

Regulators Hop One Step Forward, Two Steps Back on IUL Illustrations

February 28, 2022

On February 24, 2022, the NAIC Life Actuarial (A) Task Force discussed the comments to its December 9, 2021, exposure draft on whether to address indexed universal life (IUL) illustrations of volatility-controlled index accounts and guaranteed fixed bonuses, and if so, how?

The discussion included feedback regarding the 11 comment letters from the various players, including task force members and consumer representative Birny Birnbaum.

The comment letters and regulators had the following views:

- Several were critical of volatility-controlled or proprietary indexes. They asserted that these indexes were engineered based on historical data and are difficult to explain to consumers. Birnbaum also contended that these indexes often involved a conflict of interest because the index sponsors are also the counterparties to the insurers' hedging transactions.
- Several were critical of the use of backcasting in determining the crediting rate used in the illustrations, and some thought that some of the perceived issues with IUL Illustrations would be solved by skipping backcasting altogether.
- Several asserted that IUL illustrations of volatility-controlled index accounts with fixed bonuses are illustrating rates that are inconsistent with the intent of AG 49-A. At least one claimed that the illustrated rates were as high as the rates illustrated for multiplier products before the adoption of AG 49-A.

- Several commented that the goal of an illustration is to educate consumers on the features of the IUL. With this goal in mind, some of these commentators noted that forcing products with different features to illustrate the same would create consumer confusion as to how different products could have the same resulting values. Views, however, varied on how that goal would be accomplished — could it be accomplished by showing different one-year scenarios to show how the index crediting features would apply to the different scenarios, as suggested by Bill Carmello, versus a complete review of illustrations and disclosures, as suggested by Birnbaum.
- Some provided options for addressing the illustration of volatility-controlled index accounts with fixed bonuses. These included applying the 145% limit on net investment earned rate to these new index accounts, aligning the rate credited to the option spend, and additional disclosure.

Fred Anderson discussed the possible next steps, as follows:

- Making slight tweaks to AG 49-A, which would put governors on the rate that could be illustrated for volatility-controlled index accounts with fixed bonuses.
- Make slight tweaks to AG 49-A, which would cause IULs to be illustrated similarly to ULs.
- Make substantive revisions to life illustration requirements, which would require coordinating with the Life Insurance and Annuities (A) Committee.

Anderson acknowledged that another option could be to implement a short-term solution and then jump with both feet on a longer-term solution with the (A) Committee. After a brief discussion, LATF decided to give the Index Universal Life (IUL) Illustration (A) Subgroup a turn and passed it the marker to review the options and make a recommendation to LATF as to what option should be pursued.

We will continue to watch the IUL hopscotch game and report on how LATF and the IUL Illustration Subgroup progress.

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