

IN THE UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF MISSOURI
CENTRAL DIVISION

MICHAEL G. VOGT, Individually and)	
On Behalf Of All Others Similarly)	
Situated,)	
)	
Plaintiffs,)	
)	Case No.
VS.)	16-04170-CV-C-NKL
)	
STATE FARM LIFE INSURANCE COMPANY,)	
)	
Defendant.)	

VIDEOTAPED DEPOSITION OF
CARL RAYMOND STREILY, JR.

Bloomington, Illinois

November 7, 2017

9:08 a.m.

Reported by:
LORRAINE K. MCCREIGHT, CSR
JOB NO. 52542

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C. STREILY, JR.

Product Management area that you would consult with?

A. Jeff Holzbauer is in charge of the In Force Product Management area.

Q. Outside of what we have discussed thus far, is there any further work that you have been involved in regarding the setting of mortality assumptions for the policy form 94030?

MR. ROOT: I'm going to object to form as to the issue with mortality assumptions again.

THE WITNESS: I don't believe so.

BY MR. FEIERABEND:

Q. Just to address your objection, we have been discussing the term mortality assumption. And what is your understanding of the term mortality assumption?

A. Mortality assumption to me is the assumption I have embedded into my

1 C. STREILY, JR.
2 pricing or repricing of a Universal
3 Life policy -- well, you were using
4 94030. So in that context, the
5 assumption embedded into the pricing or
6 repricing of that particular policy
7 form.

8 Q. Okay. Can -- I understand
9 the pricing and repricing, but I
10 believe your earlier testimony was that
11 also for the 94030 the mortality
12 assumptions could have been updated on
13 an annual basis from original pricing,
14 is that correct?

15 A. Yes.

16 Q. Okay. And are you drawing
17 some distinction there in your
18 definition of mortality assumption
19 where you just referenced pricing and
20 repricing, were you referring to the
21 mortality assumption update that would
22 happen on an annual basis?

23 A. We could have mortality
24 assumptions for different purposes.

25 Q. Okay. What are those

1 C. STREILY, JR.

2 other products would have.

3 Q. And as far as transparency, I
4 believe you specifically mentioned
5 charges, is that right?

6 A. Charges, among other things,
7 correct.

8 Q. And does that transparency
9 include the amounts of different
10 charges?

11 A. The amounts of different
12 charges coming out of the policy.

13 Q. Okay. And does that
14 transparency also include what, you
15 know, underlying assumptions or
16 expenses particular charges might be
17 tied to?

18 MR. ROOT: Objection to form.
19 It's vague.

20 THE WITNESS: That would -- I
21 think the policyholder would only
22 know that based on what the policy
23 form language tells them.

24 VIDEOGRAPHER: Less than a
25 minute.

1 C. STREILY, JR.

2 BY MR. FEIERABEND:

3 Q. How is it used in determining
4 your cost of insurance rates?

5 A. So, I would refer back to
6 this actuarial memorandum on page 3.
7 It outlines the process that the
8 actuaries at that time went through to
9 determine the current cost of insurance
10 rates.

11 Q. Can you go ahead and explain
12 to me how the pricing mortality was
13 used in determining cost of insurance
14 rates?

15 A. So, according to the
16 actuarial memorandum here, it appears
17 that they started with the -- the 88-91
18 table and determined -- according to
19 the memorandum, the current pricing
20 table, the 88-91 SFL, was converted
21 into a monthly equivalent cost of
22 insurance rate. They determined
23 different cost of insurance for male
24 aggregate, female aggregate --
25 aggregate's referring to ages less than

1 C. STREILY, JR.

2 20 -- female tobacco, male tobacco,
3 male nontobacco, female nontobacco.

4 Then those rates that -- were then
5 loaded for expenses and profit margins
6 and compared to the 1980 CSO COI, which
7 would be our maximum that we could
8 charge. The current rates were set so
9 that they would not exceed 98 percent
10 of that maximum. And then those rates
11 were smoothed so that they had a
12 logical non-decreasing pattern as
13 attained age would increase.

14 Then they took those rates
15 and they ran them through an asset
16 share model to test the -- to test
17 those to make sure that certain profit
18 targets could be met, et cetera.

19 So that's the process that
20 was gone through, as indicated by the
21 actuarial memorandum, to determine
22 those current cost of insurance rates.

