What's in the "A" of AG 49-A

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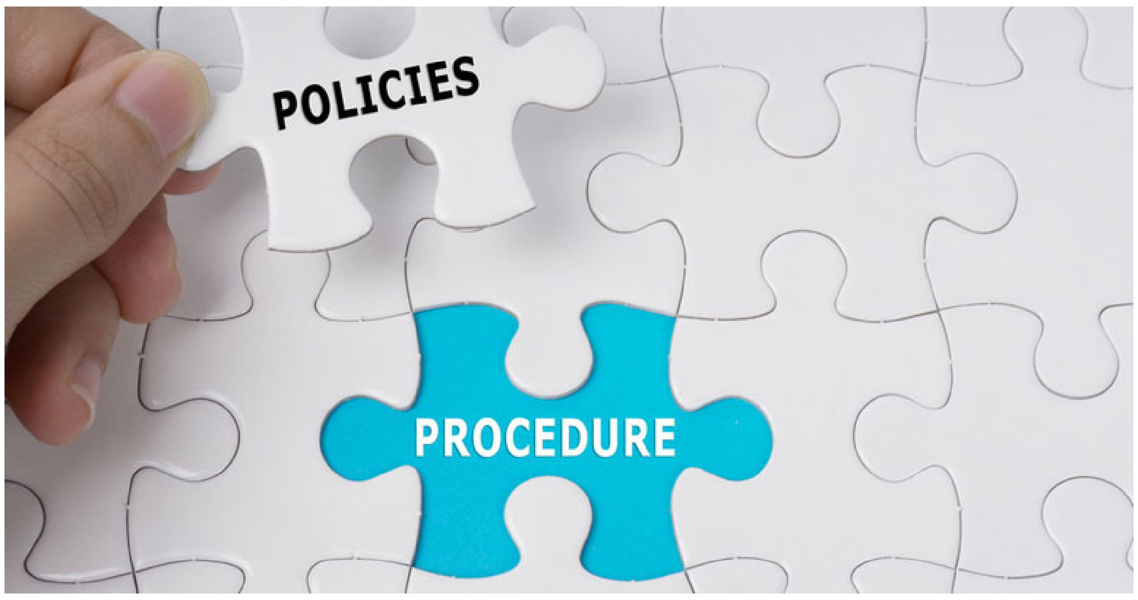

On Dec. 14, 2020, insurers that were illustrating and selling policies complying with Actuarial Guideline (AG) 49 had to switch to complying with AG 49-A for policies sold on or after that date. The goal of AG 49-A was that products with enhancement features (multipliers, cap buy-ups, etc.) could not illustrate more favorably than products without such enhancement features. This article will discuss some high level language changes and implications due to AG 49-A, but companies should review the changes in more detail and decide how to make adjustments, if any, for the impact of the AG.

Applicability

Policies subject to the Life Insurance Illustration Model Regulation that have indexed based interest credits that are sold on or after Dec. 14, 2020, are subject to AG 49-A. Similar policies sold before Dec. 14, 2020 could remain subject to AG 49. However, the sunset provision added to AG 49 allows AG 49-A to apply policies before the Dec. 14, 2020 date, if the insurers uses AG 49-A for all policies subject to AG 49 and there is no reversion back to AG 49. This was added so that companies could choose to apply AG 49-A to all policies if desired but companies could not "cherry pick" which policies would be illustrated under each guideline.

Definitions

A variety of definitions were added and modified under AG 49-A. The definitions added or modified are Annual Net Investment Earnings Rate (ANIER), Annual Rate of Index Credits, Benchmark Index Account, Hedge Budget, Index Credits, Loan Balance, Policy Loan Interest Credited Rate, and Supplemental Hedge Budget. Definitions are included in Section 3 of the AGs. A key modification to the AG 49 definition of Benchmark Index Account (BIA) is that AG 49 allowed for multiple BIAs for a policy, while AG 49-A only allows for a single BIA for a policy. Multiple BIAs were allowed under AG 49 if Index Accounts with different levels of account charges are offered with the illustrated policy. The other definitions were added to help with understanding what to do in Section 4, 5 and 6 of the AG.

Illustrated Scale

Section 4 of the AGs deals with the credited rate for the illustrated scale. This section of AG 49-A essentially calculates the total Annual Rate of Index Credits for the illustrated scale. Essentially, the BIA calculation is similar to the AG 49

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version, specifically the lookback in Section 4A. However, an additional guardrail does not allow the BIA to exceed 145 percent of the ANIER (Section 4B). Additional consideration is given in Section 4C when a supplemental hedge budget exists and what essentially would be the actual return of the account when it does not meet the definition of a BIA. This is where the desire to not allow products with enhancement features to illustrate more favorably than products without such features begins. The modification boils down to the charge used to support the supplemental hedge budget are added to the credited rate, while subsequently subtracted from the account value so that the charges and credits "wash out" in how the indexed credited rate impacts the account value.

Disciplined Current Scale

Section 5 of the AG deals with the earned rate underlying the disciplined current scale. AG 49-A is more explicit with how the hedge budget and the ANIER impact the earned rate underlying the disciplined current scale. The impact of this section is that the supplemental hedge budget would not be able to increase the ANIER or have the 45 percent multiple applied to it.

Policy Loans

AG 49-A essentially reduced the difference in the loan interest rate charged and loan interest rate credits from 100 bps to 50 bps. Some actuarial judgement is left in how to treat bonuses or other enhancements that are not linked to the return of the index when considering the new 50 bps differential.

Summary

Major differences between AG 49 and AG 49-A are

1. The elimination of multiple BIAs.
2. A more specific limit on the maximum illustrated credited rate to be the BIA lookback calculation and 145 percent of the ANIER.
3. Greater specification on how to treat the supplemental hedge budget for enhancement features when developing the maximum illustrated credited rate and earned rate underlying the disciplined current scale.
4. A reduction in the spread between the loan interest rate charged and the loan interest rate credited.

Practices are emerging on the implementation of AG 49-A and illustration testing for it. The American Academy of Actuaries is working on revisions to the illustration practice notes to help. If anyone wishes to contribute a question to the practice note for consideration, please feel free to contact me at dmegregian@rgare.com.

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