

STATEMENT OF STANLEY C. DUROSE, JR.
(COMMISSIONER OF INSURANCE - WISCONSIN)
ON BEHALF OF THE
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
BEFORE THE SUBCOMMITTEE ON ANTITRUST AND MONOPOLY LEGISLATION
SENATE JUDICIARY COMMITTEE

LIFE INSURANCE COST AND BENEFIT COMPARISONS

February 21, 1973

My name is Stanley C. DuRose. I am the Insurance Commissioner for the State of Wisconsin. Today I am appearing on behalf of the National Association of Insurance Commissioners, commonly referred to as the NAIC, as Chairman of an NAIC task force which has been assigned the task of developing an improved method of cost disclosure. Having its inception in and regular meetings since 1871, the NAIC is the oldest voluntary association of state officials. It includes the principal insurance regulatory authorities of the 50 states, the District of Columbia, and the territories of the United States.

I. NAIC Task Force

In capsule form, the NAIC position is this:

1. Although much has been done in the area of life insurance cost and benefit comparisons (the details are spelled out later in this section), the NAIC believes that further improvement is needed.
2. The appointment of a Task Force by the NAIC shortly after the December 1971 meeting to study this subject is a recognition by the NAIC of the need for action.
3. The assignment of the Task Force is to produce a practical solution, one which is meaningful, understandable by the agent, and easy to explain to the average insurance prospect.
4. We do not believe that federal intervention in this area is necessary or appropriate. We believe that the states cannot only handle this problem, but we believe that they are better equipped to handle it than the federal government.

In preparing this statement and its supporting Exhibits, I have drawn upon the research facilities of the Central Office of the NAIC. Since the work of the Task Force is in its early stages and more data is being assembled (including evidence presented before this Subcommittee), it must be understood that the views which I express herein on this subject are necessarily subject to change.

Referring back to paragraph (1), it is important to keep in mind what has been done and what information is currently available.

- (a) By law, each policy must contain: (1) the premium; (2) the guaranteed cash values; (3) the interest rates; and (4) the mortality table used in calculating the reserves and non-forfeiture values. Additional policy benefits are separately priced.
- (b) Individual companies will provide to actual or potential policyholders upon request detailed dividend illustrations (future) and histories (past). The same data in much greater detail is available in the industry trade association publications issued annually and discussed in more detail later.
- (c) Many state laws have long required that intercompany comparisons -- if they are not to be incomplete -- must contain: (1) the gross premium; (2) the gross premium less any dividend; and (3) the increase in any cash values. These laws sanction the use of the traditional net cost method. Incidentally, in comparing the performance of individual companies selling participating insurance with that of other companies, the traditional method -- despite the shortcomings attributed to it -- has produced results which command a considerable degree of acceptance, largely because all companies are being compared on the same basis. To demonstrate this, we are attaching Exhibit I (which applies to Commissioner Denenberg's guide of the ten lowest and the ten highest companies), the traditional method and the interest-adjusted method with two different interest assumptions. This table shows that, although some variations resulted from the use of the interest factor at different assumptions, the ten lowest cost companies all wound up in the same general category no matter which system was employed.

As we shall show later, there are two chief complaints against the present system:

- (1) The traditional method is not sufficiently refined. The contention is that it ought to contain (i) a factor for an assumed rate of interest at which the premiums, dividends, and cash values might have accumulated; and (ii) perhaps a factor for lapse.
- (2) Many buyers of life insurance never see the comparative competitive data issued by the companies or the industry publications (it has been estimated that there is no competition in 90% of the sales) and, if the buyers do see such data, they are overwhelmed by its mass and technicalities. Consequently, the argument is that they do not have the information which would enable them to intelligently "shop the market" to get the best "buy".

On the face of it, the assignment of the Task Force to develop a better formula and format for cost comparisons looks like a simple one. But, as I shall show later in this statement, it is a very complex problem - one which has defied the best minds in the business and among the commissioners for many years. And finding the best way to make the comparative cost and benefit data available to the public for informational and comparative purposes presents some tricky problems centering around the proposition that producing the required simplicity can lead to results which may be both inaccurate and misleading. But, to summarize, the point I want to make at the outset is that cost disclosure has long been a tradition in the life insurance business. What the discussion today is about is not whether to disclose, but how to do it better.

II. Complexity of the Problem

As evidence of the complexity of the problem, I am attaching Exhibit II which shows that, in the last fifty years, no less than 21 different attempts have been made to solve this problem. Brief comments are included concerning the problems with each. Numerous people are still working to find a solution.

I also attach as Exhibit III a copy of Mr. E. G. Moorhead's foreword dated October 1969 to the National Underwriter Company's 1969 volume, "Cost Facts on Life Insurance". That publication used three bases of comparison: (1) the traditional net cost method; (2) the equalized cost method; and (3) the benefits cost method.

Mr. Moorhead is a Fellow of the Society of Actuaries. A committee of which he was the chairman developed the "interest adjusted method" of comparison; this technique was adopted by the National Underwriter Company in its book. Speaking of the book, Mr. Moorhead, after complimenting those who worked on the project, said:

Not because this is the last word - its creators make no such extravagant claim. But because it is a thoughtfully developed experiment in reconciling accuracy with clarity. (Underscoring ours)

He left it to the reader to judge the "merits and shortcomings" of each method. He expressed the thought that:

...perhaps the research that will be stimulated by this volume will uncover a method superior to any of them. (the three methods used).

Then he added a point I will stress later. Speaking of the newer methods, which are refinements of the traditional method, he said:

Of course, we must always remember that overrefinement is pointless. In the case of a participating policy a cost index can do no more than reflect the current dividend scale or a dividend history.

Then he said:

It has often been emphatically said that cost should be a consideration but not the sole consideration in a life insurance purchase. If it were possible to devise an index that would reflect the value of the services rendered by the agent and his company, the sine qua non of company financial stability and integrity, and the features of a policy other than its premium, cash values and dividends, the millenium would indeed have been reached.

The publisher made a similar point:

Under all cost methods, in comparisons involving participating policies, future dividends illustrated are based on the current dividend scale. While everyone acknowledges that no dividend scale is likely to remain

unchanged for ten or twenty years, there seems no reasonable alternative to the existing practice. Dividends are too big a factor to be ignored simply because they can't be guaranteed.

All of this adds up to one thing. Each of the formulas produced thus far has had attributed to it advantages and disadvantages,¹ and for that reason, the search for a better formula must go forward.

The complexities of the problem are illustrated in another way by the attached Exhibit IV which summarizes in some detail the following annual industry publications concerning life insurance costs and policy provisions:

1. Flitcraft Compend
2. Life Rates and Data
3. Life Reports
4. Spectator Handy Guide
5. Best's Settlement Option Manual
6. Best's Life Insurance Reports
7. Cost Facts on Life Insurance

These are the books - containing a mass of data on numerous companies - used by company people and knowledgeable agents for reference when competitive questions arise. The publishers of "Cost Facts on Life Insurance" took note of the complexities of the problem and the mass of data when they said in their introduction:

As all life insurance people know, policies of the various companies differ substantially not only as to rates, values and dividends, but also as to policy provisions and features. The nature of these differing provisions and features appears to us such that they cannot be valued by any objective cost system. They must be valued subjectively by the prospective buyer.

The existence of these publications covering hundreds and hundreds of pages of data was what Commissioner Lombard of the District of Columbia was referring to in his letter of December 1972 to Mr. Ralph Nader when he said: "If you really want to compare, you could wind up with a book that weighs about 20 pounds."

Actually, if the standard reference works referred to above were put together and weighed, they would come close to weighing 20 pounds.

