

## Life Actuarial (A) Task Force/ Health Actuarial (B) Task Force Amendment Proposal Form\*

1. Identify yourself, your affiliation, and a very brief description (title) of the issue.

### Identification:

Rachel Hemphill, Texas Department of Insurance

Ben Slutsker, Minnesota Department of Commerce

### Title of the Issue:

Clarify the requirements of AG49 Section 7.B and 7.C, to address the observed practice of including of historical averages exceeding the maximum illustrated rate and backcasted performance.

2. Identify the document, including the date if the document is “released for comment,” and the location in the document where the amendment is proposed:

Section 7, Actuarial Guideline 49

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted, or changed by providing a red-line (turn on “track changes” in Word®) version of the verbiage. (You may do this through an attachment.)

### 3. Definitions

G. Historical Period: The Historical Period for an Index Account is the number of whole years between the most recent inception date of any Index whose published values are utilized directly in the calculation of Indexed Credits and the date of the illustration. If the Index Account includes credits based on a blended Index or published composite Index that relies on reference to other Indices, then the Historical Period is determined based on the inception date of the blended or composite Index rather than the component Indices.

G.H. Inception Date: The Inception Date of an Index is the date on which the Index was launched and began tracking and reflecting market performance, and Index values were made publicly available. If the Index is comprised of multiple component indices, then the Inception Date is based on the Index itself rather than the component indices.

H.I. Index: An Index is a financial benchmark that tracks the performance of market instruments or investment strategies whose published values are used directly in the calculation of Indexed Credits for an Index Account.

<b>Drafting Note:</b> Renumber the remaining definitions accordingly.
---

### 7. Additional Standards

A. For policies sold prior to April 1, 2026, the basic illustration shall also include the following:

- i. A ledger using the Alternate Scale shall be shown alongside the ledger using the illustrated scale with equal prominence.

- ii. A table showing the minimum and maximum of the geometric average annual credited rates calculated in 4 (A).
- iii. For each Index Account illustrated, a table showing actual historical index changes and corresponding hypothetical Indexed Credits using current index parameters for the most recent 20-year period.

**Drafting Note:** The above language is the same as the current Section 7 wording in AG9 49-A, with the intention that illustrations for policies ~~issued~~ sold prior to April 1, 2026 will not need to comply with the ~~2025~~ requirements in Sections 7.B through 7.D but may choose to do so for policies ~~issued~~ sold as early as January 1, 2026.

A.B. For policies sold on or after April 1, 2026, tThe basic illustration shall also include the following:

- i. A ledger using the Alternate Scale shall be shown alongside the ledger using the illustrated scale with equal prominence.
- ii. A table, for the Benchmark Index Account, which may be a hypothetical Benchmark Index Account as described in 4.A.ii, only, showing the minimum and maximum of the geometric average annual credited rates calculated in 4 (A).
- iii. For each Index Account illustrated, a table showing annualized actual historical ~~index~~ changes and corresponding hypothetical annualized rates of Indexed Credits using current ~~index~~ Index Account parameters for only the most recent ~~2025~~-year period.
  - 1. For any Index Account where an index or indices have existed for fewer than 25 years, the historical period shall be limited to the length of its existence, or the date of inception of the index (meaning the date when the index itself was created, irrespective of when the underlying components were created). For each Index Account illustrated, if the Historical Period is less than 10 years, then no table for that Index or Index Account shall be shown.
  - 2. For each Index Account illustrated, if the Historical Period is at least 10 years but less than 25 years, then the table shall be limited to the Historical Period. In any calendar year in which an index first ~~exceeds~~ has a historical period of 10 years, the insurer shall be allowed to delay adding historical values for that index up to three (3) months from the end of that calendar year.

The table should include the historical geometric average return for the ~~historical~~ period shown, both for the annualized actual historical ~~index~~ changes and the corresponding hypothetical annualized rate of Indexed Credits using the current ~~index~~ Index Account parameters.

C. For policies sold on or after April 1, 2026, nNeither the basic illustration nor the supplemental illustration may include the following:

- i. Historical returns, including historical geometric average returns, other than the historical returns required by Section 7.A.ii and Section 7.A.iii in this guideline.
- ~~i~~-ii. Neither tables nor disclosures that either explicitly or implicitly compare historical returns and maximum illustrated rates, such as a side-by-side presentation.

Nothing in this section shall be construed to prohibit showing the rate calculated in Section 4.B.i in the basic or supplemental illustration.

D. For policies sold on or after April 1, 2026, the basic illustration shall include a statements which is ~~are~~ substantially similar to the following, as applicable:

~~“Please note that hHistorical Index changes and corresponding hypothetical annualized rates of Indexed Credits using current Index Account parameters shown in this illustration above are not indicative representations or estimates of future returnss-Index changes or rates of Indexed Credits.”~~

~~i. “If historical Index changes and corresponding hypothetical annualized rates of Indexed Credits using current Index Account parameters are not shown for any Index Account that is illustrated, it is because there are less than [5 or 10] years between the most recent Inception Date of any Index whose published values are utilized directly in the calculation of Indexed Credits and the date of this illustration.”~~

4. State the reason for the proposed amendment? (You may do this through an attachment.)

In the AG49 section on additional standards, there is a requirement to show a **20-year history of actual** index changes, and hypothetical credits based on those changes. This disclosure can illustrate the **volatility** in performance that can occur over time, compared to illustrations using a fixed illustrated rate.

Also in the AG49 section on additional standards, there is a requirement to have a table showing the min and max of the 25-year geometric averages **for the BIA** that are used in calculating the max illustrated rates. Just as a reminder, there is a single BIA for each policy.

Reviewing illustrations from 13 companies:

- Only one company did not include any historical averages or backcasting.
- The majority of companies included both.
- Five of the 12 companies added an additional chart displaying various historical average rates vs. the maximum illustrated rate.
- Some companies clearly labeled backcasted performance, while for others it was necessary to look up the index itself to identify that it was only recently created.

Where companies included historical averages (sometimes based on backcasting), they often showed multiple historical averages (e.g., 10-year, 15-year, 20-year, etc.) and often showed them side-by-side with the maximum illustrated rate. The historical averages were often 2-4x the maximum illustrated rate.

When companies were questioned about these disclosures, they noted that there was no explicit prohibition on including this information, and thought it showed consumers how the index may perform over different time periods.

This created a concern for regulators that these disclosures limit the effectiveness of AG49’s maximum illustrated rate requirements.

Reviewing illustrations also highlighted that the length of the historical period shown varied across companies, with some showing a 20-year history and some showing a longer history. To address perceived optionality in the number of historical years shown (where the index or indices have been in existence for more than the 20-year history, the standard table is increased to 25 years and the language is clarified with “only”.

Some regulators expressed that the 20-year history disclosure should be removed entirely, replaced by disclosures that simply illustrate the mechanics of the hypothetical credits based on index movements up, down, and a level index scenario. Because it is difficult if not impossible to create such scenarios that effectively show the impact for all different caps, etc., I am proposing a narrower edit to address the specific issue of the inconsistent historical periods, historical averages and backcasted performance.

<b>Dates:</b> Received	Reviewed by Staff	Distributed	Considered
<b>Notes:</b>			