IUL Illustration (A) Subgroup  
Conference Call  
March 3, 2020

The IUL Illustration (A) Subgroup of the Life Actuarial (A) Task Force met via conference call Feb. 3, 2020. The following Subgroup members participated: Fred Andersen, Chair (MN); Ted Chang (CA); Andrew Greenhalgh (CT); Mike Yanacheak (IA); Vincent Tsang (IL); Rhonda Ahrens (NE); Bill Carmello (NY); Peter Weber (OH); Mike Boerner, John Carter and Rachel Hemphill (TX); Tomasz Serbinowski (UT); and Craig Chupp (VA).

1. Discussed Comments on the IUL Illustration Jan. 28 Exposure

Brian Bayerle (American Council of Life Insurers—ACLI) proposed revisions to Actuarial Guideline XLIX—The Application of the Life Illustrations Model Regulation to Policies with Index-Based Interest (AG 49). He said the revised guideline, titled AG 49-A, (Attachment A) is designed to be prospectively applied to new business. He noted that the ACLI is not in favor of retroactive application of AG 49. He said the revision uses a single Benchmark Index Account (BIA), and it proposes several new or revised definitions. The revision attempts to address the major concerns of state insurance regulators, while avoiding unnecessary complicated language. Mr. Tsang asked whether a product with a multiplier will illustrate better than a non-multiplier product under the ACLI proposal. Mr. Bayerle said the net effect on the account values should be the same. He said the ACLI’s hope is to provide examples at the Spring National Meeting.

Seth Detert (Securian Financial) discussed the proposal (Attachment B) jointly submitted by Mutual of Omaha, Nationwide, Penn Mutual, Prudential, and Securian Financial. He said the ACLI proposal potentially allows policies that use charges to increase cap rates to illustrate better than policies that do not allow charges to increase cap rates, which is inconsistent with the request of the Life Actuarial (A) Task Force to have the products illustrate the same. He said the language in the joint proposal does a better job of closing that loophole than the ACLI proposal. He said the five companies generally agree with the ACLI changes to the illustrated scale, but they have questions related to Section 4.B. He said the five companies are generally in favor of the changes, with possibly a few minor tweaks, to the disciplined current scale proposed by the group represented by Scott Harrison (High Point Strategies).

Graham Summerlee (Lincoln Financial) said the IUL Coalition proposal (Attachment C) adds language for the process of selecting the BIA. He said the ACLI proposal is ambiguous about which account one would select for the BIA. The IUL Coalition proposal also proposes revisions for the language related to the determination of the illustrated rate.

Tom Doruska (Global Atlantic) said Global Atlantic’s proposal (Attachment D) stresses that designs with more index growth potential should have higher illustrated rates. He said the proposal differentiates itself from the ACLI proposal in the treatment of cap buy-ups and multipliers and the determination of the portion of assets backing the product that should be subject to the earned interest rate.

Tom Love (Valmark Financial) read comments (Attachment E) from a group of independent life insurance professionals concerned about the state of indexed universal life (IUL) illustrations. He said illustrations can be used to display the mechanics of the product (type A) or used as means to show performance projections (type B). The group is concerned that Task Force decisions are designed to address type B illustrations without regard for the education of the consumer on the functioning of the product. He said the group recommends using the fixed indexed annuities (FIA) illustration standards for AG 49 and using a Black-Scholes model to determine the intrinsic value of the options strategies instead of the historical lookback approach to providing the index credits for the illustration. Mr. Andersen said the current work on AG 49 is just a single step in a multi-step process. He said after addressing the IUL illustrated rate issue by revising AG 49, other issues, such as disclosures and potentially opening the model regulation for long-term changes, could be addressed by the Subgroup, as directed by the Life Insurance and Annuities (A) Committee. Mr. Chupp asked if Securian Financial could comment on its reasons for advocating a single BIA instead of multiple BIAs. Mr. Detert said Securian Financial understood the Task Force direction on buy-up and multiplier accounts to mean that any type of charge could not be used to enhance the crediting rate or create multiple benchmark accounts.

Austin Bichler (Allianz) said the Allianz comment (Attachment F) expressed its agreement with the ACLI and IUL Coalition proposals as bases for revising AG 49.
Mr. Tsang said his comment (Attachment G) supports having products with multipliers illustrate no better than non-multiplier products. He suggested setting the crediting rate and account value for the non-multiplier product as an upper bound for all illustrations. Mr. Andersen suggested that those developing future drafts of AG 49 should note when they have included or omitted Mr. Tsang’s recommendations.

Donna Megregian (American Academy of Actuaries [Academy] Life Illustrations Work Group) said the Academy comment (Attachment H) focuses on the historical background of illustrations. She the Society of Actuaries’ (SOA’s) Task Force for Research on Life Insurance Sales Illustrations, which defined the type A and type B uses for illustrations, noted that while type A usage can be handled well with illustrations, type B usage cannot. She said the Academy is concerned that the Subgroup decisions may result in limits on type A usages while trying to address issues related to type B usages. She said the Academy comment letter recommends a number of principles through which to evaluate potential changes to AG 49.

Mr. Andersen said that during the Oct. 17, 2019, conference call, it was determined that multiplier products should illustrate no better than non-multiplier products (possibility 2). He said the Subgroup was directed to address the crediting rate for loans in a manner reflecting possibility 2. He said industry members have said their perception is that the loan issue had not been decided. Mr. Weber said addressing loans using possibility 2 is appropriate as a current solution. He said a better, longer term solution can be considered in the future. Mr. Boerner agreed. Mr. Harrison said industry members feel that ample opportunity to discuss the decision was not provided. Mr. Andersen said any revisions submitted to the Subgroup should reflect the use of possibility 2 or add commentary on why it is believed that possibility 2 should not apply.

Having no further business, the IUL Illustration (A) Subgroup adjourned.