

Ohio Joins Initiative to Improve Annuity Disclosure

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Helping Consumers Better Understand Annuity Products

Annuities are unique insurance products marketed by insurance companies to consumers to supplement or plan for retirement, but because there are different types with different purposes, they can be a bit confusing.

For consumers considering purchasing an annuity, it's essential to make an informed decision; it's important that they understand how an annuity works, its benefits and risks, and what the buyer's and seller's commitments are under the annuity contract. In an effort to help consumers better understand annuity products, the life insurance industry has proposed an initiative to improve consumer annuity disclosures nationwide. Ohio is pleased to be the second state to join this important consumer education initiative.

Life Insurers Commit to Improve Annuity Environment

In January 2005, the American Council of Life Insurers' (ACLI) Board of Directors took steps to bridge the information gap for fixed, index, and variable annuities. A company CEO-level task force was formed, and its first recommendation was to initiate an industry-wide emphasis on consumer empowerment through improved disclosure.

First, encouraging all states to adopt the National Association of Insurance Commissioners (NAIC) Annuity Disclosure Model Regulation became an industry priority. The model provides the necessary base for improved understanding of annuities. Second, the company CEOs agreed that the development of short, simple, and standardized disclosure documents that are company and product specific was an essential next step to further assist consumers in their purchasing decisions.

New Templates for Writing Readable Disclosure were Developed and Tested

Two industry trade associations—ACLI and NAVA, the Association for Insured Retirement Solutions—working closely with their member companies, developed a set of “templates” for presenting required disclosure information in a consumer-friendly manner. Disclosure templates for fixed and indexed annuities build upon the requirements set forth in NAIC's disclosure model. The disclosure template for variable annuity products follows disclosure requirements under federal securities laws.

These templates were used to produce sample documents based on actual annuity products. The samples were then tested in a series of focus groups and one-on-one interviews with retirees, baby boomers, and producers. Feedback from all three groups was overwhelmingly positive. After each set of groups and interviews, recommendations were incorporated into the samples and they were retested.

ACLI also commissioned a consumer protection and behavior expert to review and provide feedback on the documents and to develop guidelines to assist companies in writing consumer-friendly disclosures.

Status of Initiative

As directed by its Board of Directors, ACLI has been meeting with state regulators over the past several months to have the templates become part of the regulatory regime. The templates have been well received by regulators.

The Iowa Division of Insurance launched a pilot program on January 31, 2008 to introduce the templates to the marketplace. The Ohio Department of Insurance became the second state to introduce the program on April 1, 2009. Companies that use the disclosure templates will be in compliance with Iowa and Ohio's disclosure law. ACLI is hopeful other states will follow suit and embrace the templates as the preferred method of satisfying annuity disclosure requirements. ACLI continues to work with the Securities and Exchange Commission and the Financial Industry Regulatory Authority to achieve regulatory acceptance of the variable annuity template in connection with federal disclosure and sales practice standards.

In addition to ACLI and NAVA, this industry initiative has the support of the National Association of Financial Advisors (NAIFA) and National Association of Independent Life Brokerage Agencies (NAILBA).