Draft: 7/28/26

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

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

1. Adopted the 2027 *Valuation Manual* Amendments

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

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

Commissioner White made a motion, seconded by Director French, to adopt the 2027 *Valuation Manual* amendments except for APF 2025-11 (VM-22) (*see NAIC Proceedings – Summer 2026, Executive and Plenary Committee, Attachment X*). The motion passed unanimously.

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

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

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

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

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

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

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

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

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

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

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

1. Heard a Presentation on the Degradation of the DMF

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

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

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

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

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

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

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

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

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

2. <u>Heard the Presentation “Indexed Universal Life (IUL) and Premium Financing: It’s Not Free Life Insurance”</u>

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

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

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

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

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

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

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

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

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

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

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

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Life Insurance and Annuities (A) Committee
San Diego, California
March 23, 2026

The Life Insurance and Annuities (A) Committee met in San Diego, CA, March 23, 2026. The following Committee members participated: Doug Ommen, Chair, Russell Gibson, and Johanna Nagel (IA); Anita G. Fox, Vice Chair (MI); Mark Fowler (AL); Holly W. Lambert represented by Scott Shover (IN); Grace Arnold and Ben Slutsker (MN); Susan Ochs (NJ); Kaitlin Asrow represented by William B. Carmello (NY); Judith L. French (OH); TK Keen (OR); Carter Lawrence (TN); Amanda Crawford represented by Rachel Hemphill (TX); Scott A. White (VA); and Nathan Houdek and Lauren Van Buren (WI). Also participating were: Ann Gillespie (IL); and Matthew Gendron (RI).

1. Adopted its 2025 Fall National Meeting Minutes

Director Fox made a motion, seconded by Director French, to adopt the Committee's Dec. 9, 2025, minutes (*see NAIC Proceedings – Fall 2025, Life Insurance and Annuities (A) Committee*). The motion passed unanimously.

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

   A. Life Actuarial (A) Task Fore

Hemphill said the Life Actuarial (A) Task Force March 21–22 and shared some highlights from its meeting. The Task Force continued to discuss the potential retrospective application of *Valuation Manual* (VM)-22: Requirements for Principle-Based Reserves for Non-Variable Annuities. It exposed a framework developed by the American Council of Life Insurers (ACLI) for a 90-day public comment period. In this framework, the pre-PBR requirements would continue to be the default valuation requirements, but companies could elect to move existing business to PBR with notification and adequate support provided to the domestic regulator. The domestic regulator, potentially with support from the Valuation Analysis (E) Working Group, would then have the option to disapprove the proposal if it is not adequately supported. Further discussion is expected to focus on the timeline and format of supporting analysis and review.

Hemphill said the Task Force also discussed the potential application of VM-22 to guaranteed investment contracts (GICs), synthetic GICS, funding agreements, and stable value contracts, and exposed questions on this item for a 75-day public comment period.

The Task Force exposed amendment proposal form (APF) 2026-01, which would revise the VM-22 reinvestment guardrail for pension risk transfer (PRT) products, including allowing an additional 50 basis points (bps) illiquidity spread, and a corresponding principles document from the American Academy of Actuaries (Academy), for a 45-day public comment period. This proposal would also allow a 50 bps additional illiquidity spread over prescribed spreads and defaults for the company reinvestment strategy. There was a discussion of whether this illiquidity spread should only be applied when the company can provide support for the actual illiquidity premium the company has experienced on its existing assets and anticipates receiving in the future on similar assets, or whether it should apply to all PRT products for simplicity. The Task Force plans to seek input from the Life Insurance and Annuities (A) Committee on this item in the future.

The Task Force discussed enhancements made to the scenario analysis and statistics reporting for the NAIC's prescribed Generator of Economic Scenarios (GOES). The Task Force also adopted changes to the VM, including:
1) updating the reinvestment guardrail for all PBR frameworks, VM-20: Requirements for Principle-Based Reserves for Life Products, VM-21: Requirements for Principle-Based Reserves for Variable Annuities, and VM-22, to be less

restrictive; and 2) updating VM-20 to reflect the benefit of aggregation, or risk diversification, in the stochastic reserve calculation.

The Task Force also formed a nonforfeiture drafting group to prospectively clarify the calculation of the initial expense allowance and amortization for universal life and variable universal life products.

