LIFE INSURANCE AND ANNUITIES (A) COMMITTEE

Draft: 8/18/26

Life Insurance and Annuities (A) Committee
Columbus, Ohio
August 12, 2026

The Life Insurance and Annuities (A) Committee met in Columbus, OH, Aug. 12, 2026. The following Committee members participated: Doug Ommen, Chair, and Johanna Nagel (IA); Anita G. Fox, Vice Chair (MI); Mark Fowler (AL); Holly W. Lambert represented by Scott Shover (IN); Susan Ochs represented by David Wolf (NJ); Kaitlin Asrow (NY); Judith L. French (OH); TK Keen and Joshua Blakey (OR); Carter Lawrence (TN); Amanda Crawford and Rachel Hemphill (TX); and Nathan Houdek and Lauren Van Buren (WI). Also participating were: Julia Dreier and Ben Slutsker (MN).

1. Adopted its July 13, June 15, and 2026 Spring National Meeting Minutes

The Committee met July 13 and June 15. During these meetings, it took the following action: 1) adopted the 2027 *Valuation Manual* amendments; 2) approved a Request for NAIC Model Law Development to revise the *Annuity Disclosure Model Regulation* (#245); 3) heard a presentation from the Life Insurance Consumer Advocacy Center (LICAC) and KB Regulatory Solutions on the degradation of the Social Security Administration's Death Master File (DMF); and 4) heard a presentation from LICAC on indexed universal life (IUL) and premium financing arrangements.

Director French made a motion, seconded by Commissioner Houdek, to adopt the Committee's July 13 (Attachment One), June 15 (Attachment Two) ,and March 23 (*see NAIC Proceedings – Fall 2025, Life Insurance and Annuities (A) Committee*) minutes. The motion passed unanimously.

2. Adopted the Reports of its Task Force and Working Groups

   A. Life Actuarial (A) Task Fore

Hemphill said the Life Actuarial (A) Task Force met Aug. 10–11, 2026, and shared some highlights from its meetings. The Task Force continued to discuss the potential retrospective application of *Valuation Manual* (VM)-22, Requirements for Principle-Based Reserves for Non-Variable Annuities. The discussion focused on what support companies should provide when requesting retrospective application of VM-22. There will be a VM-22 (A) Subgroup-level exposure requesting input on potential language that could be added to the *Valuation Manual* to allow for VM-22 retrospective application, followed by further discussion by the VM-22 Subgroup and the Task Force.

Hemphill said the Task Force also discussed asset portfolio segmentation between principle-based reserves (PBR) and pre-PBR lines of business, focusing on potential reporting to ensure that the modeled asset segmentation and strategy reflect the actual investment policy, strategy, and asset liability management approach of the company. There was a conceptual exposure through Sept. 10.

The Task Force discussed potential refinements to GOES Model Governance Framework as part of ongoing maintenance.

   B. Annuity Buyer's Guide (A) Working Group

Van Buren gave the report of the Annuity Buyer's Guide Working Group. Since the Spring National Meeting, the Working Group met twice. The first meeting was April 20 to discuss comments received on the March 16 draft of the *NAIC Annuity Buyer's Guide*. Following that meeting, the drafting group met nine times over the next three months. The Working Group last met on Aug, 4 to review a revised draft buyer's guide, dated Aug. 3. The Aug. 3 draft buyer's guide was exposed for a 45-day public comment period ending Sept. 18. The Working Group plans to meet Sept. 24 to discuss any comments received.

C. Annuity Suitability (A) Working Group

Nagel said that the Annuity Suitability (A) Working Group had made progress in each of its three ongoing projects. The Working Group's focus since the Spring National Meeting has been on developing a series of annuity training webinars in conjunction with the NAIC Education & Training Department. Four regulator-only webinars were held. The sessions were: "Market Conduct Analysis/Exams: A Rhode Island Approach" on Aug. 5, with 322 attendees; "Annuity Investigations of Potential Misconduct" on July 15, with 457 attendees; "*Suitability in Annuity Transactions Model Regulation* (#275) Requirements" on July 1, with 392 attendees; and "Annuities 101" on June 10, with 761 attendees. For those unable to attend live, recordings are available on the Compass platform. Nagel reminded the Committee that specialized training for attorneys, investigators, and examiners is being offered as part of the upcoming Insurance Summit. This training includes an in-person deposition workshop for attorney regulators on Sept. 28.

Nagel said the Working Group's second project is to draft a white paper to communicate annuity suitability compliance, commonly observed practices, and potential best practices. A draft framework was distributed, and input was requested as to any "best" practices or procedures insurers have implemented to satisfy the supervisory obligations of Model #275, as well as areas where there have been compliance challenges or confusion. The Working Group received a limited number of comments. The next Working Group meeting will be scheduled for early September.

Nagel said the third project the Working Group is working on involves finding a searchable platform for state department of insurance (DOI) administrative law decisions. Evaluation of existing platforms, as well as the feasibility of developing or augmenting a platform, is underway. The platform needs a robust system with comprehensive search capabilities across various jurisdictions. Current discussions are focused on cost, data sourcing, and user access.

D. Life Insurance and Annuities Illustrations (A) Working Group

Slutsker explained that the Life Insurance and Annuities Illustrations (A) Working Group has been very busy. The Working Group met Aug. 6, July 30, June 2, May 27, and March 31. State insurance regulators are concerned with annuity illustrations that show double-digit annual returns accumulating over multiple decades and question whether the actual contract performance will meet consumer expectations.

Slutsker said there are three primary causes for these high historical returns being shown: 1) backfitted indices; 2) nonguaranteed elements (rules applied to the indices); and 3) projections of recent favorable performance into the future.

Slutsker said the Working Group met multiple times and exposed questions to solicit ideas and feedback on how to address regulators' concerns. Slutsker said the Working Group made two decisions after some initial calls: 1) pursue an interim solution that addresses delays in adopting and implementing the model in individual states; and 2) revise Model #245. The Committee approved a Request for NAIC Model Law Development during it July 13 meeting, and the Executive (EX) Committee will consider the request during its Aug. 13 meeting.

Slutsker explained the impact in states that have adopted the current Model #245. He said that Model #245 has reduced 50% of the fixed index annuity maximum returns observed, by an average of 5% to 6%. He has also observed situations in which Model #245 was ineffective in reducing rates for certain carriers. Therefore, the Working Group concluded that additional enhancements should be made to Model #245, beyond just the prohibition against back-fitting.

The Working Group discussed ideas submitted by interested parties and state insurance regulators on how to revise Model #245 to address unrealistic illustrations. Slutsker said he scheduled four meetings to build consensus on key decisions for potential edits to Model #245. Two meetings have taken place, and the Working Group agreed to pursue language to address the following concepts:

- **Reduce the illustration length.** The Working Group agreed that illustrations could be reduced through shorter illustration periods, reducing redundancy between certain sections in the illustration, and combining or eliminating numerical tables where appropriate.
- **Review disclosures.** The Working Group agreed that more disclosures are not necessarily needed, but current disclosures have had limited impact in certain instances.
- **Require accountability.** The Working Group agreed that a company officer should sign an attestation related to compliance with Model #245.
- **Do not permit hypothetical returns.** The Working Group agreed that the illustration should not include historical illustrated returns for years in which the index being illustrated did not actually exist.

Slutsker said the decisions that have been made are preliminary and will be revisited as specific language is drafted to ensure all the revisions are cohesive. He said that he anticipates addressing the following issues during the Working Group's upcoming meetings: 1) how to illustrate caps and participation rates when the current levels may not be appropriate for a historical period; 2) whether to require supplemental scenarios and information related to illustrated returns; and 3) whether to pursue an actuarial guideline or model bulletin for a stopgap solution until states adopt the updated model.

Slutsker said that after these decisions are made, the Working Group will have the broad conceptual parameters within which to begin collecting proposed redline edits to Model #245. Slutsker said another issue he anticipates is how to address registered index-linked annuities (RILAs), which are currently outside the scope of Model #245.

Director Fox said it is important to take a thorough look at Model #245 to identify all relevant issues and ensure that consumers are protected. She said the review also should consider how industry can help achieve that goal, support state adoption of the revised model, and create a more uniform standard across the country.

Director Fox made a motion, seconded by Commissioner Fowler, to adopt the following reports: Life Actuarial (A) Task Force; Annuity Buyer's Guide (A) Working Group, including its Aug. 4 (Attachment Three) and April 20 (Attachment Four) minutes; Annuity Suitability (A) Working Group; and Life Insurance and Annuities Illustrations (A) Working Group, including its Aug. 6 (Attachment Five), July 30 (Attachment Six), June 2 (Attachment Seven), May 27 (Attachment Eight), and March 31 (Attachment Nine) minutes. The motion passed unanimously.

3. Heard a Presentation on State and Federal Regulation of RILAs

Commissioner Ommen explained that the next agenda items are about RILAs.
RILAs are insurance products and also securities subject to both state insurance regulation and federal securities jurisdiction. In 2024, the Interstate Insurance Product Regulation Commission (Compact) adopted product standards for RILAs. Also in 2024, the U.S. Securities and Exchange Commission (SEC) adopted regulations for insurers to register RILAs under federal law. These regulatory actions have helped pave the way for RILAS to occupy shelf space in the retirement market alongside fixed annuities (FAs), fixed indexed annuities (FIAs), and variable annuities (VAs).

Commissioner Ommen referenced a chart showing the rapid growth in indexed annuities next to even more rapid growth of RILAs. He wanted to make sure Committee members are aware of the impact of this particular product on the retirement market. While Model #245 does not currently apply to RILAs, many financial professionals who licensed for both securities and insurance consider RILAs as an option adjacent to FIAs. State insurance regulators need to consider the federal framework in their review of FIAs. State insurance regulators are seeing marketing materials for RILAs that depict historical performance that may also be creating expectations of annual index crediting performance of more than 25% annually.

Commissioner Ommen introduced Richard Choi (Carlton Fields). Commissioner Ommen said he invited Choi to share his knowledge as a legal practitioner about with the application of federal securities law to RILAs. Choi's law firm gives legal advice to insurance companies on compliance. Choi said he has been practicing federal securities law regulation for more than 38 years, focusing principally on the regulation of investment companies, broker-dealers, advisors, and registered insurance products. He is part of a team that also focuses on fixed products.

Choi said the SEC defines a RILA as an annuity: 1) that is deemed to be a security subject to regulation by the SEC, offered or sold in a registered offering; 2) that is issued by an insurance company subject to supervision by the state insurance commissioner or the equivalent; 3) that is not issued by an investment company; and 4) whose contract value will earn positive or negative interest based, in part, on the performance of any index, rate or benchmark. Choi emphasized that this SEC definition of RILA presupposes that the RILA will also be regulated as an insurance product at the state level.

Choi explained that the SEC has a three-part mission: 1) to protect investors; 2) to maintain fair, orderly and efficient markets; and 3) to facilitate capital formation. Choi observed that the SEC's mission aligns with state insurance regulators' mission.

Choi explained that SEC regulation is disclosure-based, not prudential-based. There are disclosures that must be used and must meet certain requirements. He explained that certain types of permissible communications fall into three categories. The first is the statutory or final prospectus. This is the key disclosure that the SEC reviews. The second is the permitted omitting prospectus, which is a document that contains less information than in the final prospectus and must satisfy certain SEC rules. The third is supplemental sales material, which is any material accompanied or preceded by a prospectus.

Federal securities laws require periodic reporting by issuers of securities products. However, the SEC adopted a rule to exempt issuers of insurance products, including RILAs, from these periodic reporting requirements, subject to certain conditions. Federal securities laws also impose liability for material misstatements or omissions in the registration statement or in prospectuses and oral communications. There is also liability for fraud in connection with the offer or sale of securities.

Choi said the principal means of implementing the disclosure framework is through the registration of securities. RILAs must register on the same form as VAs, with some differences. RILAs must include extensive disclosure of information about RILAs in the statutory prospectus, including: 1) product features, including index-linked options, crediting rate methodology and examples, and interim values (for liquidity events before the end of a crediting period); 2) fees and expenses; 3) principal risks; 4) historical index performance with an overlay of prescribed cap and buffer; 5) purchases and contract value; and 6) surrenders and withdrawals.

Choi explained that the term free writing prospectus (FWP) means any written communication that constitutes an offer to sell or a solicitation of an offer to buy the securities related to a registered offering. The SEC rules allow the use of an FWP after the registration statement has been filed, and the FWP may include information not contained in the registration statement. FWPs that meet the requirements of the SEC rules will be deemed to be a permitted omitting prospectus.

Currently, the SEC Rule 482 permits advertisements that are not accompanied by or preceded by a prospectus. Advertisements under Rule 482 are deemed to be permitted, omitting prospectuses. Rule 482 does not currently apply to RILAs, but the SEC has recently proposed expanding it to include RILAs. The proposed expansion includes limits. A RILA would not be permitted to include performance information, including historical or hypothetical performance of the RILA or any element of the RILA, such as the historical application of upside limits. The proposed expansion would permit the inclusion in advertisements of historical index performance data to explain how a RILA works, in compliance with the SEC Form N-4 for advertisements. Additional conditions would apply to advertisements that contain fee or expense information for RILAs.

Choi explained that Rule 482 advertisements are filed with the Financial Industry Regulatory Authority (FINRA) for review. RILAs are not required, but they have been voluntarily submitting their sales material with FINRA for review. Under the proposed rule, RILA issuers could file RILA advertisements either with the SEC or with FINRA.

SEC Rule 156 makes it unlawful to use materially misleading sales literature in connection with the offer or sale of a RILA. Sales literature may be materially misleading if it contains an untrue statement of a material fact necessary to make a statement not misleading. Sales literature is defined broadly and includes any manner of communication used to offer, sell, or induce the sale of securities. When the SEC proposed applying Rule 156 to RILAs, it included numerous examples of how RILA sales material could be misleading. When the SEC adopted amendments to Rule 156 to cover RILAs, it provided additional examples of when an insurer should consider clarification, explanations, or limitations in its sales literature.

Choi made the point that SEC regulation of RILAs is not exclusive of state insurance regulation. In fact, certain SEC rules are predicated on the application of state insurance regulation with respect to RILAs.

Slutsker said the Life Insurance and Annuities Illustrations (A) Working Group has talked about illustrations as documents made by the company shown during discussions that producers are having with customers. He asked whether these SEC rules apply to company illustrations. Choi said they do and explained that Rule 156 standards apply to all forms of sales literature, including any written communication.

Ommen asked Choi to explain the role of FINRA a bit more. Choi said under the Investment Company Act, Section 24B, advertising by investment companies must be filed with the SEC. The SEC adopted Rule 24B, which says filings with FINRA are deemed to have been filed with the SEC. Under the proposed rule, RILAs would be required to file either with the SEC or FINRA.

Fox asked about the reference in the definition of RILAs about being subject to state insurance regulation and whether Choi could expand on what is envisioned under that definition. Choi explained that the SEC wants to ensure that the issuer of a RILA is a regulated entity subject to the supervision of state insurance authorities. The SEC does not specify the details of supervision, but its inclusion in the definition of a RILA clearly indicates that this product is regulated by the states.

4. Heard a Presentation on the Compact’s Perspective on RILAs

Karen Schutter (Compact) explained that annuities exist on a continuum of risk and potential return—from highly secure, low-volatility options to market-linked, higher-growth products. As guarantees increase, potential returns typically decrease. As growth potential increases, exposure to market risk or variability increases. RILAs, or what the Compact refers to as index-linked variable annuities (ILVAs), made their debut in the marketplace between 2008 and 2010. These products are both insurance and registered with the SEC. Schutter explained how they are similar to and different from FIAs VAs. Like FIAs, ILVAs are generally tied to the performance of a market index, offering the opportunity to capture positive index returns up to a limit (cap rate), but unlike FIAs and more like VAs, they incur losses if the index return is negative. Like FIAs, ILVAs do not directly pass through all the direct investment experience. Unlike a VA, the downside is limited, and in return, there are limits on the upside return. ILVAs do not traditionally have a nonforfeiture benefit, which guarantees the contract holder receives some value in the case of lapse, default, or surrender.

Actuarial Guideline LIV—Nonforfeiture Requirements for Index-Linked Variable Annuity Products (AG 54) was adopted in 2023 and provides the conditions under which an ILVA is exempt from nonforfeiture. Once it was adopted, the Compact was able to finalize and adopt standards for ILVA contracts in April 2024. The standards require the use of the hypothetical portfolio methodology to determine interim values in the event of lapse, default, or surrender, and a clear explanation of how crediting features of the ILVA work. Blakey pointed out that with the interim value calculation, if someone takes out their money in the middle of an index term, the protections of the buffer and the floor most often will not apply. These are important consumer protections that do not apply in all circumstances.

Schutter said that 21 companies have filed one or more of their ILVA products through the Compact in the last two years. The Compact estimates it has approved around 40 ILVA products. ILVAs are the fastest-growing segment of the annuity market.

Slutsker asked whether the Company reviews any life or annuity marketing materials, and if not, whether there an opportunity to do so in the future. Schutter said the Compact does not have uniform standards for illustrations or other advertising around life or annuity products. There are advertising standards for long-term care products. The Compact Statute does provide the authority to create uniform standards for advertising, which is defined as "any material designed to create public interest in a product or to induce the public to purchase that product." Schutter said that most states do not conduct a prior review or have detailed standards for life and annuities, but if the members so desired, the Compact could develop advertising standards for life and annuity products.

5. Heard an Overview of the SEC Proposed Rule and its Impact on RILAs

Shana Oppenheim (NAIC) said that on May 19, the SEC proposed amendments that would permit RILAs and registered market value adjustment (MVA) annuities to advertise using SEC Rule 482. The proposal follows the SEC's 2024 amendments that allowed RILAs and MVA annuities to register on Form N-4, the same registration form used for most variable annuities.

When the SEC adopted the 2024 amendments, it deferred extending Rule 482 advertising eligibility to RILAs and MVA annuities pending further consideration. If adopted, the proposed rule would continue the SEC's effort to harmonize the regulatory treatment of variable annuities and non-variable annuities.

Under the proposed rule, issuers and intermediaries of RILAs and MVA annuities would be permitted to use Rule 482 advertising materials. As with variable annuities today, advertisements could be provided to investors without being accompanied or preceded by a statutory prospectus.

Under the proposed rule, Rule 482 would not be available for advertisements that include performance information of a RILA. The SEC concluded that developing standardized performance requirements for RILAs is difficult for several reasons. RILAs typically cap gains while limiting losses, upside and downside parameters vary across products and circumstances, returns can be highly sensitive to purchase dates and crediting periods, and historical performance may not accurately reflect investor experience.

Under the proposed rule, advertisements could include historical performance of an index to explain how a RILA works and would need to follow the same requirements that apply to RILA prospectus disclosure. Required elements include a bar chart showing annual index returns for the previous 10 years (or the life of the index if shorter), a hypothetical illustration applying a 5% cap and a -10% buffer, and a legend stating that index performance is not the performance of the RILA.

Under the proposed rule, if an advertisement discusses fees or expenses, or states there are none, it must disclose the maximum sales load or other nonrecurring fees, potential losses from contract adjustments, and any annual contract expenses. The disclosures must be based on the most recent prospectus, use the same methodology as the prospectus, and be presented at least as prominently as any other fee or expense information. In addition, RILA advertisements discussing fees or expenses would also be required to state that: 1) the insurer limits the amount an investor can earn on a RILA; 2) investor returns may be lower than index returns; and 3) in exchange for limited upside, investors receive some protection from index losses.

Oppenheim explained that Rule 482 advertisements for RILAs and MVA annuities would be required to be filed with either the SEC or FINRA. Advertisements would also be subject to all other Rule 482 requirements. She said that Rule 482 advertisements and sales literature for non-variable annuities would remain subject to Rule 156. Rule 156 provides guidance regarding whether statements of material fact in sales literature may be misleading. The SEC noted that its prior guidance on the application of Rule 156 to registered non-variable annuities continues to be relevant.

Oppenheim said the SEC requested public comment on several aspects of the proposal by July 27.

6. Heard an Introduction to the NAIC Consumer Representative Scholarship Recipient

Commissioner Ommen said the NAIC Consumer Representative Program is working to expand its scholarship in the area of life insurance. Scholarships were awarded to attend the Summer National Meeting. One of the scholarship recipients is Chia-Li Chien, associate professor of the Center for Financial Responsibility (CFR), School of Financial Planning at Texas Tech University College of Health and Human Sciences. Chien is interested in retirement security, life insurance, and annuities. Ommen said he hopes to have an opportunity to collaborate with Chien in the future.

Having no further business, the Life Insurance and Annuities (A) Committee adjourned.

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Life Insurance and Annuities (A) Committee
Virtual Meeting
July 13, 2026

The Life Insurance and Annuities (A) Committee met July 13, 2026. The following Committee members participated: Doug Ommen, Chair (IA); Anita G. Fox, Vice-Chair, represented by Laura Hall (MI); Mark Fowler (AL); Holly W. Lambert (IN); Grace Arnold and Ben Slutsker (MN); Susan Ochs represented by David Wolf (NJ); Kaitlin Asrow represented by Avani Shah (NY); Judith L. French (OH); TK Keen (OR); Suzette M. Del Valle represented by Carlos Valles (PR); Carter Lawrence (TN); Amanda Crwaford and Rachel Hemphill (TX); Scott A. White (VA); and Nathan Houdek (WI).

1. Adopted the 2027 *Valuation Manual* Amendments

Hemphill explained that the *Valuation Manual* contains the uniform reserving requirements that are adopted by all NAIC member jurisdictions. It is a living document, with requirements revised annually by the Life Actuarial (A) Task Force when it is determined that a material requirement may be missing or an existing requirement may be unduly constraining. The Task Force also updates the *Valuation Manual* for clarity and consistency. The Task Force maintains the *Valuation Manual*, which provides clear requirements and a moderately adverse reserving standard.

This year, the Task Force adopted 14 amendments to the *Valuation Manual*. The majority of these are smaller clarifications, corrections, or updates for consistency. Hemphill highlighted four more notable changes: 1) amendment proposal form (APF) 2025-15 updates the principle-based reserving (PBR) credit rating mapping to use the more granular NAIC designation category; 2) APF 2025-16 makes the reinvestment credit quality guardrail both less constraining and consistent across different PBR frameworks in *Valuation Manual* (VM)-20, Requirements for Principle-Based Reserves for Life Products; VM-21, Requirements for Principle-Based Reserves for Variable Annuities; and VM-22, Requirements for Principle-Based Reserves for Non-Variable Annuities; 3) APF 2025-17 allows companies to reflect the benefit of aggregation in the VM-20 stochastic reserve calculation; and 4) APF 2024-12 sets up a statistical plan for group annuity mortality, to allow for mortality data collection and industry table construction.