23 Q. Okay. So here it says in the
24 New Jersey actuarial memo on page 3 it
25 says, "The current monthly cost of

1 C. STREILY, JR.

2 A. You did.

3 Q. Then it says, "These rates
4 were loaded for expenses and profit
5 margins and then compared to COI 1980
6 CSO."

7 Did I read that correctly?

8 A. You did.

9 Q. So there is a reference to
10 pricing mortality in here, right?

11 A. Right.

12 Q. And then that's broken down
13 into monthly equivalent cost of
14 insurance rates, correct?

15 A. Correct.

16 Q. And then that's loaded for
17 expenses and profit margins, is that
18 correct?

19 A. That's correct.

20 Q. So are you saying that
21 pricing mortality is not a component of
22 the cost of insurance rate?

23 MR. ROOT: Object to form.

24 It's argumentative.

25 THE WITNESS: Pricing is used

1 C. STREILY, JR.

2 in determining the cost of
3 insurance rates.

4
5 BY MR. FEIERABEND:

6 Q. But it is not included in the
7 calculation on that rate where it is
8 COI -- sorry, where it's pricing
9 mortality loaded for expenses and
10 profit margins?

11 A. It's used in that rate as
12 indicated in the actuarial memorandum.

13 Q. It is pricing mortality
14 that's loaded for expenses and profit
15 margins to come up with the current
16 cost of insurance rate scales, is that
17 correct?

18 A. I didn't think I would say it
19 exactly the way you just said it there.

20 I would say the pricing
21 mortality was determined -- was used to
22 determine a cost of insurance rate, and
23 that cost of insurance rate was then
24 loaded for expenses and profit.

25 Q. Okay. Prior to the cost of

1 C. STREILY, JR.

2 insurance rate being loaded for
3 expenses and profit, what was included
4 in the cost of insurance rate?

5 A. The actuarial memorandum
6 includes that that was -- indicates
7 that that was mortality.

8 Q. And specifically pricing
9 mortality, is that right?

10 A. Correct.

11 Q. Do you see a date on this New
12 Jersey 94030 actuarial memo?

13 A. My interpretation is the date
14 is on page 1 up at the top, 940101.

15 Q. Would that indicate that it
16 is dated January 1st, 1994?

17 A. That would be my
18 interpretation.

19 Q. On page 3 and 4 of this
20 document -- sorry, specifically on
21 page 3 there is the Section 2 titled
22 "Compliance with New Jersey Statutes
23 and Regulations," is that correct?

24 A. That's correct.

25 Q. Does that mean that there was

1 C. STREILY, JR.

2 any difference in how the current cost
3 of insurance rates were determined for
4 the New Jersey policy form 94030 and
5 cost of insurance rates for the policy
6 form as issued in other states?

7 A. I don't know the answer to
8 that.

9 Q. For purposes of your report,
10 did you rely on the calculation of cost
11 of insurance rates as laid out in this
12 policy form?

13 MR. ROOT: When you say
14 policy form, you mean the
15 actuarial memorandum?

16 BY MR. FEIERABEND:

17 Q. Sorry, let me start over.

18 For purposes of your report,
19 did you rely on the calculation of cost
20 of insurance rates as described in this
21 New Jersey actuarial memo?

22 A. I did.

23 Q. And did you attribute that
24 calculation as described in here to be
25 how the cost of insurance rates were

1 C. STREILY, JR.

2 calculated for policy forms that were
3 issued in a state other than New
4 Jersey?

5 A. I did.

6 Q. Where it says "State Farm's
7 current pricing table 88-91 was then
8 converted into monthly equivalent cost
9 of insurance rates," does that simply
10 mean that the pricing table, the 88-91
11 pricing table, is on an annual basis
12 and had to be converted into monthly
13 rates?

14 A. That would be my
15 interpretation.

16 Q. Okay. And again, it says
17 here that the current cost of insurance
18 rates were loaded for expenses and
19 profit margins and then compared to the
20 1980 CSO, is that correct?

21 A. That's correct.

22 Q. Is the 1980 CSO the
23 guaranteed maximum cost of insurance
24 rate scale for this product?

25 A. That's what the maximum is

1 C. STREILY, JR.

2 assumption used in pricing of the
3 product?

