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As an owner of two fixed indexed annuities, I have approached this issue based on what I would like to have received to analyze my product choices. My issue with the illustrations that exist today is that they apply today's product pricing to either actual or assumed past index returns. Pricing changes with changes in interest rates and index volatility, therefore using today's pricing for each year in the illustration does not give an accurate picture of expected returns. This problem is amplified when assumed index returns are used rather than actual returns.

What confuses me is that today's illustrations attempt to show how the product will perform in the future. What I really want to know is how it has performed thus far and how did that performance changed in different market environments. Insurance companies don't illustrate future years when running illustrations on variable annuities. It simply quotes actual returns of the various sub-accounts. Why should FIA illustration be any different? Therefore, I would propose the following format for FIA illustrations:

Year	Beg Value	Actual Cap Rate	Index Return	Crediting Rate	Interest Credited	Account Value	Cash Value
2015	\$100,000	6%	8%	6%	\$6,000	\$106,000	\$95,400
2016	\$106,000	5.5%	11.5%	5.5%	\$5,183	\$111,830	\$101,765
2017	\$111,830	5.5%	-8.25%	0.0%	\$0	\$111,830	\$102,884
2018	\$111,830	5.0%	17.6%	5.0%	\$5,591	\$117,421	\$109,201
2019	\$117,421	5.5%	3.0%	3.0%	\$3,522	\$120,943	\$113,686
2020	\$120,943	4.5%	15%	4.5%	\$5,442	\$126,385	\$120,066

The illustration should run the greater of ten years or the length of the surrender charge. In essence, the insurance company is showing how a particular product bought 10-years ago has actually performed. They should use the actual cap/par rates and index returns that were declared on that particular product. As a consumer, I can clearly see how much interest I would have earned each year had a bought that product ten years ago. The relationship between what I earned from the product and how the index performed would be clear.

Products with Fees and/or Spreads

Should product have a fee or a spread, the illustration will need to have two extra columns. Fee products should have a column for both the fee percentage, and the actual dollar

amount deducted each year. Spread products should have a column for the spread % as well as the net index return minus the spread.

What if the Product Didn't Exist Ten Years Ago?

Products constantly change and new indexes are continually developed. The most egregious illustrations are the ones that use backtested index data. Prohibiting illustrations on products that don't have ten years of real data will stifle innovation. Therefore, there must be guardrails on these illustrations. I would argue that illustrating an assumed cap/par rate or assumed index return is not useful information. What is important is the likelihood of returns. Therefore, on products with insufficient track records, omit both the index return and the actual cap/par rate and replace it with an assumed return equal to ten-year U.S. treasuries plus 1.5-2.0%. Historically, that has been a good benchmark on what an FIA returns over time. In addition, I would require each carrier to provide the following information using their current crediting rates and type:

Strategy Comparison

8% Performance Trigger Rate		10% Cap Rate		65% Participation Rate	
Performance	Returns	Performance	Returns	Performance	Returns
Best	8%	Best	10%	Best	49.48%
Average per year	6.43%	Average per year	6.34%	Average per year	7.66%
Worst	0%	Worst	0%	Worst	0%
Frequency	% of Years Acheived	Frequency	% of Years Acheived	Frequency	% of Years Acheived
Positive Returns	74.25%	Positive Returns	74.25%	Positive Returns	74.25%
Negative Returns	0%	Negative Returns	0%	Negative Returns	0%
0% Returns	25.75%	0% Returns	25.75%	0% Returns	25.75%

The technology exists to look at every crediting period over a selected time frame and calculate the best, average and worst returns over those crediting periods using an assumed cap/par/performance trigger rate. For example, if I had a 10% cap every crediting year since the origination of the S&P 500, I would have averaged 6.34% over all of those

periods. I would have received a positive return of 74.25% of the one-year periods and received 0% in 25.75% of those periods. Think about how useful this would be for a client that is trying to understand likely returns.

Overly Optimistic Backtested Index Returns

When you run the analysis above using unrealistic backtested data, the average returns will be significantly higher than what is shown in the above charts. I have seen some FIAs calculate an average return of over 15% per year using backtested data. While it may be possible to earn such a return in a single year on a product with a participation rate, such average annual returns are simply not achievable over time on a product that provides downside protection. The use of unrealistic backtested data will also greatly exceed any illustrated returns using 10-year Treasuries plus 1.5-2.0%. This will not only raise a red flag for consumers, but it will force the agent to explain the discrepancy. This will become a huge deterrent to running overly aggressive illustrations. In all likelihood, most agents will elect to avoid them altogether.

Would This Solution Give a Competitive Edge to Carriers That Have Been Selling FIAs for Many Years?

One could argue that carriers that have been offering FIAs for at least 10 years would be able to provide illustrations with more historical information that they will have a marketing advantage over newer entrants. Personally, I'm OK with that. Consumers should be aware that a lack of a track record means more uncertainty. That should be part of their decision process. This situation already exists in the industry. As an example, every day consumers must decide if they want to invest in a new mutual fund with a limited track record or choose one that has been around for decades. What we're really talking about here is keeping new products from gaining acceptance as a result of misleading data.