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CUNA MUTUAL GROUP

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Via Electronic Delivery to rmazyck@naic.org

Mr. Peter Weber, Chair
Mr. Tomasz Serbinowski, Vice Chair
Index-Linked Variable Annuity (A) Subgroup
National Association of Insurance Commissioners
1100 Walnut Street Ste 1500
Kansas City, MO 64106

Dear: Messrs. Weber and Serbinowski

On behalf of the companies of CUNA Mutual Group (CUNA Mutual), we are pleased to provide comments to the National Association of Insurance Commissioner's (NAIC) Index-Linked Variable Annuity (A) Subgroup (Subgroup) on the proposed *Actuarial Guideline ILVA: The Application of Model 250 to Variable Products Supported by Non-Unitized Separate Accounts* (Actuarial Guideline). CUNA Mutual is the nation's leading provider of financial products and services to credit unions and credit union members. Through our companies, we serve as an insurer, a retirement plan services provider, a broker dealer, and a registered investment advisor. We make available various insurance and investment products to credit unions, millions of credit union members, and middle-income consumers across the United States. As part of the cooperative movement, we embrace the credit union philosophy of "people helping people" and believe a brighter financial future should be accessible to everyone.

Like the Subgroup, CUNA Mutual is focused on working to address the retirement savings crisis facing our country today. We appreciate Subgroup efforts to develop a uniform standard for Index-Linked Variable Annuity (ILVA) interim values which we hope will result in increased consumer access to ILVA products and protections. CUNA Mutual has been serving consumers in the ILVA space for over eight years and our experience shows ILVAs are an incredibly impactful tool in helping middle market customers create guaranteed retirement income. We take pride in helping those who make a modest income. It is in the spirit of supporting our customers that we offer these comments.

While we share the Subgroup's interest in providing a framework for states to approve ILVAs as a form of variable annuity under the NAIC's Variable Annuity Model Regulation #250 (Model Regulation 250), we believe changes are required to the proposed Actuarial Guideline to ensure it is workable. As drafted, we believe the Actuarial Guideline may prevent ILVAs currently on the market from qualifying as available to consumers going forward. Without amendment, the proposed Actuarial Guideline could cause significant market disruption, limit industry's ability to offer these valuable products, and impede future ILVA product innovation.

CUNA Mutual Supports Industry Comments and Revised Proposed Actuarial Guideline

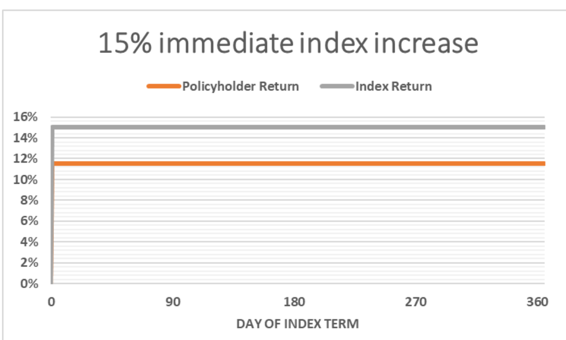
CUNA Mutual endorses the comments and industry proposal submitted by the American Council of Life Insurers and Committee of Annuity Insurers (Industry). Industry's proposal provides a workable, alternative Actuarial Guideline for Model Regulation 250 which establishes a principles-based framework and provides equity to both contract owners and ILVA issuers. The Industry proposal accommodates a broad spectrum of ILVA products on the market today and enables product innovation in the future.

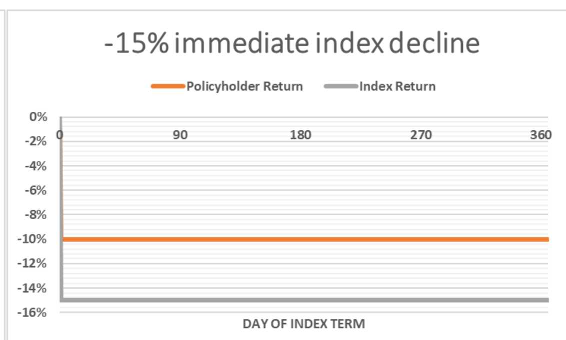
If the Industry draft does not advance, we recommend the Subgroup instead use NAIC's Modified Guaranteed Annuity Model Regulation #255 (Model Regulation 255) as the basis for industry standards related to ILVAs, amend Model Regulation 250, or create a new, principles-based Model Regulation framework.

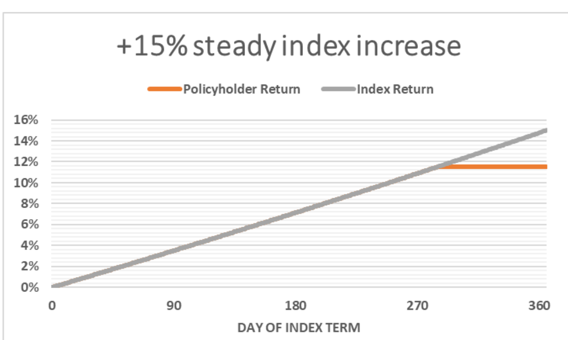
The following concerns and recommendations are most critical to CUNA Mutual to ensure ongoing marketplace opportunities for the company's ILVA products.

