

LIFE INSURANCE (A) COMMITTEE

Reference:

1983 Proc. II p. 554
1984 Proc. I p. 374

Susan L. Walker, Chairman--S.D.
Richard G. Shaw, Vice-Chairman--W.Va.

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AGENDA

1. Update on Potential Tax Revisions
2. Consideration of Consequences of the Use of Consolidated Tax Returns
3. Any Other Matters Brought Before the Task Force

The Life Insurance (A) Committee met in the Grand Ballroom of the Fairmont Hotel in New Orleans, La., at 2:45 p.m. on June 7, 1984. A quorum was present and Director Susan Walker (S.D.) chaired the meeting. The following member states were present: West Virginia, California, District of Columbia, Nebraska, North Dakota and Virginia.

1. Report of the Life Cost Disclosure Task Force

Superintendent Margurite C. Stokes (Washington, D.C.) presented the report of the Life Cost Disclosure Task Force. Superintendent Stokes noted that an advisory committee was appointed to develop a yield index as a first priority item and to study the test limits in the NAIC Life Insurance Disclosure Model.

Upon motion duly made and seconded, the report of the Life Cost Disclosure Task Force was adopted.

2. Report of the Universal Life Task Force

Director Michael Dugan (Neb.) presented the report of the Universal Life Task Force. Director Dugan noted that the task force will be contacting states regarding areas of concern in adoption of the Universal Life Model.

Upon motion duly made and seconded, the report of the Universal Life Task Force was adopted.

3. Interim Report of the Advisory Committee

Samuel C. Cantor, chairman of the advisory committee on Group Life and Group Health Insurance Mass Marketing, gave that committee's interim report. He reported that a detailed proposal

will be presented in December in Washington, D.C. Director Walker noted that the following individuals will be added to the advisory committee:

Charles H. Stamm, CIGNA Corporation
John J. Munnely, Equitable Life Assurance Society of the United States
Vincent P. Reusing, Metropolitan Life Insurance Company

Upon motion duly made and seconded, the committee received the interim report of the advisory committee.

4. Discussion of Model Life Replacement Regulation

Robert A. Demichelis (American Council of Life Insurance) presented the ACLI exposure draft regulation regarding replacement of life insurance and annuities. Mr. Demichelis noted the ACLI draft has already been adopted in eight jurisdictions. Mr. Demichelis stated the exposure draft had been previously circulated and discussed by the Life Cost Disclosure Task Force.

Upon motion duly made and seconded, the committee adopted the ACLI exposure draft as the NAIC Model Replacement of Life Insurance and Annuities Regulation (Attachment One).

5. Any Other Matters

Director Kenneth Moore (Alaska) presented a statement regarding delays in disbursement of surrender values by life insurers. Director Moore asked that his concerns be included in the record (Attachment Two).

6. Report of the Life and Health Actuarial Task Force

John Montgomery (Calif.) summarized the activity of the Life and Actuarial Task Force (Attachment Three).

Upon motion duly made and seconded, the task force report was adopted including the recommendations in Section C, subject to the establishment of priorities with the committee in Omaha, Neb. in September.

Scott Shaffer (Nationwide Insurance Company) asked for and received a clarification of the Exemption Section in the NAIC Model Replacement Regulation.

There being no further business, the meeting was adjourned.

Susan L. Walker, chairman, S.D.; Richard G. Shaw, vice-chairman, W.Va.; Bruce A. Bunner, Calif.; Margurite C. Stokes, D.C.; Michael J. Dugan, Neb.; Kevin Sullivan, Nev.; Louis E. Bergeron, N.H.; J.O. "Bud" Wigen, N.D.; James M. Thomson, Va.

ATTACHMENT ONE

ACLI EXPOSURE DRAFT February 15, 1984

Regulation Re: Replacement of Life Insurance and Annuities

Sec. 1. Purpose. The purpose of this Regulation is:

- (A) To regulate the activities of insurers, agents and brokers with respect to the replacement of existing life insurance and annuities.

(B) To protect the interests of life insurance and annuity purchasers by establishing minimum standards of conduct to be observed in replacement transactions by:

- (1) Assuring that purchasers receive information with which a decision can be made in his or her own best interest;
- (2) Reducing the opportunity for misrepresentation and incomplete disclosures; and
- (3) Establishing penalties for failure to comply with requirements of this Regulation.

Sec. 2. Definition of Replacement. "Replacement" means any transaction in which new life insurance or a new annuity is to be purchased, and it is known or should be known to the proposing agent or broker or to the proposing insurer if there is no agent, that by reason of such transaction, existing life insurance or annuity has been or is to be:

- (A) Lapsed, forfeited, surrendered, or otherwise terminated;
- (B) Converted to reduced paid-up insurance, continued as extended term insurance, or otherwise reduced in value by the use of nonforfeiture benefits or other policy values;
- (C) Amended so as to effect either a reduction in benefits or in the term for which coverage would otherwise remain in force or for which benefits would be paid;
- (D) Reissued with any reduction in cash value; or
- (E) Pledged as collateral or subjected to borrowing, whether in a single loan or under a schedule of borrowing over a period of time for amounts in the aggregate exceeding twenty-five percent of the loan value set forth in the policy.

Sec. 3. Other Definitions.

- (A) "Conservation" means any attempt by the existing insurer or its agent or broker to dissuade a policyowner from the replacement of existing life insurance or annuity. Conservation does not include routine administrative procedures such as late payment reminders, late payment offers or reinstatement offers.
- (B) "Direct-Response Sales" means any sale of life insurance or annuity where the insurer does not utilize an agent in the sale or delivery of the policy.
- (C) "Existing Insurer" means the insurance company whose policy is or will be changed or terminated in such a manner as described within the definition of "replacement."
- (D) "Existing Life Insurance or Annuity" means any life insurance or annuity in force, including life insurance under a binding or conditional receipt or a life insurance policy or annuity that is within an unconditional refund period.
- (E) "Replacing Insurer" means the insurance company that issues or proposes to issue a new policy or contract which is a replacement of existing life insurance or annuity.
- (F) "Registered Contract" means variable annuities, investment annuities, variable life insurance under which the death benefits and cash values vary in accordance with unit values of investments held in a separate account, or any other contracts issued by life insurance companies which are registered with the Federal Securities and Exchange Commission.

Sec. 4. Exemptions. Unless otherwise specifically included, this Regulation shall not apply to transactions involving:

- (A) Credit life insurance;
- (B) Group life insurance or group annuities;
- (C) An application to the existing insurer that issued the existing life insurance and a contractual change or a conservation privilege is being exercised;
- (D) Proposed life insurance that is to replace life insurance under a binding or conditional receipt issued by the same company;

- (E) Transactions where the replacing insurer and the existing insurer are the same, or are subsidiaries or affiliates under common ownership or control; provided, however, agents or brokers proposing replacement shall comply with the requirements of Section 5(A); and
- (F) Registered Contracts shall be exempt from the requirements of Sections 7(B)(2) and 7(B)(3) requiring provision of Policy Summary or ledger statement information; however, premium or contract contribution amounts and identification of the appropriate prospectus or offering circular shall be required in lieu thereof.

Sec. 5. Duties of Agents and Brokers.

- (A) Each agent or broker who initiates the application shall submit to the insurer to which an application for life insurance or annuity is presented, with or as part of each application:
 - (1) A statement signed by the applicant as to whether replacement of existing life insurance or annuity is involved in the transaction; and
 - (2) A signed statement as to whether the agent or broker knows replacement is or may be involved in the transaction.
- (B) Where a replacement is involved, the agent or broker shall:
 - (1) Present to the applicant, not later than at the time of taking the application, a "Notice Regarding Replacement" in the form as described in Exhibit A, or other substantially similar form approved by the Commissioner. The Notice shall be signed by both the applicant and the agent or broker and left with the applicant.
 - (2) Obtain with or as part of each application a list of all existing life insurance and/or annuity to be replaced and properly identified by name of insurer, the insured and contract number. If a contract number has not been assigned by the existing insurer, alternative identification, such as an application or receipt number, shall be listed.
 - (3) Leave with the applicant the original or a copy of written or printed communications used for presentation to the applicant.
 - (4) Submit to the replacing insurer with the application a copy of the Replacement Notice provided pursuant to Sec. 5(B)(1).
- (C) Each agent or broker who uses written or printed communications in a conservation shall leave with the applicant the original or a copy of such materials used.

Sec. 6. Duties of All Insurers. Each insurer shall:

- (A) Inform its field representatives or other personnel responsible for compliance with this Regulation of the requirements of this Regulation.
- (B) Require with or as a part of each completed application for life insurance or annuity a statement signed by the applicant as to whether such proposed insurance or annuity will replace existing life insurance or annuity.

Sec. 7. Duties of Insurers that Use Agents or Brokers. Each insurer that uses an agent or broker in a life insurance or annuity sale shall:

- (A) Require with or as part of each completed application for life insurance or annuity, a statement signed by the agent or broker as to whether he or she knows replacement is or may be involved in the transaction.
- (B) Where a replacement is involved:
 - (1) Require from the agent or broker with the application for life insurance or annuity (i) a list of all of the applicant's existing life insurance or annuity to be replaced and (ii) a copy of the Replacement Notice provided the applicant pursuant to Sec. 5(B)(1). Such existing life insurance or annuity shall be identified by name of insurer, insured and contract number. If a number has not been assigned by the existing insurer, alternative identification, such as an application or receipt number, shall be listed.
 - (2) Send to each existing insurer a written communication advising of the replacement or proposed replacement and the identification information obtained pursuant to Sec. 7(B)(1) and a Policy Summary, Contract Summary or ledger statement containing Policy Data on the proposed life insurance or annuity as required by the Model

Life Insurance Solicitation Regulation* and/or the Model Annuity and Deposit Fund Disclosure Regulation*. Cost indices and equivalent level annual dividend figures need not be included in the Policy Summary or ledger statement. This written communication shall be made within three (3) working days of the date the application is received in the replacing insurer's home or regional office, or the date the proposed policy or contract is issued, whichever is sooner.

- (3) Each existing insurer or such insurer's agent or broker that undertakes a conservation shall, within twenty days from the date the written communication plus the materials required in Sec. 7(B)(1) and 7(B)(2) is received by the existing insurer, furnish the policyowner with a Policy Summary for the existing life insurance or a ledger statement containing Policy Data on the existing policy and/or annuity. Such Policy Summary or ledger statement shall be completed in accordance with the provisions of the Life Insurance Solicitation Regulation*, except that information relating to premiums, cash values, death benefits and dividends, if any, shall be computed from the current policy year of the existing life insurance. The Policy Summary or ledger statement shall include the amount of any outstanding indebtedness, the sum of any dividend accumulations or additions, and may include any other information that is not in violation of any regulation or statute. Cost indices and equivalent level annual dividend figures need not be included. When annuities are involved, the disclosure information shall be that required in a Contract Summary under the Annuity and Deposit Fund Disclosure Regulation*. The replacing insurer may request the existing insurer to furnish it with a copy of the Summaries or ledger statement, which shall be furnished within five working days of the receipt of the request.
- (C) The replacing insurer shall maintain evidence of the "Notice Regarding Replacement," the Policy Summary, the Contract Summary and any ledger statements used, and a replacement register, cross indexed, by replacing agent and existing insurer to be replaced. The existing insurer shall maintain evidence of Policy Summaries, Contract Summaries or ledger statements used in any conservation. Evidence that all requirements were met shall be maintained for at least three years or until the conclusion of the next succeeding regular examination by the Insurance Department of its state of domicile, whichever is earlier.
- (D) The replacing insurer shall provide in its policy or in a separate written notice which is delivered with the policy that the applicant has a right to an unconditional refund of all premiums paid, which right may be exercised within a period of twenty days commencing from the date of delivery of the policy.