III. Absence of Consensus

Strong evidence of the complexity of the problem and apprehension about oversimplified solutions can be found in the numerous differences of opinion expressed by the various commissioners in their responses to a letter from Mr. Nader. He inquired whether the commissioners thought the Pennsylvania Guides were considered "a progressive step" and whether the commissioners intended to rank and compare companies as Commissioner Denenberg had done in Pennsylvania. I tabulate below a summary of the responses as Mr. Nader's office assessed them:

1. For example, Professor Spencer Kimball in his recent article in the Wisconsin Law Review (No. 4, Vol. 1972; "What Price 'Price Disclosure'"), speaking of the interest-adjusted method, said:

One serious weakness is that this method takes no account of the gradual reduction of the amount of insurance protection provided. Another drawback is that it lends itself to "window-dressing," though somewhat less easily than the net cost method does. Furthermore, if a choice of time periods is provided, there is a possibility that purchasers will be misled by comparing 10-year prices on one policy with 20-year prices on another.

He added:

In addition, the interest-adjusted method must be modified in order to compute prices for policies with non-level premiums. Also, it is not suitable for comparing policies with dissimilar coverages, including non-level face amounts.

<u>Very Positive</u>	<u>Negative</u>
Georgia	Idaho
Guam	Kansas
Massachusetts	Missouri
New York	New Mexico
Pennsylvania	North Carolina
	Oregon
<u>Positive</u>	South Dakota
Alaska	Texas
California	Utah
Hawaii	Wisconsin
Illinois	Wyoming
Indiana	<u>Very Negative</u>
Minnesota	District of Columbia
Nebraska	
Ohio	<u>Under Review</u>
Rhode Island	
West Virginia	Six states
<u>Nader Letter Not Seen</u>	<u>No Reply</u>
Four states	Fifteen states

This varied response reflects differing views as to the appropriate technique for comparing life insurance costs. Incidentally, Commissioner Denenberg said: "We know our Guides can be improved; and we challenge our critics to put out better guides of their own."

The varying opinions, the testing of different approaches, the absence of one approach to which all adhere, reflect the complexity of the problem.

IV. Two Alternative Approaches

It is important to be clear on the alternative approaches. One possible approach is to furnish prospective buyers with competitive cost data for comparative purposes covering a group of companies to assist them in finding the best "buys" or avoiding the worst "buys." The Pennsylvania Guides fall in this category.

A second objective is to give the buyer what is, in effect, a prospectus for the single company whose insurance he is considering buying or finally decides to buy. Such a prospectus might contain a cost illustration, based on one or more of the various methods, for that company. The cost illustration could then be compared with data on a group of companies in some buyer's guide or with a prospectus submitted by a competing company or agent. Furthermore, the prospectus might be kept along with the policy so that, in the future, the buyer may compare the results illustrated with those actually realized by the company.²

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2. Professor Belth, in his recent article in the Wisconsin Law Review (No. 4, Vol. 1972), "Price Disclosure in Life Insurance," took note of the fact that differences between dividends illustrated and those paid must be expected. He suggested that companies be required to disclose in their premium notice the actual dividend for that year with the dividend illustrated. By this technique, he hoped to encourage the companies to make more realistic illustrations; however, no matter how realistic the illustration, no company can be expected to predict interest, mortality, and expense results with accuracy for decades in advance. Furthermore, pointing up the difference is not enough; human nature being what it is, many policyholders would want an explanation as to why there was such a difference. This points up the importance of devising some means of educating policyholders in advance about the reasons why dividends can go down as well as up and the uncertainties built into long-range forecasts of this kind.

The first objective poses some inherent practical problems. How much information do you provide? Literally hundreds of companies, with countless different plans of insurance, are competing for the business. Life insurance is a long-range purchase with payments spread over a period of years. The results vary markedly from company to company. No general agreement has yet been reached on the best method or methods of comparison. Thus, there is serious question as to the mechanics by which comprehensive information on all companies can be collected, compiled, distributed, and readily used on a timely basis.³

The second approach tailors the cost illustration to the particular person and plan of insurance involved in the particular sale. Such illustration can then be compared to other specific companies. From a practical standpoint, this is more manageable than the first approach. However, it does not provide a readily discernible global view of the entire industry which the first approach attempts to achieve.

V. The Uncertainty of Assumptions

Whatever approach is adopted, it is still necessary to develop one or more acceptable methods of cost comparison. The complexity of this task was previously indicated. The problem is highlighted by the manner in which life insurance is priced. Assumptions have to be made as to interest, mortality, and expense for long periods of time. Long-range forecasts are very uncertain.

For example, I am attaching as Exhibit V a graph; this shows the movement of the net rate of interest earned on invested funds by U. S. life insurance companies between 1920 and 1971. Interest rates have a profound effect on dividends. All other things being equal, a policyholder who bought a policy during the long downward slide in interest rates between 1930 and 1947 could expect that his dividends would be reduced; conversely, a policyholder who bought a contract during the long upswing in interest rates between 1947 and 1971 could expect that his dividends were going to be increased. In

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3. The problem of how to collect, disseminate, and finance intercompany competitive cost data to consumers on a mass basis -- as Commissioner Denenberg sought to do through the Pennsylvania Guides -- is far from being solved even if agreement can be reached as to an acceptable basis of comparison. The Pennsylvania Department has evidently found the cost (stationery, printing, postage, clerical help, and technical staff in assembling the data, verifying it, and keeping it up to date) to be either prohibitive or beyond its budget boundary. It has let a contract to an outside printer (Consumers News, Inc., 813 National Press Building, Washington, D.C.) who will sell the Guides for \$1.00 each with discounts for larger purchases. The National Underwriter's "Cost Facts on Life Insurance" at \$25.00 a copy (a yearly cost if the volume is to be kept up to date) is beyond the financial reach of the average consumer.

In the past, some of the more competitive companies used, as "give-aways" to potential buyers and their agents, one-sheet dividend histories covering the top 50 companies. They used Flitcraft's net cost data as a source, employed Flitcraft to print the "give-aways," and used Flitcraft's name to prove that the data had been assembled by an independent organization and was reliable.

Questions are presented: Should this task be done by departments or by statistical agencies designated by the departments and with the expense assessed against the companies as a cost of doing business? Should the work be done by independent consumer-oriented organizations? Should the work be done by the companies or by company organizations; e.g., the Institute of Life Insurance? How should the information be released -- by press release, in pamphlet form, by "give-aways," etc.?

This is no job for amateurs; there is a premium on accuracy and keeping the data up to date. A mass of figures, many changed yearly, is involved. Damage could be done to innocent third parties if mistakes are made and, if losses of consequence occur, lawsuits could be expected. The data could be misused if it is not set up and policed properly. Is the data to include all 1800 life insurance companies or just those selling participating insurance? Finally, are separate guides to be issued by each state, or is a single countrywide format more appropriate? The answers to these questions could have considerable bearing on the mechanics and financing of this project. These are some of the questions to be explored by our task force.

both cases, illustrations in the policy period on the current dividend scale did not materialize. But who could have predicted when the swings would stop or start or which way they would go? Who could foresee, for example, that AAA utility bonds purchased by insurers in 1946 would yield only 2.6%, whereas the same quality bonds would produce a yield of 8.5% in 1970 and 1971? To furnish an actual illustration of changes in dividends during the 1925-1950 period, I am attaching Exhibit VI. This shows the dividend histories during that period of two strong companies, the Equitable and the New York Life. The changes in the dividend scales of those two companies reflect the impact of these interest changes. Of course, changes in mortality and expense levels also entered into the picture then and will do so in the future.

The traditional net cost method of cost comparison has been criticized because of its failure to consider interest. Few would question that this is a defect. However, other methods proposed have not fully solved the problem of handling interest. It can safely be predicted that any interest assumed will not, in fact, correspond to actual results. The assumption is a flat interest rate over a period of time, e.g. 60 years. Actual interest rates are much more volatile. No method which has been proposed can be said to reflect an accurate appraisal of the actual cost of life insurance.

