

Positions and Valuations (POV) Index Products
Work Group Minutes

CATEGORY	DESCRIPTION
Facilitator	Jeanann Smith
Date & Time:	May 24, 2012 2-3p ET
Location:	Conference Call

Attendance:

Name	Firm
Becki Carnahan	Allianz
Andy Falvey	Aplifi
Jennifer Yerly	Genworth
Brenda Brown-Morris	Genworth
Steve Kilbon	Hartford
Susanne Kenndy	ING
Catrice Lane	Jackson National
Thomas Kelleher	Jackson National
Melissa Egnor	Lincoln National
Steve Galinat	Lincoln National
Sean Hurd	Merrill Lynch
Lisa DeCamp	Merrill Lynch
Carol Steele	Merrill Lynch
Angie Thompson	Merrill Lynch
Diana Giraldo	Merrill Lynch
Nick Cockrum	MetLife
Michael Grund	MetLife
Sean Finnegan	National Financial
Karen Brenneman	National Financial
Eric Michaud	New York Life
Margaret Fleming	Pacific Life
Frank Norton	Pacific Life
Daniel Smith	Pacific Life
Holly Gulling	Principal
Mariann Carson	Raymond James
Johnna Chewing	Raymond James
Beth Maziad	Raymond James
Stephen Terry	Raymond James
Ryan Hoffman	Stifel
Vicky Weber	Stifel

Kathi Carter	Stifel
Michael Bibilos	SunLife
Thomas Hughes	SunLife
Elizabeth Langenberg	SunLife
Wendell Tobiason	Symetra
Kenneth Schlorf	Woodbury Financial

Meeting Minutes 5/24/12:

The group continued the review of how current values and underlying fund values are passed on the Position and Valuations (POV) today.

The values that will be defined by the group for the standard usage document are current (cash) value, surrender value and a new value that will be defined, Guarantee Minimum Value (GMV). At a high level, the Guarantee Minimum Value is defined as the value of a contract or policy before any features, benefits or any charges are calculated.

Business scenarios that will be mapped out for the standard usage document are:

- 1) Client opened an Index Annuity for \$100,000 on June 30, 2011. The investment is 100% into S&P Index Fund A.
- 2) Client opened an Index Life for \$100,000 cash value transfer on June 30, 2011. The investment is 100% into 50% Fixed Fund (earning 3.25%) and 50% in S&P Index A.
- 3) Client opened an Index Annuity for \$50,000 on January 5, 2011. The investment is 50% into Index Fund A and 50% into Index Fund B.
 - a. On January 5, 2012 the index funds are calculated and the account is now valued at \$55,000. Index Fund A has \$3,000.00 and Index Fund B has \$2,000.00 index crediting reporting on FAR.

The group will be reviewing the 13/02 – Contract Valuation Record; 13/03 – Contract Underlying Assets Record; 13/04 – Contract Band/Guaranteed Loop with Underlying Assets Record.

Meeting Minutes 5/10/12:

We held a kick off meeting to begin a working group to discuss the support of the Index Products on our Positions and Valuations (POV) service.

The definition of Indexed Products as ‘googled’ states as follows ‘a special class of products that yields returns on contributions based on a specific equity-based index. Insurance companies commonly offer a provision of a guaranteed minimum return with indexed products, so even if the stock index does poorly, the owner will have some of his downside risk of loss limited. However, it also is common for an owner’s yields to be somewhat lower than expected due to the combination of caps on the maximum amount of interest earned.’

DTCC shared with the group that an enhancement was part of the spring release that added a new product type called "Index Life" and changed the existing EIA product code description from "Equity Index Annuity" to "Index Annuity" to eliminate confusion.

The group discussed the different ways in how carriers are reporting their products on the POV file today. Three different options were defined by the carrier participants and it was split between the firms:

Option 1: Carrier adds the Index annuity/life to the Positions and Valuations (POV) file after issue. The premium is invested in the funds (fixed or index fund(s), etc). The current value will be the premium until the first index crediting period is reached (typically annually but may be daily, monthly or quarterly) and then the current rate is calculated based on the index funds and credited. The following business day the current value is updated and passed with the appropriate fund allocation based on the index crediting for the following period of time (e.g. 364 days) until the next index crediting period is reached. The fund (13/03) record is broken out based on the values of the funds and totaled to the current value.

Summary:

13/02 – Current Value

13/03 – Fund Values based on the investment allocation by the owner

Example:

\$100,000 – premium

13/02 - CR – Current Value - \$100,000

13/03 – Index Fund A - \$50,000

13/03 – Index Fund B - \$50,000

Option 2:

Carrier adds the Index annuity/life to the Positions and Valuations (POV) file after issue. The premium is invested in the index fund(s). The current value will be the premium until the first index crediting period is reached (typically annually but may be daily, monthly or quarterly) and then the current rate is calculated based on the index funds and credited. The following business day the current value is updated and passed with the appropriate fund allocation based on the index crediting for the following period of time (e.g. 364 days) until the next index crediting period is reached. The fund (13/03) record is passed as an Index Fund and is reported as an individual fund value and is equal to the current cash value.

Summary:

13/02 – Current Value

13/03 – Fund Value (Index Fund)

Example:

\$100,000 – premium

13/02 - CR – Current Value - \$100,000

13/03 – Index Fund - \$100,000

Option 3:

Carrier adds the Index annuity/life to the Positions and Valuations (POV) file after issue. The premium is invested in the index fund(s). The current value will be the premium until the first index crediting period is reached (daily crediting method) and then the current rate is calculated based on the index funds and credited. The following business day, the carrier determines which is greater: the market value versus the minimum value - based on whichever is greater

than the greater value is reported as the “current value” on POV. However, the underlying index fund(s) in the 13/03 are recalculated based on the calculated current value.

The distributors shared that the underlying funds reported in the 13/03 Fund record must equal the current value of the annuity contract or the reported cash value on the life product due to internal processes they have in place to ensure the reporting of the underlying funds equal to the reported value.

The group will be reviewing the appropriate values that should be reported on the Index Annuity and Index Life products via POV. The ones initially mentioned during the call are Current Value; Surrender Value, Initial Premium; Minimum Cash Value, and Maximum Cash Value.

Also, the group will be review the necessary rates that should be reported on the Index products via the 13/04 record – current rate, minimum rate, maximum rate, and participation rate.

This group will meet every two weeks on Thursdays, from 2:00pm – 3:00pm ET.

Call Information:

877-298-8255, passcode 7544124

Webinar Information:

Web URL: <https://www.webmeeting.att.com>

Meeting Number: 888-380-9638

Meeting Passcode: 816340

Next meeting will be held on Thursday, May 24th at 2:00noon ET.