

SPECIAL REPORT

DATE: August 24, 2020

TO: Life Insurance Producers, Management, Office Administrators, and Technical Staff

SUBJECT: **AG 49A Transition Guidelines for Illustrations of Indexed Universal Life (IUL) Insurance**

Category	
<input type="checkbox"/>	Administration
<input type="checkbox"/>	Compliance
<input type="checkbox"/>	Marketing
<input checked="" type="checkbox"/>	Product
<input type="checkbox"/>	Risk Selection
<input type="checkbox"/>	Miscellaneous

The National Association of Insurance Commissioners (NAIC) has adopted changes to Actuarial Guideline XLIX (AG 49) resulting in the new AG 49A. AG 49A limits the illustration of certain policy features, including additional interest credits due to indexed account multipliers. See below for an overview of the new rules and transition guidelines leading up to the AG 49A effective date of Nov. 25, 2020.

Applications received in good order by Sept. 30, 2020 will receive priority processing for AG 49 compliance purposes. See page 2 and below for additional details.

To Use Current AG 49 Rules for New Business and Inforce Illustrations	AG 49A Rules Required for New Business and Inforce Illustrations
<p style="text-align: center;">REQUIREMENTS</p> <ul style="list-style-type: none"> Initial premium must be paid by Nov. 24, 2020 Policy must be delivered to the policyowner, with policy delivery receipt signed by Nov. 24, 2020 Policy delivery receipt must be received in Life Insurance Division by Dec. 18, 2020 	<p style="text-align: center;">REQUIREMENTS</p> <p>If ANY of the requirements to the left are missed, the policy will be subject to the illustration requirements of AG 49A and additional requirements may apply (see page 2)</p>
MAY USE AG 49 ILLUSTRATION RULES FOR...	MUST USE AG 49A ILLUSTRATION RULES FOR...
<p style="text-align: center;">Additional Indexed Interest Credits</p> <p>May illustrate additional interest credits due to indexed account multipliers, buy-up accounts, and persistency credits</p>	<p style="text-align: center;">Additional Indexed Interest Credits</p> <p>Limits the illustration of additional indexed interest credits due to indexed account multipliers, buy-up accounts, and persistency credits; may not exceed an illustration of the product without these features</p>
<p style="text-align: center;">Alternate¹ / Indexed / Participating Loans</p> <p>Maximum difference between loan interest rate charged and loan interest rate credited may not exceed 1%</p>	<p style="text-align: center;">Alternate¹ / Indexed / Participating Loans</p> <p>Maximum difference may not exceed 0.50%</p>
<p style="text-align: center;">Persistency Credits</p> <p>Based on and applied to accumulated value in indexed accounts and fixed account</p>	<p style="text-align: center;">Persistency Credits</p> <p>Applied to accumulated value in fixed account only (also reflects a product mechanic change for certain products; see page 2)</p>

Impacted IUL Products² – AG 49A impacts illustrations of the following IUL products:

- **Remain Available After Nov. 24, 2020, Subject to the New AG 49A Requirements:** Pacific Discovery Xelerator IUL 2 (PDX IUL 2), Pacific Indexed Accumulator 6 (PIA 6), and Pacific Indexed Estate Preserver 3 (IPEP 3).
- **Persistency Credit Change Applies in the AG 49A versions of the following products:** PDX IUL 2 and IPEP 3. For PDX IUL 2 policies, an additional credit endorsement may also apply. See transition guidelines below.
- **Discontinued Effective Nov. 17, 2020:** Pacific Discovery Protector IUL (PDP IUL). For details, see the [“Discontinuation of Pacific Discovery Protector IUL \(PDP IUL\), Effective Nov. 17, 2020” bulletin](#).

Additional Transition Guideline Information

- **New and Pending Applications** - Impacted IUL policies must be issued, have the initial premium paid, and the policy delivered with the policy delivery receipt signed by Nov. 24, 2020 and received in the Life Insurance Division by Dec. 18, 2020 to illustrate using current AG 49 rules. Otherwise, a new signed AG 49A illustration will be required, including for the following scenarios:
 - **1035 Exchanges³** – Minimum initial premium to pay the policy must be received with the new policy issued, the policy delivered, and the policy delivery receipt signed by Nov. 24, 2020. The signed policy delivery receipt must be received in Life Insurance Division by Dec. 18, 2020.
 - **Any PDP IUL Application** – New business illustrations will be turned off on Sept. 3, 2020 (except by request via the Life Insurance Division Case Design Unit). Applications will not be accepted after Sept. 30, 2020. Any pending PDP IUL policies must be issued, have the initial premium paid, and the policy delivery receipt must be signed and received in the Life Insurance Division by Nov. 17, 2020. If a PDP IUL policy cannot meet these requirements, a different product may be applied for in its place. This will require a newly signed illustration and amendment. If a PDP IUL policy delivery receipt is not signed and received in the Life Insurance Division by Nov. 17, 2020, the pending PDP IUL policy will be rescinded, and premiums refunded. See additional details [here](#).
 - **For Pending PDX IUL 2 Policies** – If a PDX IUL 2 policy has been issued with the Additional Credit Endorsement (E18ACE) but the policy delivery receipt has not been signed by Nov. 24, 2020 and received in the Life Insurance Division by Dec. 18, 2020, a new AG 49A-compliant policy without the endorsement will be issued requiring a new signed AG 49A compliant illustration.
- **Inforce Illustrations** – Impacted IUL policies must be issued, the initial premium paid, and the policy delivered with the policy delivery receipt signed by Nov. 24, 2020 and received in the Life Insurance Division by Dec. 18, 2020 to continue using current AG 49 rules for inforce illustrations.

