

A Cold Blast From the Index Universal Life Illustration (A) Subgroup

January 11, 2022

During the December 8 Life Actuarial Task Force meeting, the Index Universal Life Illustration (A) Subgroup reported on its findings regarding IUL illustrations following the implementation of Actuarial Guideline 49-A. The chair of the subgroup, Fred Andersen, stated that while the illustration rates being used since the effectiveness of AG 49A are lower, they are not as low as previously anticipated. Andersen explained that this is the result of insurers implementing volatility-controlled indexes for which the option costs are lower. As a result of the lower option costs, insurers are using the savings to fund guaranteed fixed bonuses, which then results in increased illustrated rates.

The subgroup seeks to discuss in early 2022 whether it should address the use of volatility-controlled indexes and the associated guaranteed fixed bonuses, and if so, then how. On December 9, LATF with a February 4, 2022, timeline, sought comments on whether to address illustrations of volatility-controlled index account and guaranteed fixed bonuses, and if so, how? In seemingly wanting to freeze the use of such illustrations, the exposure states that “[i]n some insurers’ minds [they are allowed to] illustrate volatility-controlled funds plus the fixed bonus more favorably than a traditional, capped S&P 500 index.”

Based on comments made during the December 8 meeting, Birny Birnbaum is seeking to ice the use of volatility-controlled index accounts as he believes them to be opaque to consumers and requires consumers to trust insurers.

Hopefully, as spring rolls around, regulators will warm up to volatility-controlled index accounts.

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