

Date: 12/13/21

2021 Fall National Meeting
San Diego, California

LIFE INSURANCE AND ANNUITIES (A) COMMITTEE

Wednesday, Dec. 15, 2021

12:30 – 1:30 p.m.

Hilton—Sapphire Ballroom—Level 4

ROLL CALL

Marlene Caride, Chair	New Jersey	James J. Donelon	Louisiana
Glen Mulready, Vice Chair	Oklahoma	Barbara D. Richardson	Nevada
Jim L. Ridling	Alabama	Adrienne A. Harris	New York
Trinidad Navarro	Delaware	Judith L. French	Ohio
Karima M. Woods	District of Columbia	Elizabeth Kelleher Dwyer	Rhode Island
Dean L. Cameron	Idaho	Carter Lawrence	Tennessee
Doug Ommen	Iowa	Mark Afable	Wisconsin
Vicki Schmidt	Kansas		

NAIC Support Staff: Jennifer R. Cook/Jolie H. Matthews

AGENDA

1. Consider Adoption of its Summer National Meeting Minutes—*Commissioner Glen Mulready (OK)*
2. Consider Adoption of its Task Force and Working Group Reports
—*Commissioner Glen Mulready (OK)*
 - A. Accelerated Underwriting (A) Working Group
 - B. Life Actuarial (A) Task Force
3. *Receive a Memorandum from the Life Actuarial (A) Task Force and the Valuation Analysis (E) Working Group on the Financial Sector Assessment Program (FSAP) Recommendation—Commissioner Glen Mulready (OK)*
4. Consider Adoption of the Life Actuarial (A) Task Force’s 2022 Proposed Charges
—*Commissioner Glen Mulready (OK)*
5. Consider Adoption of *Actuarial Guide XXV—Calculation of Minimum Reserves and Minimum Nonforfeiture Values for Policies With Guaranteed Increasing Death Benefits Based on an Index (AG 25)—Glen Mulready (OK)*
6. Consider Adoption of the 2022 Generally Recognized Expense Table (GRET)
—*Commissioner Glen Mulready (OK)*
7. Consider Adoption of its 2022 Proposed Charges—*Commissioner Glen Mulready (OK)*
 - A. Discuss the Life Insurance Illustration Issues (A) Working Group “Chair Report”
 - B. Discuss the Life Insurance Online Guide (A) Working Group



8. Discuss Any Other Matters Brought Before the Committee
—*Commissioner Glen Mulready (OK)*
9. Adjournment

Draft Pending Adoption

Date: 8/20/21

Life Insurance and Annuities (A) Committee
Columbus, Ohio
August 16, 2021

The Life Insurance and Annuities (A) Committee met in Columbus, OH, Aug. 16, 2021. The following Committee members participated: Marlene Caride, Chair (NJ); Glen Mulready, Vice Chair (OK); Jim L. Ridling and Mark Fowler (AL); Karima M. Woods represented by Philip Barlow (DC); Doug Ommen (IA); Dean L. Cameron (ID); Vicki Schmidt (KS); James J. Donelon (LA); Barbara D. Richardson (NV); Linda A. Lacewell represented by Mark McLeod (NY); Judith L. French represented by Jana K. Jarret (OH); Elizabeth Kelleher Dwyer (RI); Carter Lawrence and Toby Compton (TN); and Mark Afable and Richard Wicka (WI).

1. Adopted its July 19 Minutes

Commissioner Schmidt made a motion, seconded by Commissioner Mulready, to adopt the Committee's July 19 minutes (Attachment One). The motion passed unanimously.

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

Commissioner Mulready made a motion, seconded by Director Cameron, to adopt the following reports: the Accelerated Underwriting (A) Working Group, including its July 29 minutes (Attachment Two); and the Life Actuarial (A) Task Force. The motion passed unanimously.

3. Discussed Guidance for the Life Insurance Illustration Issues (A) Working Group

Mr. Wicka explained the history of the Life Insurance Illustration Issues (A) Working Group. He explained that the Working Group was given its charge back in 2016 to “[e]xplore how the narrative summary required by Section 7B of the *Life Insurance Illustrations Model Regulation* (#582) and the policy summary required by Section 5A(2) of the *Life Insurance Disclosure Model Regulation* (#580) can be enhanced to promote consumer readability and understandability of these life insurance summaries, including how they are designed, formatted and accessed by consumers.”

Mr. Wicka explained that early on in the process, the Working Group agreed to work on a one- to two-page consumer-oriented policy overview document to achieve its charge of improving the understandability of the life insurance policy summaries already required in Section 7B of Model #582 and Section 5A(2) of Model #580.

Mr. Wicka said the Working Group's progress has been slow, and in 2019, it became clear that there was disagreement within the Working Group and among interested parties about the timing of the delivery of the policy overview document. At the suggestion of the then-chair of the Committee, the Working Group developed two alternate versions of revisions to Model #580 and two corresponding sample policy overviews for term life insurance policies. Mr. Wicka said one version keeps the delivery timing requirements currently in the model for delivery of the life insurance buyer's guide; i.e., at the time of application or at the time of policy delivery if there is a free look period. He said a second version mirrors the buyer's guide delivery timing requirements in the *Annuity Disclosure Model Regulation* (#245); i.e., delivery at or before the time of application.

On April 30, the Working Group voted to send to the Committee these two alternate versions of revisions to Model #580 and the sample policy overviews and ask the Committee for guidance on how to proceed. (Attachment Three)

Mr. Wicka said a request for comments by Aug. 11 was emailed to Committee members, interested state insurance regulators, and interested parties. The request for comments, comments received, and a comment chart summarizing feedback were included in the materials. Mr. Wicka said the email requested comments on two issues: 1) whether the Working Group should continue working on a policy overview document to achieve its charge; and 2) what the timing for delivery of the policy overview should be if the answer to 1) is yes. He said the comments that had been received were included in the meeting materials and showed that there were state insurance regulators and interested parties that supported continuing with the model revisions and state insurance regulators and interested parties that said the Working Group had completed its charge and should disband.

Draft Pending Adoption

Superintendent Dwyer said it is her understanding that: 1) there is not consensus on the work product within the Working Group, and there is not likely to be consensus at the Committee level; and 2) there is a preliminary work product that had been developed by the Working Group for term life products that a state could use if it wanted to. She said these two issues lead her to question whether the Working Group should continue.

Commissioner Afable said it appears that this project has lost steam. He said the Committee needs to be practical and recognize how difficult it would be to pass model revisions out of the Executive (EX) Committee and Plenary that do not have the support of all the states or the industry that will be charged with implementing it. He said while he believes simplified disclosures could benefit consumers, he is hesitant to ask Mr. Wicka or any other state insurance regulator to spend what could be another five years on a task that may not ultimately lead to an adopted model.

Commissioner Afable suggested that Mr. Wicka should draft a “chair report” for the Committee for the Fall National Meeting, and the Committee agreed. The report will outline the work that the Working Group has accomplished and how the comments it has received over the years have been addressed. Commissioner Afable said the report will provide the information the Committee needs to decide if it should continue to pursue revisions to the model, and if not, the work product that the Working Group has accomplished so far will be part of the report and readily available for states that would like to pursue the revisions and policy overview.

Commissioner Ommen asked Mr. Wicka about the lack of consensus in the Working Group, recognizing that there has likely been membership turnover. Mr. Wicka said the Working Group has been divided on the delivery requirements, but there has not been opposition by state insurance regulators to the concept of developing a policy overview to achieve its charge. He said the comments submitted by the Aug. 11 deadline expressed sentiments that had not been raised at the Working Group level previously.

Birny Birnbaum (Center for Economic Justice—CEJ) said it does not make sense for the Working Group to abandon its task. He said there are only a few states participating on the Working Group, and to reach the conclusion that the project is not sufficiently supported does not make sense. He said the Committee is supposed to balance disparate interests and should provide the necessary support for the project and not stop work just because the industry is not supportive. He said the Committee has revisited the issue of what the Working Group’s charge should be several times and affirmed its charge. He said the CEJ supports this project, which is a modest, yet necessary, response to life insurance disclosures that were complicated. He said this is the only effort that remains at the NAIC that is seeking to improve life insurance disclosures for consumers.

Commissioner Mulready confirmed that no motion is needed to ask Mr. Wicka to develop a chair report. Director French also expressed support for this approach. No one opposed the idea. Commissioner Caride confirmed that the Committee will plan to review Mr. Wicka’s report and reach a final decision at the Fall National Meeting.

4. Received an Update on the Special (EX) Committee on Race and Insurance Workstream Four’s Work

Commissioner Afable, co-chair of the Special (EX) Committee on Race and Insurance Workstream Four, provided an update to the Committee. He explained that the Special Committee met Aug. 15 and took the following action: 1) received oral reports from its workstreams; and 2) heard a few presentations. He explained that the Special Committee charges will be officially adopted by the NAIC during the Executive (EX) Committee meeting on Aug. 17.

Commissioner Afable said Workstream Four plans to start meeting within the next month and develop a work plan to achieve its charges. He said Workstream Four is eager to start meeting in earnest to delve into the practices and barriers that potentially disadvantage minority and underserved populations in the life insurance and annuity lines of business.

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

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*Virtual Meeting
(in lieu of meeting at the 2021 Fall National Meeting)*

ACCELERATED UNDERWRITING (A) WORKING GROUP

Monday, December 6, 2021

12:30 – 1:30 p.m. ET / 11:30 a.m. – 12:30 p.m. CT / 10:30 – 11:30 a.m. MT / 9:30 a.m. – 10:30 p.m. PT

Meeting Summary Report

The Accelerated Underwriting (A) Working Group met Dec. 6, 2021. During this meeting, the Working Group:

1. Discussed comments received on the Nov. 8 draft of the accelerated underwriting in life insurance report. The Working Group plans to revise the draft educational report based on the comments received and expose a revised draft for an additional public comment period prior to the 2022 Spring National Meeting.

[AUWG summary](#)

Draft: 12/9/21

Accelerated Underwriting (A) Working Group
Virtual Meeting (*in lieu of meeting at the 2021 Fall National Meeting*)
December 6, 2021

The Accelerated Underwriting (A) Working Group of the Life Insurance and Annuities (A) Committee met Dec. 6, 2021. The following Working Group members participated: Mark Afable, Chair (WI); Grace Arnold, Vice Chair (MN); Jason Lapham (CO); Cynthia Amann (MO); Chris Aufenthie (ND); Lori Barron (OH); Elizabeth Kelleher Dwyer (RI); and Lichiou Lee (WA).

1. Discussed the Latest Draft of the Accelerated Underwriting Educational Report

Commissioner Afable explained that the purpose of the meeting is to discuss the comments received on the latest draft accelerated underwriting educational report dated Nov. 8 (Attachment ?-A). He said the Working Group exposed the report on Nov. 8 for a public comment period ending Dec. 3. He added that the report is available on the Working Group's web page.

Commissioner Arnold explained that this is the first time the entire report has been exposed for comment; although, parts of the report have been released previously and revised based on comments received. She said four comment letters on the Nov. 8 draft report were submitted from Birny Birnbaum (Center for Economic Justice—CEJ); Brendan Bridgeland (Center for Insurance Research—CIR); Sue Bartholf (American Academy of Actuaries—Academy); and David Leifer and Gabrielle Griffith (American Council of Life Insurers—ACLI).

Commissioner Arnold offered each of the commenters the opportunity to summarize their comment letters.

a. Center for Economic Justice

Mr. Birnbaum said his comment letter is lengthy, but he mentioned four specific points he wanted to highlight. First, he said the definition of accelerated underwriting used in the draft report is problematic. He said the report misses the key distinction between traditional underwriting and accelerated underwriting; i.e., the acquisition and use of non-traditional, non-medical data. He said it is not the use of predictive models or machine learning (ML) that distinguishes traditional underwriting from accelerated underwriting. He said the new regulatory oversight steps needed to protect consumers from unfair discrimination and racial bias are obscured by conflating non-traditional and non-medical information with predictive modeling, which has long been used in traditional underwriting.

Second, Mr. Birnbaum said categorizing data into traditional data, non-traditional data, and Fair Credit Reporting Act (FCRA) data is problematic. He said the FCRA protects data that falls in the other two categories and is not an appropriate third category of data. He suggested that the FCRA should be discussed in the context of providing a template for some of the regulatory changes and new consumer protections needed for accelerated underwriting.

Mr. Birnbaum said another shortcoming in the report is that the NAIC's artificial intelligence (AI) principles are simply repeated, and there is no discussion on how to implement them. He said the purpose of the AI principles was to serve as the foundation for working groups to develop the application-specific regulatory guidance needed to operationalize those principles. He said the paper should make recommendations for specific regulatory actions (e.g., new uses of existing regulatory authorities and tools and new regulatory authorities) needed to ensure that the AI principles are implemented for accelerated underwriting.

Mr. Birnbaum also said he strongly disagrees with the suggestion in the report that market conduct examinations are sufficient to ensure that accelerated underwriting algorithms meet all the stated regulatory goals. He said market conduct examinations are not the appropriate tool to establish the new guidance needed for insurers' use of big data and AI. He said there are no standards for market conduct examiners, nor are there existing metrics or data sources available to market analysts to trigger the types of concerns raised in the paper regarding racial bias or problems with data or algorithms. He said the recommendations in the paper need to be expanded. He said they are subject to misinterpretation due to their brevity.

Mr. Birnbaum referenced seven specific statutory and regulatory recommendations in his comment letter that he would like the Working Group to consider including in the paper:

1. Require life insurers to routinely file a list of the types, sources, and uses of non-medical data for life insurance marketing, underwriting, claim settlement, and antifraud.
2. Require life insurers to routinely file and state insurance regulators to routinely review algorithms used for marketing, underwriting, claims settlement, and antifraud in the same manner that auto and home insurers are required to file credit-based insurance scoring models.
3. Require that all data sources used by insurers meet the consumer protection requirements of the FCRA, including consent, disclosure, challenge, and correction.
4. Develop specific guidance and requirements for insurer testing of data sources and algorithms for actuarial soundness and protected class bias. (Look to the approach used by the New York Department of Financial Services [NYDFS] in the cited Circular 1.)
5. Recommend the development of guidance for life insurer collection and treatment of applicant data on race, ethnicity, and other demographic characteristics to assist insurers and state insurance regulators in assessing proxy discrimination and disparate impact based on protected class characteristics.
6. Develop and update guidance for third parties providing pricing algorithms to insurers. Absent oversight of vendors providing these collective-pricing or collective-claims settlement algorithms, the third-party algorithm provider may be engaging in prohibited antitrust and anti-competitive activities.
7. Request that the Market Regulation and Consumer Affairs (D) Committee direct the Market Conduct Annual Statement Blanks (D) Working Group to complete its work on the accelerated underwriting revisions to the Life Insurance Market Conduct Annual Statement (MCAS) line independently of the work of the Accelerated Underwriting (A) Working Group.

