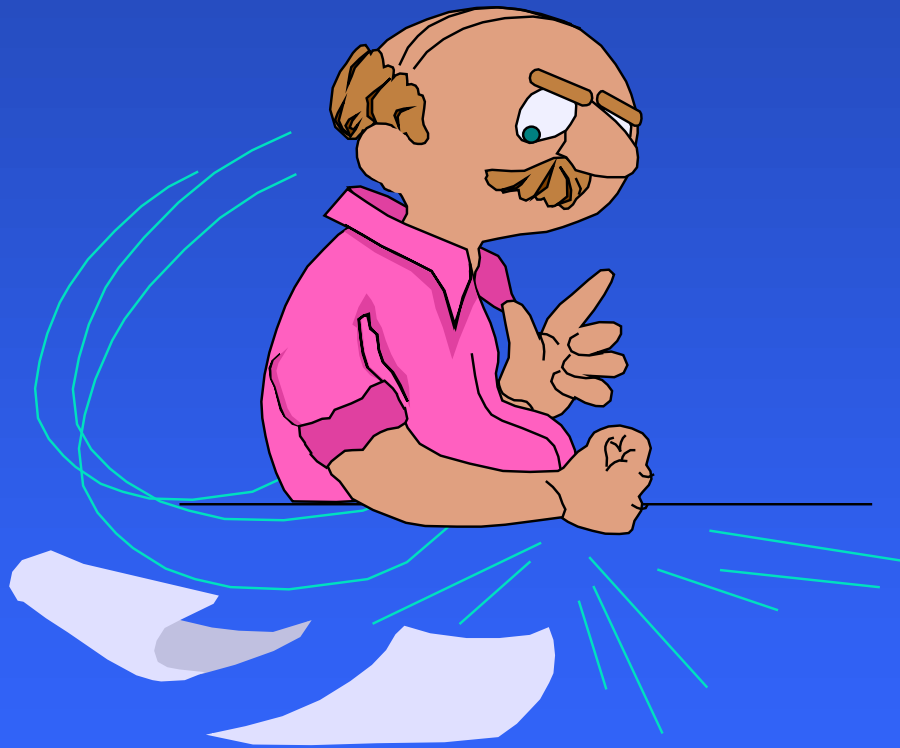
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# First Proposal



# Purpose



- Protect consumers from misleading illustrations
- Foster consumer education



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# Basic Rules for Illustration



- Clear identification
- Clear labeling of non-guaranteed elements
- Prohibition on the use of a “lapse-supported” illustration (not defined)

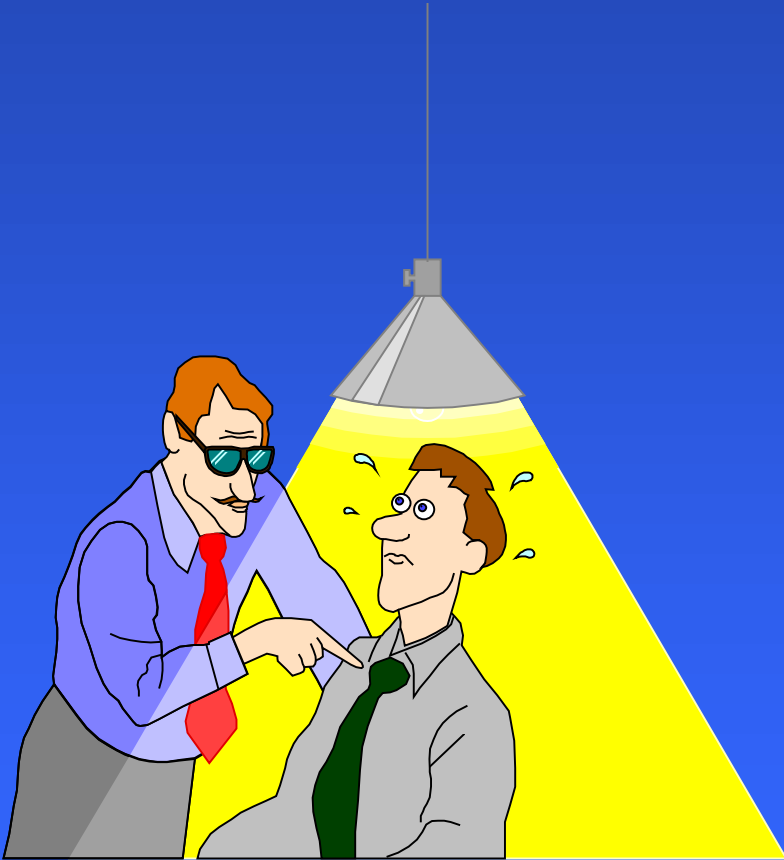


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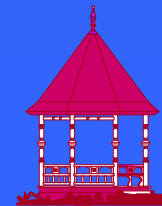
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# More Requirements



