

Draft: 6/15/17

Life Insurance and Annuities (A) Committee
Conference Call
May 19, 2017

The Life Insurance and Annuities (A) Committee met via conference call May 19, 2017. The following Committee members participated: Bruce R. Rame, Chair, and Matthew Holman (NE); Dean L. Cameron, Vice Chair, and Donna Daniel (ID) Jim L. Ridling represented by Steven Ostlund (AL); Dave Jones represented by Perry Kupferman (CA); Stephen C. Taylor represented by Philip Barlow (DC); David Altmaier represented by Eric Johnson (FL); Doug Ommen and Mike Yanacheak (IA); Ralph T. Hudgens represented by Justin Durrance (GA); James J. Donelon represented by Corey Harvey and Tom Travis (LA); Mike Rothman represented by Fred Andersen (MN); Jon Godfread represented by Jeff Ubben (ND); Maria T. Vullo represented by Mark McLeod (NY); Jillian Froment and Michelle Rafeld (OH); Elizabeth Kelleher Dwyer represented by Matthew Gendron and Sarah Neal (RI); and Julie Mix McPeak represented by Kaycee Wolf and Michael Humphreys (TN). Also participating were: James Regalbuto (NJ); and Mike Boerner (TX).

1. Adopted its Spring National Meeting Minutes

Director Cameron made a motion, seconded by Commissioner Ommen, to adopt the Committee's April 9 minutes (*see NAIC Proceedings – Spring 2017, Life Insurance and Annuities (A) Committee*). The motion passed unanimously.

2. Adopted Valuation Manual Amendments

Mr. Boerner said the Life Actuarial (A) Task Force adopted nine *Valuation Manual* (VM) amendments for the Committee to consider. He explained that most of the amendments make technical improvements and language clarifications. For example, one amendment updates the link to the mortality improvement factors on the Society of Actuaries (SOA) website in VM-20, Requirements for Principle-Based Reserves for Life Products, Section 9C(3)(g). Another amendment removes tables from VM-20 Appendix 2 and places them on the "Related Documents" tab of the Life Actuarial (A) Task Force web page to avoid the need to publish a new VM whenever the tables are updated. Mr. Boerner said another amendment makes VM-51, Experience Reporting Forms, Appendix 4 and Appendix 6 consistent with information gathered from the New York State Department of Financial Services and Kansas Insurance Department's 2017 data call.

Mr. Johnson made a motion, seconded by Mr. Andersen, to adopt the VM amendments (Attachment ?). The motion passed unanimously.

5. Adopted Request for NAIC Model Law Development – Model #245

Mr. Yanacheak said the Annuity Disclosure (A) Working Group met via conference call on April 13 and continued to discuss its charge to review and revise, as necessary, Section 6—Standards for Illustrations in the *Annuity Disclosure Model Regulation* (#245) to take into account disclosures necessary to inform consumers in light of the innovations in products currently in the marketplace. He said the Working Group has identified two issues: 1) issues with illustrating participating income annuities because of the formula used to calculate the dividend scale; and 2) issues surrounding the inability to illustrate indexes on fixed-indexed annuities that have not been in existence for the previous 10 years.

Mr. Yanacheak explained that the Working Group has heard presentations on both of these issues, including the pros and cons of allowing illustrations in either scenario. He said that although the Working Group is still in the process of discussing and working through how best to address the issues identified, the Working Group voted to refer to this Committee, for its consideration, a Request for NAIC Model Law Development to revise Model #245, Section 6, to address issues identified by the Working Group related to innovations of annuity products that are not addressed, or addressed adequately, in the current standards.

Mr. Gendron made a motion, seconded by Mr. Johnson, to adopt the Request for NAIC Model Law Development for Model #245 (Attachment ?). The motion passed unanimously.

