



Financial Security...for Life.

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Richard Wicka, Wisconsin Office of the Commissioner of Insurance
Chair, NAIC Life Insurance Illustrations Working Group
c/o Jennifer Cook
via jcook@naic.org

RE: NAIC Life Insurance Illustrations Working Group 7-25-18 Proposed Draft Revisions to NAIC's Life Insurance Disclosure Model Regulation (#580) & Life Insurance Illustrations Model Regulation (#582)

Dear Chairman Wicka & Members of the Working Group:

The ACLI appreciates the opportunity to contribute these comments and recommendations to the NAIC Working Group, to further its progress and fulfill its 2018 Charge.

2018 Working Group Charge Model Regulations Proposed Amendments

The Working Group deemed it necessary and appropriate to open and revise the above-referenced model regulations, which are the bases of its charge, to accommodate the life insurance product illustration and disclosure guidance under development. The 2018 Working Group charge is:

Explore how the narrative summary required by Section 7B of the Life Insurance Illustrations Model Regulation (#582) and the policy summary required by Section 5A(2) of Model #580 can be enhanced to promote consumer readability and understandability of these life insurance policy summaries, including how they are designed, formatted and accessed by consumers.

The ACLI recommends consideration of the following comments in general, and in response to the 7/25/18 proposed revisions to the model regulations.

General Comments

Our members would like the Working Group to consider a clarification, either directly, within the model regulations themselves, by model bulletin, and/or guidance with respect to the correlation between the disclosure requirements for life insurers set forth in Model #580 (Disclosure Regulation) and Model #582 (Illustrations Regulation). Nearly half of states have statutes providing that an insurer of any life insurance policy or annuity contract shall make a distinction whether its policies have been, or will be, marketed with or without an illustration. For those policies and contracts marketed with an illustration, no preliminary information or policy summary shall be required. For those policies which are not marketed with an illustration, the preliminary information and policy summary shall be provided.¹ Our members would like to ensure they comply with the appropriate statutory and/or regulatory authority pertaining to state disclosure laws, in constructing a related policy overview "cover document". Following these state statutes, would enable our members to avoid duplicative regulatory requirements, to comply with either the Disclosure Regulation or the Illustrations Regulation.

¹ IA, IL, KY, MA, ME, MO, NC, NE, NH, NJ, NM, NY, OH, SC, SD, UT, VT, WA, WA, WI, WV

Specific Comments to the NAIC LIIIWG 7/25/18 draft revisions to the Disclosure Regulation & the Illustrations Regulation

- Section 7.B.(1) – ACLI members have concerns with the suggested length of the narrative summary cover document. Based on the breadth of information required to be included in the cover document, the note that insurers “should endeavor to limit the overview to no more than 2 pages”, does not appear reasonable, as such a document would very likely exceed 2 pages.
- Section 7.B.(1)(b)(ii) – ACLI members have concerns with the reference to “Gender” in this section of the cover document. “Gender” of insured or insureds, should be replaced with “Sex” of insured or insureds, to be consistent with existing Section 6 of the Illustrations Regulation, which outlines the General Rules and Prohibitions on illustrations. Sex is referenced in 6.A.(3) of the Illustrations Regulation, specifically. Many companies underwrite based on an insured’s genetic sex, as this refers to one’s biological characteristics. Gender, on the other hand, refers to the socially constructed roles, behaviors, activities, and attributes that may vary over time.
- Section 7.B.(1)(b)(iii) – ACLI members recommend deletion “Date of birth of the insured or insureds” (DOB). ACLI notes the very next section in the draft revisions to the Disclosure Regulation and Illustrations Regulation, Section 7.B.(1)(b)(iv) is “Issue age illustrated of insured or insureds”, is fully sufficient for the purposes of the cover document. In addition, listing the DOB may raise privacy concerns, because DOB is usually considered “Personally Identifiable Information”.
- Section 7.B.(1)(b)(vi) – ACLI members recommend changing this element to the following language: “In the course of considering an Insured’s application, an insurer may request or collect health information about the Insured in a variety of ways, including, but not limited to by a physical examination.”
- Section 7.B.(1)(c)(ii) - Statement Describing if Premium and Other Costs Vary. ACLI members have several concerns about this proposed section in that it does not work for all products for which this “cover document” is being created, such as Universal Life, or products with flexible premiums. Further, clarification between “premiums”, what the insured pays versus “costs” what is charged under the policy are different factors. Rather a cross reference to the illustration or policy summary itself for more information about premiums and costs would be more appropriate, especially in consideration of the length of the cover document.
- Section 7.B.(1)(c)(iii) - Options for Premium Funding – ACLI members would like to add language to account for policies that do not have dividends or other options listed. The language used could say something like, “any dividend options,” or “such as lump sum payment options.”
- Section 7.B.(1)(c)(iv) - Waiver of Premium Options – ACLI members recommend moving this to the “Additional Policy Benefits” section and covered under “Any Available Optional Riders” [7.B.1.e(iv)]. This seems appropriate under this section as Waiver of Premium is an optional benefit that a prospect may choose to add to their policy. Our members also recommend removing the word “Options”, as it suggests an explanation of all the Waiver of Premium options available is provided. Rather, the intent is to note if Waiver of Premium has been selected.
- Section 7.B.(1)(d)(iv) - As with some other elements on the cover document, Initial Death Benefit is already described in the illustration. A requirement in the cover document to describe it twice is duplicative and will add to the length of the illustration.
- Section 7.B.(1)(d)(v) -The requirement for this section of the cover document is to state, “Death Benefit Options.” ACLI recommends adjusting the language of this section to read “Death Benefit Option”, as our members note the intent here is to denote the death benefit option that has been chosen in the illustration.

- Section 7.B.(1)(d)(viii) - Policy Loan Options and Applicable Charges – Again, the requirement here is to show the loan “options,” using the plural form of the word. ACLI requests to rename this to “Policy Loans and Applicable Charges”.
- Section 7.B.(1)(e)(iv) - Optional Riders – Listing the cost of some riders and benefits may not be straightforward and costs may vary. Therefore, ACLI recommends editing this section of the cover document to read as follows: “Any available optional riders [as requested by the insured];”.
- Section 7.B.(1)(e)(v) - Living Benefit Options – ACLI would like to clarify that section of the cover document only needs to be included if a Living Benefit Option has been chosen to be included in the illustration. ACLI would also recommend editing text to read “Living Benefit Option(s)” as there may be may be only 1 or no options available.
- Section 7.B.(1)(e)(vii) - Accumulation of Cash Value – ACLI would recommend clarifying this section of the cover document is intended to denote if the policy has the potential to accumulate cash value - or not.
- Section 7.B.(1)(e)(viii) - Guaranteed Interest Rate – ACLI recommends clarification of this section of the cover document. For example, universal life policies may have a combination of a fixed account and index options, and each may have its own guaranteed rate. ACLI recommends showing the guaranteed interest rate(s) for the fixed accounts and/or index options that have been chosen to be illustrated.
- Effective Date – ACLI recommends the inclusion of a Drafting Note to this section of the cover document. In consideration of compliance with the applicable state laws, it may require additional time for companies to fully and properly implement the narrative or policy summary cover document.

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Thank you for your consideration of ACLI’s recommendations to help make some technical clarifications and finalize the cover document for the Narrative Summary according to the Illustrations Regulation or the Policy Summary of the Disclosure Regulation, respectively.

Respectfully submitted,

THE AMERICAN COUNCIL OF LIFE INSURERS



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