



AMERICAN ACADEMY of ACTUARIES

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June 27, 2019

Mr. Fred Andersen  
Chair, IUL Illustration (A) Subgroup  
National Association of Insurance Commissioners

Dear Mr. Andersen,

The American Academy of Actuaries<sup>1</sup> Life Illustrations Work Group (the Work Group) appreciates the opportunity to provide comments on the menu of options exposed by the IUL Illustration Subgroup regarding the illustrations of Indexed Universal Life (IUL) products under Actuarial Guideline XLIX (AG 49). These comments pertain to options 13 through 16, as requested on the Subgroup's May 28<sup>th</sup> call.

**13. Clarify whether charges can impact assumed earned interest underlying the DCS.**

The Work Group believes that clarification of whether charges impact the assumed earned interest would be beneficial because there are different ways companies may interpret the 145% limitation of Section 5. Some may interpret the 145% as a limit on the total investment return relative to the general account assets, while some might interpret the 145% as a limit on the return on the assets supporting the hedge only. Other interpretations may also apply.

**14. Limit the use of variable/index loans.**

The Work Group has concerns about eliminating demonstrations of product features because doing so would inhibit consumer education. However, if limiting the total amount of illustrated loan leverage is the intent, clarification of that intent may be warranted.

**15. Have consistent treatment of various IUL product types.**

When the risk profiles are similar between two product types, the Work Group supports a framework that applies consistent treatment of those products. For example, if Product A has a cap and multiplier and Product B has a cap and a participation rate, actual interest credits could be the same but illustrated credits may be different under AG 49 because Product A fits the definition of a Benchmark Account and Product B does not.

However, the Work Group would caution against treating all IUL product types the same or applying broad restrictions which may limit the consumer's ability to understand the risks of the product. Not all IUL products have the same risk profiles and may not reasonably be represented if illustrations are limited arbitrarily.

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<sup>1</sup> The American Academy of Actuaries is a 19,500-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.

**16. Application of AG 49 constraints to cash value internal rate of return.**

Any internal rates of return demonstrated on policies is dependent upon all policy charges and credits, which include credited interest rates. Controlling the accumulation within the policy will require controlling other policy charges, which may go beyond the scope of AG 49 and could cause difficulty for illustration actuaries to set reasonable disciplined current scales that align with experience.

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The Work Group appreciates the efforts of the IUL Illustration Subgroup to review AG 49. If you have any questions or would like further dialogue on the above topics, please contact Ian Trepanier, life policy analyst, at [trepanier@actuary.org](mailto:trepanier@actuary.org).

Sincerely,

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