

## LIFE INSURANCE (A) COMMITTEE

### Reference:

1985 Proc. I p. 550  
1984 Proc. II p. 501

Susan L. Walker, Chairman—S.D.  
Fred E. Wright, 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 Life and Health Actuarial Task Force
4. Any Other Matters Brought Before the Committee

The Life Insurance (A) Committee met in the San Francisco Room of the Hyatt Regency in Kansas City, Mo., at 1 p.m. on June 12, 1985. A quorum was present and Chairman Susan L. Walker chaired the meeting. The following members or their representatives attended: Susan L. Walker (S.D.); Fred E. Wright (W.Va.); Bruce A. Bunner (Calif.); Michael J. Dugan (Neb.); David A. Gates (Nev.); Earl R. Pomeroy (N.D.) and James M. Thomson (Va.).

The minutes of the Williamsburg meeting were adopted (Attachment One). There was a brief discussion for the benefit of the new committee members on the Guideline Concerning the Commissioners' Annuity Reserve Valuation Method that was adopted at the Williamsburg meeting for submission at the June 1985 plenary session. All members unanimously endorsed the recommendation for adoption of the guideline (Attachment One-A).

Chairman Michael Dugan gave the report of the Universal and Other New Plans (A) Task Force. Upon a motion duly made and seconded, the report was received. The committee discussed the proposed Modified Guaranteed Annuity Model Regulation adopted by the task force for action by the Life Insurance (A) Committee. John Montgomery, Chairman of the Life & Health Actuarial Task Force, and John Booth (American Council of Life Insurance) testified in support of the proposed regulation.

Upon a motion duly made and seconded, the Modified Guaranteed Annuity Model Regulation, as amended by the Life and Health Actuarial Task Force, was unanimously adopted for submission to the June 1985 plenary session. (*Attachment One-A of the Report to the Life and Health Actuarial (EX5) Task Force to the Life Insurance (A) Committee*).

John Montgomery gave the report of the Life Cost Disclosure (A) Task Force. Upon a motion duly made and seconded, the report was received.

The report of the Life & Health Actuarial Task Force was given by Chairman John Montgomery. Upon a motion duly made and seconded, the report was received. Discussion on the task force's recommendation that the Life Insurance (A) Committee express its concern with regard to the proposed federal tax proposal that would limit the deductibility of life reserves by eliminating all reserves in excess of cash values that could result in a serious threat to the solvency of some companies. {*Editor's Note: An excerpt from "President Reagan's Tax Proposals for Fairness, Growth and Simplicity" appears as Attachment One-B to the Life and Health Actuarial (EX5)*

*Task Force.*) It was reported that the Life and Health Insurance Taxation Task Force had drafted a resolution in opposition to the tax proposal and requested the Executive Committee to take whatever action deemed appropriate. On a motion duly made and seconded, the committee unanimously voted to support the resolution of the Life and Health Taxation Task Force.

The Life and Health Actuarial Task Force's request for authorization to add a new project, Review of Section 8 of the Model Standard Nonforfeiture Law, was referred to the Technical Services (EX5) Subcommittee for action.

Having no further business, the committee adjourned at 1:35 p.m.

Susan L. Walker, Chairman, S.D.; Fred E. Wright, Vice-Chairman, W.Va.; Bruce A. Bunner, Calif.; Margurite C. Stokes, D.C.; Peter Hiam, Mass.; Michael J. Dugan, Neb.; David A. Gates, Nev.; Earl R. Pomeroy, N.D.; James M. Thomson, Va.

#### ATTACHMENT ONE

Life Insurance (A) Committee  
Williamsburg, Virginia  
March 18, 1985

The Life Insurance (A) Committee met in the Tidewater Room of the Williamsburg Lodge in Williamsburg, Va., on March 18, 1985. A quorum was present and Director Michael Dugan (Neb.) chaired the meeting. The following members or their representatives were present: Fred E. Wright (W.V.); Bruce Bunner (Calif.); Michael J. Dugan (Neb.); Earl R. Pomeroy (N.D.); and James M. Thomson (Va.).

##### 1. Interpretation of CARVM Guidelines

Director Michael Dugan (Neb.) advised that the CARVM proposal which had been discussed at length by the Life Insurance (A) Committee in the Washington NAIC meeting was now ready for final consideration by the committee. (Attachment One-B) Director Dugan stated that final action by the NAIC plenary could not be taken until June 1985 which would give commissioners the opportunity to review and respond to the CARVM guidelines prior to the June meeting.

Upon motion duly made and seconded, the CARVM proposal was adopted.

