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February 4, 2022

Mr. Mike Boerner
Chair, NAIC Life Actuarial Task Force (LATF)

Mr. Fred Andersen
Chair, NAIC Indexed Universal Life (IUL) Illustration (A) Subgroup (IUL Subgroup)

Re: IUL Exposure

Dear Messrs. Boerner and Andersen:

The American Council of Life Insurers (ACLI) appreciates the opportunity to submit the following comments on the exposed document pertaining to IUL illustrations.

ACLI appreciates the hard work of LATF and the IUL Subgroup in the development of AG 49-A and the continued monitoring of IUL illustrations. The primary goal of AG 49-A was to reduce the illustrated values on multiplier accounts, which per the exposure appears to have been successful. Our understanding is that some regulators believe that the overall level of illustrated values did not decrease as much as regulators may have envisioned. ACLI is committed to working with regulators to develop appropriate requirements that allow consumers to understand the value and risks of the policies they purchase.

ACLI would like to provide some commentary on the use of volatility-controlled funds with a fixed bonus. Volatility-controlled indexes have relatively low hedge costs associated with the options supporting the indexes, which enables companies to also provide a fixed bonus. These fixed bonuses are not linked to the performance of the indexes; such bonuses are just one way to provide product enhancements and do so in a transparent way. We have provided an appendix with several examples that demonstrate the mechanics of these index strategies and show how these products may have similar illustrated values as similarly situated products without volatility-controlled indexes.

ACLI seeks clarity on how regulators prefer to proceed. AG 49-A was designed to target multipliers and similar products and appears to have been successful in doing so. The question appears to be what additional refinements are needed. If the level of illustrated values resulting from current practices for volatility-controlled funds and similar features is deemed reasonable, a disclosure-only approach that could apply to all new inforce illustrations issued since the effective date of AG 49-A

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may provide better education to consumers about the risks associated with these features. If regulators believe the level of the illustrated values is unreasonable, we would ask regulators to provide clear objectives for a revised guideline so industry can work with regulators to address their concerns.

We appreciate the consideration of our comments and look forward to discussing on a future call. Thank you.

Sincerely,

A handwritten signature in cursive script, appearing to read "B. Banerji".

cc: Reggie Mazyck, NAIC

Appendix - Examples

The following examples are approximate values showing how the credited rates might behave between different simplified products. All examples assume the NIER is 4%.

Baseline – BIA: S&P one-year point-to-point with a 100% participation rate, solved for cap, zero floor, no multiplier, no bonus

For the BIA, the hedge budget is 4%. Based on the average option cost over the last 10 years, that would provide an 8.5% cap, which would translate to a 5.45% credited rate using the AG 49-A prescribed lookback methodology.

Scenario 1: S&P one-year point-to-point with a 100% participation rate, solved for cap, zero floor, no multiplier, 50 bp fixed bonus

For this index strategy, the hedge budget is 3.5%. This results in a 7.25% cap, which would translate to a 4.76% illustrated indexed rate before the fixed bonus, and a 5.26% illustrated rate after the fixed bonus. This example illustrates that AG 49-A allows for a lower hedge budget even independent of volatility-controlled funds. When an S&P account provides a fixed bonus for the same total cost as an S&P account without the bonus, it results in a lower illustrated rate.

Scenario 2: Volatility-Controlled index strategy with a 150% participation rate, no cap, zero floor, no multiplier, solved for fixed bonus.

For this index strategy, assume that the hedge cost for a 100% participation rate is 2.333%. Also assume that at a 150% participation rate, the prescribed lookback methodology produced returns greater than or equal to the 5.45% BIA rate. Set the participation rate to 150%. The hedge budget now needs to be 150% of 2.333%, or 3.5%. This difference leaves 50 bps for the fixed bonus. The resulting indexed credits plus fixed bonus is $5.45\% + 0.50\% = 5.95\%$. We note that different participation rates or hedge budgets could be used to achieve different fixed bonus percentages.

Scenario 3: S&P one-year point-to-point with a 100% participation rate, solved for cap, zero floor, no multiplier, 50 bp fixed bonus

This index strategy would be similar to the BIA but with an additional 50 bp bonus, so the resulting indexed credits plus fixed bonus is $5.45\% + 0.50\% = 5.95\%$. Such a strategy would require the bonus to be paid for elsewhere in the product design, such as higher COIs or other charges, resulting in a net result on illustrated values that is similar to the BIA account.

The following chart shows how the hedge budget for each scenario above is reflected in the determination of the maximum illustrated index credits for the account as well as the limit on the assumed earned interest rate underlying the disciplined current scale for the account, as prescribed in sections 4 and 5 of AG 49-A.

AG 49-A Section		Baseline/BIA* HB = NIER	Scenario 1 S&P Fund 50bp fixed bonus	Scenario 2 vol-controlled fund, 150% participation + 50bp fixed bonus	Scenario 3 S&P Fund, full hedge budget 50bp fixed bonus
3(B)	Annual Net Investment Earnings Rate	4.00%	4.00%	4.00%	4.00%
	Cap	8.50%	7.25%	n/a	8.50%
	Index Bonus (Multiplier)	0%	0%	0%	0%
	Participation Rate	100.00%	100.00%	150.00%	100.00%
3(F)	Hedge Budget	4.00%	3.50%	3.50%	4.00%
3(L)	Supplemental Hedge Budget	0.00%	0.00%	0.00%	0.00%
4(B)	Historical Credited Rate for Benchmark Index Account: (A) Comment: BIA Lookback for Base Case	5.45%	n/a	n/a	n/a
4(C)(i)	Historical Credited Rate for BIA in 4(B) + Supplemental Hedge Budget	n/a	5.45%	5.45%	5.45%
4(C)(ii)	Total Indexed Credits using actuarial judgment, method consistent with 4A/4B if applicable	5.45%	4.76%	8.25%	5.45%
4(B) for BIA 4(C) for non-BIA	Maximum Indexed Credit Benchmark Index Account: 4(B) Non-BIA: min (4(C)(i) , 4(C)(ii))	5.45%	4.76%	5.45%	5.45%
	Annual Fixed Bonus	n/a	0.50%	0.50%	0.50%
	Total Indexed Credits plus fixed bonus	n/a	5.26%	5.95%	5.95%
	Maximum Illustrated Indexed Credits less Supplemental Hedge Budget	5.45%	4.76%	5.45%	5.45%
		5.45% - 0.00%	4.76% - 0.00%	5.45% - 0.00%	5.45% - 0.00%
	Limit on earned rate underlying DCS as prescribed in 5(A)(i) (based on ANIER, Hedge Budget for the account)	5.80%	5.58%	5.58%	5.80%
5A	Lesser of 5(A)(i) or limit described under 5(A)(ii) (based on the maximum illustrated indexed credits, the ANIER and the Hedge Budget for the account).	5.45%	5.26%	5.58%	5.45%

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