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:

  o Incorporate graphic images of accumulating value into illustrations in place of streams of numbers.

  o 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   Gerard J. Vanderzanden
Life Insurance Consumer Advocacy Center (LICAC)

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

Flexible Premium Fixed Index Deferred Annuity

		Product:		**F&G Power Accumulator 10**			
		Prepared For:		**Valued Client**			
		Initial Premium:		**$250,000 Non-Qualified**			
		State of Issue:		**NJ**			
		Assumed Issue Date:		**November 15, 2023**			
		Issue Age:		**50**			

Hypothetical Aggregate Summary Based on Current Rates (See page 5 for guaranteed values)

Contract Year	Age	Premium	Annual Withdrawal	Account Value	Account Value Interest Crediting Rate	Minimum Guaranteed Surrender Value	Surrender Value [1]	Death Benefit
1	51	**$250,000**	0	272,475	8.99%	222,578	247,952	272,475
2	52		0	420,077	**51.17%**	226,473	384,723	420,077
3	53	0	0	420,077	0.00%	230,437	389,832	420,077
4	54	0	0	447,767	6.59%	234,469	419,364	447,767
5	55	0	0	507,559	13.35%	238,572	479,792	507,559
6	56	0	0	559,249	10.18%	242,747	533,824	559,249
7	57	0	0	635,647	13.66%	246,995	612,458	635,647
8	58	0	0	865,804	**36.21%**	251,318	841,737	865,804
9	59	0	0	923,078	6.62%	255,716	906,348	923,078
10	60	0	0	923,078	0.00%	260,191	914,770	923,078
		250,000	**0**					
11	61	0	0	1,002,689	8.62%	264,744	1,002,689	1,002,689
12	62	0	0	1,558,926	**55.47%**	269,377	1,558,926	1,558,926
13	63	0	0	1,558,926	0.00%	274,091	1,558,926	1,558,926
14	64	0	0	1,659,566	6.46%	278,888	1,659,566	1,659,566
15	65	0	0	1,870,947	12.74%	283,769	1,870,947	1,870,947
16	66	0	0	2,067,169	10.49%	288,735	2,067,169	2,067,169
17	67	0	0	2,338,529	13.13%	293,787	2,338,529	2,338,529
18	68	0	0	3,216,897	**37.56%**	298,929	3,216,897	3,216,897
19	69	0	0	3,420,460	6.33%	304,160	3,420,460	3,420,460
20	70	0	0	3,420,460	0.00%	309,483	3,420,460	3,420,460
		250,000	**0**					
21	71	0	0	3,702,724	8.25%	314,899	3,702,724	3,702,724
22	72	0	0	5,806,727	**56.82%**	320,409	5,806,727	5,806,727
23	73	0	0	5,806,727	0.00%	326,017	5,806,727	5,806,727
24	74	0	0	6,173,428	6.32%	331,722	6,173,428	6,173,428
25	75	0	0	6,921,406	12.12%	337,527	6,921,406	**$6,921,406**

The Answer, Dear Brutus, Lies Not in the Life Insurance Products... But in Policy Illustrations

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ABSTRACT

While life insurance illustrations may not have been a concern in Brutus's era, a common frustration today is that estimating sufficient premiums and/or the potential account value growth in flexible-premium universal life policies depends solely on policy illustrations. However, the illustration is *not* the policy, and the actual long-term costs and benefits may differ significantly from those projected at the time of purchase.

Introduction

Flexible premium universal life insurance policy illustrations often lead to common misunderstandings about policy benefits and risks. First, illustrations can create a false impression that an initially calculated *flexible premium* will reliably support the policy for the insured's lifetime. Second, illustrations show account value growth based on a fixed crediting rate, which does not reflect the inevitable fluctuations in actual crediting rates. Third, for indexed universal life (IUL) policies, actuarial guidelines limit the illustration crediting rate through various factors, often including the insurance company's current cap rate for the product. However, over the past 10 years, initial policy cap rates have decreased significantly for in-force policies, and there is no practical way to account for this in the sales illustration. These transparency and comprehension issues are embedded in today's policy illustrations. As a result, the illustrated benefits and associated risks of these policies cannot be fully understood or appreciated from the illustration alone. This is not a criticism of the product itself: only a recognition of the limitations in suggesting future outcomes from the illustration. Furthermore, we believe today's complex policy illustrations do not meet reasonable standards of disclosure and should not, in their present form, be used as the sole resource for recommending the underlying policy to a potential buyer. Certainly,

those with a fiduciary duty cannot depend on the illustration to explain policy features and risks.

