

# NAIC Illustration Regulation Races Index Product Innovation

April 04, 2019

As index universal life (IUL) and index annuity product innovation sprints ahead, regulators, running to catch up, are considering whether changes are needed to the NAIC's Actuarial Guideline 49 and to its Annuity Disclosure Model Regulation.

Many new index universal life products apply a "multiplier" in computing the index-based interest credits for additional implicit or explicit contract charges. The additional contract charges provide insurers additional funds to support the additional index-based interest credits. Many index annuities include accounts that base index-based interest credits on recently created algorithmic-based indices that include volatility-control features. The algorithmic-based indices may be based on previously existing indices, such as the S&P 500® Index, or on a composite of a variety of indices, a variety of equities within an index, or a variety of asset classes.

Under AG 49, IUL illustrations typically reflect a constant interest rate and do not reflect the actual variability in index-based interest. This variability in index-based interest has a more pronounced impact on IULs with multipliers and may trip up consumer understanding of the potential consequences of the multipliers and the additional charges. AG 49 also caps the index-based interest by limiting the assumed earned interest on the general account assets supporting the IUL, and the AG 49 cap is often below the actual index account caps. This approach was taken instead of including a "hard ceiling" on the interest rate that could be illustrated. To get out of the blocks, the NAIC's Life Actuarial (A) Task Force IUL Illustration Subgroup sought comment on eight questions.

The Annuity Disclosure Model Regulation permits illustration only of index accounts based upon indices that have been in existence for at least 10 years. After a false start in which regulators apparently did not like industry's proposed changes, the Annuity Disclosure Model Working Group is receiving comments on a proposal to allow illustration of index accounts based upon an algorithm-based index if:

- The algorithm-based index is based upon other indices that have been in existence for at least 20 calendar years;
- At least 20 years of history can be constructed; and
- The algorithm is fixed from the creation of the index.

During recent IUL Illustration SG and Annuity Disclosure WG calls, comments were made about the possibility of harmonizing the illustration requirements for IULs and index annuities. The work on index product illustrations looks to be a marathon that is just beginning.

## Authored By



Ann Young Black



Thomas C. Lauerman

## Related Practices

[Financial Services Regulatory](#)

## Related Industries

[Life, Annuity, and Retirement Solutions](#)

[Securities & Investment Companies](#)

©2024 Carlton Fields, P.A. Carlton Fields practices law in California through Carlton Fields, LLP. Carlton Fields publications should not be construed as legal advice on any specific facts or circumstances. The contents are intended for general information and educational purposes only, and should not be relied on as if it were advice about a particular fact situation. The distribution of this publication is not intended to create, and receipt of it does not constitute, an attorney-client relationship with Carlton Fields. This publication may not be quoted or referred to in any other publication or proceeding without the prior written consent of the firm, to be given or withheld at our discretion. To request reprint permission for any of our publications, please use our Contact Us form via the link below. The views set forth herein are the personal views of the author and do not necessarily reflect those of the firm. This site may contain hypertext links to information created and maintained by other entities. Carlton Fields does not control or guarantee the accuracy or completeness of this outside information, nor is the inclusion of a link to be intended as an endorsement of those outside sites.

