November 3, 2022

Mr. Fred Andersen

Chair, Indexed Universal Life (IUL) Illustration (A) Subgroup

Via Email: jfrasier@naic.org

Re: October 13 IUL Subgroup Exposure for AG 49-A Quick Fix Proposals

Dear Mr. Andersen:

The undersigned companies thank the Indexed Universal Life (IUL) Illustration (A) Subgroup and Life Actuarial Task Force (LATF) for the opportunity to participate in the discussion around potential modifications to AG 49-A. We offer the following pros, cons, and comments in response to the October 13 IUL Subgroup Exposure for AG 49-A Quick Fix Proposals.

**1. Proposal contained in the Sept. 6 comment letter from Securian Financial**

*Pros*

* Fits regulators ask of a quick fix
* Would decrease illustrated values for low-cost index strategies such as volatility-controlled strategies with lower hedge budgets

*Cons*

* More complicated to explain to consumers
* Uses the ratio of two hedge budgets (the underlying index strategy and the Benchmark Index Account) to adjust the maximum illustrated rate, which results in an implied risk premium that is inconsistent with the principles underlying the current guideline.

*Comments*

Under this proposal, illustrated indexed credits for all index strategies, including volatility-controlled strategies, would continue to be limited by AG 49-A Section 4C(i) and (ii), which caps the illustrated rate at the Benchmark Index Account (BIA) rate. While this proposal could be implemented on a prospective basis relatively quickly, the result would be inconsistent with the principles underlying AG 49-A. Additionally, illustrations are intended to promote consumer understanding and this proposal adds complexity that would be challenging to explain to consumers.

**2. Proposal contained in the Sept. 6 comment letter from the Group of 6 companies (Allianz, et al.) (Academy Option A)**

*Pros*

* Fits regulators ask of a quick fix
* Would decrease illustrated values for low-cost index strategies such as volatility-controlled strategies with lower hedge budgets
* 145% is a long-term assumption that is supported by historical experience and used in the current guideline
* Simple to explain to consumers

*Cons*

* Could allow some strategies with fixed bonuses to illustrate better than the BIA in certain market environments with higher S&P 500 volatility, as demonstrated in the attached examples.

*Comments*

Under this proposal, illustrated indexed credits for all index strategies, including volatility-controlled strategies, would continue to be limited by AG 49-A Section 4C(i) and (ii), which caps the illustrated rate at the BIA rate. While this proposal could allow some strategies with fixed bonuses to illustrate better than the BIA in certain market environments, it would be simple to implement on a prospective basis and would allow regulators and interested parties to focus on developing a more holistic approach to IUL illustrations.

**3. Proposal letter from the Coalition of Concerned Insurance Professionals, clarifying the Samuelson-Moore comment letter submitted around Sept. 6**

*Pros*

* Would decrease illustrated values for low-cost index strategies such as volatility-controlled strategies with lower hedge budgets

*Cons*

* Would substantially reduce illustrated rates for all index strategies, including the BIA, which goes beyond the scope of the review (i.e., lower-cost index strategy such as volatility-controlled strategies)
* Would eliminate the ability to educate the differences across product types (e.g., UL vs. IUL), which would harm consumers’ ability to understand the products and properly plan for their insurance needs
* Not a quick fix; would require a significant rewrite to AG 49-A

*Comments*

The current IUL illustration framework was created as part of a significant regulatory effort that started with the initial development of AG 49. Inherent in this framework is the concept of risk premium (as reflected in the BIA lookback rate and 145% applied to the net investment earned rate). Removing the risk premium would be an extreme change to the Actuarial Guideline and its underlying philosophy, and it would go well beyond a quick fix.

**4. Discussion topic proposed during the October 12 Subgroup Call**

On the October 12 call, members of the IUL Illustration Subgroup discussed whether index strategies with the same hedge budget should illustrate at the same rate. We note that all three proposals discussed above would result in a consistent maximum indexed illustrated rate for strategies with the same hedge budget, because all three proposals are based on the hedge budget. While there are other existing limits within AG 49-A Section 4 that could further reduce the maximum indexed illustrated rate, we believe the spirit of the discussion would largely be achieved by all three proposals.

**Conclusion**

In summary, the Samuelson-Moore proposal removes the ability to educate on differences within products and across product types going beyond a quick fix; the Securian proposal would be complicated to explain to consumers; and the Academy Option A with 145% proposal is a reasonable and simple “quick fix” that addresses regulators’ concerns.

Thank you for the consideration of these comments. We would be glad to respond to any questions you may have regarding this letter.

Allianz Life

John Hancock

Lincoln National

National Life Group

Nationwide

Pacific Life

Sammons Financial Companies