Sec. 8. Duties of Insurers with Respect to Direct Response Sales.

- (A) If in the solicitation of a direct response sale, the insurer did not propose the replacement, and a replacement is involved, the insurer shall send to the applicant with the policy a Replacement Notice as described in Exhibit A or other substantially similar form approved by the Commissioner. In such instances the insurer may delete the last sentence and the references to signatures from Exhibit A without having to obtain approval of the form from the Commissioner.
- (B) If the insurer proposed the replacement it shall:
 - (1) Provide to applicants or prospective applicants with or as a part of the application a Replacement Notice as described in Exhibit A or other substantially similar form approved by the Commissioner.
 - (2) Request from the applicant with or as part of the application, a list of all existing life insurance or annuity to be replaced and properly identified by name of insurer and insured.
 - (3) Comply with the requirements of Sec. 7(B)(2), if the applicant furnishes the names of the existing insurers, and the requirements of Sec. 7(C), except that it need not maintain a replacement register.

Sec. 9. Penalties.

- (A) A violation of this Regulation shall occur if an agent, broker or insurer recommends the replacement or conservation of an existing policy by use of a substantially inaccurate presentation or comparison of an existing contract's premiums and benefits or dividends and values, if any. Any insurer, agent, representative, officer or employee of such insurer failing to comply with the requirements of this Regulation shall be subject to such penalties as may be appropriate under the Insurance Laws.
- (B) Patterns of action by policyowners who purchase replacing policies from the same agent or broker, after indicating on applications that replacement is not involved, shall be deemed prima facie evidence of the agent's or broker's knowledge that replacement was intended in connection with the sale of those policies, and such patterns of action shall be deemed prima facie evidence of the agent's or broker's intent to violate this Regulation.

- (C) This Regulation does not prohibit the use of additional material other than that which is required that is not in violation of this Regulation or any other statute or regulation.

Sec. 10. Severability. If any section or portion of a section of this Regulation, or the applicability thereof to any person or circumstance, is held invalid by a court, the remainder of this Regulation, or the applicability of such provision to other persons, shall not be affected thereby.

Sec. 11. Effective Date. This Regulation shall become effective on _____ (Allow 3 months' lead time).

*Cite appropriate regulation number.

ATTACHMENT TWO

June 1, 1984

Department of Commerce & Economic Development
Division of Insurance
Pouch D
Juneau, Alaska 99811

Honorable Susan L. Walker
Chairperson
Life Insurance (A) Committee
NAIC

Re: Disbursement of Cash Surrender Values - Replacement

Now that virtually all jurisdictions have adopted the most current amendments to the standard valuation and standard nonforfeiture laws, we can expect to see a great number of new, highly competitive products. Many current owners of permanent life insurance will find it advantageous to replace their current insurance portfolio. We anticipate that many of the purchases will be funded by the cash surrender values obtained through the termination of existing policies.

In most jurisdictions, an insurer has the contractual as well as statutory right to defer payment of cash surrender values up to six months. This length of time is provided so that an insurer's solvency would not be adversely impacted due to the forced liquidation of assets at less than an optional time in order to meet those cash demands. In recent years, we have seen serious problems caused by the disintermediation of funds due to large numbers of policy loans. However, the serious cash flow problems occurred because the funds generally flowed outside of the insurance sector.

Currently, a person surrendering a life insurance policy for its cash value is receiving the cash disbursement within a time frame that virtually includes only the time involved with the paper flow through the postal system. If a "run" on cash surrenders occurs in order to finance the purchase of the new, competitive products, we can expect the "turnaround" time to increase due to several factors (some of which would be justifiable and others not).

An increase in the time frame caused by a material increase in the "paper blizzard" could be justified. Additionally, an increase in the turnaround could be justified if, due to a "run" on cash surrenders, an insurer's solvency would be adversely impacted by having to liquidate assets during unfavorable equity market conditions.

If the majority of the cash surrenders are used to purchase new life insurance coverage, the assets would remain within the system - liquidation of assets - cash to policyowners - premium back to insurer - cash invested. We would not expect any significant delays if the replacing insurer and the replaced insurer were one in the same. However, if the replacing insurer is a different insurer, it is possible that the replaced insurer could unduly delay disbursement of the cash surrender values in order to impede the replacement and/or to gain the use of those funds for a longer period of time. Notwithstanding material solvency concerns, this could be viewed as resulting entirely from competitive strife.

This practice could potentially result in gaps in coverage, unhappy insurance consumers and, ultimately, in a generally lower consumer opinion of the insurance industry. Buttressing this viewpoint is that, in effect, the cash/assets stay within the insurance industry and all insurers have an equal opportunity to be the replaced as well as the replacing insurer.

In order to help maintain the trust and integrity of the life insurance industry, I would urge all life insurers not to delay disbursements of cash surrender values solely for competitive, retaliatory reasons. Furthermore, I would recommend that the NAIC adopt a similar posture nationwide.

Kenneth C. Moore, Director

ATTACHMENT THREE

Life and Health Actuarial Task Force Report
to the Life Insurance (A) Committee
New Orleans, Louisiana
June 7, 1984

The group has had two meetings since the December 1983 meeting--the first at Portland, Ore., March 2 and 3, 1984, and the second at New Orleans, June 2 and 3, 1984. Minutes of the meetings can be made available upon request. This portion of the report is in three sections and has 4 attachments.

The report sections are:

- A. List of projects
- B. Synopses of projects
- C. Recommendations

The list of projects in Section A contains four topics reportable to task forces of the A Committee, Topics 4a and 4b to the Universal and New Life Products Task Force June 6, 1984 (Meeting 61) and Topics 7a and 7b to the Life Cost Disclosure (A) Task Force on June 5, 1984 (Meeting 45). All other topics are reportable to the Life (A) Committee.

The statements in this report refer to several committees which are working with the group. One of these, the committee which is now the *Standing Technical Advisory Committee*, reports directly to the task force, and it has been assigned to study a number of insurance topics on the Task Force agenda and to make recommendations to the task force. Charles Greeley (Metropolitan Life Insurance Company in New York) is chairman of this Technical Advisory Committee. This report contains attachments which summarize the current status of the work of the task force in connection with specific life insurance topics. Such attachments are mentioned under the appropriate topic heading to which they apply and are:

1. Report of the Standing Technical Advisory Committee, May 11, 1984 (Attachment Three-A)
2. American Academy of Actuaries Working Drafts Concerning (Attachment Three-B):
 - 2A. Strategy Statement Regarding the Actuary's Role in Life Insurance Company Financial Reporting
 - 2B. Major Recommendations of the Report of the Joint Committee on the Role of the Valuation Actuary in the U.S.
 - 2C. Summary of suggested Procedure for Use by State Regulatory Officials for the Filing of Disciplinary Complaints Against AAA Members
3. Letter of Dec. 14, 1983 by Larry Gorski regarding Industrial Insurance Premium Volume (Attachment Three-C)

SECTION A - LIST OF PROJECTS - LIFE

Advisory Group Labels		Society of Actuaries Committee - there is a separate committee for each topic shown									
AAA:		American Academy of Actuaries									
SOAC:		Society of Actuaries Committee									
STAC:		Standing Technical Advisory Committee									
ACLI:		American Council of Life Insurance Staff									
ULAC:		NAIC Universal Life Advisory Committee (Chairman - Jim Jackson)									
ASVLAC:		NAIC Actuarial Staff Variable Life Advisory Committee									
A-ULIF:		Universal Life Task Force (A) Life Committee									
Project	Identification	Advisory Group	Auth.	Y	E	A	R	Complete	Staff Contact	* Priority	Report To
1	Experience Tables										
1a	Smokers/Nonsmokers Mortality	SOAC	82					83	JOM	1**	A
1b	Group Annuitant Mortality	SOAC	80					83	JOM	completed	A
1c	Sex Blended Tables (Norris)	SOAC	83					83	JOM	1**	A
1d	Guaranteed Issue Mortality	#	82					86	JOM	3	A
1e	Specifications for Preparation of 1980 CSO Mortality Tables	SOAC	79					84	JOM	2***	A
1f	Tests to indicate the need for new Tables	SOAC	83					84	JOM	3	A
N 1g	Review adequacy of 1980 CSO Tables as a valuation standard	#	84					86	JOM	1	A
2	Valuation Interpretations, Guidelines and Model Regulations										
2a	Reserves for Cash Values Exceeding Basic Policy Reserves	STAC	80					84	JOM	1	A
2c	Paid Up Life On a Basis More Favorable Than Guaranteed	ACLI	82					84	Gorski	2	A
D 2d	Revision of Actuarial Guideline VI, Joint Life Insurance	ACLI	82					83	Marks	completed	A
2f	Valuation of Deferred Annuities Concerning: Surrender Charges	STAC	82					84	Becker	1	A
2f(1)	Bail-Out Provisions	STAC	82					84	White	1	A
2f(2)	Review Valuation Procedure for Deficiency of Investment Income	New	84					86	JOM	2	A
N 2g	Multiple Life Status Contracts	New	84					86	Lauer	2	A
N 2h	Revision of Actuarial Guideline IV, Actuarial Interpretation of Regarding Maximum Reserves for Certain forms of Term Insurance for Smokers vs Nonsmokers	New	84					86	JOM	1	A
N 2i	Nonforfeiture Interpretations, Guidelines and Model Regulations	ACLI	80					Hold	Becker	Hold	A
3	Interpretation of Standard Nonforfeiture Law for Individual Deferred Annuities										
3a	Whole Life Insurance Plans With No Cash Surrender Value	STAC	80					Hold	JOM	Delete	A
3b	Alternative Retrospective Approach for Minimum Nonforfeiture Values (Formerly Part of topic 6c)	STAC	82					86	Becker	2	A

D = Project to be deleted at June 1984 NAIC meeting.

N = New project to be authorized at June 1984 NAIC meeting.

