

Vermont Insurance Division

BULLETIN 121: Indexed Life Insurance Products

August 1, 1998

(A) INTRODUCTION

This bulletin informs life insurers about the Department's handling of all indexed life insurance products and provides certain requirements for the sale of these products. These contracts are life insurance products where non-guaranteed additional credited interest is based upon a formula that is tied to data or an index outside the contract. Insurance companies frequently use the Standard and Poor's 500 index. Insurance companies could use other indexes such as the Lehman Brothers' index. Contract values can vary based upon the performance of the investment markets and the chosen index. The application of the index or outside data to the contract values can vary greatly from contract to contract. The purpose of the requirements in this bulletin is to insure that insurance companies provide adequate disclosure to promote consumer understanding of this product.

(B) PRODUCT TRAITS

All products must have the following distinguishing characteristics:

- 1) the products shall be sold by a licensed insurance agent or procured by a licensed insurance broker,
- 2) non group contracts shall contain the minimum guarantees required by Vermont's Standard Nonforfeiture law, and
- 3) sales brochures and promotional literature shall not focus solely on the investment aspects of this product and shall emphasize the primary purpose of insurance and long terms focus of the product.

(C) REQUIRED FOR APPROVAL

The filing of an indexed life insurance product shall contain a draft or final copy of a buyers guide. The insurer is free to use their own language in the buyers guide providing it is easy to read and understand. The company is free to use its own format in the guide. The insurer shall provide the Department with a Flesch test score certificate of 50 or greater for the buyer's guide. As with all filings made in Vermont the insurer shall supply:

- 1) a filing fee of \$50.00 per filing per company,
- 2) stamped addressed return envelope to receive notice of our action,

- 3) stamped self addressed acknowledgment envelope, (optional) to receive our file number, prior to our review,
- 4) two copies of the cover letter,
- 5) a Flesch test certificate,
- 6) one copy of the contact,
- 7) appropriate actuarial memo, and
- 8) a microfiche.

(D) REQUIREMENTS FOR INDEXED LIFE INSURANCE BUYER'S GUIDE

- 1) The insurer shall display in the buyer's guide the index values for at least the most recent five years and the change in the index per year expressed as a percentage.
- 2) The buyer's guide should caution the buyer that the illustrations do not imply future performance.
- 3) If caps, participation ratios, or any other features are used to limit the growth of policy values, a description of the feature(s) and a listing of the current caps, and or ratios imposed by the insurance company or other limiting feature(s) shall be disclosed in the buyer's guide.
- 4) The buyer's guide shall disclose how frequently the caps, ratios, or other features limiting growth in policy values will change.
- 5) The Buyer's guide shall disclose the use of a ratchet feature. As used in this paragraph ratchet feature is one that locks in to the contract all index related gains. The buyer's guide shall disclose the frequency and degree of guarantee of ratchet feature gains.
- 6) The buyer's guide should caution the reader that (1) the product illustrated in the buyer's guide is designed to be held for a long period of time and (2) holding the product for a short period of time is not in the best interests of the buyer or the insurance company.
- 7) If the death benefit is not subject to the index adjustment, the buyer's guide shall disclose the fact.
- 8) For individual life insurance products, the buyer's guide shall inform the buyer that the contract values will never go below the minimum nonforfeiture values.

(E)* INDEXED LIFE PRODUCT REQUIREMENTS

- 1) In addition to the customary requirements, the filing shall include an actuarial statement signed by an actuary. This statement shall demonstrate compliance with Vermont standard non-forfeiture law and explain the mechanics of the contract.
- 2) The contract description on page one shall contain the word indexed to describe the contract. Other words can be used with the approval of the Department.
- 3) The insurer shall provide the Department with a copy of a buyer's guide or informational material which provides a description of the index used and a description of how it is applied.
- 4) The insurer shall warrant to the Department that, if the insurer decides to change the index used with a product, it will submit the change to the Department for approval prior to using it.
- 5) The index shall be widely quoted and available to buyers on most business days in the United States through a widely distributed publication. The insurance company shall disclose to the Department the name of the publication that publishes the index.
- 6) The application of the index to the contract values shall be established in advance at least one year.
- 7) Long term illustrations can not be used to imply future performance. On the other hand, demonstrations of at least the most recent five years of policy mechanics under both positive and negative market conditions may be used to further understanding of the policy.
- 8) Caps, ratios, or other features limiting growth in policy values shall be guaranteed for at least a year. The buyer's guide shall disclose how frequently they will change.
- 9) If the policy has a ratchet feature it shall lock and fully vest the financial gains at least once a year. A policy feature which determines index increases less frequently than annually or which does not fully vest all such increases at least annually can not be called a ratchet feature.
- 10) Insurance companies shall retain a copy of a document signed by the client, indicating the receipt of a copy of the buyer's guide and an understanding of its contents.

(E)* ANNUAL REPORTS REQUIREMENTS

Insurers issuing an equity index product shall supply each policy owner with an annual policy report without charge. The filing shall indicate that the insurance company will provide this report. Insurers may contact the following individual, if they have questions concerning this bulletin.

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(F) EFFECTIVE DATE

This bulletin is effective on 8/1/98. Elizabeth R. Costle

COMMISSIONER OF BANKING AND INSURANCE

*As in original. There are two subsections (E).