Daphne Bartlett (Calif.) expressed concern about illustrations showing deposits accumulated at the current interest rate for a long period, but there may be no guarantee in the contract that the company will use the then current annuity purchase rate at the end of the accumulation phase. Mr. Higgins expressed the opinion that the model on annuity illustrations should apply to ERISA plans. Commissioner Wilcox asked the group to give some thought to appropriate exclusions from the model.

The working group and interested parties spent some time discussing the concept of equity indexed annuities, how they worked and what concerns they might raise for illustrations. Commissioner Wilcox emphasized the task before the group is to come up with a disclosure standard that would cover these type of products plus whatever new products came on the market. He said the discussion had focused on what companies do now, but that inventive minds would come up with new products, and the model regulation needs to work as well as it can to cover those new products. Mr. Ullstrom said one way to accomplish this is to use general requirements instead of getting too specific; for example, "be clear and not misleading" rather than "use these columns showing these numbers." Commissioner Wilcox agreed that soundly based general rules are best. Mr. Foley said one of the things that had been most helpful to the working group was sample illustrations that use standards of the Life Insurance Illustrations Model Regulation. He suggested that examples of clear disclosure by use of a narrative such as Ms. Lanam had eluded to earlier would be very helpful to the working group in deciding what was adequate disclosure. Ms. Lanam said technical resource advisors would prepare some samples that show what is currently being used in the marketplace and put together a packet of information for the regulators.

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ATTACHMENT THREE-B1

Report of the Cost Indices Subgroup of the
Life Disclosure (A) Working Group

The Cost Indices Subgroup of the Life Disclosure Working Group met by conference call on Aug. 15, 1996, to discuss the appropriate use of cost indices in the Life Insurance Buyer's Guide and broader issues regarding the use of cost indices. The following regulators participated: Tom Foley (N.D.), Chair; Christian Uhlmann and Mae Gabor (Alaska); Frank Dino (Fla.); Lester Dunlap (La.); John Rink (Neb.); Tony Higgins (N.C.); Dan Keating (Okla.); and Ted Becker (Texas).

The group first considered a suggestion from Chris Kite (FIPSCO) for a new type of index that would allow consumers to compare the assumptions in the illustration. The group reviewed comments in favor of and opposed to the method described by Mr. Kite. Mr. Kite said his index has the advantage of prompting the prospect to question assumptions used. Delmer Borah (MassMutual) suggested that consumers are more concerned about total cost than assumptions. Brenda Cude (Cooperative Extension Service) opined that the target audience does not care about assumptions. Tony Higgins (N.C.) said he was unconvinced about the need for indices, seeing them as an intellectual exercise that would not benefit the public. The consensus of the group was that none of the indices available are clearly superior at comparing policies in a meaningful way. Some are so technical that consumers and maybe agents cannot grasp the nuances. The subgroup decided to include only a general description in the buyer's guide and not to get into the technical aspects of the different indices. Lester Dunlap (La.) asked that further comments on the guide be limited to the description of the use of cost indices (Attachment Three- B1a).

The group then looked beyond the immediate concern about what to put in the buyer's guide and considered the broader issues in the charge to the Life Insurance (A) Committee. The group decided a good starting point would be to make a list of indices that were useful. Tom Foley (N.D.) asked those who felt a certain index should be considered for a list of recommended indices to forward that information to him. A list of useful indices would serve as a good starting point for discussion at the Fall National Meeting.

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ATTACHMENT THREE-B1a

LIFE INSURANCE BUYER'S GUIDE
Draft: 8/15/96

[Editor's Note: This draft was adopted by the Life Disclosure Working Group on Sept. 28, 1996, with further revision to a paragraph on cost indices. See the amendatory language on page 918 of this volume of the NAIC Proceedings.*]*

Drafting Note: The language in the Buyer's Guide is limited to that contained in the following pages of this Appendix, or to language approved by ~~[title of supervisory authority]~~ the commissioner. ~~However, companies can vary the type style and format and are encouraged to enhance the readability, design and attractiveness of the Buyer's Guide.~~ Companies may purchase personalized brochures from the NAIC or may request permission to reproduce the Buyer's Guide in their own type style and format.