Navigator Illustration Update

Navigator Illustration system will be updated on Oct. 1, 2020 providing the opportunity to run AG 49A compliant illustrations for impacted IUL products.

Save Time and Gather Requirements Electronically with eDelivery!

Use eDelivery to collect signatures and deliver the policy electronically without the delays of scheduling in-person meetings. eDelivery also provides an email containing the electronically signed PDF documents that can be saved for record-keeping, once all policy documents are signed.

To request eDelivery, simply write “Request eDelivery” in the application remarks section or on the cover sheet. Provide a mobile phone number and email address for both the financial professional and client within the designated fields.

The impacts to policy illustrations does not have to disrupt the way you manage your inforce IUL business.

7 Tips for IUL Illustrations and Policy Management

1. **Help Manage Client's Expectations Conservatively.** Consider providing a conservative illustration using the Classic Enhanced Performance Factor Rider⁴ design and a modest illustrated rate (e.g. 5%).
2. **Use Policyowner Statements to Report Performance.** Performance Factor information, average interest rate since policy inception, and current policy values are all prominently featured.
3. **Pay Planned Premiums.** Encourage clients to sign up for Electronic Funds Transfer (EFT) for monthly premium payments.
4. **Create Multiple Segments.** Help mitigate timing risk by automating the creation of multiple segments over time with the Scheduled Indexed Transfer (SIT) program.
5. **Allocate Broadly.** Allocate net premiums among a wide range of policy accounts.
6. **Keep Distributions on Track.** The Automated Income Option (AIO) service helps you structure a client's planned policy distributions. The service also requires annual illustrations to help keep the policy on target to remain in force to maturity.
7. **Set Automatic Reminders.** Use our Planned Performance Tracking system to set up automated eReminders to conduct annual policy reviews and enjoy instant access to policy documents and policyowner statements.

For more information, contact your Pacific Life representative or explore a wide range of educational materials at Lifeline.PacificLife.com.

Endnotes

1. Alternate Loan Rider Form #R10ALR. Riders will likely incur additional charges and are subject to availability, restrictions, and limitations. Clients should be shown policy illustrations with and without riders to help show the rider's impact on the policy's values.
2. Indexed universal life insurance does not directly participate in any stock or equity investments. Pacific Life Insurance Company's flexible premium, indexed adjustable life insurance products are: Pacific Discovery Xelerator IUL 2 (Policy form P15IUL and S18PDX2, or ICC15 P15IUL and ICC18 S18PDX2), Pacific Indexed Accumulator 6 (Policy form # P15IUL and S18PIA6, or ICC15 P15IUL and ICC18 S18PIA6), Pacific Discovery Protector IUL (policy form #P15IUL and S17PDP or ICC15 P15IUL and ICC17 S17PDP), Pacific Indexed Estate Preserver 3 (Policy form #P15SIL and S19IEP3, or ICC15 P15SIL and ICC19 S19IEP3. Policy form numbers are based on state of policy issue.
3. There are circumstances in which replacing your client's existing life insurance or annuity can benefit your client. As a general rule, however, replacement is not in your client's best interest. You should make a careful comparison of the costs and benefits, including any applicable surrender charges, of your client's existing policy and the proposed policy to analyze how a replacement may affect your client's plan of insurance. You should provide this detailed information to your client and discuss whether replacement is in your client's best interest.
4. Enhanced Performance Factor Rider, form #R18EPF and S18EPF or ICC18 R18EPF and ICC18 S18EPF, based on state of policy issue. Riders will likely incur additional charges and are subject to availability, restrictions, and limitations. Clients should be shown policy illustrations with and without riders to help show the rider's impact on the policy's values.

Indexed Universal Life Insurance generally requires additional premium payments after the initial premium. If either no premiums are paid, or subsequent premiums are insufficient to continue coverage, it is possible that coverage will expire.

Pacific Life is a product provider. It is not a fiduciary and therefore does not give advice or make recommendations regarding insurance or investment products.



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Pacific Life Insurance Company is licensed to issue insurance products in all states except New York. Product/material availability and features may vary by state. Insurance products and their guarantees, including optional benefits and any crediting rates, are backed by the financial strength and claims-paying ability of the issuing insurance company. Look to the strength of the life insurance company with regard to such guarantees as these guarantees are not backed by the broker-dealer, insurance agency, or their affiliates from which products are purchased. Neither these entities nor their representatives make any representation or assurance regarding the claims-paying ability of the life insurance company.

Pacific Life Insurance Company's individual life insurance products are marketed exclusively through independent third-party life insurance producers, which may include bank affiliated entities. Some selling entities may limit availability of some optional riders and investment options based on their client's age and other factors. Your broker-dealer or firm can help you determine which optional riders and investment options are available and appropriate for your clients.

Pacific Life Insurance Company's Home Office is located in Newport Beach, CA.

Investment and Insurance Products: Not a Deposit	Not Insured by any Federal Government Agency	
Not FDIC Insured	No Bank Guarantee	May Lose Value