

LIFE INSURANCE (A) COMMITTEE

Reference:

1988 Proc. I p. 599
1987 Proc. II p. 625

Harold C. Yancey, Chairman — Utah
William D. Hager, Vice Chairman — Iowa

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AGENDA

1. Adopt Santa Fe Minutes
2. Report of Life and Health Actuarial Task Force
3. Report of Life Cost Disclosure Task Force
4. Report of Universal and Other New Plans Task Force
5. Final Report of Subgroup on Prepaid Funeral Plans and Report of Advisory Committee
6. Any Other Matters Brought Before the Committee

The Life Insurance (A) Committee met in the Soho/Herald/Gramercy Rooms at the Marriott Marquis in New York, N.Y., at 8:30 a.m. on June 15, 1988. A quorum was present and Harold C. Yancey (Utah) chaired the meeting. The following committee members or their representatives were present: William D. Hager, Vice Chair (Iowa); Roxani Gillespie (Calif.); Margurite C. Stokes (D.C.); Douglas Green (La.); George Dale (Miss.); and James L. Nelson (Texas).

1. Adopt Santa Fe Minutes

Upon motion duly made and seconded, the minutes of the Santa Fe March 15 meeting were adopted (Attachment Three).

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

John Montgomery (Calif.) presented the report of the Life and Health Actuarial (EX5) Task Force. He summarized the projects pending with the task force relating to experience tables, revision of the Standard Valuation Law, revision of the Standard Nonforfeiture Law, actuarial aspects of reinsurance transactions, disclosure regulations, and provisions for catastrophic mortality.

Mr. Montgomery indicated that task force is reviewing the adequacy of the 1980 CSO Tables as a valuation standard. He noted that this project differs from the project, entitled "Provisions for Catastrophic Mortality," which is intended to determine what measures are needed to insulate an insurer against large increases in mortality, such as from an epidemic.

He commented that the Standard Valuation Law is being revised by a special advisory committee which will expose a disclosure draft by June 1989. He also noted that the Actuarial Task Force had requested the Society of Actuaries to study the need for revision of the Standard Nonforfeiture Law for life insurance and annuities and also to consider such a law for health insurance. That committee expects to expose a draft by December 1988.

Mr. Montgomery commented that the actuarial aspects of reinsurance transactions which are currently being studied include: (1) mirror imaging; (2) surplus relief agreements; (3) stop loss/non-proportional reinsurance contracts; (4) reinsuring the investment risk; and (5) use of reinsurance contracts to avoid consequences of the Standard Valuation Law through reinsurance and retrocessions with unauthorized reinsurers.

Mr. Montgomery recommended adoption of the Universal and Other New Plans Task Force report, which incorporated recommendations of the Life and Health Actuarial Task Force.

3. Report of Life Cost Disclosure Task Force

Reginald Berry, representing Superintendent Margurite Stokes (D.C.), reported that the task force received three reports: a sampling of the index provided by the American Academy of Actuaries, the Yield Index Advisory Committee Report and the Life and Health Actuarial Task Force Report. Upon motion duly made and seconded, the committee received the report of the Life Cost Disclosure Task Force.

John Montgomery requested that any responses to the Academy's report be forwarded to him by Sept. 1, 1988.

4. Report of Universal and Other New Plans Task Force

John Montgomery presented the report of the task force on behalf of Commissioner Bill Hager (Iowa), chair. He summarized the progress of the Actuarial Task Force on the valuation and nonforfeiture sections of the Universal Life Insurance Model Regulation and its work on structured settlements and the interest-indexed project. With respect to the valuation and nonforfeiture sections of the Universal Life Insurance Model Regulation, he commented that progress has been made on this and recommendations are contained in the report of the Life and Health Actuarial Task Force. He emphasized that comments should be forwarded to him on the proposal. He also commented on the draft attached to the Life and Health Actuarial Task Force report regarding the California approach to the valuation section of the model regulation and indicated that comments would be received on this as well. With respect to structured settlements, he explained that a two-fold approach is being considered comprised of two guidelines, one on structured settlements and one on substandard annuities.