[The face page of the Buyer's Guide shall read as follows:]

Life Insurance Buyer's Guide

This guide can help you ~~get the most for your money~~ when you shop for life insurance. It ~~can help you answer questions about~~ discusses how to:

1996 NAIC Life Insurance Buyer's Guide Draft 1996-3B 931 6p bonknote.pdf

- ~~Buying Life Insurance~~ Find a Policy That Meets Your Needs and Fits Your Budget
- ~~Deciding~~ Decide How Much Insurance You Need
- ~~Finding a Low Cost Policy~~
- ~~Things to Remember~~ Make Informed Decisions When You Buy a Policy

Prepared by the National Association of Insurance Commissioners

The National Association of Insurance Commissioners is an association of state insurance regulatory officials. This association helps the various insurance departments to coordinate insurance laws for the benefit of all consumers.

This guide does not endorse any company or policy.

Reprinted by. . .

IMPORTANT THINGS TO ~~REMEMBER~~ CONSIDER

1. Review your ~~particular~~ own insurance needs and circumstances. Choose the kind of policy ~~with~~ that has benefits that most closely fit your needs. Ask an agent or company to help you.

2. Be sure that you can handle ~~the~~ premium~~s~~ payments ~~are within your ability to pay~~. ~~Don't look only at the initial premium, but take account of any later premium increase.~~ Can you afford the initial premium? If the premium increases later and you still need insurance, can you still afford it?

~~3. Ask about cost comparison index numbers and check several companies, which offer similar policies. Remember, smaller index number generally represent a better buy.~~

~~4~~3. Don't sign an insurance application until you review it carefully to be sure all the answers are complete and accurate.

~~5~~4. Don't buy life insurance unless you intend to stick with ~~it~~ your plan. It ~~can~~ may be very costly if you quit during the early years of the policy.

~~6~~5. Don't drop one policy and buy another without a thorough study of the new policy and the one you have now. Replacing your insurance may be costly.

~~7~~6. Read your policy carefully. Ask your agent or company about anything that is not clear to you.

~~8~~7. Review your life insurance program with your agent or company every few years to keep up with changes in your income and your needs.

Buying Life Insurance

When you buy life insurance, you want coverage that fits your needs ~~and doesn't cost too much~~.

First, decide how much you need—and for how long—and what you can afford to pay. Keep in mind the major reason you buy life insurance is to cover the financial effects of unexpected or untimely death. Life insurance can also be one of many ways you plan for the future.

Next, ~~find out~~ learn what kinds of policies ~~are available to~~ will meet your needs and pick the one that best suits you.

Then, ~~find out how~~ choose the combination of policy premium and benefits that emphasizes protection in case of early death, or benefits in case of long life, or a combination of both.

It makes good sense to ask a life insurance agent or company to help you. An agent can ~~be particularly useful in~~ help you review~~ing~~ your insurance needs and ~~in giving~~ give you information about the ~~kinds of~~ available policies ~~that are available~~. If one kind of policy doesn't seem to fit your needs, ask about others.

This guide provides only basic information. You can get more facts from a life insurance agent or company or ~~at~~ from your public library.

What About ~~Your Present~~ the Policy You Have Now?

~~Think twice before dropping a life insurance policy you already have to buy a new one.~~ If you are thinking about dropping a life insurance policy, here are some things you should consider:

- If you decide to replace your policy, don't cancel your old policy until you have received the new one. You then have a minimum period to review your new policy and decide if it is what you wanted.

- It ~~can~~ may be costly to replace a policy. Much of what you paid in the early years of the policy you ~~now~~ have now, ~~was used~~ paid for the company's ~~expense~~ cost of selling and issuing the policy. ~~This expense will be incurred again for~~ You may pay this type of cost again if you buy a new policy.

- Ask your tax advisor if dropping your policy could affect your income taxes.

