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Via Email @ jfrasier@naic.org and Via Overnight Delivery

Ms. Frasier and Members of the Committee:

I have lent my signature to a letter urging NAIC to reform illustrations for Index Universal life and specifically for what IUL promoters would call "proprietary indexes" or the committee refers to them as volatility-controlled funds. This letter was part of a coalition that has consistently warned of and seen danger to consumers from abusive IUL illustrations. I submitted a more detailed to the committee on this topic dated January 31, 2022 that specifically presented both evidence of abuse and the harm caused to consumers. The NAIC must act firmly and quickly to end this abuse.

The entire concept of keeping Index products as a state regulated insurance product as opposed to Federal Securities regulation is that consumers are not subject to the risk of loss to the extent that they could be with securities purchases. In my experience the abuse of IUL products, especially when financed, presents greater risk to consumers than anything I have seen in my 36 years in the business. I am CEO and Chairman of the Valmark Financial Group and in addition to placing over sixty billion dollars of life insurance over the years, we conduct business through a FIRNA regulated broker dealer and an SEC registered investment advisor with seven billion dollars of assets managed.

As currently regulated Premium Financed IUL transactions leveraged with external bank financing provide greater risk to consumers than anything we sell as a broker dealer or our investment advisor. In reviewing sales materials from over one hundred proposed transactions and more than dozen cases being litigated, we see very few where the extent of the risk is presented let alone understood by the consumer. Reviewing actual harm to some consumers who implemented these plans, I think them analogous to Warren Buffett's warning on hedge funds, these are financial weapons of mass destruction. Unlike other illustration problems in the past, the damage is not limited to insurance that costs more, but risk that it wipes out substantial proportions of client's net worth.

In some of these cases I have reviewed consumers have taken out loans to buy policies that are 15 to 20 times their annual income and well more than their entire net worth and borrow the money from a commercial bank!

With standard caps on the S&P 500 dropping, new proposals for premium financing are exclusively based on Proprietary indexes. Both the games that can be played with bonuses and multipliers in these illustrations and the impression that consumers are given with back-tested models make them prime for abuse. In the presentations using these Proprietary indexes, the consumer is left with a very clear impression from the marketers of these programs that what they are being shown in the maximum AG-49A rate is conservative and that illustration is a base line for expected returns. In what has become a cat and mouse game of regulators with AG-49, and AG-49-A, there is a need for a comprehensive fix. The only one of the proposed solutions being considered that makes sense is limiting IUL illustrations to use the same rate that is used for the fixed account. The initial foundation of a 45% options profit for IUL illustrations was fundamentally flawed and cannot be remedied with small tweaks.

Unfortunately, the disappointment IUL policyholders are experiencing is not new to the life business. As bond and crediting rates have dropped over the last 30 years all general account products have seen declines in credited rates and results that are less than what was expected. I concur with my colleagues that a broader fix is needed. I would support targeted revisions to the Life Insurance Illustrations Model Regulation (#582) but not in place of correcting IUL first.

Our industry has a proud history of helping families to reduce and eliminate the risk of dying too soon, living too long, or becoming disabled. Properly used, life insurance products are one of the most important risk management tools we can offer consumers. This socially beneficial use of products is a foundation for the tax benefits we receive for our products under the U.S. tax code. IUL, and specifically the abuse of proprietary indexes, when leveraged with bank debt does the exact opposite. It has allowed a small number of unethical marketers to create a gamble of a consumer's net worth with "loaded dice" that is not a risk migration device but a risk multiplier. I ask the committee to act decisively and promptly to finally fix this embarrassment to the industry.

Sincerely,

Lawrence J. Rybka, JD, CFP®
Chairman, CEO

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