Mr. Montgomery stated that the interest-index project is considered complete. The Actuarial Task Force did not receive any comments on its work and, therefore recommends deletion of this project. He reported that it also recommends addition and deletion of the projects identified in the June 13, 1988, Universal and Other New Plans Task Force minutes. The Universal Task Force recommended a change in its name to "Product Development Task Force."

Commissioner Hager asked the Life and Health Actuarial Task Force to respond to consumer-related issues. This was noted by Mr. Montgomery. Mr. Montgomery also reported that a working group was established on disclosure which will be coordinated with the Life Cost Disclosure Task Force. He also reported that the task force heard a status report on the survey which was sent to states asking for identification of consumer/disclosure-related issues.

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

5. Final Report of Subgroup on Prepaid Funeral Plans

Roger Strauss, on behalf of Commissioner Hager, presented the subgroup report (Attachment One) which recommends adoption of amendments to the NAIC Rules Governing the Advertising of Life Insurance, the Life Insurance Disclosure Model Regulation and the Model Annuity and Deposit Fund Disclosure Regulation. The Subgroup further recommended that a study on the disclosure requirements be completed within one year after adoption of the amendments. He reported that the Subgroup decided not to pursue a comprehensive model at this time. The Subgroup recommends that it be continued to complete its study and asked that Lee Norrgard continue to chair the Advisory Committee. He also thanked the commissioners, advisory committee and Carole Olson (NAIC) for their assistance in completing the work.

Bill Albus (National Association of Life Underwriters) commented on the amendment to the Life Insurance Disclosure Model Regulation which requires disclosure of the fact that compensation is being paid to agents. He stated that disclosure will distract consumers and inform them of what they already know. He recommended removing this requirement. Jack Blaine (American Council of Life Insurance) concurred with Mr. Albus' recommendation.

Roger Strauss emphasized the fact that the impetus for the amendments is the fact that the consumer does not know enough about the transaction, but should know because of its unique nature. He commented that the amendment does not require disclosure of the dollar amount or a percentage, but just the fact that the agent will be receiving a commission.

Lee Norrgard (American Association of Retired Persons), chair of the Advisory Committee, reiterated that the Advisory Committee reached a consensus on the amendments and supports them. He emphasized the importance of these amendments in light of the fact that the Federal Trade Commission is reconsidering the funeral rule. He commented that one of the decisions that has been made recently by the FTC is that no standards would be set forth. Therefore, these NAIC amendments are particularly significant. He offered the assistance of the Advisory Committee in following up on its charge to prepare a survey within one year. He also distributed to the committee a preliminary draft of a brochure prepared by the AARP containing information on the purchasing of preneed funeral plans.

Jon Bonafair (Forethought Life Ins. Co.) commented that another set of abuses exists that has not been addressed by the amendments being proposed today. He stated that where life insurance is sold on a limited basis and there is no preneed arrangement made per se, those involved in this transaction are not required to make the disclosures under the amendments.

Bill Albus verified that the NALU does not oppose the amendments as a whole, but does oppose the requirement to disclose the fact that a sales commission is being paid.

Upon motion duly made and seconded, the committee adopted the report of the Prepaid Funeral Plans Subgroup, including the amendments to the three NAIC models mentioned above. (See Attachment Two and Attachments Three-A1 and Three-A2 from the Santa Fe meeting.)

6. Any Other Matters Brought Before the Committee

Staci Copelin (Texas) indicated that Texas had been requested to serve as a liaison with the Health Promotion and Chemical Abuse (B) Task Force on the issue of the appropriateness of developing a uniform notice and consent form for blood testing for the AIDS virus. She reported that the Health Promotion and Chemical Abuse Task Force distributed its first draft of such a notice and consent form and that the task force, chaired by Commissioner David Levinson (Del.), would receive comments on it until July 15, 1988.

Commissioner Yancey (Utah) requested that these comments be forwarded directly to Commissioner Levinson and commented that the Life Insurance Committee will be coordinating the development of this work product.

Having no further business, the Life Insurance (A) Committee adjourned at 9:10 a.m.