* In the "Priority" Column, "1" indicates a project which is considered of the highest priority, "2" indicates a project of lower priority, "3" projects of the lowest priority, "Complete", completed projects

** Although these tables and model regulations have been adopted by the NAIC the Task Force is reviewing associated problems

*** Specifications for Preparation of the 1980 CSO Mortality Tables have been prepared by a Committee of the Society of Actuaries further confirmation was needed

Project	Identification	Advisory Group	Y E A R	Staff Contact	* Priority	Report To
			Auth.			
4	<u>Special Plans</u>					
4a	Universal Life - review regulators problems with Model adopted, review product of NAIC (A) Task Force on Universal Life	ULAC	84	JOM	1	A-ULTF
4b	Variable Life Guidelines For Model Regulation	ASVLAC	82	JOM	1	A-ULTF
4c	Structured Settlements	STAC	83	JOM	2	A-ULTF
N 4d	Interest Indexed Products	New	84	JOM	1	A-ULTF
N 4e	Recommended Procedures For New Plans	New	84	Becker	2	A-ULTF
N 4f	Market Value Adjustment Annuities	New	84*	Becker	1	A-ULTF
5	<u>Actuarial Aspects of Reinsurance Transactions</u>	New	83	White	1	A
6	<u>Alternative Valuation Concepts</u>					
6a	Minimum Surplus For Risks Assumed	SOAC	80	JOM	1	A
6b	Actuarial Opinion on Adequacy of Reserves Including the Relation of Liabilities to Assets with Respect to Interest Guarantee Periods	STAC + AAA	80	Becker	1	A
D 6c	Retrospective Valuation Procedures (Nonforfeiture Value to topic 3C)	New	83	JOM	Delete	A
N 6d	Procedure for regulators to obtain a second actuarial opinion	AAA	84	(?)	2	A
N 6e	The Valuation Actuary and Standards of Actuarial Practice (three advisory groups jointly)	AAA +SOAC +STAC	84	JOM	1	A
7	<u>Disclosure Regulations</u>					
7a	Regulation - Yield Index	New	83	JOM		A-Disc
7b	Disclosure Forms for Indeterminate Premium Policies and Stock Company Participating Policies (formerly topic 8)	AAA	83	JOM	1	A-Disc
N 8	Disciplinary Procedures for Actuaries (new topic 8)	AAA	84	JOM	2	A
9	Norris Decision (to topic 1C)	SOAC	83	JOM	completed	A

D = Project to be deleted at June 1984 NAIC meeting.

N = New project to be authorized at June 1984 NAIC meeting.

* In the "Priority" Column, "1" indicates a project which is considered of the highest priority, "2" indicates a project of lower priority, "3" projects of the lowest priority, "Complete", completed projects

The Society of Actuaries is to be asked to form a committee to do this study.
JOM John O. Montgomery

1a. Experience Table - Smokers/Nonsmokers Mortality

Sets of mortality tables and a model regulation applying to the 1958 CSO Table and the 1980 CSO Tables were adopted at the December 1983 meeting. What is needed now are some guidelines in the application of such tables.

1b. Experience Tables - Group Annuitant Mortality

The marked improvement in mortality as evidenced by the 1980 CSO and the 1983 Individual Annuity Tables required the development of a new group annuitant mortality table which was adopted at the December 1982 meeting as the "1983 Group Annuity Mortality Table" along with a model regulation for the use of that table. The project is complete.

1c. Sex Blended Tables (Norris Decision)

These tables were developed by a Society of Actuaries Committee and adopted by the NAIC in December 1983. This topic is needed to review problems in the use of such tables and recommend solutions.

1d. Experience Tables - Guaranteed Issue Mortality

There is an increasing amount of guaranteed issue and decreasing amount of industrial insurance. An investigation is needed to see if these blocks of business are appropriate for the purposes of developing a mortality table. Because of the wide variation of experience anticipated from company to company, some form of probabilistic approach may be needed in developing a mortality table. Because such techniques are just now becoming used in the development of experience tables, this project will likely be very slow in development. The question of whether or not Industrial Tables are needed was resolved by a study conducted by Larry Gorski (Ill.). (Attachment Three-C). The Society of Actuaries is to be asked to review the feasibility of developing a table.

1e. Specifications For Preparation of 1980 CSO Mortality Tables

The development of a standardized approach in presenting 1980 CSO Mortality Table results is the subject of this topic. From this the NAIC should consider developing computer programs so that the NAIC Support and Service Office could furnish reserves and values on request. A set of guidelines is to be developed after a survey of results using various configurations of hardware and software.

1f. Tests to Indicate the Need for New Tables

These are tests to indicate whether or not new tables of mortality are needed.

1g. Review Adequacy of 1980 CSO Tables as a Valuation Standard

There are two areas of particular interest, guaranteed issue or minimal underwritten (See topic 1d above), and term insurance particularly annual renewable and revertible term. The Society of Actuaries is considering a review of these problems.

2a. Reserves for Cash Values Exceeding Basic Policy Reserves

Many actuaries in regulation believe that cash values exceeding basic policy reserves are guaranteed benefits which should be reserved for in advance. This guideline would define the practice concerning such reserves. Amendment of the Standard Valuation Law may also be needed to define proper minimum reserves for some policies. (See Attachment Three-A)

2c. Paid Up Life Insurance on a Basis More Favorable Than Guaranteed

This guideline is to define the basis for setting up amounts of paid up life insurance offered on a basis more favorable than that guaranteed, so that equity is preserved among all groups of policyholders. If offered on the basis of a high interest rate, reserve questions need to be resolved.

2d. Revision of Actuarial Guideline VI, Joint Life Insurance

This involved a study of this guideline and background material to determine if improvement or clarification could be made, and a specific recommendation was adopted at the December 1983 meeting. This project is not complete.

2e. Revision of the Standard Valuation Law to Apply to Valuations Involving Gross Premiums and Cash Values

Sections 5, 6 and 7 of the model law appear to be ambiguous as to what "standards for minimum reserves" should be used for valuations involving the use of gross premiums and/or guaranteed cash surrender values. This ambiguity needs resolution. (This topic has been combined with 2a above and deleted from the group's agenda).

2f(1) Valuation of Deferred Annuities Concerning Surrender Charges

This guideline is to define the practice of setting up reserves on deferred annuities with unconditional surrender charges, and in which two or more options available at maturity have different present values.

2f(2) Valuation of Deferred Annuities Concerning "Bail Out" Provision

This guideline is to define the practice of setting up reserves on deferred annuities providing two levels of cash values for certain policy years where the higher cash value would be payable if the company declares interest below a certain level. A model regulation is needed. (See Attachment Three-A).

2g. Review Valuation Procedure for Deficiency of Investment Income

This project would require additional reserves if investment income becomes deficient. An alternative to be considered is the procedure used by the New York Department in determining reserves for guaranteed Interest Contracts.

2h. Multiple Life Status Contracts

Review status of contracts when each life dies with respect to reserves and nonforfeiture benefits. Define types of contracts.

2i. Revision of Actuarial Guideline IV, Actuarial Interpretation Regarding Minimum Reserves For Certain Forms of Term Life Insurance for Smokers and Nonsmokers

This revision would present guidelines for usage of the Smoker/Nonsmokers Mortality Tables in determining policy reserves for term insurance plans with no cash surrender values.

3a. Interpretation of the Standard Nonforfeiture Law for Individual Deferred Annuities

This guideline is basically a restatement of the law in more detail than exists in the law, and the topic includes a study whether a revision of Section 4 in the Model Law would be available. This topic is dormant until the Standard Nonforfeiture Law for Individual Deferred Annuities is to be revised in general.

3b. Whole Life Insurance Plans With No Cash Surrender Value

This is the development of a proposed revision of the Standard Nonforfeiture Law for life insurance to provide for plans with paid up nonforfeiture values but no guaranteed cash surrender values. Study indicates this is not feasible now because significant reduction in gross premiums would not be expected. This project should be put on "hold" for now.

3c. Alternative Retrospective Approach For Minimum Nonforfeiture Values

One of the principal problems with the recently adopted Universal Life Model Regulation is that the minimum nonforfeiture values are expressed prospectively while the nature of most versions of the product really requires a retrospective development of such values. This project is intended to provide that solution for Universal Life Policies.

4a. Universal Life-Review Problems with NAIC Universal Life Model Regulation

The present function of the Actuarial Task Force is to review problems presented by various regulators in adopting this model regulation. The task force was assigned at the December 1983 NAIC meeting two broader projects concerning the feasibility of a retrospective alternative nonforfeiture law (Project 3c) and the expansion of the model disclosure regulation on deferred annuities to provide for disclosure of an interest yield index for all life insurance policies or annuity contracts sold with an emphasis on rates of interest credited to such policies or contracts. (Project 7a).

4b. Variable Life Guidelines For Model Regulation

In adopting the revisions to Variable Life Insurance Model Regulation to provide for flexible premiums (Universal Life II) for variable life insurance the actuarial task force was assigned the responsibility for drafting three guidelines.

- (1) The application of the Standard Nonforfeiture Law for Life Insurance to flexible premium variable life insurance. (The drafting of this guideline should be compatible with the recently adopted Universal Life Model Regulation.
- (2) The determination of sufficient net investment income and readily marketable assets to meet anticipated withdrawals under policies funded by the account. At the December, 1983 NAIC meeting it was recommended that this project be assigned to another study group.
- (3) The preparation of illustrations specified by the regulation addressing issues regarding guaranteed and nonguaranteed aspects of variable life insurance policies.

4c. Structured Settlements

This guideline is to define the practice of reserving for benefits arising from settlements of various forms of claims such as court settlements, out-of-court settlements, and other benefits possibly involving annuities on impaired lives.

4d. Interest Indexed Products

The NAIC model regulation on universal life insurance plans makes provision for interest indexed products, and makes certain requirements for such products including a statement of actuarial opinion. This project is concerned with the development of a model regulation of other interest indexed products, such as deferred annuities, which do not fall within the scope of the model regulation on universal life plans.

4e. Recommended Procedures for New Plans

The present wording of the NAIC model Standard Valuation Law and Standard Nonforfeiture Law for Life Insurance requires a regulation to define minimum reserves and nonforfeiture values for products, whose benefit or gross premium structure is such that these laws can not be directly applied. This project is concerned with determining the responsibility of any actuary involved in submitting such a product for approval in revealing that a regulation is needed. This project is also concerned with any means by which the proper actuarial treatment for such new products can be determined with reasonable promptness, so that regulations for worthwhile new products can be developed without a long delay.

4f. Market Value Adjustment Annuities

This project is concerned with a study of a proposed new individual annuity product, which would contain market value guarantees only (as contrasted to book value guarantees) if the annuity is not continued in force until its maturity date. (See Attachment Three-A.)

5. Actuarial Aspects of Reinsurance Transactions

This guideline is needed to distinguish between true reinsurance involving a transfer of an insurance risk, reinsurance of an investment risk, a contract of surplus relief arising from various projected claims for reasons other than insurance risk or investment risk, and an actual loan agreement. The guideline should specify how each situation is to be handled.

6a. Minimum Surplus For Risks Assumed

This is the basic research needed to define the effects of various risks, singly and for various combinations of risks, in the evolution of surplus. From this research will develop either a model statute concerning minimum surplus or set of tests for determining if an insurer has sufficient surplus. This is a very complex study which will revise concepts concerning the development of surplus for all lines of insurance including life insurance, annuities, health insurance, casualty insurance, indemnity insurance, property insurance, and liability insurance.

