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To: NAIC Life Insurance and Annuities Illustrations (A) Working Group

By email: jcook@naic.org

Re: June 1st Exposures on Annuity Illustrations

The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on the Life and Annuity Illustrations Working Group's June 1st exposures regarding the comments the Group has received regarding its previous exposure as well as whether an actuarial guideline should be used as a short-term solution to address concerns regarding annuity illustrations.

ACLI and its members continue to share the regulators' objective that annuity illustrations provide consumers with reasonable expectations and a clear understanding of how products work, without creating the impression of predictive or guaranteed outcomes.

ACLI urges the Working Group to prioritize refinements to Model #245 before determining the need for, or form of, any interim approach. It is possible that once those updates are further developed—and with ACLI's active support in advancing adoption across the states — a separate short-term mechanism will not be necessary.

I. Exposure Regarding the "SUMMARY GRID"

Here are our responses on those ideas included in the summary grid list of potential Model 245 modifications which ACLI had not offered to the Working Group in our previous submission.

Item 1.C - Side by side comparison of tabular illustrations, such as guaranteed rates, most-recent, etc., to reduce length?

ACLI supports the goal of reducing the length of illustrations. Elements such as the illustration of the most recent 10 years, a 10-year high scenario and a 10-year low scenario that share a common theme could be grouped together in a side-by-side comparison. However, it should be noted that it may be difficult to fit more than two illustrations in a table on a page.

We suggest the Working Group consider modifying the rules by replacing the current requirement for a "low" scenario with an illustration of the minimum guaranteed scenario (contract minimum less fees). The minimum guaranteed scenario would depict the lowest return a consumer could receive. By substituting that for the current "low" scenario, we hope to avoid consumers mistakenly assuming that the "low" scenario shows the lowest possible return.

Item 2.A - Clarify how to measure history or how to treat newer indices that are formulaic blends of older indices, e.g., new index that is 50% S&P / 50% Dow vs index that balances between indices (volatility controlled).

There are a number of comments submitted that are focused on newer indices. ACLI encourages the Working Group to consider ways in which illustrations may be prepared for these products that meaningfully convey the manner in which these annuities operate. In particular, we stand ready to assist the Working Group with the development of a framework for the measurement and use of performance for newer indices. The working group may wish to consider when and how indices can rely on historical data and to what extent they should reflect static allocations versus dynamically rebalanced methodologies as well as addressing how to treat illustrations for indices with limited live track records. Appropriate labeling of these methods with a lens towards consumer understanding should avoid creating the impression that the illustration presents an actual historical experience of the product.

Item 2.D - Mandate a supplemental reduce rate scenario, in which non-guaranteed elements are reduced by a percentage specified by the commissioner.

As discussed above, the Working Group should consider replacing the "low" scenario with a minimum guaranteed scenario. We think that doing so would largely obviate the need for a supplemental reduced rate scenario.

Item 2.E - Single prescribed crediting rate for all carriers and also for RILAs, e.g., 5%.

RILAs are securities registered under the Securities Act of 1933 that are subject to oversight by the SEC and FINRA. ACLI members file illustrations for review by FINRA as RILA illustrations are considered communications with the public under Rule 2210 and other rules. To minimize the potential for conflicting regulatory regimes or unnecessarily duplicative requirements, we recommend that illustrations for RILA (and variable annuities) remain exempt from Model #245.

We strongly recommend that the Working Group not require a single crediting rate for product illustrations. It is important that the consumer fully appreciate the variability and volatility inherent in the product. A single rate will fail to capture the inter-year performance variability that will be experienced by annuity owners and will not fully capture the mechanics of many annuity products.

Item 2.F - When there is history, require a table of caps in each past calendar year, spreads/fees in each past calendar year, interest credited, and cash values (LICAC proposed five years of history)

The Model currently requires that it be disclosed to consumers that rates will change and that the illustrations do not represent what the consumer will receive as that is not known by anyone at the time of sale. Requiring such a table could inappropriately lead consumers to focus on past performance, which is an outcome that the Model Regulation should seek to prevent. In addition, this proposal would increase the volume of what must be disclosed in an illustration, which similarly is at odds with our shared goal of streamlining or shortening the length of illustrations. For insurers, assembly of such tables would be very data-intensive.

Item 2.G - For newer indices, Illustrated return equal to ten-year US treasuries plus 1.5%-2.0%

As noted previously, ACLI encourages the Working Group to consider ways in which illustrations may be prepared that meaningfully convey the manner in which annuities with newer indices operate. As for this proposal, it likely would not fully capture the variability in crediting outcomes that can be experienced in fixed indexed annuities.

Item 3.A - Adding disclosures to further emphasize that illustrations are not intended to be projections

ACLI agrees that it should be emphasized that illustrations are not intended to be projections of product performance.

Item 3.D - Statement to distinguish guaranteed vs. non-guaranteed features

ACLI supports rules that would require disclosure that clearly distinguishes between guaranteed and non-guaranteed features.

Item 3.E - Disclose financial strength of company as a differentiating factor between carriers

> ACLI opposes such a disclosure. It would not be in keeping with the focus of this effort as there is not a direct connection between financial strength and product illustrations.
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> There are multiple metrics of financial strength that are not uniform; to be meaningful, any effort here would require a significant, lengthy, and complex disclosure. Incorporating such information into illustrations would add complexity without improving consumer understanding of the product. We encourage the Working Group to forego this proposal.

Item 4.A - Create an officer or an illustration actuary role that is held accountable / responsible for the illustration (e.g., annual certifications)

> ACLI supports a rule that seeks a certification by an officer of the insurer that the illustrations are made in conformance with the rules.

II. Exposure Regarding the "FLOW CHART"

ACLI appreciates the opportunity to provide feedback on whether an actuarial guideline should serve as a stopgap pending updates to annuity illustration standards. Actuarial guidelines can be useful when they clarify existing actuarial requirements or support implementation of established policy. They should not be used to create new policy. To the extent an actuarial guideline would establish new illustration standards, prescribe assumptions, or alter consumer-facing requirements, it would effectively create illustration policy. That work should instead be undertaken through revisions to Model #245.

ACLI and its members share regulators' objective that annuity illustrations provide consumers with reasonable expectations and a clear understanding of how products work, without implying predictive or guaranteed outcomes. We also recognize that current illustrations may be overly complex and that targeted improvements are appropriate. For these reasons, we support continued work to update Model #245 and are actively engaged with the Working Group to refine that framework.

With respect to whether an actuarial guideline is an appropriate stopgap, the Working Group's priority should be to finalize changes to Model #245 before determining the need for, or form of, any interim approach. It is possible that once those updates are further developed—and with ACLI's active support in advancing adoption across the states — a separate short-term mechanism will not be necessary. However, if regulators determine that an interim solution is needed as the Model #245 updates are finalized and awaiting adoption by the states, a regulatory bulletin would be a more appropriate approach than an actuarial guideline.

Model #275, by contrast, governs annuity sales practices, including suitability and best-interest obligations, producer conduct, and insurer supervision. Its central focus is whether a recommendation is appropriate for a particular consumer. Using that framework to establish or influence illustration standards would extend Model #275 beyond its intended purpose and risk conflating sales-practice regulation with product illustration requirements addressed under Model #245.

III. Conclusion

Thank you for the opportunity to comment. ACLI looks forward to continuing to work with the Working Group to advance updates to Model #245 as the appropriate path for addressing annuity illustration standards. If an interim approach is ultimately needed, a regulatory bulletin would provide a more suitable and effective framework than an actuarial guideline. We appreciate the opportunity to provide these comments and remain committed to continued engagement.

Respectfully,

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