



INDUSTRY UPDATE

AG 49-A's Impact on Indexed UL

On August 14, 2020, the NAIC affirmed revisions to Actuarial Guideline XLIX, or AG 49, now known as AG 49-A. AG 49 was originally developed in 2015 to provide life insurance carriers with a more uniform method for calculating maximum illustrated rates on IUL products and to help consumers better understand index life insurance product illustrations.

In 2019, the NAIC IUL Illustration Subgroup had a charge to “provide recommendations for modifications to AG 49 to the Life Actuarial (A) Task Force.” The issue that needed to be addressed involved IUL multipliers that did not exist when AG 49 was adopted in 2015. Regulators and IUL carriers worked together to adopt the following for AG 49-A:

- Effective for all new business and inforce illustrations on policies sold on or after November 25, 2020
- IUL products with multipliers, bonuses, cap buy-ups, and other enhancements should not illustrate any better than those without such features
- Maximum illustrated spread on indexed loans and variable loans will decrease from 100 bps to 50 bps, inclusive of all multipliers, bonuses, cap buy-ups, etc.
- Not retroactive to inforce policies; i.e., policies inforce prior to November 25, 2020
- Does NOT affect an IUL product's design, features, or benefits; it ONLY affects how IUL products are illustrated

Multipliers, Bonuses, Cap Buy-Ups, Etc.

Index options with larger multipliers will no longer be able to show the full effect of the multiplier in the policy's ledger pages. For example, within a given product, if an index option without a multiplier can only illustrate at a maximum rate of 6.5%, an index option with a multiplier will also only be able to show an effective illustrated rate of 6.5%. Again, this only affects their illustrated returns, not the product's actual returns.

Lower Potential Illustrated Spread

The amount of illustrated spread on indexed loans and variable loans will decrease from 100 bps each year to 50 bps each year. As noted above, the spread is inclusive of all multipliers, bonuses, cap buy-ups, etc. The regulators specifically included this language to address the perception that some carriers had previously complied with the letter of the regulation (AG 49) but not the spirit of it.

Applicable to Policies Sold On Or After November 25, 2020

It is important to note that AG 49-A is not applicable to policies inforce before November 25, 2020. Those policyholders will continue to receive inforce illustrations that use AG 49 illustration rules. For any policy sold on or after November 25, 2020, the AG 49-A illustration rules will apply to both new business and inforce illustrations.

Carrier Responses

Carriers will need to make their illustrations compliant in time for the November 25, 2020 effective date, but many will wait until 2021 to make product-level changes. The following are some of our expectations based on conversations with many of our carrier partners.

- **Additional Index Options**

We expect carriers to add additional index options to their IUL products. Some will add options from new (to them) indices, such as the Russell 2000 or EURO STOXX 50. Others will add proprietary volatility-controlled indices. Still, others are looking at alternative crediting methods, such as monthly averaging. Carriers with indexed annuities will look at the index options those products offer and may add some of those options to their IULs.

- **Language About Multipliers**

Carriers that offer multipliers, especially larger multipliers, may look to add additional language in their illustrations to describe the value multipliers can add to a policy, as well as describing how they work in more detail.

- **Bonus and Credit Interpretation Differences**

Carriers may differ in their interpretations as to how bonuses and other credits, such as persistency credits, should be illustrated. Some may remove bonuses from their products, while others may add more bonuses. Some may apply bonuses and credits to both fixed and indexed accounts, while others may only apply them to fixed accounts.

- **Different Interpretations of "Sold"**

Carriers may also differ in how they interpret "sold"; i.e., policy delivered, application submitted to the carrier, the premium paid, etc. Also, AG 49-A illustration rules will be applied to carriers' illustration systems prior to November 25, 2020, most likely more than a month in advance. Make sure to pay close attention to individual carriers' rules.

Your GPA team is ready to assist you with the changes related to AG 49-A and all of your case needs.

Questions? Call your GPA Team today!

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