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**BULLETIN 08-07**

**TO:** Insurance Companies and Insurance Producers Engaged in the Solicitation and Sales of Fixed Annuity Products in Iowa

**FROM:** Iowa Insurance Commissioner Susan E. Voss

**RE:** Limitations on Use of Illustrations in the Solicitation and Sales of Fixed Annuity Products in Iowa and Notice of Rulemaking

**DATE:** May 29, 2008

Commissioner Voss will begin studying the use of illustrations in the solicitation and sales of fixed annuity products in Iowa, with the goal of determining whether any additional regulation is necessary to guide insurance companies and insurance producers in the proper use of such illustrations.

To assist with the Commissioner's review, all insurers who are using or who plan to use illustrations in the sale of fixed annuities are requested to immediately file through SERFF copies of their illustrations related both to products already approved and to new filings of products.

Also, the Iowa Insurance Division has developed temporary guidelines that the Division will be using in reviewing the fixed annuity illustrations that are filed. A discussion of the guidelines follows.

For insurance companies and insurance producers using illustrations in the sale of fixed annuity products in Iowa, the Commissioner reminds them that Iowa Administrative Code rules 191-15.61 thru 15.67 contain the requirements related to disclosures in the sale of annuities. Although currently, there are no guidelines on the use of illustrations in the sale of fixed annuities specifically, insurance companies that elect to use illustrations for fixed annuities are encouraged to review the Iowa regulations cited above and the regulations on life illustrations (Iowa Administrative Code chapter 191-14) for guidance on construction of illustrations for fixed annuities.

## **Guidelines**

Illustrations are considered advertisements and will be evaluated according to Iowa laws and regulations as to the content, style and use of insurance advertisements. Insurance companies and insurance producers should use caution in the use of any statements that indicate that the rate of return of a particular product will keep pace with or exceed the rate of inflation or the cost of living.

Illustrations should not conflict with any other disclosures provided to the consumer.

If an insurance company allows insurance producers to generate illustrations using numbers created by the producer (for example using software programs), the company should strongly consider implementing methods that limit the producers' abilities to manipulate the interest rates and comparison factors only within certain parameters and comparison factors.

No illustration for a fixed annuity may illustrate interest rates in excess of the current interest rates being paid on the date the policy is issued. Illustrations should not show values higher than maximum cap values.

The guaranteed minimum surrender value must be shown as part of any fixed indexed contract illustration. If market valuation adjustments are used, the illustrations should demonstrate the potential adverse effect that a market valuation adjustment may have on surrender values.

Illustrations for fixed annuities which contain a "fixed interest rate" which is specified in the annuity contract, must clearly state whether or not the "fixed interest rate" is actually permanently fixed or based upon an index. Consumers must be told if the "fixed interest rate" may in fact vary, as determined on a contract anniversary.

Bonuses, and the compounding effects of any bonuses, can be complex and should be clearly and completely explained. The illustrations should reflect that the bonuses may be lost in the case of premature withdrawals, if that is the case. Neither fixed annuity advertising nor illustrations shall state or infer that a bonus rate on a rider, (such as a guaranteed minimum withdrawal benefit rider) credited to the rider at issue, and before the rider's maturity date, is being earned and applied to the value of the base annuity contract, or that it will be included as part of the base contract value in the event of an annuity contract surrender, unless such is the case.