

LICAC

LIFE INSURANCE CONSUMER
ADVOCACY CENTER



25A Crescent Drive #415
Pleasant Hill, CA 94523

lifeinsuranceconsumeradvocacycenter.org

What are both short-term and long-term approaches to ensure consumers receive reasonable expectations for index annuity returns at the point-of-sale?

LICAC is concerned that while annuity and life policy illustrations are intended to show how the policy dynamics (expenses and credits) WORK, illustrations are almost always perceived as a “projection” of policy values. In LICAC’s experience, policy illustrations are often used by agents to create and set buyer expectations. This occurs whether it’s to show “my policy is better than their policy,” or (especially for life insurance crediting rates subject to AG49) “regulators have dampened the results you’re likely to achieve - so this [illustration] is more conservative than you’re likely to experience.”

Annuities are not an investment, but accumulation annuities are often *sold* as investments or retirement plans. And the more complex the policy (again, annuity or life), the more likely the agent will use the policy illustration as the means to explain and sell the policy.

Attached is a page from an F&G Flexible Premium Index Deferred Annuity - specifically the “Hypothetical Aggregate Summary Based on Current Rates.” Out of a 25-year display of possible values with varying hypothetical annual rates, there occur five instances of (highlighted) unrealistic “returns.” As a result, a consumer would infer that an “investment” of \$250,000 could grow to almost \$7 million over 25 years. Separately calculated, the internal rate of return is 14% over the displayed 25 years.

Policy complexity is a problem for most consumers, but policy illustrations are the REAL problem. Even if the agent doesn’t specifically intend to use the illustration as a projection of outcome, the consumer will almost always *interpret* the illustration as a projection.

In addition to the overall dilemma of policy illustrations used as a proxy for understanding the product, we are also concerned about the use of proprietary or “engineered” indices – and the influence on illustrated values – for both annuity and life products. We support limiting the use of hypothetical historical look-back methods of displaying index credits on recently created indices.

When the NAIC last broadly addressed the use of life insurance illustrations in 1995, it adopted Life Insurance Illustration Model Regulation #582. Variable universal life was explicitly excluded from that regulation, and Indexed products had not yet appeared in the marketplace and therefore could not be addressed in the Model. NAIC’s Model 245 attempts to similarly regulate annuity illustrations, but the Model has not been widely adopted.

The short-term and long-term approaches to consumer understanding of complex annuity and life products should capitalize on available technologies and an appreciation for consumer learning and buying style profiles.

- 30 years ago, three-page policy illustrations were the norm before the 1995 Model Regulation, but 50+ page illustrations soon emerged to address the Model’s requirements, likely an unintended consequence. The consumer has not been well served by this explosion of data and narratives.
- Research has shown that financial literacy in America is low. That fact, in combination with compressed attention spans (and “click” frequency!), points to a completely different paradigm in explaining and proposing annuity and life products.

In the short-term, we recommend:

- Incorporate graphic images of accumulating value into illustrations in place of streams of numbers.
- Prohibit straight-line value projections. Not only are they misleading and of little practical use to the consumer, but the “projections” are also inaccurate within *any* accumulation assumption.

- Remove the numbers; show the graphic (i.e., chart) accumulation dynamics across at least 5 scenarios, ranging from “optimistic” to “guaranteed,” in a *single* chart.
- Determine the 5 scenario criteria and require consistency in use for all carriers and products.

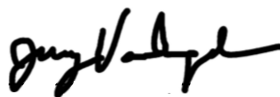
In the long-term

- Transition away from “paper” illustrations to electronic displays. Focus on e-tablets and dynamic user controls as the means for explaining products.
- Incorporate into such a display user controls that allow *the consumer* to consider the “what ifs?” of premium/accumulation scenarios for annuities, and as it relates to life insurance illustrations, adjustable for age/rate class/death benefit/premium/withdrawals/loan variations.
- For life insurance, consider an NAIC-standardized Stochastic randomizing “engine” to chart 5 accumulation/distribution/death benefit scenarios, depending on the customer's considerations.

While these are initial considerations, we hope the Working Group will consider “outside the box” options that will genuinely benefit consumers.



Richard M. Weber
Life Insurance Consumer Advocacy Center (LICAC)



Gerard J. Vanderzanden

Attachments:

1. F&G annuity illustration page
2. “The Answer, Dear Brutus, Lies Not in the Life Insurance Products, But in Policy Illustrations” from the March 2026 edition of The Journal of Financial Service Professionals

efits” based solely on policy illustrations is unlikely to yield satisfactory long-term results.¹⁴

For product recommendations subject to a high standard of care (especially for licensed agents held to a fiduciary duty), our recommended approach is to identify the client’s minimum acceptable probability for the lifetime interaction of premiums, cash benefits, and/or death benefits, then use stochastic analysis to align the client’s risk tolerance with projected costs and benefits that target their probability of success. ■

