# Phase Two of Index-Based Illustrations Guideline Now Effective

*By Reggie Mazyck, NAIC Life Actuary*

With a slight twist to the words penned by a 16th century bard, I remind companies illustrating policies with index-based interest credits to "beware the first of March." March 1 ushers in the second phase of compliance with *Actuarial Guideline XLIX—The Application of the Life Illustrations Model Regulation to Policies with Index-based Interest* (AG 49).

This article provides a brief overview of AG 49 and serves as a quick reminder for companies that have yet to complete the programming required to comply with Section 6 and Section 7 of the guideline.

### ◆ Background

AG 49 was adopted by the NAIC on Aug. 16, 2015. The guideline provides guidance on the application of *The Life Insurance Illustrations Model Regulation* (#582) to policies whose benefits are tied to an external index or indices. Because these policies contain features that are not explicitly referenced in the model, companies took broad latitude in the determination of their illustrated crediting rates. This resulted in a lack of uniform practice in the implementation of Model #582, such that two illustrations using the same index and crediting method could illustrate with credited rates that were significantly different. As might be expected, consumers found the differences difficult to comprehend. When asked to explain the differences, financial advisors found it challenging to provide acceptable explanations. This led to widespread agreement among regulators, consumer advocates and industry advocacy groups that the issue needed to be addressed.

### ◆ Benefit to Consumers

AG 49 was developed to bring uniformity to the illustrations of these policies with benefits tied to external indices. The guideline provides a reasonable cap on the illustrated credited rate and provides the client with more of an "apples to apples" comparison when considering the offering of different companies. It also limits the credited rate on policy loans such that leveraging of policy loans to enhance illustrations is limited.

While AG 49 is primarily for the benefit and protection of their clients, financial advisers may also benefit from it. The guideline levels the playing field in a manner that facilitates the marketing efforts to focus on the policy features, company quality and reasonable projections of policy values without having to defend the lower, but sensible illustrated crediting rate of their policy against competitors' illustrated crediting rates that may be attainable only under the most unlikely scenarios.

### ◆ Effective Dates

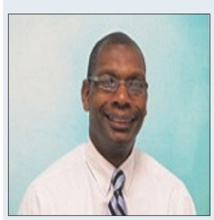
Section 4 and Section 5 of AG 49 were effective Sept. 1, 2015, for all new business and in force life insurance illustration on policies sold on or after that date. Section 4 uses an average rate generated from the benchmark index account to limit the crediting rate for the illustrated scale. If the insurer does not offer a benchmark index account with the illustrated policy, the company is required to use a hypothetical, supportable index account that meets the definition of a benchmark index account.

Model #582 states that the illustrated scale is not to exceed the company's disciplined current scale. Section 5 limits the earned interest rate for the disciplined current scale to the annual net investment earnings rate on the company's general account assets supporting the policy. Companies that engage in a hedging program for index-based interest are allowed to use a higher earned interest rate defined in the guideline to recognize the benefit of the hedging program.

Section 6 of the guideline limits the policy loan leveraging that occurs when a policy is illustrated with rates credited to policy loan balances that are in excess of the policy loan interest charge. AG 49 limits that excess to 100 basis points. The limitation inhibits a company's ability to enhance illustrated values while illustrating the policy owner's ability to use policy loans as a source of income.

Section 7 requires the alternate scale be displayed in equal prominence as the illustrated scale and that for each index account the tables supporting the calculation of the credited rate be shown. Due to the complexity of the programming required to make these changes to the policy illustration, the effective date for Section 6 and Section 7 was deferred until March 1. That deadline has approached. I end with another quote from Shakespeare, "Better three hours too soon than a minute too late."

### About the Author



*Reggie Mazyck is a Life Actuary with the NAIC. He advises state regulatory actuaries and other parties regarding issues related to reserving, valuation, nonforfeiture and other actuarial concepts. He works closely with the Life Actuarial (A) Task Force and its subgroups on the development of principle-based reserving standards, model laws and actuarial guidelines. He has written and contributed to several CIPR publications, including the State of the Life Insurance Industry: Implication of Industry Trends study. Mr. Mazyck is a graduate of the Wharton School of the University of Pennsylvania, where he earned a Bachelor of Science in Economics with a major in Actuarial Science. He is an Associate of the Society of Actuaries and a Member of the American Academy of Actuaries.*

NAIC National Association of Insurance Commissioners

& The Center for Insurance Policy and Research

**NAIC Central Office**
**Center for Insurance Policy and Research**
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197
Phone: 816-842-3600
Fax: 816-783-8175

http://www.naic.org http://cipr.naic.org

To subscribe to the CIPR mailing list, please email CIPRNEWS@NAIC.org or SHALL@NAIC.ORG

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