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To: NAIC Life Insurance and Annuities Illustrations (A) Working Group

By email: jcook@naic.org

Re: Short-Term Solutions for Annuity Illustrations

The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on the Life and Annuity Illustrations Working Group's questions regarding potential short-term solutions to address concerns related to illustrated rates, consumer understanding, and transparency.

ACLI and its members share regulators' objective that annuity illustrations should provide consumers with reasonable expectations and a clear understanding of how products work, without creating the impression of predictive or guaranteed outcomes. Based on member experience and recent stakeholder discussion, near-term progress is best achieved by refining existing frameworks – particularly NAIC Model #245 – which will also help drive longer-term structural changes.

I. Recommended Starting Point for a Short-Term Solution

ACLI supports using Model #245 as the foundation for a short-term solution rather than starting anew. Model #245 already establishes core principles that continue to resonate with regulators' concerns, including that illustrations should explain product mechanics and not serve as forecasts of future performance.

ACLI agrees that current illustrations may be overly lengthy and complex. Building off of Model #245 allows the Working Group to address these concerns efficiently by refining existing requirements and updating relevant parts of the Model to provide more clarity, while also allowing for the removal or modification of provisions that may be contributing to excessive length. Leveraging Model #245 also supports regulatory consistency across states and enables a more timely response to near-term issues.

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The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 94 percent of industry assets in the United States.

II. Model #245 Is A Solid Foundation For Addressing Working Group Concerns

The Model places meaningful conditions on annuity illustrations to help consumers achieve a clear understanding of how products work, while not giving consumers the impression that the illustrations are predicting or guaranteeing future values. For example, it sets rules on illustrations to demonstrate how an index has performed over various market cycles. The Model requires that the illustration includes low and high scenarios that:

“...reflect the irregular nature of the index performance and should trigger every type of adjustment to the index-based interest rate under the contract. If an adjustment to the index-based interest rate is not triggered in the illustration because there are no historical values of the index in the required illustration range, the illustration must so state.”

This helps explain to consumers how variations in past index returns, when paired with features like applicable caps, trigger rates, and participation rates, affect values under the contract.

The Model also includes rules that address the illustration of non-guaranteed values and how these values reflect any planned changes which may occur after the expiration of an initial guaranteed or bonus period. The Model requires a statement that: (i) benefits and values are not guaranteed; (ii) assumptions on which they are based are subject to change by the insurer; and (iii) actual results may be higher or lower. This requirement sensitizes consumers to the uncertainty inherent in crediting performance, and thus why the purpose of the illustration is not to project future values.

III. Targeted Areas for Improvements Within Model #245

ACLI recommends that any changes focus on a specific set of themes that directly correspond to concerns raised by regulators and market participants. We've included a list of these themes below and look forward to working with you on revisions that help consumer understanding of annuity products and improve consumer protection.

A. Shorter, More Summary-Based Illustrations

Shorter, more summary-based illustrations with clear emphasis on key concepts may help to improve consumer understanding of annuity products. Achieving this goal may require reconsidering whether certain existing requirements, particularly those that contribute to cumulative length and/or repetition—remain necessary in every instance. Elements such as the required illustration to maturity may not reasonably fit every circumstance, leading to unnecessarily lengthy and cumbersome disclosure.

Also, consideration should be given to the proper balance and redundancy between a narrative summary of the product within annuity illustrations and information required to be included in the disclosure document referenced in Section 5 of the Model.

B. Standardizing Disclosure Language

There may be potential value in adding some standardized Model language to promote consistency for consumers and provide insurers with regulatory clarity. ACLI recognizes that such standardization of aspects of the disclosures must be tailored as to not inadvertently increase length or obscure the nature of the annuity product by reducing appropriate tailoring to match the actual product.

C. Nonguaranteed Elements

Section 6(F)(8) of Model #245 provides a meaningful framework for addressing several, core concerns raised by regulators, particularly how illustrations are constructed and reviewed. Model Section (G)(4) requires disclosure that the non-guaranteed elements will change, and as such actual values will be higher or lower than what is illustrated. Those provisions make it clear that apart from minimum contractual guarantees, customers should not count on any particular pattern of renewal rates. Regarding renewal rates, clarifying and reinforcing how changes to non-guaranteed elements can impact contract values is best achieved by standardizing and setting clear expectations on required disclosures. This would promote consistency and improve consumer understanding without requiring wholesale changes to the Model.

D. Considerations on Historical Index Illustrations

We recommend that the Model be revised to allow the use of data beyond the most recent 10-year historical performance when subsection H requires more than 10 years of data and to extend the sampling period for the low and high scenarios to longer than 20 years to capture more market cycles. The use of more historical data provides consumers with more information on how the index fluctuates with market conditions. In general, the market has broadly performed well since the Financial Crisis of 2008. The more actual historical data is used, the greater the likelihood that the illustrations will demonstrate the operation of the product in a variety of scenarios.

E. Use of Indices with Less Than Ten (10) Years of Life Performance

Section 6(F)(9)(b) of the Model currently prohibits the illustration of index performance for indices that have not existed for at least ten (10) calendar years. This provision may limit consumer understanding and informed decision-making when purchasing annuity contracts

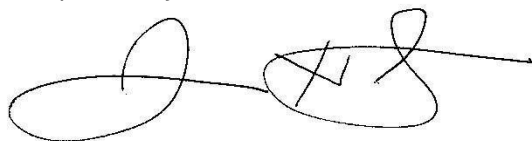
that include newer indices with less than 10 years of historical data. ACLI seeks to collaborate with the Working Group on changes to the Model that enhance the Model's consumer protection objectives while ensuring that consumers are provided with meaningful, transparent information about available product options, that support informed allocation decisions and preserve consumer choice.

VI. Path Forward

ACLI supports the Working Group's dual-track approach of pursuing both short-term enhancements and longer-term consideration of broader structural changes. In the near term, targeted refinements to Model #245 offer a practical path forward that responds directly to regulator-identified concerns.

ACLI remains committed to working constructively with the Working Group and we look forward to our continued engagement as your work progresses. We continue to consider this matter and expect to have more to share with you as your work proceeds. Thank you again for this opportunity to provide comments.

Respectfully,

A handwritten signature in black ink, appearing to read 'James Szostek', with a long horizontal line extending to the right.

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