

## **CEJ Comments to NAIC Life Insurance Committee**

### **Regarding Life Insurance Illustration and Disclosure Work Streams**

**August 27, 2016**

My name is Birny Birnbaum. I am the Director of the Center for Economic Justice and one of the NAIC's designated consumer representatives. I've been an active participant in the life illustration ad hoc group and the LATF IUL Illustration group. I want to share my experience and insights from that participation.

First, the life illustration group. The A committee gave the life illustration Working Group the job of carrying out the charge to review the narrative summary section and requirements of the life insurance illustrations model regulation and the policy summary section and requirements of the life insurance disclosure model regulation to see if they "can be enhanced to promote consumer readability and understandability of these life insurance policy summaries, including how they are designed, formatted and accessed by consumers."

The purpose of the life insurance disclosure models is to require insurers to deliver information that will "improve the buyer's ability to select the most appropriate plan of life insurance and improve the buyer's understanding of the basic features of the policy that has been purchased or is under consideration."

Wow. That's great. So far, so good!

So the ad hoc group quickly decided that we needed to look at examples of these policy and narrative summaries and see what insurers are doing – as baseline information for carrying out the charge. ACLI kindly gathered 8 samples each for term, indexed universal life (IUL) and universal life (UL) and 6 examples for whole life.

The samples varied widely in format and page length:

Term: 2, 9, 8, 1, 4, 4, 4 and 11 pages

Whole: 5, 9, 24, 6, 8, and 6 pages

UL: 5, 18, 2, 5, 8, 9, 5 and 12 pages

IUL: 26, 37, 4, 12, 10, 29, 17, and 12 pages

Hmmm. Seems like these might not be useful for a consumer trying to compare products within a particular product group across insurers. So, I asked some colleagues to review the samples and provide feedback – after a short time, they came back and asked if instead of continuing to read these policy summaries, they could clean the bathroom or watch paint peel.

So I started reviewing the samples. It quickly became clear these documents were the evil spawn of lawyers and actuaries. After several therapy sessions, I started to compare the samples to the requirements of the models. For example, the first requirement of the policy summary in the disclosure model is: A prominently placed title as follows STATEMENT OF POLICY COST and BENEFIT INFORMATION.

So I reviewed all the term and whole life samples. None had this title. Uh oh.

Prior to our first ad hoc group call, I wrote ACLI and asked which samples were examples of the policy summary and which were examples of the narrative summary?

During our first call, ACLI's response was that the samples provided complied with all regulations.

At this point, Wisconsin posed the same question. After several meetings, as of today, we don't have the answer to that question. Apparently, the sample provided by industry are all purpose disclosures meant to fulfill any disclosure requirement of either model.

ACLI did indicate that the sample summaries were not intended for consumers, but were targeted at producers to use with consumers. This seemed at odds with the purpose of the life disclosure model.

ACLI also indicated they were opposed to any standardization of presentation of the policy or narrative summary. We were troubled by this because developing a more standard format that makes it easier for consumers to compare products across insurers is consistent with the goal of the life disclosure model.

I provide this background for two reasons. First, the state of life insurance illustrations and disclosure is really bad and the life illustration working group needs the A committee's full support to carry out its charge. Second, there is an obvious need for consumer testing of these disclosures to find out how consumers understand and use them.

Which brings me to the LATF IUL Illustration group. As you may recall, the actuaries developed actuarial guideline 49 to stop insurers' use of unrealistic illustrated crediting rates. Kansas had done a survey and found that some insurers were using 12% and 14% rates for illustrating future benefits decades into the future. So under the leadership of Fred Anderson, AG 49 was created to stop the use of these unrealistic interest rates.

But, for some reason, the requirements of AG 49 were limited only to illustrations for new business on or after the effective date. That meant that new illustrations – for things like annual reviews of existing policies or comparing existing policies to proposed replacements – would mean using pre-AG 49 rate calculations in some cases and post-AG rate calculations in other cases – even though the illustrations were provided at the same time for the same policy.

So, CEJ and AXA have been calling for application of AG 49 to all new and in-force policies on or after the effective date.

ACLI objects. Along with the AAA, ACLI argues that consumers will be confused by seeing different interest rates used in a current illustration compared to the interest rate used in an earlier illustration. Neither ACLI or AAA had any evidence to support this claim or any defense to the underlying premise that a consumer who bought a policy with unrealistic illustrated interest rates was rational, but when faced with an updated illustration showing lower, more realistic interest rates, that consumer will become confused and irrational.

The point I want to make is that actuaries are skilled in many things, but crafting consumer disclosures is not one of them. When industry resists a change to AG 49 on the basis that it will confuse consumers, it is reasonable and necessary for the actuaries to reach out to folks who have expertise in such consumer disclosure and comprehension issues.

I want to finish up by reiterating the points we made to the Life Illustration Subgroup:

1. We support the development of a 1-2 page policy summary.
2. The development of a 1-2 page policy summary does not fully address the working group's charge to review the policy and narrative summary provisions and should add to this work, not replace it.
3. The development of a more standardized format for the 1-2 page policy summary or the policy or narrative summaries from the models must not be taken off the table. Some form of standard presentation is essential to achieving the goal of the life disclosure model of facilitating consumer comparison shopping.
4. Consumer testing of the summaries must be part of the working group's activity in carrying out its charge.

Thank you for your consideration.