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To: Cook, Jennifer <JCook@naic.org>

Cc: Brenda J Cude <bcude@uga.edu>

Subject: Questions on Market Data and Scanning Priority

Brenda Cude and I offer the following as an initial response to Director Fox's questions. We noted her questions in black font - and provided our responses in blue font.

Are there ways that technology can be used to improve market regulation (related to advertising, marketing and sales) for the benefit of consumers? In particular, are there ways that regulators can be more proactive rather than retrospective? For example:

1. Are there tools to evaluate and compare projected accumulations in an annuity illustration at the time of sale with subsequent actual performance? This could help identify which annuities significantly fail to meet projections or require an update to the illustration.

- The question isn't really whether there are tools that could be used, because any tools that could be used would facilitate a false comparison. (For example) If you take an FIA from 10 years ago and simply compare the sales illustration with the 10-year annual statement, there will ALWAYS be a difference. This is because the non-guaranteed features (crediting rate, caps, participation rates, spreads) respond to changes in economic conditions since purchase. In addition to "crediting parameters" that will undoubtedly be adjusted by the carrier, the contract holder may have made changes – a withdrawal or an index allocation change that differed from the original selection. Carrier discretion and annuity owner contract management almost always will have occurred to some degree.
- Another reason that using tools to compare an annuity illustration with subsequent performance is not feasible is that, unlike life insurance, annuity illustrations aren't required. Ten years ago, an annuity illustration may have existed, but because it wasn't *required*, the agent, carrier, or customer may not be able to locate it. In other words, we don't necessarily know the specific expectation - or even if we do, we may not know what the customer understands about how the 10-year result may change for reasons other than carrier manipulation.
- Also, if even there were an illustration - and the buyer hadn't made any changes - you could compare a recent annual statement to the originally illustrated result to examine the impact of carrier discretion. But this is the same as "did I get the 7.5% return I expected?" Caps / participation rates / spreads (renewal factors) are issues with annuities that aren't easy to compare against sales expectations and current status.
- Disclosed renewal rate histories would be very helpful and should be required. Example: LTC companies are required to provide premium change histories; annuity proposals should be required to show historic changes in the previously indicated factors (crediting rate, caps, participation rates, spreads)

2. Are there tools available to monitor IMO compensation incentives?

- We believe what is needed is disclosure - not technology. There's no legal obligation to disclose wholesaler compensation. We are not aware of tools to monitor IMO compensation.

3. Are there efficient ways to monitor what consumers actually see?

- Require an illustration to be delivered with the annuity - and require annual statements to reference the original expectation. Riders and waivers will need to be considered. There is currently no consistency of delivery requirements – only a few states have adopted Model 245.
- Preferably, provide such a comparison in a graphic and/or illustrated form rather than through a series of numbers.

4. Are there ways to aggregate findings to provide early feedback to the industry to encourage course correction in real time?

- There are so many ways annuities can be put together, especially with riders for LTC, acute illness, etc., that it would not be practical to aggregate findings.
- There are differences in products and carriers that are not easily consolidated into a numerical matrix a consumer can use to decide which annuity to buy, for example ...
 - Carrier financial strength, including the extent of offshore and onshore reinsurance and other sophisticated financial engineering tools very prevalent among some annuity carriers that could affect the carrier's liquidity.
 - Available riders.
 - Customer support.
- We THINK you're asking that historical renewal factors be disclosed – and compared to current factors - and we agree.
- A carrier COULD take a generic FIA / RILA / MYGA at a moment in time and track its actual value over time - but this would not necessarily give a customer the information THEY need to pick one product over another - or one carrier over another.

5. Are there any other ideas or suggestions we should consider?

- Most consumers do not understand the implications behind columns of numbers. Virtually all consumers believe (or are encouraged to believe) that the numbers represent a projection of likely future values. The only way to *discourage* that belief is to get away from the numbers and use graphic representations that de-emphasize precision and the appearance of a projection.

- As we've learned from life insurance illustrations going back to the late 1970s, illustrations quickly encouraged a very specific consumer paradigm: "What's the lowest priced policy?" largely without realizing that universal life policies don't have fixed premiums, and UL policies could be illustrated with very low premium outlays *even though those premiums were not likely to carry the policy even to average life expectancy*. Policy illustrations create the **illusion within the illustration** that the numbers mean something! The same issues apply to annuities.
- Illustrated numbers over many years in the future aren't as useful as may have been anticipated. Illustrated numbers create expectations - rather than providing information about how the product "works" - which was the original intention of policy illustrations.
- Annuity buyers want the lowest purchase price and/or the highest ultimate value – and the annuity illustration can create what the life insurance illustration has done – provide an expectation that is unlikely to be met.
- This doesn't make the product bad – it's the product illustration that can create problems with expectations.

We hope these responses are useful, and we're happy to be in conversation with Director Fox whenever it's convenient if there are more questions or topics to pursue!

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