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The *WRNewswire* is created exclusively for AALU Members by insurance experts led by Steve Leimberg, Lawrence Brody and Linas Sudzius. *WRNewswire #15.04.13* was written by Tom Korb on the AALU Staff.

Topic: Status of Developing New Rules to Produce Enhanced Indexed Universal Life ("IUL") Insurance Illustrations

CITES: NAIC Draft of Actuarial Guideline [YY]: The Application of the Life Insurance Illustrations Model Regulation to Policies with Index-Based Interest (Exposed through April 14, 2015); NAIC Meeting Materials Packet, Life Actuarial Task Force, March 26-27, 2015, NAIC Spring National Meeting, Phoenix, Arizona, (See pages 5-17 and 65-92); NAIC Meeting Supplementary Materials Packet, Life Actuarial Task Force, March 26-27, 2015, NAIC Spring National Meeting, Phoenix, Arizona, (See pages 31-44).

SUMMARY: Our *Washington Report Newswire No # 14.10.09* described in detail the increased prevalence of IUL, how the product works, the concerns that have been expressed regarding IUL illustrations, and the divergent initial proposals that were considered last November to address concerns. This *Washington Report Newswire* provides an update on progress that has been made by the National Association of Insurance Commissioners ("NAIC") and the life insurance industry since November toward developing rules to produce enhanced IUL illustrations. A draft of those rules was given additional consideration on March 26-27 at the NAIC's 2015 spring national meeting.

IUL sales have been expanding greatly in recent years, while also prompting some questions, concerns and regulatory attention/activity, especially with regard to the level of illustrated crediting rate used in life insurance illustrations. The NAIC Life Actuarial (A) Task Force ("NAIC task force" or "task force") has been working on a draft actuarial guideline to help consumers better understand IUL product performance. Since two divergent proposals were considered last November, the NAIC task force, the American Council of Life Insurers ("ACLI") and other major industry groups have made significant progress in incorporating varied input into a new approach with much broader support for the current formulation of rules intended to present clearer information to consumers—parts of which are expected to begin to be implemented for new policies as soon as September 1, 2015.

At the NAIC meeting, the task force reviewed an updated (March 18, 2015) draft of the actuarial guideline incorporating recent comments from the American Council of Life Insurers ("ACLI"), the American Academy of Actuaries and other stakeholders. The task force left the bulk of the updated draft guideline unchanged. The task force made various technical wording modifications and agreed to include optional language for significant additional features in a new draft guideline that will be exposed for a period of two weeks. These new features came from requests from particular regulators: (1) for additional disclosure of charges that affect the net index credited rate; and (2) to add a clause on illustration actuary guidance.

RELEVANCE: Given IUL's increased prevalence, producers should understand its appeal, as well as pertinent regulatory developments and concerns. Part of IUL's appeal can be attributed to its image as a way for purchasers to fund their insurance needs and potentially enhance fixed income returns based on the performance of a pertinent index (such as the S&P 500® Index) during a specified period and other parameters set by an IUL contract. However, some in the industry have expressed concern that consumers may lack a good understanding of this complex product and may not have realistic expectations of how IUL will perform. Consumer confusion has been due in part to non-standardized, difficult to assess illustrations and a wide variety of methodologies used by different companies in setting illustrated crediting rates, and resulting in a very broad range of illustrated rates (with some much higher than others) across the industry.

As the NAIC task force has worked on a guideline to improve and standardize IUL illustrations, producers' best practice has been to help ensure that clients understand, among other things, that: (1) IUL is a general account product, rather than a separate account which holds investment assets; (2) IUL is not currently treated as a security by the Securities and Exchange Commission ("SEC") and as such is not subject to SEC filing and disclosure requirements; and, particularly, (3) there are a range of possible IUL performance outcomes, depending on the contract and a variety of factors and circumstances.

Most of the features of the draft actuarial guideline considered by the task force on March 26-27 at the NAIC meeting had been developed from input from a variety of groups, including the following: <u>ACLI</u>; <u>Coalition Group</u> (MetLife, New York Life, Northwestern Mutual Life); <u>IUL Technical Group</u> (Accordia, John Hancock, Lincoln Financial, M Financial Group, Pacific Life, Protective Life, River Source, Sammons Financial, Transamerica); and <u>IUL Writers Group</u> (Minnesota Life, National Life, Nationwide). The exposure draft, among other things, appears to:

(1) produce a more conservative and consistent maximum projected illustrated rate (for 2015, the proposal would produce a maximum likely in the high 6% range for a product with a 12% cap) which would be formulated using a standard benchmark index account tied to the S&P 500® Index—namely, the average of all 25-year look-back compound annual growth rates in the last 65 years for a 1-year point-to-point index account with a 0% floor and 100% participation rate;

(2) present limits on the investment return tied to index hedging that an illustration actuary can assume in certifying the supportability of the illustrated policy;

(3) require inclusion of an "alternate scale" scenario for non-guaranteed elements being illustrated with the interest rate equal to the product's fixed account current credited rate and, if the illustration includes a loan, the illustrated rate credited to the loan balance does not exceed the illustrated loan charge;

(4) require additional disclosures to increase consumer understanding for the potential variability of returns; and

(5) enforce conservatism on the sensitive loan assumption, namely by providing that the projected illustrated rate credited to the loan balance shall not exceed the illustrated loan charge by more than 100 basis points.

We will continue to monitor this important issue and report on further developments and implications, as warranted.

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