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

Van Buren explained that the Annuity Buyer's Guide (A) Working Group has a charge to "Review and revise the *NAIC Buyer's Guides for Deferred Annuities* in light of changes in the marketplace." In the years since the buyer's guide was adopted, much has changed in the marketplace that is not reflected in the current guide, including registered index-linked annuities (RILAs), multi-year guaranteed annuities (MYGAs), as well as the best interest standard in the *Suitability in Annuity Transactions Model Regulation* (#275).

A chair draft buyer's guide was exposed for a 30-day public comment period ending April 16. The Working Group plans to meet April 20 to discuss comments received.

C. Annuity Suitability (A) Working Group

Nagel said that this year, the Annuity Suitability (A) Working Group plans to undertake three projects to further the Committee's 2026 priorities. The Working Group plans to work with the NAIC Education and Training team to develop annuity training with specialized modules for attorneys, investigators, and examiners. Preliminary discussions have taken place to explore in-person training options for attorneys and examiners. At the Working Group's March 11 meeting, Nagel asked regulators with annuity exam experience to reach out to Jolie Matthews (NAIC) if interested in helping develop the training.

The Working Group is drafting a paper on annuity suitability compliance best practices, based in part on observed practices. This paper will identify potential ways to enhance minimum practices and identify areas of compliance challenges or confusion. A draft framework of a paper was distributed prior to the Working Group's March 11 meeting. The Working Group is seeking feedback regarding best practices or procedures implemented by insurers to fulfill their supervisory responsibilities, as well as insights into any compliance challenges or areas of uncertainty. In response to requests for additional time to provide feedback, the deadline was extended to May 11.

The Working Group plans to continue its efforts to put state insurance department administrative law decisions in a searchable format. Efforts to engage with legal databases, such as Westlaw and Lexis, as well as other vendors, such as CUBE, are ongoing. The largest obstacles seem to be cost and access for all the different parties.

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

Slutsker explained that the Life Insurance and Annuities Illustrations (A) Working Group has a charge to: "Evaluate concepts for improving life insurance and annuity illustrations and disclosures and consider revisions to relevant NAIC models or develop other guidance where feasible and appropriate." The Working Group held its first open meeting Feb. 24 and discussed annuity disclosures. The Working Group focused on whether consumers are shown information that helps them form reasonable expectations when purchasing an annuity. During the meeting, regulators shared observations on disclosures for the top 25 market leaders in the annuity space, which led to a robust discussion among interested parties and regulators regarding the potential sources driving regulator concerns.

The Working Group exposed a question asking for ideas for both long-term and short-term solutions to address annuity illustrated returns, including back-casting, for a 30-day comment period. The Working Group plans to meet March 31 to discuss comments received.

Commissioner White made a motion, seconded by Director Fox, to adopt the following reports: Life Actuarial (A) Task Force; Annuity Buyer's Guide (A) Working Group; Annuity Suitability (A) Working Group, including its March 11 minutes (Attachment One); and Life Insurance and Annuities Illustrations (A) Working Group, including its Feb. 24 minutes (Attachment Two). The motion passed unanimously.

3. Heard a Presentation on Annuity Illustrations

Commissioner Ommen explained that the purpose of the presentation is to explain the disclosures used to help consumers understand indexed annuities during the sales process. This is critically important because it helps consumers understand what they are buying and set expectations of how their financial savings can grow in the future. This has large implications for retirement planning, so expectations must be set appropriately.

Gibson explained that an annuity is an insurance contract designed to provide income for a specified period of time or a duration of life for one or multiple people. Often, it is a vehicle to save or accumulate funds for retirement. It is similar to other investment products, although annuities are insurance products in which a premium is paid in exchange for the company providing interest.

Gibson described what he calls the "Dubai chocolate problem" with annuity illustrations. Many indexed annuities have "exotic" indices that look fancy and sweet, like a Dubai chocolate bar. In the end, however, it is just a basic chocolate bar. Similarly, an agent may propose an indexed annuity as a solution to an unstable market, providing decent returns without any negative returns. As part of the sales process, an agent will show potential returns using an illustration (i.e., a projection of future values) to help explain the product and how it works. An annuity, in terms of risk, is positioned somewhere between a certificate of deposit and a stock. However, some indexed annuities are illustrated at rates that outperform the Standard & Poor's 500 index (S&P 500).