Mr. Aufenthie asked Mr. Birnbaum to explain his understanding of the difference between non-medical data and non-traditional data. Mr. Birnbaum explained that non-medical data, like credit information, is used in traditional underwriting; but this same data, or variations of this data is broken down in a much more granular level to become non-traditional data. Another example is biometric screening at one end and facial recognition. Mr. Aufenthie asked Mr. Birnbaum whether he agrees with the statement that process is just as important as the data. Mr. Birnbaum replied that he mostly agrees with the statement. He said the use of new data sources necessarily requires the use of predictive models and AI. He said the new data is not used to predict mortality, like traditional data, but to achieve the same outcomes as traditional underwriting. He said this is why focusing on predictive modeling misses the sources and uses of new types of data. However, he said focusing on the sources and types of new data will necessarily lead to looking at the predictive models and ways companies are using this data.

b. Center for Insurance Research

Mr. Bridgeland said he supports Mr. Birnbaum's comment letter and the detailed analysis he provided regarding the numerous consumer issues arising from the use of accelerated underwriting programs. Mr. Bridgeland explained that his comments focus on making editorial and language suggestions designed to provide a more balanced tone and support the purpose of the paper as an "educational report" rather than an "advocacy piece." He said analysis of the benefits of accelerated underwriting to consumers is ongoing and some of his suggested revisions are intended to support this reality. Some of his other suggested revisions clarify that not all jurisdictions allow the use of behavioral data or credit scores, and other comments question the meaning of terms used like assessor data or voter information. Mr. Bridgeland also questioned the inclusion of possible data sources, like voice recognition to determine smoker status, as being untested scientifically, and the facial recognition, given the evidence of racial bias in its use that has come to light. Karl Ricanek (Lapetus Solutions Inc.) explained that facial recognition is the technology that was at issue in the film "Coded Bias," but there is also facial analytics, which is different, and perhaps the report should make the distinction.

c. American Academy of Actuaries

Ms. Bartholf summarized the Academy's comment letter. She said the Academy supports the general direction of the draft report, but it is concerned that some of the recommendations may be challenging to implement from a practical standpoint, and others may require more detail in order to ensure that they support the Working Group's charge.

Ms. Bartholf also said the Academy observed that many of the presentations provided to the Working Group included consumer benefits of accelerated underwriting, but the paper tends to focus on the potential issues. She said the Academy believes the paper might be more balanced if it included more discussion of the favorable impacts to the consumer.

Ms. Bartholf also said the Working Group heard from a variety of stakeholders regarding different practices and with different perspectives, but not all of the information provided should be generalized across the life insurance industry. She said the Academy comment letter includes some specific suggested revisions throughout the paper to avoid overgeneralizations.

Ms. Bartholf said the Academy is concerned with the definition in the report. She said the definition conflates the general concept of accelerated underwriting and the use of data and predictive models in underwriting. She said data and predictive models are used in all forms of underwriting. She said the Academy recommends revisiting this definition and the use of these terms in the report.

Ms. Bartholf said the Academy questions the footnote reference to Actuarial Standard of Practice (ASOP) No. 12—Risk Classification (for All Practice Areas) in the bullet point “FCRA data may be used to predict mortality, but there may not be a reasonable explanation for that correlation.” She said the Academy does not see a relationship to ASOP No. 12, and it suggests quoting the applicable language or removing the reference.

d. American Council of Life Insurers

Mr. Leifer summarized the ACLI comment letter. He said the ACLI likes how the paper is developing and believes there is useful information contained in the current draft that should be helpful to state insurance regulators and stakeholders as accelerated underwriting evolves. He said the ACLI comment letter includes a few language tweaks that are self-explanatory. He said from a big picture perspective, the ACLI is concerned that there are some negative inferences about accelerated underwriting that have not happened. He said accelerated underwriting is an evolving area, but the report should be careful not to overgeneralize.

Mr. Leifer said the ACLI is concerned that in places throughout the paper, the types of data used in traditional underwriting versus accelerated underwriting are mischaracterized, as well as the types of data sources, combining those that are more typically or traditionally used with more novel ones that are not used with prevalence (if at all) by the life industry. He said the ACLI recommends emphasizing in the paper that while the technology is new, its risk for unfair discrimination should not be viewed differently than traditional underwriting. Peter Kochenburger (University of Connecticut School of Law) said it is essential to examine racial bias beyond traditional underwriting.

2. Discussed Next Steps

Commissioner Arnold explained that the ad hoc drafting group planned to meet and discuss the comments provided in detail. She said the plan is to revise the report and expose it for another public comment period prior to the 2022 Spring National Meeting.

Having no further business, the Accelerated Underwriting (A) Working Group adjourned.

[12-6-21 AUWGmin](#)

*Virtual Meeting
(in lieu of meeting at the 2021 Fall National Meeting)*

LIFE ACTUARIAL (A) TASK FORCE

Thursday, December 8, 2021

Meeting Summary Report

The Life Actuarial (A) Task Force met Dec. 8, 2021. During this meeting, the Task Force:

1. Adopted its Dec. 1, Nov. 18, Nov. 4, Oct. 21, Sept. 30, and Sept. 16 minutes, which included the following action:
 - A. Adopted its Summer National Meeting minutes.
 - B. Adopted its 2022 proposed charges.
 - C. Adopted the Society of Actuaries' (SOA's) 2022 Generally Recognized Expense Table (GRET).
 - D. Adopted the SOA historical mortality improvement (HMI) recommendation and the HMI scale factors.
 - E. Adopted amendment proposal 2021-13, which corrects language that allows the addition of prescribed mortality margins for some Life/Long-Term Care (LTC) combination products to decrease, rather than increase, modeled reserves.
 - F. Adopted amendment proposal 2021-12, which corrects a reference error in VM-21, Requirements for Principle-Based Reserves for Variable Annuities, and clarifies the requirements for variable annuity contracts with no minimum guaranteed benefits under three prescribed assumptions in VM-21 Section 6C.
 - G. Exposed amendment proposal 2021-11, which addresses items related to VM-21 information necessary for regulatory review that companies did not include in their VM-31, PBR Actuarial Report Requirements for Business Subject to a Principle-Based Valuation, reports.
 - H. Adopted revisions to *Actuarial Guideline XXV—Calculation of Minimum Reserves and Minimum Nonforfeiture Values for Policies with Guaranteed Increasing Death Benefits Based on an Index (AG 25)*, which remove the fixed 4% nonforfeiture rate floor to align the guideline with the VM-02, Minimum Nonforfeiture Mortality and Interest, changes implemented for the 2021 *Valuation Manual*.
2. Adopted the report of the Longevity Risk (E/A) Subgroup.
3. Adopted the report of the Guaranteed Issue (GI) Life Valuation (A) Subgroup.
4. Adopted the report of the Experience Reporting (A) Subgroup.
5. Adopted the report of the Valuation Manual (VM)-22 (A) Subgroup.
6. Adopted the report of the Index-Linked Variable Annuity (A) Subgroup, including its Nov. 23 and Sept. 23 minutes.
7. Adopted the report of the Indexed Universal Life (IUL) Illustration (A) Subgroup.
8. Re-exposed amendment proposal 2021-11 for a 38-day public comment period ending Jan. 14, 2022.
9. Heard an update on the development of the Economic Scenario Generator (ESG).



10. Discussed comments received on the exposure of the Asset Adequacy Testing (AAT) actuarial guideline.
11. Heard an update on experience reporting data collection.
12. Heard an update from the Joint Committee of the American Academy of Actuaries (Academy) and the SOA on future mortality improvement factors.
13. Heard an update from the SOA on research and education.
14. Heard an update on the activities of the Academy Life Practice Council.

[https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/Fall 2021/TF/LifeActuarial/National Meeting/LATF Fall National Meeting Summary.docx](https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member%20Meetings/Fall%202021/TF/LifeActuarial/National%20Meeting/LATF%20Fall%20National%20Meeting%20Summary.docx)



NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Commissioner Marlene Caride, Chair of the NAIC Life Insurance and Annuities (A) Committee
Commissioner Scott A. White, Chair of the NAIC Financial Condition (E) Committee

FROM: Mike Boerner, Chair of the NAIC Life Actuarial (A) Task Force and Valuation Analysis (E) Working Group

DATE: Oct. 8, 2021

RE: *Financial Sector Assessment Program (FSAP) Recommendation*

In late 2020, the International Monetary Fund (IMF) completed its technical note as part of its assessment of U.S. insurance supervision in connection with its FSAP. The IMF made a number of recommendations in completing its technical note, one of which relates to life insurance reserving. Specifically, the following recommendation was made:

The NAIC and state insurance regulators should significantly expand their in-house supervisory actuarial capability to supervise principle-based reserving (PBR) effectively. Consider the formation of a shared center of expertise in addition to the NAIC resources already available to the Valuation Analysis (E) Working Group.

A reference is made in the recommendation to existing NAIC resources available to the Valuation Analysis (E) Working Group, which has been appropriately built up by the NAIC since the adoption of PBR. To date, these NAIC resources have been quite valuable in helping both the Working Group and the Life Actuarial (A) Task Force meet state insurance regulators' needs. As chair of both groups, I can personally attest to both the Working Group and Task Force's appreciation for the assistance provided by these NAIC resources. While more resources for such efforts would certainly always be appreciated, we believe the resources provided to date, along with the use of consultants for very specific projects, have collectively met the needs of state insurance regulators within those groups, and we support the prudent approach taken by the NAIC thus far in meeting our needs.

I appreciate the intent of the IMF consideration, and to the extent that our need for resources becomes more pronounced, we stand prepared to initiate the NAIC protocol for requesting those resources. Please let me know if you have any questions.

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Draft: 10/12/21

Adopted by the Executive (EX) Committee and Plenary, TBD

Adopted by the Life Insurance and Annuities (A) Committee, TBD

Adopted by the Life Actuarial (A) Task Force, Sept. 30, 2021

2022 Proposed Charges

LIFE ACTUARIAL (A) TASK FORCE

The mission of the Life Actuarial (A) Task Force is to identify, investigate, and develop solutions to actuarial problems in the life insurance industry.

Ongoing Support of NAIC Programs, Products and Services

1. The **Life Actuarial (A) Task Force** will:
 - A. Work to keep reserve, reporting, and other actuarial-related requirements current. This includes principle-based reserving (PBR) and other requirements in the *Valuation Manual*, actuarial guidelines, and recommendations for appropriate actuarial reporting in blanks. Respond to charges from the Life Insurance and Annuities (A) Committee and referrals from other groups or committees, as appropriate.
 - B. Report progress on all work to the Life Insurance and Annuities (A) Committee and provide updates to the Financial Condition (E) Committee on matters related to life insurance company solvency. This work includes the following:
 1. Work with the American Academy of Actuaries (Academy) and the Society of Actuaries (SOA) to develop new mortality tables for valuation and minimum nonforfeiture requirements, as appropriate, for life insurance and annuities.
 2. Provide recommendations for guidance and requirements for accelerated underwriting, as needed.
 3. Evaluate and provide recommendations regarding the VM-21, Requirements for Principle-Based Reserves for Variable Annuities/*Actuarial Guideline XLIII—CARVM for Variable Annuities* (AG 43) Standard Projection Amount, which may include continuing as a required floor or providing as disclosure. This evaluation is to be completed prior to year-end 2023.
 4. Work with the SOA on the annual development of the Generally Recognized Expense Table (GRET) factors.
 5. Provide recommendations and changes, as appropriate, to other reserve and nonforfeiture requirements to address issues and provide actuarial assistance and commentary to other NAIC committees relative to their work on actuarial matters.
 6. Work with the selected vendor to develop and implement the new economic scenario generator (ESG) for use in regulatory reserve and capital calculations.
 7. Monitor international developments regarding life and health insurance reserving, capital, and related topics. Compare and benchmark with PBR requirements.
2. The **Variable Annuities Capital and Reserve (E/A) Subgroup** of the Life Risk-Based Capital (E) Working Group and the Life Actuarial (A) Task Force will:
 - A. Monitor the impact of the changes to the variable annuities (VA) reserve framework and risk-based capital (RBC) calculation and determine if additional revisions need to be made.
 - B. Develop and recommend appropriate changes, including those to improve accuracy and clarity of VA capital and reserve requirements.
3. The **Experience Reporting (A) Subgroup** will:
 - A. Continue development of the experience reporting requirements within the *Valuation Manual*. Provide input, as appropriate, for the process regarding the experience reporting agent, data collection, and subsequent analysis and use of experience submitted.
4. The **Indexed Universal Life (IUL) Illustration (A) Subgroup** will:
 - A. Monitor the results and practices of IUL illustrations following implementation of *Actuarial Guideline XLIX-A—The Application of the Life Illustrations Model Regulation to Policies with Index-Based Interest to Policies Sold On or After December 14, 2020* (AG 49-A). Provide recommendations for consideration of changes to *Life Insurance Illustrations Model Regulation* (#582) to the Life Actuarial (A) Task Force, as needed.
5. The **Longevity Risk (E/A) Subgroup** of the Life Actuarial (A) Task Force and the Life Risk-Based Capital (E) Working Group will:
 - A. Provide recommendations for recognizing longevity risk in statutory reserves and/or RBC, as appropriate.

6. The **Valuation Manual (VM)-22 (A) Subgroup** will:
 - A. Recommend requirements, as appropriate, for non-variable (fixed) annuities in the accumulation and payout phases for consideration by the Life Actuarial (A) Task Force. Continue working with the Academy on a PBR methodology for non-variable annuities.
7. The **Guaranteed Issue (GI) Life Valuation (A) Subgroup** will:
 - A. Provide recommendations regarding valuation requirements for GI life business, including any appropriate mortality table(s) for valuation as well as nonforfeiture.
8. The **Index-Linked Variable Annuity (A) Subgroup** will:
 - A. Provide recommendations and changes, as appropriate, to nonforfeiture or interim value requirements related to index-linked variable annuities (ILVAs).

NAIC Support Staff: Reggie Mazyck/Jennifer Frasier

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ACTUARIAL GUIDELINE XXV

CALCULATION OF MINIMUM RESERVES AND MINIMUM NONFORFEITURE VALUES FOR POLICIES WITH GUARANTEED INCREASING DEATH BENEFITS BASED ON AN INDEX

A. Valuation - Text

For a policy where premiums are fixed in amount at issue which provides for whole life insurance with the amount of death benefit adjusted periodically with the Consumer Price Index or another cost of living index, the value of the minimum reserve at any time shall be based on the maximum valuation interest rate for the year of issue and an acceptable mortality table for life insurance statutory reserves and based on the death benefit and premium pattern adjusted as provided in the policy by reasonable annual increases based on the index. The present value of future benefits component shall be further adjusted each year by the ratio of the then current amount of death benefit to the initially projected amount of death benefit. If the policy provides for future premiums and such premiums are also adjusted periodically with the Consumer Price Index or another cost of living index, the present value of future premiums component shall likewise be further adjusted each year by the ratio of the then current amount of death benefit to the initially projected amount of death benefit. The assumption as to what is a reasonable annual increase in death benefits based on the index must not be less than the maximum valuation interest rate for the year of issue less:

1. 2.0% If the annual increase is limited to an annual and non-cumulative maximum of 0% through 5.0%
2. 1.5% If the annual increase is limited to an annual and cumulative maximum of 0% through 5.0%.
3. 1.5% If the annual increase is limited to an annual and non-cumulative maximum of 5.01% through 10.0%.
4. 1.25% If the annual increase is limited to an annual and cumulative maximum of 5.01% through 10.0%.
5. 1.0% For all other plans.

The term “annual and non-cumulative maximum” refers to a maximum where each annual increase is limited to the lower of the maximum or the increase in the index without carry forward of excess index increases.

The term “annual and cumulative maximum” refers to a maximum where each annual increase is limited to the lower of the maximum or the increase in the index with carry forward of excess index increases.

In no event shall the assumption as to an annual increase based on the index be less than 1.0%.

This guideline for valuation shall be effective immediately for policies issued on or after January 1, 1991.

B. Nonforfeiture – Text

The threshold amount shall be \$10,000 until December 31, 2009. For years beginning after December 31, 2009, the threshold amount for a calendar year shall be the product of \$10,000 and the ratio of 1) the index for June of the prior year to 2) 136.0 (the index as of June 30, 1991), rounded to the nearest \$25. If this calculation would result in an increase in the threshold amount of less than \$500, the unadjusted threshold amount from the prior year shall continue in effect for the next calendar year. In no calendar year shall the increase in threshold amount exceed 5% of the prior calendar year threshold amount.

The index used to determine the threshold amount for years beginning after December 31, 2009, shall be the Consumer Price Index for All Urban Consumers (CPI-U) as of June 30 of that year. If this index is no longer available, another index which, in the actuary’s opinion, reflects the change in general consumer prices for the year should be substituted.