Commissioner White made a motion, seconded by Director French, to adopt the 2027 *Valuation Manual* amendments (*see NAIC Proceedings – Summer 2026, Executive and Plenary Committee*). The motion passed unanimously.

2. Approved the Model Law Development Request to Revise Model #245

Slutsker said that the Life Insurance and Annuities Illustration (A) Working Group is requesting approval to revise the *Annuity Disclosure Model Regulation* (#245), addressing annuity disclosures. Slutsker explained that there are concerns about whether annuity returns are being illustrated at unrealistically high levels, between 10% to 20% per year, and whether consumers are being set up with reasonable expectations upon purchasing an annuity. There are also concerns that new indices are being reverse-engineered to perform well over the past 10 years, so that disclosures can show unrealistically higher returns over a historical 10-year period. In addition, there are concerns about the general length, disclosures, and clarity within annuity disclosures.

Slutsker explained that the Working Group asked interested parties to provide ideas to address these issues. The Working Group made two exposures and received 19 comments from 14 interested parties, including industry groups, distributor groups, and consumer representatives. One common idea expressed was to reopen Model #245, including enhancements, and seek adoptions in more states. After analyzing company illustrations in states that have adopted Model #245 and comparing them with those in states that have not, in multiple cases, illustrated rates were significantly lower in states that have adopted Model #245. After discussion, the Working Group reached consensus that reopening Model #245 would be the best path forward.

Slutsker noted that, although the current model has reduced the frequency of potentially problematic practices, it has not eliminated them. In particular, there are still various issues with backfitting the rules applied to the index (commonly referred to as index strategies). There are other issues related to non-guaranteed elements, professional accountability, transparency, and illustration length. The Working Group is also considering multiple potential enhancements to Model #245 to address remaining issues.

During its most recent meeting, the Working Group exposed a list of potential solutions from interested parties, with a comment period ending July 17. Slutsker said he is looking forward to receiving feedback on each potential solution, in hopes of narrowing down ideas and eventually building consensus around a few. Slutsker said that reopening Model #245 would enable the Working Group to move forward with its plans to address concerns identified with annuity illustrations.

Commissioner Ommen explained that the Model Law Development Request form was included in the materials and outlines how this request meets the criteria for opening a model for revision. He said that Slutsker made clear how the request meets the criteria.

Commissioner Ommen said one area where there have been changes is regarding registered index-linked annuities (RILAs), which are also federally regulated. He asked whether the Working Group had given any thought to RILAs. Slutsker said he believes RILAs and whether they should be included within the scope of Model #245 is the next topic the Working Group should consider. Currently, RILAs are registered products and, as such, are not covered under Model #245. However, many of the issues with illustrations have been seen in conjunction with some RILAs. As a result, he said he anticipates a potential exposure on whether to include RILAs. He expects this to be a lively discussion. Commissioner Ommen said that RILAs are being reviewed and approved by the Interstate Insurance Product Regulation Commission (Compact), so this is a good time to consider updates.

Shah made a motion, seconded by Commissioner Arnold, to approve the model law development request to revise Model #245 (*see NAIC Proceedings – Summer 2026, Executive (EX) Committee*). The motion passed unanimously.

Having no further business, the Life Insurance and Annuities (A) Committee adjourned.

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Life Insurance and Annuities (A) Committee
Virtual Meeting
June 15, 2026

The Life Insurance and Annuities (A) Committee met June 15, 2026. The following Committee members participated: Doug Ommen, Chair (IA); Anita G. Fox, Vice Chair (MI); Mark Fowler (AL); Holly W. Lambert (IN); Grace Arnold and Fred Andersen (MN); Remedio C. Mafnas (MP); Susan Ochs (NJ); Kaitlin Asrow represented by William B. Carmello (NY); Judith L. French (OH); TK Keen (OR); Suzette M. Del Valle (PR); Carter Lawrence (TN); Amanda Crawford represented by Rachel Hemphill (TX); Scott A. White (VA); and Nathan Houdek (WI). Also participating was: Nour Benchaaboun (MD).

1. Heard a Presentation on the Degradation of the DMF

Dick Weber (Life Insurance Consumer Advocacy Center—LICAC) and Kathy Belfi (KB Regulatory Solutions) discussed limitations in the U.S. Social Security Administration's (SSA's) Death Master File (DMF) and its use in identifying deceased insureds and locating beneficiaries. Approximately 3 million people die each year in the United States, but only 16% are captured in the DMF, which means that millions of families risk delayed or lost benefits.

Weber explained that the NAIC Life Insurance Policy Locator (LIPL) helps families claim benefits, but it relies on consumers to make inquiries and on insurers voluntarily participating. The LIPL does not address people who are unaware of either a policy or the LIPL.

Weber discussed changes in the availability of federal death records following legislative and administrative actions. In 2011, the federal government removed more than 4 million death records from the publicly available DMF in response to state privacy and identity theft concerns. A limited-access DMF was created in 2013 and is used by insurers today. The completeness of available death records fell from 95% to 16%. Insurance agents are no longer the link between the insurance company and the customer that they once were. Weber explained that there is a delay in the inclusion of death records in the limited DMF, and increased adoption of the electronic death registration system allows for direct reporting to state vital records offices, bypassing the DMF. Obituaries have become a primary tool for identifying deaths, but it is becoming less customary for families to post and pay for a published obituary. There are approximately 40,000 new outlets providing two-thirds of the needed death data via obituaries. Obituary data is unwieldy and inconsistent, making it costly to track and evaluate efficiently.

Belfi reviewed the National Conference of Insurance Legislators (NCOIL) Unclaimed Life Insurance Benefits Model Act. She explained the history of the model's development in 2011, after a very large market conduct examination exposed systemic delays in identifying and paying life insurance benefits. The NCOIL model requires insurers to periodically consult the DMF, which, at the time, contained 95% of deaths. However, not all states have adopted the NCOIL model. Moreover, the DMF is no longer a reliable resource. Increasing amounts of unclaimed benefits escheat to the states.

Weber suggested some ways that this issue might be addressed. Weber said he would like to see an NAIC model adopted by all the states that would: 1) require insurers to implement or outsources a process to systematically search public records and other sources of death information, such as obituaries, funeral home websites, and digital news outlets, in addition to the DMF; 2) require standardized validation protocols with evidence that all sources have been tapped; 3) establish annual metrics on death matches, validations, rates of false positives, and successful beneficiary resolutions to be reported along with other required annual reports; 4) tighten the timeframe for locating beneficiaries to 60-days from the current 90-days and start the clock at the date of death as opposed to the date of notification or validation; and 5) require documentation that all sources have been searched monthly, rather than twice annually, or in some states, quarterly.

Weber asked for guidance about the best Committee to address the issues raised. He said the current regulatory environment places an extraordinary burden on states to manage unclaimed benefits if insurers do not do all they can to find beneficiaries.

Leah Walters (American Council of Life Insurers—ACLI) said that 38 states have adopted the NCOIL model or their own DMF requirements, and all states have escheat requirements, so at some point, the money will end up in the hands of the beneficiary or the state. She said that the industry is using the LIPL, and last September, during Life Insurance Awareness Month, the NAIC issued a press release stating that more than $13 billion in benefits had been recovered since the LIPL was launched in 2016. Weber said the LIPL has been very successful, but there are still many instances where the benefit has not been matched to the beneficiary, which is why he is seeking an NAIC model to provide consistency.

Commissioner Ommen asked whether the ACLI has any data on how insurers are searching for deaths since the degradation of the DMF. Waters said the data is on what life insurers are paying out in benefits, which was $198 billion in 2024. Belfi clarified that they are not asserting that insurers are not paying claims; rather, they are pointing out inconsistencies among states in timeliness and in how insurers are required to identify beneficiaries. There should be a way to develop a model in partnership that introduces some consistency into the process.

Benchaaboun asked where insurers look for beneficiaries other than the DMF. Commissioner Ommen said he has spoken with Iowa companies that use other strategies and wondered whether Weber or Belfi knew what data might currently be available for insurers to access to identify individuals who have died. Belfi said there are many companies that can search for this information with a high degree of certainty. He also asked whether Weber or Belfi had information on how much money is being escheated to the states, which could indicate how much is not reaching beneficiaries. Weber and Belfi said accurate information has been hard to get on this issue.

2. Heard the Presentation "Indexed Universal Life (IUL) and Premium Financing: It's Not Free Life Insurance"

Weber presented on indexed universal life (IUL) insurance illustrations and premium-financing arrangements. He focused on illustrations and consumer understanding rather than the underlying products. Weber explained that LICAC is addressing a number of current consumer complaints and litigation arising from misleading policy illustrations that project indexed life and annuity values.

Weber presented some high-level observations. There is no disciplined scale in IUL or variable universal life (VUL). *Actuarial Guideline XLIX—The Application of the Life Illustrations Model Regulation to Policies with Index-Based Interest* (AG 49) and its updates only address allowable illustration rates and features, not other important issues. The use of constant crediting rates from year to year is unrealistic. Because agents most often use the illustrations to describe policy benefits (but not risks), illustrations used in such a way are deceptive, and an agent with a fiduciary duty must not use these illustrations with clients.

Weber said a client forms expectations based in part on the use of a constantly applied crediting rate using the current premium, which creates a misunderstanding as to the downside. If there is a lower crediting rate, it works to the customer's disadvantage, and the illustration assumptions regarding the current cap and participation rates (when not guaranteed) are similarly misleading and cannot be used by someone with a fiduciary duty. All new policies eventually become old policies, and they lose the benefits of being a new and actively marketed product. In a recent anecdotal survey, several in-force policies saw slight increases in cap rates when interest rates began rising in 2022; however, the trend in in-force cap rates has remained downward. Carriers have total control over all pricing elements, which is necessary, but the customer does not understand that. A policy looks best when it is first depicted in the sales illustration.

Weber analyzed the issues he just outlined. As much as 70% of IUL sales go to high-net-worth customers and focus on income tax-free retirement income through IUL insurance. That creates interesting dilemmas regarding customer expectations and the necessary information that someone under a fiduciary duty must impart to their customer, but that information is not contained in the illustration. Weber reiterated he is not taking issue with the product, only with the way it is explained.

Weber showed graphically how an illustration is used as a projection: If a 45-year-old customer deposits $250,000 annually until age 65, they will be able to withdraw up to $89,000 per year starting at age 65 until age 84. This projection results from applying the maximum rate under AG 49 consistently across years. Weber said he applies a stochastic analysis to the illustration, runs a thousand cycles, varies only the crediting rate relative to the constant AG 49 rate, and uses historical returns of the S&P 500 or a comparable index. He said the purpose is not to predict, but rather to use a well-established statistical process that has been used for over 100 years when you do not know what the future will look like. The result is from the standpoint of how many of the 1,000 trials of analysis on the original illustration can sustain to age 100. There were 905 failures, starting at age 71. Most of the failures occurred before the average life expectancy, and most of the statistical lapses occurred during the $89,000-a-year period for 20 years. Weber also said that customers are rarely advised on the tax consequences in the event of a lapse before the insured dies. All benefits that might have accrued to the customer get clawed back. In this case, if the policy remains in force for the entire period of withdrawals and loans, but then, shortly after that, the policy lapses for insufficient cash value, and the insured is still alive, the insured would owe taxes on ordinary income of almost $1,300,000.

Weber says he recommends that all disclosures include a stochastic analysis. He suggests asking the customer what their minimum expected probability of success is to move forward with the proposal. Usually, clients want a success probability between 90% and 100%. In the illustration he spoke about earlier, to achieve a 95% probability of success, the withdrawal amount would be $50,000, with the cap remaining constant. However, caps tend to drift down on in-force policies. To address this, the stochastic analysis is run with a lower constant cap, which, in the case above, would bring the cost to $40,000 to achieve a 94% probability of success.

The stochastic analysis provides probabilities so that customers can make a decision in their best interest. Weber shared a recent legal case involving a registered investment advisor with a fiduciary duty who recommended an IUL premium financing arrangement. The premium financing, as expressed in the illustration and accompanying materials, was based on the premise that the credit to the policy would always exceed the interest on the premium financing loan. The client retired based on the illustration. The policy credits were only off by about 10% over five years between the original illustration and the in-force after five years, and a suit was filed. The policy was not suddenly not performing; it was that the illustration did not show that with IUL, expenses are almost always front-loaded, and with today's more sophisticated products with bonuses and multipliers, where the assumption is that the credit to the policy is always positive, and that the non-guaranteed bonus or multiplier is always available, this is not true when the credit is zero. The constant crediting scenario and an underlying constant cap or participation rate are deceptive from a fiduciary's standpoint. The problem is not with the product; it is with the illustration.

Fiduciaries cannot just use illustrations that conform to the *Life Insurance Illustrations Model Regulation* (#582), which was passed 30 years ago, because IUL products will fluctuate more widely from the illustration than other cash value policies. Information needs to be conveyed to consumers in a way that enables them to make decisions in their best interests. Regulators need to understand that, regardless of the warnings, consumers focus on the most favorable columns in an illustration and view it as a projection.

Weber suggested that moving from paper to dynamic programming on tablets, which every agent has, is the way to show consumers the "what ifs" so the agent and the client can explore, understand, and make a decision that is truly in the client's best interest.

Commissioner Ommen said this is an issue he would like to put on the Committee's agenda to talk about at a future meeting and noted that related issues are being addressed by the Life Insurance and Annuities Illustrations (A) Working Group with respect to annuities.

Having no further business, the Life Insurance and Annuities (A) Committee adjourned.

Draft: 8/6/26

Annuities Buyer's Guide (A) Working Group
Virtual Meeting
August 4, 2026

The Annuities Buyer's Guide (A) Working Group of the Life Insurance and Annuities (A) Committee met Aug. 4, 2026. The following Working Group members participated: Lauren Van Buren, Chair (WI); Matthew Gendron, Vice Chair (RI); Yada Horace and John Buono (AL); Nour Benchaaboun (MD); Danielle Torres (MI); Maggie Reinert (NE); Gregary S. Arce and Victoria W. Fowler (NH); Glynda Daniels (SC); Kaleb Short (TN); Maribel Castillo and Rachel Hemphill (TX); and Melissa Gerachis (VA).

1. <u>Exposed the Aug. 3 Revised Draft of the *Buyer's Guide for Deferred Annuities*</u>

Van Buren explained that she, Gendron, Arce, Benchaaboun, Fowler, Torres, and Daniels participated in a drafting group that met nine times since this Working Group last met on April 20. The drafting group reviewed and considered all written comments received on the March 16 draft, in addition to comments received during the Working Group's April 20 meeting.

Van Buren explained that because of the voluminous comments received, the Aug. 3 draft is more of a rewrite than a revision. She highlighted some of the overarching changes in this draft. She explained that the guide was revised to improve its potential functionality on the web and on moto for modern consumers who scan documents looking for information, rather than reading something from beginning to end. Consumers are more likely to find the information they are looking for under a heading in the form of a question, such as "What are the costs?" than under the heading "Fees and charges." In addition, the headings are linked to the content within the document, and a glossary of terms has been added, with hover text attached to the terms in the guide linking to the definitions in the glossary.

Van Buren also explained that the draft's tone and the use of questions in the headings reflect that the purpose of the guide is to be consumer-focused for its intended audience. The language also remains mindful of the role of the Buyers Guide under the *Annuity Disclosure Model Regulation* (#245). Van Buren explained that the drafting group was mindful of the comments received on the March 16 draft, raising concerns that certain descriptors, such as "illiquid" or "complex," were subjective. The current draft does not include those terms and instead explains concepts using neutral language.

Castillo asked whether a redlined draft was available. Van Buren explained that the differences between the March 16 and the Aug. 3 draft resulted in a document that was completely redlined and, as a result, uninformative. Hemphill offered that sometimes including comment boxes explaining revisions when revision marks are too voluminous is a way to highlight changes made in response to comments. Van Buren explained that all the comment letters are posted on the Working Group's web page, and the March 16 and Aug. 3 drafts could be compared using Word. Van Buren said she would explore the idea of comment boxes.

Van Buren said she did not expect to consider comments on the substance of the draft during this meeting since the draft was shared just yesterday. However, she encouraged all interested parties to submit written comments during the upcoming public exposure period.

Van Buren exposed the Aug. 3 draft (Attachment Three-A) for a 45-day public comment period ending Sept. 18. Comments should be sent by email to Jennifer Cook (NAIC).

2. Discussed its Next Steps

A Working Group meeting has been scheduled for Sept. 24 to review and discuss comments that have been received and give all commenters an opportunity to highlight their priority comments.

Having no further business, the Annuity Buyer's Guide (A) Working Group adjourned.

Comments are requested by email to jcook@naic.org by close of business Friday, September 18.

DRAFT 08/03/2026

NAIC ANNUITY BUYER'S GUIDE

If you are thinking about buying an annuity, it's important to understand how annuities work so you can make a decision that supports your financial goals. This Buyer's Guide provides important information to help you understand your purchase. After you receive your **annuity contract**, use your **free look period** to review the contract carefully and confirm that it meets your needs.

An annuity is a long-term contract with an insurance company. You fund the contract through a lump-sum payment or periodic **premium payments**, and in return, the annuity may provide guaranteed income payments in the future. Annuities are often used to help manage the risk of outliving your savings.

Annuities offer many different features and options. Understanding how your annuity works, including withdrawal rules, charges, benefits, and limitations, can help you make an informed decision. For example, taking money out before the **annuity contract** allows may result in **surrender charges**, tax consequences, or other adjustments.

Why would you buy an annuity?

- To provide income payments over time and a predictable cash flow: This is called **annuitization** that also helps people avoid outliving their savings.
- To manage certain market risks: Some annuities guarantee a minimum return for a period of time or guarantee that your annuity account won't lose value.
- To postpone paying income taxes on the growth of your annuity value: You don't pay income tax on the growth from an annuity until you withdraw money.
- To provide financial protection from unexpected events: Some annuities offer optional benefits called **riders** that may, for an additional cost, help you pay for long-term care expenses, provide guaranteed income for life, protect your principal from market drops, or provide extra cash if you face a critical illness.

- To leave money to beneficiaries: Some annuities provide a death benefit that is paid to your designated beneficiaries when you die. Because beneficiary designations generally control who receives the death benefit, it is important to review them periodically and keep them up to date.

What are some potential costs of an annuity?

- Most annuities have a **surrender charge period**. If you withdraw more than the contract allows or surrender your annuity during that period, you may pay a surrender charge.
- Depending on the type of annuity, fees, charges, or adjustments may reduce your annuity's value or limit how much it grows.
- Historically, fewer than 5% of annuity owners choose to convert their annuities into a stream of **annuitized** payments. Before purchasing an annuity, consider whether you are likely to use the features and benefits you are paying for.
- If you choose to convert your annuity into a stream of scheduled income payments (**annuitize** the contract), you generally cannot later withdraw the remaining value as a lump sum.
- Some annuities include optional features, guarantees, or **riders** that increase the cost of the contract. Before purchasing an annuity, consider whether you are likely to use those features and whether the additional cost is worthwhile.

What should you consider before you buy an annuity?

When recommending an annuity, your insurance agent is required to act in your best interest and consider your individual circumstances. Your agent must use care and skill to recommend an annuity that is appropriate for your financial needs and goals. This includes considering factors such as your age, income, financial experience, need for access to cash, risk tolerance, financial goals, and tax status.

Ask about:

- Am I buying this annuity because I want a guaranteed future income stream? If not, why am I buying this annuity?
- Do I understand the risks of this annuity, including differences among the different types of annuities? Am I comfortable with those risks?
- How will this annuity help me meet my overall financial objectives given my time horizons? How else could I meet my financial goals?
- If I'm using the annuity for a long-term goal, such as retirement, what is my backup plan if the income from the annuity is less than expected?
- What features or benefits make this annuity right for me?
- Does this annuity offer a guaranteed minimum interest rate or other guarantees? If so, what are they?
- If the annuity includes optional **riders**, do I understand how they work, their costs, and any limitations?
- Do I understand all fees, charges, and adjustments, and how they may reduce the value of this annuity over time?
- Do I know how much I can withdraw (**free withdrawal**) each year without costs? Do I know the

withdrawal limits during the surrender charge period? Do I know what penalties there will be if I take out more than the limit?

- Do I know how withdrawals from the annuity would affect future income payments?
- Do I intend to keep my money in the annuity long enough to avoid paying surrender charges?
- Do I understand how buying this annuity will affect my tax liability, including withdrawals and eventual income payments?
- Can my chosen beneficiaries access the annuity account's value if I die? How could they do that?

If you don't think an annuity recommendation is right for you, ask questions. While an insurance agent may recommend an annuity, the ultimate decision about whether to purchase an annuity is yours. You need to understand your financial needs and whether the annuity can fulfill those needs to make the right decision for yourself.

Insurance companies pay insurance agents a commission for selling annuities. The commission is generally based on a percentage of your **premium payment** and is paid by the insurance company. Compensation may affect the costs, features, benefits, or guarantees of your annuity. If you ask, your insurance agent must disclose the amount of commission they expect to receive.

What is a replacement?

An annuity **replacement** is a transaction where you use the value of an existing annuity to purchase a new annuity. A replacement may involve surrendering your current **annuity contract** or transferring all or part of the annuity's value to a new contract. A properly completed replacement may qualify as a **Section 1035 exchange**, which can allow **tax-deferral** to continue.

A replacement may be recommended to secure better interest rates, lower fees, or different payout options. However, replacing an annuity requires careful consideration. If you replace your annuity during the **surrender charge period**, you will pay **surrender charges**. Even if your existing annuity is no longer subject to surrender charges, a new annuity will generally begin a new surrender charge period. You may also lose benefits, guarantees, or other features available under your existing contract.

Because replacing an annuity may not always be in your best interest, replacement transactions must be reviewed carefully. Your insurance agent must provide a comparison of your existing annuity and the proposed replacement annuity. After the new annuity is issued, you will have a **free look period** to review the contract. If the new annuity does not meet your expectations, you may cancel it during the free look period without penalty.

What is an immediate annuity (SPIA)?

An immediate annuity (also known as a single premium immediate annuity or SPIA) is a contract with an insurance company where you pay a single lump sum in exchange for guaranteed, ongoing income. You receive payments soon after the contract purchase and continue for your lifetime or for a set period.

What is a deferred annuity?