Gibson said that the average length of an illustration is 21 pages, which includes a lot of fine print and is too much for a consumer to understand. There are multiple numerical charts and graphs that are difficult to follow. When an agent shows an illustration on a screen, there is even less time to digest complicated material or understand what they are looking at.

Gibson spoke about proprietary indices, which do not have an established history. Companies create a history using back-casting, which can be manipulated to hide volatility and project high returns. Slutsker identified several features of an illustration projected on screen. The illustration is complex and contains many numbers. During a sales presentation, the agent will highlight a few numbers to show how much is invested and how much could be withdrawn after 10 years. The particular illustration showed returns at over 18%. Another illustration showed three scenarios: a good scenario with returns at 24% annual return, a bad scenario showing a 13% annual return (which is still a good return), and a middle scenario showing an 18% return. Slutsker said that when he looked at illustrations for the top 25 carriers, returns this high were quite common. He said that proprietary indices are the way to illustrate returns that high. The index was created just a couple of years ago, but the illustration shows projections as if it existed for the previous 10 years. The illustrations take advantage of knowing how the market played out and back-engineering the index to end up with a high number.

Gibson mentioned additional challenges with these proprietary indices. The rates shown at the initial sale are often "teaser rates," and the company changes the rates after year one or 2 two, and the interest ends up being less than what was shown on the illustration. In addition, the illustrated returns do not account for fees. Another area of confusion is the large number of indices from which a customer may choose initially, and may have the option to change indices yearly or every other year. Consumers often rely on a producer to guide their initial decision and never revisit their choices.

Gibson encouraged regulators to take action. He said that based on his experience, he encourages departments of insurance (DOIs) to monitor consumer complaints. In his position as Consumer Advocacy Officer, he reviews complaints about producers and their representation at the time of sale, looking at illustrations from the time of sale and interviewing agents. Gibson also mentioned the *Annuity Disclosure Model Regulation* (#245). In states that have adopted the most recent version of Model #245, insurers are prohibited from illustrating indices that have been in existence for less than 10 years.

Slutsker explained that the Life Insurance and Annuities Illustrations (A) Working Group is looking at how to best address the issues that he and Gibson have presented. During its Feb. 24 meeting, the following chair question was exposed for a 30-day comment period to solicit feedback and ideas from Working Group members, interested regulators, and interested parties:

> Regulators have observed index annuity disclosures that suggest annual returns can range from 10% to 25% for several years. This has brought up potential concerns around whether consumers are receiving reasonable expectations regarding future performance upon purchasing an annuity. What are both short-term and long-term approaches to ensure consumers receive reasonable expectations for index annuity returns at the point-of-sale?
>
> - Please keep any comments at a high-level regarding potential direction for the Working Group and types of proposals, rather than providing specific proposals themselves.
> - In addition, please feel free to include any comments related to disclosures around newly developed indices and any other elements related to the concerns described above.

The Working Group plans to meet March 30 to discuss comments received. At this point, the Working Group has not made any decisions about how to proceed, whether it will use Model #245 as a starting point or some other guidance to limit some of the very high returns that may not be playing out the way that they were originally shown to the consumer.

Slutsker made the important point that he is not suggesting that annuities are bad products, per se. He said indexed annuities can provide tremendous value. However, it is critical to ensure that consumers who invest their retirement savings in an indexed annuity are getting information that supports realistic expectations for future returns.

Commissioner White said he believes that addressing this issue is the right thing to do. He said he was struck by the complexity of the illustrations shown in the presentation and asked if there is a reason why the illustrations are so complex. He asked whether insurers might say that regulators require the inclusion of certain information so consumers are informed, or if there is some other reason driving this level of complexity. He also wondered if this was an issue where one company illustrates a certain way, so other companies feel like they have to as well. He also asked whether there are examples of insurers with understandable illustrations.

Slutsker said that there was some evidence that once one company started illustrating high returns, other companies followed. It becomes difficult to stay competitive when companies are increasingly illustrating very high returns, although he has spoken to companies that cannot get comfortable illustrating such high returns. Slutsker stated that, in terms of the complexity of the illustrations, the illustrations he reviewed are all complex. The primary reason for this is that the products themselves are complex. Explaining how these annuities work is the purpose of the illustration.