Harold C. Yancey, Chair, Utah; William D. Hager, Vice Chair, Iowa; Roxani Gillespie, Calif.; Margurite C. Stokes, Vice Chair, D.C.; Leroy Morgan, Ky.; Douglas Green, La.; George Dale, Miss.; Lewis R. Crist, Mo., James L. Nelson, Texas

ATTACHMENT ONE

FINAL REPORT of Subgroup on Prepaid Funeral Plans of the Life Insurance (A) Committee 6/15/88

William Hager, Iowa, Chair
David Gates, Nevada
John Kezer, Colorado
Robert Eubanks, Arkansas
James Nelson, Texas
Margurite Stokes, District of Columbia

The Prepaid Funeral Plans Subgroup was charged with identifying existing consumer-related abuses in the sale of preneed funeral plans which are funded by life insurance policies or annuities, developing model legislation to address these concerns, and preparing a comprehensive preneed statute for use by states which do not have such legislation in place.

Identification of Abuses/Consumer Concerns

It is reported that over 700,000 preneed contracts were sold last year and it appears that an increasing number is funded through life insurance policies or annuity contracts. This underscores the necessity for requiring certain disclosures in the advertising and sale of these products.

The Subgroup's principal concern is to inform consumers about the product(s) they are purchasing. It is vital that consumers know they are dealing with a life insurance agent and that they are purchasing a life insurance policy or an annuity contract which will fund the funeral contract. These concerns were prompted in part by consumer complaints filed with insurance departments stating the consumers were unaware that a life product had been purchased.

The items which the Subgroup members believe should be disclosed to the consumer are:

1. the fact that a life insurance policy or annuity contract is involved or being used to fund a prearrangement;
2. the nature of the relationship among the soliciting agent or agents, the provider of the funeral or cemetery merchandise or services, the prearranger and the insurer;
3. the relationship of the life insurance policy or annuity contract to the funding of the prearrangement and the nature and existence of any guarantees relating to the prearrangement;
4. the impact on the prearrangement
 - (a) of any changes in the life insurance policy or annuity contract including but not limited to changes in the assignment, beneficiary designation or use of the proceeds,
 - (b) of any penalties to be incurred by the policyholder as a result of failure to make premium payments,
 - (c) of any penalties to be incurred or monies to be received as a result of cancellation or surrender of the life insurance policy or annuity contract;
5. a list of the merchandise and services which are applied or contracted for in the prearrangement and all relevant information concerning the price of the funeral services, including an indication that the purchase price is either guaranteed at the time of purchase or to be determined at the time of need;
6. all relevant information concerning what occurs and whether any entitlements or obligations arise if there is a difference between the proceeds of the life insurance policy or annuity contract and the amount actually needed to fund the prearrangement;
7. any penalties or restrictions, including but not limited to geographic restrictions or the inability of the provider to perform, on the delivery of merchandise, services or the prearrangement guarantee; and

8. the fact that a sales commission or other form of compensation is being paid and if so, the identity of such individual or entity to who it is paid.

After identification of the items to be disclosed, the most controversial issue between the Subgroup and advisory committee was the point at which disclosure should occur. After lengthy discussions on this issue, the consensus of the Subgroup was to require full disclosure of the specified items at the time of application and to require limited disclosure (items 1 and 2 listed above) at the advertising stage.

Development of Model Legislation to Require Disclosure of Items Identified Above

The Subgroup initially identified the state insurance code provisions regulating preneed contracts. Very few state insurance code provisions currently regulate the advertising and disclosure practices concerning preneed contracts (Attachment One-A). A number of state insurance codes prohibit restrictions on the choice of undertaker, relationship between the insurer and undertaker or other unfair trade practices (Attachment One-B). Jurisdiction over these contracts varies widely by state. The supervising authority may not be the insurance department—rather it may be the banking division or a specially created funeral board, for example. The Subgroup did not attempt to compile or analyze regulatory provisions other than those existing in the state insurance laws.

A number of approaches were considered by the Subgroup, including amending the NAIC Unfair Trade Practices Model, creating a stand-alone regulation, or amending the NAIC Model Rules Governing the Advertising of Life Insurance. The Subgroup, however, favored amending existing models rather than developing a stand-alone regulation.

