

This document represents assistance in completing the Supplemental Exhibit for Analysis of Annuity Operations by Line of Business and the Analysis of Increase in Annuity Reserves for year-end 2010 reporting period. This document was developed in order to answer questions insurers may have as a result of the adoption of the new supplement. This document was developed for assistance and has not been formally approved by the NAIC, or any of its committees, task forces or working groups.

## **"Q&A" with regards to the Supplemental Exhibit for Analysis of Annuity Operations by Line of Business and Analysis of Increase in Annuity Reserves**

### **General & Definitions Questions:**

**Fixed Annuity:** A fixed annuity is a policy or contract that has a specified crediting rate periodically and unilaterally adjusted by the company not below the minimum contract rate. Includes market value adjusted annuities.

**Other Annuity:** An annuity not included in the definition of fixed, variable, or equity indexed annuities.

**Variable Annuity:** A variable annuity is a policy or contract that provides for annuity benefits that vary according to the investment experience of a separate account or accounts maintained by the insurer as to the policy or contract.

**Indexed Annuity:** An indexed annuity is a policy or contract that is not a variable annuity and that contains a benefit in which the value of the benefit is determined using an interest crediting based on the performance of an index and contract parameters.

**Q 1:** There are Guaranteed Interest Contracts within group annuities which have specific crediting rates that are periodically and unilaterally adjusted by the company but generally do not have contractually explicit minimum interest rates or minimum crediting rates. For those guaranteed interest contracts that are not directly associated with a variable annuity and for which the minimum interest rate could be implicitly defined as “zero”, should they be reported as ‘Fixed Annuity’ or as “Other Annuity”?

**Answer:** Report as Fixed Annuity. While guaranteed interest contracts associated with group annuities generally do not have contractually explicit minimum interest rates or minimum crediting rates it is common practice that these contracts do not fall below contract or book value, thus giving them an implicit minimum crediting rate of “zero”. This plus the fact that these contracts have specific crediting rates that are periodically and unilaterally adjusted by the company would seem strong enough evidence that these contracts should be reflected in the “Fixed Annuities” column within the group annuity product line.

**Q 2:** When reading the definition of a “Fixed Annuity”, it is unclear whether Fixed Payout Annuities (i.e. those including life contingencies and those not involving life contingencies) fall under the scope of a Fixed Annuity (thus in the “Fixed Annuities” column), or not (thus in the “Other Annuities” column). The lack of clarity stems from the Fixed Annuity definition suggesting the presence of a “specified crediting rate” that is “periodically and unilaterally adjusted by the company”, which Fixed Payout Annuities do not have.

**Answer:** Report as Fixed Annuity. While Fixed Payout Annuities do not typically illustrate a “specified crediting rate” (unlike traditional Fixed Deferred Annuities), the annuity benefit payments of a Fixed Payout Annuity have an implicit crediting rate unilaterally determined by the Company. Also, while the crediting rates are not typically “adjusted”, we believe that the intent of the new “Fixed Annuities” column is to include any annuity product that has either a fixed crediting rate or fixed annuity benefit stream, and thus Payout Annuities will also be included in the “Fixed Annuities” column.

**Q 3.** If an Individual Variable Annuity product has components in a Fixed Annuity General Account fund and a Variable Annuity Separate Account fund, is the intention to include the Fixed Annuity General Account fund component in Column 4 - Variable Annuities General Account as opposed to Column 2 - Fixed Annuities or Column 5 - Variable Annuities Separate Account?

**Answer.** We believe that the Fixed Annuity General Account fund component should be included in Column 4 – Variable Annuities General Account, and the Variable Annuity Separate Account fund component should be in Column 5 – Variable Annuities Separate Account.

**Q 4.** Are all Variable Annuity products subject to VACARVM to be reported in the Variable Annuity columns?

**Answer.** Yes, all variable annuities subject to VACARVM should be in the Variable Annuity columns. Within those products, certain components will be reported in each of the General Account or Separate Account columns.

**Q 5.** What is included in the definition of “guarantees” in the footnotes at the bottom of the exhibits? Is it living benefit guarantees, death benefit guarantees, annuitization guarantees, interest rate guarantees (e.g. fixed rate option available on variable annuities), or all of the above?

**Answer.** Companies should follow the definitions in SSAP 56, which reads as follows: *“Represents an insurance company’s general account contractual obligation to reimburse life insurance and annuity policyholders for their separate account investment losses including the return of principal, minimum crediting rates, minimum death, withdrawal, accumulation or income benefits and no-lapse guarantees and for separate account mortality losses.”*

## **Analysis of Annuity Operations (2010-07)**

**Q.1** Clarification is needed on the split between VA General Account and VA Separate Account.

- Is the presumption correct that only the net transfer line needs to be mapped to the column and tie to the Green Blank?
- Is the intention of breaking out “variable annuity general account” versus “variable annuity separate account” within the schedule to use cash flow activity reported in the Annual Statement of Separate Accounts with an offset to the “Net transfers to or (from) separate accounts” line causing the “variable annuity separate account” column to net to \$0?

**Answer:** For 2010: Include in Columns 5 and 10 ONLY the lines in SA04 Green Blank Summary of Operations which contribute to the Net Transfers Line 26 of the Blue Blank. The lines in SA04 would map directly to the appropriate lines in the New Supplement for Analysis of Annuity Operations and Columns 5 and 10 would have a zero Net Gain from Operations.

This appears consistent with the 4<sup>th</sup> Paragraph of the Instructions submitted with the proposal.

**Q 2:** Line 34 Inforce End of Year – Basis is Policy Count for Individual Annuities – How should VA inforce be allocated when policies have money invested in both the SA and GA?

**Answer:** For all variable annuity contracts, report in columns 5 and 10, and leave columns 4 and 9 blank.

**Q 3:** Should the MVA reserves really be recorded in the “fixed annuity” column of the “*Analysis of Increase in Annuity Reserves during the Year*” for Life & Health companies to match how they are treated “*Analysis of Annuity Operations by Line of Business*” for Life & Health companies?

**Answer:** Market value adjusted contracts should be recorded in the “fixed annuity” column of the “*Analysis of Increase in Annuity Reserves during the Year*” for Life & Health companies.

#### **Analysis of Increase in Annuity Reserves (2010-07)**

**Q 1:** Clarification is needed on split between VA General Account and VA Separate Account.

- Are Net Transfers suppose to be allocated to the VA SA Columns in a similar manner as specified in the instructions of the Analysis of Annuity Operations by LOB Supplement?

**Answer:** Columns 5 and 10 should have a zero starting and ending reserve. The only items in these columns should be the items, which contribute to the Net Transfers (Line 13 of this new Supplement) and map directly from the Green Blank.

**Q 2:** Footnote- Clarification on definition of Variable Annuities “not associated with guarantees” and “associated with guarantees.” Does any return of premium death benefit include a guarantee?

**Answer:** Companies should follow the definitions in SSAP 56, which reads as follows: “*Represents an insurance company’s general account contractual obligation to reimburse life insurance and annuity policyholders for their separate account investment losses including the return of principal, minimum crediting rates, minimum death, withdrawal, accumulation or income benefits and no-lapse guarantees and for separate account mortality losses*”.