Slutsker said that Model #245 includes some requirements for what must be shown in an illustration, but only 10 states have adopted the most recent version of that model. He said that regulations do not require complexity. He said that illustrations that are easy to understand and educate the consumer will require the collective efforts of insurers, distributors, consumers, and regulators.

Commissioner Ommen asked whether the producer, who has a responsibility to ensure that a product recommendation is in the best interest of a consumer, is also obligated to have some understanding of the options he is proposing. Nagel said that the producer needs to know all the features of the product, which includes understanding the illustration and explaining how it works to the consumer.

4. Discussed the Market Data and Scanning Priority

Director Fox explained that NAIC leadership has included a market data and scanning priority for the Life Insurance and Annuities (A) Committee this year. The Committee has been asked to collaborate with the Market Regulation and Consumer Affairs (D) Committee to collect and analyze data on insurer compliance with sales and marketing requirements for life insurance and annuities, including exploring how technology can be employed to monitor advertising and the independent marketing organizations (IMOs) to identify marketing outliers.

The Life Insurance and Annuities Illustrations (A) Working Group, chaired by Slutsker, is focused on technical issues and is looking to identify some solutions. The complaint process that regulators rely on to identify problems tends to be retrospective, and that leaves a hole. There are unidentified issues in the market because there is no system to detect them prospectively. The goal is to address the issues that Commissioner White raised: What do illustrations look like? How are illustrations impacting consumers? What are the regulatory requirements? How much of what is going on is the result of market competition?

Director Fox said that, right now, regulators do not have a system that effectively monitors whether annuities are performing as well as projected in illustrations. Another disconnect exists between what is being sold, what the consumer believes they are buying, and what the consumer actually buys. There are consumer education materials, such as the buyer's guide being drafted, but whether these efforts are effective is something that needs to be examined. There may be a way to ensure that annuity purchasers understand the features and characteristics of the contracts they purchase, even when they are complex.

The NAIC collects retrospective data and uses it in its market conduct efforts, like the Market Conduct Annual Statement (MCAS). Tim Mullen (NAIC) gave an overview of the current system for assessing the annuity market and monitoring insurer behavior. The MCAS is an annual data collection that captures summary market conduct information reported by individual insurance companies. For annuities, MCAS data is reported across four product categories: individual indexed fixed annuities, individual other fixed annuities, individual indexed variable annuities, and individual other variable annuities.

Mullen said a key focus of the annuity MCAS is replacement activity. Companies report the number of contract replacements. Then, to provide insight into the replacement patterns, the data is further stratified by the age of the annuitant at the time of replacement—under 65, 65 to 80, and over 80. The MCAS also captures data related to deferred annuity contracts issued, using the same product segmentation as replacement activity to support consistent analysis. In addition, the annuity MCAS collects information on contract surrenders. Surrenders are categorized by the time elapsed since policy issuance, including early-duration surrenders as well as longer-term contracts.

Mullen said the data collection also includes free-look activity. Companies report the number of policies returned under a free-look provision during the reporting period, regardless of when the policy was originally issued, and even if the consumer ultimately purchased a different policy. The MCAS also captures the number of consumer complaints received by a company, as well as the number of lawsuits open and closed during the reporting period.

From a process standpoint, annuity MCAS data is collected annually, with an April 30 filing deadline. After filing, the data is subject to a 60-day data quality review conducted by the states, with NAIC staff assisting in outreach to companies to resolve anomalies or inconsistencies. The MCAS data is reported to the state under its examination authority and is state-owned. A large segment of the marketplace reports data; however, there is a time lag of almost a year.

Mullen explained some additional NAIC resources that aid states in their market regulation efforts. In terms of other NAIC data, the NAIC's complaint database allows states to code closed complaints related to misleading advertising, misrepresentation, suitability, and high-pressure sales tactics for individual annuities. There is currently no complaint code specific to illustrations. New coding is being implemented in the NAIC's Regulatory Information Retrieval System (RIRS) that will include a specific illustration-related code. This code will capture adjudicated regulatory actions involving illustrations that are inadequate, untimely, not provided, or otherwise misleading. In addition, the NAIC's *Market Regulation Handbook* provides examination guidance tied to existing regulatory standards, including the *Advertisements of Life Insurance and Annuities Model Regulation* (#570), the *Life Insurance Illustrations Model Regulation* (#582), and *Actuarial Guideline XLIX-A—The Application of the Life Illustrations Model Regulation to Policies With Index-Based Interest Sold on or After December 14, 2020* (AG 49-A).

