

**191—15.66(507B) Standards for annuity illustrations.**

**15.66(1)** An insurer or producer may elect to provide a consumer an illustration at any time, provided that the illustration is in compliance with this rule and:

- a.* Is clearly labeled as an illustration;
- b.* Includes a statement referring consumers to the disclosure document and Buyer's Guide provided to them at time of purchase for additional information about their annuity; and
- c.* Is prepared by the insurer or third party using software that is authorized by the insurer prior to its use, provided that the insurer maintains a system of control over the use of illustrations.

**15.66(2)** An illustration furnished an applicant for a group annuity contract or contracts issued to a single applicant on multiple lives may be either an individual or composite illustration representative of the coverage on the lives of members of the group or the multiple lives covered.

**15.66(3)** The illustration shall not be provided unless accompanied by the disclosure document referenced in rules 191—15.64(507B) and 191—15.65(507B).

**15.66(4)** When an illustration is used, the illustration shall not:

- a.* Describe nonguaranteed elements in a manner that is misleading or has the capacity or tendency to mislead;
- b.* State or imply that the payment or amount of nonguaranteed elements is guaranteed; or
- c.* Be incomplete.

**15.66(5)** Costs and fees of any type shall be individually noted and explained in the illustration.

**15.66(6)** An illustration shall conform to the following requirements:

- a.* The illustration shall be labeled with the date on which it was prepared;
- b.* Each page, including any explanatory notes or pages, shall be numbered and show its relationship to the total number of pages in the disclosure document (e.g., the fourth page of a seven-page disclosure document shall be labeled "page 4 of 7 pages");
- c.* The assumed dates of premium receipt and benefit payout within a contract year shall be clearly identified;
- d.* If the age of the proposed insured is shown as a component of the tabular detail, the age shown shall be issue age plus the numbers of years the contract is assumed to have been in force;
- e.* The assumed premium on which the illustrated benefits and values are based shall be clearly identified, including rider premium for any benefits being illustrated;
- f.* Any charges for riders or other contract features assessed against the account value or the crediting rate shall be recognized in the illustrated values and shall be accompanied by a statement indicating the nature of the rider benefits or the contract features and indicating whether or not they are included in the illustration;
- g.* Guaranteed death benefits and values available upon surrender, if any, for the illustrated contract premium shall be shown and clearly labeled as guaranteed;
- h.* Except as provided by paragraph 15.66(6) "v," nonguaranteed elements underlying the nonguaranteed illustrated values shall be no more favorable than current nonguaranteed elements and shall not include any assumed future improvement of such elements. Additionally, nonguaranteed elements used in calculating nonguaranteed illustrated values at any future duration shall reflect any planned changes, including any planned changes that may occur after expiration of an initial guaranteed or bonus period;
- i.* In determining the nonguaranteed illustrated values for a fixed indexed annuity, the index-based interest rate and account value shall be calculated for three different scenarios: one to reflect historical performance of the index for the most recent 10 calendar years; one to reflect the historical performance of the index for the continuous period of 10 calendar years out of the last 20 calendar years that would result in the least index value growth (the "low scenario"); one to reflect the historical performance of the index for the continuous period of 10 calendar years out of the last 20 calendar years that would result in the most index value growth (the "high scenario"). The following requirements apply:

(1) The most recent 10 calendar years and the last 20 calendar years are defined to end on the prior December 31, except for illustrations prepared during the first three months of the year, for which the end date of the calendar year period may be the December 31 prior to the last full calendar year;

(2) If any index utilized in determination of an account value has not been in existence for at least 10 calendar years, indexed returns for that index shall not be illustrated. If the fixed indexed annuity provides an option to allocate account value to more than one indexed or fixed declared rate account, and one or more of those indexes has not been in existence for at least 10 calendar years, the allocation to such indexed account shall be assumed to be zero;

(3) If any index utilized in determination of an account value has been in existence for at least 10 calendar years but less than 20 calendar years, the 10-calendar-year periods that define the low and high scenarios shall be chosen from the exact number of years the index has been in existence;

(4) The nonguaranteed elements, such as caps, spreads, participation rates or other interest crediting adjustments, used in calculating the nonguaranteed index-based interest rate shall be no more favorable than the corresponding current elements;

(5) If a fixed indexed annuity provides an option to allocate the account value to more than one indexed or fixed declared rate account:

1. The allocation used in the illustration shall be the same for all three scenarios; and

2. The 10-calendar-year periods resulting in the least and greatest index growth periods shall be determined independently for each indexed account option;

(6) The geometric mean annual effective rate of the account value growth over the 10-calendar-year period shall be shown for each scenario;