Richard M. Weber, MBA, CLU, AEP (Distinguished), is well known by insurance agents for his activities on their behalf in life insurance “due care.” He received the Kenneth Black, Jr. Leadership Award in 2008 in recognition of his “exemplary leadership qualities and significant contributions to the fulfillment of the Society of Financial Service Professionals’ core values of ethics, education, and relationships.” He is president of The Ethical Edge, Inc.—an Insurance Fiduciary in Pleasant Hill, CA—consulting to insurance companies, agents, and registered investment advisors on issues of risk management and insurance planning. A past president of FSP, Mr. Weber has written hundreds of articles and delivered presentations throughout the industry on “enhancing client relationships and maintaining high levels of integrity and ethics.” He has also served on the adjunct faculty of the School of Personal Financial Planning at Texas Tech University, is a consumer representative to the National Association of Insurance Commissioners (NAIC), and serves on the Standards Resource Commission of the CFP Board. He can be reached at Dick@InsuranceFiduciary.com.

Gerard J. Vanderzanden, CLU, ChFC, CLTC, is an insurance planning specialist assisting clients of financial planners and investment advisors with the implementation of suitable insurance solutions in the client’s best interest. Mr. Vanderzanden held executive roles at insurance companies, insurance marketing organizations, and a broker-dealer, with responsibilities that have included sales supervision, product management, operations, and advanced markets. He can be reached at vdzanden@outlook.com.

-
- (1) LIMRA, “U.S. Individual Life Insurance Premium Exceeds \$16 Billion in 2024, Setting New Sales Record,” news release, January 30, 2025, [https://www.limra.com/en/newsroom/news-releases/2025/limra-u.s.-individual-life-insurance-premium-exceeds-\\$16-billion-in-2024-setting-new-sales-record/](https://www.limra.com/en/newsroom/news-releases/2025/limra-u.s.-individual-life-insurance-premium-exceeds-$16-billion-in-2024-setting-new-sales-record/).
 - (2) LIMRA, “U.S. Individual Life Insurance Premium Sets New

- Sales Record in 2024,” news release, March 25, 2025, <https://www.limra.com/en/newsroom/news-releases/2025/limra-u.s.-individual-life-insurance-premium-sets-new-sales-record-in-2024/>.
- (3) The Life Insurance Illustration Model Regulation was adopted by the NAIC in 1995 and adopted by most states by 1998. It continues to be the current regulation for life insurance illustrations along with the adopted series of actuarial guidelines applicable to indexed universal life.
- (4) The S&P500 rose from a “bear market” low of 118.25 on August 12, 1982, to its “bull market” high of 1,552.87 on March 24, 2000.
- (5) Robert Rich, “The Great Recession,” *Federal Reserve History*, at <https://www.federalreservehistory.org/essays/great-recession-of-200709>; “Investment Calculator,” *Calculator.net*, at <https://www.calculator.net/investment-calculator.html?ctype=investlength>.
- (6) “S&P 500 Historical Annual Returns (1927-2026),” *MacroTrends*, at <https://www.macrotrends.net/2526/sp-500-historical-annual-returns#:~:text=Annual%20Performance-,Chart,1977%2D12%2D31>.
- (7) According to FINRA Rule 2211, hypothetical illustrations for variable life insurance may use any combination of assumed investment returns up to a gross rate of 12% but must also include a 0% gross rate scenario to demonstrate the effect of no growth. The rule prohibits illustrations from being used to project or predict investment results and requires that illustrations reflect the maximum (guaranteed) mortality and expense charges for each rate of return.
- (8) The external reference to variable is based on actual subaccount values; IUL refers to a specified price index valued over 12 or more months.
- (9) While an S&P 500 subaccount selected in a VUL policy includes dividends, an S&P 500 Index selected in an IUL policy will typically exclude dividends in calculating an index segment’s beginning and ending values.
- (10) Arkadiusz Krysik, “Life Insurance Statistics and Trends (2026),” *Openkoda*, November 7, 2025, at <https://openkoda.com/life-insurance-statistics/>.
- (11) Cyril Tuohy, “IUL: Accumulation vs. Protection,” *Wink*, May 19, 2015, at <https://www.winkintel.com/2015/05/iul-accumulation-vs-protection>.
- (12) “The Rising Tide of Accumulation VUL,” *The Life Product Review*, at <https://lifeproductreview.com/the-rising-tide-of-accumulation-vul/>.
- (13) Stochastic observations obtained from www.LifeInsuranceAnalytics.com.
- (14) The “Final Report of the Task Force for Research on Life Insurance Sales Illustrations Under the Auspices of the Committee for Research on Social Concerns” stated, “Illustrations are a valuable tool for the consumer and third-party advisors when used properly. Most companies are making a good-faith effort to comply with the regulatory requirements and disclose material facts on the illustration. However, the consumer would benefit from illustrations that demonstrate the sensitivity and operation of nonguaranteed elements and better methods/measures to compares policies and companies.” 1991-1992 Reports volume of the Transactions of the Society of Actuaries.

