

March 18, 2026

Dear Ms. Cook,

I am writing in response to the February 24 question from the Life Insurance and Annuities Illustrations (A) Working Group—**What are both short-term and long-term approaches to ensure consumers receive reasonable expectations for index annuity returns at the point-of-sale?**

I have two identified two areas where current practices appear to be inconsistent with the objective to “ensure ... reasonable expectations regarding future performance” of index annuities. Both areas involve the disclosure of returns – likely unsustainable – that are based on past performance of an index.

### **Price / Earnings Ratios**

My first concern is with price changes that exceed earnings growth—generally observable as changes in price / earnings ratios (P/E). Essentially, these ratios represent the price investors are willing to pay for future earnings (which may be realized in the form of dividends or growth).

Over short periods of time, these ratios can fluctuate due to volatility in earnings while market expectations of long-term performance are more stable. We witnessed short-term spikes in P/E of the S&P 500 during the 2008-2009 financial crisis and the 2020 COVID pandemic. In both of those events, earnings plummeted. Even though equity prices also fell, they fell far less than earnings, and the short-term spikes reverted to pre-crisis trends as earnings returned to higher levels.

Long term, P/E ratios also tend to revert to a mean. Unfortunately (from the perspective of illustrating index annuity returns) this long-term can be very long. Index annuities have performed well over the past 25-30 years—a period that has been especially kind to the product. Except for the bursting of the tech bubble in 2000 and recovery from the two recession spikes noted above, the P/E of the S&P 500 has been on a long upward trend. By my estimates, this long, favorable trend has added close to two percentage points to index returns.

By some accounts, equity markets are now well into bubble territory (nearly double the P/E average from 1920-1995). Over the past 100 years, the S&P 500 P/E ratio has been higher than it is now only during a few short-term spikes; it’s about 60% higher now than it was 20 years ago.

To suggest (through disclosure) that the growth in P/E over the past few decades could continue indefinitely is to suggest that investors will be willing to pay ever higher prices for equities, far beyond their earnings potential and far beyond any proportions that have been sustained before. For people who purchase an index annuity today, it is unreasonable to expect continued growth from rising P/E ratios. It is likely optimistic even to assume P/E stabilizes at current levels, allowing future earnings growth to lift index prices. More realistic, even if it seems somewhat pessimistic, would be to assume a gradual return to more normal P/E sometime in the coming years, which would depress index returns that might otherwise be realized through growth.

If disclosure of historical returns is to remain permissible, it should separate effects that might be sustainable, such as long-term growth, from unsustainable P/E changes.

## **Back-casting**

My other concern is with back-casting of recently created proprietary indices. These may also include returns that are inflated by rising P/E ratios as described above. Of greater concern is the potential and the incentive to manipulate returns for such indices. I have no direct view into the current practice of proprietary indices, so my comments here are based on my perception of how these play out in practice, which is based in part on the observations of very high returns that Ben Slutsker noted during the February 24 working group meeting.

Even if insurers begin with good intentions, I imagine that they build their proprietary indices from past winners in the market. On the surface, it might seem reasonable to assume that companies that have performed well in the past will continue to perform well in the future. Decades of research, however, have shown that such stellar performance is rarely sustained indefinitely. Unless a company can successfully build an index based entirely of companies that looked good at some time in the past – without regard to actual performance since then – disclosures of back-casting performance will almost invariably prove to be overly optimistic.

If, at first, just a few insurers deliberately build their proprietary indices to enhance historical returns, then they will lead the market in illustrated returns. Pressure will then be on other insurers to do the same; to not do so would likely mean to surrender their competitive position.

Lacking the ability to look inside today's market leaders, I can't say for certain that this explains the extraordinary returns that are being disclosed. But, "if it looks like a duck ..."

It seems to me that the safest way to protect against such abuse would be to prohibit disclosure based on back-casting of proprietary indices. Any attempt to regulate it otherwise, I suspect, would allow some insurers to find ways around the regulation, eventually leading us into "too good to be true" territory.

Thank you for this opportunity to comment.

Sincerely,

Steve Malerich  
Actuary, Retired