The proposed amendments therefore present changes to the NAIC Rules Governing the Advertising of Life Insurance, the Life Insurance Disclosure Model Regulation and the Model Annuity and Deposit Fund Disclosure Regulation. A "Preneed Funeral Contract or Prearrangement" is defined in the amendments as "an agreement by or for an individual before that individual's death relating to the purchase or provision of specific funeral or cemetery merchandise or services." The specific information (items 1 and 2 above) must be disclosed in any advertisement for the solicitation or sale of a preneed funeral contract or prearrangement which is funded or to be funded by a life insurance or annuity contract. Items 1 through 8 must be disclosed at the time an application is made, prior to accepting the applicant's initial premium or deposit, for a preneed funeral contract or prearrangement which is funded or to be funded by a life insurance policy or annuity contract.

Development of Comprehensive Model Statute

Given the diversity of regulatory approaches to regulating preneed contracts, the consensus of the Subgroup was to not recommend preparation of a comprehensive preneed statute at this time. The Subgroup, however, notes several important issues which were raised in the course of its study but were unresolved, including licensing of agents, unauthorized insurers, trusting requirements, ownership and relationship of entities engaged in the sale, funding and delivery of funeral goods and services, rebating, advertising and solicitation methods.

Recommendations

The Subgroup also recommends adoption of the amendments to the NAIC Rules Governing the Advertising of Life Insurance, the Life Insurance Disclosure Regulation and the Model Annuity and Deposit Fund Disclosure Regulation. The Subgroup further recommends that a study be completed one year from the NAIC's adoption of the proposed disclosure-related amendments. This study should reveal whether states have adopted the amendments, whether abuses continue to appear and whether the disclosure rules appear to have been effective. The Subgroup further recommends that Lee Norrgard (American Association of Retired Persons) assist in the preparation of that study.

The Subgroup encourages the states to familiarize themselves with the regulatory approaches to preneed contracts, to implement the Subgroup's proposed amendments and to forward any issues to the Subgroup for review during the next year.

ATTACHMENT ONE-A

State Insurance Statutes on Advertising and Disclosure/Prepaid Funeral Plans or Burial Insurance

| <u>STATE</u> | <u>CITATION</u> | <u>DESCRIPTION</u> |
|--------------|-----------------|--|
| ALABAMA | 27-27-9 | Must offer cash benefit in lieu of services and merchandise |
| | 27-17-16 | Nonforfeiture benefits and cash surrender values |
| CALIFORNIA | 10244 | Disclosure of premiums, etc. in addition to those stated in contract |
| FLORIDA | 639.23 | Misrepresentation and false advertising prohibited |
| IOWA | 523A | Requires disclosure on items relating to trust fund |

ATTACHMENT ONE-B

Statutory (Insurance Code) Prohibitions
Or Unfair Trade Practices/Prepaid Funeral Plans
Or Burial Insurance

| <u>STATE</u> | <u>CITATION</u> | <u>DESCRIPTION</u> |
|----------------|-----------------|---|
| FLORIDA | 626.9541 | Prohibits restrictions on choice of undertaker |
| | 639.23 | Prohibits misrepresentation and false advertising of the benefits, terms and conditions of preneed contract. Also prohibits unfair claim settlement practices |
| GEORGIA | 33-1-10 | Prohibits restrictions on choice of undertaker |
| ILLINOIS | I.C. 344 | Prohibits designation of supplier |
| | I.C. 345 | Prohibits advertising of funeral supplies in lieu of cash payment |
| | 344,155.05 | Prohibits restrictions on choice of undertaker |
| MAINE | 24A 2176 | Prohibits restrictions on choice of undertaker |
| MARYLAND | 232 | Prohibits burial benefit payments in anything other than cash |
| | 233,488 | Prohibits false representations in insurance application |
| MICHIGAN | 500.2080 | Prohibits relationship between insurer and undertaker |
| MINNESOTA | 72A.325 | Prohibits designation of funeral home |
| MONTANA | 33-18-30 | Prohibits relationship between insurer and undertaker |
| OHIO | 3905.45 | Prohibits restriction on choice of funeral services provider |
| SOUTH CAROLINA | 38-9-520 | Prohibits relationship between insurer and undertaker |
| SOUTH DAKOTA | 33-33-23 | Prohibits restrictions on choice of undertaker |
| | 58-33-23 | Requires burial benefits to be paid in cash |
| TENNESSEE | 56-34-101 | Prohibits issuance of contract unless option to receive death benefits in cash is provided |
| | 56-34-105 | Prohibits designation of particular provider for funeral services |
| | 56-34-107 | Prohibits contracting between insurer and undertaker |
| | 56-34-109 | Prohibits rebates or discounts |
| TEXAS | Art. 14.37-1 | Prohibits payment in merchandise; cash option must be offered |
| VIRGINIA | 38.2-4022 | Prohibits relationship between insurer and undertaker |
| WEST VIRGINIA | 33-13-47 | Requires burial benefits to be paid in cash |
| WISCONSIN | 632.41 | Prohibits payment of benefits to funeral director |
| WYOMING | 23-13-123 | Prohibits relationship between insurer and undertaker |