##### 2. Report of the Life and Health Actuarial (EX5) Task Force

John Montgomery (Calif.) reported that a special advisory committee had been formed to review concerns over future funding of policy and contract obligations by insurers. Mr. Montgomery noted that he supported an alternative charge to the advisory committee with respect to reserving for cash values exceeding basic policy reserves, to provide instructions to accompany statements of actuarial opinion regarding all forms of life and health insurance such that concern will be addressed over a company's capacity to fund all future policy and contract obligations either through reserves or surplus. Several members of the audience supported the recommendation to expand the charge with the caveat that the work on the life products not impede the work of the annuity writers. Upon motion duly made and seconded, the committee adopted the Life and Health Actuarial (EX5) Task Force recommendation to expand the charge. The task force report is Attachment One-A.

There being no further business to come before the committee, the meeting adjourned at 2 p.m.

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#### ATTACHMENT ONE-A

##### REPORT OF THE LIFE & HEALTH ACTUARIAL TASK FORCE TO THE TECHNICAL SERVICES (EX5) SUBCOMMITTEE Reported to the Life Insurance (A) Committee March 18, 1985 Williamsburg Virginia

The Life and Health Actuarial Task Force has had one meeting since the December, 1984 meeting at Washington, D.C., at Williamsburg, Va., March 16 and 17, 1985. This report is in two sections and has four attachments listed below:

##### A. Significant Developments

## B. Recommendations

This differs from the June and December report format for the sake of brevity. The longer report format will be retained only for the semiannual reports. Two of the attachments are lists of advisory committees for:

1. A Procedure for Cash Values Exceeding Reserves (Attachment One-A1)
2. Actuarial Aspects of Reinsurance (Attachment One-A2)

The other two attachments are:

3. New York Regulation 102 (Attachment One-A3)
4. Discussion Draft on Reinsurance (Attachment One-A4)

## A. Significant Developments

### Project 1a - Specifications for 1980 CSO Tables

This project is now in three parts:

1. Determination of Select Factors (at least three different versions are in existence),
2. Test calculations to determine range of acceptable results and
3. Joint Life Guidelines.

### Project 2a - Reserve for Cash Values Exceeding Basic Policy Reserves

It was decided to propose appointment of a Special Advisory Committee (Attachment One-A1) concerning a procedure for cash values exceeding policy reserves.

The charge to the Special Advisory Committee is to suggest an approach that can be used by regulators of individual states to address concern over a company's capacity to fund future cash values in excess of statutory reserves for life insurance and annuities and related issues. Capacity in this context can mean a combination of surplus and reserves. The approach will not be a redefinition of CARVM. The approach will likely take the form of instructions to accompany requirements for actuarial opinions. The approach must be one that can be effectively introduced for use now and used for the next five years.

The Special Advisory Committee will report its recommendations to the EX5 Task Force by the fall of 1985.

### Project 5 - Reinsurance

It is proposed that an advisory committee (Attachment One-A2) be appointed to report on what reserve or reinsurance premium credits need to be assigned in various risk situations. A preliminary draft should be made available at the October 1985 meeting of the Life & Health Actuarial (EX5) Task Force and a final draft at the December, 1985 meeting of the Life & Health Actuarial Task Force.

In preparing its report the advisory committee should review the New York Insurance Department Regulation 102 (Attachment One-A3) and consider a discussion draft dated March 8, 1985 prepared by John Montgomery (Attachment One-A4). This draft is intended only to give some idea as to a possible framework for the organization of the report but should not be considered as an absolute requirement.

The report should also consider:

1. Reinsurance with affiliated companies,
2. Reinsurance with companies authorized to conduct business in only one state and
3. Reinsurance with off-shore reinsurers and non-admitted reinsurers.

## B. Recommendations

1. Appoint the advisory committee to work on the problem of policies with cash values exceeding policy reserves (Project 2a).
2. Even if the guideline regarding CARVM is adopted, continue the review of contracts with bail-out provisions to determine if additional reserves are needed for such contracts.

The Working Group on Annuity Writers of the Examination Oversight (EX4) Task Force has asked the Actuarial Task Force to undertake this project in lieu of drafting a model regulation to ban contracts with bail-out provisions.

3. Remove Project 2g, Review Valuation Procedure for Deficiency of Investment Income.

Action on this proposed Colorado regulation seems indefinitely postponed. Work associated with the development of the role of the valuation actuary would appear to cover this situation.

4. Remove Project 2h, Multiple Life Status Contracts.

There seems to be no interest in retaining this project.

5. Add Project 2h, Valuations of Annuities by the Change-in-Fund Method.

Some clarifications of this method may be needed to provide consistent treatment by the various states.

6. Add Project 3d. Review the 1980 Standard Nonforfeiture Law to determine if policies with values based on the 1958 CSO Table could still be issued after the 1980 law becomes fully effective.