I. FOR POLICIES WHERE ANY DEATH BENEFIT FOR ANY POLICY YEAR WOULD EXCEED THE THRESHOLD AMOUNT EVEN IN ABSENCE OF ANY ANNUAL INCREASES BASED ON THE INDEX

For a policy where premiums are fixed in amount at issue which provides for whole life insurance with the amount of death benefit adjusted periodically with the Consumer Price Index or another cost of living index, the value of the minimum nonforfeiture benefit at any time shall be based on the maximum nonforfeiture interest rate for the year of issue and an acceptable mortality table for life insurance nonforfeiture and based on the death benefit and premium pattern adjusted as provided in the policy by reasonable annual increases based on the index. The present value of future benefits component shall be further adjusted each year by the ratio of the then current amount of death benefit to the initially projected amount of death benefit. If the policy provides for future premiums and such premiums are also adjusted periodically with the Consumer Price Index or another cost of living index, the present value of future premiums component shall likewise be further adjusted each year by the ratio of the then current amount of death benefit to the initially projected amount of death benefit. The assumption as to what is a reasonable annual increase in death benefits based on the index must not be less than the maximum valuation interest rate for the year of issue less:

1. 2.0% If the annual increase is limited to an annual and non-cumulative maximum of 0% through 5.0%.
2. 1.5% If the annual increase is limited to an annual and cumulative maximum of 0% through 5.0%.
3. 1.5% If the annual increase is limited to an annual and non-cumulative maximum of 5.01% through 10.0%.
4. 1.25% If the annual increase is limited to an annual and cumulative maximum of 5.01% through 10.0%.
5. 1.0% For all other plans.

The term “annual and non-cumulative maximum” refers to a maximum where each annual increase is limited to the lower of the maximum or the increase in the index without carry forward of excess index increases.

The term “annual and cumulative maximum” refers to a maximum where each annual increase is limited to the lower of the maximum or the increase in the index with carry forward of excess index increases.

In no event shall the assumption as to an annual increase based on the index be less than 1.0%.

II. FOR POLICIES WHERE ANY DEATH BENEFIT FOR ANY POLICY YEAR WOULD NOT EXCEED THE THRESHOLD AMOUNT IN ABSENCE OF ANY ANNUAL INCREASES BASED ON THE INDEX

For a policy where premiums are fixed in amount at issue which provides for whole life insurance with the amount of death benefit adjusted periodically with the Consumer Price Index or another cost-of-living index, the unadjusted value of the minimum nonforfeiture benefit at any time shall be based on a level death benefit, an acceptable mortality table for life insurance nonforfeiture and a nonforfeiture interest rate equal to the greater of (a) and (b):

- (a) the nonforfeiture interest rate defined in Section 3 of VM-02, Minimum Nonforfeiture Mortality and Interest, less:
 1. 0 bp If the annual increase based on the index is limited to a maximum of 0% through 5.0%.
 2. 25 bp If the annual increase based on the index is limited to a maximum of 5.01% through 10.0%.
 3. 50 bp For all other plans.
- (b) The Applicable Accumulation Test Minimum Rate in the Cash Value Accumulation Test under IRS Section 7702 (*Life Insurance Contract Defined*) of the U.S. Internal Revenue Code.

The present value of future benefits component shall be further adjusted each year by the ratio of the then current amount of death benefit to the initially projected amount of death benefit. If the policy provides for future premiums and such premiums are also adjusted periodically with the Consumer Price Index or another cost-of-living index, the present value of future premiums component shall likewise be further adjusted each year by the ratio of the then current amount of death benefit to the initially projected amount of death benefit.

For purposes of this guideline multiple policies on a single life shall be aggregated and only those policies aggregating not more than \$10,000 (or the threshold amount¹ after December 31, 2009), shall be considered under B.II.

This guideline for nonforfeiture shall be effective immediately for policies issued on or after January 1, 1991.

BACKGROUND

A number of companies are marketing individual life insurance policies with guaranteed increasing death benefits tied into a consumer price index or another cost-of-living index and are for low initial amounts of insurance sold through funeral directors to provide for burial expenses. Some of the policies provide for graded death benefits such as the return of premium with or without interest for the early policy years or for a fixed scheduled increase in death benefits prior to the operation of the index. In some cases, there is a maximum on the increase for any year. The vast majority of such policies are single premium policies, but some are annual premium policies (generally limited payment). The annual premium may or may not be subject to adjustment with the index.

Since the changes in the index are not known at issue, but from past experience, increases within a given range can be expected with a high probability, it is necessary to assume some increases and then to continually adjust the present value of future benefits component and, if appropriate, the present value of future premiums component in the reserve and nonforfeiture calculation.

Theoretically the same assumed increases in the death benefits should be used for both valuation and nonforfeiture. This guideline so provides for policies where the amount of death benefit in any given policy year would exceed \$10,000 (or the threshold amount¹ after December 31, 2009), even if there were no increases based on the index. For practical purposes this may mean that such policies are not marketable for higher amounts as it is most likely that such policies will not qualify under the IRS Section 7702. The cash value accumulation test to qualify thereunder requires a minimum interest rate and an assumed level amount of death benefits.

In the case of policies for an initial amount of insurance of \$5,000 or less, the IRS rules provide an exception to the prohibition of assuming increasing death benefits. However, since many of the policies for very low amounts of initial face amount of insurance would require relatively high expenses if underwritten, many of the policies are issued with simplified underwriting or on a guaranteed issue basis with lower amounts of death benefits in the early policy years, some of the resulting annual increases are such as would disqualify many of the policies for the exception. Therefore, it is recommended that policies for low amounts of insurance be allowed to qualify under the cash value accumulation test by permitting the nonforfeiture values to be based on a level death benefit and an interest rate not less than the Applicable Accumulation Test Minimum Rate in the Cash Value Accumulation Test under IRS Section 7702 and requiring such values to be updated as increases based on the index take place. The amount in this guideline is set at \$10,000 (or the threshold amount¹ after December 31, 2009), to allow for future adjustments and for different patterns of benefits for low amounts.

For single premium policies, the value of nonforfeiture benefits based on a level death benefit and a net assumed nonforfeiture interest rate equal to the maximum nonforfeiture interest rate less an assumed increase based on the index and such factors then adjusted by the projected increases will approximate factors based on assumed increases and the maximum nonforfeiture interest rate. The procedure of assuming a level death benefit and a net assumed rate of not less than the Applicable Accumulation Test Minimum Rate in the Cash Value Accumulation Test under IRS Section 7702 for policies of low amounts of insurance is apt to produce lower cash values than the procedure for large amounts of insurance. Such lower values can be justified based upon the fact that the highly specialized market is prearranged funeral expenses for very small amounts of insurance per policy.

To emphasize the qualification with the IRS rules for the very low amounts of insurance, the nonforfeiture guideline for small amount policies is stated in terms of the net rate, a level death benefit and continual adjustment.

For solvency purposes, reserves should be conservative. The same rules apply for reserve regardless of the size of the policy. That is, lower reserves are not permitted for policies with very low amounts of insurance per policy.

Paragraph 5c(3) of the Model Standard Nonforfeiture Law states that unscheduled changes do not need to be taken into account until the time of the change. The changes guaranteed according to an index are a hybrid, i.e., the changes are scheduled but the amount of the change is not known until the index is determined. Thus, the changes must be recognized at issue. This guideline is a hybrid with increases assumed at issue either explicitly or implicitly but with further adjustments made at the time the increase based on the index is determined.

¹ In 2010, the actuarial guideline was modified to substitute a threshold amount for 10,000, such threshold being increased by the change in the CPI-U, the CPI for All Urban Consumers.

TABLE 1
 PROPOSED 2022 GRET FACTORS, BASED ON AVERAGE OF 2018/2019 DATA

Description	Acquisition per Policy	Acquisition per Unit	Acquisition per Premium	Maintenance per Policy	Companies Included	Average Premium Per Policy Issued During Year	Average Face Amt (000) Per Policy Issued During Year
Independent	\$183	\$1.00	46%	\$55	142	3,252	194
Career	212	1.20	53%	64	77	2,327	197
Direct Marketing	200	1.10	50%	60	23	875	72
Niche Marketing	151	0.90	37%	45	24	517	13
Other*	139	0.80	35%	42	109	786	70
* Includes companies that did not respond to this or prior year surveys					375		

TABLE 2
 CURRENT 2021 GRET FACTORS, BASED ON AVERAGE OF 2017/2019 DATA

Description	Acquisition per Policy	Acquisition per Unit	Acquisition per Premium	Maintenance per Policy	Companies Included	Average Premium Per Policy Issued During Year	Average Face Amt (000) Per Policy Issued During Year
Independent	\$166	\$0.90	42%	\$50	121	2,916	194
Career	214	1.20	54%	64	63	2,517	195
Direct Marketing	195	1.10	49%	59	15	2,933	119
Niche Marketing	137	0.80	34%	41	26	590	11
Other*	126	0.70	32%	38	67	836	29
* Includes companies that did not respond to this or prior year surveys					292		

APPENDIX A -- DISTRIBUTION CHANNELS

The following is a description of distribution channels used in the development of recommended 2022 GRET values:

1. **Independent** – Business written by a company that markets its insurance policies through an independent insurance agent or insurance broker not primarily affiliated with any one insurance company. These agencies or agents are not employed by the company and operate without an exclusive distribution contract with the company. These include most PPGA arrangements.
2. **Career** – Business written by a company that markets insurance and investment products through a sales force primarily affiliated with one insurance company. These companies recruit, finance, train, and often house financial professionals who are typically referred to as career agents or multi-line exclusive agents.
3. **Direct Marketing** – Business written by a company that markets its own insurance policies direct to the consumer through methods such as direct mail, print media, broadcast media, telemarketing, retail centers and kiosks, internet or other media. No direct field compensation is involved.
4. **Niche Marketers** – Business written by home service, pre-need, or final expense insurance companies as well as niche-market companies selling small face amount life products through a variety of distribution channels.
5. **Other** – Companies surveyed were only provided with the four options described above. Nonetheless since there were many companies for which we did not receive a response (or whose response in past years’ surveys confirmed an “other” categorization (see below), values for the “other” category are given in the tables in this memo. It was also included to indicate how many life insurance companies with no response (to this survey and prior surveys) and to indicate whether their exclusion has introduced a bias into the resulting values.

APPENDIX B – UNIT EXPENSE SEEDS

The expense seeds used in the 2014 and prior GRETs were differentiated between branch office and all other categories, due to the results of a relatively old study that had indicated that branch office acquisition cost expressed on a per Face Amount basis was about double that of other distribution channels. Due to the elimination of the branch office category in the 2015 GRET, non-differentiated unit expense seeds have been used in the current and immediately prior studies.

The unit expense seeds used in the 2022 GRET and the 2021 GRET recommendations were based on the average of the 2006 through 2010 Annual SOA expense studies. These studies differentiated unit expenses by type of individual life insurance policy (term and permanent coverages). As neither the GRET nor the Annual Statement data provided differentiates between these two types of coverage, the unit expense seed was derived by judgment based this information. The following shows the averages derived from the Annual SOA studies and the seeds used in this study. Beginning with the 2020 Annual Statement submission this information will become more readily available.

2006-2010 (AVERAGE) CLICE STUDIES:

	Acquisition/ Policy	Acquisition/ Face Amount (000)	Acquisition/ Premium	Maintenance/ Policy
Term				
Weighted Average	\$149	\$0.62	38%	\$58
Unweighted Average	\$237	\$0.80	57%	\$76
Median	\$196	\$0.59	38%	\$64
Permanent				
Weighted Average	\$167	\$1.43	42%	\$56
Unweighted Average	\$303	\$1.57	49%	\$70
Median	\$158	\$1.30	41%	\$67

CURRENT UNIT EXPENSE SEEDS:

	Acquisition/ Policy	Acquisition/ Face Amount (000)	Acquisition/ Premium	Maintenance/ Policy
All distribution channels	\$200	\$1.10	50%	\$60

TO: Reggie Mazyck, NAIC
FROM: Pete Miller, Experience Study Actuary, Society of Actuaries (SOA)
Tony Phipps, Chair, SOA Committee on Life Insurance Company Expenses
DATE: August 4, 2021
RE: 2022 Generally Recognized Expense Table (GRET) – SOA Analysis

Dear Mr. Mazyck:

As in previous years, the Society of Actuaries expresses its thanks to NAIC staff for their assistance and responsiveness in providing Annual Statement expense and unit data for the 2022 GRET analysis for use with individual life insurance sales illustrations. The analysis is based on expense and expense related information reported on companies' 2019 and 2020 Annual Statements. This project has been completed to assist the Life Actuarial Task Force (LATF) in its consideration of potential revisions to the GRET that could become effective for calendar year 2022. This memo describes the analysis and resultant findings.

NAIC staff provided Annual Statement data for life insurance companies for calendar years 2019 and 2020. This included data from 776 companies in 2019 and 771 companies in 2020. This decrease resumes the trend of small decreases from year to year. Of the total companies, 375 were in both years and passed the outlier exclusion tests and were included as a base for the GRET factors (292 companies passed similar tests last year).

APPROACH USED

The methodology for calculating the recommended GRET factors based on this data is similar to that followed the last several years. The methodology was last altered in 2015. The changes made at that time can be found in the recommendation letter sent to LATF on July 30, 2015¹.

To calculate updated GRET factors, the average of the factors from the two most recent years (2019 and 2020 for those companies with data available for both years) of Annual Statement data was used. For each company an actual-to-expected ratio was calculated. Companies with ratios that fell outside predetermined parameters were excluded. This process was completed three times to stabilize the average rates. The boundaries of the exclusions have been modified from time to time; however, there were no adjustments made this year. Unit expense seed factors (the seeds for all distribution channel categories are the same), as shown in Appendix B, were used to compute total expected expenses. Thus, these seed factors were used to implicitly allocate expenses between acquisition and maintenance expenses, as well as among the three acquisition expense factors (on a direct of ceded reinsurance basis).

Companies were categorized by their reported distribution channel (four categories were used as described in Appendix A included below). There remain a significant number of companies for which no distribution channel was provided, as no responses to the annual surveys have been received from those companies. The characteristics of these companies vary significantly, including companies not currently writing new business or whose major line of business is not individual life insurance. Any advice or assistance from LATF in future

¹ <https://www.soa.org/Files/Research/Projects/research-2016-gret-recommendation.pdf>

years to increase the response rate to the surveys of companies that submit Annual Statements in order to reduce the number of companies in the “Other” category would be most welcomed. The intention is to continue surveying the companies in future years to enable enhancement of this multiple distribution channel information.

Companies were excluded from the analysis if in either 2019 or 2020 (1) their actual to expected ratios were considered outliers, often due to low business volume, (2) the average first year and single premium per policy were more than \$40,000, (3) they are known reinsurance companies or (4) their data were not included in the data supplied by the NAIC. To derive the overall GRET factors, the unweighted average of the remaining companies’ actual-to-expected ratios for each respective category was calculated. The resulting factors were rounded, as shown in Table 1.

THE RECOMMENDATION

The above methodology results in the proposed 2022 GRET values shown in Table 1. To facilitate comparisons, the current 2021 GRET factors are shown in Table 2. Further characteristics of the type of companies represented in each category are included in the last two columns in Table 1, including the average premium per policy issued and the average face amount (\$000s) per policy issued.

To facilitate comparisons, the current 2021 GRET factors are shown in Table 2. Further characteristics of the type of companies represented in each category are included in the last two columns in Table 1, including the average premium per policy issued and the average face amount (\$000s) per policy issued.

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Other*	139	0.80	35%	42	109	786	70
* Includes companies that did not respond to this or prior year surveys					375		

TABLE 2
CURRENT 2021 GRET FACTORS, BASED ON AVERAGE OF 2017/2019 DATA

Description	Acquisition per Policy	Acquisition per Unit	Acquisition per Premium	Maintenance per Policy	Companies Included	Average Premium Per Policy Issued During Year	Average Face Amt (000) Per Policy Issued During Year
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In previous recommendations, an effort was made to reduce volatility in the GRET factors from year-to-year by limiting the change in GRET factors between years to about ten percent of the prior value. The changes from the 2021 GRET were reviewed to ensure that a significant change was not made in this year's GRET recommendation.