A **deferred annuity** is a long-term contract with an insurance company that allows the insurance company to hold your money over time to grow your funds. Income payments are postponed until a future date of your choosing. A deferred annuity has an **accumulation phase** and a **payout phase**. During the accumulation phase, your funds grow on a **tax-deferred** basis. While this phase is designed to build your annuity value, your balance will fluctuate based on your product type.

During the **payout phase**, your annuity provides regular payments. You may choose payments that last for the rest of your life or for a fixed period, such as 10 or 20 years. Your **annuity contract** describes the payment options you may choose and how long the payments will continue.

Annuity fees, charges, and negative adjustments reduce your annuity's value and can limit how much your money grows. Fees vary by product and are included in the annuity contract. You may ask your insurance agent to explain exactly what you'll pay and when.

The first several years after you buy a deferred annuity are called the **surrender charge period**. If you take out money before the annuity's surrender charge period ends, you'll likely pay a surrender charge (a percentage of your withdrawal amount). Some annuities let you make limited withdrawals without paying a penalty (for example, up to 10% or less of the annuity value each year). Taking money from an annuity also reduces the annuity **accumulation value** and **cash surrender value**. This can mean lower future income payments, death benefits, or other features tied to the annuity value. Additional surrender charge periods may apply to additional **premium payments**. Annuity withdrawals may have tax consequences. Make sure you understand how taxes may apply before taking money from your annuity.

Some annuities offer a bonus to encourage you to keep the annuity for a longer period. However, early withdrawals or contract surrenders during the **bonus vesting period** can reduce or even cause you to lose the bonus entirely. The most common types of annuity bonuses are: **premium bonuses** and **persistency bonuses**.

What is a fixed annuity (FA and MYGA)?

A **fixed annuity (FA)** is a **deferred annuity** contract with an insurance company that grows at a guaranteed interest rate set by the insurer. The annuity contract will state how long the interest rate is guaranteed. Once the **guaranteed period** ends, the insurer can change the interest rate, but it can never drop below your annuity contract's minimum interest rate.

A **multi-year guaranteed annuity (MYGA)** is a type of fixed deferred annuity contract with an insurance company with a guaranteed interest rate for an initial period. The initial period may be short (at least 2 years), mid (4-6 years) or long-term (7+ years). Often, the **guaranteed period** matches the **surrender charge period**. Your money grows **tax-deferred**, and you can later withdraw funds or convert the annuity value into a stream of guaranteed income (**annuitization**).

Ask about:

- What is the guaranteed minimum interest rate and for how long is that rate guaranteed?
- How long is the **surrender charge period**, and what **surrender charges** apply if I need to take out more than the **free withdrawal** amount?
- If I need to withdraw money before the end of the **guaranteed period**, what charges or penalties will apply?
- How would a **market value adjustment (MVA)** affect the amount I receive if I withdraw money before the end of the guaranteed period?
- What are my options at the end of the **guaranteed period**? Will the interest rate change? If I enter a new **guaranteed period**, will a new **surrender charge period** begin?

What is a fixed indexed annuity (FIA)?

A **fixed indexed annuity (FIA)** is a **deferred annuity** contract with an insurance company that protects your principal while crediting interest based on the performance of a **market index**. A fixed indexed annuity is an insurance product, not an investment. Investments are designed to maximize growth, which requires taking on the risk of losing money. An insurance product is designed to transfer risk away from you.

Fixed indexed annuities have a 0% floor, which means your annuity account won't lose value if the **market index** goes down. **Crediting formulas** determine how much interest is credited to your annuity. The formula may use factors such as **cap rates**, **spread rates**, **reset periods**, and **participation rates** to calculate the amount credited. While these features protect your principal, they also mean your account will not be credited the full amount of **market index** gains.

Surrender charge periods for fixed indexed annuities typically range from 7 to 10 years. Consider this timeline for when you might need these funds.

Your insurance agent may show you an annuity **illustration** which is designed to help you understand how your money might grow. An annuity illustration is based on certain assumptions and projections. Illustrations are not promises or guarantees of the performance of your annuity. Ask your insurance agent which illustrated values are guaranteed and which are hypothetical.

Ask about:

- What specific **market index** is my annuity's **crediting formula** based on?
- What tools like **cap rates**, **spread rates**, **reset periods**, and **participation rates** are used to calculate my annuity value? What does that mean in plain language?
- If I take a withdrawal before the contract anniversary, do I lose the interest that has accumulated since the last anniversary?
- How long is the **surrender charge period**, and what penalties apply if I withdraw more than the **free withdrawal** amount?
- What assumptions are in the annuity **illustration**? What is guaranteed versus hypothetical? Can you show me a 'zero percent' scenario to demonstrate how the account performs if the market goes flat or negative during the **accumulation phase**?
- Are **required minimum distributions** (RMDs) allowed penalty-free even if they exceed the **free withdrawal** amount?

What is a variable annuity (VA)?

A **variable annuity** (VA) is a **deferred annuity** contract with an insurance company where you invest your money into **subaccounts** (funds of stocks, bonds, or money markets) and the value of your annuity fluctuates based on those investments. Variable annuities are registered with the U.S. Securities and Exchange Commission (SEC). Like other deferred annuities, variable annuities can grow **tax-deferred** and have **surrender charge periods**.

Because your money is invested in the financial markets, there is higher potential for growth compared to fixed annuities. However, because your returns depend on the financial markets, your annuity value can fall, and you can lose money you put into the annuity.

Some variable annuities let you put part of your money in a fixed interest account with a guaranteed interest rate which protects that portion of your money from financial market downturns.

In addition to the **annuity contract**, every variable annuity comes with a **prospectus** that has been filed with the SEC. A prospectus contains detailed information about the issuing insurance company, the **subaccounts**, fees (such as **surrender charges** and **mortality risk fees**), death benefits, and living benefits.

Ask about:

- What **subaccounts** may I choose from?
- Which **subaccounts** best match my willingness to take market risks?
- How often may I change the **subaccounts** I have chosen?
- Is it possible to lose money I put into this variable annuity?
- Does this variable annuity allow me to put some funds in a fixed interest account? If so, how much may I place in a fixed interest account? For a fixed interest account, what is the guaranteed interest rate and how long is the **guaranteed period**?
- What fees and charges will I pay each year, and how might those costs reduce my annuity's value?
- How long is the **surrender charge period**?
- How much money can I take from the annuity without paying a **surrender charge**?
- Are **required minimum distributions** (RMDs) allowed penalty-free even if they exceed the **free withdrawal** amount?

What is a registered index-linked annuity (RILA or ILVA)?

A **registered index-linked annuity (RILA)** also known as an **index-linked variable annuity (ILVA)** is a **deferred annuity** contract with an insurance company that blends features of fixed indexed and variable annuities. In a RILA/ILVA, your money does not go directly into the market. Instead, your annuity account's value depends on the performance of a **market index** over a set period. That period, usually 1, 3, or 5 years, is the **index term**.

Unlike a **fixed indexed annuity**, your annuity value can go up *or down*. If the **market index** goes down, you could lose money and have less in your account than you put in. **Cap rates**, **participation rates**, **spread rates**, and **trigger rates** limit how much of the market index's gains are credited to your annuity. **Buffers**, **floors**, or **negative participation rates** limit how much your annuity value can drop if the market goes down.

Taking money from a RILA/ILVA before the end of the **index term** may affect the amount you receive. Because the index term has not yet ended, you may not receive the full benefit of the index-linked strategy, and contract provisions such as **surrender charges** or **interim value adjustments** may reduce the value of your annuity. You may also lose protections provided by features such as **buffers**, **floors**, or **negative participation rates**. Without these protections, your losses may be greater than you expected.

Ask about:

- What **market index** is this annuity tracking?
- How is **market index** performance measured?
- What **crediting formulas** are used to calculate my interest rate?

- How does the annuity help protect against losses?
- What limits apply to potential gains?
- What is guaranteed and for how long?
- How much could I lose if the index declines or I take a withdrawal before the end of the index term?
- What fees and adjustments apply?
- Are **required minimum distributions (RMDs)** allowed penalty-free even if they exceed the free-withdrawal amount?

What is a rider?

Some annuities offer optional benefits for an additional cost called **riders**. A rider will provide additional benefits and protections that may not be otherwise included in the annuity contract. There are two types of annuity riders, those that offer a **living benefit** and those that offer a **death benefit**.

Living Benefit Riders provide a benefit to you during your lifetime. A living benefit is paid to you as the purchaser of the annuity. Some examples of living benefit riders are:

- *Long Term Care Rider*: This rider can help you pay for long-term care (LTC) expenses, but it usually comes at an additional cost. LTC riders are not the same as long-term care insurance. Benefits are limited by your annuity value and may reduce your annuity value if used.
- *Guaranteed Living Withdrawal Benefit (GLWB)*: This rider offers a way to receive an income stream for life while retaining control of the annuity value, which can still experience growth. This rider allows for flexible payments and provides a death benefit if a balance remains, though excess withdrawals can permanently lower future income.
- *Guaranteed Minimum Accumulation/Income Benefit (GMAB/GMIB)*: This rider guarantees your annuity value will grow and that amount will be available for income should you choose to **annuitize**.
- *Cost-of-Living Adjustment Rider (COLA)*: This rider allows for payments from your annuity to be adjusted because of the cost-of-living. This is typically a predefined percentage increase to reflect inflation.
- *Accelerated Benefit Rider*: An accelerated benefit rider may allow you to receive payments sooner and waive surrender charges if you need the funds in your annuity. Certain health conditions may need to be met to use this rider.

Death Benefit Riders provide a benefit to your beneficiaries at the time of your death. Some examples of death benefit riders are:

- *Guaranteed Minimum Death Benefit (GMDB)*: This rider guarantees that a death benefit will be paid to your beneficiaries regardless of the performance of the annuity contract.
- *Return of Premium Death Benefit*: This rider ensures that your beneficiaries receive the total amount of premiums you paid into the annuity minus any withdrawals.
- *Enhanced Death Benefit*: This rider provides a step up death benefit based on the highest value on the anniversary date of the contract.

Ask about:

- How does this rider work? What has to happen before I can use the benefit?
- How often are the benefits paid? Monthly? Annually? A lump sum amount?
- Does the rider provide any other benefits or return of value?
- How much does the rider cost? Is the cost a one-time charge, charged for a limited period, or an ongoing fee?
- How does using this rider affect the growth in my annuity's value?
- Are there limits on how much I can receive or how long payments last?
- *For long-term care riders*: How much will the rider pay for my care? Can the amount of my benefit for long-term care ever go down or increase over time? Will the rider pay benefits if I need care in an assisted living facility? If I don't need long-term care, does the rider provide any other benefits or return of value?

How can you take money from your annuity?

Annuitize: When you annuitize, you choose to receive fixed income payments for life or a defined period. Once you annuitize the contract and income payments begin, you generally cannot withdraw the remaining value of the annuity as a lump sum or make additional withdrawals. Also, you can't change the payment amounts unless certain features are present such as **cost-of-living adjustments** or **market adjustments**. Ask your insurance agent how long you have to wait before you can annuitize. When you choose to annuitize, you will choose how long you would like to receive payments. Similar to a pension, some options are:

- *Life only*. The insurer makes payments for as long as you live. The payment amount is largely determined by the annuity value at annuitization and your projected life expectancy. There is no guarantee that the total amount paid into the annuity will be returned. On the other hand, you are guaranteed the income for life.
- *Fixed period*. You receive payments for a specified number of years. Payments after your death may be made to a designated beneficiary.
- *Life with period certain*. Payments are made during your lifetime with a guaranteed total minimum payment. That means if you die without receiving the guaranteed total minimum payment, the balance is paid to a designated beneficiary.
- *Joint and survivor life*. Guaranteed income payments are made for a lifetime to you and another person. When you or the other person dies, the insurer continues making payments to the survivor for the remainder of the survivor's life.

Full Withdrawal: A full withdrawal means you take the full **cash surrender value** of the annuity in a lump sum payment and end your annuity. You'll likely pay a charge to do this if it's during the **surrender charge period**. If you withdraw your annuity's cash surrender value, your annuity is canceled. Replacing your annuity with an annuity from another insurer may have tax consequences if the **replacement** does not qualify for **tax-deferral**. Make sure you understand how the replacement will affect your existing contract, including any potential taxes, charges, or loss of benefits.

Partial Withdrawal: A partial withdrawal means you take some of the money from the annuity's **cash surrender value**. You may be able to do this without canceling the annuity. Most annuities within the **surrender charge period** allow you take out a limited amount of cash each year without paying surrender charges on that amount.

How are annuities taxed?

Tax laws generally allow you to **defer** paying income taxes on the growth of an annuity. This means you generally do not pay income taxes on interest, investment gains, or other increases in the value of your annuity while the money remains in the contract. **Tax-deferred** does not mean tax-free. You generally pay income taxes when you withdraw money from the annuity.

The tax consequences of taking money from an annuity depend on the type of annuity and the source of the funds used to purchase it (for example, funds from a qualified retirement plan, traditional IRA, Roth account, or nonqualified funds). Generally, the growth in a nonqualified annuity is taxed as income when withdrawn. You may also have to pay a tax penalty if you take money from an annuity before age 59½ and do not qualify for an exception. Insurance agents can provide information about the annuity's tax features but generally do not provide tax advice. Consider your individual tax situation before taking money from an annuity.

What should you do when you receive your annuity contract?

When you receive your **annuity contract**, review it carefully. You have the right to change your mind without penalty. During the **free look period**, which is usually 10 to 30 days, you have the right to examine and return the annuity contract.

Make sure the annuity contract matches your understanding of the product and any promises or statements your insurance agent made. Check the annuity type, fees, guarantees, **riders**, and any optional benefits you selected. Also, review the disclosure, **illustration**, prospectus, and any other materials the insurance company gives you. Before purchasing an annuity, make sure you understand how it works, including its features, costs, benefits, and limitations. Ask your insurance agent questions about anything that is unclear. If you decide during the **free look period** that you don't want the annuity, the cover page of the annuity contract provides instructions for returning the contract. Depending on the state and product, you'll either receive a full refund of what you paid for the annuity or your current annuity value.

If you decide the annuity meets your financial needs, keep your **annuity contract** in a safe place where you can easily find it when needed. Review the contract periodically and, if the annuity includes a death benefit, make sure your beneficiaries know how to access the information they may need.

GLOSSARY

Accumulation Phase: The period when money is paid into an annuity and the annuity value may increase before income payments begin.

Accumulation Value: The value of your annuity during the accumulation phase before any surrender charges or other adjustments are deducted. The accumulation value may be used to calculate future benefits or income payments. The cash surrender value is the amount you would receive if you canceled the contract after any applicable charges or adjustments.

Annual Point-to-Point: A method of crediting interest that compares a market index start and end dates one year apart. Other methods are monthly averaging or multi-year point-to-point.

Annuitization: Converting an annuity contract into income payments for life or a different defined period.

Annuity Contract: The legal document between you and the insurance company that sets the terms of the agreement. You will receive your annuity contract after you buy the annuity, but you can obtain a sample contract on the insurance company's website or from your insurance agent.

Bonus Vesting Period: The time period you must wait before an annuity bonus becomes your legal property. While a bonus may appear on your annuity statement on day one, it is conditionally owned. If you cancel the annuity contract or withdraw too much money before the end of the bonus vesting period, you may lose some or all of an annuity bonus.

Buffer: The amount of a market index drop you can absorb without losing annuity value. *Example: 10% buffer → 5% market drop = no loss; 15% drop = 5% loss.*

Cap Rate: The maximum interest that may be credited for a term. *Example:* 5% cap → rate AND index rises 10% → annuity grows 5%.

Cash Surrender Value: The amount you would receive if you canceled your annuity contract and took a full withdrawal, after any applicable charges or adjustments.

Cost-of-Living Adjustment: An optional feature that raises your regular payout amount over time. It helps your money keep up with rising prices and inflation during retirement. It can be either an optional rider or a built-in feature, depending on the type of annuity you buy.

Crediting Formula: The method used to determine how much interest is credited to your annuity during a given period. The formula applies factors such as market index performance, participation rates, cap rates, spread rates, or reset periods. Different crediting formulas can produce different results, even when they are based on the same market index.

Death Benefit Riders: A type of rider that provides a benefit to your beneficiaries at the time of your death.

Deferred Annuity: A contract with an insurance company that delays income payments until a future date. Before payments begin, the value of the annuity may increase or decrease, depending on the type of annuity and its terms.

Disclosure: An annuity disclosure is provided to buyers before finalizing an annuity purchase. It details the annuity contract's core features, fees, interest rates, and surrender penalties.

Fixed Annuity: A deferred annuity contract with an insurance company that grows by accumulating interest at a guaranteed rate set by the insurer.

Fixed Indexed Annuity (FIA): A deferred annuity contract with an insurance company that protects your principal while crediting interest based on the performance of a market index. A fixed indexed annuity is not an investment product and you do not directly invest in the market.

Floor: A feature in some index-linked annuities that limits losses to a specified percentage if the market index declines. *Example: 10% floor → market drops 20%, your annuity drops 10%.*

Free Look Period: A period in which you have the right to examine and return the annuity contract (usually 10 to 30 days) after receiving the annuity contract. During this time, you can cancel the contract for any reason and receive a full refund of your premium with no surrender charges. Depending on the state and product, you'll either receive a full refund of what you paid for the annuity or your current annuity value.

Free Withdrawal: The amount you may withdraw from an annuity each year without paying a surrender charge.

Guaranteed Period: A specified time period during which an annuity contract guarantees a stated interest rate.

Illustration: A document that shows how your annuity's features might work based on certain assumptions and projections made by the insurance company. Illustrations are not promises or guarantees of the performance of an annuity you may purchase. Ask your insurance agent which values are guaranteed and which are hypothetical.

Index Crediting Formula: The mathematical method used by insurance companies to calculate how much interest is added to a fixed indexed annuity. The interest is calculated based on how the market index is measured (the crediting strategy) and how those gains are limited (the adjustments).

Index-Linked Variable Annuity (ILVA): A deferred annuity contract with an insurance company that blends features of fixed indexed and variable annuities (also known as a registered index-linked annuity (RILA)). In a RILA/ILVA, your money does not go directly into the market. Instead, your annuity account's value depends on the performance of a market index over a set period. Unlike a fixed indexed annuity, your value can go up or down. If the market index goes down, you could lose money and have less in your account than you put in.

Index Term: The time period used by an index-linked annuity to measure the performance of a market index (typically one, three, or five years). Your gains or losses are not finalized until this time period ends.

Interim Value Adjustment (IVA): A calculation that determines the value of a market-linked annuity if you partially or fully withdraw money, annuitize, or pass away before the end of the specified index crediting period.

Living Benefit Riders: A type of rider that provides a benefit to you during your lifetime.

Market Index: A metric that tracks the performance of a specific group of stocks or bonds. The index is generally well-established (example: S&P 500) and published in an easily available location (example: the Wall Street Journal or New York Times).

Market Adjustment: A feature that allows your payments or annuity value to change based on external financial conditions, such as changing interest rates or the performance of financial markets.

Market Value Adjustment (MVA): An adjustment that may apply if you withdraw money or fully surrender an annuity before the end of the guaranteed interest rate period. It reflects changes in interest rates since purchase and may increase or decrease the amount you receive.

Monthly or Daily Averaging: A method of crediting interest that uses multiple dates to calculate an average change in the market index.

Monthly Point-to-Point: A method of crediting interest used in fixed indexed annuities that calculates annual interest by summing the index's percentage changes each month, usually applying caps to gains but not to losses.

Mortality Risk Fee: An annual fee charged by insurance companies for variable annuities (also known as mortality and expense charge (M&E fee)). The fee is intended to pay for the insurance costs associated with the guaranteed features of a variable annuity including guaranteed lifetime income.

Multi-year Guaranteed Annuity (MYGA): A type of fixed deferred annuity contract with an insurance company with a guaranteed interest rate for an initial period. The initial period may be short (at least 2 years), mid (4-6 years) or long-term (7+ years).

Multi-Year Point-to-Point: A method of crediting interest used in fixed indexed annuities that calculates your interest by comparing an underlying market index's value at the beginning of a multi-year term (e.g., 2, 3, or 5 years) to the market index value at the end of that term, crediting gains while protecting your principal from market drops.

Negative Participation Rate: A feature in some index-linked annuities where a percentage of a market index loss is applied to your annuity. *Example: 60% negative participation rate → 10% market drop = 6% annuity drop.*

Non-Qualified Annuity: An annuity purchased with after-tax money that grows tax-deferred. When money is withdrawn, the growth is generally taxed as ordinary income. The portion representing your original premium is generally not taxed again.

Participation Rates: The percentage of the market index's change that is credited to your account. *Example:* 50% participation → rate AND index rises 8% → annuity grows 4%.

Payout Phase: The stage of an annuity contract when the insurance company begins making regular income distributions to the annuitant. This phase follows the accumulation phase.

Persistency Bonus: A credit added to an annuity value at the end of a specified period (e.g., every 5 to 10 years). Insurers provide these bonuses to encourage long-term contract retention and reward owners for keeping their funds in the annuity.

Premium Bonus: A credit added to your annuity value when you purchase an annuity, usually based on a percentage of your premium payment. If you withdraw funds or surrender the annuity before the bonus vesting period ends, you may lose some or all of the bonus.

Premium Payment: Money you pay into an annuity to purchase or fund the contract. During the accumulation phase, the value of your annuity may grow on a tax-deferred basis. If your annuity allows additional premium payments, those new funds may begin a new surrender charge period, even if the original funds are no longer subject to surrender charges.

Prospectus: Detailed information about the insurance company, the underlying investment options (subaccounts), fee structures (such as surrender charges and mortality risk fees), death benefits, and living benefits. Variable and registered index-linked annuities are considered securities in addition to insurance products. These products must be registered with the SEC and accompanied by a prospectus.

Qualified Annuity: An annuity purchased with pre-tax dollars within an IRS-approved plan, such as a traditional IRA, 401(k), or 403(b). The funds maintain qualified status within the annuity and you may have to pay a 10% tax penalty if you withdraw money before you're age 59½ if you do not meet an exception.

Registered Index-Linked Annuity (RILA): A deferred annuity contract with an insurance company that blends features of fixed indexed and variable annuities (also known as an index-linked variable annuity (ILVA)). In a RILA/ILVA, your money does not go directly into the market. Instead, your annuity account's value depends on the performance of a market index over a set period. Unlike a fixed indexed annuity, your value can go up or down. If the market index goes down, you could lose money and have less in your account than you put in.

