

The insurance policy document outlines the proposed amendments to the regulatory framework governing variable annuity and variable life insurance contracts, primarily aimed at enhancing investor understanding and decision-making. The Securities and Exchange Commission (SEC) is advocating for a layered disclosure approach, which includes the introduction of a summary prospectus that presents essential information about contract terms, benefits, and risks in a more concise and accessible format. This summary prospectus will be accompanied by a full statutory prospectus available online, simplifying the delivery of information to investors. The proposed changes also include provisions for portfolio company prospectuses to be made available online, fulfilling delivery obligations, and updates to registration forms to improve disclosures, including the implementation of Inline eXtensible Business Reporting Language (Inline XBRL) for certain disclosures.

Variable contracts, such as variable annuities and variable life insurance products, provide exposure to securities markets while offering insurance protections, including market loss protection and guaranteed death benefits. Investors incur various fees, including mortality and expense risk charges, administrative fees, and charges for optional benefits, which may include riders for enhanced death or living benefits. The prospectus delivery requirements are governed by the legal structure of the products, with separate accounts established by the insurance company that register their securities under the Investment Company Act. Each additional purchase payment under a variable contract is considered a "sale," necessitating the delivery of a current prospectus.

The document emphasizes the importance of clear and concise disclosures throughout the lifecycle of a variable contract, including purchase confirmations and annual reports. It proposes that the initial summary prospectus should describe only a single contract currently offered for sale, aiming to reduce complexity for investors. The proposed rule mandates specific disclosures, including a legend indicating that the SEC has not approved the contract or verified the accuracy of the disclosures, and requires a table of contents for easy navigation.

The summary prospectus is designed to serve as a cornerstone of a layered disclosure approach, alerting investors to the availability of more detailed information while simplifying the initial decision-making process. The use of the summary prospectus is voluntary, allowing insurers to adopt this new approach at their discretion. The SEC plans to monitor the adoption of this framework and may consider making it mandatory in the future based on its effectiveness and investor feedback.

The document also outlines a "free look" period of at least fifteen days for applicants who do not receive the Buyer's Guide and disclosure document at or before the application time, allowing them to return the annuity contract without penalty. During the sales process, potential investors receive various informational materials, including marketing brochures and state-required disclosures. Upon application approval, investors receive a detailed contract along with a statutory prospectus and are entitled to annual updates on the contract and portfolio companies.

The proposed rule introduces a new framework for variable contracts, aiming to enhance investor understanding by providing a summary prospectus that highlights key terms, benefits, and risks in a clear manner. This initiative builds on the successful summary prospectus model for mutual funds established in 2009, with adaptations to suit the unique characteristics of variable contracts. The framework includes two types of summary prospectuses: an initial summary for new investors and an updating summary for existing investors, both accessible online.

The document emphasizes the need for investors to be aware of surrender charges, which can significantly impact their investment if withdrawals are made within a specified period. It proposes that the Key Information Table include a clear statement regarding these charges, along with examples to clarify potential costs. The proposed changes aim to enhance transparency and understanding of costs, risks, and restrictions for investors in variable contracts.

The insurance policy document also discusses the delivery and content requirements for portfolio company prospectuses associated with variable contracts, introducing an optional delivery method where obligations can be met by posting the portfolio company summary and statutory prospectuses online. This aims to enhance investor choice regarding the information they wish to review. The document seeks feedback on the clarity and appropriateness of the proposed appendix summarizing available investment options under the contract.

Overall, the proposed amendments aim to streamline the disclosure process, making it more user-friendly and accessible for investors in variable contracts, while ensuring compliance with regulatory requirements. The SEC emphasizes the importance of clear and accessible information for investors, particularly given the complexity of variable contracts, which combine investment and insurance features and often involve multiple fees and potential tax implications.