The Independent, Niche Marketing and Other distribution channel categories experienced a change greater than ten percent so the factors for this line were capped at the ten percent level (the Acquisition per unit factor changed somewhat more than 10% because of rounding) from the corresponding 2021 GRET values. The volatility occurred due to incorrect NAIC data for 2018 for some companies, which caused their actual to expected ratios to be considered outliers and they were not included in the calculation. Over the next one to three years, the ten percent cap will allow this difference to be graded in so calculated GRET will be used for the final recommended GRET factors.

USAGE OF THE GRET

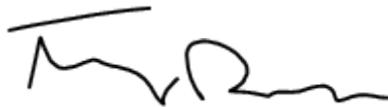
This year's survey, responded to by companies' Annual Statement correspondent, included a question regarding whether the 2021 GRET table was used in its illustrations by the company. Last year, 29% of the responders indicated their company used the GRET for sales illustration purposes, with similar percentage results by size of company; this contrasted with about 28% in 2019. This year, 31% of responding companies indicated that they used the GRET in 2020 for sales illustration purposes. The range was from 11% for Direct Marketing to 43% for independent. Based on the information received over the last several years, the variation in GRET usage appears to be in large part due to the relatively small sample size and different responders to the surveys.

We hope LATF finds this information helpful and sufficient for consideration of a potential update to the GRET. If you require further analysis or have questions, please contact Pete Miller at 847-706-3566.

Kindest personal regards,



Pete Miller, ASA, MAAA,
Experience Study Actuary
Society of Actuaries



Tony Phipps, FSA, MAAA
Chair, SOA Committee on
Life Insurance Company Expenses

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Revision Marks Show Changes from 2021 Charges

Draft: 11/10/21

Adopted by the Executive (EX) Committee and Plenary, Dec. __, 2021

Adopted by the Life Insurance and Annuities (A) Committee, Dec. __, 2021

2022 Proposed Charges

LIFE INSURANCE AND ANNUITIES (A) COMMITTEE

The mission of the Life Insurance and Annuities (A) Committee is to: 1) consider issues relating to life insurance and annuities; and 2) review new life insurance products.

Ongoing Support of NAIC Programs, Products or Services

1. The **Life Insurance and Annuities (A) Committee** will:
 - A. Monitor the activities of the Life Actuarial (A) Task Force.
2. The **Accelerated Underwriting (A) Working Group** will:
 - A. Consider the use of external data and data analytics in accelerated life underwriting, including consideration of the ongoing work of the Life Actuarial (A) Task Force on the issue; and, if appropriate, draft guidance for the states.
- ~~3. The **Annuity Disclosure (A) Working Group** will:
 - A. Review and revise, as necessary, Section 6 Standards for Annuity Illustrations in the *Annuity Disclosure Model Regulation* (#245) to take into account the disclosures necessary to inform consumers in light of the product innovations currently in the marketplace. (Completed)~~
43. The **Annuity Suitability (A) Working Group** will:
 - A. Review and revise, as necessary, the *Suitability in Annuity Transactions Model Regulation* (#275).
 - BA. Consider how to promote greater uniformity in the adoption of the *Suitability in Annuity Transactions Model Regulation* (#275) across NAIC member jurisdictions.
54. The **Life Insurance Illustration Issues (A) Working Group** will:
 - A. Explore how the narrative summary required by Section 7B of the *Life Insurance Illustrations Model Regulation* (#582) and the policy summary required by Section 5A(2) of the *Life Insurance Disclosure Model Regulation* (#580) can be enhanced to promote consumer readability and understandability of these life insurance policy summaries, including how they are designed, formatted and accessed by consumers.
65. The **Life Insurance Online Guide (A) Working Group** will:
 - A. Develop an online resource on life insurance, including the evaluation of existing content on the NAIC website, to be published digitally for the benefit of the public.
- ~~7. The **Retirement Security (A) Working Group** will:
 - A. Explore ways to promote retirement security consistent with the NAIC's continuing "Retirement Security Initiative." (Completed)~~

NAIC Support Staff: Jennifer R. Cook/Jolie H. Matthews

<https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member%20Meetings/Fall%202021/Cmte/A/National%20Meeting%20Materials/2022%20A%20Cmte%20proposed%20Charges.docx?web=1>

November 19, 2021

To: Life Insurance and Annuities (A) Committee
From: Richard Wicka, Chair
Life Insurance Illustration Issues (A) Working Group
RE: Life Insurance and Annuities (A) Committee requested Chair Report

At the 2021 Summer National Meeting, the Life Insurance and Annuities (A) Committee asked for a "chair report" to be prepared for discussion during the Fall National Meeting. The Committee requested that the chair report outline the work that the Working Group has accomplished and how the comments it has received over the years have been addressed. The Committee intended for the chair report to provide the information the Committee needs to decide if it should continue to pursue revisions to the model, and if not, the report would include the work product that the Working Group had accomplished so far, which would be available for states to use.

Attached is the requested chair report, including its most recent work product--alternate versions of the draft revisions to the *Life Insurance Disclosure Model Regulation* (#580) and sample policy overview document for term life Insurance.

CHAIR REPORT

LIFE INSURANCE ILLUSTRATION ISSUES (A) WORKING GROUP

Per the request of the Life Insurance and Annuities (A) Committee, this report provides an overview of the Life Insurance Illustrations (A) Working Group's (LIIWG) history and progress to date. The report also includes the Chair's recommendations regarding the future direction of the Working Group.

In 2016, concerns were raised at the NAIC regarding consumer understanding of complex life insurance products such as indexed universal life products. The A Committee decided to address these concerns by forming a Working Group to explore how consumer understanding for all life insurance products could be improved. The Working Group was given a broad charge over all life products and the charge was not limited to indexed universal life products.

The LIIWG is charged to:

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

Current Summary Disclosure Requirements in NAIC Model Regulations

Before discussing the working group, I believe it is helpful to understand the current requirements in the NAIC model regulations that are part of the working group's charge. The model regulations take a two-track approach to consumer disclosure requirements. Policies are divided into those identified to be marketed with an illustration and those identified to be marketed without an illustration.

No policy is required to be illustrated, however, those policies that are illustrated must follow the requirements of the *Life Insurance Illustrations Model Regulation* (# 582) (Illustrations Model). Specifically relevant to the working group's charge, illustrations must contain a "narrative summary" that is a "brief description of the policy being illustrated." This description must include things such as the premium outlay, a description of any policy features shown in the illustration, and definitions of key terms used in the illustration.

For policies that are not illustrated, the *Life Insurance Disclosure Model Regulation* (#580) (Disclosure Model) requires that the policyholder be provided with a "policy summary" which is defined "as a written statement describing the elements of the policy." The information that must be provided in a policy summary includes the annual premium for the basic policy and each optional rider, the amount payable upon death, the total guaranteed cash surrender value and information regarding policy loan interest rates.

Under the two model regulations, a policyholder will always receive some form of summary disclosure, either in the form of the narrative summary accompanying an illustration or a policy summary for the unillustrated products. However, while there is some overlap, the information required for each summary is not exactly the same.

History of Working Group Activity

To complete its charge, the Working Group first decided that it needed to review current narrative summaries and policy summaries to identify any issues that could be addressed to improve consumer understanding. The Working Group requested, and the American Council of Life Insurers (ACLI) compiled, sample narrative summaries and policy summaries for the three main types of life insurance products: term, whole and universal life. The Working Group established an ad hoc subgroup consisting of regulators, life insurers and consumer representatives to review these summaries to identify areas that could be improved.

During this review, several issues were identified as hampering the usefulness of narrative and policy summaries in promoting consumer understanding of life products. (See, for example, *NAIC Proceedings – Summer 2016, Life Insurance and Annuities (A) Committee, Attachment Five and NAIC Proceedings – Spring 2017, Life Insurance and Annuities (A) Committee,*

Attachment Nine-A). One overarching issue identified was that the narrative and policy summaries were often not designed as direct consumer disclosures. They were designed to be explained to the consumer by a financial professional and serve as a tool for the key features of the policy to be identified by a financial professional. To make these documents more consumer friendly would, to a certain extent, require a change in the audience they were written for.

The group also identified three specific issues with the summaries themselves. First, it was determined that current summary disclosures were quite lengthy which impeded consumer understanding. For example, summary disclosures for even simple term policies often ran to ten or more pages. Given the length of these summaries, it could be difficult for a consumer to locate key features of the policy.

Second, the summaries showed variations in layout and the accessibility of the language used. As can be expected, the samples varied in quality between different insurers and some samples were more consumer-friendly than others. Some summaries also contained puffery or marketing language that were not necessarily directly related to the purpose of the disclosure.

Third, the structure of the model regulations drove some of the issues with the summary's length and made them less consumer friendly. For example, the narrative summary requires that key terms in the illustration be described and defined. These definitions would often run several pages. While these definitions are important to understanding the illustration, they run counter to the narrative summaries purpose to provide a "brief" description of the policy. Similarly, the policy summary requires a five-year illustration of the policy's premium and benefit patterns that serves as a kind of "mini-illustration." Thus, both the narrative summary and policy summary work to cross purposes to some degree as they are required to be both brief summaries of the policy and to provide comprehensive information.

While the ad hoc group was reviewing the sample documents, a consensus emerged between the life insurers, regulators and consumer representatives as to how the Working Group could meet its charge. There was agreement that a one or two-page summary disclosure or "Policy Overview" should be created that only listed a policy's key features. This document would be created specifically for consumers while leaving the current structure of the narrative and policy summaries in place. The consensus was that current summaries served important purposes such as defining key terms and providing the "mini-illustration," but that the key features of the policy should be listed in a more accessible way.

This context is important to address one of the comments made by the ACLI. Specifically, that the Working Group did not identify any specific issues or problems with current summaries. As stated, the ad hoc group did in fact identify specific issues that hindered consumer understanding of life insurance products. More importantly, a consensus developed that a Policy Overview document would be helpful to consumers and meet the working group's charges. With agreement from all interested parties, including the life insurer representatives, on exploring a possible solution, there was little value in spending a great deal of time indexing issues beyond those already noted in the meeting minutes.

Development of a Policy Overview Document

To develop the Policy Overview, the Working Group started by identifying the key elements that consumers should be aware of in purchasing a life insurance policy. To complete this task, the Working Group started with simple term products before identifying key features in whole and universal life products. The key elements identified by the Working Group include basic features of the policy such as the premium, benefit amount, loan and investment features, riders and other benefits. It also included elements that would be unique to each type of life product such as the term of the policy or a description of the cost of insurance charges for universal products.

After identifying the key elements, the Working Group began developing revisions to the Disclosure Model to create the legal structure for the adoption of the Policy Overview. Changes were made to the Disclosure Model to require a short, consumer-friendly disclosure containing the required key elements that would be provided in the same form for illustrated and non-illustrated products¹. While there was general agreement on the key elements to be included in the Policy Overview, there were a couple of issues where there was not consensus that I will highlight.

The first area of disagreement was whether the Policy Overview should have a required format or whether insurers should be given latitude as to how they developed the Policy Overview. Consumer representatives argued that the Policy Overview should

¹ The working group considered adopting this policy overview as a cover page to the narrative summary of an illustration or to the policy summary for the non-illustrated products. As discussions progressed a consensus emerged that the policy overview should be a separate document that was provided to the consumer in the same form for illustrated and non-illustrated products.

be delivered on a required template so that consumers could compare products from different insurers. The life insurance industry supported more flexibility arguing that life insurers needed to have the ability to customize the Policy Overview to their specific products. The Working Group determined that a template would not be required but that the Working Group would develop sample Policy Overviews that insurers could use as an example in creating the Policy Overview.

The second issue of disagreement involved the delivery requirement for the Policy Overview. The current delivery requirement in the Disclosure Model requires that the buyer's guide and policy summary be delivered "prior to accepting the applicant's initial premium" or if the "policy for which application is made contains an unconditional refund provision" delivery may be made with the policy. Some regulators and the life insurance industry supported keeping the current delivery requirement. However, other regulators and consumer representatives argued that the Policy Overview should be required to be delivered at the time of application. They argued that the Policy Overview would be of most use to consumers prior to purchase and that the delivery of the Policy Overview at application would not be burdensome due to changes in technology that made delivery easier.

Because there was no consensus from the Working Group on the delivery requirement, the Working Group requested that the Life Insurance and Annuities (A) Committee provide direction on what the delivery requirement should be. The Chair of the Committee at the time instructed the Working Group to draft the model law changes in the alternative so that the Committee could decide the issue of timing of delivery.

Attached to this report are two version of the amendments to the Disclosure Model. Attachment A contains the amendments to the model law to adopt a Policy Overview without changing the delivery requirement, i.e., delivery at the time of policy delivery if there is a free look period. Attachment B contains the amendments to the model law to adopt the Policy Overview with language that requires that the Policy Overview be delivered at application². The delivery language included was modified from the Annuity Disclosure Model Law (#245). That language reads:

Where the application for a life insurance policy is taken at a face-to-face meeting, the applicant at or before the time of application shall be given the Policy Overview. Where the application for a life insurance policy is taken by means other than in a face-to-face meeting, the applicant shall be sent the Policy Overview not later than five business days after the receipt of the application.

After completing work on the revisions to the Model Regulation, the Working Group turned to developing the sample Policy Overview. The Working Group looked for existing disclosure documents that might serve as a starting point for the development of the Policy Overview. It was noted that in 2007 the ACLI developed a drafting guide and focus-group tested templates for insurers to develop annuity disclosures "in a truly consumer-friendly manner." The Working Group asked the ACLI and its members if they would be willing to develop similar templates for the proposed Policy Overview. The ACLI declined the working group's invitation to do so. Nevertheless, the Working Group used these annuity disclosure templates as the base to build the Policy Overview samples.

In early 2021, the Working Group completed its development of sample Policy Overviews for term products after incorporating comments from the life insurance industry, consumer representatives, and regulators³. Attachment C to this report is the sample Policy Overview with the current delivery requirements. Attachment D contains the sample Policy Overview for a delivery requirement at application. The Working Group decided to present the attached draft model law revisions and sample Policy Overviews to the Life Insurance and Annuities (A) Committee for consideration and for further guidance. The Committee issued a request for comment on these drafts from interested parties on August 11, 2021.

Chair's Recommendations

² It should also be noted that there are some minor differences in the key data elements for the alternative revisions to account for the different delivery requirements. For example, the revisions for delivery at application require an estimated premium versus the actual premium since the actual premium would not be known prior to underwriting.

³ While work on the sample templates was ongoing, in 2020 ACLI informed the A committee that it opposed the enactment of a policy overview document arguing that it would not enhance consumer understanding of life insurance products. ACLI also declined to provide comments on the sample policy overviews to be delivered at application because of their opposition to changing the delivery requirement.

After review of the comments received from interested parties and discussions with members of the Committee, the following are my recommendations as Chair for the future of the Working Group. These recommendations are based solely on my opinion and have not been adopted by the Working Group.

The comments received by the Life Insurance and Annuities (A) Committee show that there is not a consensus regarding whether the proposed Policy Overview will aid consumers in understanding life products. ACLI, Finseca, the National Association of Insurance and Financial Advisors (NAIFA), the National Alliance of Life Companies (NALC) and the states of Ohio and Utah all expressed opposition to the adoption of a Policy Overview requirement. While the comments differed to various degrees, they all expressed concern that an additional consumer disclosure will only serve to further confuse consumers or provide little additional value.

Consumer Representatives Brenda Cude and Birny Birnbaum as well as the state of New York expressed support for the development of the Policy Overview. They argue that the Policy Overview would be helpful to consumers and serve to increase consumer understanding of life products.

