Fred,

We appreciate the opportunity to present solutions to the current identified issue with Indexed Universal Life illustrations. In light of the discussion at the recent NAIC meeting and the prospect of a regulatory inquiry into a modification of the Illustration Model Regulation (#582) specifically to address consumer-friendly ways to illustrate Indexed UL, it seems to us that the Subgroup has two potential paths for a solution to the current issue:

Path 1 – Maintain the Lookback
Maintaining the lookback would allow Indexed UL to continue to illustrate in a way that is **inconsistent** with other fixed insurance products while the broader of issue of modifications to #582 is undertaken by regulators, a process that may take several years.

A solution that maintains the lookback methodology would define and extend the illustrated "option profit" in the BIA account to the non-BIA accounts, as has been proposed by other parties. In our view, pursuing this path could potentially require substantial revisions to AG 49-A in order to ensure that it is airtight.

Path 2 – Remove the Lookback
Removing the lookback would make Indexed UL illustrate in a way that is **consistent** with other fixed insurance products while broader changes to #582 are explored. There are at least three solutions that do not incorporate the lookback:

1. Use the Hedge Budget, which is already an element of AG 49-A, for each indexed account.
2. Use a Black-Scholes fair-market value of the currently offered index participation in each indexed account.
3. Use the offered Fixed Account rate as the maximum illustrated rate for all indexed accounts.

Each of these solutions has merits and potential implementation challenges, but all are fundamentally straightforward, consumer-friendly and more consistent with other NAIC frameworks. In our view, removing the lookback would actually be an easier and quicker approach than maintaining it with new restrictions, as in Path 1.

Recommended Approach
Our view is that regulators would be well served to provide clarity on whether the lookback should be maintained or removed before asking for details regarding specific solutions. It is the necessary first step.

Our concern with maintaining the lookback that there may be other loopholes not contemplated by these changes. The lookback has been the root cause of all previous regulatory inquiries and will likely continue to be a cause for future inquiries if maintained.

Furthermore, we do not believe that there is any reason – beyond continuity with previous guidelines – to maintain the lookback. It is not necessary to use the lookback to explain how Indexed UL works. Instead, our experience is that the lookback *distracts* from the mechanics of the product by creating the perception of illustrated values as a performance projection, which is not the intended use for illustrations.

As a result, we recommend that regulators pursue solutions that do not incorporate the lookback, all of which have merit and should be discussed amongst regulators, industry and interested parties to find the most workable and consumer-friendly solution. We look forward to being a part of that process.

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