Replacement: A transaction where the value of an existing annuity is used to purchase a new annuity. A replacement may preserve tax-deferral if it qualifies as a Section 1035 exchange, but it may also restart the surrender period, result in new charges or fees, and cause you to lose benefits or guarantees from your existing contract.

Required Minimum Distributions (RMD): The minimum amount you must withdraw annually from tax-deferred accounts like traditional IRAs and 401(k)s. The specific amounts and when you are required to take those amounts are determined by the IRS.

Reset Period: The timeframe over which a market index is measured to calculate your credited interest in a fixed indexed annuity. If the market index is up, your interest is credited. If the market index is down, you receive zero interest, but your principal remains protected.

Riders: Optional benefits you can add to an annuity contract, usually for an additional cost. Riders may provide additional benefits, protections, or features that are not included in the base contract.

Section 1035 Exchange: A tax rule that may allow you to replace one annuity with another while continuing to defer income taxes on the annuity's gains, if certain requirements are met.

Spread Rate: A set percentage an insurance carrier subtracts from market index gains before crediting interest to a fixed indexed annuity. It functions as a hurdle the market index must clear for you to receive interest. *Example:* 2% spread → rate AND index rises 6% → annuity grows 4%.

Subaccount: An underlying investment option inside a variable annuity. Functioning much like a mutual fund, it pools your money into portfolios of stocks, bonds, or money market funds.

Surrender Charge: A fee deducted by an insurance company when you cancel your annuity contract or withdraw more than the penalty-free limit (usually 10%) before the end of the surrender charge period. This penalty is separate from the 10% IRS early withdrawal penalty on qualified funds you take out before age 59½. Both fees may apply if you cash out early.

Surrender Charge Period: The timeframe during which you will pay a fee (the surrender charge) for withdrawing funds or canceling the contract. The penalty percentage is highest in the first year and often steps down each year thereafter. For example, a 7-year schedule might start at 7% and decrease by 1% annually until it reaches 0% in year 8.

Surrender Value: The amount you would receive if you canceled your annuity contract and took a full withdrawal, after any applicable charges or adjustments.

Tax-Deferred: Allows you to delay paying income taxes on increases in your annuity's value until withdrawal. This means interest, investment gains, and other growth are not taxed annually while they remain in the contract. Tax-deferred does not mean tax-free.

Trigger Rate: A set percentage of interest your annuity grows if the tracked market index goes up, even slightly. *Example:* 3% trigger rate AND index rises by 1% or 20% → annuity grows 3%. The trigger rate is applied If the market index performance is greater than or equal to 0%, even if the index performance is more than the trigger rate.

Variable Annuity (VA): A deferred annuity contract with an insurance company where you invest your money into subaccounts, which may include stock, bond, or money market portfolios. The value of your annuity fluctuates based on the performance of those investments. A variable annuity is an insurance contract and a security under federal securities laws.

Draft: 5/27/26

Annuities Buyer's Guide (A) Working Group
Virtual Meeting
April 20, 2026

The Annuities Buyer's Guide (A) Working Group of the Life Insurance and Annuities (A) Committee met April 20, 2026. The following Working Group members participated: Lauren Van Buren, Chair (WI); Matthew Gendron, Vice Chair (RI); John Buono (AL); Jeff Varga (IL); Nour Benchaaboun (MD); Danielle Torres (MI); Maggie Reinert (NE); Gregary S. Arce and Victoria W. Fowler (NH); Glynda Daniels (SC); Kaleb Short (TN); Angela McNeal (TX); and Melissa Gerachis (VA). Also participating was: Sandy Ray (WA).

1. Heard Comments on the March 16 Draft *Buyer's Guide on Deferred Annuities*

Van Buren explained that this was the first official meeting of the Annuity Buyer's Guide (A) Working Group. The plan is for the Working Group to adopt a revised *Buyer's Guide on Deferred Annuities* (Buyer's Guide) for consideration by the Life Insurance and Annuities (A) Committee at the Fall National Meeting. Van Buren said the Working Group's primary goal is to develop a guide that consumers will read and understand. The March 16 draft revised Buyer's Guide (Attachment Four-A) was exposed to provide stakeholders with a document to respond to. Van Buren said she has been working with annuity customers for the past nine years. All of them were required to receive the current Buyer's Guide with the product they purchased; however, she knows that many of them never read it. Van Buren hopes that by updating the Buyer's Guide and adding questions and a worksheet, the revised Buyer's Guide will be something that consumers will engage with.

Stakeholders were invited to submit comments on the March 16 draft revisions to the Buyer's Guide by April 16. Pam Heinrich (National Association for Fixed Annuities—NAFA) highlighted issues from the NAFA comment letter. NAFA agrees that a lot has changed with annuities since 2013, when the Buyer's Guide was last revised. However, NAFA is concerned that the tone and tenor of the March 16 draft are unnecessarily negative, especially given when the Buyer's Guide is delivered. As Van Buren mentioned in her opening remarks, under the *Annuity Disclosure Model Regulation* (#245), consumers are required to receive the Buyer's Guide after they have chosen to purchase an annuity. The tone of the March 16 draft seems unduly negative, especially after a consumer has already chosen to purchase the product. Heinrich reminded the Working Group that since the Buyer's Guide was last revised, the S*uitability in Annuity Transactions Model Regulation* (#275) was revised to include a best interest standard. Now that Model #275 has been adopted nationally, presumably, much of the content in the Buyer's Guide will have been covered by an agent with the consumer during the purchasing process. The revised Buyer's Guide should take this into account. Heinrich said that because the current draft is a Word document, they would likely have organizational suggestions in the future, once formatting decisions have been made. She offered a preliminary suggestion of reviewing the Florida Checklist for consumer-friendly formatting. Heinrich suggested that the questions be placed in a single section, rather than throughout the guide, by annuity type.

Sarah Wood (Insured Retirement Institute—IRI) explained that the joint trades—American Council of Life Insurers (ACLI), the Committee of Annuity Insurers (CAI), and IRI—submitted red-lined revisions to the March 16 draft. Wood was interested in learning more about how the draft was developed and the motivations behind the changes in the guide to build a shared understanding that will position the Working Group to resolve issues effectively and collaboratively. The overarching goal of the joint trades' submission was to ensure the Buyer's Guide continues its role of serving as a balanced educational resource that neither promotes nor discourages annuities, but helps consumers understand key concepts and identify the right questions to discuss with financial professionals

Madison Ward (ACLI) summarized some of the themes in the joint trades' red-lined draft. First, the joint trades suggest adjustments to tone and framing in the introduction and throughout the document to ensure that the Buyer's Guide remains neutral and educational. One example is language that could influence customers against annuitizing, regardless of the suitability of other factors that are relevant to an individual's financial needs. Second, the joint trades suggest calcifications in the areas of taxation, fees, and optional benefits to improve accuracy and better reflect how these products function in practice, given their prevalence in the marketplace. One suggestion was to consider whether certain questions applicable to fixed indexed annuities (FIAs) are also relevant to registered indexed-linked annuities (RILAs), and whether repeating or cross-referencing those questions would improve consumer understanding or make the document unnecessarily repetitive. Ward said the goal of the joint trades' letter is to improve the clarity and readability of the Buyer's Guide, while preserving its longstanding purpose as a consumer resource.

Brenda Cude (NAIC consumer representative) summarized comments submitted by her, Dick Weber (Life Insurance Consumer Advocacy Center—LICAC), and Bonnie Burns (California Health Advocates). Cude explained that the goal of their comments is readability and finding the balance between providing enough information for someone who is trying to find what they need to know before buying an annuity, but not so much that they throw up their hand and decide not to buy or not to learn more before they buy. Cude also explained that this should not be thought of as a document that someone will read from beginning to end. Based on her knowledge of how consumers seek information, they will skim information looking for answers to the questions they might have, which has a big impact on how to approach drafting. Cude also said that the Working Group should keep in mid that pieces of the Buyer's Guide will likely get pulled out for other purposes, so the Buyer's Guide is important not just for consumers who buy annuities, but for other people who work with consumers to help them understand annuity products.

Donna Megregian (American Academy of Actuaries—Academy) spoke on behalf of the Academy's Life Products Committee. Megregian explained that the Academy's letter takes a balanced approach to tone, pros and cons, and moving things around to improve clarity and organization. The Academy also suggested additional content, including more details about riders. Megregian observed that this Buyer's Guide is much longer than the Life Insurance Buyer's Guide and asked the Working Group to consider aligning the two publications in terms of length and level of detail. Megregian suggested including pictures in the Buyer's Guide to better illustrate risk/reward tradeoffs between products and included an educational diagram created by the Academy that has been shared with insurance departments.

Benchaaboun explained that Maryland provided comments from the perspective of a simplified resource document for consumers, especially consumers who call the insurance departments asking, "What is an annuity?" or "What is an RILA?" He suggested that the Buyer's Guide should not get too into the details but rather be an informational guide to answer some of the basic questions consumers have, not necessarily at the time of sale, to guide them to one product or another, but rather answer questions someone has about what annuities are, generally.

Torres explained that Michigan submitted comments that focus on simplifying some of the information and explaining some of the terms. She said Director Fox would like the Working Group to focus its efforts on creating a short, simple Buyer's Guide that is clear and easy to understand for a consumer unfamiliar with annuities.

Birny Birnbaum (Birny Birnbaum Consulting) asked whether, given how consumers seek information, the Buyer's Guide would be in a format that a consumer could access on their mobile device or search for a specific term. Birnbaum said a crucial issue is that the Buyer's Guide does not need to be provided to a consumer until after they have decided to purchase a product, which alters the consumer's mindset when reading the Buyer's Guide. Birnbaum asked the Working Group to consider how to get the Buyer's Guide in front of consumers before they purchase the product, because when a consumer gets the Buyer's Guide is equally, if not more important, than the content of the guide. Cude agreed with Birnbaum's point that once people have made the psychological decision to purchase something, they are far less interested in information that might lead them to question their decision, so timing is important. However, content comes before deciding how something will look and be delivered. Cude also said it is not possible to explain a complex product simply, but if something is complicated, the description or explanation will also be complicated, to some degree. Van Buren said she supports making the Buyer's Guide accessible on mobile devices.

Heinrich said that to the extent that the Buyer's Guide must be delivered at the time of application or after the application has been received, the decision to purchase an annuity has already been made. Under Model #275 best interest requirements, the consumer should already be having conversations with an annuity professional about surrender charges, tax implications, all the benefits and features, and potential for gains and losses associated with their annuity. In this light, thinking of the Buyer's Guide as a supplement to that conversation might inform which questions to ask and what information to include. Van Buren noted that the Buyer's Guide serves multiple purposes because it is both publicly available as an educational resource and required at the point of sale under Model #245. Van Buren emphasized that the drafting group should consider the broader audience for the document, including consumers and agents, as well as the fact that it can be received after purchase.

2. Discussed its Next Steps

Van Buren proposed that a regulator drafting group review all comments and redlines and prepare a revised draft for further feedback. The group will prioritize transparency and track how comments are resolved in the next version. Regulators interested in joining the drafting group should email Jennifer Cook (NAIC).

Having no further business, the Annuity Buyer's Guide (A) Working Group adjourned.

DRAFT 3/16/26
Comments are requested by email to jcook@naic.org by COB April 16.

NAIC BUYERS GUIDE FOR DEFFERED ANNUITIES

If you are thinking about buying an annuity, it's important that you understand how annuities work so you can make a decision that meets your financial goals.

Annuities are complex, long-term insurance contracts that can involve significant fees. They are designed to protect against you outliving your assets. If you surrender an annuity, you may pay surrender charges and taxes. Failing to understand the terms of your annuity can lead to financial loss.

WHAT IS AN ANNUITY?

An annuity is a long-term contract with an insurance company that pays income to you over time. It can provide guaranteed interest rates, tax-deferred growth and, if you choose, periodic income payments, but the features, costs, and guarantees vary by product.

Most annuity owners never convert their annuity into an income stream. This process is called annuitizing the contract. Historically, fewer than 5% of annuities are ever annuitized. The income stream is the insurance feature of the contract. Providing that guaranteed income is one reason annuities can have significant costs. You should carefully consider whether you actually need additional future income when deciding whether an annuity is right for you.

An annuity may be immediate or deferred. An immediate annuity begins paying income soon after you make a lump-sum payment (usually within one year). A deferred annuity allows your money to grow before payments begin. The deferral period is often flexible and may last for many years.

Most annuity sales today involve:
- Fixed/Multi-year guaranteed annuities (MYGAs)
- Fixed indexed annuities
- Registered index-linked annuities (RILAs)
- Variable annuities

All of these are **deferred** products. Immediate annuities (single premium immediate annuities, or SPIAs) represent a much smaller share of overall sales.

DEFERRED ANNUITIES

This guide focuses on issues consumers encounter with deferred annuities only.

Deferred annuities have an **accumulation period** and a **payout period**. During the accumulation period, your annuity value changes based on the product type and how much money you contribute. During the payout period, the annuity makes payments to you.

Some annuities offer a **premium bonus**. This is a lump sum the insurer adds when you buy the annuity or contribute additional money. It's usually a set percentage of the amount you put into the annuity. The insurer credits this bonus to your account on day one, but you usually cannot withdraw it immediately. Insurers use bonuses to encourage long-term retention of the annuity. Many require a vesting period, meaning you must keep the money in the annuity for 7–10 years to keep the full bonus. *In other words, you could lose the bonus if you take some or all of the money out of your annuity within a set period of time.*

The first several years after you buy a deferred annuity are called the **surrender period**. Annuities are illiquid, meaning you usually cannot access the money as easily as you can with a bank account. If you take out some or all of your money before the annuity's surrender period ends, you will likely pay a surrender (or withdrawal) charge. These charges can significantly reduce the amount you receive. Some annuities allow limited penalty-free withdrawals (for example, up to 10% or less of the account value each year). If you withdraw more than that limit, the insurer may charge substantial fees. Partial withdrawals reduce the annuity's cash value. This may lower future income payments, death benefits, or other features tied to the account value.

Fees, charges, and any negative adjustments reduce the value of your annuity and can limit how much your money grows. They cover the insurer's costs to sell and manage the annuity and pay benefits. The insurer deducts some fees directly from your account, while others come from underlying investments. Fees vary by product, so review the **contract**, **disclosures**, and **illustrations** carefully and ask the salesperson to explain exactly what you'll pay each year.

SOURCES OF INFORMATION

Contract: This is the legal document between you and the insurance company that sets the terms of the agreement. You will get this after you purchase the annuity, but you can obtain a sample contract on the insurance company's website or from your agent.

Disclosure: This document describes the key features of your annuity, including what is guaranteed and what isn't, and annuity fees and charges.

Illustration: This document shows how your annuity's features might work based on certain assumptions. **Illustrations are not promises or guarantees**. They often rely on projected interest rates, index performance, or other assumptions that may never occur. Ask specifically which values are guaranteed and which are hypothetical.

WHAT YOU AND YOUR AGENT MUST CONSIDER

Regulators require agents to recommend annuities only when they are in your best interest. Best interest standards require agents to put the consumer's interests first. Agents must use care and skill to recommend products that match the client's finances, needs, and goals. Agents must consider factors such as the consumer's age, income, financial experience, need for access to cash, tolerance for risk, and tax status. When recommending an annuity, your agent is required to act in your best interest and consider your individual circumstances.

Your agent should ask:

- How old are you, and when do you expect to retire?

- What is your current income, and can you afford this annuity comfortably?
- What is your overall financial situation, including debts and regular expenses?
- How familiar are you with financial products and investment risk?
- What are your financial goals, and how would this annuity help you reach them?
- How long do you plan to keep this annuity?
- What other savings, investments, or insurance coverage do you already have?
- Do you need access to this money in the near term, or can it remain invested?
- Are you willing and able to take on market risk?
- How does your tax situation affect whether tax deferral would benefit you?
- Where are the funds for this annuity coming from?
- Are you replacing another annuity, and if so, what benefits or guarantees might you lose?

If a recommendation does not align with your personal circumstances, ask questions and request an explanation of why the recommended annuity is in your best interest. Insurance companies typically pay agents commissions ranging from 1% to 10% of the contract value, depending on the product. These commissions are paid by the insurer and are not deducted from your premium. If you ask, the agent must estimate how much commission they will receive.

FIXED/MULTI-YEAR GUARANTEED ANNUITIES

A **fixed deferred annuity** grows by earning interest at a rate set by the insurer. A fixed annuity (not a fixed *indexed* annuity) credits a guaranteed interest rate that is not tied to a market index. This category includes **multi-year guaranteed annuities (MYGAs)**, which are often advertised as a predictable, short, mid or long-term option with a guaranteed interest rate for a fixed set of time. Your money grows tax-deferred, and you can later withdraw funds according to the contract or convert the value into a stream of guaranteed income.

Fixed annuities guarantee that your money will earn at least a minimum interest rate. The insurer may credit a higher rate, but it guarantees only the minimum rate.

Ask about:

- What interest rate is guaranteed, for how long, and what is the minimum rate in the contract?
- How long is the surrender period, and what penalties apply if I need to take out more than the free withdrawal amount?
- What happens at the end of the guarantee term? Will the rate change or will a new surrender period begin?

FIXED INDEXED ANNUITIES

A **fixed indexed annuity (FIA)** is an insurance contract that protects your principal while crediting interest based on the performance of a market index, such as the S&P 500. You do not directly invest in the market. The insurer uses formulas like caps, participation rates, spreads, and reset periods to determine your interest. These features can limit how much of the index's gains you receive.

FIAs have a 0% floor, so your account won't lose value if the index falls (excluding fees and withdrawals). You do not pay taxes on earnings until you withdraw them Many FIAs have long surrender periods and complex terms.

Their illustrations are based on assumptions that may not match actual results. Gains are limited, formulas may change after the initial guarantee period, and understanding your returns requires reviewing the contract carefully.

Ask about:

- How is interest calculated? What are the caps, participation rates, spreads, and how long are they guaranteed? How do those terms apply? And what do they mean in plain language?
- What is the surrender period, and what penalties apply if I withdraw more than the free amount?
- What assumptions are in the illustration? What is guaranteed versus hypothetical? How could my actual results differ?

Key terms for FIAs:

- **Cap Rate:** The maximum interest credited for a term.
  Example: 5% cap → index rises 10% → annuity earns 5%.
- **Participation Rate:** The portion of the index gain applied.
  Example: 50% participation → index rises 8% → annuity earns 4%.
- **Spread Rate:** Amount deducted from the index gain before calculating interest.
  Example: 2% spread → index rises 6% → annuity earns 4%.
- **Trigger Rate:** Minimum interest credited if the index rises.
  Example: 3% trigger rate → annuity earns 3% even if the index rose more or less.
- **Index Term:** The period over which index performance is measured (e.g., 1 year, multiple years).
- **Surrender Period:** Time during which early withdrawals may trigger penalties.
- **Annual Point-to-Point:** Compares index start and end dates one year apart.
- **Multi-Year Point-to-Point:** Compares index start and end dates over multiple years.
- **Monthly or Daily Averaging:** Uses multiple dates to calculate an average change.
- **Monthly Point-to-Point:** Measures each month's change, limited by the cap; at term end, all monthly changes are added.

Remember: You are not investing directly in the market or any index fund. Interest is calculated based on the index and your annuity's formulas.

REGISTERED INDEX-LINKED ANNUITIES (RILAS)

A **registered index-linked annuity (RILA)** blends features of fixed indexed and variable annuities.

Your money does not go directly into the market. Instead, Your return depends on the performance of a market index over a set period (often one year or several years). But unlike a traditional fixed indexed annuity, your value can go up or down. If the index rises, you may earn interest. If it falls, you can lose money.
Most RILAs offer some downside protection, but only up to a stated limit.

RILAs typically limit both upside and downside: Caps, participation rates, spreads, and trigger rates can limit how much of the index's gains your annuity credits. Buffers, floors, or negative participation rates limit how much loss you absorb at the end of the index term. These protections generally apply only at the end of the term.

Early withdrawals: If you take money out before the end of an index term, an interim value adjustment or market value adjustment may apply. These adjustments are not simply based on index performance, and downside limits usually do not apply. Losses can be greater than the stated buffer if you exit early.

Always review the prospectus carefully to understand how returns are calculated and when protections apply.

Ask about:

- How much could I lose, especially if I withdraw early?
- How are gains limited?
- What fees and adjustments apply?
- What is guaranteed and for how long?

Key Terms for RILAs

- **Prospectus**: Because variable annuities are considered securities rather than just insurance products, they must be registered with the SEC and accompanied by a prospectus. It includes detailed information about the insurance company, the underlying investment options (subaccounts), fee structures (such as surrender charges and mortality risk fees), death benefits, and living benefits.
- **Buffer:** The amount of a market drop you can absorb without losing annuity value.
  Example: 10% buffer → 5% market drop = no loss; 15% drop = 5% loss.
- **Floor:** The maximum loss you can take in a term.
  Example: 10% floor → market drops 20%, your annuity drops 10%.
- **Negative Participation Rate:** The portion of a market loss applied to your annuity.
  Example: 60% rate → 10% market drop = 6% annuity drop.
- **Caps / Participation / Spread:** Limits on how much of index gains your annuity actually credits.
- **Interim Value Adjustment (IVA) / Market Value Adjustment (MVA):** Adjustments if you withdraw money before a term ends, which can increase or decrease value and may ignore buffers/floors.

VARIABLE ANNUITIES

A **variable annuity** does not earn interest and does not guarantee a minimum interest rate. For that reason, many experts consider variable annuities to be one of the riskier types of annuities. Instead, the value of the annuity depends on the performance of the investment portfolios you choose, these portfolios are called subaccounts. Your agent's recommendation should match your tolerance for market risk. Most subaccounts invest in underlying mutual funds and carry varying levels of risk.

The value of your annuity can change daily with the subaccounts' performance. If your subaccounts increase in value, your annuity may grow. If they decline, you could end up with less than you paid in, and any income or other benefit payments could be lower than expected. You bear all the risk of market losses.

Some variable annuities let you allocate part of your money to a fixed interest account, similar to a fixed deferred annuity. This portion earns a rate set by the insurer for a specified period.

Insurers may offer different versions of a variable annuity, often called share classes, which can vary in annual fees and rules for withdrawals. Always read the prospectus carefully and ask your agent to explain the differences.

