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July 1, 2019

Fred Andersen
Deputy Commissioner of Insurance
Minnesota Department of Commerce
Chair, NAIC IUL Illustration (A) Subgroup

*Re: Comments to the IUL Illustration (A) Subgroup Questions regarding Actuarial Guideline 49;
Menu of Options Items 13-16*

Fred:

This letter addresses items 13 through 16 in the Menu of Options proposed by the NAIC Illustrations Subgroup as changes to AG 49, and is submitted on behalf of the following companies:

Lincoln Financial Group

National Life Group

Nationwide

Pacific Life

Transamerica

IUL products provide consumers with an important product choice in the life insurance marketplace. Given the complexity of certain IUL products, insurers look to the illustration to provide consumers with important product information. Consumers typically use illustrations to better understand product mechanics, costs, benefits and risks. While insurers' illustration practices vary, they commonly exceed basic state disclosure requirements. With the increase in product complexity, it is appropriate to consider how enhanced consumer education may help

ensure that illustrations continue to support reasonable consumer expectations. For this reason, we encourage the Subgroup to consider the disclosure-focused items 1 through 12 in the Menu of Options.

We particularly encourage the Subgroup's consideration of items that would demonstrate to consumers the likelihood and impact of annual index fluctuations. There are various ways to demonstrate such expected fluctuations, including the use of summary values under various assumptions, as proposed by Transamerica,¹ or the use historical scenarios, as proposed by Pacific Life.² We believe enhancing consumer understanding around likely variations in indexed-linked credits can effectively demonstrate the most significant risks to consumers.

That said, we respectfully submit the following comments in response to your request:

Item 13. Clarify whether charges can impact assumed earned interest underlying the DCS

We believe that there are reasonable interpretations of AG49 that permit the illustration of IUL multiplier and bonus features. For example, some take the position that policy charges impact the assumed interest underlying the DCS. This is consistent with the understanding that the 145% limitation is an upper bound for assumed index returns, limiting the ratio of the assumed option payout divided by the net investment earnings rate (using the NIER as a proxy for the assumed option price). Under this interpretation, charges are included in the assumed earned interest underlying the DCS if the charges are used to support the option budget. Other reasonable interpretations also support IUL bonus and multiplier features.

We support clarifying changes to AG49 consistent with this interpretation.

Item 14. Limit the use of variable / index loans

Assuming effective disclosure of the risks and rewards, we support the continued ability to illustrate variable/index loans under the guardrails provided by AG49. We would welcome clarification of how the AG49 loan leverage limit should apply to any bonuses and/or multipliers.

Item 15. Have consistent treatment of various IUL product types

We support consistent treatment of different IUL product designs while appropriately communicating to consumers a product's risk/reward profile. As provided in our introductory comments above, we believe that enhanced consumer education may help ensure that illustrations continue to support reasonable consumer expectations,

¹ Letter to Fred Anderson dated March 29, 2019.

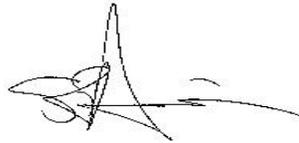
² Letter to Fred Anderson dated June 28, 2019.

Item 16. Application of AG 49 constraints to cash value internal rate of return

Consistent with the clarifying e-mail from Reggie Mazzyk (dated 5/28/2019), we understand this menu option to mean that no credits in excess of the credit resulting from the application of the maximum AG 49 lookback rate, or the rate resulting from other applicable AG49 constraints, could be applied to a policy's account value. In our view this is an incorrect interpretation of AG 49 as it would appear to limit the use of bonuses, including persistency bonuses and multipliers. We are very concerned that this would unfairly result in an uneven playing field for IUL as this restriction is not applied to non-IUL products.

We appreciate the opportunity to provide input to the Subgroup and look forward to further discussions.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'Scott R. Harrison', with a long horizontal flourish extending to the right.

Scott R. Harrison

Harrison Law Office, P.C.

cc: Reggie Mazzyk, NAIC