

LIFE INSURANCE (A) COMMITTEE

Reference:

1984 Proc. I p. 374
1984 Proc. II p. 501

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

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AGENDA

1. Report of Life Cost Disclosure Task Force
2. Report of Universal and Other New Plans Task Force
3. Report of the Group Life and Group Health Insurance Advisory Committee
4. Any Other Matters Brought Before the Committee

The Life Insurance (A) Committee met in the Monroe Room of the Washington Hilton in Washington, D.C., at 1 p.m. on Dec. 13, 1984. A quorum was present and Director Susan Walker (S.D.) chaired the meeting. The following members or their representatives were present: Susan L. Walker (S.D.), Richard G. Shaw (W.Va.), Bruce A. Bunner (Calif.), Margurite C. Stokes (D.C.), Michael J. Dugan (Neb.), David A. Gates (Nev.), Louis E. Bergeron (N.H.), J.O. "Bud" Wigen (N.D.) and James M. Thomson (Va.).

1. Report of the Life Cost Disclosure Task Force

Superintendent Margurite Stokes presented the task force report. She stated that the advisory committee working on the yield indexes made an interim report to the task force. Superintendent Stokes further stated that the task force encouraged the advisory committee to have a final report by June, 1985.

The task force also recommended its continuation. Upon motion duly made and seconded, the committee adopted the report.

2. Universal and Other New Plans Task Forces

Director Michael Dugan presented the report of the task force. He reported that the task force received a report from its advisory committee regarding the issues raised by the Life and Health Actuarial (EX5) Task Force. The advisory committee plans to respond by the Williamsburg meeting. The task force also recommended its continuation.

Upon motion duly made and seconded, the task force report was adopted.

3. Report of Group Health and Group Life Insurance Advisory Committees

Sam Cantor presented the report of the advisory committee. The advisory committee recommended that Section 3 of the Model Group Life Insurance Act be amended to include Section 1(E) association groups as follows:

Section 3. Notice of Compensation

- (A) With respect to a program of insurance which if issued on a group basis would not qualify under Subsections (A),(B),(C),(D) and (F) of Section 1. of this Act, if compensation of any kind will or may be paid to:

[Editor's Note: The complete, amended GROUP LIFE INSURANCE DEFINITION AND GROUP LIFE INSURANCE STANDARD PROVISIONS MODEL ACT appears as Attachment One.]

Mr. Cantor noted the Accident and Health Insurance (B) Committee had already adopted the amendment to the Group Health Insurance Model. He also reported minority positions on the advisory committee favored both greater disclosure or no further disclosure.

Upon motion duly made and seconded, the committee adopted the report of the advisory committee including the recommendation that Section 3 be amended and that the advisory committee be discharged.

The chair thanked the advisory committee for their fine efforts.

4. Report of the Life and Health Actuarial Task Force

Chairman John Montgomery (Calif.) presented the report of the Life and Health Actuarial Task Force. The report outlined the various projects currently under study by the task force and six recommendations presented to the Life Insurance (A) Committee for proposed adoption. Upon motion duly made and seconded, the Life Insurance (A) Committee received the report and further decided that each recommendation be considered separately for official action.

[Editor's Note: The Life and Health Actuarial (EX5) Task Force report to the Life Insurance (A) Committee appears in the EX5 Task Force section of this Proceedings. The attachments referred to below are attached to the EX5 task force report.]

The Life Insurance (A) Committee, upon a motion duly made and seconded, adopted the following numbered recommendations:

1. Adopt the proposal for Experience Tables Tests to indicate the need for New Tables. The details of this are given with Recommendation (1) of Attachment One-A.
4. Adopt the proposal to revise Actuarial Guideline IV - Actuarial Interpretation Regarding Minimum Reserves for Certain Forms of Term Insurance for Smokers vs. Nonsmokers. The details of this proposal are given with Recommendation (4) of Attachment One-D.
5. Publish for disclosure purposes the proposed regulations for "Modified Guaranteed Annuities" with intent to adopt such a proposal at the June 1985 meeting of the NAIC. This proposal is listed as Item 5 in Attachment One-E.
6. Place in the procedure a statement of the interest rates specified under the dynamic interest provisions of the Standard Valuation Nonforfeiture Laws. This statement is prescribed in Appendix 2.

The attachments and appendix of the above recommendations are attached and made a part of the record of the Life Insurance (A) Committee's action.

Recommendation 2, a proposal for a guideline for interpreting the Standard Valuation Law with respect to the valuation of policies containing cash surrender values exceeding the basic policy reserves calculated without regard to cash surrender value, was discussed at length. Testifying in favor of adoption of the above recommendation were representatives of Prudential Insurance

Company of America and Metropolitan Life Insurance Company. Testifying in opposition of the proposal were representatives of the American Academy of Actuaries, American General Corporation, National Association of Life Companies, and the American Council of Life Insurance. Upon motion duly made and seconded, the Life Insurance (A) Committee on a vote of 6 to 2 deferred taking official action on Recommendation 2 of the report of the Life and Health Actuarial Task Force on the Guideline Regarding the Valuation of Cash Values Exceeding Policy reserves pending further study by the Life and Health Actuarial Task Force and additional exposure and analysis.

Upon further motion duly made and seconded, the Life Insurance (A) Committee, on a vote of 6 to 2, directed the Life and Health Actuarial Task Force to conduct a study of state insurance departments as to whether they currently have the ability to develop or maintain reserve factor files for examining company reserves under the proposed method embodied within the recommendation and that the Life and Health Actuarial Task Force consider other possible actuarial valuation alternatives in testing the adequacy of policy reserves.

Recommendation 3, the proposal for a guideline for the valuation of deferred annuities concerning surrender charges and Bail-Out Provisions, was considered. Testifying in favor of adoption were representatives of Sun Life Insurance Company and New York Life Insurance Company. The American Council of Life Insurance testified in support of adoption, but stated that there was not unanimous support for the recommendation by its membership. Testifying for deferring action on the proposed guideline that was first presented in final form on Oct. 26, 1984, were representatives of the National Association of Life Companies, Transamerica Occidental and the Louisiana Insurance Department.