Ask about:

- How do the subaccounts work, and what level of risk do they carry? Could I end up with less than I put in?
- What fees, charges, and costs will I pay each year, and how might they affect my account's growth?
- Which parts of the annuity are guaranteed, and how do surrender periods, riders, or withdrawal rules affect access to my money?
- If I choose a fixed account option, what is the guaranteed rate, and how long will it apply?
- Are there different versions (share classes) of this annuity? How do they differ in fees and withdrawal rules?

BENEFITS AND RIDERS RELATED TO LONG-TERM CARE INSURANCE

Some annuities offer optional benefits, called **riders**, that can help you pay for long-term care (LTC) expenses. These riders can provide extra protection if you need care in the future, but they usually come at an additional cost.

What these riders can do:

- **Long-Term Care Benefits:** Some annuities let you access extra funds from your annuity if you require long-term care, either in a facility or at home.
- **Accelerated Payments:** Instead of waiting for regular annuity income, the rider may allow you to receive payments sooner if you meet certain health conditions.
- **Coverage Limits:** Riders may cover a specific amount per day or per year for care, or a percentage of your annuity's value.

Ask about:

- How does this LTC rider work, and what triggers payments?
- How much extra does the rider cost, and how does it affect my annuity's growth?
- Are there limits on how much I can receive or how long payments last?
- What conditions or documentation do I need to access the rider benefits?
- If I don't need long-term care, does the rider provide any other benefits or return of value?

Important note: LTC riders are not the same as long-term care insurance. They are tied to your annuity and may reduce your account value if used. Always review the contract and rider disclosure carefully before deciding.

HOW ANNUITIES MAKE PAYMENTS

Annuitize: At some future time, you can choose to **annuitize** your annuity and start to receive guaranteed fixed income payments for life or a period of time you choose. After payments begin, you can't make any other withdrawals from the annuity. You also usually can't change the amount of your payments. If you die before the payment period ends, your survivors may not receive any payments, depending on the payout option you choose.

Full Withdrawal: You can withdraw the cash surrender value of the annuity in a lump sum payment and end your annuity. *You'll likely pay a charge to do this if it's during the surrender charge period*. If you withdraw your annuity's cash surrender value, your annuity is cancelled. Once that happens, you can't start or continue to receive regular income payments from the annuity.

Partial Withdrawal: You may be able to withdraw *some* of the money from the annuity's cash surrender value without ending the annuity. Most annuities with surrender charges let you take out a certain amount (usually up to 10%) each year without paying surrender charges on that amount. Check your contract and disclosure or prospectus.

Living Benefits for Fixed Annuities: Some fixed annuities, especially fixed indexed annuities, offer a **guaranteed living benefits** rider, usually at an extra cost. A common type is called a guaranteed lifetime withdrawal benefit that guarantees to make income payments you can't outlive. While you get payments, the money still in your annuity continues to earn interest. You can choose to stop and restart the payments or you might be able to take extra money from your annuity. Even if the payments reduce the annuity's value to zero at some point, you'll continue to get payments for the rest of your life. If you die while receiving payments, your survivors may get some or all of the money left in your annuity.

HOW ANNUITIES ARE TAXED

Federal law allows you to defer income taxes on annuity earnings. That means you aren't taxed on any interest or investment returns while your money is in the annuity. This isn't the same as tax-free. You'll pay ordinary income tax when you take a withdrawal, receive an income stream, or receive each annuity payment. When you die, your survivors will typically owe income taxes on any death benefit they receive from an annuity.

There are other ways to save that offer tax advantages, including Individual Retirement Accounts (IRAs). You can buy an annuity to fund an IRA, *but you also can fund your IRA other ways and get the same tax advantages*. When you take a
withdrawal or receive payments, you'll pay ordinary income tax on all of the money you receive (not just the interest or the investment return). You also may have to pay a 10% tax penalty if you withdraw money before you're age 59½.

QUESTIONS YOU SHOULD ASK

- Do I understand the risks of this annuity, including how they may differ between fixed, fixed indexed, variable, or RILA products? Am I comfortable with those risks?
- How will this annuity help me meet my overall financial objectives and time horizons?
- Will I use the annuity for a long-term goal, such as retirement? If so, what is my backup plan if the income from the annuity is less than expected?
- What features or benefits, other than tax deferral, make this annuity appropriate for me?
- Does my annuity offer a guaranteed minimum interest rate or other guarantees? If so, what are they?
- If the annuity includes optional riders, do I understand how they work, their costs, and any limitations?

-
- Am I taking full advantage of other tax-deferred opportunities, such as 401(k)s, 403(b)s, and IRAs, before buying this annuity?
- Do I understand all fees, charges, and adjustments, and how they may reduce the value of my annuity over time?
- What withdrawal limits exist each year and during the surrender period, and what penalties apply if I exceed them?
- Do I intend to keep my money in the annuity long enough to avoid paying surrender charges?
- Have I consulted a tax advisor and considered how buying this annuity will affect my tax liability, including withdrawals and eventual income payments?
- How do I make sure my chosen beneficiaries will receive any remaining payments if I die?

WHEN YOU RECEIVE YOUR ANNUITY CONTRACT

When you receive your annuity contract, review it carefully. Make sure it matches your understanding and any promises or statements your agent made. Check the annuity type, fees, guarantees, riders, and any options you selected. Also, read the disclosure or prospectus and any other materials the insurance company provides, and ask your agent to explain anything you don't understand.

In many states, you have a set number of days (usually 10 to 30) to change your mind after receiving the contract. This period is the **free look** or **right-to-return** period. Your contract should clearly state your free look period. If you decide during that time that you no longer want the annuity, you can contact the insurance company to return the contract. Depending on the state and product, you'll either receive a full refund of your purchase price or your current account value.

APPENDIX A

INSURANCE AGENT (PRODUCER) DISCLOSURE FOR ANNUITIES
Do Not Sign Unless You Have Read and Understand the Information in this Form

Date: ________________________

INSURANCE AGENT (PRODUCER) INFORMATION ("Me", "I", "My")

First Name: ____ Last Name: _______________________________

Business\Agency Name: __________________________________ Website: _____________________________

Business Mailing Address:____

Business Telephone Number: ____

Email
Address:____

National Producer Number: ____

CUSTOMER INFORMATION ("You", "Your")

First Name: ______________________________________Last Name: _________________________________

What Types of Products Can I Sell You?
I am licensed to sell annuities to You in accordance with state law. If I recommend that You buy an annuity, it means I believe that it effectively meets Your financial situation, insurance needs, and financial objectives. Other financial products, such as life insurance or stocks, bonds and mutual funds, also may meet Your needs.

I offer the following products:

Fixed or Fixed Indexed Annuities
Variable Annuities
Life Insurance

I need a separate license to provide advice about or to sell non-insurance financial products. I have checked below any noninsurance financial products that I am licensed and authorized to provide advice about or to sell.

Mutual Funds
Stocks/Bonds
Certificates of Deposits

Whose Annuities Can I Sell to You?

I am authorized to sell:

Annuities from Only One (1) Insurer	Annuities from Two or More Insurers
Annuities from Two or More Insurers although I primarily sell annuities from	

How I'm Paid for My Work:

It's important for You to understand how I'm paid for my work. Depending on the particular annuity You purchase, I may be paid a commission or a fee. Commissions are generally paid to Me by the insurance company while fees are generally paid to Me by the consumer. If You have questions about how I'm paid, please ask Me.

Depending on the particular annuity You buy, I will or may be paid cash compensation as follows:

Commission, which is usually paid by the insurance company or other sources. If other sources, describe:

____.

Fees (such as a fixed amount, an hourly rate, or a percentage of your payment), which are usually paid directly by the customer.

Other (Describe): ____

____.

If You have questions about the above compensation I will be paid for this transaction, please ask me.

I may also receive other indirect compensation resulting from this transaction (sometimes called "non-cash" compensation), such as health or retirement benefits, office rent and support, or other incentives from the insurance company or other sources.

By signing below, You acknowledge that You have read and understand the information provided to You in this document.

____
Customer Signature

____
Date

____
Insurance Agent (Producer) Signature

____
Date

ANNUITIES PURCHASE CHECKLIST

What is the name of the agent/agency: ___________________________

License number of the agent/agency: _____________________________

Name of company: ____

Company's NAIC code or Florida company code: _____________________

What is the maturation date?____________________________________

What is your free look period? ___________________________________

(Florida law requires a 21-day period)

What are the administrative fees?_________________________________

Are there charges for any Riders attached to the policy? _______________

What are the surrender charges?__________________________________

What is the minimum premium? __________________________________

What is the annuitization phase? _________________________________

What are the contractually guaranteed bonuses? _____________________

What are the bailout provisions?__________________________________

What are the free withdrawal provisions? ___________________________

What is the interest rate credited on renewal?________________________

What is the market value adjustment? ______________________________

What is the surrender charge schedule? ____________________________

Note: Get any guarantees made by the agent in writing (i.e. interest rates, bonuses or other benefits). Never sign a blank form and demand a copy of all paperwork.

To check on the license and complaint history of an investment professional you are considering working with, call the [State] Department of Insurance Consumer Helpline toll-free at X-XXX XXX-XXXX or Out of State (XXX) XXX-XXXX.

Draft: 8/10/26

Life Insurance and Annuities Illustrations (A) Working Group
Virtual Meeting
August 6, 2026

The Life Insurance and Annuities Illustrations (A) Working Group of the Life Insurance and Annuities (A) Committee met Aug. 6, 2026. The following Working Group members participated: Ben Slutsker, Chair (MN); Sanjeev Chaudhuri (AL); Cody Tyler (CA); Mike Yanacheak (IA); Matt Cheung (IL); Nour Benchaaboun (MD); Steve Mayhew (MI); Michael Muldoon (NE); William B. Carmello (NY); Matt Elston (OH); Joshua Blakey (OR); Andreea Savu (SC); Bill Huddleston and Kaleb Short (TN); Maribel Castillo, Rachel Hemphill, and Carol Lo (TX); Tomasz Serbinowski (UT); Melissa Gerachis and Craig Chupp (VA). Also participating was: David Hippen (WA).

1. Reviewed its July 30 Meeting

Slutsker reported that the Working Group met July 30. During this meeting, the Working Group focused on two categories of proposed revisions to the *Annuity Disclosure Model Regulation* (#245): 1) illustration length; and 2) disclosures. Slutsker reiterated that the focus is on finding consensus regarding what conceptual direction to take so that the Working Group can move into the next phase of drafting specific redlined language.

Slutsker explained that the Working Group reached consensus on the goal of reducing illustration length. The Working Group agreed to explore ideas to reduce illustration length, reduce redundancies, and combine ledgers, including requirements to standardize illustrations for these elements across different carriers and products, without deciding any specifics.

Slutsker said the Working Group also discussed disclosures. Conceptually, the Working Group did not agree to add specific types of disclosures beyond the current model requirements, but acknowledged that future proposals, in the context of other proposed modifications, may still include recommended additions to disclosures or modifications to emphasize current disclosures.

2. Discussed Accountability

Slutsker said he would like to discuss the concept of accountability. He explained that there is widespread support for designating someone at the insurance company to be responsible for the illustration. The American Academy of Actuaries (Academy) comment letter suggested that the person accountable should be a company officer rather than an actuary. The *Life Insurance Illustrations Model Regulation* (#582) requires the appointment of an illustration actuary to annually certify with the insurance commissioner and the Actuarial Standards Board (ASB) that the disciplined current scale used in an illustration meets the relevant Actuarial Standard of Practice (ASOP) and the requirements of Model #582. Model #245 does not contain a similar disciplined current-scale requirement and, in the absence of a mathematical calculation requirement to certify, indicate that an actuary is not the correct person for the role.

Benchaaboun agreed with Academy's conclusion. He explained that on the annuity side, there are estimates and history, and whether and how that information is presented in an annuity illustration is important, so a company officer should sign off. He explained that in the context of the Market Conduct Annual Statement (MCAS), before a filing is accepted, at least two company representatives or officers must certify that the submission is complete and accurate. He said it is crucial to ensure accountability because consumers rely on illustrations when they make decisions about what products to buy and do not rely solely on the producer or on how it is represented at the time of sale. Serbinowski said he agrees with the concept of accountability and possibly an annual certification, but not by an actuary. Carmello said that the Working Group might want to consider adding testing similar to the disciplined current-scale testing in Model #582, in which case there should be an illustration actuary signing off. Hippen said he thinks that both an actuary and a company office should sign off, similar to the requirements in Model #582.

Blakey said the issue of whether there needs to be an illustration actuary should be decided after the Working Group decides what to do with the illustrated rate. He said, depending on that decision, there may be a reason to have an actuary ensure compliance. Elston said he agreed with the need for accountability. The need for an actuary might need to be revisited if requirements become more actuarial.

Slutsker observed that there was consensus on having some level of accountability and maybe a company officer if there was no actuarial component. Slutsker asked whether the Working Group was interested in discussing disciplined scale testing as a potential idea in the future. Serbinowski questioned whether that type of testing would be useful if it simply shows whether there is sufficient support for an options budget behind the illustration That kind of testing would not really address whether returns are realistic.

Hippen said he supported having an illustration actuary for annuity illustrations. He said annuity illustrations are about nonguaranteed elements, and an actuary needs to attest that the illustrations comply with ASOP 2. A company officer could help, but an appointed actuary needs to be the one saying the ASOPs are being followed. He said actuaries are sometimes viewed as necessary only when calculations are involved. However, he noted that certain attestations—such as those included in the life illustrations interrogatories and the annual statement—require and actuary to attest that the company is following the ASOPs related to nonguaranteed elements. While the Working Group may or may not decide to include additional calculations, attestations that a company is following ASOPs need to come from an actuary.

Michael Villa (Farm Bureau Financial Services) asked whether the ideas being discussed would apply to all fixed annuities or just indexed annuities. Slutsker said that the details would need to be decided. Different parts of the Model #245 apply to different types of annuities. Slutsker clarified that the details of what an actuary or a company officer might be attesting to still need to be figured out.

Slutsker polled the Working Group regarding support for the broad concept of accountability in Model #245. He asked Working Group members to indicate whether they supported the broad concept of accountability but wanted to wait until other requirements are developed before deciding whether an actuary or a company officer attestation is needed. He also asked whether any members supported designating a company illustration actuary regardless of what other requirements are ultimately adopted. Carmello, Blakey, Savu, Lo, and Hippen said they supported the concept of a designated illustration actuary no matter what requirements are ultimately decided upon.

3. Discussed Illustrated Rates of Return

Slutsker said he would like to start to discussing the issue of illustrated rates of return. He said there were many issues raised that generally fall into three categories: 1) hypothetical returns, illustrating historical years the index did not exist, even if some of the components did exist; 2) nonguaranteed elements, illustrating historical years the index did exist while assuming nonguaranteed elements remain constant; and 3) additional scenarios, scenarios and information not based on recent history.

The Working Group focused its discussions on whether hypothetical returns should be illustrated. The key concern is that backfitted indices are designed to perform well in historical years. In states that have not adopted Model #245, hypothetical returns using current nonguaranteed elements are illustrated, and the practice appears to be linked with some of the highest returns. Under Model #245, an index that has been in existence for fewer than 10 years cannot be illustrated. However, Slutsker did learn that there is no uniform interpretation of this provision in Model #245. There are a few companies that offer an alternative interpretation: In the case of indices that are purely formulaic and rules-based with no active management, it is permissible to illustrate if the components in the indices were around for more than 10 years. Slutsker suggested a couple of approaches on this issue: 1) permit hypothetical index returns based on history with a limit, such as 150% volatility; and 2) do not permit illustration of years when the index did not exist.

Carmello said he is not sure he supports any historical illustrations and suggested that the U.S. Securities and Exchange Commission (SEC) is correct in permitting only a fixed-return assumption. Carmello said he suggests something like a 10-year Treasury plus 1% for a long-term return. He said it is irresponsible to assume options are going to earn a lot of money. He said to show how the product works, there could be an up scenario that is higher than the cap and a down scenario larger than the buffer. If there has to be a projection illustration, that should only show a modest return around the same as for a fixed annuity.

Ryan Berends (Athene) spoke on behalf of the Indexed Annuity Leadership Council (IALC). He said it is important to allow the illustration of recently created indices with appropriate guardrails, rather than impose a live performance restriction, so that people will understand their choices and foster continued innovation in any of the indices offered. He said that there is a lot of focus on high returns and the right tail of the distribution of outcomes, but another important point is that a lot of newer indices are designed in a way where they could deliver a positive interest credit in a year where the Standard & Poor's 500 index (S&P 500) is down, and a consumer would get a 0% credit in a fixed indexed annuity.

Serbinowski agreed with Carmello. He has reservations about illustrating for the future. With respect to illustrating past performance, he said it may be acceptable to illustrate the performance of a strategy that was actually in place. Otherwise, coming up with an illustration showing a strategy that would have had a fantastic performance over the last 10 years, if it had existed, is deceptive. If a company did not select it for their client in the past, but now, knowing, what happened during the previous 10 years, designs a strategy that would have had a fabulous outcome had it existed, it is deceptive. Blakey said he supports not permitting illustrations for the years when the indices did not exist. If the Working Group considers an option that allows the illustration of hypothetical returns with volatility guardrails, there will still be the opportunity to game the formula and create an index with a really high return. Blakey also expressed concern with allowing a strategy mentioned by Carmello that involves caps and buffers, which can be gamed. Blakey said, in his experience, caps can be set at 999%, which is not really a cap at all. Carmello suggested setting aside the cap, and showing a consumer how something works could be through an up-and-down scenario. Blakey agreed that a high and low scenario could be informative.

Hemphill said that the Life Actuarial (A) Task Force discussed these same issues in the context of life illustrations when it updated *The Application of the Life Illustrations Model Regulation to Policies with Index-Based Interest Sold on or after December 14, 2020* (AG 49-A) in November of 2025. The Task Force decided that only actual historical performance could be shown, not hypothetical or back-cast performance. There was also discussion about the minimum historical period required to illustrate. The Task Force discussed several time periods but decided to stay with the 10-year period, which is consistent with Model #245.

Benchaaboun said the Working Group needs to consider that it is trying to develop an illustration that is given to a consumer who is trying to make a decision about a product and what product is likely to give them a greater return. However, historical data is not an indication of future return, which needs to be considered. Benchaaboun said having a history for something that did not exist should not be included in the illustration.

Elston said he appreciates the perspective on not allowing back testing in newer indices. He said Ohio adopted Model #245 and recognizes that it does provide important safeguards. However, Ohio believes the IALC is putting forth a good rationale for why newer indices can add value through diversification. He recognized that the IALC has put forth a proposal to limit those newer index returns with the guardrail, where back-tested performance would be subject to a cap, applied to annual index returns, equal to 150% of an index's realized volatility (i.e., how much the index returns have fluctuated over time), rounded to the nearest 0.25%. Elston conceded that the 150% limit may not be enough to get state insurance regulators comfortable, but he would like to see the Working Group allow the IALC to show additional parameters to further strengthen that guardrail. Elston said Ohio hopes that hypothetical histories could be included in a way that shows the benefits of the new indices while still providing meaningful protections, similar to Model #245.

Hippen said that Elston made some good comments, but going back to Carmello and Blakey, he said with indices that have been in existence for fewer than 10 years, it would be wise to restrict them to showing an up 20% and a down 20% and not allowing a history to be shown if they have been in existence for less than 10 years, or possibly 20 years would be safer bet. Slutsker said that the Working Group will discuss the specific number of years and whether to change it.

Berends addressed the IALC proposal that Elston mentioned. He said a lot of thought was given to that proposal, and one reason volatility was used as a reference point was that it is one of the inputs into option costs, and option costs are one of the key determinants of the gap and participation rates that can be offered in the product. He said if an index is deliberately designed with high volatility, it will show up in other areas manufacturing the product. There is going to be pressure on the level of growth potential that can be offered via the cap and participation rates. He said the proposal is intended to be self-adjusting to where it is responsive to different index designs in a way that works well when things are looked at in the aggregate.

Gene Hauser (IALC) said that the intent of the IALC proposal was to find a middle ground. He said that the 150% could be moved around. He also said that the issue of unconstrained caps is going to be reflected in the pricing, and to the extent that a company wants to use an abnormally high capped rate, it can do that. However, it is going to cost money, and companies are not able to show anything more favorable than what is offered.

Slutsker clarified that the decision point being discussed is whether to allow the illustration of hypothetical returns (with guardrails to be determined). Scott Stolz said, from the perspective of a consumer who owns two indexed annuities, the goal should be to give the consumer an indication of how the product performs, not to sell one index over another. He is in the camp of not allowing back-tested data in illustrations because it is unrealistic in many cases, and if it is allowed, insurance companies will find a way to make it look better than it will likely perform.

Lo questioned why a company would want to create a new index without historical performance when it also offers a traditional index like the S&P 500. Lo also pointed out that caps spreads and rates can change annually, and companies can paint a rosy picture in the beginning. Lo said she agreed with Stolz that companies should not be allowed to illustrate a hypothetical history. Blakey said the more gray areas are permitted, the more likely it is that the Working Group will be back next year trying to address new loopholes. Blakey pointed to AG 49 as an example of what happens when there is room for interpretation.

Slutsker asked for a voice vote of Working Group members. He asked for Working Group members to indicate support for not permitting illustrations of indices in years when they did not exist (regardless of their components). He also asked for Working Group members to indicate support for allowing some situations where hypothetical returns can be shown, with limits to be discussed. Elston indicated support for allowing hypothetical returns with guardrails. The remaining Working Group members voiced support for prohibiting the use of hypothetical illustrations.

Slutsker said that the Working Group reached consensus on a conceptual decision not to permit hypothetical illustrations, including illustrations of formulaic components that may have existed. Slutsker said that the Working Group would be evaluating everything holistically based on other decisions, but these discussions help the Working Group move forward.

4. Discussed its Next Steps

Slutsker said that during the Working Group's next meeting, he would like to discuss proposals addressing nonguaranteed elements and additional scenario returns, as well as discuss potential stopgap solutions.

Having no further business, the Working Group adjourned.

Draft: 8/7/26

Life Insurance and Annuities Illustrations (A) Working Group
Virtual Meeting
July 30, 2026

The Life Insurance and Annuities Illustrations (A) Working Group of the Life Insurance and Annuities (A) Committee met July 30, 2026. The following Working Group members participated: Ben Slutsker, Chair (MN); Sanjeev Chaudhuri (AL); Cody Tyler (CA); Manny Hidalgo (CT); Mike Yanacheak (IA); Matt Cheung (IL); Scott Shover (IN); Nour Benchaaboun (MD); Laura Hall (MI); Michael Muldoon (NE); William B. Carmello (NY); Matt Elston (OH); Lauren Bodine and Joshua Blakey (OR); Andreea Savu (SC); Kaleb Short (TN); Maribel Castillo and Carol Lo (TX); Tomasz Serbinowski (UT); and Craig Chupp (VA).

