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April 26, 2019

Mr. Mike Yanacheak
Chair, Annuity Disclosure (A) Working Group
National Association of Insurance Commissioners
via Email: Jennifer Cook (JCook@naic.org)

Re: Proposed changes to the Annuity Disclosure Model Regulation (#245)

Dear Mr. Yanacheak,

On behalf of the Annuity Illustration Work Group of the American Academy of Actuaries,[1] I thank you for the opportunity to provide comments on the March 7, 2019, draft of the Annuity Disclosure Model Regulation (#245).

We would like to provide comments on three areas of the draft: (1) the required index history, (2) the use of the term "index," and (3) the disclosures.

1. Required index history

We note that the draft changes the required index history from 10 years to 20 years, and that a 15-year period has also been discussed on Annuity Disclosure Working Group calls. While a 10-year period may not cover the most recent business cycle, a 20-year period may exclude viable indexes, so we believe 15 years is a reasonable compromise. Although 15 years may cover the most recent business cycle, 10-year periods have sufficiently covered prior business cycles. (Source: https://www.nber.org/cycles.html.)

Regardless of the years of index history required, we believe consistency for all indexes (both combination indexes and plain-vanilla indexes) is appropriate.

2. Use of the term "index"

[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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We note that the current draft uses the term "index" in some situations where prior drafts used the term "component." The use of the term "index" would exclude certain types of common index components such as Exchange Traded Funds. We recommend adding the following language as its own subsection to expand on either the term "index" or the term "component" in section 6F(9)(b):

> *Any index, whether used independently or as part of a combination index, must be a published index or a passively managed investment vehicle that tracks a published index.*

3. Disclosures

Some of the disclosures in 6G(4)(b)(i) and (ii) in the draft overlap, so we recommend for your consideration the following, streamlined disclosure requirements, that represent a combination of (i) and (ii). Please note that we removed the words "hypothetical" and "algorithm" from the disclosures to help aid consumer understanding.

(i) For combination indexes, include the following additional statements:

- I. The index has not been in existence throughout the period used in the illustration, but it is a weighted average of indexes that have been in existence throughout the illustration period;
- II. Some of the illustrated index values are calculations of what the index would have been if it were in existence;
- III. The method used to weight the indexes does not change over time; however, the method may produce different weights in different years;
- IV. Additional explanation of the method used to determine the weights is available to the consumer upon request.

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We hope these comments are helpful. Please contact Ian Trepanier, the Academy's life policy analyst (trepanier@actuary.org), if you have any questions.

Sincerely,
Beth Keith, MAAA, FSA
Chairperson, Annuity Illustration Work Group
American Academy of Actuaries