(7) If the most recent 10-calendar-year historical period experience of the index is shorter than the number of years needed to fulfill the requirement of subrule 15.66(8), the most recent 10-calendar-year historical period experience of the index shall be used for each subsequent 10-calendar-year period beyond the initial period for the purpose of calculating the account value for the remaining years of the illustration;

(8) The low and high scenarios:

1. Need not show surrender values (if different than account values);

2. Shall not extend beyond 10 calendar years (and therefore are not subject to the requirements of subrule 15.66(8) beyond subparagraph 15.66(8)“a”(1)); and

3. May be shown on a separate page. A graphical presentation shall also be included comparing the movement of the account value over the 10-calendar-year period for the low scenario, the high scenario and the most recent 10-calendar-year scenario; and

(9) The low and high scenarios should reflect the irregular nature of the index performance and should trigger every type of adjustment to the index-based interest rate under the contract. The effect of the adjustments should be clear; for example, additional columns showing how the adjustment applied may be included. If an adjustment to the index-based interest rate is not triggered in the illustration (because no historical values of the index in the required illustration range would have triggered it), the illustration shall so state;

*j.* The guaranteed elements, if any, shall be shown before corresponding nonguaranteed elements and shall be specifically referred to on any page of an illustration that shows or describes only the nonguaranteed elements (e.g., “see page 1 for guaranteed elements”);

*k.* The account or accumulation value of a contract, if shown, shall be identified by the name this value is given in the contract being illustrated and shown in close proximity to the corresponding value available upon surrender;

*l.* The value available upon surrender shall be identified by the name this value is given in the contract being illustrated and shall be the amount available to the contract owner in a lump sum after deduction of surrender charges, bonus forfeitures, contract loans, contract loan interest and application of any market value adjustment, as applicable;

*m.* Illustrations may show contract benefits and values in graphic or chart form in addition to the tabular form;

*n.* Any illustration of nonguaranteed elements shall be accompanied by a statement indicating that:

(1) The benefits and values are not guaranteed;

(2) The assumptions on which they are based are subject to change by the insurer; and

(3) Actual results may be higher or lower;

*o.* Illustrations based on nonguaranteed credited interest and nonguaranteed annuity income rates shall contain equally prominent comparisons to guaranteed credited interest and guaranteed annuity income rates, including any guaranteed and nonguaranteed participation rates, caps or spreads for fixed indexed annuities;

*p.* The annuity income rate illustrated shall not be greater than the current annuity income rate unless the contract guarantees are in fact more favorable;

*q.* Illustrations shall be concise and easy to read;

*r.* Key terms shall be defined and then used consistently throughout the illustration;

*s.* Illustrations shall not depict values beyond the maximum annuitization age or date;

*t.* Annuitization benefits shall be based on contract values that reflect surrender charges or any other adjustments, if applicable;

*u.* Illustrations shall show both annuity income rates per \$1,000 and the dollar amounts of the periodic income payable; and

*v.* For participating immediate and deferred income annuities:

(1) Illustrations shall not assume any future improvement in the applicable dividend scale (or scales, if more than one dividend scale applies, such as for a flexible premium annuity);

(2) Illustrations shall reflect the equitable apportionment of dividends, whether performance meets, exceeds or falls short of expectations;

(3) If the dividend scale is based on a portfolio rate method, the portfolio rate underlying the illustrated dividend scale shall not be assumed to increase;

(4) If the dividend scale is based on an investment cohort method, the illustrated dividend scale shall assume that reinvestment rates grade to long-term interest rates, subject to the following conditions:

1. Any assumptions as to future investment performance in the dividend formula shall be consistent with assumptions that are reflected in the marketplace within the normal range of analyst forecasts and investor behavior. These assumptions shall not be changed arbitrarily, notwithstanding changes in markets or economic conditions, and shall be consistent with assumptions that the insurer uses with respect to other lines of business.

2. The illustrated dividend scale shall assume that reinvestment rates grade to long-term interest rates, based on the rates of U.S. Treasury bonds (U.S. Treasury rates). For the purposes of this grading, the assumed long-term rates shall not exceed the rates calculated using the formula in numbered paragraph 15.66(6)“v”(4)“3” based on the time to maturity or reinvestment (the “tenor”) of the investments supporting the cohort of policies.

3. Maximum long-term interest rates shall be calculated for tenors of 3 months or less, 5 years, 10 years, and 20 years or more, using U.S. Treasury rates. For each tenor, the maximum long-term interest rate shall vary over time, based on historical interest rates as they emerge. The formula for the maximum long-term interest rate is the average of the median U.S. Treasury rate during the last 600 months and the average U.S. Treasury rate during the last 120 months, rounded to the nearest quarter of one percent (0.25%).

