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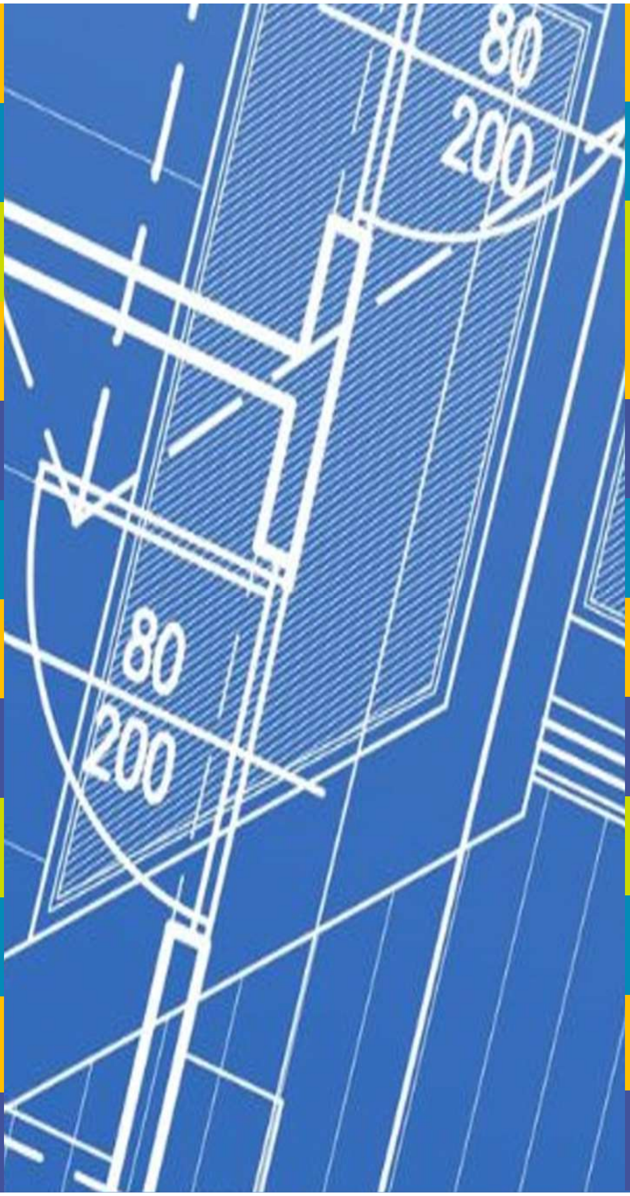
2024 CFTC

Overview of Life Insurance Company Products

#strongfoundation #cftc24

The Compliance & Ethics Forum for Life Insurers



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AGENDA

- Protection & Parties
- How it Works
- Life Products
- Annuity Products
- Common Provisions
- Pricing (Life Insurance)
- Payments (Claims)
- Riders
- Compliance Considerations

Protection & Parties

Insurance for Risk Management

- Automobile damage.
- Property damage.
- An incurred liability.
- **A premature death.**
- A travel interruption.
- A business interruption.
- Health-related expenses.
- Dental and vision expenses.
- **Outliving one's income.**
- Loss of earning potential.
- *And more!*

Insurance can help you preserve your current or future assets

The Parties

- **Insurer.** The company promising to pay benefits under the policy/contract.
- **Applicant.** The person who applied for the policy or contract. That person is commonly also the owner and/or the insured/annuitant.
- **Owner.** The person who owns/controls the policy or contract. The owner typically:
  - Has all rights under the policy or contract while the insured is living (such as naming the beneficiary, taking loans or withdrawals, increasing or decreasing coverage, adding or eliminating riders, surrendering the contract, etc.).
  - Receives policy or contract communications from the insurer.
  - Is responsible for managing the policy including payment of premiums.
  - Can assign ownership to someone else.

The Parties

- **Insured (Life).** The person whose death results in a request for the payment of the policy's death benefit. Most commonly, the owner is also the insured.
  - *<u>Insurable Interest</u> A required relationship between the owner and the insured at the time of purchase. Defined by state law, typically includes close family, key business, charity. Not a stranger (STOLI).*
- **Annuitant (Annuity).** The measuring life for lifetime payments. The Annuitant must be a 'natural person.' The Annuitant does not need to be the Owner. The Annuitant may or may not be entitled to receive payments.
- **Beneficiary.** The person(s) who will receive payment after the death of the Insured. The owner is commonly also the beneficiary IF the owner is not the insured. Tax issues may result if the Owner, Insured and Beneficiary are 3 different parties (Goodman Rule).