Upon motion duly made and seconded, the Life Insurance (A) Committee on a vote of 6 to 2 deferred action on Recommendation 3 of the report of the Life and Health Actuarial Task Force on the proposed guideline concerning the Commissioners' Annuity Reserve Valuation Method pending further study by the Life Insurance (A) Committee until its March meeting in Williamsburg, Va.

The meeting was adjourned at 3:15 p.m.

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.; David A. Gates, Nev.; Louis E. Bergeron, N.H.; J.O. "Bud" Wigen, N.D.; James M. Thomson, Va.

ATTACHMENT ONE

GROUP LIFE INSURANCE DEFINITION AND GROUP LIFE INSURANCE STANDARD PROVISIONS MODEL ACT

Table of Contents.

- Section 1. Group Life Insurance Definition.
- Section 2. Limits of Group Life Insurance.
- Section 3. Notice of Compensation.
- Section 4. Dependent Group Life Insurance.
- Section 5. Group Life Insurance Standard Provisions.
- Section 6. Supplementary Bill Relating to Conversion Privileges.

- Section 1. Group Life Insurance Definitions.

Except as provided in Section 2 herein, no policy of group life insurance shall be delivered in this state unless it conforms to one of the following descriptions:

- (A) A policy issued to an employer, or to the trustees of a fund established by an employer, which employer or trustees shall be deemed the policyholder, to insure employees of the employer for the benefit of persons other than the employer, subject to the following requirements:
- (1) The employees eligible for insurance under the policy shall be all of the employees of the employer, or all of any class or classes thereof. The policy may provide that the term "employees" shall include the employees of one or more subsidiary corporations, and the employees, individual proprietors, and partners of one or more affiliated corporations, proprietorships or partnerships if the business of the employer and of such affiliated corporations, proprietorships, or partnerships is under common control. The policy may provide that the term "employees" shall include the individual proprietor or partners if the employer is an individual proprietorship or partnership. The policy may provide that the term "employees" may include retired employees, former employees and directors of a corporate employer. A policy issued to insure the employees of a public body may provide that the term "employees" shall include elected or appointed officials.*
 - (2) The premium for the policy shall be paid either from the employer's funds or from funds contributed by the insured employees, or from both. Except as provided in subsection (3), a policy on which no part of the premium is to be derived from funds contributed by the insured employees must insure all eligible employees, except those who reject such coverage in writing.
 - (3) An insurer may exclude or limit the coverage on any person as to whom evidence of individual insurability is not satisfactory to the insurer.
- (B) A policy issued to a creditor or its parent holding company or to a trustee or trustees or agent designated by two or more creditors, which creditor, holding company, affiliate, trustee, trustees or agent shall be deemed the policyholder, to insure debtors of the creditor, or creditors, subject to the following requirements:
- (1) The debtors eligible for insurance under the policy shall be all of the debtors of the creditor or creditors, or all of any class or classes thereof. The policy may provide that the term "debtors" shall include (i) borrowers of money or purchasers or lessees of goods, services, or property for which payment is arranged through a credit transaction; (ii) the debtors of one or more subsidiary corporations; and (iii) the debtors of one or more affiliated corporations, proprietorships, or partnerships if the business of the policyholder and of such affiliated corporations, proprietorships, or partnerships is under common control.
 - (2) The premium for the policy shall be paid either from the creditor's funds, or from charges collected from the insured debtors, or from both. Except as provided in subsection (3), a policy on which no part of the premium is to be derived from the funds contributed by insured debtors specifically for their insurance must insure all eligible debtors.
 - (3) An insurer may exclude any debtors as to whom evidence of individual insurability is not satisfactory to the insurer.
 - (4) The amount of the insurance on the life of any debtor shall at no time exceed the greater of the scheduled or actual amount of unpaid indebtedness to the creditor.
 - (5) The insurance may be payable to the creditor or any successor to the right, title, and interest of the creditor. Such payment shall reduce or extinguish the unpaid indebtedness of the debtor to the extent of such payment and any excess of the insurance shall be payable to the estate of the insured.
 - (6) Notwithstanding the provisions of the above subsections, insurance on agricultural credit transaction commitments may be written up to the amount of the loan commitment on a non-decreasing or level term plan. Insurance on educational credit transaction commitments may be written up to the amount of the loan commitment less the amount of any repayments made on the loan.
- (C) A policy issued to a labor union, or similar employee organization, which shall be deemed to be the policyholder, to insure members of such union or organization for the benefit of persons other than the union or organization or any of its officials, representatives, or agents, subject to the following requirements:
- (1) The members eligible for insurance under the policy shall be all of the members of the union or organization, or all of any class or classes thereof.
 - (2) The premium for the policy shall be paid either from funds of the union or organization, or from funds contributed by the insured members specifically for their insurance, or from both. Except as provided in

*Last sentence of Subsection (1) may be deleted if its content is covered by other statutes.

subsection (3), a policy on which no part of the premium is to be derived from funds contributed by the insured members specifically for their insurance must insure all eligible members, except those who reject such coverage in writing.

