

PROJECT HISTORY – 2006

MODIFIED GUARANTEED ANNUITY MODEL REGULATION (#255)

1. Project Description

In late 2003, the Life Insurance and Annuities (A) Committee asked the Life and Health Actuarial Task Force to review the following models and make a recommendation as to whether they should be amended, deleted, or left unchanged the Model Variable Annuity Regulation and the Interest-Indexed Annuity Contracts Model Regulation. At that time, the Task Force also undertook a review of the Modified Guaranteed Annuity Model Regulation because of the many similarities between it and the other models.

These amendments to this model are primarily designed to achieve consistency with the revisions to the Standard Nonforfeiture Law for Individual Deferred Annuities. In addition, the Task Force also looked at differences between the variable annuity regulation and the modified guaranteed annuity model and the current requirements pertaining to variable annuity products in the Interstate Compact Standards. The “Significant Issues Raised” section contains a list of some differences that were identified between the compact standards and this model.

2. Group Responsible for Drafting Model and States Participating

The 2005 members of the Life and Health Actuarial Task Force are: New Mexico (Chair), Minnesota (Vice-Chair), Alabama, Alaska, Arkansas, California, Connecticut, Florida, Kansas, Nebraska, New York, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Texas, Utah, and West Virginia.

3. General Description of Drafting Process

This project was discussed at several of the Task Force’s quarterly meeting between March 2004 and December 2005. In addition, the Task Force held one conference call on this topic during each quarter over that period, except the third quarter of 2004 and the first quarter of 2005. All quarterly meetings and conference calls were open to industry personnel. Notice of each conference call was posted on NAIC’s Web site and e-mailed to approximately 300 interested parties, including representatives of the American Council of Life Insurers (ACLI).

4. Significant Issues Raised

1. The Interstate Compact Standards Pertaining to variable annuities contain this requirement pertaining to contracts with “bail-out” provisions:

If the contract provides for a benefit waiving surrender charges contingent on a declared interest rate, the company shall provide a certification that the owner will be provided a timely notification when the declared interest rate declines to a point at which the waiver of surrender charge benefit is available.

The modified guaranteed annuity model contains no such provision. The Task Force concluded that this is more a disclosure issue than an actuarial matter, and therefore was beyond the scope of its assignment.

2. The Standards contain this requirement pertaining to actuarial certifications:

Certification by a member of the American Academy of Actuaries as to the compliance with Section 7 of the NAIC Model Variable Annuity Regulation, model #250.

The proposed changes to the model include a certification of compliance with the relevant nonforfeiture standards.

3. Section 3A(2) of the Standard Nonforfeiture Law for Individual Deferred Annuities contains this language: “The company may reserve the right to defer the payment of the cash surrender benefit for a period not to exceed six (6) months after demand therefor with surrender of the contract after making written request and receiving written approval of the commissioner. The request shall address the necessity and equitability to all policyholders of the deferral.” The proposed change to the MGA incorporates this language.

5. Implications of this Project for Accreditation and Codification

Portions of the model are included in Appendix A-255 of the NAIC Accounting Practices and Procedures Manual.