



AMERICAN ACADEMY of ACTUARIES

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September 30, 2015

The Honorable Julie Mix McPeak
Chair, Life Insurance and Annuities (A) Committee
National Association of Insurance Commissioners

Dear Commissioner McPeak:

The American Academy of Actuaries'¹ Life Illustrations Work Group appreciates the opportunity to provide comments to the Life Insurance and Annuities (A) Committee regarding possible life insurance policy illustration issues the proposed Illustration Review (A) Working Group could review.

The Life Insurance Illustrations Model Regulation #582 (Model), Actuarial Standard of Practice No. 24 (ASOP 24), and Actuarial Guideline XLIX (AG 49) are focused on consumer comprehension and protection, as well as illustration actuary and responsible officer duties. These themes and related concepts are the key items we would suggest highlighting as the committee considers revising life insurance policy illustration regulations.

Consistency

When appropriate, consistency of treatment and presentation of product features across product types would focus on enhancing consumer understanding. For example, loan leverage, bonuses, and additional scales for comparison purposes are concepts discussed in the recent AG 49 that are features and issues not unique to AG 49 products. We recommend review of these issues.

Four Scales for Indexed Universal Life (IUL) Illustrations

The alternate scale prescribed in AG 49 is similar, but not identical, to the “midpoint” scale prescribed in Section 7(C)(1)(c) of the Model. This similarity (and differences) may cause confusion for consumers, and will require the agent to describe four scales to a consumer looking at an IUL illustration: the illustrated scale, the alternate scale, the guaranteed scale, and the midpoint scale. We recommend review of whether the requirement to show both the alternate scale and the midpoint scale in IUL illustrations risks creating confusion for consumers.

¹ The American Academy of Actuaries is an 18,500+ member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists 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.

Responsibilities and Duties

The Model is clear that the Responsible Officer needs to sign off on the format of the illustration. AG 49 specifies changes to the illustration format. As a result, the responsibilities of the designated Responsible Officer and the responsibilities of the Illustration Actuary are blurred and the result is inconsistent with the separation of duties outlined in the Model.

Illustrations for Inforce Policies

Self- and lapse-support testing is required for a disciplined current scale (DCS) to be shown in inforce illustrations. This requirement may lead some companies to change inforce illustrations to show only guaranteed values or illustrate an inforce policy using a scale of non-guaranteed elements that is less than the policy's currently payable scale.

In some situations, we have seen unintended consequences arise from these inforce testing requirements. Inforce policyholders who are not able to see illustrated values that reflect the currently payable scale may make suboptimal decisions, such as lapsing their policy. We note that the New York illustration regulation (Regulation 74) does not require DCS testing for inforce illustrations and instead requires that inforce illustrations utilize the currently payable scale.

Clarification of Model Section 6(C)

Section 6(C) of the Model states: "If an interest rate used to determine the illustrated non-guaranteed elements is shown, it shall not be greater than the earned interest rate underlying the disciplined current scale." We see value in clarifying this provision as there are many different interpretations that could have a material impact on the illustration.

Illustration vs. Prediction

We note that the choice of the word "illustration" by the Model was intentional, as the purpose of the illustration is to demonstrate policy values into the future assuming continuation of the current nonguaranteed elements and experience factors. The purpose was not to predict policy values at any level of certainty or probability. As changes to illustrations are considered, we urge the committee to continue this approach, including clear disclosure to consumers that the illustration is not a prediction of future policy values or a promise of specific performance.

Life Insurance Buyer's Guide Enhancements

While not part of the Model, we would also like to recommend a simultaneous review of the Life Insurance Buyer's Guide, which was developed in 1995 at the same time the Model was written. A number of new products types, product features, and riders have been developed since that time, and are not mentioned in the Buyer's Guide. For example, the current Buyer's Guide does not mention IUL products, extended no-lapse guarantees, or LTC/critical illness riders. The Buyer's Guide should be updated to reflect current products and features.

In closing, we note that the current Model has been adopted with only minor variation by most states and, while not perfect, has significantly alleviated the market conduct issues that existed prior to its adoption. Changing the Model may risk introducing differences between states that do

not currently exist. In 1995, consistent adoption among the states was an important goal and it is still an important goal today. We suggest that the NAIC give serious consideration to whether changing the Model is essential and whether there are other ways to achieve the desired results.

We appreciate the efforts of the committee to address the issues related to life insurance policy illustrations. If you have any questions or would like to discuss further, please contact Scot Davies, life policy analyst (davies@actuary.org; 202-223-8196).

Sincerely,

Linda Rodway, MAAA, FSA
Chairperson, Life Illustration Work Group
American Academy of Actuaries