7. Add Project 3e. Explore the need for a guideline regarding nonforfeiture values of indeterminate premium life insurance policies.

8. If a special project is needed regarding Estate Conservation Plans (Project 4g), it should be conducted by a special task force, not the Actuarial Task Force. The need for such a project may not now be necessary.

9. Add Project 4h, Modified Guaranteed Life Insurance Plans.

10. Simplify Project 6 by retitling it "Alternative Valuation Concepts - The Valuation Actuary" and eliminating all of the subcategories.

This subject is too fluid to be compartmentalized.

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ATTACHMENT ONE-A1

Cash Values Exceeding Reserves Advisory Committee

The label of this advisory committee may change if the advisory committee finds that a broader charge is needed.

Chairman: Walter Pugland, Milliman & Robertson

Members:

S. Roy Woodall, Jr.  
National Association of Life Companies  
3340 Peachtree Road, N.E.  
Tower Place  
Atlanta, Georgia 30326  
(404) 262-3737

For the remaining members at this time, only the names of the participating insurers are known. Specific representatives will be named later:

Lincoln National Life  
Travelers  
Northwestern Mutual  
Metropolitan  
Prudential

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ATTACHMENT ONE-A2

Reinsurance Advisory Committee

Cecil D. Bykerk  
Vice President & Actuary  
United of Omaha Life Ins. Co.  
Mutual of Omaha Plaza  
Omaha, NE 68175  
(402) 978-2534

William K. Tyler  
Senior Vice President  
Lincoln National Life Insurance  
Box 1110  
Fort Wayne, IN 46801  
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Franklin C. Clapper, Jr.  
Associate Actuary  
North American Reinsurance Co.  
100 East 46th Street  
New York, NY 10017  
(212) 907-8433

William D. Ward  
Director, Statutory Relations/  
Financial Condition  
Aetna Life Insurance Co.  
151 Farmington Avenue, YF-54  
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(203) 275-2878

Michael F. Davlin  
Second Vice President  
Transamerica Occidental Life  
Box 2101 Terminal Annex  
Occidental Center  
Los Angeles, CA 90054  
(213) 742-3737

William W. Seilman, Chairman  
Senior Vice President & Actuary  
General Reinsurance Corporation  
Financial Centre  
695 E. Main Street  
Stamford, CT 06904-2060  
(203) 328-6000

John M. Patrick  
Vice President & Assistant Controller  
Prudential Insurance Company  
56 N Livingston Avenue  
Roseland, NJ 07068  
(201) 994-8750

Steven A. Smith  
Senior Vice President & Actuary  
First Colon Life Insurance Co.  
Box 1280  
Lynchburg, VA 24505  
(804) 345-0911

Werener Teichert  
Executive Vice President  
Munich American Reinsurance Co.  
56 Perimeter Center East NE  
Atlanta, GA 30346  
(404) 394-5665

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#### ATTACHMENT ONE-A3

State of New York Insurance Department  
160 West Broadway  
New York, NY 10013  
Feb. 22, 1985

Superintendent of Insurance James P. Corcoran today announced the promulgation of Regulation No. 102, to ensure that financial statements of licensed life insurance companies will more accurately reflect the financial condition of these insurers. All licensed life insurance companies are required, by statute, to file financial statements with the insurance department.

Prior to the regulation, the department became aware of some life insurers entering into reinsurance agreements that transferred virtually no risk to the reinsurer. These agreements were written solely to provide significant surplus aid to the ceding company, thus altering the company's actual financial condition as reported to the department.

Under the regulation, life insurers that enter into reinsurance agreements described therein will no longer be permitted to reduce a liability or establish an asset in financial statements for the reinsurance ceded.

The Department worked with an industry task force, appointed by Superintendent Corcoran, to develop the final language of this regulation.

A public hearing on Regulation 102 was held in New York City on Oct. 4, 1984.

#### INSURANCE DEPARTMENT OF THE STATE OF NEW YORK REGULATION NUMBER 102 (11 NYCRR 127) REINSURANCE TRANSACTIONS BY LICENSED LIFE INSURERS

I, JAMES P. CORCORAN, Superintendent of Insurance of the State of New York, pursuant to the authority granted by Sections 201, 301, 307(a), 1308, 4217, 4218, 4221 and 4223 of the Insurance Law, do hereby promulgate a new Part 127 (Regulation No. 102) of Title 11 of the Official Compilation of Codes, Rules and Regulations of the State of New York, to take effect on March 15, 1985, to read as follows:

### Section 127.1 Preamble

(a) The Insurance Department recognizes that licensed life insurers routinely enter into reinsurance agreements that yield legitimate relief to the ceding insurer from strain to surplus.

