

Comment to the NAIC Life Insurance and Annuities Illustrations Working Group — Follow-Up Question

May 2026

Executive Summary

In response to the Working Group’s follow-up question, CANNEX recommends **Model 245 (Annuity Disclosure Model Regulation)**[1] as the starting point for a short-term regulatory solution. The two short term approaches described in our March 2026 comment — enhanced renewal rate disclosures and a supplemental “Reduced Rate” scenario — map to identifiable provisions within Model 245, and targeted modifications to those provisions can be implemented near-term without a comprehensive overhaul of the regulation.

We recommend modifications to:

- **Sections 6-G(4)(b) and 6-J(3)**: to require enhanced disclosure of renewal rate risk and the economic trade-offs embedded in premium bonus products
- **Section 6-F(9)**: to mandate a supplemental “Reduced Rate” scenario

We do not recommend AG 49-A as the starting point, nor do we recommend starting anew.

The Working Group’s Follow-Up Question

“What should be the starting point of a short-term solution: Model 245 language or something else (such as AG 49-A, other guidance, or starting anew)?”

Background

CANNEX is a provider of data, analytics, and research dedicated to increasing the transparency of annuity products in North America. Our recommendations are informed by the services we provide in the U.S. marketplace, which include the fair and objective modeling and comparison of retail annuities across carriers. We welcome the opportunity to engage in a technical dialogue with the Working Group regarding our methodology or any of the proposals described in this document.

In our March 2026 comment [2], we identified three mechanisms by which the current illustration framework produces illustrated returns that materially exceed reasonable consumer expectations:

1. **The renewal rate assumption and its interaction with premium bonus designs**: Section 6-F(8) requires that non-guaranteed elements used in illustrations be “no more favorable than current non-guaranteed elements.” Because

the regulation prohibits illustrating *above* current rates but does not require illustrating below them, insurers project current strategy rates unchanged for the entire illustrated period. This fails to communicate the structural expectation that renewal rates will be lower, particularly in premium bonus products where the pricing model anticipates reduced crediting rates in post-bonus terms.

2. **Scenario selection bias:** The best, worst, and most recent 10-year windows drawn from the last 20 years may all capture historically exceptional equity performance and do not represent a forward-looking range of outcomes.
3. **Inconsistency between current strategy rates and the illustrated scenario's economic environment:** Applying today's strategy rates — calibrated to today's bond yields — to historical periods with a different rate regime produces a compounding overstatement.

Our short-term proposals focus on mechanism 1.

Recommended Starting Point: Model 245

Model 245 is the designated regulatory framework for annuity disclosures and already contains FIA-specific provisions governing the three-scenario illustration requirement, non-guaranteed element assumptions, and narrative summary requirements. The problems we identified in our March 2026 letter emerge from this framework and targeted remedies should be applied within it.

The regulation has broad state adoption. Amendments to Model 245 travel an established legislative path familiar to regulators, insurers, and illustration software vendors, significantly reducing implementation burden. This is the primary reason Model 245 represents a viable short-term pathway.

On AG 49-A: AG 49-A was designed for Indexed Universal Life products. Its rate-limiting mechanism — a cap derived from a benchmark fixed interest index account and an implied options hedge budget — is architecturally tied to the IUL product structure, which includes insurance charges and mortality costs with no analogue in FIA products. Adapting AG 49-A to FIAs would require drafting a new annuity-specific actuarial guideline replicating its mechanics in a FIA context — a technically complex undertaking incompatible with a short-term timeline that would also create jurisdictional overlap with Model 245.

On starting anew: Creating a new model regulation requires drafting, multiple exposure periods, NAIC committee adoption, and state-level adoption — inherently longer than what the short-term objective demands. Model 245 already provides the scaffolding; the short-term task is to add targeted provisions within it.

Proposed Modifications to Model 245

Modification 1 — Enhanced Renewal Rate Disclosure **Sections 6-G(4)(b) and 6-J(3)**

Section 6-F(8) produces illustrations in which insurers project current strategy rates unchanged for the entire illustrated period — technically compliant, but insufficient to communicate the predictable risk that renewal rates will be lower, and

that premium bonus products are specifically priced to anticipate this reduction. Two provisions require modification to close this gap.

Section 6-G(4)(b) should be amended to append the following:

“Current strategy rates (including participation rates, caps, and spreads) are set by the insurer for the initial crediting term and are not guaranteed to renew at the same levels during the remainder of the surrender period or after. Renewal rates may be materially lower. Where the contract includes a premium bonus: the premium bonus provides an upfront addition to account value in exchange for a product pricing structure that anticipates lower strategy rates in subsequent crediting terms. An illustration that projects current strategy rates alongside a premium bonus may substantially overstate the long-term accumulated value of this contract.”

Section 6-J(3) already requires a description of the frequency of strategy rate resets. We recommend expanding it to also require:

“...the historical range of renewal rates the company has applied to comparable strategy types over the prior five (5) years, or for the full period the strategy has been offered if less than five years.”

This requires each insurer to disclose its own renewal rate track record, the feasibility and format of which may require further discussion.

Modification 2 — Mandatory “Reduced Rate” Supplemental Scenario

Section 6-F(9)

The existing three-scenario framework never shows consumers how sensitive illustrated accumulation values are to the single most consequential assumption in every FIA illustration: that current strategy rates persist unchanged. We recommend adding a new sub-paragraph to Section 6-F(9):

“In addition to the three scenarios defined in this subsection, a fixed indexed annuity illustration shall include a supplemental ‘Reduced Rate Scenario.’ This scenario shall use the same historical index performance as the most recent ten (10) calendar year scenario, with non-guaranteed elements reduced from current levels by a factor specified by the commissioner, subject to the contract’s guaranteed minimum or maximum elements. The scenario shall be labeled ‘Reduced Rate Scenario’ and displayed with prominence equal to the other three scenarios.”

The specific reduction factor should be calibrated by the Working Group using empirical data on the typical magnitude of renewal rate reductions observed across the FIA market.

Scope Limitation

To keep the short-term workstream achievable, we recommend limiting Model 245 modifications to **Section 6**. The following should proceed on a separate, longer-term track:

- Replacement or redesign of the historical scenario selection methodology

- Economic consistency requirements between current strategy rates and the illustrated scenario's rate environment
- Comprehensive new standards for proprietary and bespoke index illustrations

Conclusion

Model 245 is the right starting point. The modifications proposed above — enhanced renewal rate disclosures in Sections 6-G(4)(b) and 6-J(3), and a mandatory Reduced Rate Scenario in Section 6-F(9) — directly target the core drivers of inflated FIA illustrations and can be implemented without requiring insurers to fundamentally redesign their illustration systems.

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References

- [1] National Association of Insurance Commissioners (NAIC). (2021). *Annuity Disclosure Model Regulation (Model #245)*. Available at: <https://content.naic.org/sites/default/files/model-law-245.pdf>
- [2] CANNEX. (March 2026). *Comment to the NAIC Life Insurance and Annuities Illustrations Working Group*. Available at: <https://www.cannex.com/wp-content/uploads/2026/04/Cannex-letter-naic-working-group-03232026.pdf>
- [3] Life Annuity Specialist. (March 2, 2026). *A Third of Top FIA Carriers Advertise Illustrated Returns of 16% to 27%*. Available at: <https://www.lifeannuityspecialist.com/c/5104234/718734>