4. The maximum long-term interest rate for a tenor shall be recalculated once per year, in January, using historical interest rates as of December 31 of the calendar year two years prior to the calendar year of the calculation date. The historical interest rate for each month is the interest rate reported for the last business day of the month.

5. Grading to the maximum long-term interest rates shall take place during:

- No less than 20 years from the issue date if U.S. Treasury rates as of the illustration date are below the long-term interest rates; or

- No more than 20 years from the issue date if the U.S. Treasury rates as of the illustration date are above the long-term interest rates.

6. When the ten-year U.S. Treasury rate is less than the ten-year maximum long-term interest rate, an additional illustrated dividend scale shall be presented. This additional illustrated dividend scale shall satisfy the following conditions:

- Assume that reinvestment U.S. Treasury rates do not exceed the initial investment U.S. Treasury rates, and

- Illustrate dividends of no less than half of the dividends illustrated under the current dividend scales.

If the conditions under the two prior bulleted paragraphs are in conflict (i.e., if half of the current dividends are greater than would be permitted by the condition under the first bulleted paragraph above), then the reinvestment U.S. Treasury rates shall equal the initial investment U.S. Treasury rates.

7. The illustration shall include a disclosure that is substantially similar to the following:

The illustrated current dividend scale is based on interest rates that are assumed to gradually [increase/decrease] from current interest rates to long-term interest rates during a period of [20] years. As required by state regulations, the long-term assumed interest rates cannot and do not exceed the rates listed in column (c) of the table below.

[Insert table from paragraph 15.66(6) “v”(4)“9”]

8. If the illustration contains an additional dividend scale pursuant to numbered paragraph 15.66(6) “v”(4)“6,” then the illustration also shall include a disclosure that is substantially similar to the following:

The additional illustrated dividend scale is based on interest rates that are assumed not to increase and that do not exceed the interest rates in column (b) of the table below.

[Insert table from paragraph 15.66(6) “v”(4)“9”]

9. The following table shall be used in the disclosures as indicated in numbered paragraphs 15.66(6) “v”(4)“7” and “8”:

<u>(a)</u>	<u>(b)</u>	<u>(c)</u>
	<b>U.S. Treasury Rate as of 12/31/2016</b>	<b>Long-Term U.S. Treasury Rate</b>
3 Months or Less	0.51%	3.00%
5 Years	1.93%	4.50%
10 Years	2.45%	5.00%
20 Years or More	3.06%	5.50%

**15.66(7)** An annuity illustration shall include a narrative summary that includes the following unless provided at the same time in a disclosure document:

a. A brief description of any contract features, riders or options, whether guaranteed or nonguaranteed, shown in the basic illustration and the impact they may have on the benefits and values of the contract.

b. A brief description of any other optional benefits or features that are selected, but not shown in the illustration and the impact they have on the benefits and values of the contract.

c. Identification and a brief definition of column headings and key terms used in the illustration.

d. A statement containing in substance the following:

(1) For other than fixed indexed annuities:

This illustration assumes the annuity’s current nonguaranteed elements will not change. It is likely that they **will** change and actual values will be higher or lower than those in this illustration but will not be less than the minimum guarantees.

The values in this illustration are **not** guarantees or even estimates of the amounts you can expect from your annuity. Please review the entire Disclosure Document and Buyer’s Guide provided with your Annuity Contract for more detailed information.

(2) For fixed indexed annuities:

This illustration assumes the index will repeat historical performance and that the annuity’s current nonguaranteed elements, such as caps, spreads, participation rates or other interest crediting adjustments, will not change. It is likely that the index **will not** repeat historical performance, the nonguaranteed elements **will** change, and actual values will be higher or lower than those in this illustration but will not be less than the minimum guarantees.

The values in this illustration are **not** guarantees or even estimates of the amounts you can expect from your annuity. Please review the entire Disclosure Document and Buyer's Guide provided with your Annuity Contract for more detailed information.