Both sides of the issue make valid points regarding the proposed Policy Overview and it is not possible to determine whether the Policy Overview will aid consumers without it being used in the marketplace. This new disclosure may aid consumers by providing a simple way to access key information or it may create confusion or simply be redundant. At this point, it is simply a matter of opinion whether or not this document would improve consumer understanding. This uncertainty, in my opinion, argues against the adoption of NAIC model law revisions to require a Policy Overview.

First, one of the NAIC's criteria for adoption of a model law is that the issue calls for a minimum national standard. There is currently a minimum national standard for consumer disclosures in the Illustrations and Disclosure models. To adopt significant changes to this national standard and encourage states to adopt them, there should be relative certainty and agreement that the revisions will have the desired effect. As noted, it is untested and a matter of disagreement whether or not the Policy Overview will aid consumers.

In many instances, NAIC model laws are based on regulations or laws that have been enacted by some states or other regulators. To my knowledge, no state has adopted a summary disclosure requirement such as the one that is being contemplated by the working group. This is an area where the state's strengths as laboratories for policy change should be utilized and where a top-down approach seems inappropriate. To be clear, the Policy Overview that was developed may be an effective way to aid consumer understanding of life products but until this idea is tried by some states it is not clear this should be adopted as a best practice and national standard by the NAIC.

Second, based on the comment letters and my discussions with commissioners, I question whether the proposed model meets the NAIC's requirement for the approval of a model law. Adoption of a model law requires approval by two-thirds of the NAIC members. Voting to approve indicates that the member will support adoption of the model in their state as a priority. Three states submitted comments on the adoption of a Policy Overview, two opposed the changes and one state supported it. Among the states that have not commented, I have not received an indication that the adoption of a summary disclosure for life insurance is currently a top priority of their state.

For these reasons, it is my recommendation that the Life Insurance and Annuities (A) Committee not adopt the Policy Overview revisions as a model law change. For states that are interested in pursuing regulation in this area, the revisions that were developed by the Working Group are attached to this report and can be used as a starting point for individual states that wish to enact a Policy Overview or similar summary disclosure requirement. If summary disclosures of life insurance products prove effective in educating consumers, the NAIC can always revisit whether such requirements should be adopted as a national standard with the benefit of the experience of those states.

In summary, I recommend that the Committee consider adopting this report as the final report of the Working Group and the Working Group be disbanded. By adopting this report, the revisions the Working Group has developed will be available for individual states to consider when exploring the possibility of enacting a summary disclosure requirement.

Finally, I would like to thank all the members of the Working Group for their time and commitment and their insightful comments on how we could improve consumer understanding of life insurance products. It is my hope that the life insurance industry can use some of these insights in drafting more consumer-friendly disclosures.

Attachment A

Revision marks show changes to existing model.
DRAFT April 20, 2021 (Current Delivery Requirement)

LIFE INSURANCE DISCLOSURE MODEL REGULATION

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Section 1. Authority

This rule is adopted and promulgated by the commissioner of insurance pursuant to [insert state equivalent to Section 4A(1) of the Unfair Trade Practices Act] of the Insurance Code.

Drafting Note: Insert title of chief insurance regulatory official wherever the term “commissioner” appears.

Section 2. Purpose

- A. The purpose of this regulation is to require insurers to deliver to purchasers of life insurance information that will improve the buyer’s ability to select the most appropriate plan of life insurance for the buyer’s needs and improve the buyer’s understanding of the basic features of the policy that has been purchased or is under consideration.
- B. This regulation does not prohibit the use of additional material that is not a violation of this regulation or any other [state] statute or regulation.

Section 3. Scope

- A. Except for the exemptions specified in Section 3B, this regulation shall apply to any solicitation, negotiation or procurement of life insurance occurring within this state. Section 5B shall apply only to an existing nonexempt policy held by a policyowner residing in this state. This regulation shall apply to any issuer of life insurance contracts including fraternal benefit societies.
- B. This regulation shall not apply to:
 - (1) Individual and group annuity contracts;
 - (2) Credit life insurance;
 - (3) Group life insurance (except for disclosures relating to preneed funeral contracts or prearrangements; these disclosure requirements shall extend to the issuance or delivery of certificates as well as to the master policy);

- (4) Life insurance policies issued in connection with pension and welfare plans as defined by and which are subject to the federal Employee Retirement Income Security Act of 1974 (ERISA), 29 U.S.C. Section 1001 *et seq.* as amended; or
- (5) Variable life insurance under which the amount or duration of the life insurance varies according to the investment experience of a separate account.

Section 4. Definitions

For the purposes of this regulation, the following definitions shall apply:

- A. “Buyer’s Guide” means the current Life Insurance Buyer’s Guide adopted by the National Association of Insurance Commissioners (NAIC) or language approved by the commissioner.
- B. “Current scale of nonguaranteed elements” means a formula or other mechanism that produces values for an illustration as if there is no change in the basis of those values after the time of illustration.
- C. “Illustration” means a presentation or depiction that includes non-guaranteed elements of a policy of life insurance over a period of years that is subject to [insert state equivalent to *Life Insurance Illustrations Model Regulation* (#582)].
- D. “Nonguaranteed elements” means the premiums, credited interest rates (including any bonus), benefits, values, non-interest based credits, charges or elements of formulas used to determine any of these, that are subject to company discretion and are not guaranteed at issue. An element is considered non-guaranteed if any of the underlying non-guaranteed elements are used in its calculation.
- E. “Policy data” means a display or schedule of numerical values, both guaranteed and nonguaranteed for each policy year or a series of designated policy years of the following information: illustrated annual, other periodic, and terminal dividends; premiums; death benefits; cash surrender values and endowment benefits.
- F. “Policy Overview” means a brief summary of the policy prepared in accordance with this regulation and an example may be found in Appendix A.
- G. “Guaranteed Premium and Benefit Patterns Summary” is a separate document that accompanies the Policy Overview where the insurer has identified the policy as one that will not be marketed with an illustration.
- H. “Preneed funeral contract or prearrangement” means an agreement by or for an individual before that individual’s death relating to the purchase or provision of specific funeral or cemetery merchandise or services.

Section 5. Duties of Insurers

- A. Requirements Applicable Generally
 - (1) The insurer shall provide a Buyer’s Guide to all prospective purchasers, prior to accepting the applicant’s initial premium or premium deposit. However, if the policy for which application is made contains an unconditional refund provision of at least ten (10) days, the Buyer’s Guide may be delivered with the policy or prior to delivery of the policy.
 - (2) The insurer shall provide a Policy Overview to all prospective purchasers. Delivery of the Policy Overview shall be consistent with the time for delivery of the Buyer’s Guide as specified in Paragraph (1). Insurers should endeavor to limit the length of the Policy Overview to the minimum length necessary to reasonably inform consumers of the information required to be included in the Policy Overview. The Policy Overview is not required to be in a specific format beyond the requirements of this Section. The Policy Overview must be prepared in language and in a format that would be understood by a typical person within the segment of the public to which the policy

is directed. A sample Policy Overview that meets the requirements of this Section is provided in Appendix A. A Policy Overview shall include the following topics with appropriate headings

- (a) An introductory section containing the following language: “This document lists this insurance policy’s key features and benefits. You can get a similar summary of key policy features from other insurance companies to help you compare similar policies. If you have questions about life insurance generally or other types of policies, the National Association of Insurance Commissioners has useful information at <https://content.naic.org/consumer/life-insurance.htm/>. If you have questions about this particular life insurance policy, ask the agent, broker, advisor, or a company representative. If you have questions about company or agent licensing, contact [insert reference to state department of insurance].:”
- (b) “Company [and Agent Information]” which shall contain the name, address, email address and phone contact information of the insurance company and insurance agent, if an agent is involved;
- (c) “Information We Use to Determine Your Premium” which shall include the following information about the policy owner and insured, as applicable:
 - (i.) A brief description of the data elements that the insurer collects from the applicant and other sources that are used to determine an applicant’s premium;
 - (ii.) A brief description of the policy features that will affect the amount of premium such as the amount of the death benefit and optional riders;
 - (iii) How risk class is assessed to generate the quote.;
- (d) “Cost Information” which shall include the following information, as applicable:
 - (i) An explanation of how much the life insurance policy costs or is estimated to cost at the time of application, including initial premium or the estimated premium quoted at the time of application and an explanation of differences in costs based on premium mode selected;
 - (ii) A summary of the available options for funding the policy and the minimum funding needed to maintain the policy in force;
 - (iii) An explanation of whether the premium can vary and, if so, how the premium will be determined;
 - (iv) An explanation of any costs associated with cancelling the policy (i.e. surrender charges) and, if yes, the period of time the charges apply or, if no, whether any money is eligible to be returned;
 - (v) If applicable, a narrative description of fees other than premium;
 - (vi) If applicable, a narrative explanation of the cost of insurance fee, how the cost of insurance fee changes with age, a narrative explanation of the net amount of risk to which the fee will apply, and the maximum allowable cost of insurance fee allowed under the policy.
- (e) “Policy Information” which shall include the following information, as applicable:
 - (i) Policy type (Including single or joint policy);
 - (ii) Policy name;

- (iii) State of issue;
 - (iv) An indication of whether the policy is term or permanent life insurance, and if it is term insurance, the length of the initial term, including whether and how the term may be extended;
 - (v) If the Policy Overview is provided prior to underwriting, a general description of what the policyholder needs to do to obtain the policy
 - (vi) If the Policy Overview is provided prior to underwriting, the following statement: “In the course of considering an insured’s application, an insurer may request or collect health information about the insured in variety of ways.” The statement shall indicate whether a physical examination or questionnaire will be required.
 - (vii) Death benefit or the death benefit as applied for;
 - (viii) A yes or no indication of whether the death benefit can change, and if yes, a summary of the reasons and timing for a change in the death benefit;
 - (ix) Policy loan options and applicable charges.
- (f) “Additional Policy Benefits” which shall include the following information, as applicable:
- (i) A yes or no indication of whether a waiver of premium or deductions option is available, and if yes, a summary of the options available;
 - (ii) A yes or no indication of whether policy conversion options exist and, if yes, a ~~brief~~ summary of conversion options available;
 - ~~(iii) If the policy has a term, a yes or no indication of whether there are o~~
 - (iv) A yes or no indication of the availability of optional riders and, if yes, a summary of how the insured may obtain additional information regarding the availability and costs of optional riders;
 - (vi) A yes or no indication of any living benefit option(s), and if yes, a summary of the option(s);
 - (vii) A yes or no indication of whether the policy can accumulate cash value, and if yes, a summary of the benefit;
 - (viii) A yes or no indication of whether there are guaranteed interest rates on fixed accounts and, if yes, the amount of the guaranteed interest rate;
 - (ix) A yes or no indication of whether there are indexed account options and if yes, a summary of how the insured may obtain additional information regarding indexed account options.
- (3) The insurer shall provide a Guaranteed Premium and Benefits Patterns Summary to prospective purchasers where the insurer identified the policy form as one that will not be marketed with an illustration. Delivery of the Guaranteed Premium and Benefits Patterns Summary shall be consistent with the time for delivery of the Buyer’s Guide as specified in Paragraph (1). The Guaranteed Premium and Benefits Pattern Summary shall show guarantees only and include all required information set out in a manner that does not minimize or render any portion of the summary

obscure. Any amounts that remain level for two (2) or more years of the policy may be represented by a single number if it is clearly indicated what amounts are applicable for each policy year. Amounts shall be listed in total, not on a per thousand or per unit basis. If more than one insured is covered under one policy or rider, death benefits shall be displayed separately for each insured or for each class of insureds if death benefits do not differ within the class. Zero amounts shall be displayed as a blank space. The following amounts, where applicable, for the first five (5) policy years and representative policy years thereafter sufficient to clearly illustrate the premium and benefit patterns; including at least one age from sixty (60) through sixty-five (65) and policy maturity:

- (a) The annual premium for the basic policy;
- (b) The annual premium for each optional rider;
- (c) The amount payable upon death at the beginning of the policy year regardless of the cause of death, other than suicide or other specifically enumerated exclusions, that is provided by the basic policy and each optional rider; with benefits provided under the basic policy and each rider shown separately;
- (d) The total guaranteed cash surrender values at the end of the year with values shown separately for the basic policy and each rider;
- (e) Any endowment amounts payable under the policy that are not included under cash surrender values above;
- (f) The effective policy loan annual percentage interest rate, if the policy contains this provision, specifying whether this rate is applied in advance or in arrears. If the policy loan interest rate is adjustable, the Guaranteed Premium and Benefits Patterns Summary shall also indicate that the annual percentage rate will be determined by the company in accordance with the provisions of the policy and the applicable law.

B. Requirements Applicable to Existing Policies.

- (1) Upon request by the policyowner, the insurer shall furnish either policy data or an in force illustration as follows:
 - (a) For policies issued prior to the effective date of [insert state equivalent to Life Insurance Illustrations Model Regulation], the insurer shall furnish policy data, or, at its option, an in force illustration meeting the requirements of [insert state equivalent to Life Insurance Illustrations Model Regulation].
 - (b) For policies issued after the effective date of the illustration regulation that were declared not to be used with an illustration, the insurer shall furnish policy data, limited to guaranteed values, if it has chosen not to furnish an in force illustration meeting the requirements of the regulation.
 - (c) If the policy was issued after the effective date of the illustration regulation and declared to be used with an illustration, an in force illustration shall be provided.
 - (d) Unless otherwise requested, the policy data shall be provided for twenty (20) consecutive years beginning with the previous policy anniversary. The statement of policy data shall include nonguaranteed elements according to the current scale, the amount of outstanding policy loans, and the current policy loan interest rate. Policy values shown shall be based on the current application of nonguaranteed elements in effect at the time of the request. The insurer may charge a reasonable fee, not to exceed \$[insert amount], for the preparation of the statement.

- (2) If a life insurance company changes its method of determining scales of nonguaranteed elements on existing policies; it shall, no later than when the first payment is made on the new basis, advise each affected policy owner residing in this state of this change and of its implication on affected policies. This requirement shall not apply to policies for which the amount payable upon death under the basic policy as of the date when advice would otherwise be required does not exceed \$5,000.
- (3) If the insurer makes a material revision in the terms and conditions under which it will limit its right to change any nonguaranteed factor; it shall, no later than the first policy anniversary following the revision, advise each affected policy owner residing in this state.

Section 6. Preneed Funeral Contracts or Prearrangements

The following information shall be adequately disclosed at the time an application is made, prior to accepting the applicant's initial premium or deposit; for a preneed funeral contract or prearrangement that is funded or to be funded by a life insurance policy:

- A. The fact that a life insurance policy is involved or being used to fund a prearrangement;
- B. The nature of the relationship among the soliciting agent or agents, the provider of the funeral or cemetery merchandise or services, the administrator and any other person;
- C. The relationship of the life insurance policy to the funding of the prearrangement and the nature and existence of any guarantees relating to the prearrangement;
- D. The impact on the prearrangement:
 - (1) Of any changes in the life insurance policy including but not limited to, changes in the assignment, beneficiary designation or use of the proceeds;
 - (2) Of any penalties to be incurred by the policyholder as a result of failure to make premium payments;
 - (3) Of any penalties to be incurred or monies to be received as a result of cancellation or surrender of the life insurance policy;
- E. A list of the merchandise and services which are applied or contracted for in the prearrangement and all relevant information concerning the price of the funeral services, including an indication that the purchase price is either guaranteed at the time of purchase or to be determined at the time of need;
- F. All relevant information concerning what occurs and whether any entitlements or obligations arise if there is a difference between the proceeds of the life insurance policy and the amount actually needed to fund the prearrangement;
- G. Any penalties or restrictions, including but not limited to geographic restrictions or the inability of the provider to perform, on the delivery of merchandise, services or the prearrangement guarantee; and

Drafting Note: States should consider whether the insurance regulator has the authority to enforce the provisions of Subsections E, F and G.