6b. Actuarial Opinion on the Adequacy of Reserves Including the Relation of Liabilities to Assets

This opinion cannot be required until the professional actuarial groups (The Society of Actuaries and the American Academy of Actuaries) have provided guidelines for practice and conduct. The Life Health Actuarial Task Force is working with these groups in developing such guidelines. Whenever any NAIC task force indicates the need for such an opinion the needs for guidelines must be stressed.

6c. Retrospective Valuation Procedure

Although assigned by the Life (A) Committee at the December 1982 NAIC meeting this is largely redundant with the work of the Universal Life Task Force but would expand the retrospective treatment to all plans in defining retrospective valuation and nonforfeiture value procedures. The valuation cannot be retrospective in nature since reserves are held for benefits guaranteed to be paid at some time in the future. An alternative retrospective approach to minimum nonforfeiture values has been assigned to project 3c and the remainder of this project (retrospective valuation) is to be deleted.

6d. Procedure for Regulators to Obtain A Second Actuarial Opinion

This requires a review of legal liability involved and defining steps to minimize that liability.

6e. The Valuation Actuary and Standards of Actuarial Practice

A joint committee of the American Academy of Actuaries and the Society of Actuaries is studying the definition of the responsibilities of the "Valuation Actuary" of an insurance company. Such an actuary needs statutory recognition and perhaps some form of protection from aggressive company managements. This is a very large project with many facets such as discipline, liability for actuarial errors in judgement, liability against the regulator for denying an actuary a livelihood in the event the actuary is disciplined by the regulatory, and the extent to which a regulator should interfere with the operations of an insurer through adverse actuarial opinions. (See Attachments Three-A and B.)

7a. Disclosure of Interest Yield Index

This is a review and expansion of the NAIC model regulation on the disclosure of an interest yield index on all interest sensitive life insurance policies and annuity contracts. This is a refocus on a project formerly described as an "Effective Yield Disclosure Regulation".

7b. Disclosure Forms for Indeterminate Premiums and Stock Company Participating Policies

This is the development of a model regulation regarding the disclosure of indeterminate premiums and stock company participating dividends. This is the result of work conducted by the Society of Actuaries and which is now under review by the American Academy of Actuaries.

8. Disciplinary Procedures for Actuaries

This includes the study of how actuaries should be disciplined for improper work and involves possible close collaboration with the American Academy of Actuaries in setting up guidelines and administering the procedure. Of particular importance is the review of the work of actuaries certifying as to the adequacy of insurers reserves within a specified period before that insurer becomes statutorily insolvent. (See Attachment Three-B.)

9. Norris Decision - Unisex Mortality Tables

This project was assigned directly as a consequence of the U.S. Supreme Court Norris decision. See topic 1c for sex blended tables.

Section C - Recommendations

1. The Actuarial Task Force recommends the addition of the following projects to its agenda for the Life (A) Insurance Committee:

- 1g. Review Adequacy of 1980 CSO Tables as a Valuation Standard
- 2g. Review Valuation Procedure for Deficiency of Investment Income
- 2h. Multiple Life Status Contracts

- 2i. Revision of Actuarial Guideline IV, Actuarial Interpretation Regarding Minimum Reserves for Certain Forms of Term Life Insurance for Smokers and Nonsmoker
- 4e. Recommended Procedures for New Plans
- 4f. Market Value Adjustment Annuities
- 6d. Procedure for Regulators to Obtain a Second Actuarial Opinion
 - 6e. The Valuation Actuary and Standards of Actuarial Practice (See Attachments Three-A and B)
 - 8. Disciplinary Procedures for Actuaries (See Attachment Three-B)
- 2. The Actuarial Task Force recommends the deletion of the following projects from its agenda for the Life (A) Insurance Committee:
 - 1a. Group Annuitant Mortality
 - 2d. Revision of Actuarial Guideline VI, Joint Life Insurance
 - 6c. Retrospective Valuation Procedures
 - 9. Norris Decision

Project 1b and 2d have been completed. Project 9 has been completed, but some aspects relating to this project would continue to be reviewed under Project 1c "Sex Blended Tables" (Norris). Some aspects of Project 6c would continue to be studied under Project 3c "Alternative Retrospective Approach for Minimum Nonforfeiture Values."

ATTACHMENT THREE-A

Mr. Ted Becker
Staff Actuary
Texas Board of Insurance
1110 San Jacinto
Austin, Texas 78786

RE: June Meeting of the NAIC Life, Health and Accident Standing Technical Actuarial Task Force

Dear Ted:

Enclosed with this note are reports from the Standing Technical Advisory Committee on the following subjects:

- 1. The proposal to amend the Standard Valuation Law, as advocated by Paul Sarnoff - the advisory committee does not endorse this proposal.
- 2. Reliance on actuarial opinions - we believe this issue is the key to providing a more secure and appropriate basis for regulation in the future, and we are seeking to encourage strengthening of standards.
- 3. Valuation of deferred annuities - we believe that the valuation actuary should consider the impact of a bail-out provision, if offered. However, we believe that it may be appropriate to safely establish lower reserves if suitable testing is performed, and an actuarial opinion is provided.
- 4. Deferred annuities with nonguaranteed cash values prior to maturity - we believe this product design should be strongly encouraged in that it significantly reduced C-3 risks prior to maturity.

Also enclosed is a copy of the minutes of the advisory committee's April 8 meeting in Atlanta. Our next scheduled meeting is Nov. 30, 1984 in New York City.

At this point, I'm uncertain whether I will be able to attend the June 2-3 meeting of the task force. There will, however, be a number of members from the advisory committee present to take part in your discussions.

Sincerely,
Charles Greeley
Vice-President and Actuary

Report of Standing Technical Advisory Committee (STAC)

To: The NAIC Life, Health and Accident Standing Technical Actuarial Task Force
Subject: Proposed Changes to the Standard Valuation Law Advocated by Paul Sarnoff
Date: May 11, 1984

At its meeting April 8 in Atlanta, the STAC spent considerable time discussing the proposed changes to the Standard Valuation Law suggested by Paul Sarnoff.

The committee was not in support of the proposal, for the following reasons:

The Standard Valuation Law (SVL) is built on a model approach--and admittedly contains many peculiarities and defects. For example, it ignores expenses, lapses, markets, taxes, etc. The peculiarity addressed by the proposed changes is just one of these defects, and does not seem to warrant greater recognition in the valuation process than the other items. As the STAC has pointed out, adequacy of reserves involves much more than the reporting of the specific result of the model's output, or of merely meeting the minimum reserve standards.

The proposed Stark-Moore Federal Income Tax bill will create pressure to lower reserves, especially by removing the linkage between reserve and nonforfeiture interest rates. We believe this can be permitted without jeopardizing solvency since an actuary's opinion will still be required, and the aggregate test must still be met. We believe that regulators should permit reserve destrengthening, as long as the actuary provides satisfactory assurance that solvency is not impaired. In particular, a gross premium valuation to demonstrate reserve adequacy might be an appropriate requirement.

In our view, the actuarial profession can better serve the NAIC and the public with regard to reserve adequacy and long term solvency concerns through strengthening the actuary's opinion. We believe this view is appropriate for dealing with the issues raised by Mr. Sarnoff. We believe the current SVL gives regulators the authority to deal appropriately with the concerns raised by Mr. Sarnoff, and recommend that his proposal should not be approved at this time.

Submitted for the Standing Technical Advisory Committee
Charles Greeley, Chairman

Report of the Standing Technical Advisory Committee (STAC)

To: The NAIC Life, Health and Accident Standing Technical Actuarial Task Force
Subject: Reliance on Actuarial Opinions
Date: May 11, 1984

At its April 8 meeting in Atlanta, the STAC spent time discussing the ability of regulatorys to rely on actuarial opinions, considering concerns expressed at the Portland meeting of the task force.

We believe it is necessary to be able to rely on an actuary's professional opinion when it comes to insurance company solidity. We see no other approach which will enable the industry and regulators to meet the expectations of the policyowners, prospects, employees, sales people and shareholders. Market expectations will require quality in delivery of promises.

As a result, we believe there are no alternative approaches to future regulatory structures which are as viable as reliance on the actuary's opinion. Furthermore, we believe that all who are concerned must positively, and aggressively, encourage the necessary steps to provide an environment for actuaries' opinions which meet the expectations of those who use them.

Here is a summary of our thoughts regarding life insurance company valuation opinions. Our recommendations for the Task Force follow:

Qualifications:	The American Academy of Actuaries (AAA) qualification standards for actuaries who provide statutory opinions need to be revised in such manner as to reflect current developments in product forms and risk analysis.
Principles:	The basic definition of actuarial science (its tenets) needs to be explicitly set forth with regard to the valuation function. This will become a basis for education, regulatory expectation and practice guidelines. The Society of Actuaries (SOA) is initiating this.
Practice:	The AAA Recommendations with regard to practice in the valuation area need revision to reflect current product developments and new practice aspects resulting from research and experience. This is being done.
Discipline:	We need an environment which enables regulators to use the disciplinary process of the AAA to challenge the work product, or qualifications, of actuaries providing opinions on reserve adequacy. The AAA provides this for those who use MAAA as their credentials. An alternative procedure is needed for others.
Objectivity:	We need to clarify issues surrounding the objectivity of actuaries who provide opinions. In the United States, the professions's position has been that no better opinion can be given than that of the actuary closest to the items involved. We believe that this is the most efficient approach. Since objectivity is important to the user/observer, we must ascertain if the NAIC embraces this position as appropriate for the future.

There are many current efforts being directed at these areas. Here is a summary, with suggested task force actions:

Qualification	Standards adopted several years ago. AAA posture is to monitor.	STAC will request a special review by AAA in view of current developments.
Principles	Joint SOA and AAA Committee discussing. SOA has appointed a committee to develop explicit valuation tenets.	STAC will encourage and support all aspects of this effort; we urge the task force to do likewise.
Practice	AAA taking steps to upgrade management of standards of practice. AAA likely to expose Recommendation with regard to bringing assets into the actuary's opinion in 1984.	STAC will encourage and support all aspects of this effort; we urge the task force to do likewise.
Discipline	AAA discipline process being reviewed.	STAC will request the AAA to specifically develop detailed procedure for regulators to use. (See attached memo on action avenues).
Objectivity	AICPA and AAA task forces working to define roles in statutory area. Concept of "Valuation Actuary" being discussed.	We recommend that the Task Force and NAIC aggressively take a role in these discussions so as to allow development of a full focus on necessary objectivity.

Additionally, we note that many associated activities are going on which support those above, or anticipate some of the results.

Submitted for the Standing Technical Advisory Committee
Charles Greeley, Chairman

April 2, 1984

MEMORANDUM

TO: STANDING TECHNICAL ADVISORY COMMITTEE
FROM: WALT RUGLAND
RE: AVAILABLE ACTION AVENUES FOR REGULATORS WHO QUESTION AN ACTUARY'S CONDUCT OR WORK PRODUCT

After some discussion last fall with John Montgomery about his concerns with respect to the "quality" of some actuary's opinions, I asked the Academy's office to provide me with a response to two questions.

