AG49's Attempt to Level the IUL Playing Field

Transamerica Financial Choice IUL℠ launches amid new regulatory guidance for IUL products to align illustrated growth with actual yields.

Index universal life (IUL) is a popular tool for consumers to gain financial protection, growth potential through index accounts linked to major market indexes, downside protection[1], and supplemental income through policy withdrawals and loans[2].

The first IUL product was launched by Transamerica on January 6, 1996, and the product line has continued to expand and evolve to become one of the most popular forms of permanent life insurance today. In 2021, over 30 carriers sold a combined $3.5 billion of index universal life, according to LIMRA. As more consumers have taken interest in IULs, there has been a growing need for illustrations that more clearly communicate the features, benefits, and value of the product while showing realistic projections of potential policy performance.

Regulators began to address the need for greater consumer education and uniformity in IUL illustrations across the life industry with the introduction of Actuarial Guideline 49 (AG49) in August 2015. AG49 provided guidance to carriers in determining maximum illustrated credited rates while also placing limits on policy loan leverage in illustrations.

As the industry continues to innovate in this space with new index account offerings such as volatility-control funds (VCFs), many carriers illustrate these new features under very different parameters. This makes it difficult for consumers to compare one carrier's policy to another on an "apples-to-apples" basis.

As an example, the same carrier may offer a VCF with a lower participation rate and an annual persistency credit while also offering the same VCF with no bonus and a higher participation rate as an account option. Under current AG49 regulations, the illustrated bonus on the VCF isn't subject to maximum illustrated rate limitations and may be much larger than other index accounts such as the S&P 500® index. These differences can lead to more confusion and greater complexity among consumers trying to select the best product for them.

To bring greater transparency and consistency to the IUL market, Transamerica has taken a different approach with the launch of *Transamerica Financial Choice IUL* (FCIUL). FCIUL features five index accounts that are designed to give consumers greater choice and flexibility in how they choose to allocate their cash values over time.

The index accounts offer exposure to small-mid cap, large cap, and global equity indexes while also giving customers the option to choose from higher cap rate options in exchange for a 1% annualized fee. Transamerica also offers an index account option featuring an uncapped participation rate strategy with an annual volatility target of 5%. The current 200% participation rate means any positive index return will receive interest at a rate that is double that amount.

FCIUL is also one of the few products in the market to offer a persistency credit[3] that has no restrictions on how the policy's cash values are allocated. This allows for consistent illustrations across all index account options, making it easier for consumers to evaluate the product on its features rather than solely on how it illustrates with a particular index account. The persistency credit, currently at 0.6%, begins the later of the policy's 10th anniversary or attained age 60. The credit provides an additional boost to cash values that customers may access for supplemental income in the future.

The NAIC has proposed another update to AG49 that will eliminate the discrepancies in illustrated performance between benchmark indexes like the S&P 500 and non-benchmark indexes like VCFs to bring further clarity and uniformity to IUL illustrations. Transamerica's FCIUL was built in anticipation of these upcoming regulatory changes, which will help consumers make more informed comparisons when deciding which product best suits their needs.

[1] Guarantees are based on the claims-paying ability of the issuing insurance company.

[2] Loans, withdrawals, and death benefit accelerations will reduce the policy value and death benefit. Provided the policy is not and does not become a modified endowment contract (MEC), 1) withdrawals are tax-free to the extent that they do not exceed the policy basis (generally, premiums paid less withdrawals) and 2) policy loans are tax-free as long as the policy remains in force. If the policy is surrendered or lapses, the amount of the policy loan will be considered a distribution from the policy and will be taxable to the extent that such loan plus other distributions at that time exceed the policy basis.

[3] The Persistency Credit is a non-guaranteed, discretionary credit that may or may not be paid.

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