June 28, 2019

Fred Andersen
Acting Deputy Commissioner of Insurance
Minnesota Department of Commerce
85 7th Place East, Suite 280
St. Paul, MN 55101

Dear Fred,

The undersigned companies present this proposal in response to the NAIC request for comments on menu options #13 - #16 set forth by the Life and Annuity Task Force on May 28, 2019.
Respectfully,

Seth Detert, Securian Financial
Seth Harlow, Mutual of Omaha
Andrew Martin, Penn Mutual

The LATF request for each Item is listed, with our comments and requests for direction following. We would be happy to discuss our comments with you or the members of LATF.

Item #13 – Clarify whether charges can impact assumed earned interest underlying the DCS.
Instead of hedge budget accumulated at 145% budget + charges accumulated in some cases.

- We would like clarification on how charges within a contract that support index parameters, bonuses, multipliers, or any form of additional credits should be interpreted by AG49 Section 5A:
    - "If an insurer engages in a hedging program for index-based interest, the assumed earned interest rate underlying the disciplined current scale shall not exceed 145% of the annual net investment earnings rate (gross portfolio earnings less provisions for investment expenses and default costs) of the general account assets (excluding hedges for index-based credits) allocated to support the policy."
- Specifically we would like clarification of:
    - Whether a policy charge that supports index parameters, bonuses, multipliers, or any form of additional credits can be included in the "the annual net investment earnings rate (gross portfolio earnings less provisions for investment expenses and default costs) of the general account assets (excluding hedges for index-based credits) allocated to support the policy".
    - Should the net investment earned rate be viewed as a proxy for hedge budget and thus should anything that has an impact positive or negative on the hedge budget be considered?

Item #14 – Limit the use of variable/index loans. Include all policy credits in the 1% arbitrage limit, plus other constraints.

- We supports clarification of AG49 Section 6 …" the illustrated rate credited to the loan balance shall not exceed the illustrated loan charge by more than 100 basis points."
- We believe that variable/index loans should continue to be illustrated, however we would support changing the language in AG49 above to make it clear that the "illustrated rate credited to the loan balance" is inclusive all policy credits.

    - We believe that including all policy credits in the spread calculation helps provide consistency between product designs, helping address Item #15. For example if AG49 were changed to be inclusive of all policy credits then a high participation rate index and an account with similar multiplier to the higher participation rate would illustrate similarly.

Item #15 – Have consistent treatment of various IUL product types.
Consistent illustrations & DCS testing for traditional, multipliers, bonuses & high par rates.

- We do not fully understand what is meant by having consistent illustrations and would be concerned that regulatory restrictions might impact the ability to adequately illustrate of product differences and may actually reduce the consumer's understanding of the product.
- We believe that successful clarification of items #13 & #14 will be a significant step forward in addressing concerns raised by Item #15.
- We support the concept that consumers should be provided with better information regarding the components that impact policy cash value. In that regard, we support additional required disclosure of the components that impact cash value, including:
    - Showing all policy charges (including those for optional illustrated riders) in the illustration and requiring the applicant sign the disclosure.
    - Highlighting the impact of prescribed sequence of returns that shows the impact of varying returns on the policy cash value.
    - A specific disclosure, possibly on the application, that is required if a client is choosing an indexed account that has a charge that supports increased index parameters, bonuses, multipliers, or any form of additional credits.

Item #16 - Application of AG49 constraints to cash value internal rate of return.
Eliminate disconnect between credited rates and accumulated value.

- Limiting cash value IRRs in the illustration would likely result in some very confusing illustrative scenarios and decrease the consumer's ability to understand how the product works, not improve it.
- For example it would be difficult for the consumer to understand when the policy was functioning as designed and when the performance of the product was being limited by the CV IRR restriction.
- In addition there would be significant complexity introduced into the illustration systems to support this requirement and the implementation of this could vary across the industry.
- We believe that successful clarification of items #13 & #14 will be more impactful and address the issue on the "front end" versus limiting cash value IRRs on the "back end" of the illustration.

Additional Item to consider

- If features (bonuses, multipliers, charges) of a particular index increase illustrated values above the benchmark index as defined in section B of AG49, should those Indexes and their illustrated values be tested individually with regard to the disciplined current scale testing?