September 6, 2022

Ms. Rachel Hemphill

Acting Chair, NAIC Life Actuarial Task Force (LATF)

Mr. Fred Andersen

Chair, Index Universal Life (IUL) Illustration (A) Subgroup (Subgroup)

Via Email: soneal@naic.org

Re: IUL Re-Exposure

Dear Ms. Hemphill and Mr. Andersen:

The undersigned companies welcome the opportunity to comment on the Life Actuarial Task Force re-exposure of options regarding illustrations for indexed universal life insurance (IUL) policies.[[1]](#footnote-2) We would like to acknowledge the efforts the IUL Illustration Subgroup and Life Actuarial Task Force have put forth to address illustrations of IUL products over the past several years, including the current effort regarding the Actuarial Guideline 49-A framework. We appreciate the opportunity to provide our comments on the questions and potential solutions that are under consideration.

Illustrations are meant to protect consumers and foster understanding of life insurance products and features. With this important purpose in mind, we offer recommendations for an interim fix impacting IUL illustrations and a long-term solution for life illustrations. As a first step in determining the scope and approach of a long-term solution to address illustrations, we recommend a thorough analysis be completed to identify the regulatory goals and the ideal end state. Such an analysis should follow a holistic and principles-based approach with a focus on consumer understanding of various product features. This analysis would inform whether changes to the Life Insurance Illustrations Model Regulation #582 (Model) are needed and the scope of necessary revisions. We believe that any changes to the Model should be focused on protecting consumers and accommodating evolving product designs in response to market interest while mitigating the possibility of frequent updates to the Model. Throughout the analysis, we would ask that regulators appropriately factor the importance of promoting consumer access and a regulatory framework that fosters a fair and competitive playing field across all types of life insurance, and unique features of indexed universal life, as consumers may be considering multiple product types.

In the interim, we recommend implementing a “quick fix” with a brief revision to Actuarial Guideline 49-A consistent with “Option A” in the American Academy of Actuaries’s February 2022 comment letter.[[2]](#footnote-3) We support a limit on indexed illustrated rates of 145% of each indexed account’s hedge budget, similar to the 145% of net investment earned rate limitation on the Benchmark Index Account. A limited revision, to be applied on a prospective basis, to section 4C of AG49A would accomplish this change as specified in the appendix. While this approach could still result in some index accounts illustrating slightly higher than the Benchmark Index Account, it would quickly lower the illustrated values of volatility controlled indices and allow regulators and interested parties to begin a thorough analysis to determine the scope, approach, and implementation of a long-term solution.

Thank you for the consideration of these comments. We would be glad to respond to any questions you may have regarding this letter.

Allianz

John Hancock

Lincoln National

National Life Group

Pacific Life

Sammons Financial Companies

**Appendix – Revised AG49A Language**

4. C. For any other Index Account that is not the Benchmark Index Account in 3 (D), the Annual Rate of Indexed Credits illustrated as a percentage of the account value in the Index Account prior to the deduction of any charges used to fund a Supplemental Hedge Budget shall not exceed the minimum of (i), (ii) and (iii):

i. The Annual Rate of Indexed Credits for the Benchmark Index Account calculated in 4 (B) plus the Supplemental Hedge Budget for the Index Account.

ii. The Annual Rate of Indexed Credits reflecting the fundamental characteristics of the Index Account and the appropriate relationship to the expected risk and return of the Benchmark Index Account. The illustration actuary shall use actuarial judgment to determine this value using lookback methodology consistent with 4 (A) and 4 (B) (i) where appropriate.

iii. 145% of the Hedge Budget for the Index Account.

1. The undersigned companies represent approximately 50% of the IUL insurance sales in 2021 based on premium [↑](#footnote-ref-2)
2. American Academy of Actuaries, Comments on IUL Exposure from the December 8, 2021 LATF Session, (February 3, 2022) [↑](#footnote-ref-3)