- If you are older or your health has changed, premiums for the new policy will often be higher. You will not be able to buy a new policy if you are not insurable.

- You may have valuable rights and benefits in ~~your present~~ the policy you now have that are not in the new one.

- If the policy you have now no longer meets your needs, ~~Y~~you may not have to replace it. You might be able to change your ~~present~~ policy or ~~even~~ add to it to get the coverage or benefits you now want.

- At least in the beginning, a policy may pay no benefits for some causes of death covered in the policy you have now.

In all cases, if you are thinking of buying a new policy, ~~C~~check with the agent or company that issued you the one you have now.~~present policy—get both sides of the story. In any case, don't give up your present policy until you are covered by a new one.~~ When you bought your old policy, you may have seen an illustration of the benefits of your policy. Before replacing your policy, ask your agent or company for an updated illustration. Check to see how the policy has performed and what you might expect in the future, based on the amounts the company is paying now.

How Much Do You Need?

~~To decide how much life insurance you need, figure out what your dependents would have if you were to die now, and what they would actually need. Your new policy should come as close to making up the difference as you can afford.~~ Here are some questions to ask yourself:

- How much of the family income do I provide? If I were to die early, how would my survivors, especially my children, get by? Does anyone else depend on me financially, such as a parent, grandparent, brother or sister?

- Do I have children for whom I'd like to set aside money to finish their education in the event of my death?

- How will my family pay final expenses and repay debts after my death?

- Do I have family members or organizations to whom I would like to leave money?

- Will there be estate taxes to pay after my death?

- How will inflation affect future needs?

~~In figuring~~ As you figure out what you have to meet these needs, count ~~your present~~ the life insurance you have now, including any group insurance where you work or veteran's insurance. Don't forget Social Security and pension plan survivor's benefits. Add other assets you have; savings, investments, real estate and personal property. Which assets would your family sell or cash in to pay expenses after your death?

~~In figuring what you need, think of income for your dependents—for family living expenses, educational costs and any other future needs. Think also of cash needs—for the expenses of a final illness and for paying taxes, mortgages or other debts.~~

What Is the Right Kind of Life Insurance?

All ~~life insurance policies agree to pay an amount of money when you die. But all~~ policies are not the same. Some ~~provide permanent coverage~~ give coverage for your lifetime and others cover you for a specific number of years ~~temporary coverage~~. Some build up cash values and others do not. Some policies combine different kinds of insurance, and others let you change from one kind of insurance to another. Some policies may offer other benefits while you are still living. Your choice should be based on your needs and what you can afford.

~~A wide variety of plans is being offered today. You can get detailed information from a life insurance agent or company.~~

There are two basic types of life insurance: term insurance and cash value insurance. Term insurance generally has lower premiums in the early years, but does not build up cash values that you can use in the future. You may combine cash value life insurance with term insurance for the period of your greatest need for life insurance to replace income.

Term Insurance covers you for a term of one or more years. It pays a death benefit only if you die in that term. Term insurance generally ~~provides~~ offers the largest ~~immediate death~~ insurance protection for your premium dollar. It generally does not build up cash value.

You can renew m~~M~~ost term insurance policies ~~are renewable~~ for one or more ~~additional~~ terms even if your health has changed. Each time you renew the policy for a new term, premiums ~~will~~ may be higher. ~~Check the premiums at older ages and how long the policy can be continued~~ Ask what the premiums will be if you continue to renew the policy. Also ask if you will lose the right to renew the policy at some age. For a higher premium, some companies will give you the right to keep the policy in force for a guaranteed period at the same price each year. At the end of that time you may need to pass a physical examination to continue coverage, and premiums may increase.

You may be able trade m~~M~~any term insurance policies ~~can be traded before the end of a conversion period~~ for a ~~whole life~~ cash value policy during a conversion period—even if you are not in good health. Premiums for the new policy will be higher than you have been paying for the term insurance.

