# Warning on Excess VA Withdrawals Proposed

By Editor Test *Wed, Jun 9, 2010*

*New York insurance regulators propose disclosure of the mechanism of the excess withdrawal aspects of the contract before the contract is issued and at the time of the request for a withdrawal.*

On June 2, the New York Insurance Department published a draft letter, "Guaranteed Withdrawal Benefits and Excess Withdrawals," on its website that would give owners of annuities with guaranteed minimum withdrawal benefits a 30-day period in which to reconsider intentional or unintentional excess withdrawals.

The draft letter, which will be on the agency's website until June 16, is intended to elicit comments from writers of annuities with that living benefit.

The agency is concerned that an unwitting excess withdrawal could, depending on the exact terms of the contract, cause a permanent and possibly disproportionate reduction in a contract owner's guaranteed income base, thus affecting the owner's financial security in retirement.

In proposing new requirements for such contracts, the draft letter states:

At the time an excess withdrawal is requested, insurers should provide a clear explanation of how the excess withdrawal will affect the contract owner's guaranteed withdrawal amount.

Providing an explanation at the time the excess withdrawal is requested will enable the contract owner to assess the potential permanent impact on the guaranteed withdrawal amount and make an informed decision whether or not to take the excess withdrawal.

Insurers may want to consider as a best practice informing contract owners at the time of a request that an excess withdrawal may be cancelled within 30 days by returning the withdrawal to the company for crediting as of the date of receipt to the same investment options from which the withdrawal was taken.

To discourage owners of GMWB contracts from taking withdrawals during market downturns, when their account values are depressed, most GMWB contracts reduce the guaranteed income base to the same degree that the withdrawal reduces the account value. For example, if the income base were $100,000 and the account value were $80,000, a $20,000 withdrawal would reduce the income base to just $75,000 and reduce the annual payout (at a 5% payout rate) to $3,750 from $5,000.

While recognizing the insurers' need to limit their exposure to such adverse behavior, New York insurance regulators wrote, "proportional reductions may result in guaranteed withdrawal reductions that are unfairly disproportionate to the excess withdrawal or amount received for a full surrender."

New York proposes disclosure of the mechanism of the excess withdrawal aspects of the contract before the contract is issued and at the time of the request for a withdrawal that would cause a reduction in guaranteed income.