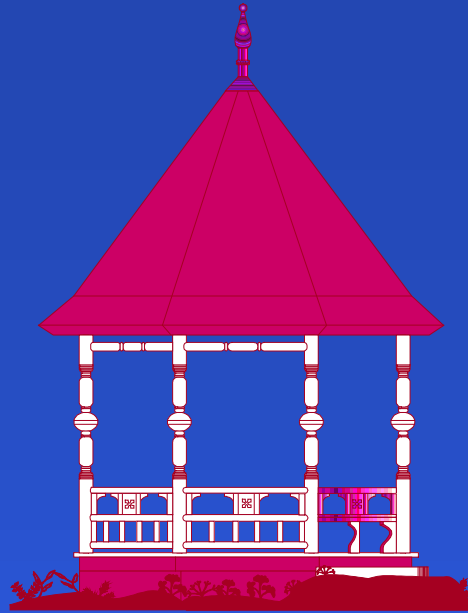
- Non-guaranteed elements shown are highly unlikely
- Long illustration horizon
- Signature & retention requirements
- Annual report w/ in-force illustration
- Actuarial certification



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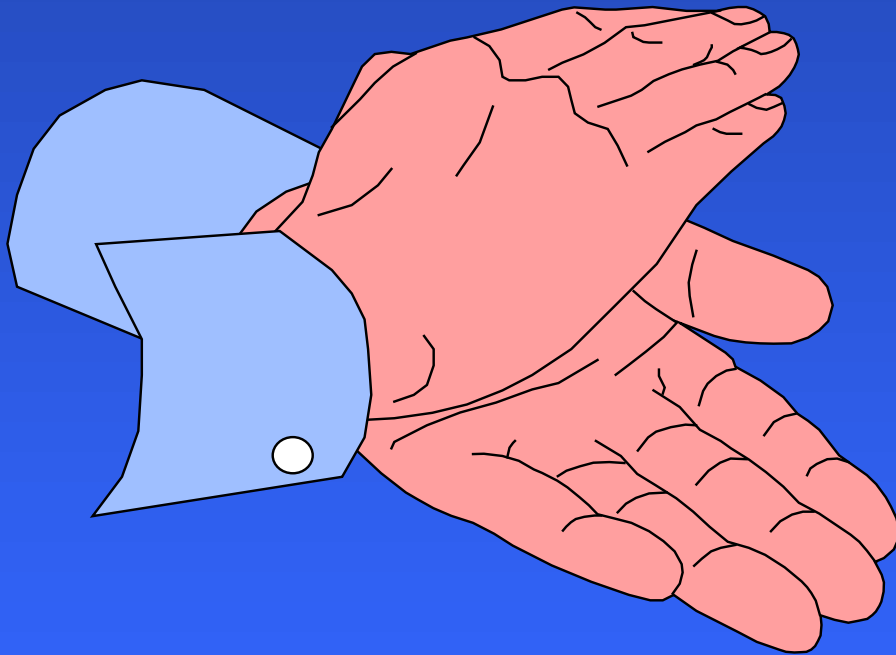
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# Latest Proposal

# New Proposal



- Annuity Disclosure Working Group of the American Academy of Actuaries' Committee on Life Insurance
- Barbara Lautzenheiser is spokesperson
- Requires disclosure document



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# Annuity Issues

Lack of understanding that:

- ▼ The product is an annuity
- ▼ There may be different renewal interest rates
- ▼ There may be restrictions on access to benefits
- ▼ There may be surrender and other charges
- ▼ There may be federal income tax impacts
- ▼ There may be other benefits



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# Scope

Disclosure document mandatory for all group & individual annuities except:

- ▼ Variable annuities or other registered products
- ▼ Fully guaranteed annuities
- ▼ Pension, ERISA, 401(a), 401(k) and 457
- ▼ Structured settlements



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# Goals

- Disclosure document should be understandable with minimal assistance from an agent
- Focus of the disclosure document must be consumer education



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# Contents of Disclosure Document

- Description of the product as:
  - An annuity
  - A long term contract
  - A product which has periodic income
- Company's name & address



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# Contents (continued)

- Interest rate(s)
  - Guaranteed rate(s) and their durations
  - Explanation of the current rate(s)
  - Explanation of how future rate(s) will apply
- Surrender charges
- Any other fees or charges



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# Contents (continued)

- How benefits can be accessed
- Description of death benefit features
- Explanation of federal income tax treatment