Mullen confirmed that there is no data collected on illustrations, individual agent/broker activity, or intermediaries. Commissioner Ommen observed that all the data collected is on risk-bearing entities and is backward-looking. He said that tracking replacements and complaints is valuable information, and there does not seem to be any information about illustrations. These are all issues that must be addressed while investigating how annuities are marketed to consumers. Director Fox asked whether there has been any analysis of how often the data collected in the MCAS leads to regulatory action. Mullen said that the Market Actions (D) Working Group conducted an analysis of private passenger auto (PPA) that reached conclusions similar to some of the concerns that have been raised about the retroactive nature of the information and analysis. Mullen said the MCAS seeks to identify areas that might warrant further scrutiny.

Director Fox explained that the next logical step is to consider ways that regulators can be more proactive. The market data and scanning priority should complement the important technical work that has been and is being done by the Life Insurance and Annuities Illustrations (A) Working Group and the Annuity Buyer's Guide (A) Working Group, with a focus on how consumers perceive and use illustrations. This issue is important to regulators and industry because misunderstood illustrations can lead to misaligned expectations and dissatisfaction later. Even when technically compliant, results may not reflect the typical consumer experience. This creates a consumer understanding and trust issue, and not just a compliance issue.

Director Fox said that the issue is that some consumers rely heavily on illustrations but may interpret them as predictions rather than scenarios. Current approaches run the risk of overweighting recent strong markets, creating unrealistic expectations. Complexity makes it difficult for even sophisticated buyers to understand what drives outcomes. Director Fox compared this to credit card notices that hold you accountable for fine print terms.

Director Fox said she would like to request feedback from interested parties to begin exploring a proactive technology-based approach. There are tools being developed using artificial intelligence (AI) and other technologies that could be used to improve market regulation, related to advertising, marketing, and sales, for the benefit of consumers. Fox wondered whether there are ways technology can support more proactive market surveillance over retrospective enforcement. Some examples include tools to evaluate and compare projected accumulations in an annuity illustration at the time of sale with subsequent actual performance.

Director Fox asked whether there are tools to identify which annuity significantly failed to meet projections and requires an updated illustration. She also asked whether there are tools that could be used to monitor IMOs' compensation to identify any incentives that may be at odds with a consumer's best interest. She asked whether there are ways to monitor what consumers are actually seeing. Illustrations are not collected, and there may be hundreds with varying scenarios. Director Fox asked whether there may be a way to aggregate findings to provide early feedback to industry to encourage course correction in real time. She said that there are difficult issues that will require a great deal of collaboration to tackle.

Jennifer Cook (NAIC) will post an exposure question along these lines on the Life Insurance and Annuities (A) Committee's web page for a comment period ending April 30.

5. Heard an Update on the SOA and CIPR Underwriting Project on the Use of Criminal History in Life Insurance

Commissioner Ommen said that an update on the Society of Actuaries (SOA)/Center for Insurance Policy and Research (CIPR) study on the use of criminal history in life insurance underwriting was included in the materials (Attachment Three). He said that any questions about the materials or the project in general may be directed to Kelly Edmiston (NAIC) or to Cook.

6. Discussed Other Matters

Commissioner Ommen said that on March 17, the U.S. District Court for the Northern District of Texas issued a final judgment in the case of *American Council of Life Insurers (ACLI) v. Department of Labor (DOL)*, vacating the DOL's 2024 Retirement Security Rule. On March 20, the DOL officially removed the 2024 rule from the Code of Federal Regulations and reinstated the original five-part test to determine fiduciary status under the Employee Retirement Income Security Act of 1974 (ERISA).

Commissioner Ommen said that NAIC consumer representative Dick Weber (Life Insurance Consumer Advocacy Center—LICAC) will give two presentations to the Committee at an upcoming meeting: 1) "Indexed Universal Life and Premium Financing: It's Not Free Life Insurance"; and 2) "Unclaimed Life Insurance Benefit Recovery Should be Expanded Nationally to Overcome the Degradation of the Death Master File (DMF)."

