March 25, 2020

Fred Andersen
Deputy Commissioner of Insurance
Minnesota Department of Commerce
Chair, NAIC IUL Illustration (A) Subgroup

Re: Proposed Changes to Actuarial Guideline 49

Fred:

On behalf of the companies listed below (the “IUL Coalition”), we are submitting this letter in response to proposed changes to Actuarial Guideline 49 (“AG 49-A”) submitted by the ACLI to the Indexed Universal Life Illustration (IUL) Subgroup (“IUL Subgroup”). These proposed changes are intended to implement regulators’ stated intent over the last several months.

Lincoln Financial Group
Pacific Life Insurance Company
National Life Group
John Hancock
Sammons Financial Group

The IUL Coalition has worked closely with ACLI as it drafted AG49-A and sincerely appreciates the effort to collaborate and compromise up to this point.

First, the IUL Coalition strongly agrees with ACLI that AG49-A should be applied on a prospective-only basis to policies issued after the effective date of changes. We refer you to prior comments we have made on this issue.

Second, the IUL Coalition concurs with the ACLI comment letter where a consensus was reached. The IUL Coalition provides further comment below on the one area of the ACLI letter where a consensus was not reached.

The Coalition Supports ACLI Option 1 Regarding the Treatment of Policy Loans

While the ACLI was able to reach a consensus on most provisions, one exception was with respect to the treatment of policy loans. As a result, the AG49-A draft contains two proposals for the treatment of policy loans: Option 1 and Option 2. Both Options limit the maximum crediting rate on the portion of the policy that is collateral for an index loan to a rate that is not higher than 100 bps above the illustrated loan interest charge rate (the “1% limit”). The difference between these options is that Option 1 applies the limit on Index-related performance while Option 2 applies the limit on all credits, regardless of whether they are tied to an index or not.
We agree with the ACLI that further discussion on this topic is warranted. Below we provide more clarification and education to the regulators beyond the comment letter distributed by the ACLI and describe why we support Option 1.

In evaluating the two proposed options as well as the arguments supporting each, it is the IUL Coalition’s belief that there are flaws and inconsistencies in Option 2 as described below:

1. **Applying loan “leverage” to Non-Indexed Credits.** One of the purposes of AG49 was to limit the loan leverage shown in the illustration. While the term “leverage” is not defined within AG49 itself, it is defined within the comment letter provided by the ACLI. Within that document, it defines loan “leverage” as when the index return is higher than the loan charged rate. Option 2 indicates that the loan leverage may exceed 100 bps via means of fixed rate bonuses or other innovative product designs. We respectfully disagree. Since non-indexed credits do not impact the index return nor the loan charged rate, the loan leverage remains consistent between Option 1 and Option 2.

2. **Inconsistent treatment of Indexed Loans.** Option 2 creates various inconsistencies as outlined below:
   a. **Loan vs. Non-Loaned within IUL product.** Option 2 allows the Non-Indexed Credits to be fully illustrated on non-loaned values but they may be limited on loaned values. The leads to difficulties for an applicant to compare and understand the costs associated with a loan and the impact on benefits under the policy.
   b. **Standard Loans vs. Indexed Loans within IUL product.** Option 2 allows the Non-Indexed Credits to be fully illustrated on Standard Loans but they may be limited on Indexed Loans. This creates confusion to the policyholder when determining which type of loan would be best suited for them.
   c. **Varying by Index Return.** Option 2 advocates that “products could still offer other bonus types and demonstrate how they work at lower interest rate illustrations or when loans are not illustrated.” The implication is that at higher illustrated returns, the Non-Indexed Credits cannot be illustrated since the true loan leverage is already at 100 bps. However, at lower return scenarios, they are allowing you to illustrate the bonus as you would no longer be illustrating any leverage. To illustrate items such as fixed credits differently across the return scenario is inconsistent, arbitrary and misleading as it gives the impression that the bonus amount truly varies by index performance.
   d. **UL vs. IUL.** UL policies illustrated with a loan can include Non-Indexed Credits (subject to self-support/lapse-support tests) while the IUL policies illustrated with the loan will only be able to reflect the Non-Indexed Credits that don’t cause the 1% limit to be exceeded. This difference will make it more difficult for the applicant to understand which product better suits his or her needs and will also make it more difficult to compare the mechanics of each product. The ACLI letter cautions that non-Index bonuses may become more common. We note, however, that these bonuses have been in common use for many years and have proven beneficial to many policyholders. There are no negative implications associated with a possible increase in the use of these bonuses.
To summarize, and for additional clarity, when a simplified example is shown to demonstrate how Option 1 and Option 2 would illustrate a Non-Indexed Credit under various scenarios, the inconsistency becomes apparent:

<table>
<thead>
<tr>
<th>Fixed Persistency Bonus (% of Policy Value)</th>
<th>0.50%</th>
<th>Illustrated Fixed Persistency Bonus</th>
<th>Illustrated Fixed Persistency Bonus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illustrated Policy Value</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UL Product</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Account (no loan)</td>
<td>1,000</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Indexed Account (no loan)</td>
<td>1,000</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>IUL Product</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard Loan - Fixed Account</td>
<td>1,000</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Indexed Loan - Indexed Account (lower index return)</td>
<td>1,000</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Indexed Loans - Indexed Account (higher index return)</td>
<td>1,000</td>
<td>5</td>
<td>0</td>
</tr>
</tbody>
</table>

3. **Innovative products will be disadvantaged.** Many innovative products are designed to add Non-Indexed Credits that could increase a customer’s policy value. The best way for a customer to understand the benefits derived from these types of products is in the illustration. By applying the 1% limit to Non-Indexed Credits, illustrated values for the product when a loan is taken will reflect the full charge associated with the innovative feature but may not be permitted to reflect the full potential benefit. This would create a disadvantage for innovative product designs, such as policies that offer wellness credits to customers who engage in activities that help them live longer and healthier lives.

4. **Option 1 does not provide any undue “optimism” compared to Option 2.** Within the comment letter distributed by the ACLI, one of the arguments provided for Option 2 is that it “prevents illustrations that are overly optimistic.” The implication is that Option 1 is allowing overly optimistic illustrations. This is not true. The inclusion of an item like a fixed bonus is not adding any additional optimism in that the bonus will be paid regardless of index performance. Therefore the level of “optimism”, in projecting uncertain items like indexed return, is identical between the two options.

The IUL Coalition feels that Option 1 as outlined in the ACLI draft and comment letter is the appropriate direction. The IUL Coalition believes that Option 1 provides consistent treatment of Non-Indexed Credits to allow a policyholder to properly understand the implication of a loan. In addition, Option 1 limits illustrated index loan leverage while encouraging innovative product designs. And, while each of the points above get into detail as to why we prefer Option 1, it’s also wise to step back and remember the overall goal of AG49. It was created to prevent over-illustrating indexed performance within IUL illustrations. Option 2 restricts the illustrations beyond index-related items which we don’t believe aligns with the objectives of AG49.

**Comments on other changes to AG49-A**

The revisions in AG49-A accomplish the main objectives of the IUL Subgroup’s request. The guideline establishes a maximum level of index credits based on hedge budgets that are no greater than the earned rate on assets supporting the product. At maximum levels for illustrated rates and hedge budgets,
features like multipliers or higher caps illustrate at a similar level as products without those features. We don’t believe there are openings to illustrate a net value for a BIA that is higher than the limits shown by the examples submitted by the ACLI.

We note that the ACLI is continuing discussions on a few remaining items and may have some additional changes to propose. Once the ACLI has completed discussions on any remaining changes, we plan to provide more detailed comments at that time.

The IUL Coalition is committed to working with stakeholders to promptly implement the intent of regulators, even during this time of economic and social uncertainty. We note that, over the coming months, regulators may need to consider providing increased flexibility regarding comment deadlines and decision-making as regulators and companies operate under emergency plans in response to the COVID-19 pandemic. While IUL Coalition members’ first priority is to maintain essential services to our policyholders during this public health emergency, we stand ready to continue progress on this issue as appropriate.

We appreciate the opportunity to provide input to the IUL Subgroup and look forward to further discussions.

Respectfully Submitted,

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cc: Reggie Mazyck, NAIC