1. Discussed Proposed Modifications to Model #245

Slutsker explained that two questions were exposed for a 45-day public comment period ending July 17. One question asked for comments on a proposed interim solution while the *Annuity Disclosure Model Regulation* (#245) is revised and adopted by the states, whether that should be an actuarial guideline, a bulletin, or something else. The other question was a bit more complicated and asked for feedback on each idea in a summary guide of potential Model #245 modifications that the Working Group discussed during its May 27 meeting. Commenters were asked to indicate support or opposition for each idea and include any suitable alternatives.

Slutsker reviewed a revised summary grid (Attachment Six-A) that included columns identifying whether commenters supported, opposed, or were silent on the listed proposed modifications to Model #245.

Slutsker explained that the Life Insurance and Annuities (A) Committee had approved the Request for NAIC Model Law Development to revise Model #245 during its July 13 meeting. The request will be on the Executive (EX) Committee agenda for approval consideration during the Summer National Meeting. In the meantime, Slutsker said he would like to use this Working Group meeting, and the next several Working Group meetings (currently scheduled for Aug. 6, Aug. 17, and Aug. 25) to discuss each proposal under each category in the revised summary grid and, hopefully, reach consensus on which proposals to pursue. Slutsker acknowledged that the consensus he is seeking is preliminary and that full agreement depends on the actual language, but he would like to reach agreement on which proposals to pursue, with draft language being the next step.

A. Illustration Length

Slutsker gave an overview of the ideas contained in the chart, addressing illustration length. Slutsker summarized three ideas: 1) a shorter Illustration ledger that might be achieved by not requiring illustrations to maturity, but rather by illustrating only through the surrender charge period, 10 years, or longer if product features are focused on a longer time horizon; 2) fewer redundances within the illustration, achieved by not requiring illustrations to maturity, such as only through the surrender charge period, 10 years, or longer if product features are focused on a longer time horizon; or 3) a combined illustration ledger, such as by including a side-by-side comparison of tabular illustrations including guaranteed rates, most-recent rates, etc., to reduce length.

The Working Group discussed these proposed ideas to address lengthy illustrations. Serbinowski said he is concerned about language that allows for lengthier ledgers when there are features that have a longer time horizon. He said this would allow gaming behavior. For example, a product with a persistency bonus that starts at age 50 and runs through age 100 would allow a company to illustrate features that do not necessarily add much value but have a longer time horizon. Serbinowski also said that he does not think the illustrated rate should vary by allocation. Varying by allocation implicitly means that past performance indicates the future. Variable products do not vary illustrations by allocation.

Yanacheak asked whether there was anything in Model #245 that would prevent a company from combining the ledger and having side-by-side comparisons. Blakey said that Model #245 states that the guaranteed elements must be shown before the corresponding non-guaranteed elements, which may be interpreted as prohibiting them from being shown side-by-side. Chaudhuri suggested placing a table at the beginning listing all the guarantees, followed by a combined ledger showing everything else, to emphasize the guarantees. Blakey said he likes Chaudhuri's suggestion. Blakey said he also wanted to make sure that, if a combined ledger were allowed, the guaranteed rates would need to be at least as prominent as the non-guaranteed rates, so the non-guaranteed rates could not be in smaller font or off to the side. Elston said, while he appreciates Serbinowski's concerns, the Indexed Annuity Leadership Council (IALC) comment letter, which the summary of the issue is based on, suggests allowing an option to use a shorter illustration period when doing so better aligns with the product's primary use case, while preserving the flexibility to illustrate longer periods where long-term values are central to the consumer's understanding.

Gene Hauser (IALC) clarified that the suggestion was to allow a shorter illustration where appropriate, so a company would not need to introduce a feature that may not have much value to the consumer simply to create the opportunity to show a longer illustration. Hauser said he thinks the concerns about lengthy illustrations creating consumer expectations are really about renewal rates and what is being shown as potential rates to manage non-guaranteed elements in the future. Hauser also said, as far as clarifying requirements in Model #245 to address long illustrations, he recently learned that there may be companies that show full ledger projections of non-guaranteed values for the most recent, low, and high scenarios, rather than just showing crediting rates in the account values under those other scenarios.

Slutsker observed that the conversation has largely been about the specifics of how to reduce the length of illustrations, which is the next step of deciding the language and details, once the general concepts are agreed upon. Slutsker said that there would be time to hash out the details and asked whether there was consensus among Working Group members around receiving proposed language addressing the general concepts of 1) shorter illustration ledgers, 2) reducing redundancies, and 3) combining ledgers.

Serbinowski said it is difficult to say he supports something when he does not know what it is he is supporting. He said that, at this point, it seems he is being asked to support a shorter illustration, when he would prefer something more concrete, whether that is prohibiting illustrations of 20% over 50 years, or a limit on illustration length. Blakey agreed with Serbinowski that there should be less optionality, and if illustrations are intended as educational tools, there is no reason not to standardize them, which would improve consumer understanding when comparing products. Blakey said he thinks optionality is why regulators find themselves playing catch-up. Less optionality is the best tool regulators have to prevent circumvention of the rules. Slutsker asked whether re-framing the first idea to eliminate the requirement to illustrate to maturity and require shorter illustrations where appropriate were concepts that Serbinowski or Blakey could support. Serbinowski said that he is comfortable receiving feedback on whether the shorter illustration is optional or required.

Bonnie Burns (California Health Advocates—CHA) spoke in support of Blakey's idea of standardization because these products are complex, and comparing them is much easier with a standardized document that helps consumers understand how these products work. Lo also spoke in support of standardization. She said annuities are a senior product. The average age at which consumers begin considering an annuity purchase is around age 50, and simplification helps in this product market. Lo said that current products do not need to be illustrated for longer than 10 to 20 years, depending on the product and issue age. Lo suggested focusing on the non-guaranteed elements in the illustration rather than on pages of guaranteed elements, with the combined guaranteed and non-guaranteed ledgers.

Slutsker asked whether there were any objections to supporting solutions to illustration length, including the concepts of shorter illustration ledgers, reducing redundancies, and combining ledgers, with the additions that solutions for shorter illustration ledgers and combining ledgers should include standardization so that there is less differentiation company to company. There were no objections raised.

B. Disclosures

Slutsker explained that several comments suggested additional or improved disclosures. Slutsker recognized that the lines start to blur when discussing disclosures because they often address the other underlying issues, such as crediting rates. Slutsker organized the suggestions on the broader category of disclosures into five general ideas.

The first idea is that disclosures emphasizing illustrations are not projections. The current Model #245 includes a statement on this, but a stronger one or standardized language could be developed. The second idea is more disclosures for anticipated changes to non-guaranteed elements. Slutsker explained that this suggestion is to include more disclosures to ensure that consumers understand concepts such as teaser rates, or that caps or participation rates look favorable at first but could change quickly. The third idea is to add standardized language to promote consistency for consumers and provide insurers with regulatory clarity. This is a broad suggestion to have Model #245 include additional blocks of standardized language that address specific issues. The fourth idea is to include additional language to more clearly distinguish non-guaranteed elements from guaranteed elements. Model #245 includes requirements for disclosing whether items are guaranteed or not guaranteed, but there could always be clarifications or additions on this topic. The fifth idea is to include disclosure of a company's financial strength as a differentiating factor between carriers. Slutsker indicated that there was only opposition to this idea in the most recent set of comments. Slutsker recognized that the idea involves ratings, their meanings, and how best to disclose financial strength, so he tabled this suggestion and focused on the first four suggestions. Slutsker reiterated that these are broad concepts and particular language would have to be developed.

Hauser emphasized that the current model includes language addressing proposed or anticipated changes to non-guaranteed elements and suggested a certification of some sort where a company officer acknowledges that, to their understanding and knowledge, any planned changes to non-guaranteed elements are reflected in the illustration. Slutsker said this is an example of how the category of disclosure bleeds into the category of accountability and the idea of what things could be included in an attestation, such as distinguishing between non-guaranteed elements and guarantees.

Prior to deciding whether or not the Working Group wants to support the disclosure concepts reviewed, Slutsker explained that Model #245, in Section 6G(4)(b), requires that fixed indexed annuity illustrations include a statement containing, in substance, the following:

> This illustration assumes the index will repeat historical performance and that the annuity's current non-guaranteed elements, such as caps, spreads, participation rates or other interest crediting adjustments, will not change. It is likely that the index will not repeat historical performance, the non-guaranteed elements will change, and actual values will be higher or lower than those in this illustration but will not be less than the minimum guarantees.
>
> The values in this illustration are not guarantees or even estimates of the amounts you can expect from your annuity. Please review the entire Disclosure Document and Buyer's Guide provided with your Annuity Contract for more detailed information.

Slutsker said he wants Working Group members to understand that support for the disclosure ideas entails including something more than what is already required in Model #245. Serbinowski said he would like to hear feedback from consumer representatives on this issue, as he generally does not view disclosures as particularly useful. Disclosures only help if people read and understand them. He suggested that there is a tension between making illustrations more consumer-friendly by reducing their length and adding disclosures, which will make the illustrations longer. Elston said a question for the consumer advocates is whether the placement of disclosures is important, and whether disclosures get lost when they are on the second page of a 30-page illustration, and whether agents highlight the disclosures or gloss over them. Chueng said he would like to get feedback from actual consumers to see if the things that he thinks consumers should understand from reading an illustration are actually understood. He asked whether there is a process for getting feedback from normal people who are not financial professionals or actuaries.

Yanacheak expressed skepticism about the usefulness of additional disclosures. He mentioned the concept of anchoring. When consumers are shown an illustration that says they will have 10,000 times as much money as they have now, they are already anchored, and nothing any number of disclosures say will matter. Yanacheak said it might be more important to call them projections so that a consumer has a right of action against a company for making an inappropriate projection. He said anchoring is difficult to undo, and a disclosure is not going to make an impact.

Yanacheak also pointed out that there are limits on the illustrated rate already contained in Model #245 that he does not believe are respected. Section 6F(8) contains important language about the illustrated rate: "…non-guaranteed elements used in calculating non-guaranteed illustrated values at any future duration shall reflect any planned changes, including any planned changes that may occur after expiration of an initial guaranteed or bonus period." He said that he has seen, for years, illustrations that do not respect this provision. The illustrations show a flat rate for years, even though they know that they will invest less at the end of a surrender charge period, which will change the rate.

Blakey spoke in support of the importance of the anchoring concept Yanacheak raised. He said if you personalize an illustration with future numbers based on their initial investment and say how it may perform, it is hard to say it is not a projection. Unless the illustration is divorced from the individual, it appears to be a projection. Blakey said that if the Working Group moves towards standardization and illustrations for each product type, rather than a personalized illustration for each consumer, that might help because then it is an educational document, not showing how an individual's investment could or should perform under any given set of circumstances.

Burns said consumer testing of illustrations is a great idea. Regarding disclosures, it depends on what the disclosure is, where it is, and how consumers will experience it. On the issue of company strength, almost everyone who comes in for counseling on insurance wants to know that the company is financially strong enough to be there in the future.

Dick Weber (Life Insurance Consumer Advocacy Center—LICAC) said in LICAC's experience, the numbers form an immediate expectation. He does not have an instant solution for that but agreed that it should be this group's focus. Weber said he did not think another disclosure would solve the problem, but he does not rule out the possibility that there may be an appropriate way to make a disclosure. He reiterated that the Working Group's focus needs to be on addressing the fact that consumers form their expectations based on the numbers portrayed.

Cheung suggested that a standardized initial premium might help disassociate what people envision their money doing, even with fees and other elements. Brenda Cude (Funded Consumer Representative) suggested reframing the third idea to add standardized language, set language standards, and determine who will decide whether the language meets the standards and how they will make that determination. She also observed that the reading level in Section 6B(4)(b) is at a 16.6 grade level. Regarding disclosures, it is difficult to generalize; however, something other than a poorly written disclosure offered too late might be effective.

Slutsker observed that there is no consensus at this point around any of the ideas put forward to support additional disclosures in Model #245. Serbinowski agreed that it would be better to work through the other items before considering disclosures. Carmello agreed with Serbinowski. Slutsker agreed to table the discussion about disclosures. He clarified that this does not mean there should be no disclosures, only that there was no agreement on the broad concept of the types of changes that should be made to Model #245. Once the Working Group reaches the point of discussing specific red-line changes to Model #245, there will be an opportunity to revisit ideas for disclosures in that context.

2. Discussed its Next Steps

Slutsker said that during the Aug. 6 meeting, he would like to discuss proposals addressing accountability and illustrated rates of return. He would like to resolve whether hypothetical rates of return of indices that did not exist should be added back into Model #245.

Having no further business, the Life Insurance and Annuities Illustrations (A) Working Group adjourned.

List of Potential Modifications to Model 245

#	Topic	Item	Party	Modification	Description	Academy	ACLI	CAI	Finseca	IALC	IRI	NY
1	Illustration Length	A	AAA, ACLI, CAI, IRI, Scott Stolz	Shorter Illustration Ledger	Do not require illustrations to maturity, such as only through the surrender charge period, 10 years, or longer if product features are focused on a longer time horizon	Possibly	✓	✓		✓	✓	Possibly
		B	ACLI, CAI, IRI	Fewer Redundancies	Eliminate redundancies between narrative summary and Section 5 of Model 245	✓	✓	✓		✓	✓	✓
		C	CAI	Combine Illustration Ledger	Side by side comparison of tabular illustrations, such as guaranteed rates, most-recent, etc., to reduce length		✓	✓		✓		✓
2	Illustrated Rate	A	AAA	Composite Indices	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	✓	Possibly	Possibly				
		B	ACLI, CAI, IRI	High/Low Scenarios	Base high/low scenarios on sampling from longer than a 20 year period if an index has existed longer, to increase the variability of both low and high scenarios for consumer understanding	Possibly	✓	✓		✓	✓	
		C	ACLI, CAI, IRI	Additional Data for Non-Illustrated Index Accounts	Consider adding data or other approaches in cases where the index can't be illustrated due to existing fewer than 10 years		✓	✓		✓	✓	
		D	CANNEX	Reduced Rate Scenario	Mandate a supplemental reduce rate scenario, in which non-guaranteed elements are reduced by a percentage specified by the commissioner	Possibly						
		E	LICAC	Crediting Rate	Single prescribed crediting rate for all carriers and also for RILAs, e.g., 5%	X	X	X	X	X	X	Possibly
		F	LICAC, Scott Stolz	Table of Nonguaranteed crediting and history	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	X	X	X		X		
		G	Scott Stolz	Indices less than 10yrs - 1	Illustrated return equal to ten year US treasuries plus 1.5%-2.0%		X	X		X		Possibly
		H	Scott Stolz	Indices less than 10yrs - 2	Show a table that shows the hypothetical average, best, and worse performances over a selected timeframe, in addition to % of positive, negative, and zero returns							
		I	IALC	Cap at Multiple of Volatility (new)	Show annual historical/hypothetical returns, capped at 150% of the annual volatility			Possibly	✓	✓	✓	
		J	IALC	Replace "low" scenario with guarantee scenario	Show the guaranteed scenario as the low scenario, instead of a separate low scenario that may not cover the full range of adverse outcomes		✓	✓	✓	✓	✓	✓
		K	NYSDFS	Up/down & fixed account (new)	Up 20% scenario and down 20% scenario for a one-year illustration; any illustration beyond one year is capped at 110% of the general account fixed income earnings rate							✓
3	Disclosures	A	AAA	Not Projections	Adding disclosures to further emphasize that illustrations are not intended to be projections	✓	✓	✓		✓		✓
		B	ACLI, CAI, IRI, CANNEX	Anticipated Changes to Non-Guaranteed Elements	Adding disclosures and emphasizing requirements of reflecting anticipated changes to non-guaranteed elements	✓	✓	✓		✓	✓	Possibly
		C	CANNEX	Standardizing Language	Adding standardized Model language to promote consistency for consumers and provide insurers with regulatory clarity		✓					Possibly
		D	LICAC	Non-Guaranteed vs Guaranteed	Statement to distinguish guaranteed vs. non-guaranteed features		✓	✓		✓		Possibly
		E	LICAC	Financial Strength	Disclose financial strength of company as a differentiating factor between carriers		X	X		X		
4	Account-ability	A	AAA	Illustration Actuary or Officer	Create an officer or an illustration actuary role that is held accountable / responsible for the illustration (e.g., annual certifications)	✓	✓	✓		✓	✓	✓

Draft: 7/14/26

Life Insurance and Annuities Illustrations (A) Working Group
Virtual Meeting
June 2, 2026

The Life Insurance and Annuities Illustrations (A) Working Group of the Life Insurance and Annuities (A) Committee met June 2, 2026. The following Working Group members participated: Ben Slutsker, Chair (MN); Sanjeev Chaudhuri (AL); Cody Tyler (CA); Manny Hidalgo (CT); Matt Cheung (IL); Mike Yanacheak (IA); Scott Shover (IN); Nour Benchaaboun (MD); Laura Hall (MI); Michael Muldoon (NE); Matt Elston (OH); Kaleb Short and Eric Scott (TN); Joshua Blakey (OR); Matthew Gendron (RI); Andreea Savu (SC); Maribel Castillo (TX); Tomasz Serbinowski (UT); and Craig Chupp (VA). Also participating was: David Hippen (WA).

1. Reviewed its May 27 Meeting

Slutsker reported that the Working Group met May 27. During the meeting, the Working Group heard an overview of the seven comment letters that were received addressing the last exposure question, which asked for feedback on: 1) whether to use the *Annuity Disclosure Model Regulation* (#245) as a starting point for a solution to the concerns the Working Group had been discussing; and 2) if the answer is yes to Model #245, what modifications should be made. Slutsker said he provided an overview of research state insurance regulators have undertaken, including illustrations of the top 25 annuity carriers by market share and their impact in states that have adopted the most recent version of Model #245 versus those that have not.

Consensus was reached to open Model #245, subject to approval from the Life Insurance and Annuities (A) Committee and the Executive (EX) Committee. Slutsker said he hopes a Request for NAIC Model Law Development to revise Model #245 can be approved within the next few months. From the time Executive (EX) Committee approval is given, the Working Group will have a year to revise the model.

2. Discussed Potential Modifications to Model #245

The Working Group reviewed a summary guide that categorizes proposed modifications to Model #245 into the following categories: illustration length, illustrated rate, disclosures, and accountability. (Attachment Seven-A) Slutsker explained that not every comment submitted was included in the chart. More general comments not listed in the chart, such as suggestions that illustrations include more pictures, will still be considered during the revision process. Slutsker explained that multiple proposals could be combined in certain areas; however, the Working Group may have to choose an approach regarding illustrated rates.

Slutsker gave an overview of the ideas contained in the chart. Slutsker highlighted some of the ideas forwarded regarding illustration length. Some ways to shorten illustration length to reduce complexity and improve consumer understanding include combining tables and limiting illustration periods to surrender charge durations. Another proposed idea was to use generic premium amounts to avoid misleading consumers, while being cautious about proportional charges.

Blakey supported combining illustration ledgers to reduce consumer fatigue from reviewing several pages of numbers. Yanacheak said he liked the ideas in the chart to shorten the duration of the illustrated years and the overall length of the illustrations to avoid overwhelming consumers. Slutsker agreed that a common aspect of the illustrations he has seen is that they depict 10 years of history, essentially repeating for 40 years, compounding to a large number. Tyler agreed that shorter illustrations are better and said that showing the surrender charge period as a benchmark makes sense from the standpoint of educating consumers. Cheung proposed using generic premium amounts to avoid misleading consumers and combining that with shorter illustration length. Serbinowski liked the idea Cheung proposed but cautioned that there could be products with non-proportional charges that would have to be considered.

Dick Weber (Life Insurance Consumer Advocacy Center—LICAC) supported using generic premium amounts while taking into account the concerns Serbinowski mentioned. Bonnie Burns (California Health Advocates—CHA) said she is concerned about the riders that are attached to annuities and supports anything that can be done to help consumers understand these products and any charges that may accrue. Burns suggested a simple question-and-answer document might address basic concepts consumers need to know, such as how to access benefits and what happens if costs exceed the benefits in a contract.

Slutsker summarized the suggestions in the chart addressing disclosures. There were suggestions to standardize language, add financial strength of a company as a differentiating factor between carriers, add disclosures to better explain guaranteed versus non-guaranteed elements, add disclosures to emphasize that illustrations are not intended to be projections, and create an officer or an illustration actuary role that is held accountable for the illustration (e.g., annual certifications).

Michael Villa (Iowa Farm Bureau) mentioned that the Annuity Buyer’s Guide (A) Working Group is working on updating the *NAIC Buyer’s Guide for Deferred Annuities* (Buyer’s Guide) and cautioned against having the illustration repeat information in the Buyer’s Guide. Slutsker agreed that there should not be duplicate efforts, especially if the goal is to make illustrations shorter.

Dan Adams (National Life) noted that there will always be repetition between mandatory product disclosures and the illustration. Burns agreed and said that a simple disclosure addressing the most common consumer concerns would be an appropriate disclosure at the time of sale. While the Buyer’s Guide is a helpful tool, not every consumer will read it, especially at the time of sale. Scott noted that consumers requesting post-sale illustrations may not have access to buyer's guides, which supports the need for some redundancy.

Slutsker summarized the illustrated rate proposals. Commenters suggested clarifying the treatment of composite indices, using longer historical periods for high/low scenarios to improve consumer understanding, adding data or other approaches for illustrating indices with less than 10 years of history, mandating a reduced rate scenario, prescribing a single crediting rate for all companies, and requiring detailed tables of non-guaranteed history and crediting rates. Serbinowski urged moving away from illustrating past performance due to potential inaccuracies based on changes in strategies and assumptions. He suggested that a compromise might be to include a table showing what a strategy does and how it actually performed, but every effort should be made to avoid using history as a projection. Villa said his concern about not illustrating history is the loss of competitive product differentiation in a simplified crediting-rate context. It is important for consumers to understand how a product works and how to compare one product to another.