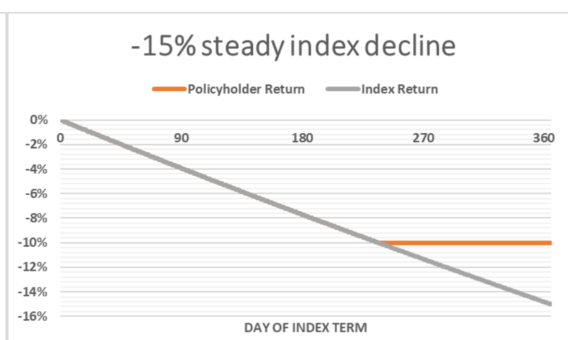
Adjust scope to carve out and allow ILVAs with interim values in which full index performance is immediately recognized.

CUNA Mutual recommends the Subgroup adjust the scope of the Actuarial Guideline to carve out and allow ILVAs with interim values in which full index performance is immediately recognized. The company offers two ILVAs under which the contracts immediately credit the index return, bounded by a constant cap and floor during each crediting term. These contracts are simple to understand and use and ensure transparent equity to the customer and issuer. The mechanics are illustrated in the charts below. A 1-year Index Term with 11.5% cap and -10% floor is assumed.









Note that under the steady index increase and decrease examples the policyholder return matches the index until the cap and floor are reached.

"Method 2" in Industry's revised proposed actuarial guideline would accommodate these designs.

Clarify that spread based products are acceptable.

The drafting note on page 4 of the draft Actuarial Guideline states, "any profit provisions, spreads, and expenses should be reflected as explicit charges disclosed in the contract." CUNA Mutual respectfully recommends this sentence be omitted. ILVAs are fundamentally spread based, which enables simplicity, transparency, and the financial value our customers seek.

Adjust ILVA guidance basing interim values on derivative assets to ensure reasonable equity between decrementing and persisting contract holders.

To ensure reasonable equity between decrementing and persisting contract holders, CUNA Mutual suggests the Subgroup adjust ILVA guidance basing interim values on derivative assets. Specifically, CUNA Mutual respectfully recommends the Subgroup make the following adjustments to the Actuarial Guidance:

- In the "Text" section, add an assumption that permits accounting for the costs of unwinding derivatives prior to expiration. The current draft assumes frictionless trading of equity derivatives, raising an equity issue as it allows decrementing contract holders to shift these costs to persisting contract holders. Consumers accept and are comfortable with breakage costs when contracts are ended mid-stream and the Actuarial Guideline should recognize these costs.
- Add a provision that allows interim value to account for unamortized option costs versus the current Fixed-Income Asset Proxy approach. Such a provision would accommodate smoother amortization of option costs ensuring decrementing and persisting policyholders accrue benefits at the same rate. The current Actuarial Guideline draft can introduce discontinuities into option cost amortization. In turn, this may tilt benefits to decrementing policyholders at the expense of persisting policyholders. The Industry intends to provide a numerical example demonstrating this concern.

"Method 1" in Industry's revised proposed actuarial guideline contains language that accommodate these recommendations.

Amend language concerning interest rate related market value adjustments to ensure alignment with underlying risks.

The proposed Actuarial Guideline includes a defined Fixed-Income Asset Proxy, which implies fixed income assets must have the same maturity date as the Index Term end date. In practice, many index terms are shorter (e.g., 1 year) than CDSC periods and actual investment strategies used to support the contractual guarantees. To ensure alignment with underlying risks, CUNA Mutual supports revisions to clarify that the guideline does not limit how interest rate market value adjustments may be applied. CUNA Mutual believes the Industry's proposed draft appropriately clarifies this issue.

Confirm the Actuarial Guideline is not intended to clarify the NAIC's Modified Guaranteed Annuity Model Regulation #255 and does not exclude ILVAs from qualifying under Model Regulation #255.

ILVAs meet the requirements of the NAIC's Modified Guaranteed Annuity Model Regulation #255 (Model Regulation 255). While the Subgroup seeks to clarify marketplace opportunities for ILVAs under Model Regulation 250 through the Actuarial Guideline, CUNA Mutual respectfully requests that nothing in the Actuarial Guideline should be construed to limit ILVAs as permitted under Model Regulation 255. Though Model Regulation 255 is not widely adopted in states, there are jurisdictions where industry currently relies on Model Regulation 255 to deliver ILVAs to consumers.

In closing, CUNA Mutual appreciates the Subgroup's consideration of these comments. Like others in the industry, we work hard each day to bring financial products and services to the people who need them most. ILVAs are fundamentally spread based products and insurer practices regarding how underlying assets are held vary. We believe any Actuarial Guideline promulgated by the Subgroup should confirm these critical aspects of the product to ensure their viability for middle market consumers who are increasingly choosing ILVAs as a source of guaranteed retirement income.

Please reach out with any questions or if we can offer additional information to support these comments.

Sincerely,

David L. Hanzlik
VP, Annuity & Retirement Solutions