- (3) An insurer may exclude or limit the coverage on any person as to whom evidence of individual insurability is not satisfactory to the insurer.
- (D) A policy issued to a trust or to the trustee(s) of a fund established or adopted by two or more employees, or by one or more labor unions or similar employee organizations, or by one or more employers and one or more labor unions or similar employee organizations, which trust or trustee(s) shall be deemed the policyholder, to insure employees of the employers or members of the unions or organizations for the benefit of persons other than the employees or the unions or organizations, subject to the following requirements:
- (1) The persons eligible for insurance shall be all of the employees of the employers or all of the members of the unions or organizations, or all of any class or classes thereof. The policy may provide that the term "employees" shall include the employees of one or more subsidiary corporations, and the employees, individual proprietors, and partners of one or more affiliated corporations, proprietorships or partnerships if the business of the employer and of such affiliated corporations, proprietorships or partnerships is under common control. The policy may provide that the term "employees" shall include the individual proprietor or partners if the employer is an individual proprietorship or partnership. The policy may provide that the term "employees" shall include retired employees, former employees and directors of a corporate employer. The policy may provide that the term "employees" shall include the trustees or their employees, or both, if their duties are principally connected with such trusteeship.
 - (2) The premium for the policy shall be paid from funds contributed by the employer or employers of the insured persons, or by the union or unions or similar employee organizations, or by both, or from funds contributed by the insured persons or from both the insured persons and the employer(s) or union(s) or similar employee organization(s). Except as provided in subsection (3), a policy on which no part of the premium is to be derived from funds contributed by the insured persons specifically for their insurance must insure all eligible persons, except those who reject such coverage in writing.
 - (3) An insurer may exclude or limit the coverage on any person as to whom evidence of individual insurability is not satisfactory to the insurer.
- (E) A policy issued to an association or to a trust or to the trustee(s) of a fund established, created, or maintained for the benefit of members of one or more associations. The association or associations shall have at the outset a minimum of 100 persons; shall have been organized and maintained in good faith for purposes other than that of obtaining insurance; shall have been in active existence for at least two years; and shall have a constitution and by-laws which provide that (i) the association or associations hold regular meetings not less than annually to further purposes of the members, (ii) members, and (iii) the members have voting privileges and representation on the governing board and committees. The policy shall be subject to the following requirements:
- (1) The policy may insure members of such association or associations, employees thereof or employees of members, or one or more of the preceding or all of any class or classes thereof for the benefit of persons other than the employee's employer.
 - (2) The premium for the policy shall be paid from funds contributed by the association or associations, or by employer members, or by both, or from funds contributed by the covered persons or from both the covered persons and the association, associations, or employer members.
 - (3) Except as provided in subsection (4), a policy on which no part of the premium is to be derived from funds contributed by the covered persons specifically for the insurance must insure all eligible persons, except those who reject such coverage in writing.
 - (4) An insurer may exclude or limit the coverage on any person as to whom evidence of individual insurability is not satisfactory to the insurer.
- (F) A policy issued to a credit union or to a trustee or trustees or agent designated by two or more credit unions, which credit union, trustee, trustees, or agent shall be deemed policyholder, to insure members of such credit union or credit unions for the benefit of persons other than the credit union or credit unions, trustee or trustees, or agent or any of their officials, subject to the following requirements:
- (1) The members eligible for insurance shall be all of the members of the credit union or credit unions, or all of any class or classes thereof.
 - (2) The premium for the policy shall be paid by the policyholder from the credit union's funds and, except as provided in subsection (3), must insure all eligible members.
 - (3) An insurer may exclude or limit the coverage on any member as to whom evidence of individual insurability is not satisfactory to the insurer.

Section 2. Limits of Group Life Insurance.

Group life insurance offered to a resident of this state under a group life insurance policy issued to a group other than one described in Section 1 shall be subject to the following requirements:

- (A) No such group life insurance policy shall be delivered in this state unless the Commissioner finds that:
 - (1) The issuance of such group policy is not contrary to the best interest of the public;
 - (2) The issuance of the group policy would result in economies of acquisition or administration; and
 - (3) The benefits are reasonable in relation to the premiums charged.
- (B) No such group life insurance coverage may be offered in this state by an insurer under a policy issued in another state unless this state or another state having requirements substantially similar to those contained in subsections (A)(1), (2) and (3) has made a determination that such requirements have been met.
- (C) The premium for the policy shall be paid either from the policyholder's funds or from funds contributed by the covered persons, or from both.
- (D) An insurer may exclude or limit the coverage on any person as to whom evidence of individual insurability is not satisfactory to the insurer.

Section 3. Notice of Compensation.

- (A) With respect to a program of insurance which if issued on a group basis would not qualify under Section 1 of this Act, if compensation of any kind will or may be paid to;
 - (1) a policyholder or sponsoring or endorsing entity in the case of a group policy, or
 - (2) a sponsoring or endorsing entity in the case of individual, blanket or franchise policies marketed by means of direct response solicitation, the insurer shall cause to be distributed to prospective insureds in a written notice that compensation will or may be paid.
- (B) Such notice shall be distributed
 - (1) whether compensation is direct or indirect, and
 - (2) whether such compensation is paid to or retained by the policyholder or sponsoring or endorsing entity, or paid to or retained by a third party at the direction of the policyholder or sponsoring or endorsing entity, or any entity affiliated therewith by way of ownership, contract or employment.
- (C) The notice required by this Section shall be placed on or accompany any application or enrollment form provided prospective insureds.
- (D) The following terms shall have the meanings indicated:
 - (1) "direct response solicitation" means a solicitation through a sponsoring or endorsing entity through the mails, telephone, or other mass communications media;
 - (2) "sponsoring or endorsing entity" means an organization which has arranged for the offering of a program of insurance in a manner which communicates that eligibility for participation in the program is dependent upon affiliation with such organization or that it encourages participation in the program.

Section 4. Dependent Group Life Insurance.

Except for a policy issued under Section 1(B), a group life insurance policy may be extended to insure the employees or members against loss due to the death of their spouses and dependent children, or any class or classes thereof, subject to the following:

- (A) The premium for the insurance shall be paid either from funds contributed by the employer, union, association or other person to whom the policy has been issued, or from funds contributed by the covered persons, or from both. Except as provided in subsection (B), a policy on which no part of the premium for the spouse's and dependent child's coverage is to be derived from funds contributed by the covered persons must insure all eligible employees or members with respect to their spouses and dependent children, or any class or classes thereof.
- (B) An insurer may exclude or limit the coverage on any spouse or dependent child as to whom evidence of individual insurability is not satisfactory to the insurer.

- (C) The amounts of insurance for any covered spouse or dependent child under the policy may not exceed 50% of the amount of insurance for which the employee or member is insured.

Section 5. Group Life Insurance Standard Provision.