The current efforts to improve and refine the illustrations by introducing into them more assumptions, e.g. interest and lapse, should not be permitted to obscure the central fact that they are estimates only, that they cannot predict future results with accuracy, and it is virtually certain that the actual results will differ materially from those shown in the illustration. For that reason, we believe that state regulation should not go "overboard" in giving an aura of credibility to the more refined illustrations that they do not and cannot possess. We repeat, if we could be more certain of the future -- if we could predict with accuracy changes in interest, mortality, and expense -- we would not need to use safety margins on these three items in pricing life insurance. The continued need for the use of safety margins in pricing emphasizes the importance of not "overselling" the reliability of dividend illustrations no matter how many new assumptions or refinements we build into them.

Certainly the approach taken by the SEC is a relevant consideration to our inquiry concerning life insurance cost comparisons. The SEC has held mutual funds to illustrations of past results and prohibited the use of future estimates. The SEC has found from long experience that forecasting future results is a hazardous and unpredictable undertaking. Thus, before undertaking long-term forecasts, great care should be exercised to avoid or minimize those types of problems which concern the SEC and others.

Finally, I want to emphasize that I am not arguing against improving the illustrations. The improvements can be of value in comparing the current competitive statistics of the companies -- in giving the buyer a better line on where to trade. As I stated, we favor improvement in this area and are working diligently to accomplish that result. My point is that introducing refinement should make the illustrations more revealing, but it cannot change their character -- they are still illustrations, and it cannot make them more reliable in terms of long-range forecasts.

VI. Alternative Mode of Evaluation

Some have suggested that an evaluation of a company's operating results provides a more simple and more understandable over-all appraisal of a company's performance than a cost index tied to a single plan of insurance at a few different ages. The A. M. Best Company, Inc., in its life reports, has provided this data for years. Much of the information which Best relies upon comes from the NAIC Annual Statement filed each year by the company.

I am attaching Exhibit VII, a tabulation in which I have applied to Commissioner Denenberg's interest-adjusted comparison of the ten best and the ten worst "buys" -- the yardsticks used by Best in evaluating a company. These include the quality of: (1) the bonds; (2) mortgage accounts; (3) the net yield; (4) the margin on required interest; (5) expenses; (6) mortality; (7) lapses; (8) net cost; and (9) margin for contingencies. All of these factors have an impact on the cost of all of the company's plans and policies, its solvency, etc., rather than focusing on just one plan at three ages. The role of this technique of comparison deserves further consideration.

VII. Ramifications of Federal Involvement

In the 1940's and early 1950's, companies selling participating insurance and state insurance departments received a rash of complaints about reduced dividends. In some cases, the policyholder had received the impression that dividends, if permitted to accumulate, would buy substantial amounts of paid-up insurance or that the policy could become completely paid up. In some cases, policyholders had actually received a dividend illustration when they bought the policy and had laid it away with the policy. They compared the dividends illustrated with those actually paid. In each case, the response of the companies and the departments to the complaints was the same; no company could predict with certainty future mortality, interest, and expense results. Indeed, this very uncertainty is what requires the use of safety margins for interest, mortality, and expense in pricing the product in the first instance. The companies had inserted a warning at the bottom of

the illustration that the results illustrated were not guaranteed. This explanation mollified some of the complainants; others regarded the reduction in the company's earnings -- because that is what the reduced dividends reflected -- as a sign of bad management.

The problem of reduced dividends was compounded for companies suffering heavy losses because of over-liberal disability income provisions incorporated in some of their policies. Here the losses ran into millions, and, in some cases, into hundreds of millions on policies containing this feature. To cope with this problem, one major insurer divided its policyholders for dividend purposes into two classes; those whose policies contained the disability income provision and those that did not. This led to a famous lawsuit, Rhine v. the New York Life Insurance Company, 273 New York 1 (1936).

In the late 1940's, the state insurance departments encountered another problem; some companies, reluctant to incur the wrath of policyholders and agent complaints about further reduction in dividends, paid dividends which the departments felt they could not justify and, in this process, created problems of equities as between different groups of policyholders, e.g. old and new. In some cases, the departments were required to intervene.

In terms of policyholder relations, reduced dividends (whether a result of adverse interest, mortality, or expense experience) have a bad feature; the reductions sometimes extend over a period of several years. Each year, when the policyholder receives his premium notice, he is again reminded of the bad news. Conversely, when the results are good and the dividends are increased, he is again reminded of the good news.

If the federal government injected itself into this matter, either by enacting a "truth-in-life-insurance-cost" statute or by giving the assignment to some federal agency (e.g. the FTC), senators and representatives, in times of declining interest rates, adverse mortality, or poor expense experience, would also become recipients of "fan mail" on this subject, along with the company, the federal agency, and the state insurance departments.

Furthermore, enacting a federal statute on life insurance cost disclosure would only address itself to part of the problem. The states found that out years ago. Disclosure statutes of this kind must be policed. Several hundred companies and thousands of agents are involved. The adoption of a federal statute on this subject could lead to pre-emption and federal control, or joint control, where the states also continued to deal with the problem. This raises the whole question of federal regulation of insurance.

Federal interest in disclosure has extended into the automobile business (price stickers in windows), lending (truth-in-lending laws), drugs (truth in labeling), etc. Such things can be stated with certainty, e.g. the price of an automobile or accessories, the rate of interest being charged on a loan, or the amount of certain ingredients in drugs. But, we have seen that a life insurance cost illustration is different. No one knows or can predict with certainty what the results will be. We have seen that refining the illustration -- for that is what the various proposals over the years have undertaken to do -- cannot add to their certainty. I hope that the work of the NAIC committee speeds up consideration by the states of alternative methods of illustrating dividends, e.g. by net cost illustrations with a clear warning that the time value of money was not included (this would be helpful for those looking for a simple method of illustration), or by the interest-adjusted method, with a disclosure of how it works and a clear warning of its shortcomings, or perhaps something like Dr. Belth's latest idea, "the retention method," with a description of how it works and with a delineation of such shortcomings as the author has been unable to remove,⁴ or the "benefit cost ratio" method devised by Commissioner

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4. Professor Kimball, in the article quoted earlier, thought that Professor Belth's newest approach had some significant advantages over the other methods, but he said:

The lapse assumptions, and conceivably the mortality assumptions, used by Belth might not be considered suitable by an individual policyholder. This would be particularly true if an individual plans in advance to lapse a policy as part of a personal financial blueprint. However, no one can predict his future with certainty; and the use of group averages for mortality and lapse can hardly be avoided any more than an interest assumption can be avoided.

(Footnote continued at bottom of next page)

Denenberg and Harwood Rosser, the Department's actuary.⁵ But, whatever method is used, I believe consideration should be given to something not now being done - the inclusion of a bold warning notice, extending completely across the face of the illustration, directing the reader to read the reverse side of the illustration. There, provision could be made for: (1) a description or explanation of how the illustration system works; (2) a clear-cut definition of what the system can and cannot do; and (3) a statement that the results are not guaranteed, plus an explanation of why this is so.

This is what the publishers of "Cost Facts on Life Insurance" felt it necessary to include in their publication which is read by innumerable insurance people. Commissioner Denenberg included somewhat similar information in the foreword to his cost Guides. In my judgment, it is not enough to put this warning data in a separate place where it can be lost or mislaid; I think the information should be printed on the reverse side of the illustration.

If all policyholders are to receive a copy of these illustrations - and they are to be laid away with the policy (indeed, why should not the illustrations contain a suggestion to that effect?) - we can expect, if mortality, interest, or expense results deteriorate, literally thousands of inquiries or complaints in the future unless the illustrations spell out in detail their whys and wherefores, as well as their strengths and weaknesses. The suggestions I have advanced above anticipate this problem and I believe should go a long way towards solving it. In any event, this technique is before the NAIC committee for consideration.

