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Actuarial Guideline 49 Update

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Third quarter 2015 sales for Indexed Universal Life (IUL) continue to increase according to LIMRA Research. It has yet to be determined how Actuarial Guideline 49 (AG49) will impact IUL sales since the first part of AG49 only went into effect Sept. 1, 2015, thus impacting one month of the third quarter. In the last edition of *Product Matters!*, we walked through each section of the guideline, and posed a few pop quiz questions. Here we will attempt to answer those questions and give an update on issues surrounding illustrations being addressed by the industry.

POP QUIZ ANSWERS

Since Sept. 1, companies have to comply with Sections 4 and 5 of AG 49, requiring the use of a more prescriptive maximum illustrated rate and assumed earned rate underlying the disciplined current scale (DCS). The first pop quiz question asked "You have an indexed account with a 1 percent floor and a current cap of 11 percent. How would you apply AG 49 to determine your maximum illustrated credited rate?" The answer is it depends. The Practice Note Addendum published by the American Academy of Actuaries (*http://www.actuary.org/content/iwg-releases-addendum-practice-note-naic-life-insurance-illustrations-model-regulation*) can be referenced for help. Examples 2 and 3 of Question 4 of this addendum illustrate what could be done based on the presence of an index account that meets the definition of the benchmark index account or not.

The second part of AG 49 (Sections 6 and 7) will be required starting in March of 2016. The second pop quiz question asked "I have a variable loan rate that is currently projecting 5 percent, and my benchmark index account is calculated to credit 7 percent. What values can I show in my illustration?" Question 13 of the Practice Note Addendum addresses this issue by considering the type of loan—in this case variable rather than fixed—and indicates it may be reasonable to either increase the loan rate to be within 1 percent of the maximum illustrated rate or decrease the maximum illustrated rate to be within 1 percent of the loan rate. At the October 2015 SOA Annual Meeting & Exhibit, there was an AG 49 workshop that asked this same question. Most of the responses with a definitive answer (i.e., excluding don't know or not applicable) indicated they plan to decrease the maximum illustrated rate.

GENERAL ILLUSTRATION UPDATE

The activity around AG 49, the Life Illustration Model Regulation (The Model) and Actuarial Standard of Practice 24 (ASOP 24), is still ongoing at the National Association of Insurance Commissioners (NAIC). Proposed language changes to AG 49 have been exposed to accommodate indexed products with account charges that buy up the index cap. At the time this article was written, the draft changes are still being worked on.

The Life and Annuities (A) Committee of the NAIC decided to establish a new working group to explore how the narrative summary (Section 7B of Model #582) and the policy summary (Model #580) can be enhanced to promote consumer readability and understanding, including how they are designed, formatted, and accessed by consumers. The working group will provide a report with recommendations to the committee by the 2016 summer meeting. This does not mean that The Model will be opened, and many considerations must be given to opening and not opening The Model.

There is a tremendous amount of collaboration and effort required of many organizations and groups to work through the issues related to IUL and other illustrated products. There is no easy fix and we look forward to the developments related to illustrations as they continue to move through the vetting process.

The opinions in this article are those of the author and are not representative of RGA, the Society of Actuaries or the American Academy of Actuaries.

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