



AMERICAN ACADEMY *of* ACTUARIES

March 14, 2016

Mr. Fred Andersen
Chair, IUL Illustrations (A) Subgroup
National Association of Insurance Commissioners

Dear Mr. Andersen,

The American Academy of Actuaries¹ Life Illustrations Work Group (Work Group) appreciates the opportunity to provide comments on the revisions to Actuarial Guideline 49 (AG 49) exposed by the IUL Illustration (A) Subgroup (IUL Subgroup) on February 24.

We ask the IUL Subgroup to consider the following suggestions:

1. Regarding the new language in Section 3(A)(i):

- We note that the new Alternate Scale limitation is based on the illustrated rate, rather than the **maximum** illustrated rate, and question whether that was the intent. If a producer illustrates a rate lower than the maximum, the illustrated Alternate Scale under this new language would be significantly lower than the illustrated Alternate Scale under the current guideline. Our understanding was that the Subgroup wanted to close a loophole with this change, but the proposed language goes beyond closing a loophole and changes the composition of the illustration.
- The new language does not directly specify an Alternate Scale illustrated rate for policy values allocated to the Fixed Account. Previous language prescribed more directly a maximum for all accounts; the new language directly prescribes a maximum for Index Accounts only.
- The proposed language is difficult to understand as written. Therefore, we recommend keeping the original AG 49 3(A)(i) language and adding the following language to Section 3(A)(i):

“The illustrated credited rate for each Index Account in the Alternate Scale shall not exceed the maximum credited rate for the illustrated scale less 100 basis points, subject to the guaranteed credited rate for that account.”

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. 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.

- Finally, we note that any change could necessitate system changes so we recommend adding an effective date that provides adequate time for compliance.
2. Section 3(B)(vii) is unclear as to what the additional amounts credited are. We suggest adding to the end of 3(B)(vii): “Additional amounts include all credits that increase policy values, including but not limited to experience refunds or bonuses.”
 3. We have a number of comments regarding the language in Section 5(D):
 - Section 5(D) requires each set of Index Accounts corresponding to each Benchmark Index Account (BIA) to independently pass self and lapse support testing. This requirement is inconsistent with ASOP No. 24, *Compliance with the NAIC Life Insurance Illustrations Model Regulation*,² which allows the actuary to test policyholder choice factors such as election of Index Accounts in aggregate if such combinations would be appropriate, while recognizing possible shifts in the assumed distribution of elected Index Accounts towards any portions of the business that do not meet the self-support test in their own right. The guidance in ASOP No. 24 has existed for current illustrations for 20 years, and we believe that the guidance is appropriate in cases where there is more than one BIA for the illustrated policy, because the additional BIA is simply another dimension of the distribution of business. Therefore, we recommend removing Section 5(D).
 - If this testing requirement remains in the guideline, the IUL Subgroup should clarify the meaning of “independent” testing. While it appears that allocations to the Fixed Account were intended to be allowed in such testing, the current language should be made clearer in this respect.
 4. We are unclear whether the example in the Appendix is intended to be a part of the guideline. We do not believe it is appropriate to include the example in the guideline, and that it would be more reasonable in a practice note. Also, examples have been requested for other parts of the guideline and not been included, seemingly left to a practice note. However, should the example be included, we believe the example would be more helpful if it included demonstrations of more complex designs, and note that the description below the example should be modified to be more consistent with the guideline (including font, general language used, specific guideline reference points).

We also note that the language in Sections 3(B)(vi) and 3(B)(vii) mingles definitions and calculations. It may be clearer to readers to keep definitions in Section 3 and keep calculations related to account charges and additional amounts in Section 4 of the guideline.

² Section 3.5 of ASOP No. 24 states, “In performing the self-support test for a policy form, the actuary may test underwriting and policyholder choice factors in aggregate if, in the actuary’s professional judgment, such combinations would be appropriate. If testing is done in the aggregate, the actuary should select assumptions for the distribution between underwriting classes and policyholder behavior choices that are based on actual experience, if available, recognizing possible shifts in distribution toward any portion of the business that do not meet the self-support test in their own right.”

The Work Group appreciates the efforts of the IUL Subgroup to address the issues related to AG 49. If you have any questions or would like further dialogue on the above topics, please contact Amanda Darlington, life policy analyst, at darlington@actuary.org.

Sincerely,

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