*e.* Additional explanations as follows:

- (1) Minimum guarantees shall be clearly explained;
- (2) The effect on contract values of contract surrender prior to maturity shall be explained;
- (3) Any conditions on the payment of bonuses shall be explained;
- (4) For annuities sold as an IRA or as a qualified plan or in another arrangement subject to the required minimum distribution (RMD) requirements of the Internal Revenue Code, the effect of RMDs on the contract values shall be explained;

(5) For annuities with recurring surrender charge schedules, a clear and concise explanation of what circumstances will cause the surrender charge to recur shall be included; and

(6) A brief description of the types of annuity income options available shall be explained, including:

1. The earliest or only maturity date for annuitization (as the term is defined in the contract);
2. For contracts with an optional maturity date, the periodic income amount for at least one of the annuity income options available based on the guaranteed rates in the contract, at the later of age 70 or 10 years after issue, but in no case later than the maximum annuitization age or date in the contract;
3. For contracts with a fixed maturity date, the periodic income amount for at least one of the annuity income options available, based on the guaranteed rates in the contract at the fixed maturity date; and
4. The periodic income amount based on the currently available periodic income rates for the annuity income option in numbered paragraph 15.66(7) "e"(6)"2" or "3," if desired.

**15.66(8)** Following the narrative summary, an illustration shall include a numeric summary which shall include, at minimum, numeric values at the following durations:

- a.* Either:
  - (1) The first 10 contract years; or
  - (2) The surrender charge period if longer than 10 years, including any renewal surrender charge period;
- b.* Every tenth contract year up to the later of 30 years or age 70; and
- c.* Either:
  - (1) The required annuitization age; or
  - (2) The required annuitization date.

**15.66(9)** If the annuity contains a market value adjustment, hereafter MVA, all of the following provisions apply to the illustration (Appendix V provides an illustration of an annuity containing an MVA that addresses paragraphs 15.66(9) "a" through "f" below):

- a.* The MVA shall be referred to as such throughout the illustration.
- b.* The narrative shall include an explanation, in simple terms, of the potential effect of the MVA on the value available upon surrender.
- c.* The narrative shall include an explanation, in simple terms, of the potential effect of the MVA on the death benefit.
- d.* A statement, containing in substance the following, shall be included:

When you make a withdrawal, the amount you receive may be increased or decreased by a Market Value Adjustment (MVA). If interest rates on which the MVA is based go up after you buy your annuity, the MVA likely will decrease the amount you receive. If interest rates go down, the MVA will likely increase the amount you receive.

*e.* Illustrations shall describe both the upside and the downside aspects of the contract features relating to the market value adjustment.

*f.* The illustrative effect of the MVA shall be shown under at least one positive and one negative scenario. This demonstration shall appear on a separate page and be clearly labeled that it is information demonstrating the potential impact of an MVA.

- g.* Actual MVA floors and ceilings as listed in the contract shall be illustrated.
- h.* If the MVA has significant characteristics not addressed by paragraphs 15.66(9) “*a*” through “*f*,” the effect of such characteristics shall be shown in the illustration.

**15.66(10)** A narrative summary for a fixed indexed annuity illustration also shall include the following unless provided at the same time in a disclosure document:

*a.* An explanation, in simple terms, of the elements used to determine the index-based interest, including, but not limited to, the following elements:

- (1) The index(es) which will be used to determine the index-based interest;
- (2) The indexing method – such as point-to-point, daily averaging, monthly averaging;
- (3) The index term – the period over which indexed-based interest is calculated;
- (4) The participation rate, if applicable;
- (5) The cap, if applicable; and
- (6) The spread, if applicable;

*b.* The narrative shall include an explanation, in simple terms, of how index-based interest is credited in the indexed annuity;

*c.* The narrative shall include a brief description of the frequency with which the company can reset the elements used to determine the indexed-based credits, including the participation rate, the cap, and the spread, if applicable; and

*d.* If the product allows the contract holder to make allocations to declared-rate segment, then the narrative shall include a brief description of:

- (1) Any options to make allocations to a declared-rate segment, both for new premiums and for transfers from the indexed-based segments; and
- (2) Differences in guarantees applicable to the declared-rate segment and the indexed-based segments.

**15.66(11)** A numeric summary for a fixed indexed annuity illustration shall include, at a minimum, the following elements:

- a.* The assumed growth rate of the index in accordance with paragraph 15.66(6) “*i*”;
- b.* The assumed values for the participation rate, cap and spread, if applicable; and
- c.* The assumed allocation between indexed-based segments and declared-rate segment, if applicable, in accordance with paragraph 15.66(6) “*i*.”

**15.66(12)** If the contract is issued other than as applied for, a revised illustration conforming to the contract as issued shall be sent with the contract, except that nonsubstantive changes including, but not limited to, changes in the amount of expected initial or additional premiums and any changes in amounts of exchanges pursuant to Section 1035 of the Internal Revenue Code, rollovers or transfers, which do not alter the key benefits and features of the annuity as applied for will not require a revised illustration unless requested by the applicant.

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