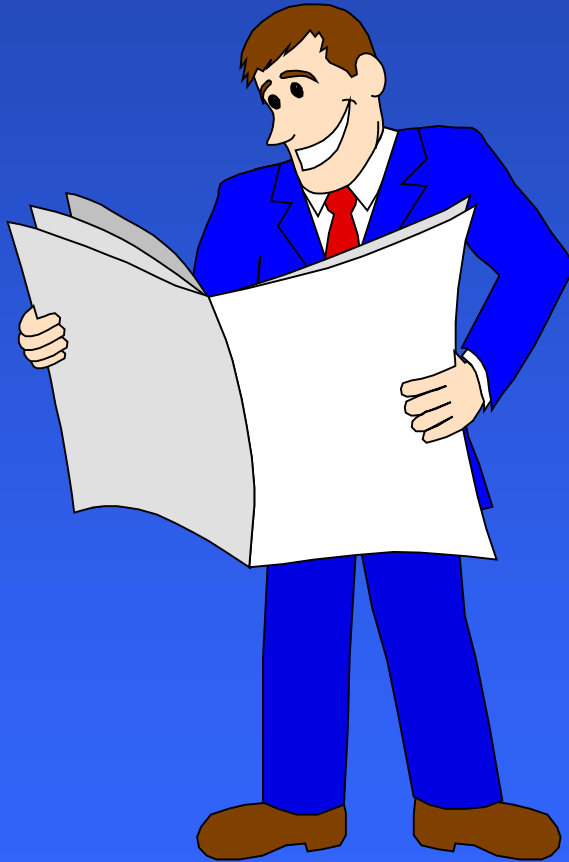


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# Annual Reports



- Must be provided annually
- At a minimum, shall provide actual values as of the date of the report



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# NAIC Working Group Discussion

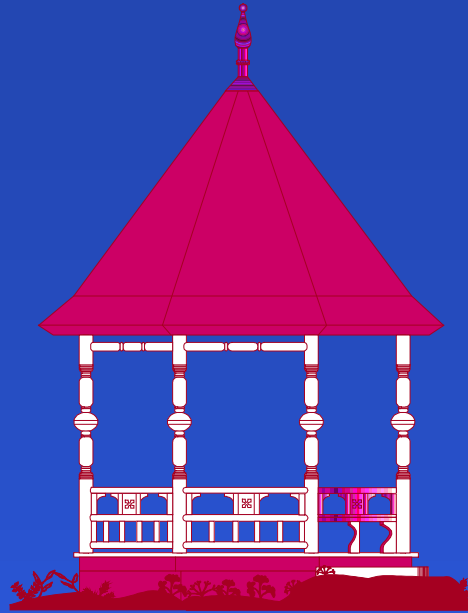
- Many minor suggestions, but agree with the concept
- Once standards are accepted, will begin drafting of new regulation
- Standards for illustrations, if used, still to be developed



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# Other Issues

# Regulator Concerns About Equity-Indexed Annuities

- Do consumers understand disclosures (sent to Life Disclosure Working Group)
- Reserve issues (sent to LHATF)
- Nonforfeiture issues (sent to LHATF)
- Non-NASD licensed agents selling the product
- Accounting issues
- Investment concerns

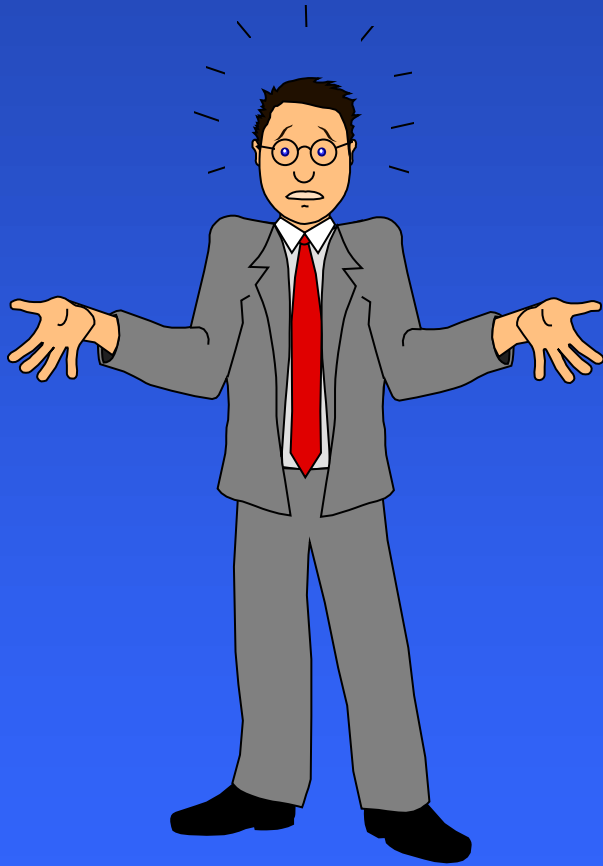


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# Equity-Indexed Universal Life



- What interest rate to illustrate?
- How to describe features
- Complications of flexible premium product
- May have external explanation of calculations w/ examples



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