No policy of group life insurance shall be delivered in this state unless it contains in substance the following provisions, or provisions which in the opinion of the Commissioner are more favorable to the persons insured, or at least as favorable to the persons insured and more favorable to the policyholder, provided, however, (a) that provisions (F) to (K) inclusive shall not apply to policies insuring the lives of debtors; (b) that the standard provisions required for individual life insurance policies shall not apply to group life insurance policies; and (c) that if the group life insurance policy is on a plan of insurance other than the term plan, it shall contain a nonforfeiture provision or provisions which in the opinion of the Commissioner is or are equitable to the insured persons and to the policyholder, but nothing herein shall be construed to require that group life insurance policies contain the same nonforfeiture provisions as are required for individual life insurance policies:

- (A) A provision that the policyholder is entitled to a grace period of thirty-one days for the payment of any premium due except the first, during which grace period the death benefit coverage shall continue in force, unless the policyholder shall have given the insurer written notice of discontinuance in advance of the date of discontinuance and in accordance with the terms of the policy. The policy may provide that the policyholder shall be liable to the insurer for the payment of a pro rata premium for the time the policy was in force during such a grace period.
- (B) A provision that the validity of the policy shall not be contested except for nonpayment of premiums, after it has been in force for two years from its date of issue; and that no statement made by any person insured under the policy relating to his insurability shall be used in contesting the validity of the insurance with respect to which such statement was made after such insurance has been in force prior to the contest for a period of two years during such person's lifetime nor unless it is contained in a written instrument signed by him; provided, however, that no such provision shall preclude the assertion at any time of defenses based upon provisions in the policy which relate to eligibility for coverage.
- (C) A provision that a copy of the application, if any, of the policyholder shall be attached to the policy when issued, that all statements made by the policyholder or by the persons insured shall be deemed representations and not warranties, and that no statement made by any person insured shall be used in any contest unless a copy of the instrument containing the statement is or has been furnished to such person or, in the event of death or incapacity of the insured person, to his beneficiary or personal representative.
- (D) A provision setting forth the conditions, if any, under which the insurer reserves the right to require a person eligible for insurance to furnish evidence of individual insurability satisfactory to the insurer as a condition to part or all of his coverage.
- (E) A provision specifying an equitable adjustment of premiums or of benefits or of both to be made in the event the age of a person insured has been misstated, such provision to contain a clear statement of the method of adjustment to be made.
- (F) A provision that any sum becoming due by reason of the death of the person insured shall be payable to the beneficiary designated by the person insured, except that where the policy contains conditions pertaining to family status the beneficiary may be the family member specified by the policy terms, subject to the provisions of the policy in the event there is no designated beneficiary, as to all or any part of such sum, living at the death of the person insured, and subject to any right reserved by the insurer in the policy and set forth in the certificate to pay at its option a part of such sum not exceeding \$2,000 to any person appearing to the insurer to be equitably entitled thereto by reason of having incurred funeral or other expenses incident to the last illness or death of the person insured.
- (G) A provision that the insurer will issue to the policyholder for delivery to each person insured a certificate setting forth a statement as to the insurance protection to which he is entitled, to whom the insurance benefits are payable, a statement as to any dependent's coverage included in such certificate, and the rights and conditions set forth in (H), (I), (J) and (K) following.
- (H) A provision that if the insurance, or any portion of it, on a person covered under the policy or on the dependent of a person covered, ceases because of termination of employment or of membership in the class or classes eligible for coverage under the policy, such person shall be entitled to have issued to him by the insurer, without evidence of insurability, an individual policy of life insurance without disability or other supplementary benefits, provided application for the individual policy shall be made, and the first premium paid to the insurer, within thirty-one days after such termination and provided further that:
 - (1) The individual policy shall, at the option of such person, be on any one of the forms then customarily issued by the insurer at the age and for the amount applied for, except that the group policy may exclude the option to elect term insurance.
 - (2) The individual policy shall be in an amount not in excess of the amount of life insurance which ceases because of such termination, less the amount of any life insurance for which such person becomes eligible

under the same or any other group policy within thirty-one days after such termination, provided that any amount of insurance which shall have matured on or before the date of such termination as an endowment payable to the person insured, whether in one sum or in installments or in the form of an annuity, shall not, for the purposes of this provision, be included in the amount which is considered to cease because of such termination; and

- (3) The premium on the individual policy shall be at the insurer's then customary rate applicable to the form and amount of the individual policy, to the class of risk to which such person then belongs, and to the individual age attained on the effective date of the individual policy. Subject to the same conditions set forth above, the conversion privilege shall be available (i) to a surviving dependent, if any, at the death of the employee or member, with respect to the coverage under the group policy which terminates by reason of such death and (ii) to the dependent of the employee or member upon termination of coverage of the dependent, while the employee or member remains insured under the group policy, by reason of the dependent ceasing to be a qualified family member under the group policy.
- (I) A provision that if the group policy terminates or is amended so as to terminate the insurance of any class of insured persons, every person insured thereunder at the date of such termination whose insurance terminates, including the insured dependent of a covered person, and who has been so insured for at least five years prior to such termination date shall be entitled to have issued by the insurer an individual policy of life insurance, subject to the same conditions and limitations as are provided by (H) above, except that the group policy may provide that the amount of such individual policy shall not exceed the smaller of (a) the amount of the person's life insurance protection ceasing because of the termination or amendment of the group policy, less the amount of any life insurance for which he is or becomes eligible under a group policy issued or reinstated by the same or another insurer within thirty-one days after such termination, and (b) \$10,000.
- (J) A provision that if a person insured under the group policy, or the insured dependent of a covered person, dies during the period within which the individual would have been entitled to have an individual policy issued in accordance with (H) or (I) above and before such an individual policy shall have become effective, the amount of life insurance which he would have been entitled to have issued under such individual policy shall be payable as a claim under the group policy, whether or not application for the individual policy or the payment of the first premium therefor has been made.
- (K) Where active employment is a condition of insurance, a provision that an insured may continue coverage during the insured's total disability by timely payment to the policyholder of that portion, if any, of the premium that would have been required from the insured had total disability not occurred. The continuation shall be on a premium paying basis for a period of six months from the date on which the total disability started, but not beyond the earlier of (a) approval by the insurer of continuation of the coverage under any disability provision which the group insurance policy may contain or (b) the discontinuance of the group insurance policy.
- (L) In the case of a policy insuring the lives of debtors, a provision that the insurer will furnish to the policyholder for delivery to each debtor insured under the policy a certificate of insurance describing the coverage and specifying that the death benefit shall first be applied to reduce or extinguish the indebtedness.

Section 6. Supplementary Bill Relating to Conversion Privileges.