How it Works

Life Insurance

Life insurance allows the policy owner to transfer financial risk due to premature death to a life insurance company.

Example

- A death occurs.
- Future earned income, retirement assets, childcare, college funding, mortgage payments, etc. are impacted.
- The policy's death benefit helps cover these types of financial losses.

How It Works –Life Insurance

- The life insurance company issues a policy to an owner that will pay a death benefit if the insured dies while the policy is in force. Life insurance helps individuals prepare for their death.
- The death benefit is paid to a beneficiary.
    - The policy must be in force at the time of the insured's death. A policy remains in force during the grace period.
    - The premiums must be paid timely, or the policy will enter the grace period and lapse at the end of the grace period. No benefit is paid after lapse.
    - The owner must have an insurable interest in the insured's life at the time of purchase.

How It Works – Life Insurance

- Life insurance product design & premium/cash value limits must adhere to state laws *and* IRC 7702 rules to qualify as "life insurance."
- Modified Endowment Contract: subset of life insurance contracts funded beyond IRC 7702A premium limits – lifetime withdrawals (including loans + interest) have income-first taxation and a penalty may apply.
- Qualified life insurance proceeds usually pass to a named beneficiary (including "the estate") without income taxation.
- Separately, federal and/or state estate taxes may apply regardless of who is named as beneficiary, based on the size of the owner's estate.

Annuities

- An annuity allows the owner to transfer the risk of outliving one's financial assets to the life insurance company.
- Example
  - If you live too long, you risk depleting your retirement savings.
  - A lifetime income annuity creates an income stream you cannot outlive.
  - The income stream helps manage the financial risk of living longer than anticipated.

How It Works –Annuity Products

- The life insurance company issues an annuity contract to the owner.
- Payments are made to the owner (before the owner's death) or the named (designated) beneficiary (after the owner's death). Annuities, generally, help owners prepare for retirement.
- Annuities are often purchased to establish an immediate or deferred income stream as part of a retirement planning strategy or to support a disabled child.

How It Works –Annuity Products

Common annuitization (payout) options include:

- Lifetime payments over the life of the annuitant (the measuring life).
- Joint Annuity (Joint and Survivor Annuity) pays out for the remainder of two lives. Upon the death of the first person, payments continue to the second person.
- Period Certain provides payments for a set time period (such as 10 years) or until the annuitant's death, if sooner.
- Life Annuity with Period Certain provides payments for a set time period (such as 10 years) at a minimum, longer if the annuitant lives longer than the period certain. If the annuitant dies during the period certain, the remainder of the payments go to the designated beneficiary.

How It Works –Annuity Products

- Annuities offer tax advantages. They offer tax-deferred internal build up/growth of contract values.
- Annuity payouts/benefits are generally taxable, and an 10% additional tax may apply to withdrawals made prior to age 59½ unless an exception applies.
- Annuity contracts are subject to Internal Revenue Code (IRC) requirements.
- An annuity must meet additional IRC requirements if it is used as the funding vehicle for an IRA or a Roth IRA.
- A change of ownership can result in the taxation of the product or its benefits.

How It Works –Annuity Products

- Most deferred annuity owners do not annuitize. Instead, many owners take periodic withdrawals from their annuity product.
- Annuity values may be paid to the owner while the owner is alive.
- After the owner's death, payments are made to the named beneficiary ***if additional payments are due***.

How It Works –Annuity Products

- A deferred annuity is focused on the accumulation, or growth, phase.
- Annuity payment options are flexible. Payments can be made in the form of a lump sum or via a series of smaller, regular payments over time.
- Deferred annuities offer tax deferred growth and the flexibility to set up a stream of income at a future date (at least a year after contract issue).

HOW IT WORKS –ANNUITY PRODUCTS

- An immediate annuity is focused on annuitization of values; the payout phase.
- Typically, a lump sum payment of premium is made (not a stream of payments/premiums) by the owner.
- The insurance company pays a stream of income to the owner beginning when the contract is issued or within a year of the contract being issued.

