Fred,

Thank you for the opportunity comment on the four potential options for handling the identified issue with Indexed Universal Life illustrations.

We believe that the current state of Indexed UL illustrations warrants a quick and comprehensive response from the Subgroup. As the letter from the Coalition of Concerned Insurance Professionals pointed out in February (attached), Indexed UL illustrations using non-BIA strategies with fixed interest bonuses can generate illustrated income in excess of 60% higher than BIA strategies. This is, in our view, entirely inconsistent with the intent of regulators in crafting AG 49-A.

The gamesmanship currently occurring in illustrations is similar in effect and pervasiveness to the buy-up caps and multipliers that proliferated after AG 49 and resulted in AG 49-A. However, it is important to note that this time the methodology is fundamentally different. Rather than increasing the option budget in order to augment illustrated performance (which is what buy-up caps and multipliers did), life insurers are now using essentially the opposite strategy by:

1. Using indices with lookback-based illustrated option profits far in excess of the BIA;
2. Reducing the actual option budget so that the lookback rate for the non-BIA account matches the BIA;
3. Deploying the savings in a fixed interest bonus that is added to the illustrated rate and loan arbitrage.

The net effect is non-BIA account options that illustrate significantly better than the BIA but, in the real world, will very likely perform worse. Often, life insurers set these strategies as the *default* allocation in their illustration software in order to maximize their competitive positioning. This is not what was intended by AG 49-A – nor is it beneficial for consumers or even defensible under the arguments put forth previously by industry.

As a result, Option B is simply not an option. Amongst life insurers, the issue at hand is crystal clear; everyone is well aware of exactly what is going on. The majority of top Indexed UL sellers are already using precisely this strategy in their products, and to great effect. In our view, this latest variant of Indexed UL illustration gamesmanship is more aggressive and puts clients in a worse position than the previous attempts. This must be addressed. To not do so would be inconsistent with previous Subgroup inquiries.

Options A, C and D imply tradeoffs that *don't actually exist*. A simple solution (Option A) need not be targeted only to the current issue. A proactive solution (Option C) need not require extensive modifications to the guideline. A "hard cap" (Option D) need not exist in isolation.

The best potential solutions would satisfy all three Options – simple and proactive, with "hard caps" to avoid edge cases and ambiguity. Fortunately, these solutions exist and have been presented previously to the Subgroup by several parties (including various life insurers) over the past eight years.

Considering that the complex, reactive and ambiguous solutions promoted by industry have resulted only in more illustration warfare and repeated regulatory inquiries, it's time to dust off the alternative proposals and give them serious consideration.

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