May 27, 2020

Mr. Fred Andersen  
Chair, NAIC IUL Illustration (A) Subgroup  
Mr. Reggie Mazyck  
Life Actuary, NAIC

Re: Exposure of Independent Proposal and Draft AG49

Dear Mr. Andersen and Mr. Mazyck,

At the fall NAIC meeting, LATF members indicated that illustrations of products with multipliers, cap buy-ups, and other enhancements should not illustrate better than products without such features. The American Council of Life Insurers Proposal (ACLI Proposal) achieves this objective by clarifying AG49 requirements for these new IUL product designs. As detailed below, the Independent Proposal:

1. Changes the AG49 requirements for all IUL illustrations, not just the new designs. This was beyond the scope sought by LATF and is not in the spirit of AG49.
2. Increases variability in illustrated rates that will deter consumer understanding. The stability of illustrated rates for a given cap fosters consumer education and the Independent Proposal replaces stability with variability.
3. Contradicts itself in its advocacy, creating further confusion for the consumer. This utilization of different credited rate methodologies fails to meet AG49’s goals.

Global Atlantic recommends rejection of the Independent Proposal and adoption of the ACLI Proposal.

Changes to All IUL Product Illustrations

The Independent Proposal purportedly replaces the lookback approach in AG49 Section 4 with a Black-Scholes calculation. As shown in the examples provided by the Independent Proposal team, however, the detailed Black-Scholes description covers up the calculation’s simple use of the hedge budget. This change is applicable to all IUL designs. Illustrations for all IUL products, not just those with multipliers or cap buy-ups, would change under this proposal. The original draft of AG49 considered the same suggestion as the current Independent Proposal, choosing the lookback approach within AG49 over this proposed approach. The Independent Proposal thus changes the spirit of AG49 beyond that previously established and currently requested by LATF.

The Independent Proposal indicates that the lookback approach is only used with index products. IUL products are the only products subject to the Illustration Regulation that utilize a lookback approach. AG49 was developed because of IUL’s crediting feature and the lack of illustrated rate consistency prior to AG49. All products subject to the Illustration Regulation, including IUL, declare a non-guaranteed credited parameter. For UL, it is the fixed credited rate. For WL, it is within the dividend scale. For both UL and WL, the declared rate is the rate illustrated. For IUL, the declared parameter, for a
Benchmark Account, is the cap. The cap is not the credited rate within the illustration. IUL is therefore the only product that needs to translate the declared parameter into an illustrated rate. It is therefore not noteworthy that illustration requirements stipulate a lookback approach only with IUL products as suggested by the Independent Proposal. It is simply out of necessity. The drafting of AG49 recognized this necessity and developed the lookback approach as a straightforward, understandable approach to foster consistency of illustrations and consumer understanding of product design. This approach should be retained, not replaced.

**Increased Variability in Illustrated Rates**

The Independent Proposal replaces the lookback calculation within AG49 Section 4 with an alternate calculation. The lookback approach was designed to bring consistency and stability in maximum illustrated rates. It also fosters consumer education as the lookback approach is understandable.

The Independent Proposal’s approach will produce notably more variability in maximum illustrated rates year-over-year for a given cap. Variations in option costs will generate these notable changes. This lack of stability will cause consumer confusion, further hindering the consumer’s understanding. AG49’s lookback approach, retained within the ACLI Proposal, maintains maximum illustrated rate stability, benefitting the consumer.

<table>
<thead>
<tr>
<th>Year</th>
<th>Avg Cost 12%</th>
<th>Independent Proposal</th>
<th>AG49 &amp; ACLI Proposal</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Cap</td>
<td>Illustrated Rate</td>
<td>Rate</td>
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<tr>
<td>2016</td>
<td>4.89%</td>
<td>5.06%</td>
<td>6.90%</td>
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<tr>
<td>2017</td>
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<td>2019</td>
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<td>5.46%</td>
<td>7.00%</td>
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**Contradictory Methods to Illustrated IUL’s Crediting Feature**

The Independent Proposal adds an additional requirement in Section 7B. This would add additional crediting rates to the illustration. These rates are calculated using a lookback approach. The approaches in Sections 4 and Sections 7 of the Independent Proposal therefore contradict each other, producing a myriad of unstable rates determined using different methodologies within a single illustration. Additional rates using different methodologies fails to foster consumer education. It instead will decrease consumer understanding and add to consumer confusion. If the display of lookback interest rates in line with that required by the index annuity illustration is desired, they could be added to the ACLI Proposal which maintains the lookback approach that the Independent Proposal abandoned.

**Summary**

Global Atlantic remains supportive of updating AG49 to ensure that new IUL product designs are illustrated within the spirit of AG49. The ACLI Proposal succeeds in doing so, meeting LATF’s objectives. The Independent Proposal fails to do so and should be set aside. The Independent Proposal team’s recommendation for additional disclosures within the ACLI Proposal should also be set aside. Requiring disclosure of the NIER within IUL illustrations would lead to an uneven playing field as...
universal life and whole life products are not required to display their NIER. Listing the NIER will likely lead to companies seeking to have the highest rate displayed. The original illustration regulation was developed to eliminate this exact situation. The Independent Proposal’s recommendation for just IUL products therefore further contradicts the premise of the entire illustration regulation. Requiring such disclosure would also reveal proprietary information, thereby leading to anti-trust issues.

We appreciate your continued work ensuring the spirit of AG49 and welcome further engagement on the subject.

Thomas A. Doruska
Head of Life Product Development

David P. Wilken
President - Life