(b) However, the Department has become aware that some licensed life insurers, in the capacity of ceding insurer, have at times entered into reinsurance agreements for the principal purpose of producing significant surplus aid for the ceding insurer, typically on a temporary basis, while transferring little or no risk to the reinsurer. In substance or effect, the expected potential liability to the ceding insurer remains basically unchanged by the reinsurance transaction, notwithstanding certain risk elements in the reinsurance agreement, such as catastrophic mortality or catastrophic survival.

(c) It is the Department's position that, in the event a licensed life insurer reduces liabilities or establishes assets for reinsurance ceded under the type of reinsurance agreements referred to in subparagraph (b) of this section and described in section 127.2 of this Part, that event would:

- (1) violate Section 1308(c) of the Insurance Law;
- (2) result in distorted statements of that ceding life insurer, not properly reflecting its financial condition in accordance with Sections 4217, 4218, 4221 and 4223 of the Insurance Law, thereby violating Section 307(a) of the Insurance Law; and
- (3) create a situation that may be hazardous to policyholders and the people of this State.

### Section 127.2 Accounting Requirements

(a) No licensed life insurer shall, for reinsurance ceded, reduce any liability or establish any asset in any financial statement filed with this Department if, by the terms of the reinsurance agreement, in substance or effect, any of the following conditions exist:

- (1) the primary effect of the reinsurance agreement is to transfer deficiency reserves additional liability or excess interest reserves to the books of the reinsurer for a "risk charge" and the agreement does not provide for mortality, morbidity or surrender benefit participation by the reinsurer consistent with its participation in the deficiency or excess interest portion of the policies reinsured;
- (2) the reserve credit taken by the ceding insurer is in excess of the actuarial reserve necessary, under the New York Insurance Law, Rules or Regulations, including actuarial interpretations or standards adopted by the Department, to support the policy obligations transferred under the reinsurance agreement;
- (3) the ceding insurer is required to reimburse the reinsurer for negative experience under the reinsurance agreement, except that neither offsetting experience refunds against prior years' losses nor payment by the ceding insurer of an amount equal to prior years' losses upon voluntary termination of in-force reinsurance by that ceding insurer shall be considered such a reimbursement to the reinsurer for negative experience;
- (4) the ceding insurer can be deprived of surplus at the reinsurer's option or automatically upon the occurrence of some event, such as the insolvency of the ceding insurer, except that termination of the reinsurance agreement by the reinsurer for non-payment of reinsurance premiums shall not be considered to be such a deprivation of surplus;
- (5) the ceding insurer must, at specific points in time scheduled in the agreement, terminate or automatically recapture all or part of the reinsurance ceded; or
- (6) no cash payment is due from the reinsurer, throughout the lifetime of the reinsurance agreement, with all settlements prior to the termination date of the agreement made only in a "reinsurance account", and no funds in such account are available for the payment of claims.

(b) Notwithstanding subparagraph (a) of this section, a licensed life insurer may, with the prior approval of the superintendent, take such reserve credit as the superintendent may deem consistent with the Insurance Law, Rules or Regulations, including actuarial interpretations or standards adopted by the Department.

### Section 127.3 Written Agreements

(a) No reinsurance agreement or amendment to any reinsurance agreement may be used to reduce any liability or to establish any asset in any financial statement filed with this Department, unless the agreement, amendment or a letter of intent has been duly executed by both parties no later than the "as of date" of the financial statement.

(b) In the case of a letter of intent, a reinsurance agreement or an amendment to a reinsurance agreement must be executed within a reasonable period of time, not exceeding ninety (90) days from the execution date of the letter of intent, in order for credit to be granted for the reinsurance ceded.

Section 127.4 Existing Agreements

Notwithstanding Section 127.2 of this Part, licensed life insurers may continue to reduce liabilities or establish assets in financial statements filed with this Department for reinsurance ceded under types of reinsurance agreements described in Section 127.2, provided:

- (a) the agreements were executed and in force prior to the effective date of this Part;
- (b) no new business is ceded under the agreements after the effective date of this part;
- (c) the reduction of the liability or the asset established for the reinsurance ceded is reduced to zero (0) by December 31, 1988, or such later date approved by the Superintendent as a result of an application made by the ceding insurer prior to December 31, 1985;
- (d) the reduction of the liability or the establishment of the asset is otherwise permissible under all other applicable provisions of the Insurance Law, Rules or Regulations, including actuarial interpretations or standards adopted by the Department; and
- (e) the Insurance Department is notified, within sixty (60) days following the effective date of this Part, of the existence of such reinsurance agreements and all corresponding credits taken in the ceding insurer's 1984 Annual Statement.

