



**STATE OF NEW YORK
INSURANCE DEPARTMENT**
25 BEAVER STREET
NEW YORK, NEW YORK 10004

**Circular Letter No. 13 (2000)
June 5, 2000**

TO: All Life Insurers and Fraternal Benefit Societies

RE: Bonus Interest Rate Or Credit Provisions In Deferred Annuity Contracts

The Department has received several submissions from insurers that offer a bonus interest rate or credit on amounts deposited to the fixed and variable accounts of deferred annuity contracts and certificates. After careful review, the Superintendent has determined to exercise the discretion permitted under the Insurance Law to approve such products provided that certain expense and market conduct concerns are adequately addressed.

The Department's primary concerns regarding bonus interest rate and credit provisions in deferred annuity contracts are that (1) consumers not be misled as to the actual cost of the bonus interest rate or credit, (2) the annuity contract with a bonus interest rate or credit appear to be self supporting in accordance with the requirements of Section 4228 or Section 4238 of the Insurance Law as applicable, and (3) the bonus interest rate or credit not increase replacement activity and churning to the detriment of consumers and insurers.

The Department has determined that its expense and market conduct concerns can be adequately addressed by disclosure and self-support requirements. Disclosure of any and all costs associated with such bonus rate or credit will allow consumers to make informed decisions regarding the purchase and/or replacement of a deferred annuity contract containing a bonus interest rate or credit. The self-support requirement will help to ensure the insurer's financial well-being and prevent unfair subsidization by other policyholders of the insurer.

While the Department has approved a bonus annuity product with explicit charges and disclosures, the Department recognizes that insurers may be developing a variety of product designs. The forms of such contracts filed by insurers need not be the same as, or similar to, the first few contract forms approved by the Department. Other product designs will be approved provided that the Department's expense and market conduct concerns are adequately addressed.

Any questions concerning this circular letter should be addressed to Kathleen Nelligan, Chief Insurance Policy Examiner, New York State Insurance Department, Agency Building One, Seventh Floor, Empire State Plaza, Albany New York 12257.

Very truly yours,

Jeffrey Angelo
Deputy Chief Insurance Examiner
Life Bureau