If any individual insured under a group life insurance policy hereafter delivered in this state becomes entitled under the terms of such policy to have an individual policy of life insurance issued without evidence of insurability, subject to making of application and payment of the first premium within the period specified in such policy, and if such individual is not given notice of the existence of such right at least 15 days prior to the expiration date of such period, then in such event the individual shall have an additional period within which to exercise such right, but nothing herein contained shall be construed to continue any insurance beyond the period provided in such policy. This additional period shall expire 15 days next after the individual is given such notice but in no event shall such additional period extend beyond 60 days next after the expiration date of the period provided in such policy. Written notice presented to the individual or mailed by the policyholder to the last known address of the individual or mailed by the insurer to the last known address of the individual as furnished by the policyholder shall constitute notice for the purpose of this paragraph.

LIFE COST DISCLOSURE (A) TASK FORCE

Reference:

1984 Proc. I p. 495
1984 Proc. II p. 531

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

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AGENDA

1. Report of Advisory Committee on Yield Index
2. Consider Continuation of Task Force
3. Any Other Matters Brought Before the Task Force

The Life Cost Disclosure (A) Task Force met in the Monroe Room of the Washington Hilton in Washington, D.C., at 9 a.m. on Dec. 11, 1984. A quorum was present and Margurite C. Stokes chaired the meeting. The following task force members or their representatives were present: Margurite C. Stokes, Chairperson (D.C.), Thomas P. Fox, Vice-Chairman (Wis.), Bruce A. Bunner (Calif.), David H. Elliott (Del.), Gil McCarty (Ky.), Sherman A. Bernard (La.), E.V. "Sonny" Omholt (Mont.), Kenneth D. Merin (N.J.), William P. Daves, Jr. (Texas) and Julio A. Brady (Virgin Islands).

Report of the Advisory Committee

James Jackson presented the report of the advisory committee. He noted Walter Miller, chair of the advisory committee, had been working diligently on the charge of the task force. (See Attachment One.) Mr. Jackson reported the advisory committee met in Chicago, Ill., on Oct. 4, 1984, in Indianapolis, Ind., on Nov. 15, 1984, and is scheduled to meet in Boston, Mass., on Dec. 18, 1984.

Mr. Jackson reported the committee agreed it was not appropriate to recommend a yield index without first addressing the issue associated with the use of such an index. The advisory committee is planning to offer its final report for consideration in June, 1985. Superintendent Stokes urged the advisory committee to comply with the June 1985 deadline. John Montgomery noted the issue of funding travel for consumer participation had been raised by the advisory committee. Mr. Montgomery stated he has presented a proposal to the Executive Committee which would establish a funding mechanism for consumer and staff travel to participate in NAIC activities.

Continuation of Task Force

Upon motion duly made and seconded the members voted to recommend that the task force be continued.

Any Other Matters

John Montgomery (Calif.) proposed that the recommendations being prepared by the American Academy of Actuaries regarding disclosure practices with respect to dividends on participating policies issued by stock life insurance companies and to non-guaranteed elements of life insurance

policies would be submitted to the Blanks Task Force.

The task force, upon motion duly made and seconded, approved that action.

There being no further business, the task force adjourned at 9:30 a.m.

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

ATTACHMENT ONE

OFFICE MEMORANDUM

Date: December 5, 1984
To: NAIC Life Cost Disclosure Task Force
Subject: Advisory Committee on Yield Indexes - Progress Report
From: Walter N. Miller

Our committee met in Chicago on Oct. 4 and in Indianapolis on Nov. 15. Our next meeting is scheduled in Boston on Dec. 18. The meetings have been attended not only by committee members but also by several observers whose presence has been welcomed and has been constructive.

At the outset, the committee agreed that it was not appropriate to recommend a yield index (i.e., a particular formula or methodology) without also addressing the inter-related issues associated with the use of such an index.

Because of such inter-relation, the approach we have followed has been to get all of the appropriate issues on the table for preliminary discussion and research where necessary, rather than to set a specific schedule of the "after addressing question A we will then go on question B" variety.

For this reason, we are not in a position to report any conclusions at this time although our meetings have been productive and we are making good progress.

We presently expect to have a report discussing our recommendation of a yield index completed in time for dissemination and discussion prior to the June, 1985 meeting.

Respectfully submitted,

Walter N. Miller
Chairman, Advisory Committee on Yield Indexes

UNIVERSAL AND OTHER NEW PLANS (A) TASK FORCE

Reference:

1984 Proc. I p. 513
1984 Proc. II p. 533

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

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AGENDA

1. Adopt Minutes of Omaha Meeting
2. Discussion of the Nonforfeiture and Valuation Sections of the Universal Life Model Regulation
3. Report of the Advisory Committee
4. Consider Continuation of Task Force
5. Any Other Matters Brought Before the Task Force

The Universal and Other New Plans (A) Task Force met in the Lincoln Room of the Washington Hilton in Washington, D.C., at 1:10 p.m. on Dec. 10, 1984. A quorum was present and Director Michael Dugan (Neb.) chaired the meeting. The following task force members or their representatives were present: Linda N. Garner (Ark.), John Washburn (Ill.), Gil McCarty (Ky.), Sherman A. Bernard (La.), James P. Corcoran (N.Y.), Gerald Grimes (Okla.), Carole Keeton Rylander (Texas) and James M. Thomson (Va.).

1. Minutes of Previous Meeting

Upon motion duly made and seconded, the task force adopted the minutes of the Omaha meeting. (Attachment Four).

2. Report of the Advisory Committee

James Jackson, chairman of the advisory committee, presented the advisory committee report (Attachment One). Mr. Jackson stated that by letter of Oct. 5, 1984, the Actuarial Task Force had addressed 18 questions regarding the Universal Life Model to the Advisory Committee (Attachment Two). Mr. Jackson noted the advisory committee had been unable to meet prior to Dec. 9, 1984 and, therefore, was not presently prepared to respond to the inquiries. He noted that the advisory committee would respond by June 1985. Mr. Jackson also reported that the advisory committee was recommending that states adopting the Universal Life Model Regulation grant a one-year extension for companies to bring their products into compliance.

He noted the advisory committee is drafting a proposed footnote to the model regulation to address a decrease in reserves when unscheduled premiums are allowed under certain plans.

