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Sent: Friday, September 18, 2009 2:53 PM
To: Mumford, Jim
Cc: Cook, Jennifer R.; Matthews, Jolie H.; Cande Olsen; lautzenheiser@aol.com; Turner, Robert; Dianna Pell
Subject: Annuity Disclosure Illustrations

Jim, in the interest of clarity of discussion at our meeting Monday, I wanted to provide some of my thoughts in writing. I have copied members of the Academy committee and staff, so they might have time to respond.

First I am very pleased by the efforts of the Academy committee, as I believe standard illustrations can greatly improve the disclosure process for annuity sales. You know I have encouraged their use, and I suggested the Academy be consulted in their development. I know the Academy has made great progress in dealing with several significant issues in an annuity illustration. The task is not easy. At this point, I believe the Academy would benefit from direction by our Working Group.

The first issue I see for which we could provide direction is the duplication of information presented. Since the illustration will be a part of the disclosure, I believe specific disclosure elements need not be repeated in the illustration. The illustration should be required to disclose specific elements used in the illustration affecting the calculation, but should not repeat information required to be contained elsewhere in the disclosure. The two elements of the disclosure should be considered as a single document, not stand alone documents. This risks the consumer reading one, and not the other, i.e. looking at the illustration without reading the disclosure. I do not believe this is likely to harm the consumer, because the illustration will be required to abide by the limitations in the disclosure. The duplication of information is likely to be counter-productive, resulting in information overload, as the Working Group has noted previously in other efforts. I believe this is a policy decision that should be made by the Working Group, which would then be communicated to the Academy. The Academy is unlikely to assume such an approach independently, not being responsible for the content of the other portions of the disclosure. In addition, without indicating the connection, the Academy, and member actuaries, are professionally bound to document the elements of their work product. Assurance needs to be provided the illustration will not be a standalone product.

The second issue I see is the choice of scenarios being illustrated. The current example provides information for a consumer who would choose to withdraw interest earnings until age 65, in my mind an unlikely scenario. I think this example was chosen to demonstrate how scheduled free withdrawals would be illustrated. I believe this "choice of scenarios" should be limited for companies providing illustrations. If a company is going to provide illustrations, I believe they should be required to illustrate a relevant scenario reflective of current consumers' misunderstandings. I would initially propose that if a company provides illustrations, it provide at least two illustrations. First, one to illustrate the situation when the consumer holds the contract to maturity as intended. This illustration would be similar to the current example, deleting the two "Withdrawals" columns. Second, one to illustrate how fast the consumer could cash out of their contract without penalty. This illustration would be similar to the current

example, deleting the three “Cash Surrender Value” columns, (including the last column). Of course in most situations this “cash scenario” will be relatively short, 11 to 12 years under the 10% free withdrawal provision, so each year should be illustrated.

I believe these two illustrations provide the pertinent information most consumers might want. The company should then be allowed to provide additional illustrations if desired. For example, the producer should be allowed to illustrate the specific strategy the consumer has agreed to pursue, for example withdrawing the interest earned as in the current example.

The third issue concerns the role of the annuity. If our intention is to focus the consumer’s attention on the retirement income generation, we should include a column displaying the monthly income available at each point in time. If the consumer is not allowed to annuitize at any point in time, we could include an “asterisked” \$0, while when annuitization is available, we should show the monthly income that could be generated. This raises questions as to the annuity option to be shown, I would suggest the option generating the greatest income be used, presumably the Life option, with no guaranteed periods or death benefits (i.e. not joint and survivor). The monthly income available can be added as a column, replacing those I suggested deleting earlier.

Again I commend the Academy on their work, without the initial template we would have difficulty seeing the possibilities. I just believe our Working Group should build on their efforts and provide direction to them.

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