4 A. I'm not sure -- I'm not sure
5 what the difference in those is.

6 Q. Well, if I asked you what the
7 mortality assumption used in pricing
8 the 94030 was, what would you say
9 that mortality --

10 A. I would say the mortality for
11 determining the profitability would be
12 as outlined here on page 5.



19 Q. Okay. And I see a reference
20 in here to a select period, is that
21 correct?

22 A. That's correct.

23 Q. Does that indicate that these
24 mortality rates were done on a select
25 and ultimate basis?

1 C. STREILY, JR.

2 to changes that State Farm had observed
3 in mortality experience for that
4 product?

5 A. I wasn't involved in that
6 change.

7 Q. Okay. If you could go back
8 to Exhibit 10. And again, this is the
9 94030-25 UL policy form, correct?

10 A. Correct.

11 Q. On page 10 of that document
12 under the Guaranteed Values Provisions
13 Continued, do you see that section?

14 A. I do.

15 Q. Do you see a paragraph
16 referring to monthly cost of insurance
17 rates?

18 A. I do.

19 Q. Okay. And within that
20 paragraph it says, "These rates for
21 each policy year are based on the
22 insured's age on the policy
23 anniversary, sex, and applicable rate
24 class."

25 Did I read that correctly?

1 C. STREILY, JR.

2 A. You did.

3 Q. Okay. In determining a
4 mortality assumption, is age taken into
5 consideration? More specifically,
6 insured age?

7 A. The mortality table that we
8 use in the mortality assumption does
9 take into account the insured's age.

10 Q. And how about sex, is that
11 something that's used in the
12 determination of a mortality
13 assumption?

14 A. On most policies that would
15 be the case. There could be policies
16 where you don't vary it by sex, but
17 most policies you would.

18 Q. Okay. And just -- why is sex
19 considered on some policies in the
20 determination of a mortality
21 assumption?

22 What bearing does it have on
23 the determination of a mortality
24 assumption?

25 A. Experience would indicate

1 C. STREILY, JR.

2 that males would have higher mortality
3 than females.

4 Q. Okay. So sex can be
5 something that's considered to
6 determine the mortality risk of an
7 individual, is that fair?

8 A. That's correct.

9 Q. And again, is an insured's
10 age something that's considered in
11 determining the mortality risk for an
12 individual?

13 A. That's correct.

14 Q. Okay. And what's rate class
15 mean?

16 A. Rate class would be after the
17 insured has gone through the
18 underwriting process, we will assign
19 them a rate class based on their health
20 situation.

21 Q. Okay. Do you know what the
22 rate classes are for the form 94030?

23 A. We would have had a
24 nontobacco rate class, we would have
25 had a tobacco rate class, and we would

1 C. STREILY, JR.

2 have had possibly table ratings that we
3 could apply to those policyholders.

4 Q. When you say tobacco,
5 nontobacco, is that a factor that would
6 be used for determining the mortality
7 risk associated with an insured?

8 A. Yes.

9 Q. Okay. And when you say there
10 would be a table rating factor -- is
11 that right, did I say that correctly?

12 A. A table rating factor, that's
13 correct.

14 Q. Is that synonymous with like
15 a substandard rating?

16 A. Yes.

17 Q. What does that mean?

18 A. Some policyholders have
19 health situations that we would not
20 consider standard. And so to be
21 equitable, we would want to charge
22 those policyholders more.

23 Q. Do you know if Mr. Vogt was
24 assigned a substandard rating?

25 A. I believe Mr. Vogt was a

1 C. STREILY, JR.

2 Table Four.

3 Q. Okay. Do you know why he was
4 assigned Table Four?

5 A. I do not know.

6 Q. So going back to my earlier
7 question, is table rating, is that
8 something that would be used by State
9 Farm to determine the mortality risk of
10 an insured?

11 A. Yes, we would have
12 expectation for higher mortality for
13 someone that was table rated.

14 Q. Okay. So would you agree
15 that insured age, sex and rate class
16 are characteristics that can all be
17 used to asses the mortality risk
18 associated with an insured?

19 MR. ROOT: Object to form.

20 THE WITNESS: Yes, I think
21 those are characteristics that
22 companies could use to determine
23 the mortality risk of any
24 individual person.
25

1 C. STREILY, JR.

2 BY MR. FEIERABEND:

3 Q. When you say companies, does
4 State Farm use those characteristics to
5 determine the mortality risk associated
6 with an insured?

7 A. For this particular policy it
8 would indicate that the guaranteed
9 values for any individual insured are
10 based on the age, sex and applicable
11 rate class.