VIII. The Wisconsin Regulation

I have been asked: Why did you introduce a disclosure regulation in Wisconsin (see Exhibit VIII requiring the agent (or company) to leave what is, in effect, a price comparison index based on the interest-adjusted method with the policyholder when you are still working on an improved cost comparison method?

4. (cont)

Speaking of Belth's new proposal, Professor Kimball says:

One drawback to the Belth approach is that the calculations involved are even more complex than the interest-adjusted method, and are less readily understood. On the other hand, the only method of comparison easily understood by the layman is the net cost method. However, that calculation provides misleading information. Thus, it is better that the consumer rely on complex but accurate information than on simple but deceptive data.

It is worth noting that one life insurer, the Equitable Life Insurance Society of the United States, suggested that the major defect in the net worth system - the failure to take into consideration the time value of money - could be overcome by pointing out in the illustration that no adjustment had been made for interest. This suggestion would preserve the simplicity of the traditional system and, at the same time, would warn the consumer that interest had not been taken into consideration.

Not all would agree with Professor Kimball's assertion that it is better for the consumer to rely on complex but accurate information because complex proposals like that advanced still involve numerous assumptions which may prove inaccurate over the long pull.

5. This approach was described in an article in Best's Review (October, 1972) as follows:

Three separate ratios are determined: beneficiary's ratio; survivor's ratio; and a combined ratio. The combined ratio adds the value of death benefits during the first 20 years and the 20th year cash value and divides them by the present value of premiums paid. This ratio is subtracted from "1". The difference is described as the "expense and profit ratio". Companies are then ranked from low to high.

The "benefit cost ratio" undertakes to meet one of the major criticisms leveled at the interest-adjusted method; it takes into consideration the cost if the insured dies or if he lives. On the other hand, this method is subject to the same criticism as many of the other methods; namely, that the calculations are complex. Furthermore, the ratio appears to be the measure of the company's profit margin, which it is not.

My answer is that I believed that the introduction of such a requirement would provide additional impetus for the industry to speed up its own efforts to improve the cost illustration methods. Furthermore, the use of the interest-adjusted method, even though it has admitted defects, would give us an opportunity to experiment. That point is made in the note to the Regulation.

For years, many companies have asserted that, under the legal reserve life insurance system, one company is as good as another. I do not accept this argument. Experience has taught us that, as between companies, the quality of management differs. Some companies have more economical systems of sales distribution. Some pay lower rates of commission. Some companies operate more efficiently than their competitors. Some companies are more selective in their underwriting than others. Some companies aim their selling efforts at different markets, e.g., blue-collar workers versus professionals and entrepreneurs. These differences are reflected in the cost of the policies which they sell, the policy terms, and the caliber of the service which they and their agents render. Some of the companies which have been suggesting to policyholders that all insurers are alike have been making quite a different argument to their stockholders, asserting that the earnings of companies vary markedly from company to company. Disclosure required by the Securities and Exchange Commission reveals a difference in earnings between insurers; and the market for their common stocks reflects the public's appraisal of their future earnings potential for stockholders.

IX. Standardization of Policy Forms

I have been asked whether we would favor standardization of policy forms. In responding, I do so as an individual, since the NAIC has not adopted a position on this point.

This is a controversial subject with a long history. We had experience for many years with the standard fire policy. It was used by a cartel with standard rates and commissions to prevent price and policy form competition in the fire insurance business. We had experience with the standard auto policy which was also used to prevent price and policy form competition. Standard forms are still used to some extent in the fidelity and surety business. One of the tests of workable competition under the antitrust laws is whether there is product differentiation (in this case, difference in policy forms), etc.

We recognize that variations in policy forms have been used to deter meaningful price comparisons. This was fully developed in the Kimball-Hanson paper of 1963 on "The Regulation of Specialty Policies in Life Insurance". In the absence of the cartel arrangements, standard life policies could facilitate more informed price competition and could possibly lead to better public understanding and confidence in the product. But, if product differentiation is important, as well as price differentiation, I think you would find most insurance commissioners urging a "go slow" policy in adopting standard forms in this era of consumerism. The policy forms are approved by the states. It would make life easier for us "bureaucrats" if standard forms were used. But I think that, on balance, many commissioners would argue that differences and competition in policy forms provide a more flexible climate for improvement and innovation. This subject deserves much more research, discussion and consideration by all concerned.

Conclusion

I believe that we in the NAIC and in Wisconsin must press forward for a better method of pointing up the differences between companies and making such information more readily available to the consumer. A sound solution would set the stage for more informed competition and consequently for a better break for the consumer. We pledge ourselves toward an aggressive search for methods of disclosure which will accomplish these objectives. We have assurances from the industry, notwithstanding positions which they formerly advocated, that they are now prepared to actively participate in this undertaking. These assurances indicate industry awareness of the importance in this era of consumerism, of making the consumer's dollar go further, and gives us hope that, with the fruits of our efforts, we can provide something constructive without undue delay.

EXHIBIT I

Cost Illustrations¹ - \$10,000 "Straight Life"
20-Year Annual Costs Per \$1,000 Face Amount

Male Age 35

(Company Rank in Parentheses)

<u>Company</u> ²	<u>Traditional</u>	<u>Interest-Adjusted</u>	
		<u>2-1/2%</u>	<u>4%</u>
"10 Lowest Cost"			
Bankers Life	3.25 (2)	1.69 (1)	4.20 (1)
Home Life	2.03 (9)	2.20 (5)	4.31 (2)
National Life	3.56 (1)	1.88 (2)	4.63 (5)
Connecticut Mutual	2.65 (6)	2.28 (6)	4.79 (6)
Phoenix Mutual	2.98 (5)	2.44 (8)	5.19 (9)
Northwestern Mutual	2.99 (4)	2.01 (3)	4.55 (3)
Central Life	3.08 (3)	2.03 (4)	4.62 (4)
State Mutual	2.61 (7)	2.29 (7)	4.79 (7)
Modern Woodmann	1.40 (10)	3.02 (10)	5.25 (10)
Lutheran Mutual	2.48 (8)	2.45 (9)	4.95 (8)
"10 Highest Cost"			
Georgia International	4.09	7.66	9.45
State Life (Ind.)			
Valley Forge			
Employers Life			
Old Republic	2.53	6.57	8.59
Wabash Life			
Pennsylvania Life			
Puritan Life			
Security Life	1.86	6.49	8.83
Travelers	2.64	6.53	8.47

1. Based on 1969 illustrative dividends; taken from "Cost Facts on Life Insurance," copyright 1969, The National Underwriter Company.
2. The "10 Lowest Cost" and "10 Highest Cost" companies from Charts 2 and 3, "A Shopper's Guide to Life Insurance".