~~Other policies may have special features, which allow flexibility as to premiums and coverage. Some let you choose the death benefit you want and the premium amount you can pay. The kind of insurance and coverage period are determined by these choices.~~

Cash Value Life Insurance is a type of insurance where the premiums charged are higher at the beginning than they would be for the same amount of term insurance. The part of the premium that is not used for the cost of insurance is invested by the company and builds up a cash value that may be used in a variety of ways. You may borrow against ~~the~~ a policy's cash values by taking a policy loan. ~~Any~~ If you don't pay back the loan and the interest on ~~the loan~~ it, ~~that you do not pay back will be deducted~~ the amount you owe will be subtracted from the benefits when you die, or from the cash value if you stop paying premiums and take out the remaining cash value. You can also use your cash value to keep insurance protection for a limited time or to buy a reduced amount without having to pay more premiums. You also can use the cash value to increase your income in retirement or to help pay for needs such as a child's tuition without canceling the policy. However, to build up this cash value, you must pay higher premiums in the earlier years of the policy. Cash value life insurance may be one of several types; whole life, universal life and variable life are all types of cash value insurance.

Whole Life Insurance covers you for as long as you live if your premiums are paid. ~~The common type is called straight life or ordinary life insurance—y~~You generally pay the same amount in premiums for as long as you live. ~~These~~ When you first take out the policy, premiums can be several times higher than you would pay initially for the same amount of term insurance. But they are smaller than the premiums you would eventually pay if you were to keep renewing a term policy until your later years.

Some whole life policies let you pay premiums for a shorter period such as 20 years, or until age 65. Premiums for these policies are higher ~~than for ordinary life insurance~~ since the premium payments are ~~squeezed into~~ made during a shorter period.

~~Whole life policies develop cash values. If you stop paying premiums, you can take the cash or you canused the cash value to buy continuing insurance protection for a limited time or a reduced amount. (Some term policies that provide coverage for a long period also have cash values.)~~

~~One~~ ***Universal Life Insurance*** is a kind of flexible ~~premium~~ policy ~~often called universal life,~~ that lets you vary your premium payments~~,~~. ~~every year, and even skip a payment if you wish.~~ You can also adjust the face amount of your coverage. Increases may require proof that you qualify for the new death benefit. The premiums you pay (less expense charges) go into a policy account that earns interest~~; and~~. ~~c~~Charges ~~for the insurance~~ are deducted from the account. ~~Here, insurance continues as long as there is enough money in the account to pay the insurance charges.~~ If your yearly premium payment plus the interest your account earns is less than the charges, your account value will become lower. If it keeps dropping, eventually your coverage will end. To prevent that, you may need to start making premium payments, or increase your premium payments, or lower your death benefits. Even if there is enough in your account to pay the premiums, continuing to pay premiums yourself means that you build up more cash value.

~~Endowment insurance policies pay a sum or income to you if you live to a certain age. If you die before then, the death benefit is paid to the person you named as beneficiary.~~

Variable Life Insurance is a ~~special~~ kind of insurance where the death benefits and cash values depend ~~up~~on the investment performance of one or more separate accounts, which may be invested in mutual funds or other investments allowed under the policy. Be sure to get the prospectus ~~provided by~~ from the company when buying this kind of policy and STUDY IT CAREFULLY ~~The method of cost comparison outlined in this Guide does not apply to policies of this kind~~. You will have higher death benefits and cash value if the underlying investments do well. Your benefits and cash value will be lower or may disappear if the investments you chose didn't do as well as you expected. You may pay an extra premium for a guaranteed death benefit.

~~Combinations and Variations. You can combine different kinds of insurance. For example, you can buy whole life insurance for lifetime coverage and add term insurance for the period of your greatest insurance need. Usually the term insurance is on your life—but it can also be bought for your spouse or children.~~

Life Insurance Illustrations

You may be thinking of buying a policy where cash values, death benefits, dividends or premiums may vary based on events or situations the company does not guarantee (such as interest rates). If so, you may get an illustration from the agent or company that helps explain how the policy works. The illustration will show how the benefits that are not guaranteed will change as interest rates and other factors change. The illustration will show you what the company guarantees. It will also show you what *could* happen in the future. Remember that nobody knows what will happen in the future. You should be ready to adjust your financial plans if the cash value doesn't increase as quickly as shown in the illustration. You will be asked to sign a statement that says you understand that some of the numbers in the illustration are not guaranteed.