6. Provided Direction to the Life Insurance Buyer's Guide (A) Working Group

Director Ramage explained that, at the Spring National Meeting, the Committee adopted a Request for NAIC Model Law Development to remove the *Life Insurance Buyer's Guide* (Buyer's Guide) as an appendix to the *Life Insurance Disclosure Model Regulation* (#580), and create a stand-alone Buyer's Guide. He said, in addition, the Life Insurance Buyer's Guide (A) Working Group asked for direction from the Committee to help propel work on the Buyer's Guide. Specifically, the Working Group asked: 1) whether the Working Group should continue to work on a Word document with possible internal hyperlinks or focus on a web page/application design; and 2) whether the Buyer's Guide should address additional topics, such as replacements, long-term care (LTC) riders and accelerated death benefits riders.

Director Ramage said he would like to provide guidance to the Working Group as soon as possible and proposed the following for the Committee to consider: The Working Group should focus on providing a basic overview of life insurance such that first-time consumers have enough information to ask questions to obtain more detailed information. In this way, the Buyer's Guide can be shorter, making it more likely to be read. He said the Buyer's Guide could indicate the existence of additional products—such as replacements, LTC riders and accelerated death benefits riders—but not try to address them at length. Director Ramage explained that, in his experience, more sophisticated consumers will want different information and he suggested putting the more complicated topics aside for further consideration. Director Ramage suggested that, in keeping with a Buyer's Guide that focuses on a basic overview, the Working Group should first focus on a Buyer's Guide that can be printed out, as well as accessed in an electronic form. He said if the Working Group wants to create a document that contains internal hyperlinks, so when it is accessed online, consumers can jump to information that most interests them, that is fine, but there is still a need for a Buyer's Guide document that can be printed. Director Ramage explained that once the Working Group completes a basic Buyer's Guide, the Working Group would be free, if it wanted to, to pursue the topics that were set aside, if directed by this Committee.

Commissioner Ommen asked Ms. Mealer, who chairs the Life Insurance Buyer's Guide (A) Working Group, to summarize some of the discussions and difficulties precipitating the need for direction from the Committee. Ms. Mealer explained that the Working Group had encountered differing views on everything from whether a Buyer's Guide is necessary at all to whether it should be an electronic-only resource, with no print version. There were also differing views on the topics that should be covered in the Buyer's Guide, ranging from keeping things basic, to creating a comprehensive guide that addresses all the options and variations that may be available.

Birny Birnbaum (Center for Economic Justice—CEJ) said there needs to be a guide that meets people where they are and matches what producers are saying when they market products to consumers. He said if producers are telling consumers that life insurance is a retirement tool, or a way to fund LTC, the Buyer's Guide needs to address those issues in some way. Mr. Birnbaum said he liked the idea of linking the Buyer's Guide to resources on the NAIC website, like Insure U, where consumers could take a deeper dive into certain more complex issues and products. Mr. Birnbaum reiterated that the proposed outline he provided the Working Group did not contemplate including everything in the Buyer's Guide. He said consumers were unlikely to read the Buyer's Guide in the past, and a paper booklet is no longer the way people seek information. He explained that consumers are now on their computers and mobile devices. He said the existing Buyer's Guide came from a more simple time and now products are much more complex. He explained that the complexity in the industry necessitates a Buyer's Guide that can be more of a tool to guide consumers through the decision-making process. He said creating an electronic Buyer's Guide would also allow more efficient methods of delivery and compliance. It is for these reasons, said Mr. Birnbaum, that the Working Group should do the following: 1) focus primarily on developing an electronic tool that allows for a "decision tree" format and could be available in printed form when needed; 2) create a Buyer's Guide that reflects the current landscape of products and options; and 3) ensure that insurers are able to easily comply with the delivery requirement for whatever is developed.