ATTACHMENT TWO

LIFE INSURANCE DISCLOSURE MODEL REGULATION
DRAFT: 3/22/88 5/23/88

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Section 1. Authority

This rule is adopted and promulgated by [title of supervisory authority] pursuant to Sections [4(1)(a) of the Unfair and Deceptive Acts and Practices in the Business of Insurance Act] of the Insurance Code.

Section 2. Purpose

A. The purpose of this regulation is to require insurers to deliver to purchasers of life insurance information which will improve the buyer's ability to select the most appropriate plan of life insurance for the buyer's needs, improve the buyer's understanding of the basic features of the policy which has been purchased or which is under consideration and improve the ability of the buyer to evaluate the relative costs of similar plans of life insurance.

B. This regulation does not prohibit the use of additional material which is not a violation of this regulation or any other [state] statute or regulation.

Section 3. Scope

A. Except for the exemptions specified in Subsection 3B, this regulation shall apply to any solicitation, negotiation or procurement of life insurance occurring within this state. Subsection 5C only shall apply to any existing nonexempt policy held by a policyowner residing in this state. This regulation shall apply to any issuer of life insurance contracts including fraternal benefit societies.

B. Unless specifically included, this regulation shall not apply to:

- (1) Annuities;
- (2) Credit life insurance;
- (3) Group life insurance (except for disclosures relating to preneed funeral contracts or prearrangements as provided herein. These disclosure requirements shall extend to the issuance or delivery of certificates as well as to the master policy);
- (4) Life insurance policies issued in connection with pension and welfare plans as defined by and which are subject to the federal Employee Retirement Income Security Act of 1974 29 U.S.C. Section 1001 et seq. (ERISA) as amended;
- (5) Variable life insurance under which the amount or duration of the life insurance varies according to the investment experience of a separate account.

Section 4. Definitions

For the purposes of this regulation, the following definitions shall apply:

- A. Buyer's Guide. A Buyer's Guide is a document which contains, and is limited to, the language contained in Appendix A to this regulation or language approved by [title of supervisory authority].
- B. Cash Dividend. A Cash Dividend is the current illustrated dividend which can be applied toward payment of the gross premium.
- C. Contribution Principal. The Contribution Principle is a basic principle of dividend determination adopted by the

American Academy of Actuaries with respect to individual life insurance policies. The Academy report, Dividend Recommendations and Interpretations (November 1985), describes this principle as the distribution of the aggregate divisible surplus among policies in the same proportion as the policies are considered to have contributed to divisible surplus. In a broad sense, the Contribution Principle underlies the essential equity implied by participating business.

D. Current Dividend Scale. The Current Dividend Scale is a schedule that exhibits dividends to be distributed if there is no change in the basis of these dividends after the time of illustration.

E. Current Rate Schedule. The Current Rate Schedule is a schedule showing the premiums that will be charged or the cash values or death or other benefits that will be available if there is no change in the basis of these items after the time of illustration.

F. Discontinuity Index. The Discontinuity Index is the sum of the backward second differences squared in the Yearly Prices of Death Benefits (per 1,000) for policy years through twenty-three. Examples of calculations appear in Appendix B of this regulation.

G. Equivalent Level Death Benefit. The Equivalent Level Death Benefit of a policy or term life insurance rider is an amount calculated as follows:

(1) Accumulate the amount payable upon death, regardless of the cause of death, at the beginning of each policy year for ten and twenty years at five percent interest compounded annually to the end of the tenth and twentieth policy years respectively.