Finding a ~~Low Cost~~ ~~Policy~~ Good Value in Life Insurance

After you have decided which kind of life insurance is best for you, compare similar policies from different companies to find which one is likely to give you the best value for your money. A simple comparison of the premiums is not enough. There are other things to consider. For example:

- Do premiums or benefits vary from year to year?
- How much ~~cash value~~ do the benefits build~~s~~ up ~~under~~ in the policy?
- What part of the premiums or benefits is not guaranteed?
- What is the effect of interest on money paid and received at different times on the policy?

[Editor's Note: The Life Disclosure Working Group further amended the following paragraph and adopted this draft at its Sept. 28, 1996, meeting. See the amendatory language on page 918 of this volume of the NAIC Proceedings.*]*

~~Cost comparison index numbers, which you get from life insurance agents or companies, take these sorts of items into account and can point the way to better buys.~~ Once you have decided which type of policy to buy, you can use a cost comparison index to help you compare similar policies. Life insurance agents or companies can give you information about several different kinds of indexes that each work a little differently. One type helps you compare the costs between two different policies if you take out the cash value at the end of a period of time. Another helps you compare costs if you continue to pay premiums until your death. Some help you decide what kind of questions to ask the agent about the numbers used in an illustration. Each index is useful in some ways, but they all have shortcomings. Ask your agent which will be most helpful to you. Regardless of which index you use, compare index numbers only for similar policies—those that offer basically the same benefits, with premiums payable for the same length of time.

~~Cost Comparison Indexes. There are two types of cost comparison index numbers. Both assume you will live and pay premiums for the next 10 or 20 years.~~

~~1. The Surrender Cost Comparison Index helps you compare costs over a 10 or 20 year period assuming you give up (surrender) the policy and take its cash value at the end of the period. It is useful if you consider the level of cash values to be of special importance to you.~~

~~2. The Net Payment Cost Comparison Index helps you compare costs over a 10 or 20 year period assuming you will continue to pay premiums on your policy and do not take its cash value. It is useful if your main concern is the benefits that are to be paid at your death.~~

~~The two index numbers are the same for a policy without cash values.~~

~~Guaranteed and Illustrated Figures. Many policies provide benefits on a more favorable basis than the minimum guaranteed basis in the policy. They may do this by paying dividends, or by charging less than the maximum premium specified. Or they may do this in other ways, such as by providing higher cash values or death benefits that the minimums guaranteed in the policy. In these cases the index numbers are shown on both a guaranteed and currently illustrated basis. The currently illustrated basis reflects the company's current scale of dividends, premiums or benefits. These scales can be changed after the policy is issued, so that the actual dividends, premiums or benefits over the years can be higher or lower than those assumed in the indexes on the currently illustrated basis.~~

~~Some policies are sold only on a guaranteed or fixed cost basis. These polices do not pay dividends; the premiums and benefits are fixed at the time you buy the policy and will not change.~~

~~Using Cost Comparison Indexes. The most important thing to remember is that a policy with smaller index numbers is generally a better buy than a similar policy with larger index numbers.~~

~~When you find small differences in the indexes, your choice should be based on something other than cost.~~

~~Finally, keep in mind that index numbers cannot tell you the whole story.~~ Remember that no one company offers the lowest cost at all ages for all kinds and amounts of insurance. You should also consider other factors:

- ~~The pattern of policy benefits~~How quickly does the cash value grow?~~.~~ Some policies have low cash values in the early years that build ~~rapidly~~ quickly later on. Other policies have a more level cash value build-up. A year-by-year display of values and benefits can be very helpful. (The agent or company will give you a ~~P~~policy ~~S~~summary or an illustration that will show benefits and premiums for selected years.)

