

# NAIC AG49 changes bring consistency to IUL illustrations

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The National Association of Insurance Commissioners (NAIC) adopted the life insurance illustration regulation in 1995, which individual states then enacted into law. At the time the regulation was adopted, indexed universal life (IUL) had not yet been introduced to the marketplace. As a result, the current illustration guidelines that apply to the product were not designed with these products in mind.

To address this issue, in 2010, The American Council of Life Insurers (ACLI) established a task force, which I now chair. The task force was charged with making recommendations to improve consistency within IUL illustrations and increase consumer understanding of the potential variability in IUL product crediting rates. The NAIC's Actuarial Guideline XLIX (AG49) is the result of that work. Let's first take a look at why it's needed, then at what it does.

The 1995 NAIC regulation, among other things, mandates that companies appoint an illustration actuary who attests that the policy values within the illustration comply with the regulation. I am the illustration actuary for Accordia Life, which introduced its first IUL product in 1998 through a predecessor company. The product was among the very first in the industry.

With universal life and whole life, an insurance company sets non-guaranteed rates at its discretion, within any policy guaranteed minimums and maximums. IUL is different. The insurance company has discretion over the maximum rate — the cap, and the interest credited, is determined in part by the performance of an applicable index, such as the S&P 500® Index. Typically, the guarantee is a crediting minimum, with a floor of 0% being common.

Policies can be credited the cap, the floor or anything in between in any given year — and the insurance company has no discretion in such determination. In order for an actuary to certify that IUL's non-guaranteed elements are supportable per the regulation, companies have had to develop a means of translating the non-guaranteed elements, such as the cap, into a rate of interest.

Most companies use a historical "look-back" for this translation; however, there are different look-back methods in use today. This discrepancy has led to inconsistency among carriers and may create confusion among agents and clients.

IUL Illustration changes under AG49 will take place in two phases. The first takes effect for policies sold on or after September 1, 2015. New requirements in this phase include a defined look-back method, which will dictate the maximum illustrated rate allowed within an IUL illustration. Standardizing the calculation will provide new consistency and clarity when comparing products.

In addition, the first phase will also bring consistency in maximum illustrated rates across index allocation options. Under AG49, the maximum rate for any index allocation option cannot exceed the look-back rate of the product's one-year point-to-point index allocation option in the S&P 500® Index with 100% participation, no spread and a cap. This new requirement will affect many sales illustrations, resulting in less variation in rates among allocations.