John Montgomery (Calif.) also noted that some states are considering adoption of the Universal Life Model and the advisory committee should consider that possibility in their deliberation.

Ted Becker (Texas) noted that of the 18 issues to the advisory committee, four of these were denoted as urgent and should be addressed immediately.

Director Dugan and other task force members urged the advisory committee members to complete their work by the Williamsburg, Va., meeting if possible. Upon motion duly made and seconded, the advisory committee report was received.

3. Continuation of Task Force

Noting the issues to be addressed by the advisory committee and the task force, the task force upon motion duly made and seconded, voted to recommend that the task force be continued.

The task force also asked the advisory committee to serve for another year.

4. Advisory Committee

John Montgomery asked the task force to establish an advisory committee on Indexed Products other than Universal Life products to assist the task force and the Actuarial Task Force. Upon motion duly made and seconded, the advisory committee was established. (Attachment Three)

Having 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.; Gil 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.

ATTACHMENT ONE

REPORT OF THE ADVISORY COMMITTEE TO THE UNIVERSAL AND OTHER NEW PLANS TASK FORCE

The advisory committee to the Universal and Other New Plans Task Force met on Sunday, Dec. 9, 1984, at the Washington Hilton. Fourteen people representing the committee were present. The advisory committee's present membership for 1984 is Attachment One-A to this report, for reference.

The advisory committee met to discuss three primary items on its agenda. The first item discussed was the determination of the committee's position regarding the extension of time, after adoption by a state of the Model Regulation on Universal Life Insurance, for insurers with previously approved universal life product forms to bring such forms into compliance with the Model Regulation.

A particular company and the insurance department directly involved had approached the committee for its position on such extension of time; however, the American Council on Life Insurance reported that a number of companies had also brought up the need for such extension.

The advisory committee determined, after discussion, that the issue of granting such extension had not been specifically addressed in the Model Regulation and that an extension of time for companies to phase their products into compliance was reasonable.

It is hereby recommended by the advisory committee that states adopting the Model Regulation grant a one year extension to those insurers to bring previously approved policy forms into compliance with the new Model Regulation. The period of one year was determined by the committee to be reasonable because of the lead time usually required to get computer systems work completed. It is the committee's understanding that North Dakota is one state which grants such an extension. The committee did not address whether this extension of time applies to new product forms filed with the insurance department after the effective date of the model regulation.

The committee then discussed an issue which has arisen and requires clarification, in the form of a footnote to the Model Regulation. The issue, stated in very general terms, involves policies which under the Model Regulation would be fixed term universal life plans but for the fact that they allow additional amounts over the planned premiums to be submitted to the insurer during the policy year. This additional policy benefit of allowing unscheduled premiums results in reserves actually decreasing. This was not an intended result under the Model Regulations.

Therefore, the advisory committee is in the process of drafting a footnote which will accomplish the proper results under the Model Regulation. One proposal, submitted by a person who is not a member of the committee is submitted to this task force for its review and comments. The committee also seeks responses to this submitted language from all interested persons.

The third major item on the agenda Sunday was the discussion of the letter of Oct. 18 to Jim M. Jackson from Ted Becker on behalf of the NAIC Life and Health Actuarial Task Force. The task force has previously received copies of this letter. In this letter, Mr. Becker requested that the advisory committee respond to 18 questions raised by Mr. Becker's group.

The committee analyzed, on a preliminary basis, each of these questions and determined that much work would be required to respond to some of them. The committee, therefore, determined that it will have various of its members be assigned to handle individual questions, and have follow-up committee meetings between now and June of 1985 to complete its analysis.

It is anticipated that in June of 1985, subject to this advisory committee remaining in existence as presently constituted, that responses to Mr. Becker's group shall be presented at the NAIC meeting in Kansas City.

ATTACHMENT ONE-A

UNIVERSAL LIFE INSURANCE TASK FORCE ADVISORY COMMITTEE 1984

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ATTACHMENT TWO

Questions Regarding the Universal Life Model

October 5, 1984

Mr. Jim Jackson
Transamerica Occidental Life Insurance Company
Transamerica Center
1150 South Olive
Los Angeles, California 90015

Dear Jim:

Bill Tozer and I have been discussing the wording for the footnote in the Universal Life Model Regulation. In addition, Bill has been talking to Tony Spano about this matter. The following wording is satisfactory to the three of us:

"If a flexible premium Universal Life policy provides guaranteed benefits and requires a minimum premium that is required on every due date, then the minimum reserve would be the greater of:

- a. the CRVM reserve defined in the Universal Life Model Regulation, or
- b. the CRVM reserve defined in the Standard Valuation Law in effect at the time of issue."

Bill has suggested that the best approach for accomplishing the inclusion of this language in the regulation would be to work with you and the NAIC's Cost Disclosure Committee. I will be available to help you in any manner that you think is appropriate. Please feel free to call upon me.

Sincerely yours,

James B. Smith, Jr.

cc: Mr. Anthony Spano
Mr. William T. Tozer
Ms. Diana Marchesi

October 5, 1984

Mr. James M. Jackson
Transamerica Occidental Life Insurance Company
Box 2101, Terminal Annex
Los Angeles, California 90051

Dear Jim:

Enclosed is a letter on behalf of our NAIC Actuarial Task Force, containing a list of questions on universal life insurance plans.

I am sorry that the questions are so long, complex and difficult. This seems to be a necessary consequence, resulting from efforts to properly regulate a relatively new type of life insurance which has rapidly gained a significant part of the marketplace and which has already evolved in many different directions.

As matters now stand, I understand your advisory committee would go out of existence after the NAIC 1984 Winter Annual Meeting. Our NAIC Actuarial Task Force recognizes that it would be almost impossible (perhaps totally impossible) to completely answer all of these questions in time for that meeting.

In the absence of any contrary instructions directly from the NAIC Universal and Other New Plans Task Force, I assume that your committee would do such work on these questions as is possible, prior to the NAIC 1984 Winter Annual Meeting, giving priority to the first four questions. I assume that the NAIC Universal and Other New Plans Task Force would then decide how matters should proceed after that meeting.

I appreciate your interest in the regulation of universal life insurance, and your willingness to help in answering these questions.