Flexible Premiums

In 2024, consumers paid a record $16.2 billion for new policies that build account values,[1] of which at least 45 percent were for current assumption flexible premium policies.[2] Most producers know—but few buyers fully understand or remember—that insurance companies do not guarantee that the premiums paid by the policy owner will cover the policy's death benefit for the insured's entire life. Most often, the flexible premium is determined by a calculation using illustration software, generally assumed to remain accurate for all illustrated years, as long as the current assumptions about the account value's crediting rate and policy expenses do not differ from the initial assumptions. The reality will be quite different, especially for two key types of flexible premium policies: those with policy credits determined by *external* reference (i.e., IUL) or by direct investment returns (i.e., variable universal life [VUL]). The Life Insurance Illustration Model Regulation #582 (the Model), approved by the NAIC in 1995, did not consider policies for which values were driven by such external factors. VUL was exempted from the regulation, and IUL wasn't developed or sold until years after most states adopted the Model.[3]

Variable Life Crediting Rates

The first variable life (VL) policy can be traced back to at least 1976, when a whole life version was introduced by Equitable Life, and became more popular in its flexible premium universal life format in the mid-1980s as the stock market began its 18-year historic climb.[4] Unlike IUL as its future "cousin," VL and VUL offer access to a risk spectrum of subaccounts similar to mutual funds, and policy values are literally assessed daily at the close of the stock market. To be clear: VL and VUL policy account values are *in the market*. Policy owners can align subaccount selections with their overall risk tolerance and asset allocation, with account values rising (and falling) accordingly. The single selection

of an S&P 500 subaccount (before deductions for policy expenses and including dividends) increased more than sixfold between January 1, 2000, and December 31, 2025, notwithstanding the -40 percent S&P 500 market correction between spring 2000 and summer 2002, and the much harsher Great Recession's correction of -57 percent from fall 2007 through spring 2009.[5]

During this sixfold increase, the highest annual increase was 29.6 percent in 2013, and the lowest was -38.49 percent in 2008.[6] Federal regulations have sought to reconcile these natural swings in historical returns with the need for an illustrative crediting rate, especially for VUL.

FINRA regulations allow gross annual policy illustration crediting rates as high as 12 percent (gross before fund fees) to calculate values in a VUL illustration.[7] Anecdotally, almost all policy illustrations use the initial crediting rate to calculate account value accumulation for all illustration years. Because the consumer chooses the flexible premium they will pay (subject to relatively low minimums), most buyers of VUL chose to pay the lowest premium supported by the constant crediting rate—often at rates up to 12 percent throughout the 1990s and generally at least 8 percent in subsequent years. Yet, in the real world of market "ups" and "downs," a new VUL premium calculated for a 45-year-old healthy female in January 2000 using the 12 percent (gross of fund fees) maximum crediting rate would have resulted in an irreparable downward trajectory of account values by March 2009 without a substantial increase in the policy premium.

These unique attributes of variable life insurance products likely led regulators to their exclusion from the Illustration Model Regulation #582 approved by the NAIC at the end of 1995. This was unfortunate because VL and VUL were the first policy styles without a disciplined scale to determine how illustrated account values could accrue, and experience with VL illustrations could have informed regulators of the difficulty of applying a "disciplined scale" maximum accumulation rate to the yet-to-be-designed IUL product and its illustrations.[8]

Indexed UL

IUL is often seen as a safer alternative to its VUL cousin. It is a general account product where crediting rates cannot go below zero, and despite common consumer beliefs, IUL policies are not invested "in the market." Instead, carriers allocate a small portion of the policy account value to invest for their own benefit, using complex financial options to credit account values between the guaranteed 0 percent or 1 percent "floor" and the current cap rate when the index "return" (excluding dividends) is positive.[9] With its attractive tagline, "zero is your hero," and with many years of low-interest crediting rates for traditional UL products, IUL quickly gained popularity after the Great Recession, capturing more than 28 percent of the market for account value policies.[10] However, because there was no "disciplined scale" to limit speculative illustration rates, some early IUL policies featured illustration crediting rates close to the *net rate* equivalent of VUL's 12 percent illustration maximum. And again, these illustration rates applied throughout the entire duration of the policy illustration.

The first actuarial guideline developed for IUL illustrations—AG 49—was adopted in 2015 to limit aggressive IUL illustration rate assumptions, but product designers promptly developed new, nonguaranteed policy features that, when illustrated, could drive illustrated effective accumulation rates to a year-over-year 10 percent or more, well in excess of the AG 49-derived illustration rate. Regardless of how IUL rates were determined, the initial illustration rate was maintained throughout the illustration period.

For both VUL and IUL, producers often selected the illustration's maximum allowable crediting rate to enhance the appearance of product performance. The reality for IUL, of course, is that index volatility will inevitably vary from segment period to segment period, and, for the most popular S&P 500 one-year index, it will be calculated within the constraints of the guaranteed floor rate and the current cap.