Director Cameron said the Buyer's Guide used to provide important information to consumers, but it was usually provided after a policy was purchased. He said in order to be useful, consumers have to read it, and if it is too verbose, it just becomes another piece of paper consumers do not read. Director Ramage said there are free-look periods that give consumers additional time to do research and review the Buyer's Guide. Director Ommen agreed that if the Buyer's Guide is too long, consumers will not read it. He said it needs to be useful to consumers and a useful tool for producers to use to explain the basics.

Ms. Cude said there is a tension between creating a comprehensive guide and making sure it is useful for consumers. She said the electronic format allows more information to be included because it is not available all at one time, and is less overwhelming than if the same information were provided in a booklet. Ms. Cude suggested focusing on an electronic tool

and also creating a more streamlined printable version. Director Ommen said the Buyer's Guide should be short and tailored to address more typical issues and could include a reference to other resources to get additional information.

Director Ramge said, based on the discussion, his revised proposed guidance to the Working Group is to develop a simplified, basic educational tool, available in printed format, but includes ways to expand the scope of the document through hyperlinks or other electronic means. He said in order to balance the need to create a usable tool for most consumers against the desire to provide useful information for those interested in more sophisticated products, the NAIC website or Insure U website could be the ultimate destination for the more detailed information consumers may be looking for. Director Ramge said most insurance transactions involve a producer and, at a certain point, the transaction starts to get more complicated, with insurers having differing products with differing options and professional help to sort through require a producer's assistance. Michael Lovendusky (American Council of Life Insurers—ACLI) agreed with exploring having the NAIC as the destination for information on more sophisticated products. He suggested that there could be a simultaneous development of a short version and a web-based tool on the NAIC website. He suggested that an outline could be developed that identifies which location the information belongs.

7. Received an Update from the Promoting Appropriate Sales Practices in Life Insurance and Annuities (A) Working Group

Ms. Rafeld said the Promoting Appropriate Sales Practices in Life Insurance and Annuities met via conference call on May 11. The Working Group agreed to send a draft survey to NAIC members to assist the Working Group in determining whether the *Model Regulation on the Use of Senior-Specific Certifications and Professional Designations in the Sale of Life Insurance and Annuities* (#278) requires revising. The survey was emailed to NAIC members on May 17 and responses have been requested by June 30. Gary Sanders (National Association of Insurance and Financial Advisors—NAIFA) said he had emailed a comment letter on May 12 reiterating his concerns regarding the decision made by the Working Group to not request, as part of the survey, that the states provide the number of complaints received, if any. He said the survey asks whether a state has received complaints that involve the misuse of senior-specific certifications/designations without also asking states to provide the number of complaints received, if any. He said this risks doing harm to the credibility, validity and usefulness of the survey results.

Ms. Rafeld said the Working Group heard Mr. Sanders' concerns on the May 11 call, and, at that time, explained that the survey does not ask for complaint numbers because of the degree of difficulty required to search for complaints to this level of specificity. She explained that the Working Group did not agree that complaint numbers were a prerequisite to getting an answer to the question at issue; i.e., whether the states have the necessary regulatory tools in place to address the misuse of certifications and professional designations. Director Ramge said the Working Group could always follow-up on the survey if additional clarification is needed.

8. Discussed Issues with the Life Insurance Policy Locator Service

Mr. Regalbuto said he wanted to bring to the attention of the Committee some issues he had learned about the Life Insurance Policy Locator Service. He explained that New York was looking to merge its system with the NAIC system and had learned that the NAIC system does not include sufficient safeguards against frivolous inquiries. Director Ramge said he would make sure that Lois Alexander (NAIC) is aware of the issues. He explained that the NAIC is interested in receiving feedback on the service and keeping track of issues as they arise so that necessary adjustments can be made. Ms. Cude asked whether the NAIC has any data on how often the Life Insurance Policy Locator Service has been used for annuities. Director Ramge said he would ask Ms. Alexander for that information and will provide an update on the Life Insurance Policy Locator Service the next time the Committee meets.

Having no further business, the Life Insurance and Annuities (A) Committee adjourned.

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