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April 30, 2018

Mr. Richard Wicka
Chair, Life Insurance Illustration Issues (A) Working Group
National Association of Insurance Commissioners
Via Email: Jennifer Cook (JCook@naic.org)

Dear Mr. Wicka,

The Life Illustrations Work Group of the American Academy of Actuaries¹ would like to thank the NAIC Life Insurance Illustration Issues Working Group for its work in helping consumers achieve better understanding of illustrations provided on life insurance products.

While we understand the concern regarding the length of some current illustrations, the information is needed in order to present a complete document that shows how all the elements of a policy interact. Showing components in isolation without understanding how they work and react together will not help consumers compare different products, may be misleading, and may inhibit better buying decisions. The information displayed on the proposed cover document seems redundant with the information within the illustration. We have concerns about the content and length of information requested, which will be difficult to display in the desired “no more than two pages”.

In reviewing the draft changes to Model #582, the Academy would like to provide the following comments for consideration:

1. We have concerns that this summary will be used as a stand-alone comparison tool and may lead readers to disregard the full illustration, rather than enhance readers’ understanding. Also, the summary by itself is not a complete illustration as required by Model #582. Showing selected nonguaranteed elements for more than one year in this summary may lead consumers to think it is a complete illustration.
2. Please clarify if the requested rates and values are based upon the illustrated scale, the currently payable scale, the disciplined current scale, or the guaranteed scale. For example, under Section B.1.e.1, are the accumulated values guaranteed, nonguaranteed, or both across the products? In addition, we noticed that Accumulated Cash Value is listed under whole life, but please note that term insurance (especially return of premium term) can have cash values as well.
3. Section B.1.f.2—It would likely be misleading if only Cost of Insurance charges were shown instead of looking at all the charges in a policy. Please clarify what level of

¹ The American Academy of Actuaries is a 19,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

disclosure of cost of insurance (COI) fees are required. Is this intended to be a table of COI rates per \$1,000 of net amount at risk, a table of COI dollar amounts charged within one of the illustration bases, or a high level, non-numerical description of what a COI is and a caution that it can change? If COI numerical values are to be displayed (as either rates or dollar amounts), we have the following concerns:

- a. COIs viewed in isolation can be misleading. COIs for one company may include provisions for mortality only, while COIs for another company may include provisions for mortality, expenses, or other loads. Also, the way COIs are calculated and assessed against policies may be different, so the impact of different COIs may not be clear in a list of values. While two policies may have the same COI rates, the ultimate amount deducted from the cash value can differ because of many factors, including interest, other charges, premium funding, etc.
 - b. COIs are not the only amounts needed to keep a policy in force or that can change over time. Other expense charges and credits need to be accounted for in order to understand what amounts are needed to keep the policy in force.
 - c. Comparing two scales of COIs will not give a clear picture of which policy is a better value or will more appropriately serve the consumer's needs. One COI scale may start lower and increase more rapidly over time or be more levelized. These scales would be difficult to compare in the absence of reviewing the complete illustration because the pattern of COIs and the time value of money are not understood by only looking at the COIs.
4. Section B.1.d.4—Please clarify the level of detail needed for costs of riders. Some companies have many riders available. Rider premiums/monthly charges are often not a level amount for all years. The combination of all riders and all costs, as well as COIs, will greatly increase the length of the summary. For example, a proposed insured age 30 could end up with 90 rates per coverage when rates vary by attained age. A company with four riders on a universal life policy would have to show 450 (90x5) values. If there are current and guarantee rates to be shown, this again increases the number of rates displayed and the length of the summary.
 5. The list of elements included in a policy does not seem to be complete. Charges other than COIs are not explicitly shown (per unit, percent of premium, per policy, etc.).
 6. Please clarify that the summary will only be required for the basic illustration and not required for any supplemental illustrations.
 7. Section B.1.e.4—Waiver of premium is available for term products, and not just whole life. Universal life may have waiver of premium and waiver of monthly deductions. Calling out waiver of premium seems redundant with B.1.d.4 covering all available riders and costs.

If the intent of this summary is to be kept relatively short per B.1 and to be of no more than two pages in length, it could be structured more as a guide to the illustration than as a stand-alone comparison tool. Such a guide could help the consumer find information already available in the complete illustration and explain what it means and why it matters. Any information not already in the illustration, such as the possible description of the physical exam required, would however stay in the summary document.

The Academy's Life Illustrations Work Group appreciates the efforts of the NAIC Life Insurance Illustration Working Group to address issues related to Model 582. If you have any questions or would like further dialogue on the above topics, please contact Ian Trepanier (trepanier@actuary.org), Life Policy Analyst at the Academy.

Thank you for your consideration.

Donna Megregian, MAAA, FSA
Chairperson, Life Illustrations Work Group
American Academy of Actuaries