Slutsker said Villa’s comment emphasizes the question at hand, which is what the intended purpose of an illustration is. There is evidence that companies have felt pressure to illustrate higher rates of return to compete, leading to the current issue. Slutsker asked whether the purpose of the illustration is to explain the features to a consumer and educate them on how it works, or to actually indicate performance. Blakey said the more that illustrations are used as sales tools, the more incentive there is to show higher crediting rates, regardless of the product type, to differentiate a product from a competitor’s. Blakey supported making illustrations more informative and educational, noting that other advertising materials, such as rate sheets and brochures, can be used as sales tools. However, Blakey said he supports showing non-guaranteed history to inform consumers about how a company has performed in the past regarding rates, such as teaser and renewal rates. Weber suggested creating a separate disclosure for all crediting rate issues, due to the complexity introduced by products with capes, spreads, fees, and options.

The Working Group discussed the concept of appointing a responsible officer or actuary to ensure the accuracy and compliance of illustrations, and paralleled this with life insurance regulations and Actuarial Standards of Practice (ASOPs). Concerns were raised about the appropriateness of involving actuaries if the issues are not strictly actuarial. The group considered the need for clear definitions of responsibilities and the potential for professional accountability mechanisms. Burns said consumers should know who in the company is responsible for the information that consumers receive at the time of sale and who is responsible for training agents to understand the products they sell.

Slutsker highlighted a suggestion made by the American Academy of Actuaries (Academy) that Model #245 include an officer or illustration actuary responsible for certifying the illustration. He said this is a concept from the life insurance side that could be included on the annuity side and said he would like to explore this further.

3. Discussed Stopgap Measures

Slutsker introduced the idea of using an actuarial guideline as a stopgap measure before states adopt a revised Model #245. This approach will provide immediate consumer protections while states go through the process of having a law adopted in their state legislatures. Tyler asked whether an actuarial guideline would remain in effect if a state never adopted the updated model. Hippen suggested that the Actuarial Standards Board (ASB) develop an ASOP that would establish expectations for actuaries. While an ASOP does not have the force of law, it does create accountability.

Donna Megregian (Academy) explained that there needs to be an actuarial issue tied to an actuarial guideline, not just a modification of disclosures. It is important to identify the actuarial issue for the accountability piece as well, to avoid creating a professionalism problem by asking an actuary to be responsible for a non-actuarial issue. Megregian pointed out that under the *Life Insurance Illustrations Model Regulation* (#582), insurers must appoint one or more illustration actuaries to certify that the disciplined current scale used in illustrations conforms to the ASOP promulgated by the ASB and the illustration meets the requirements in Model #582. In that case, the actuarial guideline and the ASOP were drafted simultaneously to implement the actuarial certification requirements within the model.

Slutsker said he would welcome additional thoughts on this approach and inquired whether the Academy would follow up with the ASB about what might be required to pursue an ASOP. Carrie Haughawout (American Council of Life Insurers—ACLI) and Sarah Wood (Insured Retirement Institute—IRI) expressed concerns about having an actuarial guideline as a stopgap measure. Haughawout questioned whether there is an actuarial reason for an actuarial guideline, or if it is being used as a policy-making tool. Wood expressed concern about the indefinite applicability in states that do not adopt the model. Both suggested exploring stopgap alternatives other than an actuarial guideline. Carrie Haughawout and Sarah Wood expressed reservations about the guideline's complexity and policy implications.

4. Discussed Next Steps and Exposure Questions

Slutsker said there are two questions exposed for a 45-day comment period ending July 17. First, Slutsker asked for feedback on each idea included in the summary guide of potential Model #245 modifications. He asked that the comment indicate support or opposition for each idea, and any suitable alternatives as relevant. Second, Slutsker asked for feedback on using an actuarial guideline as a stopgap until states adopt an updated model. If an actuarial guideline is not supported, he asked that the comments include alternatives that can serve as an effective stopgap solution.

Slutsker said that the Life Insurance and Annuities (A) Committee would likely consider a Request for NAIC Model Law Development to revise Model #245 prior to the Summer National Meeting. He anticipated scheduling a Working Group meeting to discuss feedback on the exposure questions sometime in late August.

Having no further business, the Life Insurance and Annuities Illustrations (A) Working Group adjourned.

List of Potential Modifications to Model 245

#	Topic	Item	Party	Modification	Description
1	Illustration Length	A	AAA, ACLI, CAI, IRI, Scott Stolz	Shorter Illustration Ledger	Do not require illustrations to maturity, such as only through the surrender charge period, 10 years, or longer if product features are focused on a longer time horizon
		B	ACLI, CAI, IRI	Fewer Redundancies	Eliminate redundancies between narrative summary and Section 5 of Model 245
		C	CAI	Combine Illustration Ledger	Side by side comparison of tabular illustrations, such as guaranteed rates, most-recent, etc., to reduce length
2	Illustrated Rate	A	AAA	Composite Indices	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)
		B	ACLI, CAI, IRI	High/Low Scenarios	Base high/low scenarios on sampling from longer than a 20 year period if an index has existed longer, to increase the variability of both low and high scenarios for consumer understanding
		C	ACLI, CAI, IRI	Additional Data for Non-Illustrated Index Accounts	Consider adding data or other approaches in cases where the index can't be illustrated due to existing fewer than 10 years
		D	CANNEX	Reduced Rate Scenario	Mandate a supplemental reduce rate scenario, in which non-guaranteed elements are reduced by a percentage specified by the commissioner
		E	LICAC	Crediting Rate	Single prescribed crediting rate for all carriers and also for RILAs, e.g., 5%
		F	LICAC, Scott Stolz	Table of Non-Guaranteed History and Crediting Rates	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)
		G	Scott Stolz	Indices less than 10yrs - 1	Illustrated return equal to ten year US treasuries plus 1.5%-2.0%
		H	Scott Stolz	Indices less than 10yrs - 2	Show a table that shows the hypothetical average, best, and worse performances over a selected timeframe, in addition to % of positive, negative, and zero returns
3	Disclosures	A	AAA	Not Projections	Adding disclosures to further emphasize that illustrations are not intended to be projections
		B	ACLI, CAI, IRI, CANNEX	Anticipated Changes to Non-Guaranteed Elements	Adding disclosures and emphasizing requirements of reflecting anticipated changes to non-guaranteed elements
		C	CANNEX	Standardizing Language	Adding standardized Model language to promote consistency for consumers and provide insurers with regulatory clarity
		D	LICAC	Non-Guaranteed vs Guaranteed	Statement to distinguish guaranteed vs. non-guaranteed features
		E	LICAC	Financial Strength	Disclose financial strength of company as a differentiating factor between carriers
4	Accountability	A	AAA	Illustration Actuary	Create an officer or an illustration actuary role that is held accountable / responsible for the illustration (e.g., annual certifications)

Draft: 6/16/26

Life Insurance and Annuities Illustrations (A) Working Group
Virtual Meeting
May 27, 2026

The Life Insurance and Annuities Illustrations (A) Working Group of the Life Insurance and Annuities (A) Committee met May 27, 2026. The following Working Group members participated: Ben Slutsker, Chair (MN); John Buono (AL); Cody Tyler (CA); Manny Hildago (CT); Mike Yanacheak (IA); Matt Cheung (IL); Nour Benchaaboun (MD); Daneille Torres (MI); Michael Muldoon (NE); William B. Carmello (NY); Matt Elston (OH); Joshua Blakey (OR); Matthew Gendron (RI); Maribel Castillo and Angela McNeal (TX); Tomasz Serbinowski (UT); and Craig Chupp, Melissa Gerachis, and Jerod Mentzer (VA).

1. Discussed Feedback Received on Second Exposure Question

Slutsker reminded the Working Group that its last meeting on March 31 ended with exposing the following question for comments due May 18:

What should be the starting point of a short-term solution: Model #245 language, AG 49-A language, or something else?

- *If Model #245 or AG 49-A language, what types of modifications do you believe are necessary to address current regulatory concerns regarding illustrated rates and transparency (i.e., which sections/parts do you believe need to be added or modified)?*
- *If something else, then how can the scope be limited to ensure the progress towards a short-term solution before a longer-term solution is developed?*

The Working Group discussed the comments that were received.

A. Academy

Donna Megregian (American Academy of Actuaries—Academy) summarized the Academy's comment letter. Megregian said that the Academy thinks it is valuable to understand why states have not adopted the most recent version of the *Annuity Disclosure Model Regulation* (#245), which does address some of the issues the Working Group has discussed by prohibiting the illustration of indices that have been in existence for fewer than 10 years. Megregian noted that Model #245 does not fully and clearly define the differences and treatments of the component parts of an index and the strategy for which an index is formulated, which impacts what can constitute illustrated history. For example, although the S&P 500 and Dow have existed as separate indices, there may not be enough guidance on how a fund that balances between the weight of the S&P 500 and Dow can be considered for the historical period. If the index guaranteed a 50/50 blend, there would be less question that the index could illustrate that history than if the blend changed over time due to an algorithm. This may be an area that could provide more clarity within Model #245. Language used in *Actuarial Guideline XLIX-A—The Application of the Life Illustrations Model Regulation to Policies With Index-Based Interest Sold on or After December 14, 2020* (AG 49-A) may be useful in addressing what constitutes an index with actual market history that can be illustrated.

Megregian acknowledged that a short-term fix similar to *Actuarial Guideline XLIX—The Application of the Life Illustrations Model Regulation to Policies with Index-Based Interest* (AG 49) and AG 49-A is an appealing solution; however, annuity illustrations do not have the same level of accountability that is required for life insurance illustrations under the widely adopted *Life Insurance Illustrations Model Regulation* (#582). The lack of an appointed illustration actuary and a responsible officer does not provide a clear path for a specific level of accountability for the annuity illustration. Megregian clarified that the Academy is not implying that disciplined current scale requirements from Model #582 should also be required for Model #245, but rather that a clear framework for responsibility and accountability for what is shown in an illustration should be laid out in Model #245.

Megregian said the Academy letter also outlines some principles that may be useful in evaluating whether a medium- to long-term solution could involve updating Model #245, encouraging adoption so that a consistent application occurs in all states, including revisions to illustration standards in Section 6, and perhaps a responsible party that ensures illustrations conform to the model. The Academy suggested that discussions about updating the model should include the following principles illustrations: 1) products with different risks and features should be treated differently; 2) ensure that illustrations are not considered projections or in any way indicative of future performance of the product; 3) utilize a formula-based development of the maximum illustrated credited rate; 4) ensure understanding of the guaranteed and nonguaranteed elements; 5) create accountability and annual certification of product illustrations at time of sale and for in-force illustrations; 6) ensure that the length of ledgers are commensurate with the duration of the product.

B. <u>ACLI</u>

Carrie Haughawout (American Council of Life Insurers—ACLI) summarized the ACLI comment letter. The ACLI and its members share the objective of regulators that annuity illustrations should provide consumers with reasonable expectations and a clear understanding of how products work, without creating the impression of predictive or guaranteed outcomes. From the ACLI's perspective, that means plain-English explanations of key features and what drives outcomes rather than technical or dense disclosures. The ACLI believes that a clear presentation of those concepts best supports consumers at the point of sale and helps them make informed decisions.

Haughawout said the ACLI supports using Model #245 as the foundation for a short-term solution rather than starting anew. Model #245 already establishes core principles that continue to resonate with regulators' concerns, including that illustrations should explain product mechanics rather than forecast future performance. Building on the Model #245 framework will allow the Working Group to move efficiently while maintaining consistency, refine what is already in place, and make targeted improvements.

Haughawout said that, in considering targeted improvements, the ACLI considers shorter, more summary-based illustrations that highlight what really matters most to consumers, which may involve clarifying or standardizing how non-guaranteed elements are described and streamlining or removing requirements that add length without improving clarity. Haughawout noted that the ACLI sees value in allowing more representative historical data, along with flexibility for newer indices, so the illustrations reflect the range of market environments.

Haughawout said the ACLI supports the Working Group's dual-track approach of pursuing both short-term enhancements and longer-term consideration of broader structural changes, but expressed concern about pursuing an actuarial guideline to address short-term issues. The ACLI remains committed to working collaboratively with the Working Group on the common goal of advancing clarity and improving consumer understanding.

C. <u>CAI</u>

Eric Arnold (Eversheds Sutherland) summarized the Committee of Annuity Insurers (CAI) comment letter. Arnold said the CAI supports the ACLI comment letter. He explained that the CAI letter amplifies some suggestions in the ACLI letter regarding topics the Working Group should consider when reviewing and revising Model #245. In particular, Model #245 already addresses renewal rate risks, but if the Working Group believes that these provisions do not adequately address consumer understanding of renewal rate risks, new disclosures could be added, the requirements in Model #245 could be modified, or the prominence of the disclosures could be enhanced to make clear to consumers the impact of renewal rate risk. Alternatively, or in addition to enhanced disclosures, the Working Group could consider providing supplemental illustrations that consumers could request. Arnold also reiterated support for the ACLI's point on newly developed indices, noting that continued consideration is needed to demonstrate to customers how newly developed indices would work in a product.

D. Cannex

Damien Baboolal (Cannex) recapped the Cannex earlier comment letter submitted in response to the Working Group's exposure question due March 24, which identified three mechanisms by which the current illustration framework in Model #245, when combined with product design and market conditions, produces the high illustrated returns the Working Group has been discussing. The first mechanism is the renewal rate assumption and its interaction with the premium bonus interaction. The second mechanism is the scenario selection bias in historical windows. The third mechanism is the inconsistency between current strategy rates and the economic environments illustrated in the scenarios.

With respect to the current exposure question, Cannex recommended using Model #245 as a starting point for a short-term solution. Cannex has two specific solutions to recommend: 1) modifications to two sections in Model #245 for enhanced renewal rate disclosure; and 2) require a supplemental reduced rate scenario within the carrier's illustrations. These revisions are linked to specific provisions in Model #245 and can be implemented in the near-term without a comprehensive overhaul of the model.

E. IRI

Slutsker read a statement summarizing the Insured Retirement Institute's (IRI's) comment letter. Slutsker said the IRI has reviewed the comments submitted by the ACLI and supports the ACLI's recommendations. The IRI members believe the ACLI letter appropriately identifies key issues and offers a practical path forward.

F. LICAC

Richard Weber (Life Insurance Consumer Advocacy Center—LICAC) summarized the primary message of the LICAC comment letter. Weber said the primary purpose of an illustration is to explain how a product works, and it is being used by agents and perceived by customers as a projection. The primary recommendation of LICAC is to move away from accumulating numbers and refocus on aligning customers' risk tolerance and other suitability factors with an appropriate product. When this is the focus, the numbers are not important.

G. Scott Stolz

Slutsker summarized the comment submitted by Stolz. Stolz is a fixed indexed annuity owner and submitted his comments from the perspective of how he would like to have received information to analyze product choices. Slutsker explained that Stolz comment suggests a graph showing how a particular product bought 10 years ago has actually performed. If a product has a fee or a spread, the graph should show the fee percentage and the actual dollar amount deducted each year, and spread products should have a column for the spread percent as well as the net index return less the spread. If no data is available due to being a newer indexed account, Stolz suggests illustrations should use an assumed return equal to U.S. Treasury yields plus 1.5% to 2%. He also suggests including a table with strategy performance comparisons over a select period showing the best, average, and worst returns, as along with the percentage of years that produced positive, negative, and zero returns.

Slutsker said he was aiming to reach consensus on an option for moving forward, whether that was 1) using Model #245 as the starting point from which modifications would be made; 2) starting over with something new; or 3) using an actuarial guideline approach. Gendron said that several comments expressed support for starting with Model #245. However, several years ago, an effort to update Model #245 was unsuccessful. Interested parties and regulators were unable to reach a consensus after many drafts and years of meetings. Gendron said his concern is based on not having a years-long glide path to figure things out. He said that an actuarial guideline might be a good way to address some of the extreme issues regulators have been seeing in the short-term, while working towards something bigger over the long-term.

Serbinowski questioned why indexed products are treated differently from variable products in terms of projections. If it is inappropriate to project how variable products will perform based on allocations, he asked why it is different with indexed products. Serbinowski also said he disagrees with the importance of illustrations showing how new indices work. He said it may be important to show how new strategies work. If a company devises a new strategy that, for example, delivers a 7% return when the index falls by 1% but provides no return when the index rises by 1%, illustrating how that strategy works might be important. But illustrating a strategy has nothing to do with illustrating the future performance of the index.

Blakey said that there seems to be agreement among many that illustrations are meant to be mostly educational tools, not sales tools, and that they have morphed over time to be more sales tools. He said in Oregon, they review advertisements and fact sheets for indices. If the goal is to explain how an index works, create fact sheets that show how an index has actually performed to date, not back-tested information made up in hindsight. Blakey said that removing the prohibition in Model #245 on illustrating indices that have been in existence for fewer than 10 years does not seem to be in line with the Working Group's goals.

Yanacheak said there is obviously room for improvement with illustrations, and he would like to see steps taken toward improvement. In his opinion, an actuarial guideline based on Model #245 would show improvement and have the quickest impact. Yanacheak said he would like to see the Working Group take a concrete first step that can lead to something. He does not want perfection to be the enemy of the good. Anything that moves towards a national standard, which has been lacking, would be good. Yanacheak said that Model #245 has had an impact in the few states that have adopted it, and an effective first step would be to develop an actuarial guideline based on Model #245. There may be other short-term solutions while the Working Group takes the time necessary to develop a long-term one.

Slutsker shared additional information on whether Model #245 affects the illustrated rates of return in the states where it has been adopted. As Slutsker mentioned during the Working Group's March 31 meeting, several states requested all indexed annuity illustrations (both registered index-linked annuities [RILAs] and fixed indexed annuities [FIAs]) from the top 25 annuity carriers in the industry. Of these insurers, about a third of the maximum illustrated rate across index accounts that are offered were 10% or lower, another third were about 10% to 15%, and the remaining third were showing maximum illustrated rates from 16% to 27%.

Slutsker said a follow-up question was whether the illustrated rates are lower in states that have adopted Model #245. High level data from the same top 25 annuity carriers showed that approximately half of those carriers showed no difference between illustrated rates in states that had adopted the most recent version of Model #245 and those that had not. That half of the carriers either: 1) offered RILA products that were the highest index return that was offered, in which case it was not impacted by Model #245, which does not apply to RILAs (only FIAs); or 2) there was no difference between states that adopted the most recent version of Model #245 and those that did not. One explanation is that those companies applied the requirements of Model #245 in all states where they did business and did not backcast returns. The remaining half of the top 25 carriers experienced a drop in the maximum illustrated rate for index accounts that were offered in states that had adopted the most recent version of Model #245. There was an average 5% drop in returns. For example, if the illustrated rate was 13% in the state that had not adopted Model #245, it would be 8% in the states that did have Model #245. Slutsker observed that there is a significant difference attributable to limits on illustrating indices that have existed for fewer than 10 years.

Slutsker said that a couple of companies still illustrated indices created within the last 10 years in states with the most recent version of Model #245. He explained that this was because the underlying indices that made up the new index, individually, had histories of more than 10 years. This was evidence of an interpretation of Model #245 that allows for illustrations if the individual indices that made up a new index had existed for more than 10 years, and the company was able to create an index strategy that would combine them. He flagged this as an issue to discuss in more detail. Summarizing, Slutsker said that the revised Model #245 did make an observable difference.

Another question is why Model #245 has not been more widely adopted. Slutsker said the most common answer is that Model #245 is not an accreditation standard, so there is no inherent impetus to make it a priority and push for legislatures to adopt it. In addition, the issue was not perceived as a problem to the same extent as it seems to have been in more recent discussions. A primary question remains: If the decision is made to revise Model #245, how can the Working Group ensure that there is motivation for state legislatures to adopt those revisions and for a stopgap until states are able to do that?

Slutsker described a flow chart of the mechanism for a short-term solution tied to Model #245. He explained that the Working Group would revise Model #245 at the same time as an actuarial guideline deriving its authority from both Model #245 and the *Suitability in Annuity Transactions Model Regulation* (#275), which has been adopted in almost all NAIC jurisdictions. Slutsker explained that an actuarial guideline could be a way to ensure requirements apply across states while states work to have revisions to Model #245 adopted, a process that can take longer and involve state legislatures.

The NAIC procedure for revising a model requires the adoption of a model law development request by the Life Insurance and Annuities (A) Committee and the Executive (EX) Committee. The Committee has a year to complete revisions. After a year, the Committee must approve an extension request. An actuarial guideline will need to be adopted by the Life Actuarial (A) Task Force, the Life Insurance and Annuities (A) Committee, and the Executive (EX) and Plenary. Once adopted, the requirements apply to companies immediately. If the short-term solution is not an actuarial guideline, Slutsker would like to explore other options for applying new requirements while states adopt the revised model.

Dan Schelp (NAIC) explained that actuarial guidelines are located in the NAIC *Accounting Practices & Procedures Manual* (AP&P Manual) in Appendix C, which states that the purpose of actuarial guidelines is to assist insurance departments in interpreting state law with respect to an actuarial matter not contemplated at the time of the original drafting. *Statement of Statutory Accounting Principles (SSAP) No. 51—Life Contracts* applies to life insurance contracts and states that, with respect to reserving methodology, actuarial guidelines are to apply after the operative date of the *Valuation Manual*, if they are in the manual. While not a reserving methodology, this is an actuarial topic, and there is precedent for including non-reserving actuarial guidelines in Appendix C that have been enforced under the AP&P Manual.

The next question is the authority for the actuarial guideline. One source of authority is Model #245. In addition, Model #275, which has been adopted in nearly all NAIC jurisdictions, includes a drafting note explaining that Section 6A(2)(c), which requires a producer to have a reasonable basis to believe that the consumer has been informed of various features of an annuity, is intended to supplement the disclosure requirements of Model #245. In this way, an actuarial guideline could be drafted under the authority of both Model #245 and Model #275.

Schelp explained that a similar process was undertaken relative to *Actuarial Guideline XLVIII—Actuarial Opinion and Memorandum Requirements for the Reinsurance of Policies Required to be Valued under Sections 6 and 7 of the NAIC Valuation of Life Insurance Policies Model Regulation* (AG 48) and *Term and Universal Life Insurance Reserve Financing Model Regulation* (#787). AG 48 was drafted to establish a baseline standard until Model #787 was officially adopted nationwide.

Slutsker said he wanted to conclude the meeting by deciding if a stopgap measure should begin with the language from Model #245. Serbinowski said he does not agree with developing an actuarial guideline on this topic, but does not oppose starting with Model #245 language. Blakey spoke in support of revising Model #245 and of using an actuarial guideline as a stopgap. Yanacheak reiterated his early support for an actuarial guideline starting with Model #245 language.