- H. If so, the fact that a sales commission or other form of compensation is being paid and the identity of the individuals or entities to whom it is paid.

Section 7. General Rules

- A. Each insurer shall maintain, at its home office or principal office, a complete file containing one copy of each document authorized and used by the insurer pursuant to this regulation. The file shall contain one copy of

each authorized form for a period of three (3) years following the date of its last authorized use unless otherwise provided by this regulation.

- B. An agent shall inform the prospective purchaser, prior to commencing a life insurance sales presentation, that he or she is acting as a life insurance agent and inform the prospective purchaser of the full name of the insurance company which the agent is representing to the buyer. In sales situations in which an agent is not involved, the insurer shall identify its full name.
- C. An insurance producer shall not use terms such as “financial planner,” “investment advisor,” “financial consultant,” or “financial counseling” in such a way as to imply that he or she is primarily engaged in an advisory business in which compensation is unrelated to sales unless that is actually the case. This provision is not intended to preclude persons who hold some form of formal recognized financial planning or consultant designation from using this designation even when they are only selling insurance. This provision also is not intended to preclude persons who are members of a recognized trade or professional association having such terms as part of its name from citing membership, providing that a person citing membership, if authorized only to sell insurance products, shall disclose that fact. This provision does not permit persons to charge an additional fee for services that are customarily associated with the solicitation, negotiation or servicing of policies.
- D. Any reference to nonguaranteed elements shall include a statement that the item is not guaranteed and is based on the company’s current scale of nonguaranteed elements (use appropriate special term such as “current dividend” or “current rate” scale.) If a nonguaranteed element would be reduced by the existence of a policy loan, a statement to that effect shall be included in any reference to nonguaranteed elements. A presentation or depiction of a policy issued after the effective date of the [insert citation to state equivalent to Life Insurance Illustrations Model Regulation] that includes nonguaranteed elements over a period of years shall be governed by that regulation.

Section 8. Failure to Comply

Failure of an insurer to provide or deliver a Buyer’s Guide, an in force illustration, a policy summary or policy data as provided in Section 5 shall constitute an omission that misrepresents the benefits, advantages, conditions or terms of an insurance policy.

Section 9. Separability

If any provisions of this rule be held invalid, the remainder shall not be affected.

Section 10. Effective Date

This rule shall become effective [insert a date at least 6 months following adoption by the regulatory authority].

Attachment B

Revision marks show changes to existing model.
DRAFT April 20, 2021 (At Application)

LIFE INSURANCE DISCLOSURE MODEL REGULATION

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Section 1. Authority

This rule is adopted and promulgated by the commissioner of insurance pursuant to [insert state equivalent to Section 4A(1) of the Unfair Trade Practices Act] of the Insurance Code.

Drafting Note: Insert title of chief insurance regulatory official wherever the term “commissioner” appears.

Section 2. Purpose

- A. The purpose of this regulation is to require insurers to deliver to purchasers of life insurance information that will improve the buyer’s ability to select the most appropriate plan of life insurance for the buyer’s needs and improve the buyer’s understanding of the basic features of the policy that has been purchased or is under consideration.
- B. This regulation does not prohibit the use of additional material that is not a violation of this regulation or any other [state] statute or regulation.

Section 3. Scope

- A. Except for the exemptions specified in Section 3B, this regulation shall apply to any solicitation, negotiation or procurement of life insurance occurring within this state. Section 5B shall apply only to an existing nonexempt policy held by a policyowner residing in this state. This regulation shall apply to any issuer of life insurance contracts including fraternal benefit societies.
- B. This regulation shall not apply to:
 - (1) Individual and group annuity contracts;
 - (2) Credit life insurance;
 - (3) Group life insurance (except for disclosures relating to preneed funeral contracts or prearrangements; these disclosure requirements shall extend to the issuance or delivery of certificates as well as to the master policy);

- (4) Life insurance policies issued in connection with pension and welfare plans as defined by and which are subject to the federal Employee Retirement Income Security Act of 1974 (ERISA), 29 U.S.C. Section 1001 *et seq.* as amended; or
- (5) Variable life insurance under which the amount or duration of the life insurance varies according to the investment experience of a separate account.

Section 4. Definitions

For the purposes of this regulation, the following definitions shall apply:

- A. “Buyer’s Guide” means the current Life Insurance Buyer’s Guide adopted by the National Association of Insurance Commissioners (NAIC) or language approved by the commissioner.
- B. “Current scale of nonguaranteed elements” means a formula or other mechanism that produces values for an illustration as if there is no change in the basis of those values after the time of illustration.
- C. “Illustration” means a presentation or depiction that includes non-guaranteed elements of a policy of life insurance over a period of years that is subject to [insert state equivalent to *Life Insurance Illustrations Model Regulation* (#582)].
- D. “Nonguaranteed elements” means the premiums, credited interest rates (including any bonus), benefits, values, non-interest based credits, charges or elements of formulas used to determine any of these, that are subject to company discretion and are not guaranteed at issue. An element is considered non-guaranteed if any of the underlying non-guaranteed elements are used in its calculation.
- E. “Policy data” means a display or schedule of numerical values, both guaranteed and nonguaranteed for each policy year or a series of designated policy years of the following information: illustrated annual, other periodic, and terminal dividends; premiums; death benefits; cash surrender values and endowment benefits.
- F. “Policy Overview” means a brief summary of the policy prepared in accordance with this regulation and an example may be found in Appendix A.
- G. “Guaranteed Premium and Benefit Patterns Summary” is a separate document that accompanies the Policy Overview where the insurer has identified the policy as one that will not be marketed with an illustration.
- H. “Preneed funeral contract or prearrangement” means an agreement by or for an individual before that individual’s death relating to the purchase or provision of specific funeral or cemetery merchandise or services.

Section 5. Duties of Insurers

- A. Requirements Applicable Generally
 - (1) The insurer shall provide a Buyer’s Guide to all prospective purchasers, prior to accepting the applicant’s initial premium or premium deposit. However, if the policy for which application is made contains an unconditional refund provision of at least ten (10) days, the Buyer’s Guide may be delivered with the policy or prior to delivery of the policy.
 - (2) The insurer shall provide a Policy Overview to all prospective purchasers. Where the application for a life insurance policy is taken at a face-to-face meeting, the applicant at or before the time of application shall be given the Policy Overview. Where the application for a life insurance policy is taken by means other than in a face-to-face meeting, the applicant shall be sent the Policy Overview not later than five business days after the receipt of the application. The Policy Overview is a summary of the high level features and terms of the policy. Insurers should endeavor to limit the length of the Policy Overview to the minimum length necessary to reasonably inform consumers of

the information required to be included in the Policy Overview. The Policy Overview is not required to be in a specific format beyond the requirements of this Section. The Policy Overview must be prepared in language and in a format that would be understood by a typical person within the segment of the public to which the policy is directed. A sample Policy Overview that meets the requirements of this Section is provided in Appendix A. A Policy Overview shall include the following topics with appropriate headings:

- (b) An introductory section containing the following language: “This document lists this insurance policy’s key features and benefits. You can get a similar summary of key policy features from other insurance companies to help you compare similar policies. If you have questions about life insurance generally or other types of policies, the National Association of Insurance Commissioners has useful information at <https://content.naic.org/consumer/life-insurance.htm/>. If you have questions about this particular life insurance policy, ask the agent, broker, advisor, or a company representative. If you have questions about company or agent licensing, contact [insert reference to state department of insurance];”
- (c) “Company [and Agent] Information” which shall contain The name, address, email address and phone contact information of the insurance company and insurance agent, if an agent is involved.
- (c) “Information We Use to Determine Your Premium” which shall include the following information about the policy owner and insured, as applicable:
- (i.) A brief description of the data elements that the insurer collects from the applicant and other sources that are used to determine an applicant’s premium;
 - (ii.) A brief description of the policy features that will affect the amount of premium such as the amount of the death benefit and optional riders;
 - (iii) How risk class is assessed to generate the quote;
- (d) “Cost Information” which shall include the following information, as applicable:
- (i) An explanation of how much the life insurance policy is estimated to cost at the time of application, including the estimated premium and an explanation of the differences in cost based on premium mode selected;
 - (ii) A summary of the available options for funding the policy and the minimum funding needed to maintain the policy in force;
 - (iii) An of whether the premium can vary and, if so, how the premium will be determined;
 - (iv) An explanation of any costs associated with cancelling the policy (i.e. surrender charges) and, if yes, the period of time the charges apply or, if no, whether any money is eligible to be returned;
 - ~~(iv) A yes or no indication of whether there is an option to lower benefits to reduce premium;~~
 - (v) If applicable, a narrative description of fees other than premium;
 - (vi) If applicable, a narrative explanation of the cost of insurance fee, how the cost of insurance fee changes with age, a narrative explanation of the net amount of risk

to which the fee will apply, and the maximum allowable cost of insurance fee allowed under the policy

- (d) “Policy Information” which shall include the following information, as applicable:
- (i) Policy type (Including single or joint policy);
 - (ii) Policy name;
 - (iii) State of issue;
 - (iv) An indication of whether the policy is term or permanent life insurance, and if it is term insurance, the length of the initial term, including whether and how the term may be extended;
 - (v) A general description of what the policyholder needs to do to obtain the policy
 - (vi) The following statement: “In the course of considering an insured’s application, an insurer may request or collect health information about the insured in variety of ways.” The statement shall indicate whether a physical examination or questionnaire will be required;
 - (vii) Death benefit that is available or the death benefit as applied for;
 - (vi) A yes or no indication of whether the death benefit can change, and if yes, a summary of the reasons and timing for a changes in the death benefit;
 - (viii) Policy loan options and applicable charges.;
- (f) “Additional Policy Benefits” which shall include the following information, as applicable:
- (ii) A yes or no indication of whether a waiver of premium or deductions option is available, and if yes, a summary of the options available;
 - (ii) A yes or no indication of whether policy conversion options exist and, if yes, a summary of conversion options available;
 - (iii) A yes or no indication of the availability of optional riders and, if yes, a summary of how the insured may obtain additional information regarding the availability and costs of optional riders;
 - (iv) A yes or no indication of any living benefit option(s), and if yes, a summary of the option(s);
 - (v) A yes or no indication of whether the policy can accumulate cash value, and if yes, a summary of the benefit;
 - (vi) A yes or no indication of whether there are guaranteed interest rates on fixed accounts and, if yes, the amount of the guaranteed interest rate;
 - (vii) A yes or no indication of whether there are indexed account options and if yes, a summary of how the insured may obtain additional information regarding indexed account options.

- (3) The insurer shall provide a Guaranteed Premium and Benefits Patterns Summary to prospective purchasers where the insurer identified the policy form as one that will not be marketed with an illustration. Delivery of the Guaranteed Premium and Benefits Patterns Summary shall be consistent with the time for delivery of the Buyer's Guide as specified in Paragraph (1). The Guaranteed Premium and Benefits Pattern Summary shall show guarantees only and include all required information set out in a manner that does not minimize or render any portion of the summary obscure. Any amounts that remain level for two (2) or more years of the policy may be represented by a single number if it is clearly indicated what amounts are applicable for each policy year. Amounts shall be listed in total, not on a per thousand or per unit basis. If more than one insured is covered under one policy or rider, death benefits shall be displayed separately for each insured or for each class of insureds if death benefits do not differ within the class. Zero amounts shall be displayed as a blank space. The following amounts, where applicable, for the first five (5) policy years and representative policy years thereafter sufficient to clearly illustrate the premium and benefit patterns; including at least one age from sixty (60) through sixty-five (65) and policy maturity:

- (a) The annual premium for the basic policy;
- (b) The annual premium for each optional rider;
- (c) The amount payable upon death at the beginning of the policy year regardless of the cause of death, other than suicide or other specifically enumerated exclusions, that is provided by the basic policy and each optional rider; with benefits provided under the basic policy and each rider shown separately;
- (d) The total guaranteed cash surrender values at the end of the year with values shown separately for the basic policy and each rider;
- (e) Any endowment amounts payable under the policy that are not included under cash surrender values above;
- (f) The effective policy loan annual percentage interest rate, if the policy contains this provision, specifying whether this rate is applied in advance or in arrears. If the policy loan interest rate is adjustable, the Guaranteed Premium and Benefits Patterns Summary shall also indicate that the annual percentage rate will be determined by the company in accordance with the provisions of the policy and the applicable law.

B. Requirements Applicable to Existing Policies.

- (1) Upon request by the policyowner, the insurer shall furnish either policy data or an in force illustration as follows:
- (a) For policies issued prior to the effective date of [insert state equivalent to Life Insurance Illustrations Model Regulation], the insurer shall furnish policy data, or, at its option, an in force illustration meeting the requirements of [insert state equivalent to Life Insurance Illustrations Model Regulation].
 - (b) For policies issued after the effective date of the illustration regulation that were declared not to be used with an illustration, the insurer shall furnish policy data, limited to guaranteed values, if it has chosen not to furnish an in force illustration meeting the requirements of the regulation.
 - (c) If the policy was issued after the effective date of the illustration regulation and declared to be used with an illustration, an in force illustration shall be provided.

- (d) Unless otherwise requested, the policy data shall be provided for twenty (20) consecutive years beginning with the previous policy anniversary. The statement of policy data shall include nonguaranteed elements according to the current scale, the amount of outstanding policy loans, and the current policy loan interest rate. Policy values shown shall be based on the current application of nonguaranteed elements in effect at the time of the request. The insurer may charge a reasonable fee, not to exceed \$[insert amount], for the preparation of the statement.

- (2) If a life insurance company changes its method of determining scales of nonguaranteed elements on existing policies; it shall, no later than when the first payment is made on the new basis, advise each affected policy owner residing in this state of this change and of its implication on affected policies. This requirement shall not apply to policies for which the amount payable upon death under the basic policy as of the date when advice would otherwise be required does not exceed \$5,000.

- (3) If the insurer makes a material revision in the terms and conditions under which it will limit its right to change any nonguaranteed factor; it shall, no later than the first policy anniversary following the revision, advise each affected policy owner residing in this state.

Section 6. Preneed Funeral Contracts or Prearrangements

The following information shall be adequately disclosed at the time an application is made, prior to accepting the applicant's initial premium or deposit; for a preneed funeral contract or prearrangement that is funded or to be funded by a life insurance policy:

- A. The fact that a life insurance policy is involved or being used to fund a prearrangement;

- B. The nature of the relationship among the soliciting agent or agents, the provider of the funeral or cemetery merchandise or services, the administrator and any other person;

- C. The relationship of the life insurance policy to the funding of the prearrangement and the nature and existence of any guarantees relating to the prearrangement;

- D. The impact on the prearrangement:
 - (1) Of any changes in the life insurance policy including but not limited to, changes in the assignment, beneficiary designation or use of the proceeds;
 - (2) Of any penalties to be incurred by the policyholder as a result of failure to make premium payments;
 - (3) Of any penalties to be incurred or monies to be received as a result of cancellation or surrender of the life insurance policy;

- E. A list of the merchandise and services which are applied or contracted for in the prearrangement and all relevant information concerning the price of the funeral services, including an indication that the purchase price is either guaranteed at the time of purchase or to be determined at the time of need;

- F. All relevant information concerning what occurs and whether any entitlements or obligations arise if there is a difference between the proceeds of the life insurance policy and the amount actually needed to fund the prearrangement;

- G. Any penalties or restrictions, including but not limited to geographic restrictions or the inability of the provider to perform, on the delivery of merchandise, services or the prearrangement guarantee; and

Drafting Note: States should consider whether the insurance regulator has the authority to enforce the provisions of Subsections E, F and G.

- H. If so, the fact that a sales commission or other form of compensation is being paid and the identity of the individuals or entities to whom it is paid.

