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July 31, 2016

Mr. Fred Andersen
Chair – NAIC LATF IUL Illustrations Subgroup

Re Question About Application of AG-49 to Inforce Illustrations

Dear Fred:

The ACLI¹ is pleased to submit the following comments on behalf of our member companies in response to the question about whether the provisions of AG-49 should be applied to inforce illustrations of previously issued policies.

ACLI does not support the application of new regulatory requirements on previously issued business, including those relating to illustrations of life insurance policies. Not only do we oppose retroactive application, but we are not aware of any precedent for the NAIC applying a model regulation retroactively to inforce policies, particularly where that affects the interaction or relationship of the company and the policyholder. In the absence of a compelling need for change, retroactive application should not be considered.

In this case, application of the provisions of AG-49 to inforce illustrations on previously issued policies will causing confusion to consumers, while causing significant expense to the industry.

Confusion to Consumers

When considering requiring changes to illustrations, the key question is whether value is provided to the consumer. Inforce illustrations serve a different purpose than illustrations at time of sale. In the case of sales, illustrations are an important tool to help the consumer make an informed decision about the product being purchased. However, for inforce illustrations, the decision to purchase has already been made, using illustrations provided under the regulations applicable at the time of the sale. The key issues that prompted the development of AG-49 were a perception of potentially misleading future performance. Inforce policies have real performance with which to judge the policy.

¹ The American Council of Life Insurers (ACLI) is a Washington, D.C.-based trade association with 284 member companies operating in the United States and abroad. ACLI advocates in federal, state, and international forums for public policy that supports the industry marketplace and the 75 million American families that rely on life insurers' products for financial and retirement security. ACLI members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance, representing more than 90 percent of industry assets and premiums. Learn more at www.acli.com.

An inforce illustration can influence the decision to retain a previously purchased policy, or to replace it. Some consumers, along with their sales agents, use an inforce illustration as part of an annual review, comparing actual performance to date with prior illustration, as well as to see if the company's outlook for the product in the future has changed. Providing an illustration on a different basis than prior illustrations can cause confusion, and will give the perception that the product has changed, or is not the same as was originally sold, even if the product has had no changes. Such confusion could provide improper incentive for lapse or replacement.

In the case of a replacement situation, illustrations are generally provided using a specific interest rate requested by the consumer or the sales agent. The limitations on interest rates that was a major focus of AG-49 will have limited impact in these situations.

Expense to Industry

Illustration systems are often developed specific to the product. Once that product is no longer being sold, those systems are no longer actively maintained. Being required to modify numerous systems that have been set aside, for a very limited purpose, with no demonstrated benefits seems to be a waste of industry resources.

For these reasons, we support retaining the current language and scope of AG-49 and ask that this proposed change not be pursued further.



cc Reggie Mazyck, NAIC