I, JAMES P. CORCORAN, Superintendent of Insurance of the State of New York, hereby certify that the foregoing is the new part 127 (Regulation 102) of Title 11 of the Official Compilation of Codes, Rules and Regulations of the State of New York, which was duly adopted on February 15, 1985, pursuant to the authority vested in the Superintendent of Insurance by Sections 201, 301, 307(a), 1308, 4217, 4218, 4221 and 4223 of the Insurance Law.

Notice of proposed agency action was published in the Register on September 26, 1984. No other prior notice of this action is required by statute.

James P. Corcoran  
superintendent of Insurance  
of the State of New York

Dated: February 15, 1985

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ATTACHMENT ONE-A4

STATE OF CALIFORNIA  
MEMORANDUM

To: Commissioner Bruce Bunner  
Chief Deputy Roxani Gillespie  
Norris Clark  
John Faber  
Ansel Shapiro  
Al Gershaneck  
Richard Roth

Date: March 8, 1985

SUBJECT: Reinsurance

The attached discussion draft outlines on reinsurance will be submitted March 16, 1985, to the Life and Health Actuarial (EX5) Task Force at Williamsburg to start discussions on the actuarial aspects of reinsurance with respect to life and health insurance. Let me know by Wednesday, March 13th if you have any problems with it.

John O. Montgomery, FSA, MAAA  
Chief Actuary and  
Deputy Insurance Commissioner

Reinsurance - A Discussion Draft Outline

Purpose of Reinsurance

Reduce the risk of adverse contingencies with respect to mortality, morbidity, expense tax, investment yield and market value of investments.

Reinsurance cannot be a vehicle for borrowing money.

Forms of Reinsurance applicable to various risks

<u>Risk</u>	<u>Form</u>	<u>Comments</u>
Investment	Coinsurance or assumption	The assuming company must be aware of the matching of assets with liabilities and of the various scenarios developed regarding cash flow.
Mortality	All	Traditional reinsurance approach.
Morbidity	All	Traditional reinsurance approach.
Initial Expense	Coinsurance or Modc.	The agreement must provide that the reinsurer pay the ceding company a share of the unamortized initial expense on surrenders and lapses as they occur. The agreement must be a true risk arrangement and not merely a loan arrangement with a prearranged fixed repayment of money invested in new business.
Renewal Expense	Assumption	Where an insurer finds that a product is becoming unprofitable because its operating expenses have become too high it should attempt to find a reinsurer with more efficient operating expenses. This is particularly true of small insurance companies who cannot usually operate as efficiently as larger companies.
Excess Interest Guarantee Reserves	Co-insurance	This is the same as the investment risk mentioned above. Such an agreement could specify a recapture at the end of the excess interest guarantee period.
Excess Cash Value Reserve	Co-insurance	Same as for Excess Interest Guarantee Reserves.
Inadequacy of the gross premium with respect to the development of statutory reserves.	None	This is a fact determined at issue of the contract and is not a risk. The actual adequacy of the gross premium with respect to various risks is covered separately by reinsurance regarding those risks.

## Alternative Charge

The charge to the Special Task Force is to suggest an approach that can be used by regulators of individual states to address concern over a company's capacity to fund future policy and contract obligations. Capacity in this context can mean a combination of surplus and reserves. The approach will not be a redefinition of CRVM. The approach likely will take the form of instructions to accompany requirements for actuarial opinions. The approach must be one that can be effectively introduced for use now and used for the next five years. The Special Task Force will report its recommendations to the EX5 Task Force by the fall of 1985.

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## ATTACHMENT ONE-B

## GUIDELINE CONCERNING THE COMMISSIONERS' ANNUITY RESERVE VALUATION METHOD

Preamble. At its December 1976 meeting, the NAIC adopted the Commissioner's Annuity Reserve Valuation Method (CARVM) and incorporated it in its model Standard Valuation Law. CARVM is now included in the laws of nearly all of the states. Differences in interpretation of CARVM have developed in practice, particularly on whether and under what conditions surrender charges may be taken into account in determining CARVM reserves. This guideline is intended to clarify which surrender charge factors may be taken into account and which are to be disregarded under CARVM.

Reserves according to CARVM depend in part upon the present values of "future guaranteed benefits, including guaranteed nonforfeiture benefits." It has always been recognized that this phrase, as used in the NAIC model Standard Valuation Law, includes cash surrender values based on contractual guarantees after reduction for any contractual surrender charges available to the insurer. This is illustrated in the Proceedings. See proceedings of the National Association of Insurance Commissioners, 1 (1977), 538-45.

Guideline. The phrase, "future guaranteed benefits, including guaranteed nonforfeiture benefits," as used in CARVM, includes the cash surrender values based on contractual guarantees after reduction for any surrender charges available under the contract.