(2) Divide each accumulation of Step (1) by an interest factor that converts into one equivalent level annual amount that, if paid at the beginning of each year, would accrue to the value in Step (1) over the respective periods stipulated in Step (1). If the period is ten years, the factor is 13.207 and if the period is twenty years, the factor is 34.719.

H. Generic Name. A Generic Name is a short title that is descriptive of the premium and benefit patterns of a policy or a rider.

I. Investment Generation Method. The Investment Generation Method is the method of determining dividends so that dividends for policies issued in specified years or groups of years reflect investment earnings on funds attributable to those policies.

J. Cost Comparison Indexes.

(1) Surrender Cost Comparison Index-Illustrated Basis. The Surrender Cost Comparison Index-Illustrated Basis is calculated by applying the following steps:

(a) Determine the cash surrender value, if any, available at the end of the tenth and twentieth policy years, based on the company's Current Rate Schedule.

(b) For participating policies, add the terminal dividend payable upon surrender, if any, to the accumulation of the annual Cash Dividends at five percent interest compounded annually to the end of the period selected and add this sum to the amount determined in Step (a).

(c) Divide the result of Step (b) (Step (a) for nonparticipating policies) by an interest factor that converts it into an equivalent level annual amount that, if paid at the beginning of each year, would accrue to the value in Step (b) (Step (a) for nonparticipating policies) over the respective periods stipulated in Step (a). If the period is ten years, the factor is 13.207 and if the period is twenty years, the factor is 34.719.

(d) Determine the equivalent level premium by accumulating each annual premium payable for the basic policy or rider, based on the company's Current Rate Schedule, at five percent interest compounded annually to the end of the period stipulated in Step (a) and dividing the result by the respective factors stated in Step (c). (This amount is the annual premium payable for a level premium plan.)

(e) Subtract the result of Step (c) from Step (d).

(f) Divide the result of Step (e) by the number of thousands of the Equivalent Level Death Benefit, using the company's Current Rate Schedule to determine the amount payable upon death for purposes of Section 4(G)(1), to arrive at the Surrender Cost Comparison Index-Illustrated Basis.

(2) Surrender Cost Comparison Index - Guaranteed Basis. The Surrender Cost Comparison Index - Guaranteed Basis is calculated by applying the steps indicated in (1) above but assuming that the company charges the maximum premiums and provides the minimum cash values and, for purposes of Section 4(G)(1), provides the minimum death benefits allowed by the policy, and, if the policy is participating, pays no dividends.

(3) Net Payment Cost Comparison Index - Illustrated Basis. The Net Payment Cost Comparison Index - Illustrated Basis is calculated in the same manner as the comparable Surrender Cost Comparison Index - Illustrated Basis except that the cash surrender value and any terminal dividend are set at zero.

(4) Net Payment Cost Comparison Index - Guaranteed Basis. The Net Payment Cost Comparison Index - Guaranteed Basis is calculated in the same manner as the comparable Surrender Cost Comparison Index - Guaranteed Basis except that the cash surrender value is set at zero.

K. Nonguaranteed Factor. A Nonguaranteed Factor is any premium, benefit, or other item entering into the calculation of the Surrender Cost Comparison Index - Illustrated Basis that can be changed by the company without the consent of the policy owner.

L. Policy Data. The Policy Data is a display or schedule of numerical values, both guaranteed and nonguaranteed, for each policy year or a series of designated policy years of the following information: illustrated annual, other periodic, and terminal dividends; premiums; death benefits; cash surrender values and endowment benefits.

M. Policy Summary. The Policy Summary is a written statement describing the elements of the policy, including, but not limited to:

- (1) A prominently placed title as follows: STATEMENT OF POLICY COST AND BENEFIT INFORMATION.
- (2) The name and address of the insurance agent or, if no agent is involved, a statement of the procedure to be followed in order to receive responses to inquiries regarding the Policy Summary.
- (3) The full name and home office or administrative office address of the company in which the life insurance policy is to be or has been written.
- (4) The Generic Name of the basic policy and each rider.
- (5) The following amounts, where applicable, for the first five policy years and representative policy years thereafter sufficient to clearly illustrate the premium and benefit patterns; including, but not necessarily limited to, the years for which Cost Comparison Indexes are displayed and the earlier of at least one age from sixty through sixty-five and policy maturity:
 - (a) The annual premium for the basic policy;
 - (b) The annual premium for each optional rider;
 - (c) The amount payable upon death at the beginning of the policy year regardless of the cause of death, other than suicide or other specifically enumerated exclusions, which is provided by the basic policy and each optional rider; with benefits provided under the basic policy and each rider shown separately;
 - (d) The total cash surrender values at the end of the year with values shown separately for the basic policy and each rider;
 - (e) The Cash Dividends payable at the end of the year with values shown separately for the basic policy and each rider (Dividends need not be displayed beyond the twentieth policy year);
 - (f) Any endowment amounts payable under the policy which are not included under cash surrender values above;
 - (g) If the policy has a Nonguaranteed Factor, the maximum premium, minimum amount payable upon death, minimum cash value, and minimum endowment amounts allowed by the policy. These amounts may be shown in addition on the basis of the Company's Current Rate Schedule and Current Dividend Scale.
- (6) The effective policy loan annual percentage interest rate, if the policy contains this provision, specifying whether this rate is applied in advance or in arrears. If the policy loan interest rate is adjustable, the Policy Summary shall also indicate that the annual percentage rate will be determined by the company in accordance with the provisions of the policy and the applicable law.
- (7) The Cost Comparison Indexes for ten and twenty years but in no case beyond the premium-paying period. Indexes shall be shown on the Guaranteed Basis as defined in Sections 4J(2) and 4J(4) and, if there are dividends or a Nonguaranteed Factor, shall also be shown on the Illustrated Basis as defined in Sections 4J(1) and 4J(3). Separate indexes shall be displayed for the basic policy and for each optional term life insurance rider. Such indexes need not be included for optional riders which are limited to benefits; such as accidental death benefits, disability waiver of premium, preliminary term life insurance coverage of less than twelve months and guaranteed insurability benefits; nor for any basic policies or optional riders covering more than one life.
- (8) A Policy Summary which includes dividends shall also include a statement that dividends are based on the company's Current Dividend Scale and are not guaranteed.
- (9) If the policy has a Nonguaranteed Factor, a statement indicating that the insurer reserves the right to change the Nonguaranteed Factor at any time and for any reason. However, if the insurer has agreed to limit this right in any way; such as, for example, if it has agreed to change a Nonguaranteed Factor only at certain

intervals or only if there is a change in the insurer's current or anticipated experience; the statement may indicate any such limitation on the insurer's right.

(10) This statement in close proximity to the Cost Comparison Indexes:

"An explanation of the intended use of these indexes is provided in the Life Insurance Buyer's Guide."

(11) The date on which the Policy Summary is prepared.

The Policy Summary must consist of a separate document. All information required to be disclosed must be set out in such a manner as not to minimize or render any portion thereof obscure. Any amounts which remain level for two or more years of the policy may be represented by a single number if it is clearly indicated what amounts are applicable for each policy year. Amounts in Item (5) of this section shall be listed in total, not on a per thousand nor per unit basis. If more than one insured is covered under one policy or rider, death benefits shall be displayed separately for each insured or for each class of insureds if death benefits do not differ within the class. Zero amounts shall be displayed as a blank space.

N. Portfolio Average Method. The Portfolio Average Method is the method of determining dividends so that, except for the effect of policy loans, dividends reflect investment earnings on funds attributable to all policies whenever issued.

O. Preneed Funeral Contract or Prearrangement. The selection of specific funeral or cemetery merchandise or services for or by an individual before the death of that individual. An agreement by or for an individual before that individual's death relating to the purchase or provision of specific funeral or cemetery merchandise or services.

Ø P. Yearly Price of Death Benefits. The Yearly Price of Death Benefits per \$1,000 is calculated by applying the following formula:

$$YP = (P - Ov - (CVCv - CVP)) / (F(1.01)^v)$$

Where YP = Yearly Price of Death Benefits per \$1,000
P = Annual premium

CVP = Sum of the cash value and terminal dividend at the end of the preceding year.

CVC = Sum of the cash value and terminal dividend at the end of the current year.

