

AG 49: New Guidelines for Illustrating Index Life Insurance Products

For the past year you have probably read articles discussing changes that will affect the future of how index life insurance policies are illustrated. Earlier this year, the National Association of Insurance Commissioners (NAIC) adopted Actuarial Guideline (AG 49) for Index Universal Life illustrations, which is meant to help create more uniformity around how life insurance carriers illustrate their index life products.

Below you will find a description of these industry-wide changes along with their effective dates. Please note, the following remain unchanged:

NO CHANGE: American General Life's products are **not** changing; this regulation will only impact how our Index Universal Life products are illustrated.

NO CHANGE: Our competitive cap rates and participation rates are not affected by the requirements of AG 49.

NO CHANGE: The potential amount of index interest that may be credited to a policyholder's account is also not affected by AG 49.

Please note the following:

CHANGE: The way IUL products will be illustrated will be different. Note, these changes to IUL illustrations apply to the entire industry, not just to American General Life.

Below are the new rules under AG 49:

1. Rules for maximum illustrated rates – effective 9/1/2015

(Note: American General Life intends to launch its AG 49 changes on September 1, 2015.)

- AG 49 limits the maximum illustrated rate a carrier may show in an index universal life insurance illustration. This max rate will now be calculated based on a specific lookback approach that all insurers must use.
- The approach takes all 25-year lookback periods over the last 66 years and will vary depending on each product's cap rate, participation rate, floor, and index account design.
- The purpose of this change is to place more consistent limits around how insurers illustrate interest credited on IULs with the goal of more fairly depicting how these products may perform for the end consumer.
- American General Life expects that this section of AG 49 will be transparent to agents and policyholders and should not materially impact the determination of the new illustrated rates.

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Questions?

Please join us for our scheduled webinar, where we will go over this regulation in further detail.

AG 49: New Guidelines for Illustrating Index Life Insurance Products...cont.

How will this change affect American General Life's IUL products?

New max illustrated rates below are calculated using AG 49 rules based off of current caps and participation rates as of 8/12/2015.

IUL Product	Index	Account Type and Rate	Floor	Current Max Illustrated Rate	New Max Illustrated Rate 9/1
Value+ IUL	S&P 500	10% (1yr-Cap)	0.25%	6.86%	6.06%
	ML Strategic Balanced Index (AGL only)	115% (1yr-Par)	0.25%	7.25%	
	S&P 500 (USL only)	55% (1yr-Par)	0.25%	7.25%	
Elite Index II	S&P 500	11% (1yr-Cap)	0.25%	7.51%	6.56%
	S&P 500	70% (1yr-Par)	0.25%	8.71%	
Elite Survivor Index II	S&P 500	11% (1yr-Cap)	0.25%	7.51%	6.56%
	S&P 500	70% (1yr-Par)	0.25%	8.71%	
Elite Global Plus II (USL only)	S&P 500	10% (1yr-Cap)	1.00%	7.15%	6.23%
Elite Global Plus II	S&P 500	10% (1yr-Cap)	0.25%	6.96%	6.23%
	S&P 500, Eurostoxx 50 and Hang Seng	70% (5yr-Par)	0.00%	8.67%	
Elite Global Survivor	S&P 500, Eurostoxx 50 and Hang Seng	45% (5yr-Par)	0.00%	5.04%	5.98%
	S&P 500, Eurostoxx 50 and Hang Seng	45% (1yr-Par)	0.00%	6.07%	
AG Extend IUL	S&P 500	7% (1yr-Cap)	1.00%	5.34%	5.75%
	S&P 500	55% (1yr-Par)	2.00%	7.71%	

2. Policy Loans – effective 3-1-2016

- AG 49 will limit the interest rate differential that can be illustrated between the interest rate credited to loaned amounts and the corresponding loan rate that is charged to that balance (sometimes referred to as “loan leverage” or “loan arbitrage”).
- If the illustration includes a policy loan, the illustrated rate credited to the loan balance cannot exceed the illustrated loan charge by more than 1%.

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AG 49: New Guidelines for Illustrating Index Life Insurance Products...cont.

How will this change affect American General Life's IUL products?

- American General Life's IUL products offer a fixed participating loan called a Choice Loan which charges a 6% loan rate. AG 49 will now limit the max illustrated rate that could possibly be credited to the loaned balance to 1% more than the 6%, which results in 7% in this example, or the stated policy maximum illustrated rate if it is lower (currently max illustrated rate is 6.62% as shown in the table). Again, this does not affect the actual index interest crediting to the index accounts, and it is for illustration purposes only.

American General Life was ahead of the new guideline when it comes to this change. Our illustration practice was not one that relied on extreme loan arbitrage between a low loan rate and a high illustrated interest rate. Our illustrations also included a mandatory ledger at an alternate 6% illustrated rate. This very prudently removed any loan arbitrage when using the 6% Choice Loan rate.

3.) Effective 3-1-2016, AG 49 will require three new illustration disclosures with the goal of helping the client better understand how IUL works and how product performance may vary over time.

- A ledger illustrated at the fixed account interest rate. If the illustration includes a loan, the illustrated rate credited to the loan balance cannot exceed the illustrated loan charge. In other words, no loan arbitrage can be shown.
- A table showing the minimum and maximum of all the 25-year lookback rates that were derived under the new maximum illustrated rate calculation as described in #1 above.
- A table showing actual historical performance over the most recent 20-year period for each index account illustrated along with the hypothetical interest rates that would have resulted based on the product's cap, participation and floor rates.

How will all of these changes affect American General Life's IUL products?

Our goal at American General Life is to provide IUL products and illustrations that focus on our customers' needs while fully complying with all applicable rules.

If you have questions regarding this announcement and any other product-related questions, please contact the Sales Desk at 1-800-358-5753, option 1.

Questions?

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