Very truly yours,

Ted Becker, Vice Chairman
NAIC Life & Health Standing
Technical Actuarial Task Force

cc: Director Michael Dugan

October 5, 1984

Mr. James M. Jackson
Transamerica Occidental Life Insurance Company
Box 2101, Terminal Annex
Los Angeles, California 90051

Re: NAIC Model Regulation on Universal Life Insurance

Dear Jim:

At the recent NAIC 1984 Fall quarterly meeting in Omaha, Nebraska, Director Michael Dugan asked our NAIC Life and Health Actuarial (EX5) Task Force to furnish you with a list of questions concerning the model regulation on universal life insurance. He proposed that you then endeavor to furnish a response to these questions, on behalf of the advisory committee which you chair. My letter is intended to serve as the list of questions requested by Director Dugan.

The following four questions are the most urgent. We would like to have at least a preliminary response to these questions available in time for the December 1984 NAIC meeting.

- (1) If minimum cash values for a flexible premium universal life plan were to be defined to equal or exceed a specific level on a retrospective basis, with due allowance for gross premiums already paid and death benefits or endowment benefits already provided, what would your committee consider to be a reasonable and proper minimum level?
- (2) If minimum cash values were to be defined retrospectively for flexible premium plans, would it then be logical also to define such values retrospectively for fixed premium universal life plans? If so, what would be a reasonable and proper minimum for such plans?

- (3) Does your committee feel that any portion of the model regulation on universal life insurance which pertains to minimum reserve calculation would need to be reworded if minimum cash values are defined on a retrospective basis as described in questions (1) and/or (2)?
- (4) Please review the following questions, which are closely related.
 - (a) The following condition has been proposed for minimum cash surrender values for universal life plans. "The minimum cash surrender values required for flexible premium life insurance plans should provide equitable and consistent treatment with policyholders under a fixed premium universal life plan, whether calculated in a prospective or retrospective manner. Two policyholders, one under each type of plan, should have similar cash surrender values, assuming equal payments of premium, interest credits and assumptions, loads and charges etc." Does your committee agree that this condition is a desirable one?
 - (b) Would your committee consider defining minimum cash surrender values for a flexible premium universal life plan in terms of those provided under a fixed premium universal life plan?
 - (c) If your committee does not feel that the treatment in (b) would be possible, would your committee investigate defining minimum cash surrender values for a flexible premium universal life plan in terms of those provided under a flexible premium annuity plan?

The following additional questions should receive attention from your committee, as soon as possible:

- (5) Could your committee provide numerical examples of the calculation of prospective minimum cash surrender values and prospective minimum reserves for at least six cases, involving various types of universal life plans as described below? Each case should be worked out to illustrate both an assumption of a level death benefit and an assumption of a death benefit that increases by duration. Each case should illustrate a policy which is commonly being sold in some volume in the current marketplace. However, the illustration would not need to specifically be labelled to identify the policies involved. These calculations should illustrate the requirements under the current model regulation.
 - (a) Flexible premium plan, front loaded premiums, guaranteed interest rate used in accumulations of cash value equal to current maximum interest rate allowed for reserves at date of issue, assuming policyholder pays a level annual premium.
 - (b) Flexible premium plan, front loaded premiums, guaranteed interest rate used in accumulations of cash value equal to current maximum interest rate allowed for reserves at date of issue except that the guaranteed interest rate used in accumulations of cash value for the first five policy years is 1% higher, assuming policyholder pays a level annual premium.
 - (c) Flexible premium plan, front loaded premiums, guaranteed interest rate used in accumulations of cash value is 1% less than the current maximum interest rate allowed for reserves at date of issue, assuming policyholder pays a level annual premium.
 - (d) Flexible premium plan, back loaded, with surrender charges applied against the accumulated account value which decrease to zero at the end of the first 20 policy years, assuming policyholder pays a level annual premium.
 - (e) Fixed premium plan, assuming policyholder pays a fixed premium for life.
 - (f) Fixed premium plan, assuming policyholder elects a "vanishing premium" option after five years. (Your committee should attempt to find a suitable policy form so as to illustrate this kind of option.)
- (6) Could your committee also prepare similar numerical examples of minimum nonforfeiture values on a retrospective basis, and minimum reserves for each of the above cases, consistent with the response to questions (1), (2), (3) and (4)?
- (7) If a state determines that it needs a more explicit definition of deceptive trade practices, which may arise specifically from universal life plans, what would your committee suggest as a proper definition?
- (8) In the case of universal life plans which provide for relatively high deductions from the accumulation account, in order to determine current cash surrender values, how can the contract language and the annual report make these deductions as clear to policyholders as possible?
- (9) In fixed premium universal life plans, backloaded flexible premium universal life plans, and some other types of flexible premium universal life plans, the effect of surrender charges may be to effectively negate excess interest already credited--in some cases more than 12 months in the past. Mortality saving which have already been credited could also be offset completely by surrender charges. Does your committee feel that this is in violation of the current model regulation?

