May 27, 2020

Fred Andersen
Acting Deputy Commissioner of Insurance
Minnesota Department of Commerce
85 7th Place East, Suite 280
St. Paul, MN 55101

Dear Fred,

The undersigned companies present these comments in response to the NAIC IUL Illustrations (A) Subcommittee request for comments on the exposed draft of the Samuelson Proposal for recommended changes to AG49.

Respectfully,

Seth Detert, Securian Financial
Pete Rothermel, Nationwide
Jacqueline Fallon, Penn Mutual Life Insurance Co
Seth Harlow, Mutual of Omaha

We believe that without substantial revisions, the Samuelson Proposal’s exposed revisions to AG49 do not meet the stated requirements of LATF:

- That products with charged-for multipliers and/or buy-up accounts illustrate substantially similar to those products without the additional charges.

- That, within an illustration, there is consistent treatment of policy features such as multipliers, index bonuses, participating loan crediting, and non-benchmark indices across the industry.

Furthermore, we believe that the exposed version is an attempt to relitigate decisions pertaining to the original AG49. If adopted, the Samuelson Proposal would result in Indexed Universal Life contracts being at a disadvantage versus other fixed products from an illustration perspective.

Below are some concerns we have with the Samuelson Proposal. It is not to be viewed as an exhaustive list of our concerns.

- The proposal as written doesn’t establish guidelines for consistent application of the proposed rules to the variety of different ways products credit interest (such as multipliers, bonuses linked to index credits, or persistency bonuses).
  - The examples provided by Samuelson show their approach to achieve the desired LATF results on a variety of product designs. However, the wording in their proposal leaves the application of the regulation to the discretion of each carrier.

- Several clarifications and definitions would need to be added to AG49 to provide clarity and allow for consistent application throughout the industry.
Without the NAIC or another industry group publishing the required inputs, there is a lot of ambiguity around the inputs for the Black-Scholes valuation that will lead to inconsistencies throughout the industry.

Using 12 months average lookback on implied volatility will cause volatility in maximum illustrated rates from year to year versus the current AG49 66-year lookback methodology.

With LIBOR being phased out, it is not a good long-term choice. This section needs to be revisited because “another appropriate interest rate measure” is too generic and will result in inconsistent application throughout the industry.

Section 7 is acknowledging and showing the risk premium associated with different index crediting strategies. We find this inconsistent because the concept of long-term risk premium is the main premise underlying the Samuelson Proposal’s concerns with the ACLI’s recommendation.

The Samuelson Proposal lists concerns that they have with the ACLI proposal, but we do not see how their proposal addresses those concerns:

- The Samuelson Proposal puts emphasis on how each carrier defines their inputs for the Black-Scholes Valuation. Therefore, we believe there is incentive for carriers to use proprietary or less used indices to increase the illustrated rate. Proprietary and lesser used indices will have less consistent data around the Black-Scholes inputs and this could be manipulated by carriers.

- While there is always the potential for new, innovative product designs, the Samuelson Proposal is also susceptible to its application not being applied effectively to new product designs. As currently written, the Samuelson Proposal does not effectively cover the variety of already existing product designs.

- We don't believe the Samuelson Proposal addresses the “timing differences” noted because the basis for which you credit interest or take asset charges on is not defined.

In closing, we believe that the Samuelson Proposal is farther reaching than the stated goals of LATF when they opened up AG49 for revision. Due to the issues we raised above, the Samuelson Proposal in its current form is incomplete and needs meaningful revisions before it is even to be considered as a solution to LATF’s stated goals. That process will take time, and meanwhile the stated goals of LATF would continue to be unmet and IUL contracts with multipliers and buy-ups could continue to show aggressive illustrations to new clients. For those reasons, we strongly urge the Subcommittee to bring forward the ACLI proposal for vote and ultimate adoption. The ACLI recommendation is a meaningful step forward in the consistent illustration of IUL products and by Samuelson Proposal’s admission addresses the goals of LATF.