Products:
Life Insurance
Common Types of Policies

Life Insurance Products

Term	Whole Life	Universal Life	Indexed Life	Variable Life
Set number of years (or until a certain age). Some contracts may renew at a higher premium rate. Defined death benefit; could change over time. Typically, no cash value. Typically, no loans. A conversion is an option available with most policies.	Covers the life of the insured if all required premiums are paid. Older policies may mature at a specified age, such as 100. Premium rates are typically guaranteed and do not increase. Has a guaranteed cash value; allows loans (which may cause the policy to lapse). There is a nonforfeiture option in the event the contract lapses with value (CV or Paid-Up).	May cover the life of the insured if managed by the owner to do so. No set premium (owner must manage the amount paid to cover at least the cost of insurance and administrative costs). The cash values may rise, and fall, based on the amount of premium paid, interest rates, expenses and fees, etc. The guaranteed minimum interest rate and maximum charges are based on contractual terms.	Universal life benefits with some variation: The cash value depends on the performance of a specified index, the fees and expenses associated with the policy and the amount of premium paid. The fees and expenses may be higher than those of a Universal Life insurance policy.	The cash value depends on the fees and expenses, the performance of the subaccounts and on the amount of premium paid. The fees and expenses may be higher than those of an Indexed Life insurance policy. It is a securities product. The contract can lose value (negative returns). There is no guaranteed or minimum return except possibly in a fixed account.

LIFE INSURANCE PRODUCTS

- Some companies offer more complex products as well, such as Life/Long-Term Care Combo products where the benefit can be used during life to pay qualified LTC costs, and the remaining benefits (if any) are paid as a death benefit.
- For more information regarding life insurance products the NAIC offers a consumer Life Insurance Buyer's Guide.

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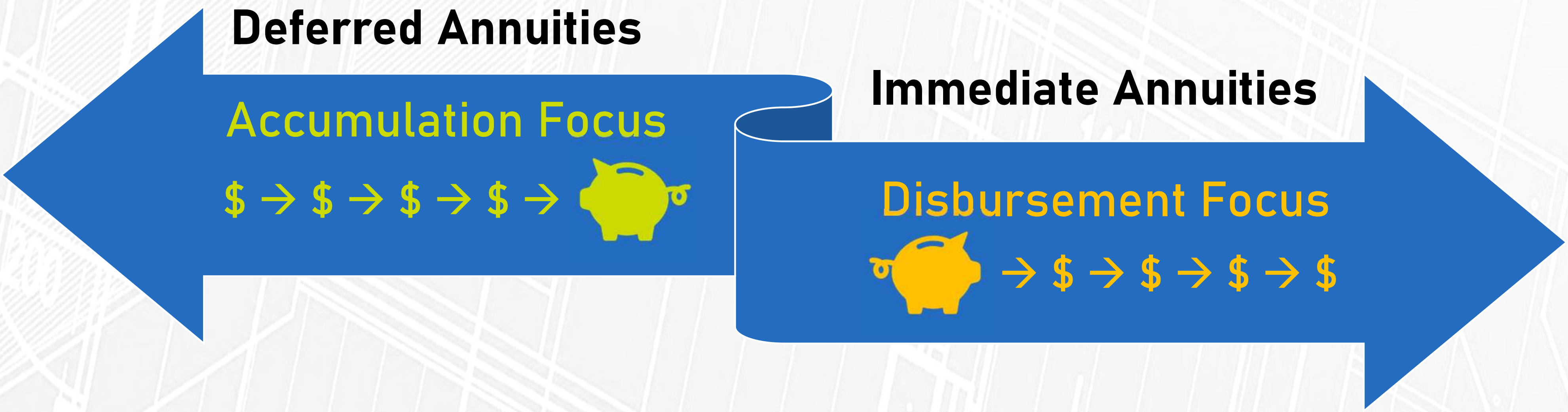
Products: Annuity Contracts

Common Types of Contracts

Categories of Annuity Products



Immediate Annuity Products

SPIA	DIA
Single Premium Immediate Annuity (SPIA) • Creates an immediate income stream. • Payments typically commence within 12 months of the contract being issued). • Can be established with a lump sum or a series of payments but typically the former.	**Deferred Income Annuity (DIA)*** • Creates a deferred income stream. • Payments typically commence >12 months after the contract is issued. • Can be established with a lump sum or with a series of payments. * *Also known as a "longevity annuity"*

