



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

Bulletin PF-15
February 10, 1984

TO: ALL LIFE INSURERS AND FRATERNAL BENEFIT SOCIETIES LICENSED
IN THE STATE OF CONNECTICUT

SUBJECT: INDIVIDUAL SINGLE PREMIUM DEFERRED ANNUITIES (SPDAs) AND
INDIVIDUAL SINGLE PREMIUM WHOLE LIFE POLICIES (SPWLs)

Single Premium Deferred Annuities and Single Premium Whole Life policies have been included in the product line of insurers for many years. In the past several years, these SPDAs and SPWLs have had new and very attractive features added to their policy provisions and the sale of these products has increased dramatically.

The recent collapse of the largest writers of SPDAs and SPWLs has caused this Department to review certain of the provisions contained in these policies and some of the business practices that, in our opinion, contributed significantly to the financial difficulties of the impaired insurers.

The Department feels, however, that these products may have a proper place in the financial planning of Connecticut residents and in the portfolios of Connecticut licensed insurers and fraternal.

The Department wishes to emphasize that its primary responsibility is making sure that all insurers licensed in this state are able to fulfill the guarantees contained in contracts that are sold to our residents. Further, such contracts should not impair the solvency and liquidity of the issuing insurer to the extent that its insolvency may impair the financial condition of the remaining insurers doing business in this state.

The Department has recently received policy filings from over 90 insurers and fraternal for SPDAs and SPWLs.

Typically, these policies contain provisions as follows:

1. A guaranteed high interest rate for the first year of issue and in some cases for a longer period.
2. A contractual interest rate substantially below the rate guaranteed for the first year.
3. A surrender charge if the contract is terminated in the first few years of the contract.

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4. A provision that the policyholder may surrender his contract and have his entire premium returned if the interest rate declared the second year (or subsequent years) drops a stated percentage below the first year interest rate guarantees.

Insurers may face the practical problem of not being able to reduce the declared interest to their earning rate because they are not liquid enough to meet the potential surrenders. The existence of these cash-out and interest provisions definitely affect the liquidity and solvency of insurers doing business in Connecticut. Further, these SPDAs and SPWLs affect the contractual rights of the other policyholders in insurers issuing SPDAs and SPWLs. Interest rates are volatile and the decision to invest SPDA and SPWL policy reserves in investments either short term, long term or both, presents investment liquidity and solvency risks that should be minimized.

I am, therefore, withdrawing approval given by this Department to all filed SPDA and SPWL forms, to be effective April 15, 1984.

Policy forms may be re-submitted and will be reviewed on an expedited basis. Contracts that contain provisions similar to the following will not be approved:

1. A policyholder may surrender his contract and have his entire annuity premium returned if the interest rate declared for the second year (or subsequent periods) drops a stated percentage below the first year interest rate guarantee.
2. An interest rate guarantee existing beyond the first twelve months, other than the contractual guaranteed interest rate.

Policy forms shall contain a minimum surrender charge graded down from 5% to 1% in a five year period. No surrender charge is permitted in the event of death or total disability of the owner.

If a currently-approved policy form meets the standards set forth in this Bulletin, the affected insurer should send the Department a list of forms previously approved and certify that the forms meet the provisions of this Bulletin.

Companies that sell permitted SPDAs and SPWLs cannot reinsure these lines of business with affiliates, subsidiaries, parents, or insurers that are controlled by parties producing the business, without prior approval of the Connecticut Commissioner.

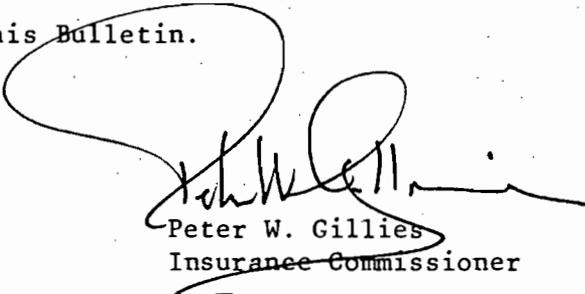
SPDA and SPWL policy reserves may not be invested in parents, subsidiaries or affiliates except that companies writing these two products may invest up to 100% of their capital and surplus (plus the mandatory securities valuation reserve) in parents, subsidiaries or affiliates.

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As can be seen by the heading of this Bulletin, it is applicable to all individual SPDAs and SPWLs. SPDAs and SPWLs which may have group marketing characteristics, but which are purchased by individuals will be considered covered by this Bulletin.

Any insurer or fraternal may request a Hearing on the withdrawal of the approval of their SPDA or SPWL policy form or forms. If such a hearing is desired, a formal request must be made to the Commissioner. The affected policy form numbers should be included in the request.

Please acknowledge receipt of this Bulletin.



Peter W. Gillies
Insurance Commissioner