

Bulletin 33

**INDIVIDUAL DEFERRED ANNUITIES
[CLARIFICATION OF 760 IAC 1-20-1 TO 760 IAC 1-20-4]**

August 5, 1976

Several questions have been brought up concerning 760 IAC 1-20-1 to 760 IAC 1-20-4 on individual annuities. The purpose of this bulletin is to state the position of this Department in areas in which questions have most frequently arisen.

A. General

1. The Regulation applies to deferred annuities written as part of a split life arrangement.

B. The numbered items below refer to the items under 760 IAC 1-20-3.

1. The Department had considered permitting companies to charge a reasonable per payment collection fee which would not have to be included in calculations of guaranteed cash surrender values pursuant to 760 IAC 1-20-3. This Regulation has been approved and now has the force of law. As such we may only amend it through a subsequent regulation. Since 760 IAC 1-20-3 has caused numerous companies to make expensive changes in their policies, we feel it inappropriate to make any changes in the Regulation until it has had a reasonable period of time to be in effect.

There have been differing interpretations as to whether a fixed premium deferred annuity rider is subject to provision 760 IAC 1-20-3(a) or 760 IAC 1-20-3(b), since the wording of the Regulation is not entirely clear in this regard. The Department will allow such riders to be subject to 760 IAC 1-20-3(a).

2. The requirements for offering a paid-up deferred annuity will not prohibit the payment by the company of the cash value if the amount of paid-up deferred annuity is quite small (say, less than \$20 per month) and this procedure is stated in the contract.

4. No flexible premium deferred annuity rider may be attached to a life policy with premiums at early duration (e.g. the first or first and second policy years) which exceed premiums for later durations.

A level fixed premium annuity rider may be attached only at issue of the policy.

6. Regarding tables showing guaranteed cash surrender values and paid-up deferred annuity amounts on fixed annual payment deferred annuities,

a. If no retirement age is specified in the contract, age 65 will generally be considered the retirement age upon which the paid-up values are to be based.

b. If no settlement option mode is automatic, the 10 year certain the life option will generally be considered the mode upon which paid-up values are to be based.

A table of paid-up annuities available per \$1,000 of cash value at various retirement ages along with a table of cash surrender values at the end of each policy year will satisfy the requirements concerning tables of cash surrender values and paid-up deferred annuity amounts.

8. The format of the annual report need not be specified in the contract. If any dividends credited do not appear in the ending cash value, they should appear in distributions. "Earnings" referred to in 8d will generally be a balancing item (e.g. earnings = ending cash value + distributions - contributions - beginning cash value). Earnings is not simply interest credited but must show the net effect of interest, dividends, and loading.

Earnings must be specifically shown on the reports furnished to the policyholder, and such reports shall be furnished to all deferred annuity policyholders regardless of whether the contract provides for a fixed annual payment deferred annuity, flexible payment deferred annuity, single payment deferred annuity, or annuity deposit fund and regardless of whether the contract is qualified as an Individual Retirement Account.

H. P. Hudson
Insurance Commissioner