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Rachel Hemphill,
Chair, NAIC Life Actuarial (A) Task Force (LATF)

Re: APF 2024-16

Dear Chair Hemphill:

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide feedback on the exposed APF 2024-16 which aims to provide clarification on testing for Indexed Universal Life (IUL) nonforfeiture compliance.

Industry supports the need for clarification around this compliance issue; however, we have some concerns around specific situations that arise based on these requirements. In particular, there may be challenges determining which set of guaranteed interest rates produces the lowest surrender charge when the expense allowance and amortization of the expense allowance can move in opposite directions. We are concerned that this APF might suggest mixing and matching interest rates from different sets of guarantees for use in the expense allowance and the amortization schedule, which is not technically feasible. Additionally, this approach would be impractical, especially for survivorship policies. We recommend companies be allowed to use the highest of the set of guaranteed rates that produces the lowest expense allowances and use that same set of guarantees in the amortization schedule.

Rationale:

When considering the impact of interest rates on maximum surrender charge calculations, it is helpful to distinguish the interest rate used in the expense allowance calculation from the interest rate used in the amortization of the expense allowance. It should be noted that there is not always a consistent relationship between the interest rate used for the amortization calculation and its impact on maximum surrender charges. A lower interest rate could increase maximum surrender charges for some ages and/or durations but decrease them for others. For this reason, it is difficult to say with certainty which set of potential guaranteed interest rates is more appropriate to use in

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maximum surrender charge calculations when changing both the rate used in the expense allowance calculation and the rate used in the amortization.

Given this dynamic, it can be difficult from a systems perspective to test surrender charges against maximum allowable rates across all ages and durations at multiple interest rates used for both expense allowances and amortization. This is a more significant issue for things like survivorship policies which have many possible combinations of insureds to test. It would appear this requirement would also be stricter than the existing requirements on survivorship policies in particular.

ACLI believes it would be much more feasible to demonstrate compliance if companies were required to use the highest of the potential guaranteed interest rates within a policy for both the expense allowance and amortization calculations which would lead to the lowest expense allowances and be simple to test against for compliance. This approach makes sense since, if there are multiple sets of guarantees, companies should not have to mix and match rates within those sets of guarantees.

Thank you for the opportunity to provide feedback on this exposure and we are available to answer any questions that you may have.

Sincerely,



B. Banerji Colin Masterson

cc: Scott O'Neal, NAIC