12 Q. Okay. I am just stepping
13 aside from policy language at this
14 point.

15 I just mean generally
16 speaking, sex, age and rate class, are
17 those all considerations that State
18 Farm uses to determine mortality risk
19 associated with an insured?

20 A. Yes.

21 Q. Okay.

22 A. In most cases.

23 Q. On page 7 of the New Jersey
24 memo -- I apologize for the moving
25 around a little bit here, but again we

1 C. STREILY, JR.

2 Q. Does Attachment Two contain
3 both the current cost of insurance
4 rates and the maximum cost of insurance
5 rates for form 94030?

6 A. They do.

7 Q. Is there any difference
8 between the -- if you know -- the cost
9 of insurance rate scales included in
10 the New Jersey actuarial memo and the
11 cost of insurance rate scales that were
12 used for policies issued in other
13 states?

14 A. I don't know that for
15 certain.

16 Q. Okay. Is it your expectation
17 that these would be the same rate
18 scales that were used for policies
19 issued in other states under the form
20 94030?

21 A. That would be my expectation,
22 yes.

23 Q. Okay. If you could flip to
24 within this same Scott Witt's report
25 Exhibit B9.

1 C. STREILY, JR.

2 940101 is a date. So that would be
3 January 1st of '94. The MO would refer
4 to the State of Missouri.

5 Q. And in your experience, do
6 State Departments of Insurance have
7 different requirements as to what's
8 included in an actuarial memo for a
9 product?

10 A. Some states may.

11 Q. If you look in here under 2B,
12 for instance, on page 3, do you see
13 where it says cost of insurance?

14 A. I do.

15 Q. Some of the information
16 regarding calculation of cost of
17 insurance rates that we saw in South
18 Carolina and New Jersey's memos is not
19 included here, is that correct?

20 A. That's correct.

21 Q. Okay. Is it your
22 understanding though that the cost of
23 insurance rates for the Missouri form
24 94030 would have been determined in the
25 same way as the COI rate scales for New

1 C. STREILY, JR.

2 Jersey and South Carolina?

3 A. I wasn't involved in that
4 determination. That would be my
5 expectation.

6 Q. Okay. In your review of
7 documents in this case and in preparing
8 your report, have you seen anything
9 that would lead you to believe
10 otherwise?

11 A. No.

12 Q. Okay. We are going to go
13 back to your report. Still in that
14 paragraph 2. The last sentence there
15 says, "The product design was built to
16 facilitate solvency and self-support
17 across the entire universe of form
18 94030 policyholders within the limits
19 authorized by the policy and the
20 regulations and laws that govern
21 issuance."

22 Did I read that correctly?

23 A. Yes.

24 Q. What limits authorized by the
25 policy are you referencing here?

1 C. STREILY, JR.

2
3 BY MR. FEIERABEND:

4 Q. Thank you for the
5 clarification.

6 There is a reference here in
7 paragraph 11 to the -- as we were just
8 discussing -- the number of years that
9 elapsed since the policy was applied
10 for, correct?

11 A. Correct.

12 Q. Is the number of years that
13 have elapsed, is that synonymous with
14 the term duration?

15 A. Yes, I think those are the
16 same.

17 Q. Is the term duration
18 something that you have used in the
19 context of your job as an actuary?

20 A. Yes.

21 Q. Okay. And then just going
22 back to this, the pricing mortality in
23 the 88-91 table, duration is something
24 that's taken into account in
25 determining mortality expectations, is

1 C. STREILY, JR.

2 that correct?

3 A. Yes. Mortality is --
4 duration is a part of the mortality
5 expectation.

6 Q. Why does duration matter for
7 determination of mortality
8 expectations?

9 A. Duration matters because when
10 someone buys a new policy, at that
11 point in time they would have recently
12 gone through underwriting. And through
13 the underwriting process we learn a lot
14 about the policyholder that gives us --
15 that results in a lower mortality for
16 that particular person than someone
17 that hasn't -- of the same age that
18 hasn't recently gone through
19 underwriting.

20 Q. Is duration measured by
21 policy years?

22 A. Duration would be based on
23 policy year.

24 Q. Okay. And I think some of
25 what we were discussing is summarized

1 C. STREILY, JR.

2 second year of his policy?