- ~~Any~~ Are there special policy features that ~~may be~~ particularly suit~~ed to~~ your needs~~.~~?

- ~~The methods by which~~ How are nonguaranteed values ~~are~~ calculated~~.~~? For example, interest rates are ~~an~~ important ~~factor~~ in determining policy ~~dividends~~ returns. In some companies ~~dividends~~ increases reflect the average interest earnings on all of that company's policies regardless of when~~ever~~ issued. In others, the ~~dividends~~ return for policies issued in a recent year, or a group of years, reflects the interest earnings on ~~those~~ that group of policies; in this case, ~~dividends~~ amounts paid are likely to change more rapidly when interest rates change.

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ATTACHMENT THREE-B2

QUESTIONS & ANSWERS
LIFE ILLUSTRATIONS MODEL REGULATION
As of July 24, 1996
(Consensus on These Answers)

Introduction:

In December 1995 the Life Insurance Illustrations Model Regulation was adopted by the NAIC. Since then a number of questions have arisen regarding its application and interpretation. For 1996 the Life Disclosure Working Group was charged to provide guidance in interpreting provisions of the model regulation. This charge is being met through the completion of this Questions and Answers document.

This document is not an official pronouncement of the NAIC but rather an unofficial statement of the working group alone that is offered as assistance to any state that chooses to use it. It is not intended to expand the content of the model regulation but gives some insight into the intent of the original drafters of the model regulation and provides interpretive guidance regarding certain of its provisions.

The working group will provide amended and expanded versions of this document from time to time as additional questions are identified and answered.

Section numbers in the questions and answers refer to the NAIC model regulation.

Section 3. Applicability and Scope

3.1 We sell a policy that is a combination of life insurance with a flexible premium annuity rider. The life policy is modified whole life with all guaranteed values. The annuity rider has a guaranteed interest rate, but also an interest sensitive element. It would appear that neither of these elements would presently come under the illustrations regulation, but since this policy is always sold with both elements present, the complete policy could be construed as an interest sensitive policy. Should we illustrate such a product to comply with the NAIC model? Should the life policy and annuity rider be illustrated separately or as one combined product?

If the insurer wishes to illustrate the non-guaranteed elements of the policy being sold with the annuity rider, the life policy and annuity rider must be illustrated as one combined product.

3.2 If a traditional (nonparticipating) product has an annuity rider (fixed premium) attached and the annuity rider has excess (non-guaranteed) interest credited, is it subject to the regulation?

Yes, if it is illustrated, the product with the rider is combined under the requirements of the regulation.

Section 4. Definitions

4.1 Are there exceptions to the requirement that the disciplined current scale be "reasonably based" on actual recent historical experience?

Yes. To gain an adequate understanding of what the disciplined current scale is, a thorough reading of both the regulation and standard of practice is necessary. One example of where the disciplined current scale may not be based on actual recent historical experience is where a change in practice has occurred. Section 5.4 of the Actuarial Standard of Practice describes the way in which the disciplined current scale may be modified to reflect changes in practice which have not yet had time to result in actual changes in experience.

4.2 Suppose your current credited interest rate is 6.5%. If an agent submits an illustration using 6% (or any lower rate), is a "revised illustration" necessary?

Section 4G defines "illustrated scale" as a scale of non-guaranteed elements that is "not more favorable to the policy owner" than the lesser of the disciplined current scale or the currently payable scale. Assuming all of the requirements of the model regulation are met, use of an interest rate lower than 6.5% is permissible.

4.3 Are cost disclosures "illustrations" or "basic illustrations"? Do state cost disclosure regulations still apply?

The possibility for overlap with existing NAIC models and state regulations was discussed by the working group and the recommendations of the group are contained in a report attached to the March 1996 minutes. A letter was sent to each commissioner from the working group chair recommending that an illustration could take the place of a required policy summary. If a state chooses not to change such a rule, a policy summary and an illustration meeting the requirements of the illustrations regulation could both be required.