In recent years, annuity contracts with contingent surrender charges have become more prevalent. For example, a contract may provide the option to surrender without surrender charge if the rate at which interest is credited falls below a specified rate, referred to in this guideline as the "bail-out" rate. Contingent surrender charges may not be available upon cash surrender at future contract anniversaries, and it is not consistent with the conservative nature of CARVM to reduce the value of future guaranteed benefits on account of such contingent surrender charges.

The value of future guaranteed benefits under CARVM may not be reduced by contingent surrender charges which may not be available upon cash surrender.

There may be some contracts with contingent surrender charges with bail-out rates which are so low that it would not be contrary to the conservative intent of CARVM to treat such surrender charges as available. The calendar year statutory valuation interest rate for life insurance policies with guarantee duration in excess of twenty years, which is used in the Standard Valuation Law in connection with the definition of guarantee duration for most annuities and guaranteed interest contracts, provides an appropriate measure for this purpose. Whether or not such surrender charges should be treated as available should be determined as of December 31, 1984 for contracts in force at that date and as of the date of issue for contracts subsequently issued.

For contracts issued on and after January 1, 1985, contingent surrender charges with bail-out rates less than or equal to the calendar year statutory valuation interest rate for life insurance policies with guarantee duration in excess of twenty years issued in the same year may be treated as available. For contracts issued prior to January 1, 1985, contingent surrender charges with bail-out rates less than or equal to 6.00% (the calendar year statutory valuation interest rate for life insurance policies with guarantee duration in excess of twenty years issued in 1984) may be treated as available.

There are some contracts with contingent surrender charges with bail-out rates which are a function of an external index whose future values are not known. Judgment is required to determine whether or not such surrender charges may be treated as available. Comparison to the calendar year statutory valuation interest rate for life insurance policies with guarantee duration in excess of twenty years may be useful.

For contracts with contingent surrender charges with bail-out rates which are a function of an external index, a judgment as to the availability of the surrender charges may be made by comparing historical values of the function with corresponding values of the calendar year statutory valuation interest rate for life insurance with guarantee duration in excess of twenty years. If the values of the function have generally been less than or equal to the valuation rates, then the surrender charges may be treated as available.

For the purpose of this guideline, in the case of a variable annuity that offers the policyholder a choice of multiple investment options, a surrender charge that may be waived for all of the accounts of the contract by reference to one or more of the accounts will be treated as a contingent surrender charge that may not be available upon cash surrender with respect to the entire contract. If no surrender charge is imposed on transfers among the accounts, and the surrender charge may be waived for one account, provided the formula for the availability of the waiver is set at the date of issuance, then the surrender charge will be treated as a contingent surrender charge that may not be available upon cash surrender with respect to the entire contract.

Since this guideline is intended to apply to all contracts in force that are subject to CARVM, its application may work an undue hardship on some insurers who have, on the basis of a good faith interpretation of CARVM, held reserves less than required by this guideline. In cases of severe hardship, state insurance commissioners may wish to permit insurers to conform on a gradual basis.

## LIFE COST DISCLOSURE (A) TASK FORCE

Reference:

1985 Proc. I p. 558  
1984 Proc. II p. 531

Bruce A. Bunner, Chairman—Calif.  
Thomas P. Fox, Vice-Chairman—Wis.

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### AGENDA

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

The Life Cost Disclosure (A) Task Force met at the Hyatt Regency in Kansas City, Mo., on June 11, 1985. A quorum was present and John Montgomery (Calif.) chaired the meeting. The following task force members or their representatives were present: Bruce A. Bunner (Calif.); Thomas P. Fox (Wis.); David N. Levinson (Del.); Gil McCarty (Ky.); Andrea "Andy" Bennett (Mont.) and Lyndon L. Olson Jr. (Texas).

#### 1. Report of the Yield Index Advisory Committee

Walter Miller (New York Life), Chairman of the Advisory Committee, made his report to the task force (Attachment One). Mr. Miller noted that the committee was making excellent progress and that their comprehensive report would be ready by the December 1985 NAIC meeting. Mr. Miller reported there were two primary goals of the advisory committee. The first was to develop an index that would strike a balance between accuracy and simplicity. The second was to develop an index that is effective for the use of consumers. He noted that both of these goals would be difficult to achieve.

There being no further matters to come before the task force, the meeting was adjourned at 3:20 p.m.

Bruce A. Bunner, Chairman, Calif.; Thomas P. Fox, Vice-Chairman, Wis.; David N. Levinson, Del.; Gil McCarty, Ky.; Andrea "Andy" Bennett, Mont.; David H. Thornberry, Texas

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#### ATTACHMENT ONE

To: NAIC Cost Disclosure Task Force  
From: Walter N. Miller  
Subject: Yield Index Committee, Progress Report

With respect to a yield index, the charge to the committee is:

The committee's first priority is 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.

