The IUL Illustration (A) Subgroup of the Life Actuarial (A) Task Force met via conference call Jan. 28, 2020. The following Subgroup members participated: Fred Andersen, Chair (MN); Ted Chang (CA); Andrew Greenhalgh (CT); Mike Yanacheak (IA); Vincent Tsang (IL); 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 Questions Exposed on Nov. 1

Mr. Andersen said that in 2019, there were two Life Actuarial (A) Task Force conceptual votes on indexed universal life (IUL) issues. The Task Force voted to prohibit products with multipliers from illustrating better than products without multipliers and products with other product enhancements, such as cap buy-ups, from illustrating better than products without those features. He said there are a number of conceptual issues to be resolved, including the grandfathering of illustrations for previous policies, the handling of loans and the drafting of revised language for Actuarial Guideline XLIX—The Application of the Life Illustrations Model Regulation to Policies with Index-Based Interest (AG 49) to reflect these concepts. Mr. Weber recalled that the Subgroup had agreed by straw poll to put a 100-basis point limit on loan arbitrage. Mr. Boerner had a similar recollection. He asked NAIC staff to review previous Subgroup minutes to confirm his recollection.

Scott Harrison (Harrison Law Office) said he met with several companies to attempt to reach consensus on language to capture the proposed AG 49 revisions. He said during those meetings, a number of interpretational issues were identified. The group decided to list those issues, identify some goals and attempt to provide additional context around the proposed language. He provided an industry document (Attachment 1) intended to identify four issues with the proposed language that may require clarification. Ernest Armijos (Pacific Life) said the first issue is to clarify whether state insurance regulators have a preference for either of the previously proposed versions of the language addressing the supplemental option budget (Option A or Option B). He said both versions achieve much of the Task Force’s objective of restricting the illustration of multiplier and buy-up features, but both still allow illustration of a smaller multiplier benefit. He said if state insurance regulators prefer neither option, industry is willing to pursue a different solution. He said Option A defines the option budget as a charge that explicitly increases the amount spent to generate index credits. It limits the indexed credits such that they can only be as high as the charges. Mr. Armijos noted that there are still a few remaining interpretational issues, as indicated on page 2 of the industry document. He said the differences in interpretations indicate the difficulty in determining how a charge can be used in a given situation. Two examples were provided to demonstrate the variation in interpretations of how charges can be used. Brian Bayerle (American Council of Life Insurers—ACLI) said the ACLI agrees that the two main items in the industry document that the Subgroup will need to address are issue #1 and issue #4. He said the ACLI is open to alternatives to either Option A or Option B and is willing to assist industry in the pursuit of a different solution.

Mr. Armijos said Option B defines the option budget as the amount spent to generate the indexed credits of the policy minus the annual net investment earnings rate, with the indexed credits in the illustration limited to the annual earned interest rate under the disciplined current scale (DCS). He said Option B ties the maximum illustrated enhancement to the net investment earned rate and bypasses the issue of where the budget for policy enhancements can come from.

Graham Summerlee (Lincoln Financial Group) said the examples in the industry document are attempting to point out instances that are contrary to the Subgroup’s premise that a product with a multiplier can illustrate no better than a product without a multiplier. He said industry wants the Subgroup to determine whether the results depicted in the examples are acceptable, or if the Subgroup requires its premise to be firmly upheld in all situations. He said the decision is needed in order for appropriate language to be proposed. Mr. Andersen said it does not seem possible to draft language that would be applicable to all situations. He said if the new language results in maximum illustrated rates that are less than the 7% or 8% experienced prior to AG 49, the Subgroup will generally be happy. Gayle Donato (Nationwide) suggested that a fully revised AG 49 be drafted that would address the multiple components that can be included in IUL policies.

Mr. Andersen asked for comments, due by Feb. 14, on the options related to the supplemental option budget presented in the industry document. He said comments that provide pros and cons of either option, provide an additional option, or include proposed draft revisions to AG 49 will be appreciated.

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