Section 7. General Rules

- A. Each insurer shall maintain, at its home office or principal office, a complete file containing one copy of each document authorized and used by the insurer pursuant to this regulation. The file shall contain one copy of each authorized form for a period of three (3) years following the date of its last authorized use unless otherwise provided by this regulation.
- B. An agent shall inform the prospective purchaser, prior to commencing a life insurance sales presentation, that he or she is acting as a life insurance agent and inform the prospective purchaser of the full name of the insurance company which the agent is representing to the buyer. In sales situations in which an agent is not involved, the insurer shall identify its full name.
- C. An insurance producer shall not use terms such as “financial planner,” “investment advisor,” “financial consultant,” or “financial counseling” in such a way as to imply that he or she is primarily engaged in an advisory business in which compensation is unrelated to sales unless that is actually the case. This provision is not intended to preclude persons who hold some form of formal recognized financial planning or consultant designation from using this designation even when they are only selling insurance. This provision also is not intended to preclude persons who are members of a recognized trade or professional association having such terms as part of its name from citing membership, providing that a person citing membership, if authorized only to sell insurance products, shall disclose that fact. This provision does not permit persons to charge an additional fee for services that are customarily associated with the solicitation, negotiation or servicing of policies.
- D. Any reference to nonguaranteed elements shall include a statement that the item is not guaranteed and is based on the company’s current scale of nonguaranteed elements (use appropriate special term such as “current dividend” or “current rate” scale.) If a nonguaranteed element would be reduced by the existence of a policy loan, a statement to that effect shall be included in any reference to nonguaranteed elements. A presentation or depiction of a policy issued after the effective date of the [insert citation to state equivalent to Life Insurance Illustrations Model Regulation] that includes nonguaranteed elements over a period of years shall be governed by that regulation.

Section 8. Failure to Comply

Failure of an insurer to provide or deliver a Buyer’s Guide, an in force illustration, a policy summary or policy data as provided in Section 5 shall constitute an omission that misrepresents the benefits, advantages, conditions or terms of an insurance policy.

Section 9. Separability

If any provisions of this rule be held invalid, the remainder shall not be affected.

Section 10. Effective Date

This rule shall become effective [insert a date at least 6 months following adoption by the regulatory authority].

Attachment C

Term Life Sample (post UW)

ABC Insurance Co. Guaranteed Level Term

This document lists this insurance policy's key features and benefits. You can get a similar summary of key policy features from other insurance companies to help you compare similar policies. If you have questions about life insurance generally or other types of policies, the National Association of Insurance Commissioners has useful information at <https://content.naic.org/consumer/life-insurance.htm/>. If you have questions about this particular life insurance policy, ask the agent, broker, advisor, or a company representative. If you have questions about company or agent licensing, contact [insert reference to state department of insurance].

Company and Agent Information

ABC Insurance Company, 111 Half Street, Washington, DC
email@email.com
202-111-222

Prepared by Agent Joe Smith, 111 Main St., Kansas City, MO
email@email.com
816-111-222

Information We Use to Determine Your Premium

Policy Owner and Insured

This overview is prepared for John Smith for insurance on the life of John Smith.

Information We Obtain From You

Age
Sex
Family History
Tobacco Use
Occupation
Hobbies

Information We Obtain From Other Sources

Credit Reports
Motor Vehicle Registration
Auto, Home and other Insurance Claims
Driving Records
Medical Prescriptions
Criminal History

Policy Features that will Affect the Premium

Amount of the Death Benefit
Optional Riders

How We Assess Your Risk

We have X rate levels for (smokers/non smokers). John Smith's premium will be based on the Y best of the X levels.

Cost Information

What Does this Life Insurance Policy Cost?

The premium is \$AAA annually or \$BBB quarterly or \$CCC monthly. You may pay the premium monthly, quarterly or semi-annually or annually. If you pay premiums monthly, quarterly or semi-annually the total premium you pay will be more than if you pay annually.

Will my premium ever change?

The premium will stay the same for the initial term of the policy. After that term ends, the premium will increase each year if you chose to renew the policy.

Are there any costs if I decide to cancel the policy? Do I get any money back if I cancel the policy?

No, there are no costs to cancel this policy. However, if you do cancel this policy, you won't get any money back.

Policy Information

What is the name of this policy?

This is a policy to be issued in Wisconsin called Guaranteed Level Term.

Does the policy ever end? If so, what is the term of the policy

Yes. The policy ends when the term you choose (20 years) ends but you can choose to renew this policy each year until you are age 95. The premium will increase each year you renew the policy.

What is the death benefit?

The death benefit is \$500,000.

Can the death benefit change?

No, the death benefit will stay the same unless you ask, and the company agrees to increase it.

Can I take a loan from my policy?

No. You can't borrow money from this policy.

Additional Policy Benefits

Does the policy have a waiver of premium option?

Yes, you can buy a waiver of premium rider for an extra cost. A waiver of premium rider for this policy means you won't have to pay premiums after you've been totally disabled for at least 4 months.

Can I convert this policy to another type of life insurance?

Yes, you can convert this policy to a whole life insurance policy before the policy term ends, as long as you're younger than age 70.

Are there other policy enhancements or optional riders available for this policy?

Yes, there are other policy enhancements – know as riders. Ask the agent, broker, advisor, or a company representative offering this product about them.

Is there a policy option that allows me to access my death benefit while I'm alive?

Yes, for additional premium, you can get part of your death benefit before you die if you are terminally ill.

Does this policy accumulate cash value?

No. This policy provides no cash benefits other than the death benefit.

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Attachment D

Term Life Sample (at application)

ABC Insurance Co. Guaranteed Level Term

This document lists this insurance policy's key features and benefits. You can get a similar summary of key policy features from other insurance companies to help you compare similar policies. If you have questions about life insurance generally or other types of policies, the National Association of Insurance Commissioners has useful information at <https://content.naic.org/consumer/life-insurance.htm/>. If you have questions about this particular life insurance policy, ask the agent, broker, advisor, or a company representative. If you have questions about company or agent licensing, contact [insert reference to state department of insurance].

Company and Agent Information

ABC Insurance Company, 111 Half Street, Washington, DC
email@email.com
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Prepared by Agent Joe Smith, 111 Main St., Kansas City, MO
email@email.com
816-111-222

Information We Use to Determine Your Premium

Policy Owner and Insured

This overview is prepared for John Smith for insurance on the life of John Smith.

Information We Obtain From You

Age
Sex
Family History
Tobacco Use
Occupation
Hobbies

Information We Obtain From Other Sources

Credit Reports
Motor Vehicle Registration
Auto, Home and other Insurance Claims
Driving Records
Medical Prescriptions
Criminal History

Policy Features that will Affect the Premium

Amount of the Death Benefit
Optional Riders

How We Assess Your Risk

We have X rate levels for (smokers/non smokers). John Smith's premium will be based on the Y best of the X levels.

Cost Information

What Does this Life Insurance Policy Cost?

The premium is \$AAA annually or \$BBB quarterly or \$CCC monthly. You may pay the premium monthly, quarterly or semi-annually or annually. If you pay premiums monthly, quarterly or semi-annually the total premium you pay will be more than if you pay annually.

Will my premium ever change?

The premium will stay the same for the initial term of the policy. After that term ends, the premium will increase each year if you chose to renew the policy.

Are there any costs if I decide to cancel the policy? Do I get any money back if I cancel the policy?

No, there are no costs to cancel this policy. However, if you do cancel this policy, you won't get any money back.

Policy Information

What is the name of this policy?

This is a policy to be issued in Wisconsin called Guaranteed Level Term.

Does the policy ever end? If so, what is the term of the policy?

Yes. The policy ends when the term you choose (20 years) ends, but you can choose to renew this policy each year until you are age 95.

Can I extend the term of coverage?

Yes. After the initial term ends, you can renew this policy until you are age 95. The premium will increase each year you renew the policy.

What is the death benefit?

You have selected a death benefit of \$500,000 to generate this quote. You may select a death benefit between \$250,000 and \$2 million subject to underwriting approval.

Can I take a loan from my policy?

No. You can't borrow money from this policy.

What do I need to do to buy this policy?

You'll need to fill out an application. You also must go through an underwriting process. Underwriters review your application and decide if you're eligible to buy this policy, and, if you are, what your premium would be and how much coverage you could buy.

In the course of considering your application, an insurer may request or collect health information about you in a variety of ways. You might be approved to buy a policy without any information about your health. If you aren't, you may still be eligible for this policy, but you'll be required to fill out a health questionnaire and undergo a physical examination.

Additional Policy Benefits

Does the policy have a waiver of premium option?

Yes, you can buy a waiver of premium rider for an extra cost. A waiver of premium rider for this policy means that you won't have to pay premiums after you've been totally disabled for at least 4 months.

Can I convert this policy to another type of life insurance?

Yes, you can convert this policy to a whole life insurance policy before the policy term ends, as long as you're younger than age 70.

Are there other policy enhancements or optional riders available for this policy?

Yes, there are other policy enhancements – known as riders. agent, broker, advisor or a company representative offering this product about them.

Is there a policy option that allows me to access my death benefit while I'm alive?

Yes, for additional premium, you can get part of your death benefit before you die if you are terminally ill.

Does this policy accumulate cash value?

No. This policy provides no cash benefits other than the death benefit.

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Comments of the Center or Economic Justice

To the NAIC Life Insurance and Annuities (A) Committee

December 9, 2021

2022 Charges

CEJ writes to request the Life (A) Committee add a charge for 2022 and retain and modify a proposed charge for 2022.

New Charge

The **Life Insurance and Annuity Illustrations (A) Working Group** will review the NAIC Life Insurance Disclosure, Life Insurance Illustration, Annuity Disclosure and Advertisement of Life Insurance and Annuity models and develop the key content and principles for illustrating the operation of the insurance policy or contract, including:

- Ensure consistency between the Life Insurance Disclosure and Life Insurance Illustration models and advise if the models should be combined;
- Ensure consistency between the Life Insurance Illustration and Annuity Disclosure Model for approaches to illustration of indexed products;
- Develop key content and principles for illustrations to improve consumer protection and consumer comprehension of products; and
- Identify major consumer protection concerns with life insurance and annuity advertising;

Revised Charge

The **Life Insurance Policy Overview (A) Working Group** will:

Develop a policy overview document to replace the policy summary in the Life Insurance Disclosure Model Regulation to provide a comparative shopping tool for consumers that briefly identifies the key features of the life insurance product, including consideration of design, format and methods of delivery to and access by consumers consistent with the purposes of the model regulation. Report to the Committee by the 2022 Spring National Meeting.

Discussion

Life Insurance Policy Overview Working Group

We propose renaming the current Life Illustrations Working Group and revising the charge to more accurately describe the working group's actual mandate and activities. The work product of the group – the policy overview – is unrelated to illustrations.

This working group needs specific support from the A Committee regarding timing of delivery of the new policy overview, as well as the buyer's guide. We have discussed this in separate comments to the A Committee regarding the LIIWG Chair's recent report to the Committee.

New Life Insurance and Annuity Illustration Working Group

CEJ requests and cannot over-emphasize the urgency of the NAIC addressing the sorry state of life insurance and annuity illustrations and the related harm to consumers. Current NAIC model regulations regarding life insurance and annuity illustrations and advertising permit – and in some cases, require – misleading, confusing and/or deceptive information be provided to consumers in the form of illustrations. A recent article in the *life Annuity Specialist* highlights concerns with annuity illustrations by industry participants who assist insurers in the sale of annuities.¹ At the December 8, 2021 Life Actuarial Task Force meeting, the chair of the IUL subgroup reported on new/ongoing problems with IUL illustrations.

While the work of the current LIIWG is excellent – the summary overview of key product features could help consumers – the working group is not addressing any of the problems with illustrations. Further, the Annuity Disclosure working group – which had been working to address the consumer protection issues associated with custom indexes with no historical experience – was disbanded earlier this year by the Committee.

As predicted, the last revision to the indexed universal life illustration actuarial guideline (AG49-A) was promptly gamed by insurers with new product designs to evade the intent of the AG and continue to present unrealistic and deceptive illustrated policy accumulations.

These efforts have been thwarted not just by industry opposition, but by the too-narrow charges to tweak existing models that are fundamentally flawed and which take diametrically-opposed approaches to illustrations for life insurance and annuities.

One major problem is that the approaches to illustrations for life insurance and annuities – particularly for indexed products – are radically inconsistent even for products that operate in a similar fashion. Annuity illustrations requirements don't cap crediting rates, so insurers turn to bespoke indexes created by investment banks by data-mining historical experience to falsely present potential future earnings.

¹ “Aggressive Annuity Illustrations Should be Reined In, Critics Say,” *Life Annuity Specialist*, November 19, 2021.

But, the annuity illustration at least requires a best and worst ten year scenario in an effort to get at sequence of return risk. And for FIAs, the use of bespoke indices has created huge conflicts of interest because the providers of the indexes (investment banks) may also be providing the hedging programs to the insurer licensing the index.

In contrast, IUL illustrations cap the crediting rate, so indexes other than the S&P are rare, but AG 49 has encouraged the type of products that game the provisions of AG 49. AG 49 was created to stop the use of unrealistic crediting rates that produced unrealistic accumulation values. But, insurers turned to new product features – multipliers and bonuses – with the result that despite lower crediting rates and significantly higher expenses, accumulation values have increased in comparison to pre-AG 49 products. The insurers have taken a product that purports to eliminate downside risk and added that very downside risk with asset charges. And insurers have now gamed AG49-A with the use of data-minded volatility control indexes and crediting strategies that generate unrealistic illustrated crediting rates. And that practice has spread to indexed annuities.

In addition, IUL illustrations also differ from indexed annuity illustrations because of the absence in the IUL illustration requirements of any disclosure of sequence of return risk. IUL illustrations show monotonic returns every year – with the result that loans, which can be illustrated at a lower cost than the crediting rate, are illustrated as cash withdrawals that cost the policyholder nothing. One result of IUL product designs and illustrations is that a significant portion – perhaps the majority – of IUL sales is premium-financed.

The state of illustrations today is far worse than in 2015 (see discussion below) and the NAIC models create diametrically-opposed approaches for illustration of indexed life insurance and indexed annuities despite the fact that the indexed products have more similarities than differences for purposes of illustration.

Finally, advances in understanding of consumer biases regarding financial services products and of design of consumer disclosures to empower consumers requires a thorough review of the current illustration regime. In support of this last point, we attach a very recent joint report by the financial service regulators in Australia and the Netherlands,

Life Insurance Policy Overview Working Group

The history of the Life Insurance Illustrations Working is relevant for understanding both why the current LIIWG needs a new name and better charge and why a new Life Insurance and Annuity Illustration Working Group with a broad charge is needed. The current LIIWG was created in 2015 to address concerns with illustrations, but the charge was limited to avoid a broader look at problems with illustrations. The minutes of November 2015 Life Insurance and Annuities (A) Committee state:

Commissioner Gerhart explained that the American Academy of Actuaries (Academy) wrote a letter suggesting expansion of the Working Group’s charge to include a review of the *Life Insurance Buyer’s Guide* (Buyer’s Guide). He said the American Council of Life Insurers (ACLI) followed up with a letter stating that it did not oppose the addition, but pointed out that the Committee itself already has an existing charge to revise the Buyer’s Guide, and the addition of this task to the Working Group might slow down its ability to accomplish the current charge.

Birny Birnbaum (Center for Economic Justice—CEJ) said that although Model #582 may be uniformly adopted by the states, that does not mean it translates into uniform illustrations provided to consumers. He said one reason for this is that Model #582 is out-of-date and does not reflect new product designs. It also does not reflect consumers’ use of technology to access information. Mr. Birnbaum also reminded the Committee of the illustration issues that resulted in the development of *Actuarial Guideline XLIX—The Application of the Life Insurance Illustrations Model Regulation to Policies with Index-Based Interest* (AG 49) and broader issues with illustrations. He also expressed support for the Committee revising the *Life Insurance Buyer’s Guide*.