EXHIBIT II

<u>Method</u>	<u>Source</u>	<u>Description</u>	<u>Criticisms of Method</u>
1. Traditional	Flitcraft Compend, (1918). Also described in "Moorhead Report" and "Cost Facts".	Net cost equals gross premiums less dividends less cash value at end of period.	Does not adjust for time value of money; insurance protection appears to cost nothing; implies that high premium plans are better buys.
2. Yield Method	M. Albert Linton (1927-1963). Described in "Cost Facts" and "Retail Price Structure" Refined by Prof. Stuart Schwarzschild, <u>Journal of Risk and Insurance</u> , 9/67, 9/68, 12/68.	Cost of term insurance for net amount at risk is assumed at a uniform rate and subtracted from each year's net premium. Difference is assumed to be invested and is compared with cash value of policy.	Results vary widely from results obtained by other methods and are unpredictable; selection of acceptable term rates poses a problem.
3. Accumulated Premiums	Matteson and Harwood, American Institute for Economic Research, Great Barrington, MA. (1960); also described in "Retail Price Structure".	Premiums less dividends are accumulated at an assumed interest rate to the end of the period, cash value is subtracted, and the difference is divided by face amount to determine price per thousand for the time period.	Ignores declining amount of net protection; results apply only to those who survive, persist and then surrender at the end of the period; cannot be used to determine dissimilar policies.
4. Investment Quotient	H. W. Baird, NML Insurance Co. (1960)	Guaranteed cash value is divided by total net premium to yield "Investment Quotient". The higher the quotient, the better the value.	Does not include surrender dividends (because surrender not required); no adjustment for time value of money.
5. Benefits-Premiums Ratio	<u>Journal of Finance</u> (12/63); also, "Retail Price Structure".	Present value of life benefits and present value of death benefits are calculated based on assumptions as to interest, mortality, and persistency, present value of benefits is divided by present value of premiums to obtain benefits-premium ratio.	Enormously complex mathematics; interest, mortality, and persistency assumptions are arbitrary; divides policy into savings and protection.
6. One-Thirtieth	Moorhead and Belth, <u>Journal of Risk and Insurance</u> (1965).	Premiums accumulated for 20 years at an assumed rate of interest (the rate currently used for dividend accumulations) less dividends, less cash value are divided by 30. 30 represents the amount to which a dollar will accumulate at 3-3/4% over 20 years.	Same as criticism for "Interest-Adjusted" on page 4.
7. Level Price	Belth, "Retail Price Structure" (1967).	Yearly price per thousand of net protection is calculated by accumulating previous year's cash value and the current premium at an assumed rate of interest; the end-of-year cash value is deducted; the difference is the price of protection	Extremely complex mathematics; divides policy into savings and protection; imputes interest; policy with highest cash value has highest price; assumes arbitrary lapse rates.

<u>Method</u>	<u>Source</u>	<u>Description</u>	<u>Criticisms of Method</u>
		(cont) for one year. Yearly prices are then converted into a level price per thousand of net protection.	
8. Lewis Modification of Level Price	C. Lewis, NML Ins. Co., <u>Transactions of the Society of Actuaries</u> , Vol. 19 (1967).	Belth system corrected for a mathematical flaw and eliminating calculation of yearly amounts of protection.	Same as for the "Level Price" method.
9. Company Retention	Belth, <u>Journal of Risk and Insurance</u> , 3/69; <u>Money</u> , 1/73; 1972 <u>Wisconsin Law Review</u> , No. 4.	Present value of dividends, cash values and death benefits is subtracted from the present value of premiums, assuming 5% interest rate and industry-wide mortality and lapse rates. The difference is the amount retained by the company. The higher the amount retained, the higher the cost of insurance.	Calculations are complex; measurement of company "retention" is only approximate and somewhat arbitrary; divides policy into savings and protection.
10. E-Value	Belth, <u>Journal of Risk and Insurance</u> , (3/69).	Similar to Benefits-Premium ratio, except difference between present value of benefits and present value of premiums is described as an absolute value rather than a ratio. The higher the E-Value, the higher the policy's cost.	Same as for Benefits-Premium ratio.
11. Benefits Cost	"Cost Facts" (1969).	Yearly prices as calculated by the "Level Price" method are reduced to reflect current mortality.	Same as for "Level Price" method.
12. Present Value of Premiums	C. L. Trowbridge, Bankers Life Co., (1969).	Basic price index is present value of all future premiums less present value of future dividends, discounted for both interest and mortality.	Laborious calculations; requires illustrative dividends extending over entire life of policy; selection of interest rates and mortality tables is arbitrary.
13. Baird Combined Value Index	H. W. Baird (1969), described in "Moorhead Reports".	Three indexes are calculated: death benefit index (face amount divided by net premiums); survival benefit index (cash value divided by net premiums); and combined value index (average of the death benefit and survival benefit indexes, weighted by respective probabilities of dying and surviving). Highest combined value index indicates the most attractive value.	No criticisms are reflected in the literature.
14. Interest Adjusted (also known as Equalized Cost Method)	"Moorhead Report" (1970); "Cost Facts" (1969).	Premiums accumulated at an assumed rate of interest, less dividends accumulated at assumed rate of interest, less cash value are divided by the amount to which a dollar paid at the beginning of each year will accumulate	Cost of insurance appears to be increased by imputed or foregone interest; cost per year varies with the interest rate selected; plays into the hands of replacers and mutual fund salesmen; divides policy into savings and protection.

<u>Method</u>	<u>Source</u>	<u>Description</u>	<u>Criticisms of Method</u>
		(cont) during the period. For 20-year illustrations, using a 4% per year interest rate, the divisor is 30.969.	
15. Ryall	Prof. P. Ryall, Univ. of Toronto; <u>Transactions of the Society of Actuaries</u> , Vol. 23, 1971; also described in "Moorhead Report".	Similar to "Interest-Adjusted" except dividends and cash values are discounted for mortality using the 1958 CSO Mortality Table.	Concept not easy to grasp and requires factors not usually available; average mortality rate applicable to large group has little meaning for an individual.
16. Standard Mortality Cost	Stanley Hill, <u>Transactions of the Society of Actuaries</u> , (11/71).	Twenty-year interest-adjusted costs are divided by the value of mortality protection provided during the 20-year period. The result is "Cost per dollar of standard mortality cost" and is presumably a measure of the expense charges.	Contract is divided into savings and protection; all expenses are related to the amount at risk and none to the cash values.
17. Ryall Comparison	Prof. P. Ryall, 5/72; paper submitted to but not published by the Society of Actuaries.	Interest-adjusted costs, calculated in the usual way, are divided by a theoretically determined premium which is exactly sufficient to provide all contract benefits without allowing for expense. Resulting ratio can be interpreted as a measure of the mark-up for expenses.	Incredibly complex; resulting ratios bear no relationship to actual expense margins.
18. Todd Graphical Comparison	J. O. Todd, NML Agent; Madison Symposium, 5/72.	Assuming an annual premium of \$1,000, death benefits and cash values are graphed from date of issue to age 80. This permits comparison of death benefits and cash values between a number of different contracts and also permits comparison between life insurance cash values and savings accumulated at 3% interest.	The graphs do not produce a single index number for cost comparison purposes.
19. Benefit Cost Ratio	Harwood Rosser, Penn. Ins. Department <u>Best's Review</u> , 10/72.	Three separate ratios are determined: beneficiary's ratio; survivor's ratio; and a combined ratio. The combined ratio adds the value of death benefits during the first 20 years and the 20th year cash value, and divides them by the present value of premiums paid. This ratio is subtracted from "1". The difference is described as the "expense and profit ratio". Companies are then ranked from low to high.	Complex calculations; potential misunderstanding that ratio is real measure of company's profit margin, which it is not. (Note: This method apparently derived from Harold Baird's Combined Value Index, No. 13, above.)

<u>Method</u>	<u>Source</u>	<u>Description</u>	<u>Criticisms of Method</u>
20. Policy-holder's Amount at Risk Comparison	Prof. William Scheel, Univ. of Alberta; Prepared for NAIC Task Force, 11/72.	An exceedingly sophisticated mathematical application of risk theory.	Very difficult to understand.
21. Weisleder Comparison	Stanley Weisleder, Consulting Actuary; Reported in <u>National Underwriter</u> , 12/9/72.	Similar to Interest-Adjusted.	Same as for "Interest-Adjusted" method.

EXHIBIT III

FOREWORD

The National Underwriter Company and all its good people who have produced COST FACTS have earned the thanks of many who are seeking better methods to display comparative life insurance costs. Not because this is the last word--its creators make no such extravagant claim. But because it is a thoughtfully developed experiment in reconciling accuracy with clarity.

The reader of this book can judge the merits and the shortcomings of each of the methods displayed. Perhaps many will conclude that each of them has its peculiar advantages and that the choice depends upon the circumstances. And perhaps the research that will be stimulated by this volume will uncover a method superior to any of them.