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

SharePoint/NAIC Support Staff Hub/Member Meetings/A Cmte/2026 Spring National Meeting/A_CMTE_SpNM_Minutes_FINAL

Virtual Meetings

LIFE INSURANCE AND ANNUITIES ILLUSTRATIONS (A) WORKING GROUP
August 4, 2026 / April 20, 2026

Summary Report

The Annuities Buyer's Guide (A) Working Group met Aug. 4 and April 20. During its meetings, the Working Group:

1. During its April 20 meeting, the Working Group reviewed comments on the March 16 draft of the revised Buyer's guide received by the April 16 comment deadline.

2. During its Aug. 4 meeting the Working Group reviewed revisions made to the Aug. 2 draft Buyer's Guide based on the comments received on the March 16 draft.

3. Agreed to expose the Aug. 3 draft revised *Annuity Buyer's Guide* for a 45-day public comment period ending September 18. A meeting to discuss comments received has been scheduled for September 24.

Draft: 5/27/26

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Discussed its Next Steps

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

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

Virtual Meetings

LIFE INSURANCE AND ANNUITIES ILLUSTRATIONS (A) WORKING GROUP
August 6, 2026 / July 30, 2026 / June 2, 2026 / May 27, 2026 / March 31, 2026

Summary Report

The Life Insurance and Annuities (A) Working Group met Aug. 6, July 30, June 2, May 27, and March 31. During these meetings, the Working Group:

1. Issued three separate exposures of questions designed to reach consensus on how best to address issues identified within annuity illustrations. Each exposure had a separate a public comment period and all feedback received was reviewed and discussed.

2. Discussed and agreed that revisions to the *Annuity Disclosure Model Regulation* (#245) would be an appropriate vehicle for addressing the issues the Working Group identified. During its July 13 meeting, the Life Insurance and Annuities (A) Committee approved an NAIC Request for Model Law Development to revise Model #245.

3. Discussed ideas for revising Model #245 with respect to illustration length, disclosures, accountability, and illustrated rates of return. The Working Group plans to meet Aug. 17 and Aug. 25 to continue discussions of potential revisions and a potential stopgap approach while a revised Model #245 is adopted in the states.

Draft: 7/14/26

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

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

1. Reviewed its May 27 Meeting

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

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

2. Discussed Potential Modifications to Model #245

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

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

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

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

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

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

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

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

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

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

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

3. Discussed Stopgap Measures

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

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

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

4. Discussed Next Steps and Exposure Questions

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

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

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

Draft: 6/16/26

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

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

1. Discussed Feedback Received on Second Exposure Question

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

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

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

The Working Group discussed the comments that were received.

A. Academy

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

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

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

B. <u>ACLI</u>

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

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

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

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

C. <u>CAI</u>

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

D. Cannex

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

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

E. IRI

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

F. LICAC

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

G. Scott Stolz

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Draft: 4/23/26

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

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

1. Discussed Feedback Received on Exposure Question

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

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

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

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

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

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

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

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

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

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

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

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

Birnbaum highlighted several issues raised in his letter:

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

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

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

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

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

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

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

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

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

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

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

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

Jim Szostek (American Council of Life Insurers—ACLI) summarized the comment letter submitted by the joint trades (ACLI, the Committee of Annuity Insurers—CAI, and the Insured Retirement Institute—IRI). Model #245 is intended to help consumers make informed decisions about annuities, but the model has not been widely adopted by the states. The current focus on elements of Model #245 by both the Annuity Buyer's Guide (A) Working Group and this Working Group provides an opportune time for regulators to pursue broader adoption of the Model. Such adoption would be an efficient pathway to address concerns about annuity illustrations and to create more consistency across states. As part of that effort, the Working Group could explore whether Model #245 is performing as originally expected and whether it does in fact address the concerns raised by the Working Group in the states that have adopted the Model. In connection with that review, the joint trades letter recommends conducting consumer focus group testing to better understand the information consumers want related to indexed annuities and the value of the existing illustration and disclosure framework. Any future work should be grounded in an understanding of how the current framework is, or is not, meeting the needs of regulators and consumers in states that have adopted the Model and states that have not adopted the Model.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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