Industry Survey

Variance in Crediting Fixed Annuity Post-Mortem Interest

For non-variable contracts, the contract language guarantees a specific rate of interest that will be credited to the annuity (“contractual interest”) while the contract is in force and the individual is still living. After the individual’s death, the annuity is credited statutory post-mortem interest (“PMI”) which is credited up until the beneficiary is paid and typically varies based on where the contract was specifically filed and approved (e.g., state approved versus Compact[1]).

The Insured Retirement Institute (IRI) in partnership with the National Association for Fixed Annuities (NAFA) conducted a survey to seek information related to how the industry handles the payment of contractual interest and PMI during the death claim process. The survey respondents represent approximately 47% of assets under management in the retail annuities market.

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Post-death does your company credit PMI, which typically varies by state?

Results indicated that 100% of respondents are crediting some amount of PMI to annuity contracts after the individual’s death.

[1]The term Compact is used throughout as reference to products that were filed with the Interstate Insurance Product Regulation Commission (IIPRC).

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At what point do you stop crediting the contractual rate of interest?

The top results were “Varies by State” and “Other” each with eight responses. However, six out of the eight responses listed as “Other” can be categorized as “Date the Claim is Paid” and the remaining two fall under “Varies by State” and “Date of Death”.

“Other Responses”	General Interpretation
Varies by state, but if our contract rate is longer/higher, we credit the contract rate.	Other — Varies by State
Date of death for lump sum payments.	Other — Date of Death
Claim in Good Order	Other — Date Claim is Paid
Credited until date claim is paid.	Other — Date Claim is Paid
Date of payment	Other — Date Claim is Paid
Our system continues to credit contractual interest up until the claim payment for final beneficiary is made.	Other — Date Claim is Paid
We stop paying contractual interest after the claim is settled.	Other — Date Claim is Paid
When the claim is paid to the beneficiary.	Other — Date Claim is Paid

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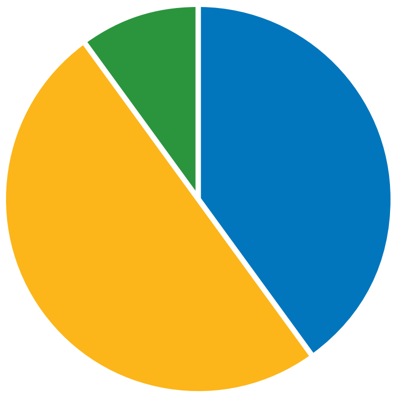
Do you distinguish whether the product was Compact-filed vs. state-filed for purposes of calculating the PMI?

It is important to note that four respondents answered differently than anticipated as it conflicts with their response to question four. For example, the respondent answered “No” they do not distinguish between a state-filed or Compact-filed products, but in response to question four stated if the product was filed with the Compact they will pay the Compact PMI rate if it is different than what the state requires.



“Other Responses”	General Interpretation
We pay according to the state-mandated PMI rate.	Other — No
Follow state or contract, whatever is greater.	Other — No

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Please provide your organization's reasoning as to why you do/don't distinguish Compact-filed vs. state-filed products.

The majority of respondents indicated one of the two following responses:

1. If the product is Compact filed, they will pay PMI per the Compact contract language.
2. The company compares rates and pays the highest to provide the best benefit to the beneficiary.

Follow State PMI (5) If Compact filed, pays per Compact PMI rules (7) Pay whichever PMI is higher (6) Unkown/No Response (2)

Responses *(Results reflect 18 out of 20 participants because 2 did not respond.)*	**General Interpretation**
Compact standards appear to conflict with black letter state law	Follow state PMI
We stick to product type rules (fixed versus variable) and state requirements (not compact requirements)	Follow state PMI
Defer to state death claim requirements	Follow state PMI
It's our understanding the state-mandated rate would exceed any rate that was specified in the filed and approved policy or contract.	Follow state PMI
We use state PMI rates for all contracts.	Follow state PMI
No. We still pay PMI but the language for death benefit interest is different in our compact filings versus non compact filings. We would still pay PMI but we would also be required to pay additional interest based upon the terms of the contract.	If Compact filed, pays per Compact PMI rules
Distinguishes between the two to ensure the correct rules are being followed for PMI.	If Compact filed, pays per Compact PMI rules
We apply interest as outlined by the compact when a product is compact filed.	If Compact filed, pays per Compact PMI rules
The contractual language varies.	If Compact filed, pays per Compact PMI rules
All new products filed with the states flow through the compact approval process. It is our understanding that we must follow all compact rules when using this process. We follow the individual state rules for legacy products.	If Compact filed, pays per Compact PMI rules
The language regarding PMI for Compact may differ from state filed contract language.	If Compact filed, pays per Compact PMI rules
No – we are following the terms of the contract which includes something that was required by compact.	If Compact filed, pays per Compact PMI rules
There is contractual language in the Compact contracts that defines interest requirements on claims. The maximum of the state rule and Compact rule will apply.	Pay whichever PMI is higher
We use the highest interest at the time to give the bene the best figure	Pay whichever PMI is higher
We distinguish based on contract language. If the contract provides for higher interest than what a state currently requires, we provide the higher contract rate.	Pay whichever PMI is higher
We pay the higher of the state or company claims interest rate.	Pay whichever PMI is higher
We pay the rate of interest specified by the state. If there is a contractually higher rate of interest, we would pay the higher rate.	Pay whichever PMI is higher
We look at both state and contract requirements and pay whichever is higher. Interest accrues from date of death to date of payment.	Pay whichever PMI is higher