Of course; we must always remember that over-refinement is pointless. In the case of a participating policy a cost index can do no more than reflect the current dividend scale or a dividend history. Furthermore, no index, no matter how comprehensive, can effectively substitute for detailed comparisons of each year's gross premium, cash value and dividend.

It has often been emphatically said that cost should be a consideration, but not the sole consideration, in a life insurance purchase. If it were possible to devise an index that would reflect the value of the services rendered by the agent and his company, the sine qua non of company financial stability and integrity, and the features of a policy other than its premium, cash values and dividends, the millenium would indeed have been reached.

I feel sure that this book will be recognized as a timely and valuable service to the insuring public and to our industry.

Winston-Salem, North Carolina
October, 1969

E. J. Moorhead

EXHIBIT IV

PUBLISHED SOURCES OF INFORMATION ON LIFE INSURANCE COMPANIES,
THEIR CONTRACTS, FINANCIAL OPERATIONS, PREMIUMS,
DIVIDENDS, AND CASH VALUES

1. Flitcraft Compend

Since at least 1913 there has been available to the public the "Flitcraft Compend". This is a handbook published yearly by the A. M. Best Co., Morristown, New Jersey. The cost has ranged from \$1.65 immediately after World War I to \$5.75 at the present time. The current "Flitcraft" -- some 800 pages -- covers about 400 companies, with approximately 99% of the legal reserve life insurance business in the United States. It also reports on selected fraternal companies. The "Flitcraft Compend" has been an independent source of cost information on the policies sold by these companies.

It contains information on policy provisions; premium rates; cash values and dividends, including terminal dividends, plus financial figures, business ratings and settlement options.

"Flitcraft" provides net cost illustrations on the current dividend scale for both 10 and 20 years, as well as actual dividend histories for the previous 20 years, on a year-to-year basis. This enables the user to compare past performance as well as "illustrations" of future performance.

"Flitcraft" net cost illustrations have been criticized in recent years because they do not take into consideration the time value of money. However, all companies are compared on the identical basis, so "Flitcraft" has long provided a quite accurate measure of intercompany performance for similar plans of insurance.

2. Life Rates and Data

"Life Rates and Data" is the current successor to "Little Gem". "Little Gem" was started in approximately 1902. The book is published annually by the National Underwriter Company and currently costs \$5.96. The current edition, some 650 pages, provides information on individual companies covering premium rates; cash values; dividends (including terminal dividends); and dividend illustrations for 10 and 20 year periods. The book also has an analysis of each company's policy contracts, covering their salient features. These include the contestable clause; reinstatement provision; arrangements to change the plan of insurance; policy loan interest rate; option rates; dividend refund at death (if any); the semi-annual, quarterly and monthly premium factors; the availability of premium waiver and accidental death benefits; exclusions for occupational activities (for such things as aviation); and the interest rate on dividend accumulations.

3. Life Reports

"Life Reports" covers the financial and operating results of over 1,200 life insurance companies. It is published annually by the National Underwriter Company and is currently more than 800 pages. It costs \$13.77. It covers the following subjects: corporate history; corporate affiliations (e.g., holding companies, affiliates); dividend scale changes; a description of current operations including the states where licensed; and statistics for recent years as to assets, policy reserves, capital and surplus, paid-for insurance, insurance in force, premium income, total income, dividends to policyholders, net gain from operations, total benefits paid. It also includes a summary of the most recent annual statement, and a brief description of the investment portfolio.

This periodical does not undertake to rate companies although comparative data is provided which facilitates comparisons.

4. Spectator Handy Guide

"The Spectator Handy Guide" is issued annually by The Spectator Co. of Radnor, Pennsylvania. This volume sells for \$25.60. The current issue is 1,500 pages and covers virtually all major life insurance companies. The purpose of the "Spectator" is to provide: (1) premium rates on different plans of insurance at different ages; and (2) a complete specimen copy of the policy contract, including a typical specifications page with premium schedule; table of guaranteed cash values; contract provisions; policy loan provisions (including the interest rate); dividend provisions (including the first year in which dividends are payable and whether any dividend is paid at death); a statement of the interest assumption and mortality table used in calculating reserves; and a complete description of the guaranteed settlement options, waiver of premium benefit on disability and accidental death benefit.

5. Best's Settlement Option Manual

"Best's Settlement Option Manual" has been published annually by the A. M. Best Co. since approximately 1940. This periodical is approximately 800 pages long and covers approximately 120 of the largest life insurance companies. It sells for \$14.41. It describes specific option arrangements; company practices; individual company option rates; and information on supplemental government plans such as Social Security and Medicare.

6. Best's Life Insurance Reports

"Best's Life Insurance Reports" is published annually by A. M. Best Co. (Best publishes a similar guide for property and liability insurance.) This book has over 1,800 pages and costs \$50.00. It has been published since 1906. The current edition covers about 98% of the life insurance business in the United States.

The information on each company, including operating data, is extensive. The data includes: (1) a statement of assets and liabilities and summary of operations for the most recent year; (2) a description of the business in force; (3) premium income by line of business (ordinary, group, industrial, etc.) for a period of years; (4) operating income and operating gain for a period of years; (5) a summary description of the investment portfolio including Best's comments on the quality of the bond and mortgage portfolios; (6) investment yield for a period of years for each type of investment; (7) company history; (8) description of reserve basis; (9) listing of all officers, directors and the territories in which licensed; (10) significant operating ratios for a number of years including lapses, average size policy (issued and in force), average premium per thousand and renewal expense ratio per thousand; and (11) tabulation for a period of years on new business issued, insurance in force, assets, surplus and reserves.

Best gives an evaluation of the following categories of operations: (1) net yield (rated from "excellent" to "exceptionally low"); (2) the relationship between the interest rate required to meet the reserve assumption and the actual interest rate, with the margin described as "more than ample," "ample," or "sufficient"; (3) expenses (graded from "relatively low" to "excessive"); (4) mortality (graded from "very favorable" to "unfavorable"); (5) lapses (graded from "very low" to "high"); (6) net cost to policyholders (graded from "remarkably low" to "high"); and (7) the company's overall margins for contingencies (graded from "most substantial" to "considerable").

Attached is an excerpt from "Best's Reports" entitled "Basis and Form of Our Reports". This outlines the techniques used by Best for rating and illustrating purposes. For illustrative purposes, we have also attached Best's current report on the Prudential Insurance Company of America. This shows how Best's format is applied to an individual company.

7. Cost Facts on Life Insurance

"Cost Facts on Life Insurance" was published in October, 1969 by the Diamond Life Bulletin department of the National Underwriter Company. This book was published only one time. It consists of approximately 220 pages and cost \$25. The publisher has not kept it up to date (presumably because of the current controversy); and since it does not reflect dividend changes by the insurance companies since 1969, the comparative data is now out of date. It covers only ___ companies.

It shows illustrated costs for 5, 10, 15 and 20 year periods based on 1969 dividend scales on: (1) the traditional net cost method; (2) the "equalized cost" method (better known as the "interest-adjusted method"); and (3) the "benefits cost" method (under which yearly prices as calculated by Professor Belth's "level price" method are reduced to reflect current mortality).

The book then tabulates for comparative purposes the costs for 20-year periods on these three cost methods, using two different assumed interest rates, 2-1/2% and 4%.