We have had six meetings since October 1984. Our policy from the beginning has been to welcome to our meetings not only committee members but also any others who wish to attend as observers. As a result, all of our meetings have been supplemented and enhanced by a number of observers. We are making excellent progress and are confident that we will be able to prepare and distribute a comprehensive report in advance of the December, 1985 NAIC meeting.

"Comprehensive" above is a key word. For it reflects our feeling that in order to carry out our assignment in a way which we believe will be of maximum assistance to the NAIC and the public, we need to go beyond a recommendation (with reasons) of a specific one of the various formulas that could be envisioned for calculation of a yield index.

At our first meeting we reached the conclusion, together with a conclusion that with due respect to the specific wording of our charge, that we do not believe it is feasible to limit the possible application of a yield index to "interest-sensitive" permanent policies which would be carved out or defined in a certain way. In this broader framework, we felt that we also needed to address broad considerations and concerns such as the following:

- The index should be meaningful and understandable to its users-consumers (policyowners or prospects), agents, regulators and companies.
- The index should not lead the consumer to make purchase decisions which would be harmful. These decisions would relate to items like choice of insurance products by type or by company within a given type, choice of insurance products vs. other competing financial products, and choice of new products vs. continuation of in-force coverages.
- We are concerned about finding the proper balance between simplicity and accuracy. If one is emphasized the other must generally be de-emphasized and recognizing this, choices and trade-offs must be made.
- There is a need for universality in the index and its method of application, and this should be on a basis which is not too costly to the companies which must promulgate and administer it and/or to the regulators who must monitor and evaluate it.
- The index should resist distortion due to specific product design or pricing features.
- To the extent possible, the index and the regulatory framework surrounding it should recognize and emphasize the fact that the subject under consideration is a life insurance product and not a pure investment and should not damage the standing of life insurance in the financial services marketplace.

Thus, we feel that in order to be most helpful and responsive to our basic assignment, our work should not be limited to a dry formula-finding exercise but rather be related to the real world and address important considerations such as those outlined above. This feeling has led to most of our discussions and research. What we have found is that while even the formula-finding phase of our work has been more complex than we envisioned at the outset, there are a very significant number of other inter-related issues that need to be addressed.

"Inter-related" above is a key word. For we discovered, and we believe readers of this progress report will find apparent, that while all of the issues outlined below need to be addressed in this context, none of them can successfully be addressed in a vacuum and no final conclusions can be drawn or recommendations made until all of the ground has been covered.

Here is a list of the main (but not the only) areas which we have identified as being important in framing a real-world recommendation covering not only a recommended yield index formula but how this formula might be framed and applied.

- Should the basis of underlying mortality rates (or one-year term rates, depending on the formula chosen or point of view adopted) be standardized?
- If standardization is appropriate, what particular basis and how should questions of differing underwriting class, face amount, etc., be addressed?
- Should yield index data be provided on a "summary basis" (i.e., reflecting cumulative results under a policy up to a certain duration) or on a year-by-year basis?
- Depending on the answer to the above question, what time periods should be involved (for year-by-year, this would mean for how long should such information be provided)?
- How should the availability of different dividend options under participating policies and different death benefit options under non-participating policies be addressed?
- How should the structural and design differences between different types of policies (e.g., whole life and universal life) be addressed?

This progress report (and we are making significant progress) is not intended to be a total catalog of all items we have considered. All of this will be covered in our forthcoming report. We offer these examples at this time in order to acquaint our audience with the fact that a question that at first glance may seem simple: "There are a couple of possible formulas—so let's choose one and get on with the job" in fact requires consideration of a number of additional, and sometimes quite complex—issues.

Our committee contains two members who are not associated with organizations that are able to reimburse expenses of traveling to meetings of committees such as ours. We have held most of our meetings at sites that would facilitate the attendance of these members (although because of geography there is no one site that would facilitate the attendance of both of them). Thus, our work has been hampered because we have been unable to obtain the full participation of both of these members at all of our meetings. We know the NAIC is addressing the issue of reimbursing travel expenses in such situations and we hope this matter is brought to a successful conclusion soon.

Walter N. Miller  
Chairman  
Yield Index Committee

## UNIVERSAL AND OTHER NEW PLANS (A) TASK FORCE

### Reference:

1985 Proc. I p. 560  
1984 Proc. II p. 533

Michael J. Dugan, Chairman—Neb.  
John Kezer, Vice-Chairman—Colo.

