



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

BULLETIN S-17
MARCH 7, 2016

TO: ALL INSURANCE COMPANIES AND FRATERNAL BENEFIT SOCIETIES THAT DELIVER OR ISSUE INDEXED-LINKED POLICIES IN CONNECTICUT

SUBJECT: REQUIRED DISCLOSURE FOR INDEXED-LINKED ANNUITIES

Background

The low interest environment has resulted in the creation of new hybrid annuity products. The Insurance Department has received filings for an indexed annuity product that is similar to existing fixed product designs available in the marketplace except there is no guarantee of principal. The interest rate credited could be negative. The interest credited is tied to an index, but the assets are not directly invested in a unitized separate account. Unlike a variable annuity, there is a cap on the interest credited as well as a floor or buffer to provide some protection if the index rates declines below zero. The Insurance Department will approve such products, but wants to be sure that prospective policyholders fully understand this product before purchase. The purpose of this bulletin is to describe additional insurance carrier and producer responsibilities when offering this type of indexed annuity product. Any filing that does not meet the prescribed guidelines will be disapproved in accordance with Connecticut General Statute §38a-430 that give the Commissioner the authority to disapprove an annuity policy form if it contains a provision or provisions that are unfair, deceptive or encourage misrepresentation of the policy.

Required Sales Practices

At the point of sale, the carrier or producer shall provide the following disclosure to the applicant. Such disclosure is only intended to provide a comparison of key features as well as a basic demonstration of how the interest credited is impacted by any minimum interest guarantee, cap, floor or buffer for each of these different product types assuming an initial account value of \$100,000.

The comparison should include the indexed linked annuity with the floor or buffer and a variable annuity. If a carrier offers a fixed indexed annuity, there should also be a comparison for that

product. A carrier may omit the fixed indexed annuity option in the disclosure charts if the product is not currently marketed. In addition, there should be comparisons of the account values for each product type if the index rate increases and decreases. For purposes of this disclosure the increase in the index rate is defined as the stated cap plus 5%. The decrease in the index rate is defined as the stated floor/buffer less 5%. The charts should be based on actual values available at the time of sale for the caps, floors and buffer. The current index rate should be the rate of return for the specified index for the most recent index term based on the product offering.

Any carrier offering indexed-linked annuities approved prior to the issuance of this bulletin are now required to provide the attached disclosure for all sales on or after the publication of this bulletin.

Questions

Please contact the Insurance Department Life and Health Division at cid.lh@ct.gov with any questions.

A handwritten signature in cursive script that reads "Katharine L. Wade". The signature is written in dark ink and is positioned above a horizontal line.

Katharine L. Wade
Insurance Commissioner

Please note that the following disclosure is not intended to project future earnings/losses on these products. The disclosure is only providing a simplified explanation of key features of different annuity products and how interest is credited on the products under different market environments.

Comparison Chart of Annuity Products

	Indexed-linked Annuity with Floor or Buffer	Variable Annuity	Fixed index Annuity
Direct investment in market or specified index		X	
Assets allocated to account valued at market value		X	
Preservation of principal			X
Cap on earnings	X		X
Floor/Buffer on losses	X		X

Comparison of How Interest is Credited on Each Product Design using the same index in the following Market Scenarios:

- **At current index rate (Return over most recent index term for the product)**
- **If index rate increases to a level equal to the cap + 5%**
- **If index rate decreases to a level equal to the floor/buffer – 5%**

Assumptions:

Initial investment	\$100,000
Current index rate	
Cap on indexed-linked annuity	
Floor or buffer rate	
Cap on fixed indexed annuity	
Minimum guarantee on fixed indexed annuity	
Length of term	

	Account Value at End of Term		
	Index-linked Annuity with Floor or Buffer	Variable Annuity	Fixed Indexed Annuity
Index Rate=Current index rate			
Index rate=Cap on indexed-linked annuity + 5%			
Index rate=Floor/Buffer -5%			