3 A. I do.

4 Q. Okay. Under paragraph 14 of
5 your report, in the middle of that
6 paragraph it says, "An insured can use
7 a pooled rate that assigns a single
8 rate to all persons of the same age,
9 sex and rating class, or an insurer can
10 assign different rates to persons of
11 the same age, sex and rating according
12 to how many years ago they purchased
13 their policy. Both methods produce
14 mortality related rates."

15 Did I read that correctly?

16 A. You did.

17 Q. What do you mean by mortality
18 related here?

19 A. That indicates that under
20 either method -- either method could be
21 used to reflect the mortality cost
22 associated with the policy.

23 Q. Okay. Earlier we discussed
24 that pricing mortality was used in
25 developing the 94030 cost of insurance

1 C. STREILY, JR.

2 rates, correct?

3 A. Yes.

4 Q. And you agree with that?

5 A. Yes.

6 Q. And also the COI rates were
7 loaded with expenses and profit. Do
8 you recall us discussing that?

9 A. Yes.

10 Q. Do you agree with that?

11 A. Yes.

12 Q. Are expenses and profit
13 mortality related?

14 MR. ROOT: Object to form.
15 It's vague.

16 THE WITNESS: I would not
17 consider expenses and profit to be
18 mortality related.

19 BY MR. FEIERABEND:

20 Q. Okay. In paragraph 15, the
21 first sentence there says, "As noted
22 above, Mr. Witt's methodology would
23 assign different mortality components
24 to different policyholders of the same
25 age, sex and rating class."

1 C. STREILY, JR.

2 A. That's correct.

3 Q. The second e-mail below that
4 is from Gerry Brogla, sent June 7,
5 2012, is that right?

6 A. That's correct.

7 Q. The first sentence says, "Our
8 most recent UL contract allows us to
9 change COIs for reasons other than
10 mortality. Our earlier forms do not."

11 Did I read that correctly?

12 A. You did.

13 Q. Is that consistent with your
14 understanding?

15 A. Yes.

16 Q. How is it that more recent --
17 that most recent UL contracts allow
18 change -- allow State Farm to change
19 COIs for reasons other than mortality?

20 A. I wasn't part of that
21 conversation when they developed those
22 more recent contracts.

23 Q. But that's consistent with
24 your understanding?

25 A. Yes, it is.

1 C. STREILY, JR.

2 A. You did.

3 Q. Okay. So again, this is
4 evidencing that 94,000 series products
5 did not have COI rates lowered in 2008
6 and mainly due to expense concerns,
7 would you agree with that?

8 A. I would agree with that.

9 Q. Okay. Regarding the
10 repricing that occurred in 2002 for the
11 94030, would you agree that the
12 determination of current COI rate
13 scales that occurred in 2002 was
14 determined by the same process as the
15 original pricing of current COI rate,
16 it was just with the substitute of a
17 new underlying pricing mortality table?

18 A. I wasn't involved in that
19 final determination.

20 Q. Okay. Is that your
21 understanding though?

22 A. My understanding is they
23 would have tried to isolate that change
24 to just the mortality impact.

25 Q. So they wouldn't have made

1 C. STREILY, JR.

2 any adjustment to the load for expenses
3 and profit?

4 A. That would be my
5 understanding.

6 Q. Okay. If we could take a two
7 minute break.

8 MR. ROOT: Sure.

9 VIDEOGRAPHER: Off the record
10 at 3:21 p.m.

11
12 (Whereupon an off the record
13 discussion was held.)

14
15 VIDEOGRAPHER: We are back on
16 the record at 3:29 p.m.

17 MR. FEIERABEND: I have no
18 further questions for you.

19 MR. ROOT: No questions for
20 me.

21 VIDEOGRAPHER: This concludes
22 the videotaped deposition of Carl
23 Streily in tape number three. We
24 are off the record at 3:29 and now
25 we will take orders for

1
2 CERTIFICATE OF REPORTER

3
4 I, LORRAINE McCREIGHT, an Illinois Certified
5 Shorthand Reporter, do hereby certify that the
6 witness whose testimony appears in the foregoing
7 deposition transcript was duly sworn by me; that
8 the testimony of said witness was taken by me to
9 the best of my ability, and thereafter reduced to
10 typewriting under my direction; that I am neither
11 counsel for, nor related to, nor employed by any
12 of the parties to the action in which this
13 deposition was taken; and further, that I am not a
14 relative or employee of any attorney or counsel
15 employed by the parties hereto; nor financially or
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