



AMERICAN ACADEMY *of* ACTUARIES

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July 2, 2018

Mr. Perry Kupferman
Chief Life Actuary
California Department of Insurance

Dear Perry,

Thank you for your team's time Friday to discuss the concerns the Life Illustrations Work Group of the American Academy of Actuaries have with AB 2634. Per that discussion, the Life Illustrations Work Group of the American Academy of Actuaries,¹ are providing the following points for your consideration.

We understand the proposed legislation is meant to help consumers understand the impact of an adverse change to nonguaranteed elements (NGEs), and support any effort to accomplish this goal. We have identified some technical issues in AB 2634 and provide comments below.

- The proposal under section 10113.70 of the insurance code would require “an in force illustration showing the impact of the values and any required premiums before and after the adverse change in the current scale of non-guaranteed elements.” Under California Chapter 5.5 of the insurance code, companies are not permitted to provide illustrations that are not self-supporting or are lapse-supported. It is possible that a company can change NGEs adversely, and the new scale fails to meet the self-support or lapse-support requirements. In such cases, it is unclear what companies should do when changes to the current scale are unable to meet the requirements of Chapter 5.5 for an illustrated scale to be shown in an inforce illustration.
- AB 2634 Section 10113.70 would require an illustration of a “required premium.” Flexible premium policies do not require a specific premium to be paid providing the policyholder a variety of options to manage the policy. The company may only know the planned premium on record, which may be the only means for the company to know the policyholder's current intentions. We feel required premium needs to be clarified.
- Beyond a required premium, typically when a policyholder requests an illustration, an interest rate is specified by the policyholder, up to a maximum allowed rate. It is not clear what illustrated rates should be used in the illustration required by AB 2634 and how required premium may be tied to it.

¹ The American Academy of Actuaries is a 19,000-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.

- California Chapter 5.5 Section 10509.953 defines three scales: the disciplined current scale, the currently payable scale, and the illustrated scale. AB 2634 would require an inforce illustration when an adverse change is made to the “current scale”. AB 2634 is unclear which scale change is being referred to when using the phrase “current scale.”
- Not all of the options listed in AB 2634 Section 10113.70(c)(7) will always be available on every flexible premium policy. Requiring disclosure of only the options that are applicable to the specific policy would address this concern.

Please let me know if you have any questions or would like to discuss anything further.
Thank you.

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