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National Association of Insurance Commissioners
Life & Annuity Illustrations (A) Working Group

Delivered Electronically to jcook@naic.org

Subject: Working Group's Exposure Question

Greetings:

On behalf of our members, the American Council of Life Insurers (ACLI), the Committee of Annuity Insurers (CAI), and the Insured Retirement Institute (IRI) stand ready to assist the Life Insurance and Annuities Illustrations (A) Working Group in its work. Life insurers offer products that help Americans secure their retirement and protect their families and loved ones from life's uncertainties. We appreciate the opportunity to provide feedback to the Working Group as it evaluates concepts for improving life insurance and annuity illustrations and disclosures, considers possible revisions to relevant NAIC models, and/or develops other guidance where feasible and appropriate.

The Working Group has asked about short-term and long-term approaches the NAIC could take to ensure consumers receive reasonable expectations for index annuity returns at the point-of-sale. It has been noted by the Working Group that regulators have observed index annuity disclosures that suggest annual returns can range from 10%-25% for several years and that this has brought up potential concerns around whether consumers are receiving reasonable expectations regarding future performance upon purchasing an annuity.

We agree that in order to make an informed decision about the purchase of an index annuity consumers need to understand how the product operates and how it performs under various market conditions. The NAIC's Annuity Disclosure Model Regulation (Model

#245) seeks to address this through a buyer's guide that describes the various deferred annuities available in the marketplace and with rules governing annuity illustrations.

We note that this year the NAIC's Annuity Buyer's Guide (A) Working Group is charged with reviewing and revising the Buyer's Guide for Deferred Annuities in light of changes in the marketplace. We share a common goal with the NAIC of ensuring that the Buyer's Guide provides up to date appropriate, accurate, and unbiased information to educate consumers about the various types of deferred annuities available in the marketplace, and we encourage you to work closely with the Annuity Buyer's Guide Working Group to ensure alignment between the two groups.

The illustration rules set forth in Model #245 were intended to help consumers make informed decisions about annuities, but the Model has not been widely adopted by states. The current focus on elements of Model #245 by both the Buyer's Guide and Illustrations Working Groups under the (A) Committee provides an opportune time for regulators to pursue broader adoption of the Model. Such adoption would be an efficient pathway to address concerns about annuity illustrations and to create more consistency across states. As part of that effort, the Working Group can also explore whether Model #245 is performing as originally expected and whether it does in fact address the concerns raised by the Working Group in the states that have adopted the Model. In connection with that review, we recommend conducting consumer focus group testing to better understand the information consumers want related to index annuities and the value of the existing illustration and disclosure framework would be helpful. Any future work should be grounded in an understanding of how the current framework is, or is not, meeting the needs of regulators and consumers in states that have adopted the Model and states that have not adopted the Model.

While we appreciate the Working Group soliciting feedback on the general direction that it should move towards, we think more foundational work on the specific nature of any concerns, and the specific situations giving rise to those concerns, is needed to determine any next steps. In the meantime, we plan to continue working with our members on other potential approaches the NAIC could take to improve consumer understanding of index annuities and will share these as they develop. We appreciate the Working Group's thoughtful review of this topic, and we support continued dialogue on approaches that enhance consumer understanding while preserving the accuracy and usefulness of annuity illustrations for the full spectrum of annuities in the marketplace.

Respectfully:

AMERICAN COUNCIL OF LIFE INSURERS

James Szostek
Vice President & Deputy, Retirement Security
jim.szostek@acli.com

Wayne Mehlman
Sr. Counsel, Insurance Regulation
WayneMehlman@acli.com

COMMITTEE OF ANNUITY INSURERS

Eversheds Sutherland (US) LLP on behalf of the Committee

Eric Arnold
Partner
ericarnold@eversheds-sutherland.com

Stephen E. Roth
Partner
SteveRoth@eversheds-sutherland.us

INSURED RETIREMENT INSTITUTE

Jason Berkowitz
Chief Legal & Regulatory Affairs Officer
jberkowitz@irionline.org

Sarah E. Wood
Director, State Policy & Regulatory Affairs
swood@irionline.org