- (10) A special advisory committee has now been appointed by the Life Cost Disclosure (A) Task Force to work on yield rates for life insurance policies and annuity contracts, including universal life plans. Does your committee have any preliminary ideas concerning the proper calculation of yield rates for universal life plans, which might be beneficial for this other advisory committee to review and consider?
- (11) A relatively new form of universal life plan has fixed premiums, due on specific dates, and contains provisions for lapse and non-forfeiture values on default. However, this plan also allows the policyholder to pay additional premiums of unspecified amounts and at unscheduled dates. Does your committee have any comments as to how a state insurance department should review such a contract under the current model regulation?
- (12) Another relatively new form of universal life plan differs from the classic flexible premium plan in that it does not treat mortality, interest rates and expenses as separate elements in an "unbundled" fashion. Instead, the company calculates a new gross premium on the "current basis," somewhat like an indeterminate premium policy. But the policy also permits "jumps" in the cash surrender value from year to year, so that these cash surrender values are not definitely predictable at the date of issue. The typical policy does contain a table of guaranteed values, and contains a provision that a new table will be issued if the policyholder changes his policy. If the policyholder pays a premium, other than the premium determined on the "current" basis, he is deemed to have made a change in the policy. Does your committee feel this type of plan is approvable as a universal life plan? If so, does the committee have any comments as to how a state insurance department should review such a plan under the current model regulation?
- (13) Please consider a fixed premium universal life plan, on which the cash surrender value exceeds the net single premium on the "current" interest and mortality bases. The policyholder elects a "vanishing premium" option. Does your committee feel there is proper disclosure required to the policyholder in the model language, as to how guaranteed cash surrender values will develop and as to the possibility that the death benefit coverage can be completely lost if the company is unable to continue the "current" bases.
- (14) Does your committee interpret the model language to effectively place any limitation at all on the amount of front end loading which may be deducted from the gross premium, or to place any limitation on the slope of the loadings as the duration increases?
- (15) Please consider a universal life policy which has front loading of \$10 for any gross premium paid in the first policy year, and of \$2 for premium paid in any subsequent policy year. The company is advised that the policy does not meet the minimum standards for cash surrender values defined in the model language, and revises the policy so that a \$10 front loading is deducted in all policy years. This revision appears to make the policy approvable. Could the committee explain this anomaly, or else recommend a change in the model language so as to prevent such cases from arising?
- (16) The following definition of "class" has been proposed for universal life insurance plans. "The policy form shall define the class of insureds in terms of each of the pricing variables, (for example, age, sex, smokers, risk, etc.), and its initial current premium." Does your committee agree with this definition? If not, what definition of "class" would your committee propose as an alternate?
- (17) Many of the companies today have a very refined structure for the classification of risks, with a multitude of substandard (such as smokers) and other classifications, which do not qualify or requalify for the lowest premium rate. What is your committee's recommendation concerning minimum non-forfeiture values for these "substandard" classes?
- (18) The mandatory policy provisions need to be interpreted differently for the various types of universal life plans. While the grace period provision, for example, may be acceptable in its present form for fixed premium universal life insurance plans, it may need to be rewritten to meet the unique structure of flexible premium life insurance plans. Some of the other mandatory provisions need a similar review. Could your committee review all the mandatory provisions in the light of the different types of universal life insurance plans available in the marketplace today, and recommend new regulatory language where it would appear to be needed?

Very truly yours,

Ted Becker, Vice Chairman
NAIC Life & Health Standing
Technical Actuarial Task Force

cc: Director Michael Dugan

October 24, 1984

Ted Becker, Vice Chairman
NAIC Life & Health Actuarial Task Force
State Board of Insurance
1110 San Jacinto
Austin, Texas 78786

Re: NAIC Model Regulation on Universal Life Insurance

Dear Ted:

Thank you for your recent letters regarding the above regulation. Although dated Oct. 5, the letters did not arrive in my office until the 19th, when I happened to be out of town, so please excuse my delay in responding.

Your letter containing the 18 questions from the NAIC Technical Actuarial Task Force is quite comprehensive and it is obvious you have put considerable thought into framing the questions. I appreciate the time and effort which went into preparing this list of questions and assure you that my advisory committee will proceed as quickly as possible to provide as definitive a set of answers as we can in response to them. As you know, for some time I have been anxious to receive a set of specific criticisms and/or questions relating to the model regulation so that we could respond in some meaningful fashion. I am currently planning to try to arrange a meeting of our advisory committee for November so that we can at least begin to have preliminary responses in time for the December meeting of the NAIC. It is currently my hope that the NAIC will continue our advisory committee's life one more year to complete work on these questions which, unfortunately, I doubt that we will be able to complete prior to the December meeting of the NAIC.

Thanks again for your effort and cooperation. I look forward to resolving the concerns expressed in your Oct. 5 letter to the satisfaction of all concerned.

Very truly yours,

James M. Jackson
Assistant General Counsel
Transamerical Occidental Life Insurance Co.

cc: Michael J. Dugan
John O. Montgomery

ATTACHMENT THREE

Recommendations for Advisory Committee
on Interest-Indexed Products
(other than Universal Life Insurance)

Advisory to NAIC Universal and Other Plans Task Force of (A) Committee
Director Dugan, Nebraska

Larry Frederickson
Assistant General Counsel
Northwestern National Life Insurance Company
Minneapolis, Minnesota

Gregory Carney
Vice President and Chief Actuary
Variable Annuity Life Insurance Company
Houston, Texas

James Jackson
Assistant General Counsel
Transamerica Occidental Life
Los Angeles, California

Howard Kayton
Executive Vice President
Security First Group
Los Angeles, California

Robert Hersh
Vice President and Associate General Counsel
Equitable Life Assurance Society of the U.S.
New York, New York

Paul Kolkman
Vice President and Corporate Actuary
IDS Life Insurance Company
Minneapolis, Minnesota

Gilbert Fitzhugh, Chairman
Vice President and Actuary
PRUCO Life Insurance Company
Newark, New Jersey

ATTACHMENT FOUR

UNIVERSAL AND OTHER NEW PLANS (A) TASK FORCE

September 10, 1984
Omaha, Nebraska

The Universal and Other New Plans (A) Task Force met in the Ballroom West of the Red Lion Inn, Omaha, Neb., at 2 p.m. on Sept. 10, 1984. A quorum was not present and Director Michael J. Dugan chaired the meeting and the following states were present: Nebraska, Arkansas, Illinois, New York, Texas and Virginia.

1. Report on status of Universal Life Model Regulation by Jim Jackson, advisory committee.

Jim Jackson (Transamerica Occidental Life Insurance Company), chairman of the advisory committee on Universal Life, gave a report on the states' adoption of the Universal Life Insurance Model Regulation. The following states have adopted the regulation: Nebraska, Arkansas, Mississippi, Wyoming (with the exception of the nonforfeiture and valuation sections) and Pennsylvania ("Administrative Guidelines"). The following states are considering the model or have had some activity regarding the model: Indiana, South Carolina, Texas, New Mexico, Tennessee, Ohio and Washington.

2. Recommendation of Action by Technical Staff Actuarial Group.

Director Dugan requested the Technical Staff Actuarial Group to draft a list of its differences concerning the nonforfeiture and valuation sections of the Universal Life Model Regulations. Director Dugan will then present those differences to the advisory committee and will set a time schedule in which the advisory committee must respond.

With no further business to come before the task force, the meeting was adjourned at 2:33 p.m.