



AMERICAN ACADEMY of ACTUARIES

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May 8, 2020

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

Dear Mr. Andersen,

On behalf of the American Academy of Actuaries¹ Life Illustrations Work Group, I appreciate the opportunity to provide comments to the IUL Illustration (A) Subgroup regarding the illustrations of Indexed Universal Life (IUL) insurance policies under Actuarial Guideline XLIX (AG 49), and the American Council of Life Insurers (ACLI) proposal for AG 49-A exposed April 15, 2020.

We offer the following comments and note certain items that we believe warrant additional clarification as it pertains to AG 49-A as proposed by the ACLI. We have also made some observations related to Section 4 and would like to reserve comments on Section 6 and application to enforce.

Section 3: Definitions

1. 3.A.i.—We believe it is not clear as to what the total annual percentage rate is. We suggest making it clear how to do a “total annual percentage rate” calculation. Also, the definition in 3.A.i. uses “total percentage rate” and “total annual percentage rate” terminology, which leads to a question of the reason for this difference within the definition.
2. 3.B.—We suggest wording changes to last sentence to say “Charges of any kind cannot be used to increase the Annual Net Investment Earnings Rate,” which we believe would help clarify the intent.
3. 3.C.vi.—We suggest wording changes similar to 3.B. above, “Charges of any kind cannot be used to increase the annual cap.”
4. 3.C.vii.—We are unclear on how to do the “in excess of the interest calculation” that is specified in the definition and suggest examples or more wording to provide clarity.
5. 3.C.—We suggest adding clarity on what to do when Benchmark Index Account (BIA) definition is not met. Additional guidance could be to add into Item ix. the definition of Benchmark Index Account (BIA), which states that a hypothetical account needs to be developed using only Annual Net Investment Earning Rate to buy a cap.

¹ 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.

6. 3.D.—We suggest modifying the definition of Fixed Account to be “An account where no amount credited is tied to an index or indices.”
7. 3.E.—We suggest modifying the definition of Index Account to be “An account where some or all of the amount credited are Indexed Credits.”
8. 3.F.—It is unclear in the definition of Indexed Credits how a company addresses the floor: for example, is this an annual floor or a cumulative floor? Also, is there a difference between interest credit vs. credit to the policy? To be consistent with previous language in the draft, using “Amounts credited to the policy” rather than “Credits to the policy...” when including the floor may be clearer.
9. 3.G.—We suggest modifying the second sentence in the definition of Hedge Budget to read “This total annualized amount should be...” to be clearer.
10. 3.I.—We suggest this should be defined as “The current annual interest rate as defined in the policy that is charged...”
11. 3.J.i.—We suggest modifying the first phrase in the definition of Policy Loan Interest Credited Rate to read, “For the portion of the account value in the Fixed Account that is backing the Loan Balance.”
12. 3.J.ii.—We also suggest modifying the first phrase in the definition of Policy Loan Interest Credited Rate to read, “For any portion of the account value in the Indexed Account backing the Loan Balance,”
13. 3.J.ii.—We note that it is difficult to understand the phrase “as defined in the policy” in Option 2 due to sentence structure.
14. 3.K.—We note that Hedge Budget is a defined term and should be capitalized consistently when relying on that definition.

Section 4

15. In general, we note that hypothetical BIAs may be developed more frequently as a result of the changes in AG49-A, which could make the maximum illustrated rate less transparent.
16. 4.D.—We are concerned that Section D is unclear with respect to the requirement to comply with Section 6(c) of Model #582. Noting an illustrated rate may exceed Section 6(c) of Model 582 does not seem to ensure the illustrated rate will be in compliance with the Model. We believe that AG49 should not contradict or override Model #582. We suggest that this section be clarified.

Section 5

17. 5.A.—The provision indicates the assumed interest rate underlying the Disciplined Current Scale (DCS) is inclusive of “All general account assets and hedge assets that support...” Hedge assets should already be included in “all general account assets,” and do not need separate mentioning. We suggest the following “...inclusive of all general account assets, both hedge and non-hedge assets, that support the policy...”
18. 5.A.ii.1.—We believe this should say “Hedge Budget minus any annual floor.”
19. 5.A.ii.—We believe the sentence starting with “The above approach...” should be a guidance or drafting note because it does not provide instruction. Also, we believe the sentence could be made clearer by adding “underlying the disciplined current scale” after “assumed earned interest rate” at the end of the sentence.

20. 5.A.—The NIER abbreviation should be expanded to “Annual Net Investment Earnings Rate.”

Section 6

21. We would like to reserve comment on Section 6 until the Life Actuarial (A) Task Force (LATF) provides guidance on whether the 1% differential between the policy loan interest rate and the policy loan credited rate should or should not limit illustrated non-indexed credits to any policy loan balance. At that time, we will also review the definition of Policy Loan Credited Interest Rate, and Option 1 or Option 2 for completeness, clarity, and harmony with the rest of the draft.

The work group will also hold any comments on the application of the requirements to enforce policies until final revisions are made to AG49.

Drafters of the background section of AG 49 expressed the concern that, prior to AG 49, there was the possibility of confusing potential buyers when “two illustrations that use the same index and crediting method often illustrated different credited rates.” We note that the guidance from LATF and the resulting draft AG 49-A will cause two illustrations that use different indexes and crediting methods to illustrate similar credited rates. This may hinder consumers’ ability to understand the features of the product being considered. Additionally, with the dependence on an assumed Annual Net Investment Earning Rate in the draft AG 49-A, illustrations that use the same index and crediting method could again illustrate different credited rates.

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.

Sincerely,

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