MidAmerica

Group Annuity Amendment

Frequently Asked Questions

What changes does the contract amendment make?

The contract amendment changes the minimum guarantee language in the American United Life Insurance Company® (AUL), a OneAmerica® company, Group Annuity Contract. Under the current contract, the minimum guaranteed interest rate is the greater of 1% or the NAIC rate. Under the amended contract, the minimum guaranteed interest rate will be a stated 1.8% through 2021. Thereafter, the minimum guaranteed interest rate will be 1%, though the actual credited rate could be higher.

Does this mean AUL will only be crediting 1% after 2021?

No. While 1% will be the minimum guaranteed interest rate, AUL has a strong history of crediting an interest rate higher than the minimum guarantee. The chart to the right details the actual rate which AUL credited along with the NAIC minimum interest rate.

Calendar Year Rate	Actual	Guaranteed	Excess
2008	3.50%	2.95%	0.55%
2009 H1	3.60%	1.50%	2.10%
2009 H2	3.75%	1.50%	2.25%
2010	3.50%	1.10%	2.40%
2011	3.10%	1.00%	2.10%
2012	2.70%	1.00%	1.70%
2013	2.50%	1.00%	1.50%
2014	2.50%	1.00%	1.50%
2015	2.00%	1.00%	1.00%
2016	1.75%	1.00%	0.75%
2017	1.60%	1.00%	0.60%
2018	1.30%	1.00%	0.30%

How is the NAIC rate calculated?

The current guaranteed interest basis is described in your AUL Group Annuity Contract. In summary, the rate is derived by taking the average of the daily 5-year Constant Maturity Treasury (CMT) yield for the month of October and subtracting 1.25%. However, there is a lower and upper limit to the rate. On the low end, the NAIC rate is 1% and the high end is 3%. For 2019, guaranteed interest rate using this method is 1.75%.

Why does AUL want to remove the NAIC language?

The risk of quickly rising short term rates, even though they may not materialize, exposes AUL to significant risk. AUL invests in long-term bonds and mortgages to maximize the long-term return and stability of the product for its policyholders. In an effort to continue investing with this sound strategy in mind, removing the NAIC language allows AUL the ability to continue to do so without having to alter their investment strategy based on short-term fluctuations.

NAIC Rate Historical Averages

Historical averages of the NAIC rate for every month over the last 20 years.

No. of Years	Frequency of 5-year CMT ≤ 3.00%	Avg. 5-year CMT	Frequency of NAIC Minimum Guaranteed Rate ≤ 1.75%	Avg. NAIC Minimum Guaranteed Rate
5	98%	1.80%	100%	1.08%
10	99%	1.65%	100%	1.06%
15	70%	2.41%	71%	1.54%
20	56%	2.97%	56%	1.82%

Note that the 1.8% minimum guarantee being offered through 2021 is comparable to the average of the NAIC rate over the past 20 years, and well above the averages of the last 5, 10, and 15 years.

Under the amended contract, is there a cap on the credited rate, like the 3% cap on the NAIC?

No. If the interest rate environment continues to improve, AUL should see improved yield in their long-term investments which would allow them to credit rates above the minimum guaranteed interest rate. From 2008 to 2011, in an environment where long term yields were higher, AUL credited above 3%, even though short-term rates were much lower.

If there is a large increase in yields, how do I explain that to my board?

Assuming the credited rate is based on long term instruments, bonds, and mortgages, it's possible the yield curve could invert (short term bond yields are greater than longer term bond yields). Currently, the spread between the 1yr and 10yr is only .55% apart and is well below historical averages. As a result, there are going to be periods where alternative products may appear more attractive. Over the past 10 years, it has been beneficial to be in an AUL group annuity as it has consistently outperformed money market investments and CDs. A main benefit of this amendment offer is the stability it provides for you and your plan participants through 2021 at an attractive and certain interest rate. While interest rate is a critical part of your benefit, it is coupled with excellent service. The acceptance of this amendment enables a seamless transition and allows us to focus on serving participants.

Is it possible CD or money market yields will be higher than the fixed annuity rate a year from now?

Yes. However, rapid movements between CDs, money market funds, and group annuity products aren't sustainable administratively for group benefit plans. Frequent movements between investments lead to confusion amongst plan participants and can often result in frequent communications, plan blackout periods, and lower satisfaction in the plan. Rather, when evaluating investments, long term yields should be considered as there will be periods when the investments may outperform or underperform other investments. There is a significant benefit to offering a product that provides a strong rate of return while also providing certainty for the future.

How can other providers provide returns in excess of 1.8%?

- They are not as highly rated as AUL and do not have the same excellent track record of credited interest rate.
- Those rates are often more sensitive to market fluctuations—if the rate decreases, the rate for those products will decrease more quickly as well.

Why should I accept this amendment?

- Product and rate certainty through 2021
- Working with an insurance company with among the highest ratings in the industry
- Downside protection—rate cannot go below 1.8% through 2021 regardless of any market interest rate declines
- Upside—if rates go up, AUL has the ability to credit rates above and beyond the minimum guarantee (which they have demonstrated a strong track record of doing)
- Stability—working with a benefit provider that focuses on white-glove service for employers and participants