Mr. Regalbuto expressed support for opening Model #582 to look at issues related to AG 49. Mr. Robleto asked if appointing a new working group to look at the narrative summary provision in Model #582 and the policy summary provision in Model #580 addressed the Committee’s commitment to level the playing field among insurers. Commissioner McPeak said addressing that issue is still in progress.

The new working group did solicit and review examples of then-current narrative summaries and policy summaries in 2016. The examples submitted by the ACLI showed wildly different formats, lengths and content of the documents across insurers and even across the same category of products. The industry practice was shown to be a document that combined the requirements of the policy summary and narrative summary of the two models without distinction – industry was unable to identify a specific policy summary document.

The working group decided that the best approach would be to create a new, simpler document – called the Policy Overview – to replace the policy summary to fulfill the charge of the working group. The working group presented this approach to the parent Life (A) Committee at the August 27, 2016 Committee meeting and received the Committee’s support.

Although the working group has not completed its charge, significant progress and key insights have been made. First, the policy summary (of the disclosure model) and the narrative summary (of the illustrations model) serve different purposes. The policy summary (to be replaced by the policy overview) describes key features of the life insurance product. The narrative summary explains the illustration.

Second, the life insurance disclosure model includes a “mini-illustration” for products not marketed with an illustration. The model states,

“The insurer shall provide a policy summary to prospective purchasers where the insurer has identified the policy form as one that will not be marketed with an illustration. The policy summary shall show guarantees only. It shall consist of a separate document with all required information set out in a manner that does not minimize or render any portion of the summary obscure.”

The working group recognized that this portion of the policy summary should be split out from the key feature portion of the policy summary into two documents – the new policy overview and a statement of guaranteed premium and benefits.

Third, based on the recognition of the interaction between the illustrations and the disclosure model, the group affirmed that the policy overview would be provided with all life insurance products, whether marketed with an illustration or not – a decision consistent with the purpose of the disclosures model whose application is not limited to products not marketed with an illustration.

Fourth, the timing of delivery of the policy summary (now overview) and buyer’s guide in the disclosure model is inconsistent with the purpose of the model. The purpose of the model is

To require insurers to deliver to purchasers of life insurance information that will improve the buyer’s ability to select the most appropriate plan of life insurance for the buyer’s needs and improve the buyer’s understanding of the basic features of the policy that has been purchased or is under consideration.

Yet, the delivery of the policy overview – now designed to provide a brief summary of the key features of the product – and the buyer’s guide is not required prior to the purchase in the model. Consequently, key information designed to help a consumer shop for life insurance is not delivered until after the policy has been purchased. While there may have been some justification for this approach when the policy summary included information available only after the policy was issued or in a period in which document delivery was only by paper, those reasons are no longer valid and clearly undermine the purpose of the model and the disclosures.

While the Life Illustrations Working Group has been diligent, despite repeated efforts by the ACLI to derail the working group with false claims of “exceeding the working group’s charges,” two key issues limit the working group’s efforts and need to be resolved. The first issue is the timing of delivery of the policy overview and the buyer’s guide. Industry is adamant that there should be no change from the current requirement that permits delivery only after the policy is purchased. If this delivery provision remains, the purpose of the model, the policy overview and the buyer’s guide are undermined. Second, the disclosures model and the illustrations model are intimately related because certain disclosures are required if a product is not marketed with an illustration, certain disclosures are required if a product is marketed with an illustration and certain disclosures are required regardless of whether the product is marketed with an illustration. Consequently, there is a need to take a holistic look at the two models for consistency and efficiency and we suggest that this be one of the charges for the proposed new Life Insurance and Annuity Illustration Working Group.

Aggressive Annuity Illustrations Should Be Reined In, Critics Say

By Warren S. Hersch November 19, 2021

As sales of fixed-indexed annuities rebound from a dismal 2020, a concern has surfaced over what might be helping to drive those gains.

Some observers worry that annuity illustrations of future performance, similar to those used for their indexed universal life insurance counterparts, have become too rosy.

Regulations governing the product segment are badly in need of an overhaul, critics say. Some of the problems they share with indexed universal life, such as the fact that historical returns are used for proprietary indexes for periods when the strategies didn't actually exist. But differences in supportability tests make oversight of annuities more challenging than for indexed universal life products.



Bobby Samuelson, a product analyst

"To the extent that you have overly aggressive illustrations or very high returns on the illustrations, and people are misconstruing them as projections, then that's going to be a problem," said **Bobby Samuelson**, editor of *The Life Product Review*.

For example, he cited annuities on the market that have a skinny 2% budget to buy the options that support their potential to earn interest, but that illustrate rates of return greater than 8% over a 10-year period. The "option budget"

refers to funds that can be dedicated to purchasing derivatives such as calls and puts.

Products purportedly in the pipeline, he noted, promise to generate double-digit returns.

Wink CEO Sheryl Moore observes that the average fixed annuity rate is a mere 1.71%, while variable annuities are illustrating at less than 8% net. She said in an email that to illustrate a fixed product that has a floor at a rate higher than a variable annuity is "inconceivable."



Wink CEO Sheryl Moore

Samuelson said another key issue is using “back-tested” returns for proprietary indexes to forecast future performance. Many of the strategies are recently created and so using a historical period to illustrate a product’s potential returns doesn’t make sense, according to Samuelson.

Stan Haithcock, an independent agent who markets himself as “Stan The Annuity Man,” said if annuity issuers continue to push product illustrations too aggressively, they face the prospect of litigation.

“We need to solve this problem as an industry,” he said. “It’s not good for the consumer.”

Fixed-indexed annuities, he added, were developed in 1995 to compete with certificates of deposit, not other equity market products. Yet too many insurance agents without securities licenses are marketing them as such.

Wink’s Moore also flags as a problem third-party tools that insurers aren’t overseeing and that illustrate returns that can be 14% on indexed annuities.



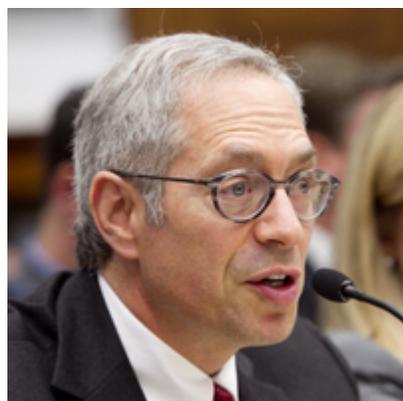
Stan Haithcock, an independent agent who markets himself as “Stan The Annuity Man”

Annuity Group Disbanded

Birny Birnbaum, executive director of the **Center for Economic Justice**, said in an email that his organization has shared concerns about “complex and misleading” annuity illustrations with regulators at the **National Association of Insurance Commissioners** since 2015.

The NAIC’s actuarial guideline 49-A, a framework intended to bring illustrated rates of return for indexed universal life products into alignment with actuarial performance, has no counterpart for fixed-indexed annuities. The guideline aims to eliminate deceptive illustrations where products with bonus and multiplier features are shown with higher accumulation values despite having higher expenses and lower crediting rates.

Birnbaum said an NAIC life insurance and annuities committee earlier this year disbanded an annuity disclosure working group that had been formed, and that was examining annuity



Birny Birnbaum, an executive director at the Center for Economic Justice

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illustrations, notably the use of custom indexes that underpin inflated crediting rates and accumulation values.

He said a problem is opposition from the industry and a lack of interest within the NAIC's leadership.

"Segments of the industry have opposed changes to illustration regulation because they gain competitive advantage from gaming the lax oversight," he said.

The NAIC couldn't be reached for comment. Top-selling carriers in the product segment, including **Allianz Life**, **Athene Holding**, **F&G**, **Global Atlantic** and **Sammons Financial** also couldn't be reached for comment.

The failure to rein in unrealistic illustrations, deceptive sales practices, custom indexes and conflicts of interest continues to put consumers' retirement security in peril and creates dangers for financial stability, he noted.

"Developing an illustration regime that can't be gamed levels the playing field and would reward the good players who want to be straight with consumers," he said. "The current illustration regime rewards bad players and forces good players to choose between adopting bad practices or losing market share."

Illustrating a Range



Tamiko Toland, director of retirement markets at Cannex

she said.

Tamiko Toland, director of retirement markets at **Cannex**, said the NAIC's annuity disclosure model regulation calls for illustrating best, worst and most recent index value growth over 10 years. But it doesn't convey what the policyholders' expectations should be for the index's performance.

Not all states have adopted the model regulation but most insurers use it as a default, she said.

Capping illustrated rates though doesn't make sense, she said. What does is providing different metrics for showing a realistic range of index returns for a given index.

"Consumers should get a sense of the range of outcomes,"

She added that product illustrations also don't do a good job of conveying the importance of the length of the term over which gains are credited, which is an important metric for understanding expectations for product yield. This is particularly the case for long terms, such as five years, she noted.

She cautioned that coming up with the right formula for illustrating indexed annuities—one that satisfies both the interests of carriers and consumers—could prove challenging. What would benefit indexed annuity buyers, she noted, is supplemental material to educate them about how the products work.

"That's not necessarily the pure focus of the illustration disclosure, but it would be nice if we moved in that direction," she said.

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Comments of the Center or Economic Justice

To the NAIC Life Insurance and Annuities (A) Committee

December 9, 2021

Comments on Life Illustrations WG Chair's Report and Recommendations

The Center for Economic Justice submits these comments to the NAIC Life (A) Committee on the Life Insurance Illustrations Working Group Chair's Report and recommendations. We urge the A Committee to retain and revise the charge and to rename the working group:

The **Life Insurance Policy Overview (A) Working Group** will:

Develop a policy overview document to replace the policy summary in the Life Insurance Disclosure Model Regulation to provide a comparative shopping tool for consumers that briefly identifies the key features of the life insurance product, including consideration of design, format and methods of delivery to and access by consumers consistent with the purposes of the model regulation. Report to the Committee by the 2022 Spring National Meeting.

In addition to our analysis, below, we agree with the comments offered by Brenda Cude and also pledge to continue our participation to complete the policy overview work.

Flawed Recommendations

1. The Chair's description of the two models – Life Insurance Disclosure and Life Insurance Illustrations – highlights that “under the two model regulations, a policyholder will always receive some form of summary disclosure.” While accurate, this statement should not be taken on its own or out of context, as the next section of the Chair's report describes some the problems the working group identified with these disclosures.

The decision to pursue a policy overview summary document was in response to the poor disclosures that were and are being produced in purported compliance with the models. The working group, early on, requested samples of the summary narrative and policy summary documents provided to consumers and learned that insurers could not distinguish which documents were summary narratives and which were policy summaries. The review of sample documents also revealed massive variation in the length and presentation and ease of use by consumers of the summary documents *for the same type of products*. It was clear that these documents – the policy summary and narrative summary – were not fulfilling the purposes of the Life Insurance Disclosure model.

2. It is unclear how the Chair can conclude that “consensus” is not possible or even what “consensus” means. The conclusion about consensus is particularly puzzling given that the A Committee has yet to hold any meaningful discussion of the issues. Further, the working group met so infrequently that it was impossible to maintain any continuity, let alone consensus. Yet, the working group has a nearly-finished product to be considered by the A Committee. In terms of what constitutes “consensus,” it has become clear that, after originally supporting the effort, industry now opposes any change to current industry sales and disclosure practices. Giving industry a veto over any consumer protection initiative at the NAIC is not a reasonable strategy for building consensus among regulators.
3. It's unclear why consensus cannot be reached on the policy overview and timing of delivery. Are there any insurance regulators who believe, in 2021, that insurers should not be required to provide consumers with a buyer's guide and standardized summary of key product features **prior** to purchase? Are there any regulators who oppose utilizing the new knowledge and best practices about effective consumer disclosure developed over the past 20 years? Other than industry opposition to change, what is holding up consensus? Given industry's expanding use of digital tools for marketing, underwriting and sales, it defies credulity for industry to argue any inability to deliver a useful and usable consumer disclosure at the relevant time.
4. The Chair argues that states wishing to pursue a timelier, consumer-friendly policy overview, the states can look to the unfinished work products of the working group. This is the same misplaced argument used in the decision to disband the Annuity Disclosure Working Group earlier this year.

Simply stated, it makes no sense to suggest a state should use an unfinished working group work product opposed by industry and without the acknowledgement or endorsement of the NAIC. Is the NAIC now creating a new type of work product in addition to model laws and model guidelines – the unfinished and unapproved draft – as guidance to the states?

The purpose of model laws, regulations and guidelines is to promote greater uniformity in regulation across states. The Chair's suggestion is an invitation to just the opposite – disparate practices across the states. Given that most life insurance products are filed with the IIPRC and given that the summary overview could be required for inclusion in the filing, there is tremendous opportunity for consistence and uniformity across the states for a policy overview document.

5. The proposal to abandon this modest improvement in life insurance disclosures continues a distressing trend where anything related to life insurance sales practices opposed by industry is abandoned due to lack of consensus, while consumer support by consumer stakeholders is ignored. Recent examples include

- Annuity Suitability -- no conflict of interest for cash and non-cash compensation, overly broad safe harbor -- supported by industry, opposed by consumers, adopted by the NAIC.
- Annuity Suitability -- apply suitability / best interest standard of care to investment type life insurance as well as annuities -- opposed by industry, supported by consumers, rejected by NAIC.
- Annuity Disclosure -- use "long-term average" interest rate assumptions for participating annuity illustrations -- supported by industry, opposed by consumers, adopted by the NAIC.
- Annuity Disclosure -- crack down on data-mined indexes for annuity illustrations -- opposed by industry, supported by consumers, abandoned by NAIC.
- IUL Illustrations -- Unworkable provisions in AG49-A predicted to fail to rein in unrealistic illustrations -- supported by industry, opposed by consumers and independent experts, adopted by the NAIC.
- Re-engineer and Harmonize Key Concepts for Life and Annuity Illustrations -- address a variety of misleading and deceptive practices and inconsistencies between life and annuity illustration requirements -- supported by consumers, opposed by industry, rejected by NAIC in 2019, 2020 and 2021.

With the demise of the policy overview effort, the Life A Committee will have no engagement or activities to address the problems with complex life insurance and annuity illustrations and disclosures. Beyond failing to address a key consumer protection issue, the NAIC will be inviting federal agency or Congressional action to address these problems.

Thank you for your consideration.

TO: NAIC Life Insurance and Annuities (A) Committee

Brenda J. Cude

RE: Life Insurance Illustrations Issues (A) Working Group Chair Report

DATE: December 2, 2021

I am writing to make a few brief comments regarding the Chair Report concerning the Life Insurance Illustrations Issues (A) Working Group. I have been actively involved in the work of this Working Group and have great respect for the time invested thus far.

I will keep my comments brief, focusing on what I think is most significant.

1. In the Report, the Chair argues that "it is not possible to determine whether the Policy Overview will aid consumers without it being used in the marketplace." An obvious alternative is to develop a completed Policy Overview and test that document with consumers to determine its usability and value to consumers. As someone with considerable expertise and experience in communicating with consumers, I am fairly confident in stating that a well-crafted Policy Overview designed to help consumers understand their policy would be valued more than a life insurance policy, which is primarily written to protect the insurance company's interests.
2. The Chair argues that the states' "strengths as laboratories for policy change should be utilized" to develop a summary disclosure. While many states have been laboratories for changes in policies related to insurance, it is fairly uncommon for states to develop well-crafted disclosures such as the contemplated Policy Overview.
3. The Chair argues that adoption of a Policy Overview does not seem to be supported by a sufficient number of NAIC members. However, this seems to be based on only six states, which we would argue is an insufficient number upon which to base the argument.
4. The Chair suggests that states can use the sample templates the Working Group developed if they choose. However, to me the sample templates seem unfinished and not ready for use by states. At a minimum, there should be an explanation of the purpose of the templates and drafting notes to indicate where the information should be specific to the policy.

In summary, I ask the Life Insurance and Annuities Committee to continue the work to develop a Life Insurance Policy Overview and I pledge to continue to support that work.