

GUIDE TO UNDERSTANDING OF LEDGER ILLUSTRATIONS

This guide is being provided to you so that you can better understand what a ledger illustration is and is not. This is required by law.

What is a ledger illustration?

It is an extension into the indefinite future of current experience factors affecting interest, mortality and expense. These factors reflect current experience. As experience with the factors that affect the performance of a product change, the numbers and results that are non-guaranteed also will change. The ledger illustration also shows with equal prominence values that are guaranteed. The company cannot pay less than these. (Note: the statute imposes a maximum interest rate after 10 years.)

What are the chances that a company will pay exactly what is illustrated?

Nil or zero. If nothing changes in all the experience factors the company will be able to pay exactly what is illustrated. However, we know that these factors will change as experience changes. Interest rates go up and down. Mortality experience changes: it is helped by medical breakthroughs and hurt by things similar to AIDS. Unit expenses change: helped by increased productivity and hurt by inflation.

What are the chances that the company will be able to pay more than illustrated?

It depends on how likely experience factors will be better in the future. For example, if the interest rates increase and are greater than those in effect at the time of purchase, chances are very good that the company will pay more.

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What are the chances that the company will have to pay less than illustrated?

It depends on how likely experience factors will be poorer in the future. For example, if interest rates decrease and are lower than those in effect at the time of purchase it is very likely the company will pay less.

Should I rely on the numbers in the illustration?

"Yes" for the guaranteed numbers. For the non-guaranteed numbers—"not at all": these are to show you how the plan would work and help you understand the plan based on an extension into the future of current experience factors which will change as experience unfolds.

What is a ledger illustration not?

The non-guaranteed portion of a ledger illustration is:

- (a) Not a guarantee to pay what is illustrated.
- (b) Not a promise to pay what is illustrated.
- (c) Not a most likely scenario of what will be paid. It might be the least likely.

Remember: The purpose of a ledger illustration is to help you understand how the product works. The better you understand the product the better you'll be able to compare similar products of other companies.