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### AGENDA

1. Adopt Minutes of Williamsburg Meeting
2. Report of the Advisory Committee
3. Any Other Matters Brought Before the Task Force

The Universal and Other New Plans (A) Task Force met in the San Francisco and New York Rooms of the Hyatt Regency in Kansas City, Mo., at 11 a.m. on June 10, 1985. A quorum was present and Michael J. Dugan chaired the meeting. The following task force members or other representatives were present: Michael J. Dugan (Neb.), John Kezer (Colo.), Tharpe Forrester (Ala.), James P. Corcoran (N.Y.), Lyndon L. Olson Jr. (Texas), and James M. Thomson (Va.).

#### (1) Adopt Minutes of Williamsburg Meeting

Upon motion duly made and seconded, the minutes of the March 17, 1985, meeting were unanimously adopted. (Attachment One)

#### (2) Report of the Advisory Committee

James Jackson, chairman of the advisory committee to the task force, noted that the advisory committee had been previously requested by Chariman Dugan to respond to questions raised by Ted Becker (Texas) for the Life & Health Actuarial (EX5) Task Force. Mr. Jackson reported that by letter of May 3, 1985, the advisory committee responded with a draft of examples pursuant to Questions 5 & 6 raised in Mr. Becker's letter of Oct. 5, 1984. Mr. Jackson reported the questions were answered to the best of their ability. He noted that his advisory committee intended to continue to address questions raised concerning the actuarial basis for the answers to Questions 5 and 6, but otherwise, planned no further response. A request was made that the advisory committee stay in existence until year end. Mr. Jackson further noted the difficulties that his advisory committee had in addressing Question No. 1 of Mr. Becker's letter and stated that their response was the best position they could take short of changing the nonforfeiture law. Chairman Dugan noted that the oral report of the advisory committee would be received.

The task force then heard from Ted Becker for the Life & Health Actuarial (EX5) Task Force who reported that Question No. 1 of his letter revolved around the breadth of authority of the advisory committee and the Life & Health Actuarial Task Force. Mr. Becker noted that the advisory committee has a very narrow interpretation of the Standard Nonforfeiture Law while the actuarial task force takes a much broader view. Mr. Becker stated that his task force does not agree with the evaluation presented by the advisory committee.

The task force then heard from John Montgomery (Calif.), who reported that any regulations concerning universal life or any new products should be brought before this task force before being passed to the parent committee. Mr. Montgomery then submitted the report along with amendments to the Modified Guaranteed Annuity Model Regulation. A motion was duly made and seconded to receive and recommend that the regulation, as amended, be passed on to the A Committee for adoption. (*See Attachments One and One-A to the Life and Health Actuarial (EX5) Task Force in this volume of the Proceedings.*) The motion was unanimously adopted.

Chairman Dugan then requested Mr. Jackson how long it would take to respond with the figures which formed the basis of the response to Questions 5 and 6 of Mr. Becker's letter of Oct. 5. Mr. Jackson responded that those figures would be completed before the Syracuse meeting (September 1985), and if possible, would be mailed out before that time.

Mr. Montgomery stated that it would be more practical for the regulators to adopt the broader interpretation of the Standard Nonforfeiture Law.

Mr. Montgomery then requested authority for a drafting session for the Syracuse meeting. Upon motion duly made and seconded, authority was granted by the task force.

Chairman Dugan then thanked and congratulated the actuarial group and the advisory committee for all their hard work. There being no further business, the meeting adjourned at noon.

Michael J. Dugan, Chairman, Neb.; John Kezer, Vice-Chairman, Colo.; Tharpe Forrester, Ala.; Gil McCarty, Ky.; Vicente B. Jasso, N.M.; James P. Corcoran, N.Y.; John G. Richards V, S.C.; Carole Keeton Rylander, Texas; James M. Thomson, Va.

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#### ATTACHMENT ONE

##### Universal and Other New Plans (A) Task Force Williamsburg, Virginia March 17, 1985

The Universal and Other New Plans (A) Task Force met in Rooms B and C of the Williamsburg Lodge at 11 a.m. on March 17, 1985. A quorum was not present. The meeting was continued as no official business was planned. Director Michael Dugan (Neb.) chaired the session.

##### Report of the Advisory Committee

James Jackson, Chairman of the task force advisory committee, reported on the advisory committee's progress in responding to the questions posed by the Life and Health Actuarial (EX5) Task Force. Mr. Jackson reported that the advisory committee would not have a response to the questions until the June NAIC meeting. John Montgomery (Calif.) noted that additional questions had been forwarded to the advisory committee and Mr. Montgomery suggested that a full list of the questions under consideration should be mailed to all members of the Universal Task Force and to the Life Insurance (A) Committee.

Chairman Dugan noted the importance of providing the advisory committee report to all task force members at least one month prior to the June NAIC meeting so that the task force members could review the same. Chairman Dugan noted that he anticipated finalizing action on these issues in the June meeting.

There being no further business, the task force was adjourned.