In addition to VUL and IUL funding based on *flexible premiums,* policy design utilizing flexi-ble premiums and referencing an arbitrary crediting rate creates challenges for both producers and their clients to understand the likely trajectory of the account values of their policies, in which those trajectories can predict the degree to which sales illustration expectations can be met.

The third complication, especially for indexes like the S&P 500 with nonguaranteed caps, is the risk of "cap-tastrophy." At least one carrier introduced a post-Great Recession IUL product with an initial cap of 18 percent and an illustration rate of nearly 9 percent. By 2025, the cap rate on the in-force portion of these policies had dropped to 7.5 percent—much lower than the original *illustration* rate. Minimum premiums set at the time of purchase, based on optimistic crediting rate assumptions, would require significant adjustments to remain sustainable over time. Although there have been some instances in the industry of modest index cap increases for in-force IUL policies, a downward trend in cap rates remains typical. For example, a well-known carrier's 2014 IUL policy had a current cap rate of 11 percent. By 2025, the credited rates for in-force policies were capped at 4.5 percent, just 1 percent above the guaranteed minimum cap rate.

A Graphic Example

Given issues with flexible premiums, the use of fixed illustration rates, and the uncertain trajectory of cap rates, the question for the IUL buyer should not be "what's the least I can pay?" That approach will most likely lead to a policy that cannot endure even through the insured's average life expectancy. While VUL doesn't face the cap issue, full exposure to both "down" and "up" markets will put downward pressure on minimum-funded policies.

The use of IUL and VUL products over the last 10 years has, anecdotally, shifted away from a focus on death benefits. Instead, a currently popular sales approach is to demonstrate paying substantial premiums into the policy in the first 10-20 years, then withdraw and borrow accumulated account values to generate "income tax-free retirement income." Cur-

rent estimates of this transformative purpose for a life insurance policy range from 75 percent of all IUL[11] and 60 percent of all VUL sales.[12]

Using a well-known carrier and its leading IUL product, we reviewed the current sales illustration for a healthy 45-year-old male who can pay $25,000 in annual premiums for 20 years. The sales illustration suggests that the accumulated account value will provide nearly $89,000 in annual withdrawals and policy loans over the following 20 years. A visual representation of illustrated benefits, as shown in Figure 1, helps to clarify the appeal.

The expectations formed by the sales illustration containing the highlighted issues of this column are likely to diminish over the anticipated lifetime outcome of benefits. The illustration uses an AG 49 illustration crediting rate of 6.6 percent, held constant for account value calculations over the next 55 years. The premium was specified by the "client," who was willing to allocate $25,000 per year of his resources to the proposed benefit. However, the "best policy" is not the one that illustrates the highest cash-flow benefit at retirement. The proposal should have addressed the client's risk tolerance and their minimum required *probability of success.* When performing 1000

trials of illustration data with randomized, historic returns in the S&P 500 (without dividends) within the limits of the guaranteed 0% floor and the current cap of 10.5 percent, the *stochastically* calculated probability of success is astonishing by contrast to the policy illustration, as reflected in Figure 2.

Shifting focus, if the client had specified a 95 percent minimum success threshold to proceed with the purchase, policy distributions of only $50,000 per year for 20 years would meet that financial threshold requirement. While still requiring active management, the randomization process within 1,000 trials is a much more reliable gauge that the buyer can use to both establish criteria that meet their specifications as well as serve as a reliable periodic check to manage the aforementioned trajectory of nonguaranteed policy performance.[13]

The likely change in cap rates over the life of the policy is the final factor in evaluating the client's policy performance expectations. A second series of 1,000 stochastic trials on the embedded credits and debits of the sales illustration should be performed at an assumption of 100 basis points below the initial cap rate—in this case, 9.5 percent. With this modest reduction in cap rate in this example, the probability of success would drop to (*wait for it*) just a 1 percent probability of suc-