1. Is the Academy's disciplinary process such that a non-member can initiate a complaint against a member?
Answer: Yes!
2. Is there any liability on the part of any initiator of a complaint against an Academy member?
Answer: Generally, no!

Here are some specific details as provided by Gary Simms, Academy General Counsel:

1. Availability of Disciplinary Process to Non-Members

Article VIII. Section 2 of the Academy's Bylaws states in part:

"The (Discipline) Committee shall have the power to consider and take action, as herein provided, with respect to all questions which may arise as to the conduct of a member of the Academy in the member's relationship to the Academy or its members relationship to the Academy or its members or in the member's professional practice, or affecting the interests of the actuarial profession."

There is no limitation within the bylaws as to the source of such complaints; all complaints, from whatever source, are hence actionable.

The Handbook to Disciplinary Action (1981) indicates at page 3 (Paragraph IV) as follows:

"A complaint against an Academy member may be made by another Academy member, a non-member actuary, a client, a public citizen, a governmental agency, or an Academy Committee."

It is clear that the Academy's disciplinary procedure is available to all individuals who may have a complaint about the professional activities of a member of the Academy. State regulatory officials may initiate complaints under the Academy's disciplinary procedures, pursuant to the requirements contained in that set of procedures. We would be happy to provide a copy of the procedures to all states.

II. Liability for Initiators of Complaints

In general, membership in the Academy means that the member has accepted and is bound by the provisions of the Academy's bylaws. By maintaining membership in the Academy, a member agrees a priori to submit himself to the disciplinary procedures of the Academy while he remains a member of the Academy (and in fact, for periods of time within which he might have been a member).

In general, a member would not be able to maintain an action for defamation, libel, or slander against another individual (or the Academy) who brings an action against the member pursuant to the Academy's established disciplinary procedures.

There are, of course, a myriad of potential exceptions to this general rule. For example, if it was determined that the Academy's procedures failed to satisfy necessary due process requirements, an action against the Academy could indeed be maintained. Further, if a plaintiff could prove that the individual bringing the charges acted with malice, a knowing disregard for the truth, or in an attempt to gain personal pecuniary benefit, an action for defamation, libel, or slander could be maintained.

The defenses available to such litigation are broad, varied, and extremely complex, but suffice it to say that a defendant in such an action has the defense of truth, good faith, and lack of malice in a suit against him for defamation, libel, or slander.

A government employee, such as a regulatory official, would, in addition, have a special immunity from prosecution of such a suit, provided that the action is bringing a charge against an Academy member was taken officially. The extent of this immunity from prosecution varies from state to state, but in general affords complete protection so long as the individual was acting within the scope of his official duties.

Report of the Standing Technical Advisory Committee (STAC)

To: The NAIC Life, Health and Accident Standing Technical Advisory Task Force
 Subject: Valuation of Deferred Annuity Contracts with Bail-out Provisions
 Date: May 11, 1984

The NAIC Life, Health and Accident Standing Technical Advisory Task Force has asked us to consider an appropriate basis for reserving for deferred annuity contracts with bail-out provisions. We were given copies of the Charter Security paper on their proposed basis for such reserves as background.

The types of bail-out provisions that have been considered provide guarantees by the insurer that if the rate announced for a specified period is below the bail-out rate, the policyholder can surrender the contract within a specified period (30-90 days after notice) and not be assessed the otherwise applicable 2% below the initial guaranteed rate; other variations are to set the bail-out rate according to an external index (varies from the savings bank passbook rate to the prime rate).

The advisory committee's conclusions are as follows:

1. The bail-out provision should not be ignored for reserving purposes.
2. There is not a distinct and separate reserve for the bail-out provision.
3. It is clear that, in the long-run, an acceptable valuation basis for deferred annuities (as with virtually all other insurance products) should reflect the characteristics of the assets underlying the liabilities. In the interim, it would be expected that the valuation actuary will take into account the nature of the underlying assets in arriving at an opinion on the adequacy of the reserves established for these products.
4. Subject to the exception in paragraph (5), contracts having a bail-out rate, whether specified or tied to an external index, must reserve for the accumulation at the guaranteed rates without taking the offset for the surrender charge. For example, consider a contract with an initial guarantee of 12.5% for one year with a bail-out rate of 11.5% for five years, and a disappearing surrender charge of 5%, 4%, 3%, 2%, 1% over the first five years. Then, if the valuation rate is 8.50%, the reserve at issue will have to be the largest present value of future benefits, with the discounted value of the first year cash value calculated as (Premium).

(1.1250) .

(1.0850)

If the policy did not provide a bail-out, then that present value could be calculated as
 (Premium) $\cdot (1.1250) \cdot (1 - .05)$.

(1.0850)

Also, if the initial guarantee had been 12.5% for two years with a bail-out, then in addition to the above present value, the reserve at issue should consider:

(Premium) $\cdot (1.1250)^2$ in calculating the largest present value.

$(1.0850)^2$

5. If the actuary can demonstrate to the satisfaction of the insurance department that a level of reserves lower than specified in #3 (i.e., reserves reflecting the surrender charge) is adequate based on appropriate testing of the assets and liabilities, then such lower level of reserves should be acceptable.
6. Consistency among the states in valuing these contracts is vital.

Submitted for the Standing Technical Advisory Committee
Charles Greeley, Chairman

Report of the Standing Technical Advisory Committee (STAC)

To: The NAIC Life, Health and Accident Standing Technical Actuarial Task Force
Asset-Linked
(or Modified
Guaranteed)
Annuities
May 11, 1984

At its meeting April 8 in Atlanta, the STAC unanimously adopted the following statement regarding asset-linked annuities (now also being referred to as modified guaranteed annuities):

Description

Asset-linked annuities are similar to traditional fixed annuities except that values available upon forfeiture prior to the maturity date of the contract are derived from the market value of the underlying assets. They are similar to variable annuities in that the pre-maturity values available upon forfeiture are not guaranteed. They are dissimilar in that their maturity value is fully guaranteed. Also, the basis for the asset-linked annuity's pre-maturity nonforfeiture values is a formula, rather than a current unit value.

Background and Summary of Available Research Results

1. The STAC has identified plausible scenarios for portfolios of fixed annuities which require surplus levels beyond thresholds which would enable life insurers to operate efficiently within accumulation and savings products markets. The risk is the need to guarantee, in a competitive market, both maturity and interim values, and not just one or the other.
2. The STAC's approach in the final design of the 1980 amendments was to encourage product designs that reduced the risks calling for these surplus demands. At the same time, it warned that the risk still existed, and in many instances was not covered by the valuation law's structure of conservatism.
3. In considering modification of the life insurance nonforfeiture provisions to allow for optional designs to protect against this risk, the STAC listed an acceptable alternative as being a "market value" cash value prior to maturity. Another alternative was selected, but enactment of provisions to allow for its implementation has stalled.
4. The current annuity nonforfeiture law anticipated the need to avoid guaranteed cash values in part when it was drafted in 1975-6. It allows for a cash option (at maturity) to be optional. However, if a cash guarantee is provided at maturity, it requires guaranteed cash non-forfeiture values prior to maturity.
5. Variable annuity regulation was designed to allow the contract owner to retain the investment risk. It provides for full disclosure and imposes restrictions on sales practices. The regulation does not provide for guaranteed cash nonforfeiture or maturity values, except in the form of a death benefit.
6. It has been our position that regulation should encourage product designs which provide fair value to contract owners, while maintaining maximum expectation of insurance company solidity and survival. Furthermore, regulation should encourage growth and prosperity of the life insurance industry.

Recommendation

The NAIC should adopt a model regulation similar in form to the variable annuity regulation, which recognizes the appropriateness of contract designs guaranteeing cash values at maturity, but providing values prior to maturity which relate to the market values of underlying assets held by the companies.

Submitted for the Standing Technical Advisory Committee
Charles Greeley, Chairman

Minutes - Meeting of the NAIC Standing Technical Advisory Committee
April 8, 1984 (Atlanta)

The Standing Technical Advisory Committee met on Sunday, April 8, 1984, in Atlanta. All committee members were in attendance other than Messrs. Welch and Woody. Also in attendance were Messrs. Carroll (ACLI), Leff (Metropolitan), Pollnow (Hartford) and Sweeney (Munich American Re).

Subcommittee on Surplus and Solvency

- (A) Messrs. Cody, Ohman and Rugland updated the committee as to progress of the various Society and Academy committees. Of special note are the following:
 - (i) The Academy's Executive Committee and Board have approved (a) the release for exposure of the proposed actuarial opinion on indexed universal life; and (b) bringing consideration of the assets into Recommendation 7, the Statement of Actuarial Opinion regarding reserves and reserve adequacy. A draft proposal concerning the latter should be released for exposure by the end of the year.
 - (ii) With Actuaries taking on responsibility for the assets with respect to C-3 risks, the Academy is working with the AICPA to minimize any conflicts between the two professions.
 - (iii) The Society of Actuaries' Special Topic Meeting in New York on May 31-June 1 will focus on interest-sensitive products, with a number of sessions on asset/liability modeling, C-3 risks, segmentation, etc.
- (B) The STAC discussed some problems that had surfaced regarding the increased reliance on actuarial opinions. The committee concluded that it would be appropriate to ask the Academy to review its qualification standards for actuaries giving statutory opinions in light of recent developments. Furthermore, it was agreed that it is important for the actuarial profession that there be no significant obstacles to bringing legitimate disciplinary action when standards of practice have been violated.

Reports will be prepared for the June NAIC meeting on the subjects of reliance on actuarial opinions and remedies available to regulators when there is dissatisfaction with an actuarial opinion.

- (C) A proposal to amend the Model Laws/Regulations to permit the sale of "asset-linked" annuities was discussed. These individual contracts would provide for an interest rate guarantee for a fixed period of years (e.g., 11% for 5 years), with book value payable at the end of the guarantee period. However, termination prior to such time would result in payment based on the market value or a formula intended to approximate market value. This is really just an individual contract version of a product which has been sold on a group basis for sometime. Such a contract would substantially reduce the C-3 risk inherent in the most commonly sold individual deferred annuity contracts, and the STAC strongly endorsed the proposal. In fact, the STAC felt that development of a comparable life insurance product should be pursued once the enabling legislation/regulation for the annuity was underway. A report will be given presenting our views at the June NAIC meeting.

2. Proposal to Change the Valuation Law

Mr. Sarnoff's proposal to extend the CARVM Approach to life insurance valuation was discussed at length. In its discussion, the committee recognized that the Standard Valuation Law is a simplified model with many peculiarities and defects. Expenses, lapses, market differences, taxes and cash values are merely some of the factors which are not directly recognized in establishing minimum reserve standards.

Accordingly, the committee did not support the proposal. A report will be presented to the NAIC in June conveying our views.

