



AMERICAN ACADEMY *of* ACTUARIES

May 23, 2014

Mike Boerner
Chair, Life Actuarial Task Force
National Association of Insurance Commissioners

Dear Mike:

The American Academy of Actuaries¹ Life Illustrations Work Group (Work Group) appreciates the opportunity to comment on the ACLI's Proposed Actuarial Guideline for Illustrations of Indexed Universal Life (IUL) products. This proposed actuarial guideline prescribes additional guidance for illustration actuaries when setting the maximum non-guaranteed credited interest rate used in illustrations. It also prescribes additional guidance for supplemental illustrations. Existing sources of guidance currently include the various state life illustration and disclosure laws, the NAIC's Life Illustration Model Regulation #582, as well as Actuarial Standard of Practice No. 24.

The Work Group has the following specific comments on the proposed Actuarial Guideline:

1) The guideline does not include a definition of an Indexed Universal Life product. We suggest that the guideline include a scope section including a definition of the product.

The report of the Academy's Equity Indexed Products Task Force that was presented to LHATF in December 1997 also noted that, "The equity index concept can be applied to any life products." In the event non-universal life products are developed, the scope (and the guideline) may require updating.

This scope section should also indicate whether the guidance is intended to apply only to equity index-linked products or to any index-linked product. For example currently some existing UL products reference a Treasury Bill index when determining interest crediting (which acts similar to bond assets held in insurance company general accounts).

2) Many actuarial guidelines begin with the text of the guideline at the beginning, followed by background and explanatory information. To be consistent with this format, we suggest that the text in the guideline should precede the background information.

3) The section of the guideline that defines the limitation on the illustrated crediting rate says : "*(1) average actual index performance in conjunction with illustrated*

¹ The American Academy of Actuaries is an 18,000-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.

index crediting parameters determined over all 25-year contiguous measurement periods ending within the previous calendar year, and....”

The definition of the measurement period and intended methodology as defined in the additional limitation on the illustrated crediting rate is not clear. We assume that every day of the year during the 25 year period should be data points for the calculation. However, it is not clear as to whether the ending data point is at the end of the previous calendar year or at some elected point within that calendar year. We recommend clarifying this to reference the last day of the prior year. We also recommend adding more clarity to the calculation method, specifically how to consider days when the market is closed as well as whether the averaging is an arithmetic or geometric calculation. Perhaps a simple example would also help to add clarity. The reference made in the guideline to a calculation based upon January 15 is confusing if points in times are to only be used from complete calendar years.

4) In the first paragraph of the text section, the guideline references the “self-support and lapse support testing.” We believe that specific reference should be made to the Model Regulation (Life Insurance Model Regulation #582) and/or Actuarial Standard of Practice ASOP No. 24 (Compliance with the NAIC Life Insurance Illustrations Model Regulation) as this is where these terms are defined.

5) We recommend that the guideline clarify the calculation and/or display that are expected for products that offer multiple crediting rate options, including options for fixed interest rate crediting within the same policy. For example, whether each index option would be illustrated separately, combined using weighted average, etc.

6) The second paragraph of the text section states: *If the Index has less than 10 years’ experience, that experience cannot be used as the sole basis for the maximum illustrated crediting rate.*” We believe that this statement does not provide enough guidance as to what is required when an index does not have at least 10 years experience. For example, should another index be averaged with it, in what manner, and what should the other index be? On the other hand, the requirements under the Annuity Disclosure Model Regulation #245, state that, “If any index utilized in determination of an account value has not been in existence for at least ten (10) calendar years, indexed returns for that index shall not be illustrated.”

Overall, we believe that this additional guidance will help address the need for more uniform practices with respect to the illustrated non-guaranteed crediting rate. It should be noted that the proposed actuarial guideline differs from the Index-linked annuity illustration guidance in the Annuity Disclosure Model Regulation in some areas, such as the requirement to display illustrative cash values developed based on historical index performance that was included to enhance contract holder understanding.

However, we do have some concern that the actuarial guideline appears to try to reach beyond the responsibilities of the actuary. For example, under the Life Illustration Model Regulation, with regard to the format of the illustration (and thus any supplemental illustration providing history), while the Illustration Actuary certifies that the scale used in the illustration meets the

requirements of a disciplined current scale as per the Model Regulation, it is the Responsible Officer who is required to certify other requirements, including illustration format.

The Work Group appreciates the ACLI's efforts to address issues related to IUL illustrations and application of the Model Regulation. If you have any questions, please contact Academy Life Policy Analyst John Meetz (202-223-8196; meetz@actuary.org).

Sincerely,

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

cc: John Bruins, ACLI