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Assuming the company has made contact and is actively communicating with the beneficiary, how do you manage situations where the beneficiary is purposefully delaying completion of the claim to receive the higher PMI?

Generally, the majority of respondents indicated they continue to follow up regularly with the beneficiary in order to resolve the claim and/or provide notification to the beneficiary that the funds will be escheated if not claimed within a certain period of time. The majority of respondents also indicated that after state dormancy requirements are met, they would escheat the funds to the appropriate state.

Responses *(Results reflect 19 out of 20 participants because 1 did not respond.)*	**General Interpretation**
We continue to follow up, this is rare.	Continue to follow up
Most states only require payment of interest starting with the date all of the paperwork is in good order. If the state requires interest to be paid from the date of death at a relatively high rate, we will be more diligent with following up.	Continue to follow up
We have procedures to make interval requests for requirements if beneficiary is actively communicating with us.	Continue to follow up
We continue to follow up per our normal procedure and state regulations. If the beneficiary does not claim the funds/express interest in the funds, we would follow state dormancy laws and eventually escheat the funds to the state. We make them aware of these rules and try and settle the claim.	Continue to follow up, but eventually the escheatment process will be followed.
We send monthly follow-up letters and follow our protocol to deem the funds unclaimed after a certain period. If the claim isn't settled, eventually the funds would be escheated to the state.	Continue to follow up, but eventually the escheatment process will be followed.
We send monthly follow up letters and will indicate via an escheatment letter when the proceeds will be escheated which typically results in the beneficiary fulfilling any requirements for us to pay the claim.	Continue to follow up, but eventually the escheatment process will be followed.
If we are in contact with them, we would continue to follow up and work with them to get the claim processed. If we stop getting a response and we reach 11 months since notification of death we would start the process of moving to the funds to UCP.	Continue to follow up, but if responses stop eventually the escheatment process will be followed.
We work with our agents and beneficiaries regularly to assure timely payment of claims.	Continue to follow up. Work with agent/ client to assure timely payment
We have not found a legal way within our contracts to stop a beneficiary who is purposefully delaying just to get higher interest. But, once it meets the state dormancy period, we escheat it to the state.	Do nothing, but once state dormancy requirements are met funds would eventually be escheated.
We do not attempt to mitigate the situation.	Do nothing
In most states the higher PMI is not effective until certain conditions are met. Primarily this means we must have been provided all requirements to pay the death claim before the higher PMI is triggered.	Do nothing.
We haven't found a solution to this; it doesn't happen often though.	Do nothing
The beneficiary is provided with notification that claim proceeds will be escheated to the appropriate state if the claim is not completed by a certain date.	Eventual escheatment to appropriate state

Responses *(Results reflect 19 out of 20 participants because 1 did not respond.)*	**General Interpretation**
We will send out a letter to the beneficiary and inform them that if claims forms are not received, we are required to remit the funds as unclaimed property to the appropriate state.	Eventual escheatment to appropriate state
There is no process in place to force the beneficiary to surrender the contract. When no claim has been made, we will escheat the contract to the state once we have reached the requisite period of time since the Date of Death.	Eventual escheatment to appropriate state
Company response removed, but confirmed that ultimately after a period of time they would commence with the unclaimed property/escheatment process.	Eventual escheatment to appropriate state
We're not aware of a beneficiary purposefully delaying but would probably escheat the claim if there is a significant delay.	Eventual escheatment to appropriate state
We have not experienced (to our knowledge) this situation to date.	Not an issue
Have not found that to be a systemic problem	Not an issue

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The National Association for Fixed Annuities (NAFA) is the premier trade association dedicated exclusively to fixed annuities. Our primary mission is to promote the awareness and understanding of fixed annuities and their benefit in securing guaranteed lifetime income to those in or planning for retirement. Founded in 1998, NAFA's membership represents every aspect of the fixed annuity marketplace and every channel of distribution, including insurance carriers, independent marketing organizations, and independent producers, advisors, brokers and general agents.

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