FIGURE 1
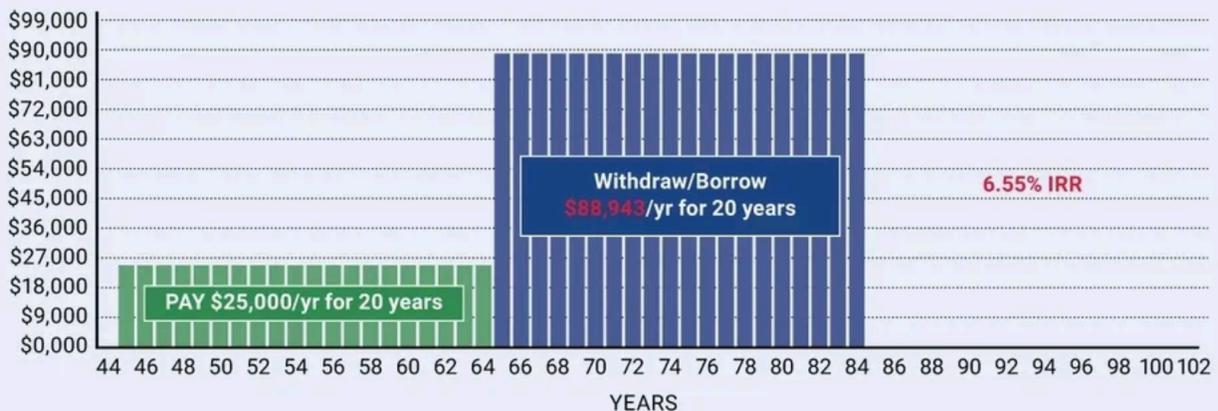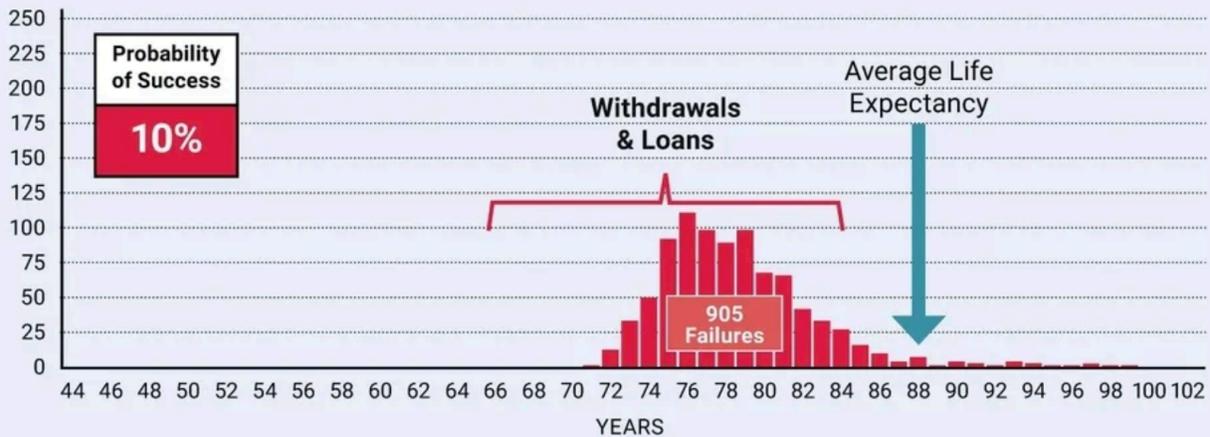Expected Future Annual Premium(s) and Income (Loan/Basis Draws)—10.5% CAP

FIGURE 2
S&P500 | Cap: 10.50% | Floor: 0.00% | Participation: 100%

cess, in which 975 of the 1,000 trials deplete all account value before the average life expectancy of this 45-year-old's age/health/gender group. At that cap rate, and applying stochastic analysis with a 95 percent success outcome, the policy can only provide $40,000 in cash flow per year for 20 years. That is a 55 percent decrease from the sales illustration expectation and a 2.38 percent 40-year cash-on-cash internal rate of return.

Assessing the Outcome on a VUL illustration

VUL account values are exposed to the client's sub-account choices with the full range of market volatility in the client's asset allocation. While the "zero is your hero" theme of IUL had strong appeal following the Great Recession's 57 percent stock market decline, readers will be interested in the outcome of randomizing a VUL illustration for the same policy-issue criteria as the IUL example.

Another popular carrier's flagship VUL product shows nearly $92,000 in illustrated withdrawals and policy loans between ages 65 and 84, assuming an 8 percent gross crediting rate. When evaluated with 1,000 random trials, the probability of success is 33 percent compared to the policy illustration's inference of sustaining to age 100.

As we've noted, no policy illustration can reliably predict lifetime outcomes. When subjecting this VUL illustration to a 95 percent expectation with 1,000 random trials of policy credits (and using assumed policy expense data), the described stochastic analysis estimates a cash flow projection of $50,000 per year, and, of course, no cap to further restrict returns.

Conclusion

Flexible premium life insurance products attract many buyers of lifelong coverage because they often appear to cost less or offer higher account values for future access, compared with products such as whole life, which have higher guaranteed premiums and guaranteed minimum cash value growth. However, the nonguaranteed features of flexible premium policies—specifically IUL and VUL—are typically presented in two-dimensional policy illustrations rather than evaluated through a comprehensive three-dimensional stochastic analysis that highlights potential benefits and risks. Given the many non-guaranteed elements, trying to find the "best price" or "best ben-

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. ■

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(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/.
(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.