Deferred Annuity Products

Fixed	MYGA	Fixed Indexed	RILA	Variable
Fixed current rate of return. Guaranteed rate of return. The rates may not keep up with inflation.	A Multi-Year Guaranteed Annuity offers a guaranteed fixed rate for a period of years (e.g., 1, 3, 5, 7, 10).	The contract fees and expenses may be higher than a fixed annuity product. The product's rate of return depends on the performance of a specified index. Protects from negative returns. Positive returns are subject to a "cap" (determined by the insurance company).	A RILA is a Registered Index-Linked Annuity. The annuity's performance is linked to a stock market index. Allows the owner to set the maximum loss for the contract. While losses are limited, gains are capped. It is a securities product.	The contract fees and expenses may be higher than an indexed annuity. The account value will depend on the performance of the subaccounts, on the fees and expenses and on the premiums paid. It is a securities product. The contract can lose value (negative returns). There is no guaranteed rate of return. Death benefit may vary.

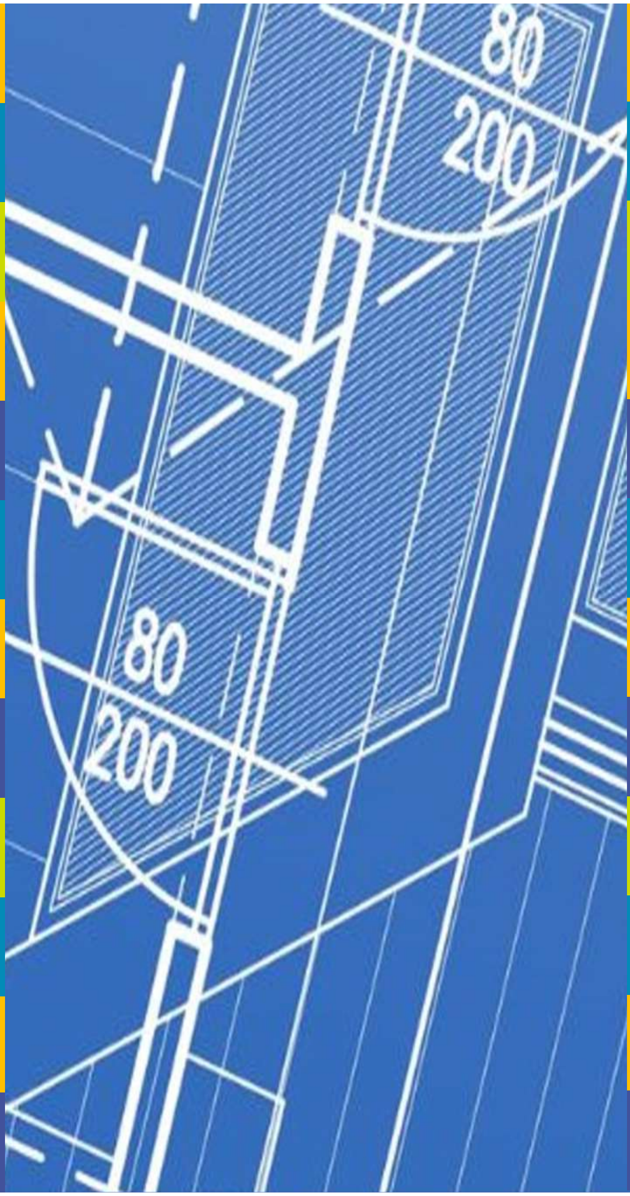
Annuity Products

For more information regarding deferred annuity products, the NAIC offers the following consumer **Buyer's Guides**

- Buyer's Guide for Deferred Annuities – Fixed
- Buyer's Guide for Deferred Annuities

Common Provisions

Life Insurance & Annuities



The Provisions

Contract/Policy

Elements of the Contract/Policy include…

- The Base Contract/Policy;
- The Application;
- Any Amendments;
- Any Riders;
- Any Endorsements;
- Articles and Bylaws (fraternal benefits societies).

The Provisions

- These are legal documents that must be carefully drafted and filed with and approved by state insurance regulators and/or the IIPRC (Interstate Insurance Product Regulation Commission) before use.
- The Contract between the insurer and the Owner controls the relationship. Everything else (illustrations, statements, prospectuses, admin. systems, marketing materials, procedures, etc.) must follow & match the Contract.