Cheung asked whether starting with Model #245 means the current scope in the model stays the same. Slutsker said that whether a stopgap should include RILAs is a question he would like to discuss, as back-casting RILAs is not permitted under Financial Industry Regulatory Authority (FINRA) rules. However, there are significantly high illustrated rates, in the 20% range even with well-established indices, such as the S&P 500, because index features, like participation rates, increase returns. Sometimes an asset charge is funding elevated returns, but even net of charges, the illustrated rates are very high. The Working Group should consider whether RILAs should be included.

Benchaaboun spoke in support of revising Model #245 and considering whether the scope should be expanded to include RILAs. He said it is time to revise Model #245 and achieve widespread adoption in the states.

Slutsker observed that there is consensus among Working Group members and interested parties to start with Model #245, which will require following the NAIC process for model law development.

2. <u>Discussed Next Steps</u>

During the Working Group's next meeting, scheduled for June 2, Slutsker said he would like to continue the conversation and discuss: 1) what changes should be made to requirements in Model #245; and 2) what is the best stopgap measure to implement while states adopt a revised Model #245, such as an actuarial guideline or something else.

Having no further business, the Life Insurance and Annuities Illustrations (A) Working Group adjourned.

Draft: 4/23/26

Life Insurance and Annuities Illustrations (A) Working Group
Virtual Meeting
March 31, 2026

The Life Insurance and Annuities Illustrations (A) Working Group of the Life Insurance and Annuities (A) Committee met March 31, 2026. The following Working Group members participated: Ben Slutsker, Chair (MN); John Buono (AL); Cody Tyler (CA); Manny Hildago (CT); Matt Cheung (IL); Mike Yanacheak (IA); Renee Campbell, Eric Strong and Kristin Hynes (MI); Michael Muldoon (NE); William Carmello (NY); Matt Elstion (OH); Josh Blakely (OR); Matthew Gendron (RI); Andreea Savu (SC); Mathew Roos (TX); Tomasz Serbinowski (UT); and Craig Chupp (VA). Also participating were: Cody Tyler (CA) and Joshua Blakely.

1. Discussed Feedback Received on Exposure Question

Slutsker updated the Working Group on the NAIC Spring National Meeting. Slutsker and Russ Gisbson (IA) gave a presentation on annuity illustrations to the Life Insurance and Annuities (A) Committee. The presentation explained the disclosures used during the annuities sales process. A sample illustration was created for the presentation that was representative of the illustrations this Working Group has been reviewing and discussing. Slutsker said that the Committee members asked questions and expressed support for the Working Group's efforts.

Slutsker reminded the Working Group that during its last meeting on Feb. 24, he shared some observations of maximum illustrated rates from the informal review of illustrations from top 25 annuity market leaders based on premium volume. Many illustrated rates were in double-digits, some as high as 16% to 20%. There were even some illustrated rates closer to 25%. The Feb. 24 meeting ended with exposing the following question for comments due March 24:

Regulators have observed index annuity disclosures that suggest annual returns can range from 10%-25% for several years. This has brought up potential concerns around whether consumers are receiving reasonable expectations regarding future performance upon purchasing an annuity. ***What are both short-term and long-term approaches to ensure consumers receive reasonable expectations for index annuity returns at the point-of-sale?***

- *Please keep any comments at a high-level regarding potential direction for the Working Group and types of proposals, rather than providing specific proposals themselves*
- *In addition, please feel free to include any comments related to disclosures around newly-developed indices and any other elements related to the concerns described above*

The Working Group received several comments that are posted on the Working Group's website. Commenters highlighted issues from their submissions. Donna Megregian (American Academy of Actuaries—Academy) summarized the Academy's comment letter. Megregian said that the Academy was curious about the lack of adoption of the most recent version of the *Annuity Disclosure Model Regulation* (#245), which prohibits the illustration of indices that have been in existence for fewer than 10 years. Relatedly, the Academy wondered if there was evidence that the adoption Model #245 mitigated some of the issues that were observed with the illustrated rates, and if so, perhaps focusing on encouraging states to adopt Model #245 was a good first step. Megregian said the Academy understands that illustrations are poor predictors of performance because they were never meant to be performance predictors or projections. Both Model #245 and the *Life Insurance Illustrations Model Regulation* (#582) do not allow for illustrations to be called projections. The purpose of an illustration is to show how a product works under certain not promised scenarios. The Academy discourages the acceptance or perpetuation of such practices by trying to make illustrations do something they were never meant to do. Attempting to instill confidence in the future results fails to demonstrate the fact that returns are unpredictable. The Academy does encourage different mediums to demonstrate the variability and volatility of returns through graphs, and defers to others with a better understanding of how to demonstrate information to consumers to increase understanding of the variable and potentially volatile nature of returns.

Damien Baboolal (Cannex) said their comment letter identified three mechanisms by which the current illustration framework in Model #245, when combined with product design and market conditions, produces the high illustrated returns the Working Group has been discussing. The letter also identified two short term and three long term solutions to these issues.

The first mechanism is the renewal rate assumption and premium bonus interaction. Model #245 Section 6F(8) requires that the non-guaranteed elements used in calculating the non-guaranteed index-based interest rate be no more favorable than the corresponding current non-guaranteed elements. Most carriers comply by having the illustration project the current (initial) strategy rates (participation rates, caps and spreads) into all future terms. However, Initial rates are often more attractive than renewal rates and the model does not distinguish between an introductory rate and a renewal rate. This problem is compounded when products feature an upfront high premium bonus in exchange for lower credited growth in subsequent terms. The consumer sees both the generous upfront bonus and ongoing returns at the initial-term rate. The illustration fails to reflect the intended economic trade-off embedded in the product design, producing a materially inflated trajectory of account value growth.

The second mechanism is the scenario selection bias in historical windows. Model #245 Section 6F(9) defines the three illustration scenarios by reference to the best, worst, and most recent 10-year windows drawn from the last 20 years of each index's history. However, this does not necessarily produce scenarios that represent a reasonable range of "good," "bad," and "moderate" outcomes due to the strong equity market since 2008. The problem is even more acute for newer, bespoke indices. Many managed-volatility and excess-return indices have been engineered with back-tested histories optimized for favorable performance metrics. If the index has existed for only 10 to 15 years, the range of available historical windows is narrow and potentially unrepresentative. The current 10-year minimum existence requirement in Section 6F(9)(b) mitigates this somewhat, but does not address the fundamental problem that a short live-performance history may not span a complete market cycle or be representative of the range of market outcomes.

The third mechanism is the inconsistency between current strategy rates and historical scenarios. Model #245 applies today's strategy rates to historical index returns without adjustment for the economic environment that prevailed during the historical scenario period. This creates an internal inconsistency between the crediting parameters and the scenario being illustrated. The magnitude of this inconsistency varies by index type. For traditional market indices like the S&P 500 (with medium to high volatility), the options pricing is sensitive to interest rates, so the gap between current strategy rates and the rates that would have prevailed in the historical scenario can be significant. For managed volatility excess-return indices, call option pricing is less sensitive to the interest rates, so the strategy rates may be more stable across rate regimes. However, even for these indices, the options budget itself is still a function of the bond yield environment, and the rates are still subject to pullback upon renewal.

Based on the three mechanisms identified, the Cannex letter suggested two short-term recommendations and three long-term solutions. The first short-term recommendation suggested requiring disclosure of renewal rate risk. That disclosure should 1) clarify that current strategy rates are set by the insurer and are not guaranteed to renew at the same levels; and 2) include the historical range of the insurer's renewal rates for the same or comparable strategy types so consumers have empirical context on how rates have changed in the past. The second short term recommendation is to require a “reduced rate” supplemental scenario. An illustrated scenario with strategy rates reduced from their current levels by a prescribed factor or to a prescribed floor would give consumers insight into how sensitive their projected returns are to the assumption that strategy rates remain unchanged.

The Cannex letter made the following long-term suggestions: 1) Modernize scenario selection by moving towards standardized representative scenarios; 2) Require consistency between strategy rates and the illustrated scenario; and 3) strengthen standards for new developed and bespoke indices.

Birny Birnbaum (Birny Birnbaum Consulting) submitted supplemental comments to the joint consumer representatives’ letter speaking to the urgency of the Working Group's efforts. Brinbaum said the Working Group’s work extends beyond individual consumer protection concerns to broad financial stability issues. The current sales of indexed life insurance and annuity products bear a striking similarity to the sale of defective mortgages that led the financial crisis in 2008.

Birnbaum highlighted several issues raised in his letter:

1) The Working Group actions should not be based on further adoption of the current version of Model #245, which is flawed in fundamental ways.

2) Additional disclosures with the current illustrations will only exacerbate problems. Disclosure cannot overcome an overly complex product. Studies show that the complexity of the product has to be reduced if you want consumers to understand it.

3) Illustrations should show how the product operates, and 30-year, 40-year or 50-year projections do not do that. Illustrations should show how a product operates by demonstrating what happens in a single given index return period, showing index outcomes below, in the middle and above the floor and cap.

4) Prohibit projections of hypothetical returns within an illustration. This is the most important reform. Projections for retirement or investment planning require expertise and should be done by a financial planning professional, not within an illustration. Eliminating projected returns will have many benefits—shortening and simplifying illustrations, removing load arbitrage, restoring realistic expectations by the consumer, and eliminating the illustration competition and growing product complexity.

5) Performance disclosure should be limited to the actual performance of indices in existence for 20 or more years. The use of hypothetical illustration histories and histories less than 20 years must be prohibited. It is imperative that illustration reform eliminates the need to invent cherry-picked index components. This is an urgently needed, foundational reform along with the prohibition on projected returns.

6) A key feature of indexed products are caps and floors. The illustration should highlight the insurer’s history of changing caps and floors for each major product category. Consumers will place greater value on an insurer who rarely lowers the cap versus an insurer who routinely lowers the product cap.

7) Consumer testing is essential to ensure illustrations and other disclosures, as well as product designs are effective. The experts participating in the Working Group are not in a position to understand what the average consumer understands.

8) While the Working Group's efforts should focus on the NAIC models and guidance directly relating to illustrations – Model #245, Model #582 and the L*ife Insurance Disclosure Model Regulation* (#580),– the NAIC should identify potential impact and intersection with the many other NAIC models and guidelines that address life insurance and annuity disclosure to avoid conflicts among different guidance.

Richard Weber (Life Insurance Consumer Advocacy Center—LICAC) summarized the LICAC comment letter. He said he was involved with revisions to Model #582 in 1995. From a consumer perspective, what has become clear is that financial literacy is relatively low and 70-75-page life illustrations and 15-20-page annuity illustrations are overwhelming. The original objective of illustrations was to show how a policy works, and current illustrations are not doing the job. Weber has observed that both agents and consumers routinely use the policy illustration to form an expectation of what is likely to occur, which is not what anyone wants. He explained that agents, especially with respect to crediting rates subject to *Actuarial Guideline XLIX* (AG-49) and indexed universal life policies, have said regulators have made the numbers much more conservative than they are actually going to be. Therefore, illustrations are being used in an entirely different way than intended.

Weber said the suggested short-term and long-term solutions included in the LICAC letter focus on capitalizing on available technologies and an appreciation for consumer learning and buying style profiles. LICAC recommends incorporating more graphic images into illustrations in place of streams of numbers. In LICAC's experience, consumers seem to understand better when they are shown a picture. When the illustrated rate, whether an annuity rate or a life rate, is shown as constant for as many years as the illustration runs—for a 25 year old that is 100 years— does not make sense. Such straight-line value projections should be prohibited. The LICAC letter recommends showing graphic accumulation projections across at least 5 scenarios in a single chart, ranging from optimistic to guaranteed and require consistency across all carriers and products.

In the long term, LICAC recommends transitioning from paper illustrations to using technology to explain products, such as tablets showing charts, and incorporating user controls and slider bars. An important dynamic emerges when a consumer is guided by an agent to use the tablet to pursue what looks good to them. LICAC wrote an article in the *Journal of Financial Service Professionals* that shows graphic images and uses stochastic analysis to help consumers better understand the product and the problems with what the illustration is implying. For life insurance, The LICAC letter suggests the development of an NAIC standardized stochastic randomizing "engine" to chart 5 accumulation/ distribution/ death benefit scenarios, depending on customers considerations. Weber emphasized that the products are not bad, but the illustrations of those products are problematic.

Kim O'Bien (Federation of Americans for Consumer Choice—FACC) summarized the FACC comment letter. The FACC represents Independent Marketing Organizations and insurance agencies who work directly with producers selling fixed indexed annuities as well as other forms of fixed annuities and life insurance. The FACC letter suggested a review of Model #245 to determine its effectiveness before addressing emerging concerns. That review should consider whether Model #245 effectively balances insurers' and producers' flexibility to represent the full features of their products in different scenarios, while at the same time ensuring those representations are reasonable relative to product configuration and marketplace conditions. O'Brien said the FACC looks forward to continuing involvement as the Working Group moves forward.

Jim Szostek (American Council of Life Insurers—ACLI) summarized the comment letter submitted by the joint trades (ACLI, the Committee of Annuity Insurers—CAI, and the Insured Retirement Institute—IRI). Model #245 is intended to help consumers make informed decisions about annuities, but the model has not been widely adopted by the states. The current focus on elements of Model #245 by both the Annuity Buyer's Guide (A) Working Group and this Working Group 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 could 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, the joint trades letter recommends conducting consumer focus group testing to better understand the information consumers want related to indexed annuities and the value of the existing illustration and disclosure framework. 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.

Serbinowski summarized the Utah Insurance Department comment letter on the issue of short-term and long-term approaches to ensure consumers receive reasonable expectations for indexed annuity returns at the point of sale. He questioned the necessity of projecting annuity values for many years (typically until maturity age of 100 or higher) to explain the features of an annuity. If there is a desire to do that, however, the hypothetical return used should be, in fact, hypothetical.

The illustrated return should not depend on the selected strategies or the past performance of any index strategy. Past performance is not an indication of future performance. By varying illustrated returns with the strategy, insurers suggest that certain strategies might be superior to others, thus steering consumers in direction of strategies with higher illustrated returns.

Hypothetical returns should be round numbers, like 0%, 5%, 10% and should be capped by regulators. Showing a hypothetical return of 20% serves no purpose, creates unrealistic expectations, and is very likely misleading. Using an illustrated return like 7.83% creates a false perception of precision and knowledge. If an insurance company illustrates a return of 7.83%, a consumer is more likely to assume that the return is supported by research and not just a guess.

One potential solution would be to limit illustrated returns to whole percentages not exceeding 10%, and to illustrate at a rate selected by a consumer. Regarding past performance, only the actual historical performance should be shown. Regulators should consider whether illustrations should include "lowest" and "highest" returns for a specified period (like 10 years). Given that strategies and indexes may be optimized to perform well over the historical periods, showing the worst performance is likely misleading by creating a false "floor" for future expected returns.

Campbell summarized the Michigan Department of Insurance and Financial Services comment letter. The letter offered both short-term and long-term approaches to ensure consumers’ expectations regarding their indexed annuity’s performance are reasonable at the point of sale. In the short-term, educational materials and/or alerts could be updated or drafted for consumers. The NAIC consumer representatives could be consulted to determine the most effective ways to communicate this information to consumers. In the long term, the Working Group should consider revisions to model laws, include Model #245, the *Variable Annuity Model Regulation* (#250), *Variable Life Insurance Model Regulation* (#270), *Advertisements of Life Insurance and Annuities Model Regulation* (#570), and Model #582. The Working Group should also look at FINRA rules for variable annuities and Registered Index-Linked Annuities (RILAs), including FINRA Rule 2211 *Communications with the Public About Variable Life Insurance and Variable Annuities*. The Working group should also look at individual state statutory requirements and investigate tools or other resources that regulators could use to proactively assess the market and identify products that are failing to meet projections. This work could complement the technical work focusing on how consumers perceive and use illustrations.

Scott Stolz submitted comments as someone who worked in the annuity industry for over 40 years and owns four different types of annuities. He said the problems are all created by the back testing assumptions of new indices . There is no issue with indices with a real track record. In the quest to differentiate, these indices will continue to be introduced. Unfortunately, they rarely perform as well as the back tested data would indicate.

Stolz said the solution is to require actual performance and prohibit the use of back tested data. If the index does not have enough history to create an illustration, then limit the performance in those years to 10-year treasury rates plus 2%. This would be a good estimate of long-term returns clients should expect to get from a fixed indexed annuity in any interest rate environment and avoid creating lofty expectations that can't be met.

Bonnie Burns (California Health Advocates) raised a concern about the riders and options being attached to both life and annuity products. The underlying products are complex, and when you add long-term care riders, it increases the complexity beyond what most people can understand. She said she has yet to meet a consumer with a clear understanding of how the long-term care benefit, either as an income stream or separately as a rider, will pay for their care when they need it. She is concerned about illustrations that do not include information about how the rider will pay for a person's care and how that affects the underlying benefit.

Slutsker shared a document summarizing the feedback received in the comments. The short-term solutions suggested most often involve Model #245 and an evaluation of its current effectiveness to see if it is something the Working Gorup can build on going forward. There were also several ideas related to changing the model, including enhanced disclosures showing charges and non-guaranteed elements. Before the next call, Slutsker plans to review the illustrations he has collected and try to compare the illustrated rates in states with and without the current Model #245.

Another theme in the comments suggested a broad overhaul to the use of history in illustrations. One suggestion was to use prescribed scenarios—maybe treasury plus a spread. Another suggestion was to show one year or a single term (if it is multiple years) calculation and show how the account value changes from one period to the next in the event of a large drop or large increase. There were a lot of suggestions to include digital and technological advances to explain things in a more straightforward manner.

Slutsker explained that any short-term solutions should be something the Working Group can complete in approximately a year's time that would address some of the more prominent concerns observed in some of the annuity illustrations. The longer-term approaches could address some higher-level issues, possibly involving the use of history. Any issues not addressed in a short-term solution will be preserved for consideration as part of any long-term project.

Slutsker said that for a short-term solution, the Working Group could consider starting with language from Model #245. On the life insurance side, there is AG 49-A language that was not raised in the comment letters, but could be used as a starting point. During the last call, there was some discussion of borrowing from federal rules as a starting point or having new starting point completely.

Carmello said that he likes focusing on how the product works and supports the suggestion of illustrating a few different scenarios (+15%, +3%, 0% -3% -15%) , for one year or one product segment. If there is a reason to show beyond the first segment, there should be a cap on what can be assumed that the options earn. He thinks that treasury plus 200 basis points is too high, but something slightly above what a fixed annuity would pay is where he would land.

Serbinowski cautioned against focusing on new indices and not existing indices because there can be multiple strategies employed with credits, caps, floors and participation rates, even when using indices that have been around a long time. The problem is using history as an input for a projection going forward.

Cody asked if there is fundamental difference between index accounts on life insurance and on annuities that would require a different approach to calculating the illustrated rate? Slutsker said there are likely differences of opinion on this, but one difference is cost of insurance charges. The mortality protection for the cost of insurance can erode the account value in life products, and that is not part of annuities. However, there are many similarities. Examples include similarities with index strategies, caps, floors, participation rates, spreads, and persistency bonuses.

Blakely said Oregon reviews illustrations like advertisements and requires them to be submitted and reviewed. In his experience, back testing and the use of history are the biggest problems that are exacerbated by the new indices that have overly optimistic projections of some of these returns. Blakely said another thing that hasn't been mentioned is statements of variability. Forms are filed with bracketed information, and in some cases a policy could have a participation rate that has a very low end of 5% and a maximum of 1000%. The illustration could show a participation rate of 300% without any information to the consumer that it could go as low as 5% based on the approved range. More disclosure might be helpful in terms of explaining how something might change. Carmello said the contract should say what the minimum participation rate is. Blakely explained that illustrations are used as point of sale documents, so the contract would not necessarily be in hand when the consumer is being shown the illustration.

Gendron said he believes that changes are needed in Rhode Island, and his state has adopted Model #245. He is not sure companies are using the same indices in Rhode Island, but they are seeing 20-page, 30-page, and 40-page illustrations that are confusing to consumers. He suggested time is better spent figuring out the best solution to the issue rather than putting efforts into encouraging the adoption of a model that needed to be updated in the 2010's but consensus was never reached.

Brenda Cude (Consumer Representative) suggested that the Working Group reflect on the questions consumers may ask about a product, and ensure those are addressed in the illustration. She also pointed out that consumers often struggle to understand numerical information.

Bobby Samuelson (Life Product Review) spoke to the question Cody raised about the differences between life and annuity products. Samuelson explained that *Actuarial Guideline XLIX—The Application of the Life Illustrations Model Regulation to Policies with Index-Based Interest* (AG 49) and A*ctuarial Guideline XLIX-A—The Application of the Life Illustrations Model Regulation to Policies with Index-Based Interest Sold On or After December 14, 2020* (AG 49-A) were developed through actuarial testing rather than being shaped by marketing or suitability considerations. He said that there is not the same sort of actuarial supportability framework for annuities as there is for life insurance, which is what has made AG 49 and AG 49-A so effective, and why they are written the way they are written. You cannot show variability of annual returns because of the supportability requirements, so there had to be a level return that everyone could agree on. Samuelson also said there are things to learn from the AG 49/AG 49-A process, like whether there is a modification that has some sort of supportability structure like there is with AG 49/AG 49-A.

Slutsker echoed that a big difference between life and annuities is the Actuarial Standards of Practice (ASOP) 24 C*ompliance with the NAIC Life Insurance Illustrations Model Regulation* that points to Model #582 and illustration requirements for self-support and lapse support testing.

Carmello said he has never been supportive of AG 49 because he thinks it allows too much to be assumed (145% of the hedge budget) in returns for the index options that are purchased.

2. Discussed Next Steps

Slutsker suggested posting the following exposure question on a possible short-term solution for a 45-day comment period:

What should be the starting point of a short-term solution: Model #245 language, AG 49-A language, or something else?

- *If Model #245 or AG 49-A language, what types of modifications do you believe are necessary to address current regulatory concerns regarding illustrated rates and transparency (i.e., which sections/parts do you believe need to be added or modified)?*
- *If something else, then how can the scope be limited to ensure the progress towards a short-term solution before a longer-term solution is developed?*

Serbinowski said he would prefer to start with the question of whether to limit the use of historical performance and, if the answer to that is yes, the next step should be to figure out the most efficient way to do that. Slutsker agreed that a primary issue is the use of back testing, and possibly other issues as well. The purpose of the exposure question is to identify the vehicle for moving forward in the short term.

Slutsker said the discussion question will be exposed for a 45-day exposure period ending May 18. Another meeting to discuss the feedback received will be scheduled for late-May.

Having no further business, the Life Insurance and Annuities Illustrations (A) Working Group adjourned.

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