3. Valuation of Substandard Annuities (Structured Settlement)

Mr. Kayton reported on the discussions at the December, 1983 NAIC meeting regarding our report on approaches to valuing substantial annuities. His ad hoc group will prepare a revised report for consideration by the STAC providing additional discussion for the various reserve methods currently being utilized. It is expected that this report would be forwarded to the NAIC task force in time for their December, 1984 meeting.

4. Valuation of Deferred Annuity Contracts with Bail-Out Provision

A number of insurance departments have recently taken the position that reserves for deferred annuity contracts containing a bail-out provision should not reflect any applicable surrender charges, since charges would not be assessed if the contract is surrendered while the bail-out rate has been pierced. Other states generally allow companies to reflect surrender charges, while New York requires that they be ignored for valuation purposes even if there is no bail-out provision.

The STAC concluded that SPDA reserves should not be established without considering the underlying assets; the effects of the bail-out provision need to be recognized in establishing reserves; the valuation actuary should be able to establish reserves reflecting surrender charges under appropriate conditions; and the actuary should be prepared to demonstrate to the satisfaction of the regulator that such is appropriate. Furthermore, the STAC feels strongly that uniformity among the states is extremely desirable, and we should strive to reconcile the differing positions taken by the various states. A report will be prepared for the June NAIC meeting.

5. Health Issues

Mr. Odell reported that a subcommittee has been formed and had begun to lay out the ground rules for developing appropriate approaches for establishing the different health reserves--claim, active life and other reserves - for both group and individual health business. It may be desirable to obtain input from the casualty side of the business since many property and liability companies write significant volumes of health insurance.

6. Next Meeting

Our next meeting will take place on Friday, Nov. 30, 1984, at Metropolitan Life in New York City. The meeting will run from 9 a.m. until 4 or 5 p.m. Lunch will be provided.

Harold B. Leff, Actuary

May 8, 1985

ATTACHMENT THREE-B

STRATEGY STATEMENT REGARDING THE ACTUARY'S ROLE IN LIFE INSURANCE COMPANY STATUTORY REPORTING

Strategy Statement

1. Propose the following recommendations to the NAIC:
 - a. That the board of directors of each life insurance company be required to designate a "valuation actuary" to sign the statement of actuarial opinion covering the actuarial items in the statutory statement. To be eligible for such designation the actuary must meet qualifications as specified by the various states.

In addition to other reasons, this should enhance the perception of the objectivity of the actuary signing the statement.
 - b. That the statement of the valuation actuary's opinion be printed in the Statutory convention blank and become a fixed part thereof.
 - c. That the statement of actuarial opinion be required to be included in any published financial statement reporting statutory results. In any case where a summary of the statutory financial statement is distributed, the summary would state that a statement of actuarial opinion has been prepared and signed, as required by state regulators, and identify the appointed valuation actuary.
2. Initiate a cooperative effort among the NAIC, the accounting profession, and the Academy to define the respective roles of the valuation actuary and the auditor in those states which require a CPA audit

of statutory financial statements. The roles should be defined to involve as little overlap as possible. The actuary would be responsible for the actuarial items as defined and the auditor would be responsible for the traditional auditing functions, including verification of the in-force or other underlying records.

The opinion statements of each party would be made without expressed reliance on the work of the other party. A paragraph disclosing the respective role of each party would be provided by management as part of its report or as a note to the financial statements. The qualifications of each professional would be verified by the other and standard procedures for each function would be developed, accepted by both professions and codified.

3. Request the Academy's Committee on Life Insurance Financial Reporting Principles, and its Committee on Qualifications Standards to review, revise and/or develop standards appropriate for the work product necessary to support the opinion and signature of the valuation actuary. These standards should include defined procedures acceptable to the NAIC and the accounting profession.

OBSERVATIONS, CONCERNS

The following comments and general observations about how these strategies would be implemented are important to consider.

1. (a) On the matter of the appointment of the valuation actuary:

- * The clients within the industry and among regulators seem receptive to the concept of the valuation actuary because of Baldwin-United, general asset/liability matching concerns, etc.
- * The requirement to designate a valuation actuary would require model legislation or regulation. For example, wording like the following would be needed:

Where in this insurance code a company is required to attach to its annual statement a report of a valuation actuary, the directors of the company shall by resolution appoint an actuary to be the valuation actuary of the company for the purposes of this section and a certified copy of that resolution and of every subsequent resolution relating to the appointment of a valuation actuary shall be filed with the commissioner of insurance within 15 days of its effective date.

It is important to obtain broad support for the valuation actuary concept, particularly within the actuarial profession, senior levels within the industry, and the NAIC. The first step is to obtain the endorsement of the Academy's Committee on Relations with Accountants, then the Academy's Executive Committee. The concept will then be taken to the NAIC's Technical Staff Actuarial Group (June 2/3, 1984). Assuming these groups support the general concept, the next step will be to obtain broad support within the profession, the industry and the NAIC.

In order to achieve passage of any model legislation or regulation, it is likely the Academy would need to re-establish grassroots support at the local state level. For example, at the time the current life statement of actuarial opinion was introduced, Academy liaison representatives were identified in many states and these individuals worked with the state insurance departments to obtain passage of the needed legislation.

- b) With regard to the opinion being printed in the blank:

This recommendation would need to be implemented by the NAIC Blanks Committee.

- c) In the matter of reference to the valuation actuary in statutory summaries:

Model legislation or regulation is likely required. For example, the current Canadian Insurance Company Act contains the following requirement, and illustrates the type of wording required.

In all financial statements published by the company for presentation to the policyholders, shareholders, or the public showing the financial po-

sition of the company at the end of the calendar year . . . such financial statements shall include a statement of the opinion of the valuation actuary that the reserve makes good and sufficient provision for all obligations guaranteed under the policies in force.

American Academy of Actuaries
Committee of Relations with Accounts
Insurance Subcommittee on Actuary/Auditor Relationships

April 23, 1984

**

Revised WSR 5/31/84

MAJOR RECOMMENDATIONS OF THE REPORT OF THE
JOINT COMMITTEE ON THE ROLE OF THE
VALUATION ACTUARY IN THE U.S.

1) The Valuation Actuary

The committee recommends that each state enact a statute requiring the directors of a life insurance company licensed in the state to appoint by resolution an actuary to be the valuation actuary of the company and to file a certified copy of that resolution and of every subsequent resolution relating to the appointment, dismissal or change of a Valuation Actuary with the appropriate state regulatory authority on a timely basis. valuation actuaries who are members of the American Academy of Actuaries would be subject to qualification standards established by the Academy, and accountability would be ensured through the Guides to Professional Conduct and accompanying disciplinary measures. The qualification standards would address the problem of assuring that the valuation actuary remain knowledgeable concerning current valuation principles and standards of practice.

2) Principles Underlying the Valuation of Life Insurance Companies for Solvency/Solidity Purposes

The committee believes that ultimately the valuation actuary should be responsible for the selection of assumptions and the establishment of reserves appropriate under the circumstances. Guidelines for selecting the assumptions and making the calculations would be provided in the form of principles contained in actuarial literature and standards of practice promulgated by the actuarial profession. The availability of such principles and standards, along with the qualification standards for the valuation actuary and his relationship to management and regulators, as described in the first recommendation, would provide regulators with the confidence needed to accept the valuation actuary's determination of the appropriate reserves.

Until such time as comprehensive valuation principles and standards have been developed, we believe that legal solvency requirements must continue to be defined. The basis of these requirements is the statutory annual statement in which reserves are determined in accordance with the Standard Valuation Law, other statutes and regulations, and statutory accounting principles. These requirements are accepted as being necessary to provide the regulators and the courts with an objective basis for removing the current management of a company failing to meet these requirements.

In addition to the level solvency standard, a statement of actuarial opinion would be required by a qualified designated valuation actuary that (1) the reserves established and the related anticipated insurance and investment cash flows make a good and sufficient provision for all future policy obligations on a reasonably expected basis and (2) that such reserves and additional available appropriated surplus together with the related anticipated cash flows make a good and sufficient provision for all future policy obligations on a basis sufficient to cover future plausible fluctuations from expected assumptions. Documentation of the basis for the opinion would be provided in a valuation actuary's report prepared for management and the board of directors. This first standard may require reserves to be established which exceed the legal solvency standard. Any portion of surplus required to satisfy the second test described in the actuarial opinion must be recognized by management and the amount, together with the basis of its determination, would be available for review by regulators, but would not be required to be published in financial statements.

In time, when confidence in the protection afforded by actuarial opinion becomes firmly established, the legal solvency standard should be eliminated. The actuary would then be responsible for selecting assumptions for the reserves established which he believes to be appropriate under the circumstances. These assumptions and methods would be fully described in the valuation actuary's report to be submitted to regulators on a confidential basis.

Summary of Suggested Procedure for Use by
State Regulatory Officials for the Filing
of Disciplinary Complaints Against AAA Members

- I. The Academy is the public interface organization of the actuarial profession in the United States.
 - A. Promulgates Guides to Professional Conduct (Guides and Opinions)
 - B. Promulgates Standards of Practice (Recommendations and Interpretations)
 - C. Operates Discipline system to enforce standards
 - D. The discipline procedure is aimed at supporting the public interest
- II. Interaction with state officials is primarily through submission of insurance company annual statement blanks and associated opinion statements.
- III. Overview of Academy's Discipline Process
 - A. Filing a complaint
 - B. Investigation
 - C. Hearing
 - D. Decision: warn, admonish, reprimand, suspend (public), expel (public)
 - E. Appellate process
- IV. Filing a Complaint
 - A. May be filed by member, nonmember, actuary, nonactuary
 - B. May be filed by government official or agency
 - C. May even be filed anonymously
 - D. May be filed by Academy committee
 - E. No format specifically required; but should be sufficient to enable further investigation
 - F. Filed with the Discipline Committee chairman
 - G. Process is confidential
- V. Basis for Allegations
 - A. Unethical conduct; conviction of criminal offense evidencing a fraud, dishonesty, or breach of trust, or by knowing filing of false or altered documents
 - B. Unprofessional work product; disregard or violation of Academy Standards of Practice.
- IV. Liability for Complainant
 - A. Discipline process is strictly confidential; AAA Bylaw provision
 - B. State officials, acting within official capacity, are generally immune from suit; but whether state government will supply an attorney to defend against suit brought for libel is a matter of choice for each state.
- VII. Penalties which may result include warning, admonishment, reprimand, suspension, or expulsion (only the last two are public).
- VIII. Committee procedure includes necessary due process, with hearing, cross-examination, etc. Final appeal may be made to Board of Directors and membership of the Academy.
- IX. Each circumstance is of course unique, and many situations can be resolved through a careful process of examination and consultation. Questions regarding specific matters, and the application of the Academy's disciplinary procedures, should be submitted to the chairman of the Discipline Committee.

