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November 3, 2022

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

Re: IUL Subgroup Exposure for AG49-A Quick Fix Proposals (October 13, 2022)

Dear Mr. Andersen,

The American Academy of Actuaries[1] Life Illustrations Work Group (the "work group") is pleased to provide comments to the IUL Subgroup on the Exposure for AG49-A Quick Fix Proposals from October 13, 2022.

As the work group discussed the exposure, it realized that there are still many questions about regulators' views on certain matters. That being noted, in order to provide useful comments on the exposure, the work group started with the premise that regulators have an objective of ensuring that non-Benchmark Index Account (non-BIA) options should never illustrate policy values significantly more favorably than the BIA (sometimes referred to as a traditional capped S&P 500 indexed account). (Note that this objective goes beyond the requirement that non-BIA options should never have illustrated index credits higher than those of the BIA, because it includes additional credits such as fixed interest bonuses.)

Despite settling on this basic framework for its analysis, the work group found it difficult to characterize the proposals as pros or cons, because the issues are complex and such an evaluation depends on one's perspective. Therefore, the work group instead focused on comparing and contrasting the three proposals, and arrived at the following observations:

- Based on the work group's understanding of the proposals, it believes that the Securian and 6 Companies proposals can both be accomplished with fairly minor changes to AG 49-A, whereas the Coalition proposal as summarized (since no wording changes were provided) will most likely require much more significant changes to AG 49-A, including Section 5 dealing with self-support testing, elimination of the look back, and elimination of the BIA.
- The Securian proposal takes into account the current economic environment, because the level of illustrated option profits is formulaic, while the 6 Companies and Coalition

[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.

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proposals do not, because they specify constant maximum illustrated option profits of 45% or 0% respectively.

- Under the Securian proposal, volatility-controlled indexed accounts (VCIs) and other non-BIA indexed accounts will illustrate the same option profit as a percent of hedge budget as the BIA, whereas the 6 Companies proposal would still allow VCIs and non-BIA indexes to illustrate somewhat more favorably than the BIA in certain economic environments. On the other hand, the extension of the 145% factor to other indexed accounts seems to limit non-BIA returns in a manner which is consistent with the original intent of AG 49-A.
- The 6 Companies and Coalition proposals with 45% or 0% limits on illustrated option profits may lead to more stable illustrated values over long periods of time, if hedge budgets are held constant by insurers (including but not limited to hedge budgets for VCIs). On the other hand, the Securian proposal may lead to illustrations more tied to recent historical experience, since illustrated option profits would allow recent experience to be reflected, consistent with the Model and illustrations for other product lines.
- All of the proposals would limit illustrated option profits to varying degrees, and hence all would address the identified objective for non-BIAs in general, not just for VCIs. On the other hand, changes to the maximum illustrated rate won't, in and of themselves, make illustrations clearer or more understandable.
- In addition to the above comparisons, the work group made the following observations relating solely to the Coalition proposal:
  - The proposal goes beyond the objective of a quick fix for VCIs and would affect illustrations for all indexed products.
  - Depending on the applicability to in force illustrations, this could cause confusion to current IUL policy holders.
  - Depending on the effective date, it could immediately disrupt the compliance process for all indexed products, not only VCIs.
  - This approach could expose proprietary information to a greater extent than the other proposals.
  - The proposal seems to dismiss the concept of a risk premium associated with indexed products as compared to traditional (non-indexed) UL products.
  - If adopted, it may incentivize increases in hedge budgets without offsetting increases in charges (or alternatively may encourage less transparent charge structures) in order to illustrate at a higher rate.

With respect to the Discussion Topic (the concept of whether products and strategies associated with the same hedge budget should illustrate the same), the work group notes that this approach would not address the objective that products with VCIs should not illustrate significantly more favorably than BIAs.

The work group appreciates the efforts of the IUL Subgroup to review Actuarial Guideline 49-A. If you have any questions or would like to discuss the above topics, please contact Amanda Barry-Moilanen, life policy analyst, at barrymoilanen@actuary.org.

Sincerely,

Alicia Carter, MAAA, FSA
Chairperson, Life Illustrations Work Group
American Academy of Actuaries