Common Provisions – Life Insurance

The basic provisions do not change after issue, but the policy may allow the Owner to revise to some features*:

- Death Benefit
- Cash Value or Contract Value schedule
- *Premium schedule
- Free-look period
- Contestable period
- Suicide clause
- *Beneficiary provision
- *Assignment of Ownership
- Exclusions (dangerous hobbies, war, foreign travel, aviation, etc.)
- Misstatement of age, sex or smoker status

Common Provisions -Life Insurance

- Settlement options
- Any guaranteed rate
- Coverage period
- Loan terms and rates
- Withdrawal options
- Dividend options (if applicable)
- Grace period
- Reinstatement period
- Lapse provision
- Claims process
- Non-forfeiture benefits/values
- Maturity date
- Conversion period
- Surrender options

Common Provisions – Annuities

The provisions do not change after issue:

- Free-look period
- Assignment
- Beneficiary provision (the beneficiary can change after issue)
- Information regarding the index options (if applicable) and the fixed account
- Death Benefit
- Fees and charges
- Partial or full withdrawal options
- Tax qualifications
- Annuitization options
- Any guaranteed rate
- Surrender schedule

Common Provisions – Life & Annuities

For more information regarding life insurance policy and annuity contract requirements, the **Interstate Insurance Product Regulation Commission (IIPRC)** offers numerous resources on their website.

PRICING

(LIFE INSURANCE)

TYPES OF UNDERWRITING

Fully underwritten.

- Insurers review medical, prescription, financial and DMV records
- May require a paramedical examination and/or lab work
- May involve modified or accelerated underwriting
- May use algorithmic underwriting

Simplified Issue.

- Minimal or accelerated underwriting

Guaranteed Issue.

- Just like it sounds . . . no underwriting

Determining the Premium

Insured's underwriting class.

- Health, age, sex/unisex, hobbies
- Some items that can't be considered

Policy term.

- Coverage Period
- Length of guaranteed rates

Death Benefit amount.

Non-discriminatory.

- Table based
- Filed with regulators
- Supported by experience
- Everyone is the same.

PAYMENTS (*CLAIMS*)

Payments – Life Claims

When are claims payable?

- **Individual Insured.** Death benefit is payable upon the death of the insured.
- **Survivorship or Second to Die.** Death benefit is paid on the second of two insureds to die. Used for spouses and in business (partnership) context.
- **First to Die.** Death benefit is paid on the first of two insureds to die.

Payments – Life Claims

Processing Considerations

Proof of death.

- Death Certificate
- Sometimes, additional documentation
- Medical records/reports
- Police reports
- Claim Form with selected Payout Option
- Verified Beneficiary and bank account information

Contestability and Exclusions, E.G.:

- Suicide (2 years in most cases, 1 year in some states)
- Fraud in Procurement (e.g. omitted key health information in application)
- Insurable Interest (if owner did not have insurable relationship with insured at issue)

Payments – Life Claims

Unclaimed Death Benefits

Determine if a claim is payable.

Attempt to find the beneficiary/beneficiaries.

Escheat funds to the state following the dormancy period.

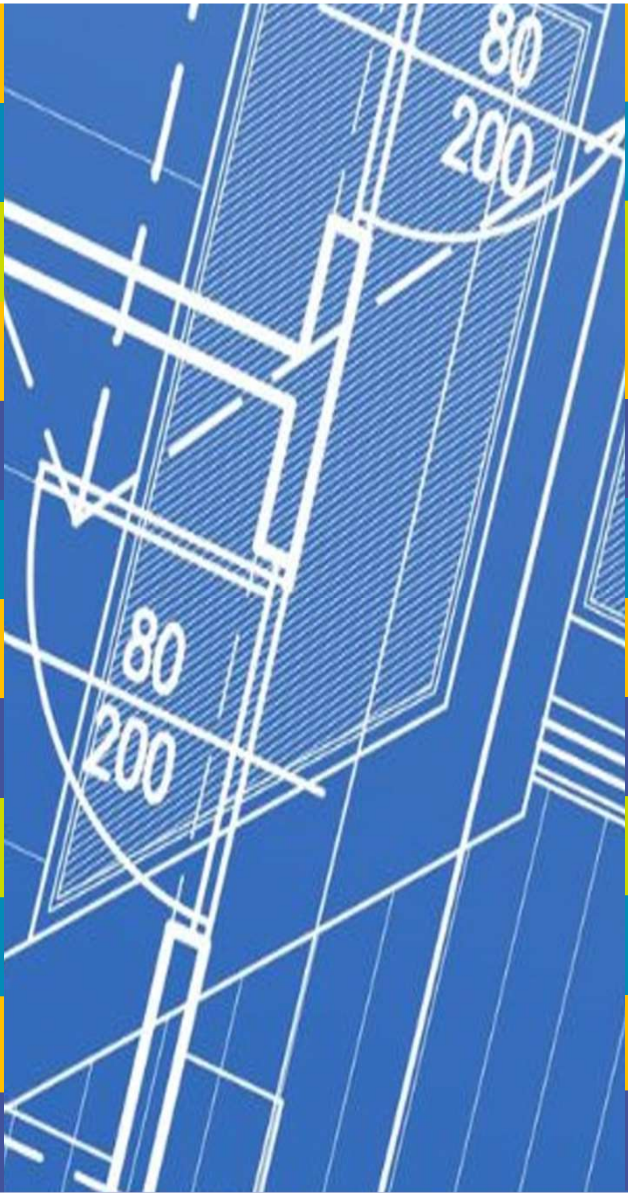
Sources for finding unclaimed property:

- State Unclaimed Property Fund websites
- Request through the NAIC's Life Insurance Policy Locator Service

Payments – Annuity Claims

- Not all annuity contracts have a death benefit.
- A claim must be filed.
- Proof of death must be provided.
- Values must be calculated.
- Similar regulatory requirements (i.e., timely and accurate claims payment, escheatment when appropriate, etc.).

Common Riders



Common Riders – Life Insurance

Life insurance policies can be issued with a number of riders or, in some cases, riders can be added post-issue. Each life insurance company determines the riders it will offer.

Child Term rider.

- Provides limited insurance on the life of child
- When the child becomes an adult, the rider may be convertible to permanent insurance, sometimes with a higher amount of coverage

Spousal Term rider.

- Provides limited insurance on the life of a spouse

Common Riders – Life Insurance

Accidental Death Benefit rider.

- Pays an added benefit if a death is the result of an accident

Accelerated Death Benefit rider.

- Allows income tax free access to all or a portion of the death benefit prior to a death if a terminal illness is likely to result in death within a short period of time (usually 2 years)

Future Increase or Insurability rider.

- Allows coverage to increase by a certain amount, at certain predetermined intervals, without underwriting

Common Riders – Life Insurance

Disability Waiver of Premium rider (common for traditional whole life).

- Pays the monthly premium during the period of a qualified disability, until a certain age

Disability Waiver of Monthly Deduction rider (common for UL).

- Pays the monthly deduction during the period of a qualified disability, until a certain age

Long-Term Care rider.

- If a stay in an assisted living or nursing home facility is needed, the rider will pay the cost of care up to the policy's limit or it will pay a fixed monthly benefit amount

Common Riders –Annuity Products

Annuity riders may be added at issue or, in some cases, post-issue. Each life insurance company determines the riders it will offer.

Guaranteed Lifetime Withdrawal Benefit (GLWB) rider.

- Allows immediate withdrawals from the invested balance, without having to annuitize
- The allowed withdrawal amount is typically a percentage of the annuity value

Guaranteed Minimum Withdrawal Benefit (GMWB) rider.

- Allows the withdraw of a percentage of the original amount paid into the annuity until the full amount of that initial premium has been withdrawn
  - For example, the annuity owner may be able to withdraw 10% of the annuity balance each year, until the initial premium (amount) has been depleted

Common Riders –Annuity Products

Death Benefit/Return of Premium (ROP) rider.

- Fixed products- provides a death benefit in the amount of the initial premium paid less any distributions paid prior to a death
  - For example, if the initial premium was $200,000 and only $100,000 was paid in distributions prior to a death, the heirs would receive a death benefit of $100,000
- Variable products- the death benefit would typically be the greater of the accumulated value or the death benefit, adjusted for any distributions paid prior to death

COMMON RIDERS –ANNUITY PRODUCTS

Long-Term Care (LTC) rider.

- Helps manage the cost of long-term care
  - For example, if the cost of LTC will be $8,000 per month and the annuity is scheduled to provide a $4,000 monthly income payment, the payment will double to $8,000 per month in the event long-term care is needed

Disability, Unemployment and Terminal Illness rider.

