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January 27, 2021

Mr. Mike Boerner
Chair, NAIC Life Actuarial Task Force (LATF)

Mr. Fred Andersen
Chair, NAIC Indexed Universal Life (IUL) Illustration (A) Subgroup (IUL Subgroup)

Dear Fred,

Securian Financial respectfully presents these comments in response to the NAIC IUL Illustrations (A) Subcommittee request for comments on the findings from the Q3 Post AG49-A IUL survey.

Securian believes the Post AG49-A IUL survey demonstrates that AG49-A accomplished one of the main goals set forth by the Subcommittee:

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

However, with new developments in the industry AG49-A appears to have fallen short of the second stated goal:

- 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.

Specifically, after AG49-A, as noted by the request for comment letter, we are seeing an increase in the utilization of volatility-controlled indices in conjunction with fixed bonuses. Carriers are utilizing this combination to drive meaningfully higher illustrated results.

In direct contrast to the intent of AG49-A, carriers are illustrating much more aggressively with these volatility-controlled indices relative to their own S&P 500 BIA accounts.

Securian does not believe there is anything inherently wrong with fixed account value based bonuses. Fixed account value bonuses are not specific to IUL and they have been part of the individual life products for decades. In addition, fixed bonuses were discussed rather extensively during the drafting of AG-49A and from those discussions LATF determined it was appropriate to illustrate them, in hopes of furthering consumer understanding on the differences between products.

Volatility-controlled indices have also been in the insurance industry for years. They have been prevalent in Fixed Index Annuities for a decade (or more) and there have been a small amount of them available for on IUL contracts for the last 5 to 10 years. We are seeing an increase in the availability and utilization of volatility-controlled index in the industry and Securian supports that direction. Volatility-controlled indexes provide options for our clients that can reasonably provide more stable index returns over a long period of time.

However, Securian does think that the current practice of how volatility-controlled indexes are being illustrated in the industry does not meet the intention of AG49 or AG49-A and should be addressed in the very near future. Specifically, the 145% limit should be applied to all accounts, not just the BIA account. Let me explain further.

Within AG-49 the determination of the maximum illustrated rate for the BIA account is limited to 145% of the Annual Net Investment Earnings Rate used to support the index. We think this guardrail should also be applied to **non-BIA** accounts. What we are seeing in the industry can be illustrated by a simple example:

- Let's consider a carrier that has a 4% Annual Net Investment Earnings Rate and they spend that amount on the BIA account. This translates to a maximum illustrated rate of 4% * 1.45% =5.8%.
- The carrier also has a volatility-controlled index that costs 3% to hedge which allows the carrier to offer a 1% fixed bonus on that indexed account to get a total 4% cost.
- The volatility-controlled index's 30 year look back rate is at or above the maximum BIA rate of 5.8% in this example. Most carriers are then illustrating the volatility-controlled index at 5.8%.
- By illustrating the volatility-controlled index at 5.8% they are illustrating a hedge payoff of (5.8%/3%) = 1.93% which is excess of the 1.45% guardrail of the BIA.
- The increased illustrated hedging payoff in excess of the 145% BIA guardrail is what Securian believes is the main driver higher illustrated values for volatility-controlled indices.
- If volatility-controlled indices were limited in illustrating a maximum of 1.45% hedge payoff you would get a max illustrated rate in this example of 3%*1.45% =4.35%.
- Using the example above with an adjustment to AG49-A to limit the hedge payoff to 145% of the volatility-controlled index you would get a total crediting rate of 4.35% plus the 1% fixed bonuses for a total crediting rate of 5.35% versus what is being currently being illustrated in the industry of 5.8% plus a 1% fixed bonus for a total crediting rate of 6.8%.

Securian believes there are several ways to change AG49-A to make it clearer/enforce that the 145% guardrail applies to all illustrated indexes. If desired by LATF we are ready to work with our industry peers to put forth draft language to address what we see is the crux of the concern presented by LATF from the findings of the post AG49-A survey.

Respectfully,

Seth Detert, Securian Financial