May 31, 1984

**SUGGESTED PROCEDURE FOR USE BY STATE REGULATORY OFFICIALS
FOR THE FILING OF DISCIPLINARY COMPLAINTS AGAINST MEMBERS
OF THE AMERICAN ACADEMY OF ACTUARIES**

INTRODUCTION

The American Academy of Actuaries, the public interface organization of the actuarial profession within the United States, has as one of its basic purposes the establishment, promotion, and maintenance of high standards of competence, conduct and practice within the actuarial profession of this nation. In addition to promulgating specific codes of conduct and standards of practice, the Academy maintains a disciplinary procedure so that allegations of misconduct or unprofessional work product can be initiated, reviewed, and adjudicated. The method by which this takes place requires appropriate emphasis on procedural and substantive due process, fairness, privacy, and protection of the public interest.

The Discipline Committee of the American Academy of Actuaries, which is charged with the responsibility of investigating and adjudicating allegations of unethical conduct or unprofessional work product, views its role as that of a protector of the public interest. To the extent that actuaries do engage in unethical conduct or produce work which fails to meet the standard of generally accepted actuarial principles, the Discipline Committee believes that the profession as a whole suffers, and that the users of actuarial services lose confidence in the profession. Therefore, the efficacious handling of all such allegations is deemed to be within the best interests of the American Academy of Actuaries, the actuarial profession, and the public.

ACTUARIES AND STATE REGULATORY OFFICIALS

Commonly, state regulatory officials come into contact with the work product of actuaries through the annual statement blanks filed by insurance companies, to which an actuarial certification is often affixed, pursuant to state law. In some states, actuarial information regarding pension plans is also required, and this may be another area in which the work of the actuaries is reviewed by state governmental officials. Rate filings are another focal point for actuarial work vis a vis state insurance departments.

Because of the significance of the actuarial certification, reliance by state regulators on the professionalism of the actuary who undertakes the certification is essential. The American Academy of Actuaries therefore suggests that state governmental officials who have cause to believe that actuarial work product which has been placed before them is somehow lacking in professionalism should bring such matters to the attention of the chairman of the Academy's Discipline Committee. The committee is unable to take action to review alleged misconduct or unprofessional work product unless such matters are brought to its attention.

AN OVERVIEW OF THE ACADEMY'S DISCIPLINE PROCESS

The disciplinary procedures of the Academy can be summarized to include the following steps:

1. Filing a complaint
2. Investigation
3. Hearing (if necessary)
4. Disposition by full committee
5. Appeal (if requested)

The Academy's authority to discipline its members is found in its Bylaws, which delegate to the Discipline Committee the authority to review and adjudicate:

". . . all questions which may arise as to the conduct of a member of the Academy in the member's relationship to the Academy, or its members or in the member's professional practice, or affecting the interest of the actuarial profession."

It should be noted that the disciplinary process applies only to members of the American Academy of Actuaries, because the Academy lacks any authority to discipline actuaries who are not members of the Academy. However, since the majority of actuaries in the United States are members of the Academy, this disciplinary process is often available to deal with allegations of unethical conduct or unprofessional work product which may appear before state regulatory officials.

FILING A COMPLAINT

As noted above, the Academy's disciplinary process is initiated with the filing of a complaint against an Academy member. Such a complaint may be filed by a fellow member of the Academy, by a nonmember actuary, a governmental agency, a governmental official, or by another person. In addition, the Discipline Committee itself has the authority to initiate the process.

A complaint may be made anonymously, and a complete investigation and hearing may take place arising out of such an anonymous complaint, provided that the investigation undertaken by the committee finds sufficient grounds to raise a concern that a violation of the Academy's standards of practice or ethical considerations has occurred.

Although no particular form is required for a complaint to be acted upon, the more explicit and detailed the allegations, the quicker and more easily the investigation into the merits of the allegation can be undertaken and completed.

Complaints should be filed with the chairman of the Discipline Committee of the Academy. If initiated by an actuary, the complainant is urged to specify the particular standards of conduct or professional practice which have allegedly been violated. If applicable, copies of the work which has been questioned should be included with the complaint.

The filing of a complaint does not, of itself, connote guilt. Once a complaint has been received, further investigation and processing becomes the responsibility of the Discipline Committee.

BASES FOR ALLEGATIONS

Reference has been made above to unethical conduct and unprofessional work product. Indeed, these are the two bases upon which the disciplinary process operates within the Academy. Unethical conduct can be evidenced by conviction of a criminal offense evidencing a fraud, dishonesty, or breach of trust, or by the knowing filing of false or altered documents. In short, a violation of generally accepted ethical precepts (as embodied in the Academy's Guides to Professional Conduct and supporting Opinions) form one basis for disciplinary action.

Disciplinary actions can also be based on unprofessional work product, which would be work submitted by an actuary which has been undertaken in disregard or in violation of the Academy's Recommendations and Interpretations, or other generally accepted actuarial principles. The Guides, Opinions, Recommendations, and Interpretations are codified in the Academy's Yearbook.

In summary, a complaint about an actuary which is filed by a regulatory agency or regulatory official should:

1. be addressed to the chairman of the Academy's Discipline Committee;
2. specifically detail the violations of ethical or work practice standards;
3. be accompanied by copies of applicable work product, if any; and,
4. should identify an individual to whom, or source from which, the Academy's investigation can be directed.

LIABILITY FOR FILING A COMPLAINT

The Academy's disciplinary process is a strictly confidential one, as provided for in the Bylaws. This serves to protect the reputation of the individual under investigation, at least until such time as a public penalty has been imposed (see discussion regarding penalties below). In addition, individuals who wish to retain their anonymity when bringing complaints can be assured of that confidence as well.

In general, state officials who bring complaints to the attention of organizations such as the Academy, when they do so while acting within their official governmental capacity, are immune from suit, based upon the general theory of governmental immunity. However, the law may vary from state to state, as would the willingness of the state government to provide legal representation to the complainant in the event that a suit (for libel or slander) is brought by the defendant/actuary. In this regard, it is suggested that state officials seek legal counsel if deemed necessary.

PENALTIES

Five different levels of penalties may be imposed by the Academy upon a finding of a violation of either ethical precepts or standards of practice. These include:

1. Warning
2. Admonishment
3. Reprimand
4. Suspension from Membership
5. Expulsion from Membership

Under Academy procedures, a warning, admonishment, or a reprimand are deemed to be internal matters, and hence there is no publication of such penalties when imposed. However, for the more serious penalties of suspension or expulsion, the Academy deems it appropriate that the public be provided notice of the imposition of these measures.

Warnings are generally imposed for unintentional violations, where the offending party could not reasonably have known that the activities complained of were inappropriate. Admonishments are imposed when the offending party unknowingly violated an appropriate standard, but should have been aware that his actions were wrong. Reprimands are imposed when the offending party knowingly committed an impropriety, and continued violations of a similar nature would lead to more severe penalties. A suspension from membership is considered appropriate for a serious, knowing violation, under such circumstances that public censure is deemed appropriate. Expulsion from membership is imposed for a serious, knowing violation of standards which is so severe that, in the opinion of the Academy's Board of Directors, the individual is no longer deemed fit to be a member of the Academy.

CASE PROCESSING

Once an allegation is received, the Discipline Committee undertakes an investigation. This initial investigation is designed to ascertain whether there are sufficient grounds to initiate formal charges. If, in the opinion of the committee, sufficient grounds do exist, the matter will be scheduled for a formal hearing, at which time the actuary/defendant will be offered an opportunity for a full and complete hearing on the allegation. Representation by legal counsel is permitted.

The complainant can have a role to play in the investigation and hearing process, primarily as a witness and resource for additional investigation. The Academy does not, of course, have the power of subpoena, and to the extent that a complainant does not wish to participate in the process, he or she of course can avoid further participation. However, to the extent that the facts and circumstances of a given matter would benefit from the participation of the complainant as a witness, a refusal to participate would certainly render the proceedings more difficult in terms of its ultimate resolution.

Following a full and complete hearing, the committee will decide whether any of the penalties available are appropriate. For more severe penalties, the Academy's Board of Directors will automatically review the recommendation of the committee; in all matters, the defendant/actuary has the option of appealing a committee decision to the Academy's Board of Directors, and thence to the entire Academy membership, if so desired.

CONCLUSION

One of the essential concerns of a profession is the fitness of its members to practice. For a profession with public responsibilities, such as the actuarial profession, this concern is considered to be extremely important. Inasmuch as the credibility of the actuaries is essential to the public's acceptance of their opinions, the Academy's Discipline Committee views its role with the utmost importance. Further, since state regulatory officials rely upon the work product of actuaries in their own deliberations, the Academy believes that it is appropriate that such officials be aware of and familiar with the process by which the actuarial profession disciplines its members when appropriate and necessary. It is also the belief of the Academy that when regulatory officials are faced with actuarial work product which is submitted in violation of appropriate standards of practice or conduct, that such officials should be encouraged to submit such matters to the Academy for investigation and appropriate action.

Each circumstance is of course unique, and many situations can be resolved through a careful process of examination and consultation. Questions regarding specific matters, and the application of the Academy's disciplinary procedures, should be submitted to the chairman of the Discipline Committee.

ATTACHMENT THREE-C

December 14, 1983

Mr. Ted Becker, Actuary
State of Texas
State Board of Insurance
1110 San Jacinto
Austin, Texas 78786

Dear Ted:

After leaving the NAIC meeting, I began to think about our decision to eliminate the mortality studies for industrial life insurance from our agenda. It didn't seem appropriate to not recognize the mortality improvements in the tables used for nonforfeiture and valuation purposes and share in the premium reductions seen in the ordinary market.

Jeff Marks, from our department, generated a list of companies doing industrial business in Illinois and presented information on their nationwide involvement in the industrial market. As you can see there is very little 1st year premium for industrial business during 1982. From this, I would conclude that from a cost benefit standpoint, TSAG's decision was appropriate.

Sincerely,
Larry M. Gorski, A.S.A., M.A.A.A.
Life Actuary
Illinois Insurance Dept.

