



AMERICAN ACADEMY of ACTUARIES

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November 22, 2022

Mr. Fred Andersen
Chair, Indexed Universal Life (IUL) Illustration (A) Subgroup (“IUL Subgroup”)
National Association of Insurance Commissioners

Re: IUL Subgroup Exposure for Model Reg 582 Ideas (October 13, 2022)

Dear Mr. Andersen,

The American Academy of Actuaries¹ Life Illustrations Work Group (the “work group”) is providing the below comments to the IUL Subgroup on the Exposure for Model Regulation #582 (“the Model”) Ideas from October 13, 2022.

In response to the IUL Subgroup’s request for comment, our work group reviewed the Model to identify sections that may need to be modified—to enact, allow for, or align with proposed IUL illustration changes. When contemplating changes to IUL illustrations, our work group has focused on satisfying the Type A Usage of illustrations,² which is intended to show the consumer the mechanics of the policy being purchased and how policy values or premium payments change over time.

As the work group performed this review, we determined that more clarity is needed as to how the IUL Subgroup thinks certain IUL features should be illustrated before we can respond to the questions in the exposure. To that end, the work group suggests that a public discussion of the following questions, and direction from the IUL Subgroup on these issues, would be helpful before determining which subsections, if any, of the Model to open:

1. How should index-based credits be illustrated?
 - Should illustrated values based on a non-level pattern of index-based credited rates be shown?
 - Should illustrated values based on more than one pattern or level of rates be shown?
 - Should illustrated values based on historical index performance be shown?

¹ The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

² As defined in the SOA Task Force Research on Life Insurance Sales Illustrations as published in the *Transactions of the Society of Actuaries 1991–92 Reports*. The report concluded that Type B Usage, which is intended to project likely or best estimates of future performance and compare cost or performance of different policies, was inherently unworkable.

2. How should the maximum illustrated rate be determined?
 - Should historical index performance be used?
 - Should all index accounts have the same maximum illustrated rate?
 - If so, should that maximum be based on the S&P 500 index with an annual point-to-point crediting strategy (i.e., the current Benchmark Index Account (BIA))?
 - Should a predetermined maximum illustrated rate similar to variable universal life (VUL) be used?
3. What is the desired balance between reflecting the current environment vs. long-term averages in illustrations (for example, in illustrated index parameters)?
4. Should the implied risk premium associated with the hedge budget be limited?
5. How should the risks and rewards of index-based credits be illustrated?
6. How can illustrations be designed to promote consumer understanding of the product features (e.g., multipliers, buy ups, participation rates, fixed bonuses, indexed loans)?
7. How can illustrations be designed to deemphasize the maximum illustrated rate while still demonstrating how product features operate?
8. How should any product with a tie to an index (for example, a dividend formula with interest credits related to an index) be addressed?

Note that several of these questions and concepts apply beyond just IUL illustrations. For example, many non-IUL products contain features such as fixed bonuses and leveraged loans that are currently illustrated.

Some types of illustration changes may be fully implemented through an actuarial guideline (i.e., without opening the Model), while others may require revision of multiple subsections in the Model. For example, if more than one level of credited rates is required for the illustrated scale, the work group has identified several subsections of the Model that may need to be considered for potential revision.

The work group appreciates the efforts of the IUL Subgroup to review Actuarial Guideline 49-A and Model Regulation #582. If you have any questions or would like to discuss the above topics, please contact Amanda Barry-Moilanen, life policy analyst, at barrymoilanen@actuary.org.

Sincerely,

Brian R. Lessing, MAAA, FSA
Chairperson, Life Illustrations Work Group
American Academy of Actuaries