POINTS

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What to Expect when you Are Expecting AG 49-A

For those who remember September of 2015, it was the big month in the world of Indexed Universal Life (IUL) as the first phase of Actuarial Guideline (AG) 49 took effect. Previously, carriers could set their max crediting rates according to their own lookback duration and calculations, which caused some inconsistencies. Regulators were brought together to put some standards around the lookback process, ultimately targeting how life insurance carriers could illustrate credited interest on all IUL policies. The idea behind the regulation was to put carriers on a level playing field by using the same methodology across all products. AG 49 was the result.

Five years does a lot for product development, and what initially brought standardization to crediting rates has been largely diluted as new designs have widened the gap of illustrated performance. In an attempt to re-level the playing field, a new task force was created about a year ago to add some revisions to AG 49 in an effort to put up some guide rails. They settled on the changes, now dubbed AG 49-A, which are on track for a November compliance date. Here are the basics of what you need to know.

IUL Multiplier Performance Was The Hot Topic

Essentially, two camps have formed in the last few years with competing interpretations around the original AG 49 regulation. On one side are those who favor the simplified or traditional IUL design. The other endorses the newer multiplier approach. Both sides are in compliance with AG 49 with the multiplier products essentially doubling down on the IUL bet. Using additional charges to fund more option investment, and with potential for greater earnings, carriers were able to build those large multipliers to enhance performance. This created a substantial gap when comparing IUL products as it was difficult to get an "apples to apples" comparison with such vastly different charge structures.

New Regulation Spirit

With reopening discussions around AG 49, the goal was to bring consistency to crediting methods within IUL and reduce confusion to potential buyers. Now that the revisions are finalized, the regulators have spoken and the largest and loudest take-away is that products with multipliers, high cap accounts, or other enhancements are no longer allowed to illustrate higher performance than products without these options[1]. Included in the changes is an attempt at simplifying the base account and is intended to correct these variations at its core.

Practical Implementation

These revisions will make it a bit more complicated to forecast the exact effects on the IUL world. The new regulation prohibits carriers from bulking their charges in order to maximize illustrations, and requires carriers to root all illustrated performance on a singular base account. Things will simplify initially, but there is still outside concern about the language ambiguity and potential for multiple interpretations from carriers. Initially, the more aggressive illustrations will be cut fairly drastically with this implementation. While products will no longer be able to illustrate these features, products are not required to eliminate multipliers, high cap accounts, and other enhancements – only that newly sold products can no longer have the same illustrated leverage. Life insurance carriers at the time of this article have until November 25th to come into compliance.

Another takeaway that slid in was a change around how participating loans can be illustrated. The first round of AG 49 limited the participating loan advantage to 1%. This revision further limits the loan crediting rate to be no more than 0.5% higher than the loan interest rate.

While no one can gaze into the future to see the net results of this new regulation, you can count on LifeTrends to be your source for keeping you up to speed with AG 49-A and any other change in the life insurance market. As the original version of AG 49 was a catalyst for IUL product innovation, we expect the same to happen with the revised edition. As we have continuously observed with new regulations, carriers will first comply, then test the waters, and finally head for differentiation. We are excited to be your source for product intel and updates. Stay tuned.

If you are not a partner of LifeTrends and wish to learn more about our services, please contact Randi Benash. If you have a story you wish to share, we would love to hear from you!

[1]Only applicable to products sold on or after the effective date of AG 49-A. Inforce policies will continue to use the previously existing requirements.