12/09/83 1982 INDUSTRIAL INSURANCE

NAME	RESERVE	1ST YEAR		TOTAL	
		DIRECT	PREMIUM	DIRECT	PREMIUM
PRUDENTIAL INSURANCE CO OF AME	2,772,007,603			104,083,903	
METROPOLITAN LIFE INSURANCE CO	2,821,380,833			84,002,380	
WESTERN & SOUTHERN LIFE INS CO	303,427,353			73,652,795	
LIBERTY NATIONAL LIFE INSURANCE	383,771,537			49,089,083	
UNITED INSURANCE COMPANY OF AM	378,612,199	*		82,069,940	
AMERICAN NATIONAL INSURANCE CO	306,451,787	2,724		13,575,474	
NATIONAL LIFE AND ACCIDENT INS	218,633,385			40,661,627	
LIFE AND CASUALTY INS CO OF IL	184,045,059			4,237,189	
SOUTHLAND LIFE INSURANCE COMPA	165,704,150	55,445		8,878,038	
WASHINGTON NATIONAL INSURANCE	155,222,068			31,133,471	
GULF LIFE INSURANCE COMPANY	153,967,048			16,324,963	
LIFE INSURANCE COMPANY OF VIRG	153,440,214			3,104,886	
JOHN HANCOCK MUTUAL LIFE INSUR	135,743,230			5,982,871	
MONUMENTAL LIFE INSURANCE COMP	103,370,060			2,786,399	
LIBERTY LIFE INSURANCE COMPANY	101,277,777			2,107,054	
RELIABLE LIFE INSURANCE COMPANY	90,717,359			11,309,200	
KENTUCKY CENTRAL LIFE INSURANC	78,523,475	31,868		11,700,015	
NORTH CAROLINA MUTUAL LIFE INS	74,578,286			15,107,502	
EQUITABLE LIFE INSURANCE COMPA	74,057,344			6,703,128	
SUN LIFE INSURANCE COMPANY OF	61,335,662	190,519		4,413,698	
AMERICAN GENERAL LIFE INS CO U	60,289,082			1,500,570	
BURNHAM LIFE INSURANCE COMPANY	51,411,138			3,579,343	
ATLANTA LIFE INSURANCE COMPANY	48,814,436			9,303,738	
SOUTHWESTERN GENERAL LIFE INSU	47,805,791	1,739,534		10,942,198	
ROCAFORD LIFE INSURANCE COMPAN	45,966,701	191,500		4,733,665	
GUENIAL LIFE INS CO OF AMERIC	41,110,121			519,838	
COMMONWEALTH LIFE & ACCIDENT I	38,204,935	843,400		9,694,174	
COLUMBIAN MUTUAL LIFE INSURANC	30,020,309	125		3,279,501	
LINCOLN INCOME LIFE INSURANCE	29,934,197			5,410,413	
SOUTHERN LIFE INSURANCE COMPAN	24,706,052			3,239,457	
PENINSULAR LIFE INSURANCE COMP	23,994,751			2,533,173	
SUPREME LIFE INSURANCE CO OF A	23,315,158			3,193,974	
CHICAGO METROPOLITAN MUTUAL A	22,674,771			5,075,236	
MUTUAL OF DETROIT INS CO	19,183,423			2,758,771	
PHILADELPHIA-UNITED LIFE INSUR	15,887,715			2,825,709	
INTER-OCEAN INSURANCE COMPANY	15,301,325			4,388,013	
UNITY MUTUAL LIFE INSURANCE CO	14,526,248			903,166	
NAMMOTH LIFE & ACCIDENT INSURA	13,493,207			2,100,376	
GOLDEN STATE MUTUAL LIFE INSUR	12,273,573	108,168		1,962,800	
MISSISSIPPI FOMERAL ASSN INS C	8,682,483			1,411,377	
BOSTON MUTUAL LIFE INSURANCE C	7,358,768			739,052	
RELIANCE STANDARD LIFE INSURAN	6,805,278			201,672	
CHESAPEAKE LIFE INSURANCE COMP	6,326,457			3,250,452	
INTEGRITY NATIONAL LIFE INSURA	5,975,357			1,432,426	
WORLD SERVICE LIFE INS CO OF C	3,529,796	493,007		1,275,215	
GUARDIAN LIFE INS CO OF AMERIC	3,051,306				
MADISON NATIONAL LIFE INSURANC	2,782,000				
PIONEER LIFE INSURANCE COMPANY	2,442,797			1,182,164	
STANDARD LIFE INSURANCE COMPAN	2,129,176			44,772	
AMERICAN GENERAL LIFE INSURANC	877,903				
ALLIANCE LIFE RE INSURANCE COMPA	762,827				

12/09/83 1982 INDUSTRIAL INSURANCE

NAME	RESERVE	1ST YEAR		TOTAL	
		DIRECT PREMIUM		DIRECT PREMIUM	
INDUSTRIAL CASUALTY INSURANCE	690,777			73,528	
GENERAL REASSURANCE CORPORATIO	657,000				
ABRAHAM LINCOLN INSURANCE COMP	529,943	44,939		256,241	
AMERICAN LIFE & ACC INS CO OF	449,356			17,304	
AMERICAN LIFE INSURANCE COMPAN	284,516	2,218-		95,579	
PIERCE NATIONAL LIFE INSURANCE	213,149			8,418	
INTERCONTINENTAL LIFE INSURANC	144,721			4,482	
CONTINENTAL BANKERS LIFE INS C	103,039				
HOME OWNERS LIFE INSURANCE COM	56,713			15,982	
PENNSYLVANIA LIFE INSURANCE CO	28,508			691	
OLD AMERICAN INSURANCE COMPANY	24,668			2,608	
BUCKINGHAM LIFE INSURANCE COMP	24,136	4,061		27,209	
CONTINENTAL LIFE & ACCIDENT CO	20,931			415	
MML DAY STATE LIFE INSURANCE C	15,346	15,837		50,972	
BENEFICIAL STANDARD LIFE INSUR	13,223			392	
FAMILY PROTECTION LIFE INSURAN				712	
INDEPENDENCE LIFE & ACCIDENT I	4,596			437,820	
FINAL TOTALS	10,251,393,997	3,758,759		659,613,986	

66 RECORDS TOTALLED

* Included in renewal premiums estimated \$4,000,000

LIFE COST DISCLOSURE (A) TASK FORCE

Reference:

1983 Proc. II p. 603
1984 Proc. I p. 495

Margurite C. Stokes, Chairman--D.C.
Thomas P. Fox, Vice-Chairman--Wis.

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June 5, 1984 Report 531

AGENDA

1. Report of Advisory Committee
2. Any Other Matters Brought Before the Task Force

The Life Cost Disclosure (A) Task Force met in the Gold Room of the Fairmont Hotel in New Orleans, La., at 11 a.m. on June 5, 1984. A quorum was present and Superintendent Margurite C. Stokes (D.C.), chaired the meeting. The following member states were present: Wisconsin, California, Kentucky, Louisiana and Texas. The following business was transacted:

1. Appointment of Advisory Committee

Chairman Stokes appointed the following advisory committee members:

Charles D. Rumbarger, National Association of Independent Life Brokerage Agencies
James Jackson, Transamerica/Accidental Life
Donald Maier, Metropolitan Life
Walter Miller (Chair), New York Life
James Sedgwick, United Investors Life
Jim Hunt, National Insurance Consumer Organization
Kenneth Hinsdale, Jefferson Standard Life
William Albus, National Association of Life Underwriters
Joseph Belth, Indiana University

Upon motion duly made and seconded, the chair was authorized to appoint additional members to the advisory committee--with total membership not to exceed 10.

2. Charges of the Advisory Committee

Task force members discussed the proposed charge of the advisory committee i.e., to develop a yield index for interest-sensitive life insurance products and any other life insurance products that are marketed with emphasis on the interest element. John Montgomery noted an American Academy of Actuaries Advisory Committee is addressing the disclosure forms so this will not be a charge to this advisory committee.

Tony Spano (American Council of Life Insurance) suggested an additional assignment of the advisory committee to study the test limits in the NAIC Model Life Insurance Disclosure Regulation. Mr. Spano noted the test limits are useful for the traditional whole life policies at the younger ages but additional work should be completed on non-traditional plans and at older ages. He noted the ACLI will be noting the problems with the test limits to states considering adoption of the NAIC Life Insurance Disclosure Model.

Chairman Stokes and Mr. Montgomery questioned whether this additional proposed charge would interfere with development of the yield index. Upon motion duly made and seconded, the task

force assigned both charges to the task force with the development of the yield index to take first priority.

There being no further business, the task force adjourned at 11:30 a.m.

Margurite C. Stokes, chairman, D.C.; Thomas P. Fox, vice-chairman, Wis.; Bruce A. Bunner, Calif.; David H. Elliott, Del.; Gilbert McCarty, Ky.; Sherman A. Bernard, La.; Elmer V. "Sonny" Omholt, Mont.; Kenneth Merin, N.J.; William P. Daves, Jr., Texas; Julio A. Brady, Virgin Islands.

UNIVERSAL LIFE AND OTHER NEW PLANS (A) TASK FORCE

Reference:

1983 Proc. II p. 614
1984 Proc. I p. 513

Michael J. Dugan, Chairman--Neb.
Linda N. Garner, Vice-Chairman--Ark.

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June 6, 1984 Report 533

AGENDA

1. Report of Advisory Committee
2. Report Of the Life & Health Actuarial Task Force
3. Discussion of Encouraging Remaining States to Adopt Model.
4. Any Other Matters Brought Before the Task Force.

The Universal and New Life Products (A) Task Force met in the Imperial Ballroom of the Fairmont Hotel in New Orleans, La., at 1 p.m. on June 6, 1984. A quorum was present and Director Michael J. Dugan chaired the meeting. The following states or their representatives were present: Nebraska, Arkansas, Illinois, New York, Oklahoma, Texas and Virginia.

1. Report of the Advisory Committee

James Jackson (Transamerica Occidental Life Insurance Company), chairman of the advisory committee, gave an oral report summarizing the states' response to a survey concerning the states' disposition toward the new universal life model regulation. Thirty of the 51 jurisdictions queried responded to the survey. Nebraska has adopted the model, Arkansas is holding hearings regarding adoption of the model and Wyoming has held hearings and did adopt a portion of the model. The advisory committee made available to the task force the survey questions, a statistical summary of the survey results, the completed surveys and any letters accompanying the responses. The advisory committee also offered its assistance in promoting widespread adoption of the model and in answering any questions regarding the model.

The task force heard the report.

2. Report of the Life & Health Actuarial Task Force

John Montgomery (Calif.) presented sections 4a, 4b, 4d and 4e of its report to the Life (A) Committee that relate to this task force. (The full report is attached to the A Committee report.) He discussed technical problems with the interest yield index and minimum nonforfeiture sections of the model regulation, among those other items cited in the actuarial task force report.

It was duly moved, seconded and adopted that the actuarial task force be assigned the project of developing recommended procedures for new plans. The task force received the appropriate portions of the actuarial task force report. Mr. Montgomery also will provide a list of suggested advisory committee members to assist in this project.

3. Discussion of Encouraging Remaining States to Adopt Model Regulation

At the request of Texas, the task force convened in executive session to discuss its encouragement of the other states to consider adoption of the universal life model regulation. Ted Becker (Texas) expressed concern regarding the model's shortcomings in the two areas cited by the actuarial task force.

Upon motion made and seconded, the task force adopted a recommendation to send a letter to those states not yet considering adoption of the model, with a statement concerning the two areas of concern. The task force authorized the chair to send a letter.

4. Any Other Matters Brought Before the Task Force

There being no further business, the task force adjourned at 2 p.m.

Michael J. Dugan, chairman, Neb.; Linda N. Garner, vice-chairman, Ark.; Dave J. Santos, Guam; John E. Washburn, Ill.; Gilbert McCarty, Ky.; Sherman A. Bernard, La.; James P. Corcoran, N.Y.; Gerald Grimes, Okla.; Rogers T. Smith, S.C.; Carole Keeton Rylander, Texas; James M. Thomson, Va.