8. Pennsylvania Insurance Department "Shoppers Guide"

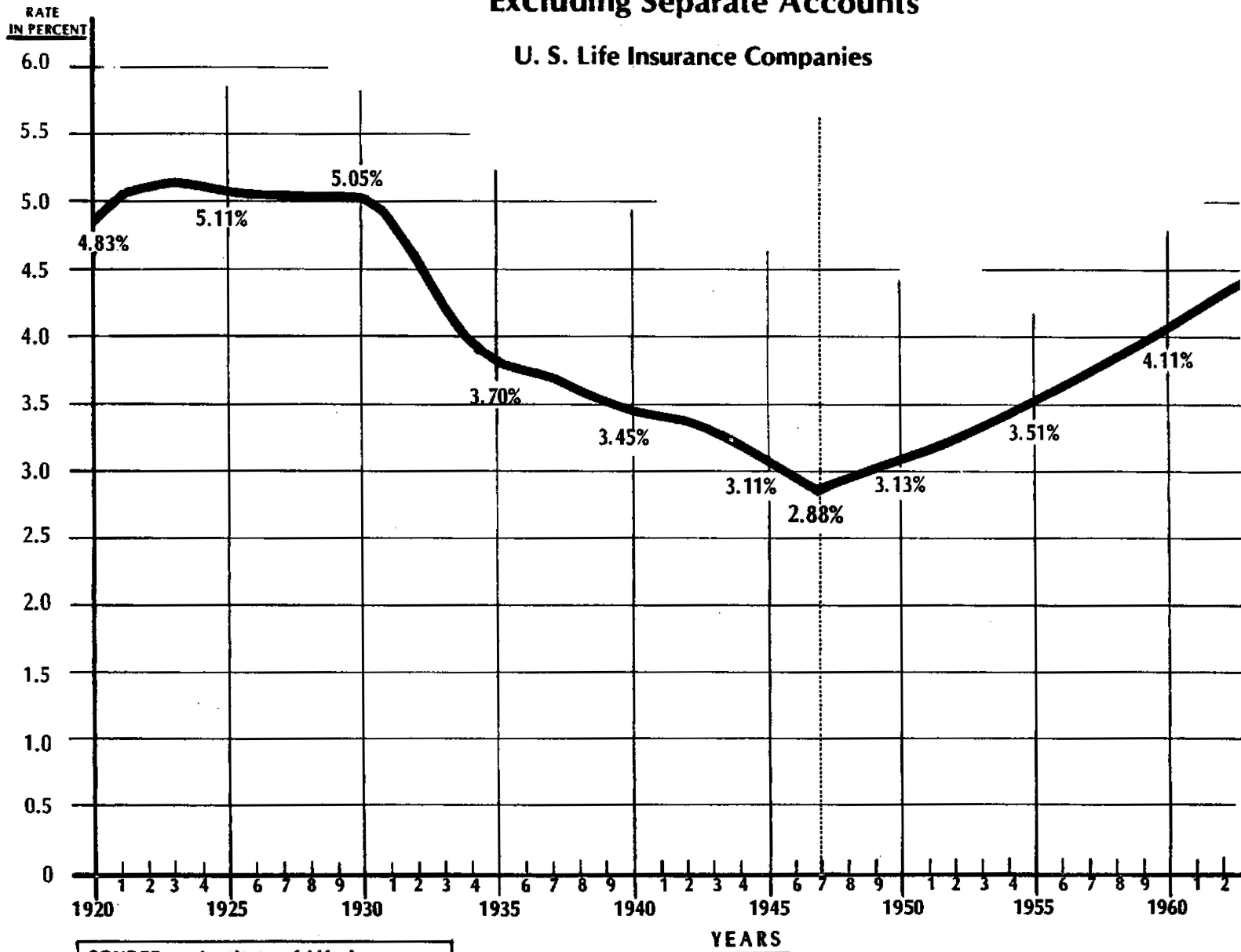
"A Shopper's Guide to Life Insurance," issued by the Pennsylvania Insurance Department in April, 1972, undertakes to identify the ten lowest cost straight life insurance policies sold by the 166 largest companies doing business in Pennsylvania. "Considering cost only," the Guide says, "these are the 10 best buys for life insurance among the companies listed." The Guide also undertakes to show the ten highest-cost life insurance policies based on cost only. These are described as the "ten worst buys" of the life insurance companies listed. The basis for this comparison is the so-called "interest adjusted" method recommended by the Moorhead Committee which, in turn, served as the basis for the book "Cost Facts on Life Insurance" published by the Diamond Life Bulletin department of the National Underwriter Company.

The "Shopper's Guide" also tabulates the costs of the straight life policies of the 50 largest companies in Pennsylvania on the same basis.

NET RATE OF INTEREST EARNED ON INVESTED FUN

Excluding Separate Accounts

U. S. Life Insurance Companies



SOURCE: Institute of Life Insurance

EXHIBIT VI

<u>Year</u>	<u>Equit, N. Y. Div. Action</u>	<u>N. Y. Life Div. Action</u>
1925	No change	Increased
1926	Increased	Increased
1927	No change	Increased
1928	"Slight Increases"	No change
1929	No change (a few slight increases)	Increases at issue ages over 40
1930	Modified (some increases, some decreases)	No change
1931	"Slight decrease"	No change
1932	8% decrease	Decreased
1933	Decreased	Decreased
1934	Decreased	Decreased
1935	Decreased	No change
1936	6% Decrease	Decreased
1937	"Scale readjusted"	Increased
1938	No change	Increased
1939	No change	Increased
1940	Increased	Decreased
1941	Revised	Modified (some increases, some decreases)
1942	Modified (some increases, some decreases)	Decreased
1943	No change	No change
1944	12% increase	No change
1945	No change	No change
1946	No change	No change
1947	Adjusted	No change
1948	9% reduction	Modified (some increases, some decreases)
1949	Increased	Increased
1950	Increased	No change

Source: 1951 Unique Manual
2/13/73 - N.C.O.

NYLICELAS

Increase	8	6
No change	10	8
Modified	2	5
Decrease	6	7

EXHIBIT VII

[illegible]

	REQUIRED INTEREST		More than ample	Ample	Sufficient	EXPENSES Remarkably Low	Very Low	Low	Fairly Low	Moderate	Fairly Moderate	Fairly High	Very High	Excessive	MORTALITY Very Favorable	Favorable	Reasonable	Unfavorable
	Bankers Life			X			X								X			
	Home Life		X				X								X			
	National Life		X			X									X			
	Conn. Mutual		X				X								X			
	Phoenix Life		X				X								X			
	Northwestern Mutual Life		X			X									X			
	Central Life		X				X								X			
	State Mutual			X			X									X		
	Modern Woodmen		X							X						X		
	Lutheran Mutual		X				X								X			
	Georgia International		X					X								X		
	State Life		X							X						X		
	Valley Forge		X					X								X		
	Employers Life		X							X						X		
	Old Republic		X					X								X		
	Wabash Life		X							X						X		
	Penn. Life		X							X					X			
	Puritan Life			X				X								X		
	Security Life		X				X								X			
	Travelers		X				X								X			

[illegible]

EXHIBIT VIII

Ins 2.14 Sale of life insurance policies; disclosure requirements and deceptive practices. (1) **PURPOSE.** The interests of prospective purchasers of life insurance must be safeguarded by providing such persons with clear and unambiguous statements, explanations and written proposals concerning the life insurance contracts offered to them. This purpose can best be achieved by requiring disclosure of certain information and defining those acts or practices which are deceptive or misleading or misrepresent the terms of the contract or in some other way are contrary to Wisconsin statutes. This rule interprets and implements, including but not limited to the following Wisconsin statutes: Sections 201.53 (1) and (13), 206.41 (10) (a) 7. and 8., 206.51, 207.04 (1) (a) and (f), and 601.01 (3) (b).

(2) **SCOPE.** This rule shall apply to any solicitation, negotiation, or procurement of any insurance specified in section 201.04 (3), Wis. Stats., occurring within this state. This rule shall apply to fraternal benefit societies and the State Life Insurance Fund. This rule shall not apply to solicitations that constitute an invitation to inquire about an insurance product and which solicitations are not, in themselves, a solicitation of insurance. Subsection (3) (c) of this rule shall not apply to credit life insurance nor to group life insurance.

(3) **DISCLOSURE REQUIREMENTS.** In connection with the selling of life insurance the agent or insurer shall in every case to which this rule applies:

(a) Inform the prospective purchaser that he is acting as an insurance agent.