- Pays a specified percentage of the regular monthly premium agreed to when the annuity was issued if the owner becomes disabled or unemployed
- The payment is made for a limited period, such as a year
- Surrender charges are typically waived

Common Riders – Annuity Products

Terminal Illness rider.

- Allows access to a percentage of the annuity if a health condition results in life expectancy of one year or less
- Surrender charges are typically waived

Guaranteed minimum accumulation benefit (GMAB) rider.

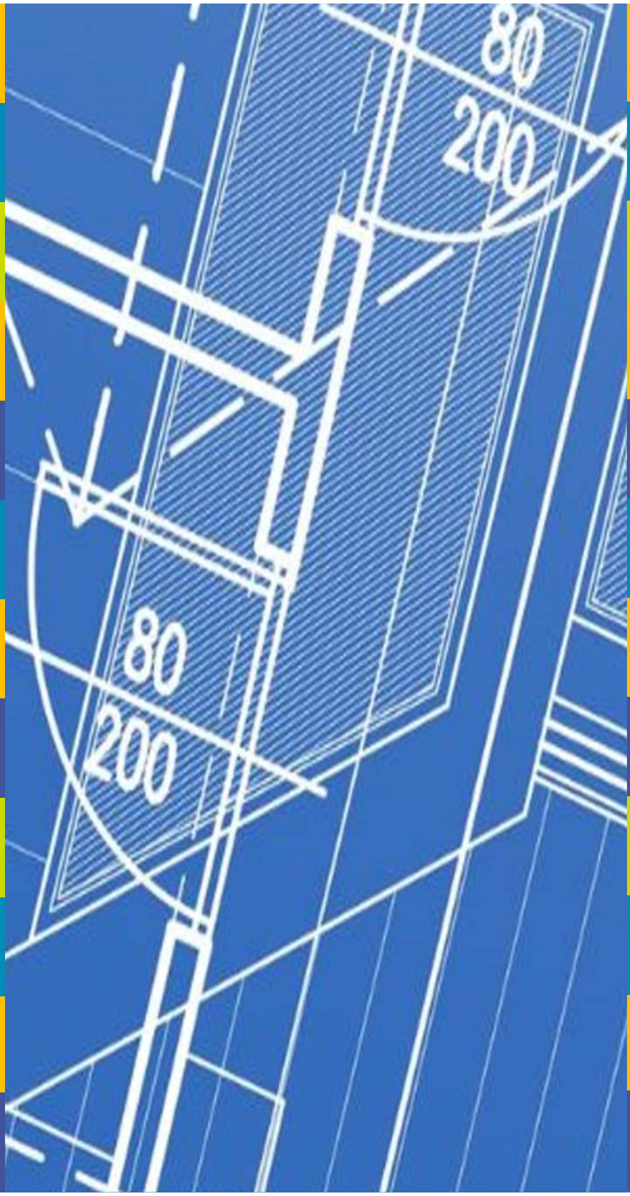
- Guarantees the minimum amount received will be the premium paid or the gain in the value of the contract (between when the contract was issued and when distributions began)
- Helps provide protection in the event of a down market with a variable annuity product

Common Riders – Annuity Products

Guaranteed minimum accumulation benefit (GMAB) rider.

- Ensures a specific income payment regardless of market performance. Income payments may be based on such calculations as:
  - A percentage of the annuity value;
  - The value of the annuity when income payments began; or
  - The highest contract anniversary value of the annuity
- Provides downside insurance, unlike investing in a mutual fund

Compliance Considerations



Compliance Considerations

- Most aspects of the development, sale and administration of life insurance and annuity contracts are subject to federal and/or state laws and have compliance implications:
  - Tax compliance (7702/7702A)
  - Advertising
  - Illustrations
  - Producer licensing and training
  - Replacements requirements (life & annuities)
  - Suitability requirements (life & annuities)
  - Best Interest (all annuity and some life (variable + certain states))

Compliance Considerations

- Contract form content and regulatory approval requirements
- Distribution methods; on-line sales, telephone sales, sales through producers, etc.
- Signatures: wet or electronic
- Policyowner communications including annual statements
- Complaint handling
- Record retention
- Claims, Interest on death claims, timing
- Unclaimed property

For more information regarding life insurance compliance considerations, visit this NAIC webpage

QUESTIONS?