(b) Inform the prospective purchaser of the name of the insurance company for which he is a licensed agent.

(c) Provide to the prospective purchaser prior to or with the delivery of a contract, a dated, written proposal describing the significant elements of the contract including but not limited to:

1. The name and signature of the insurance agent, or the name of

the employee of the insurer if no agent is involved, who assumes responsibility for the proposal.

2. The name of the company in which the life insurance is to be written.

3. The name of the policy or contract and any supplemental riders.

4. Except for such combinations as are authorized by Wis. Adm. Code section Ins 2.05, the premiums for the life insurance shown separately from the premiums for each additional or supplemental benefit provided in the contract.

5. The face amount of the life insurance shown separately from the amounts of coverage shown for any additional or supplemental benefit provided in the contract.

6. All matters pertaining to life insurance set forth separately from any matter not pertaining to life insurance.

(4) **DECEPTIVE PRACTICES DEFINED.** The following are defined to be prohibited unfair practices or deceptive acts in the selling of the insurance described in subsection (2) above:

(a) The making of any misrepresentation or false, deceptive or misleading statement.

(b) The use of terms such as financial planner, investment adviser, financial consultant or financial counselling to imply that the insurance agent is generally engaged in advisory business in which compensation is unrelated to sales unless such is actually the case.

(c) The use of comparisons or analogies or the manipulation of amounts and numbers in such a way as to mislead the prospective purchaser concerning the cost of the insurance protection to be provided by the insurance contract or any other significant aspect of the contract.

(d) The reference to an insurance premium as a deposit, an investment, a savings or the use of other phrases of similar import when referring to an insurance premium.

(e) In respect to participating policies, the description of the policy dividend as other than a refund or return of part of the premium paid, which is not guaranteed and which is determined by the investment earnings, mortality experience and expense experience of the company.

(f) The making by the agent or insurer of any misleading statement concerning:

1. The cash surrender values and nonforfeiture benefits.
2. The source of the increase in cash surrender value, including the period of time to which such increase is related.
3. The valuation interest rate used to establish the reserve value of the contract or the relationship of such rate to the determination of cash surrender values.

(g) Recommending to a prospective purchaser the purchase or replacement of any life insurance policy or annuity contract without reasonable grounds to believe that the recommendation is not unsuitable for the applicant on the basis of information furnished by such person after reasonable inquiry as may be necessary under the circumstances concerning the prospective buyers insurance and annuity needs and means.

(5) **EFFECTIVE DATE.** This rule shall apply to all solicitation of life insurance on or after June 1, 1972.

(6) **PENALTY.** Violations of this rule shall subject the insurance company or agent to section 601.64, Wis. Stats.

(7) **SEPARABILITY.** If any provision of this rule shall be held invalid the remainder of the rule shall not be affected thereby.

History: Cr. Register, March, 1972, No. 195, eff. 4-1-72.

Ins 2.15 Life insurance surrender value comparison index. (1) PURPOSE. The interests of prospective purchasers of life insurance can be safeguarded by providing such persons with an index of the surrender value of the policy prepared on a basis suitable for comparison with similar plans of insurance. It is in the public interest to develop such a surrender value index so that price competition in the life insurance market is encouraged and stimulated. This rule interprets and implements, including but not limited to the following Wisconsin statutes: sections 201.53 (13), 206.41 (10) (a) 7, and 8., 206.51, 207.04 (1) (a) and (f), and 601.01 (3), (b), (c), (g) and (j).

(2) **SCOPE.** (a) Except as provided in paragraph (b) this rule shall apply to any solicitation, negotiation, or procurement of life insurance occurring within this state.

(b) This rule shall not apply to:

1. Annuities,
2. Credit life insurance,
3. Franchise life insurance,
4. Group life insurance,
5. Term life insurance,
6. Plans of life insurance with benefits which vary by policy duration including but not limited to such plans as retirement income and variable life insurance,

7. Benefits which are supplemental to basic life insurance benefits such as accidental death and dismemberment, waiver of premium, or guaranteed insurability benefits (if the cost of any of these benefits are included in the price of the basic life insurance without separate identifiable charge, then in calculating the life insurance surrender value comparison index a reasonable adjustment in the annual premium payable on a per \$1,000 basis may be made),

8. Benefits purchased by a special option applicable to dividends,
9. Life insurance policies wherein the face amount of insurance is \$5,000 or less,
10. Life insurance on substandard risks,

(3) LIFE INSURANCE SURRENDER VALUE COMPARISON INDEX DEFINED.

(a) The Life Insurance Surrender Value Comparison Index for level premium plans of insurance shall be calculated by applying the following steps:

1. Select the 10 year or 20 year period over which the analysis is to be made.
2. Determine the cash value (and terminal dividend, if any) available at the end of the period selected.
3. For participating policies, accumulate the annual dividends at 4% interest compounded annually to the end of the period selected and add this accumulation to the result of step 2.
4. Divide the results of step 3 (step 2 for non-participating policies) by an interest factor that converts it into a level annual amount accruing over the period selected in step 1. If the period is 10 years, this factor is 12.486 and if the period is 20 years, the factor is 30.969.

5. Subtract the result of step 4 from the annual premium payable.
6. Divide the result of step 5 by the number of thousands of the amount of insurance to arrive at the life insurance surrender value comparison index.

(b) The Life Insurance Surrender Value Comparison Index for plans of insurance with premiums which are not level shall be calculated as follows:

1. Select the 10 year or 20 year period over which the analysis is to be made.
2. Determine the cash value (and terminal dividend, if any) available at the end of the period selected.
3. For participating policies, accumulate the annual dividends at 4% interest compounded annually to the end of the period selected and add this accumulation to the result of step 2.
4. Divide the result of step 3 (step 2 for non-participating policies) by an interest factor that converts it into a level annual amount accruing over the period selected in step 1. If the period is 10 years, this factor is 12.486 and if the period is 20 years, the factor is 30.969.
5. Subtract the result of step 4 from the equivalent level premium determined by accumulating the annual premium payable at 4% interest compounded annually to the end of the period in step 1 and dividing the result by the factor stated in step 4.
6. Divide the result of step 5 by the number of thousands of the amount of insurance to arrive at the life insurance surrender value comparison index.

(4) DISCLOSURE REQUIREMENTS. In connection with the selling of life insurance to which this rule applies the agent or insurer shall furnish, upon request of a sales prospect and in all cases prior to or with the delivery of the contract, the Life Insurance Surrender Value Comparison Index, or a similar index prepared by a method approved by the commissioner which makes allowance for the incidence of payments and the value of money at 4% interest compounded annually, calculated for both a 10 year and a 20 year period. The index need not be provided for a period which extends beyond the end of the premium payment period for the plan.

(5) EFFECTIVE DATE. This rule shall become effective January 1, 1973.

(6) **PENALTY.** Violations of this rule shall subject the insurer or agent to section 601.64, Wis. Stats.

Note: The Life Insurance Surrender Value Comparison Index must be used with caution. Only *similar* plans of insurance should be compared. Much research remains to be done to develop comparison indices which may be appropriately used to compare the values of benefits and contracts in relation to the premiums charged for the policy when the intent is that the life insurance be kept in force and not surrendered.

Any dividend used in calculating the Life Insurance Surrender Value Comparison Index shall, pursuant to section 206.51 (2), Wis. Stats., be based on the current dividend scale in actual use by the insurer. In respect to participating policies, care must be taken to accurately describe the policy dividend as a refund or return of part of the premium paid which is not guaranteed and which is determined by the investment earnings, mortality experience, and expense experience of the insurer.

It is not the intent of this rule to prohibit preparation of a life insurance surrender value comparison index at other interest rates if it is used only in cases wherein the comparison index for other policies is prepared on exactly the same basis.

History: Cr. Register, September, 1972, No. 201, eff. 1-1-73.

Register, January, 1973, No. 205