D = Annual dividend

F = Face amount

v = 1/(1.05)

Section 5. Duties of Insurers

A. Requirements Applicable Generally

(1) The insurer shall provide, to all prospective purchasers, a Buyer's Guide and a Policy Summary prior to accepting the applicant's initial premium or premium deposit; provided, however, that:

(a) If the policy for which application is made or its Policy Summary contains an unconditional refund provision of at least ten days, the Buyer's Guide and Policy Summary must be delivered with the policy or prior to delivery of the policy.

(b) If the Equivalent Level Death Benefit of the policy for which application is made does not exceed \$5,000, the requirement for providing a Policy Summary will be satisfied by delivery of a written statement containing the information described in Section 4M, Items (2), (3), (4), (5a), (5b), (5c), (6), (7), (9), (10), and (11).

(2) If any prospective purchaser requests a Buyer's Guide, a Policy Summary or Policy Data, the insurer shall provide the item or material requested. Unless otherwise requested, the Policy Data shall be provided for policy years one through twenty.

(3) If the Discontinuity Index of any policy exceeds:

(a) Any of the test limits for discontinuity set forth in Appendix C herein, the insurer shall, prior to the sale of any such policy, provide to the [title of supervisory authority] a statement identifying as accurately as possible the specific policy premium or benefit causing the policy's Discontinuity Index to exceed the test limits. Upon request of the [title of supervisory authority], the insurer shall also provide to the [title of supervisory authority] the Policy Data for policy years one through thirty, and the Discontinuity Index and its component calculations.

(b) The test limit set forth in Appendix C herein for the applicant's issue age, the insurer shall provide:

(i) The following statement displayed prominently on the Policy Summary and on all other sales material that show or incorporate a Cost Comparison Index: "This policy has an unusual pattern of premiums or benefits that may make comparison with the cost indexes of other policies unreliable. You should discuss this with your agent or this company. A statement of year-by-year information is available."

(ii) If the prospective purchaser requests it, a statement identifying as accurately as possible the specific policy premium or benefit causing the policy's Discontinuity Index to exceed the applicable test limit.

B. Requirements Applicable to Participating Policies. If a life insurance company illustrates policyholder dividends that are calculated in a manner or on a basis that:

(1) Deviates substantially from the Contribution Principle, the Policy Summary and all other sales material showing illustrated policyholder dividends must display prominently the following statement: "The illustrated dividends for this policy have not been determined in accordance with the Contribution Principle. Contact this company for further information."

(2) Uses the Portfolio Average Method, the Policy Summary and all other sales material showing illustrated policyholder dividends must include the following statement: "Illustrated dividends reflect current investment earnings on funds applicable to all policies and are based on the Current Dividend Scale. Refer to your Buyer's Guide for further information."

(3) Uses the Investment Generation Method, the Policy Summary and all other sales material showing illustrated policyholder dividends must include the following statement: "Illustrated dividends reflect current investment earnings on funds attributable to policies issued since 19[] and are based on the Current Dividend Scale. Refer to your Buyer's Guide for further information."

Drafting Note: Insert at [] the earliest year of the issue-year grouping used to determine the investment earnings on currently issued policies.

(4) Uses any combination of the Portfolio Average Method and the Investment Generation Method, the Policy Summary and all other sales material showing illustrated policyowner dividends must include an appropriate statement, analogous to the statements required by Sections 5B(2) and 5B(3), indicating how current investment earnings are reflected in illustrated dividends.

C. Requirements Applicable to Existing Policies.

(1) If a policy owner residing in this state requests it, the insurer shall provide Policy Data for that policy. Unless otherwise requested, the Policy Data shall be provided for twenty consecutive years beginning with the previous policy anniversary.

The statement of Policy Data shall include cash dividends according to the Current Dividend Scale, the amount of outstanding policy loans, and the current policy loan interest rate. Policy values shown shall be based on the dividend option in effect at the time of the request. The insurer may charge a reasonable fee, not to exceed \$_____, for the preparation of the statement.

(2) If a life insurance company:

(a) Deviates substantially from the Contribution Principle, it shall annually advise each affected policy owner residing in this state that the dividend paid that year was not determined in accordance with the Contribution Principle and that the policy owner may contact the company for further information.

(b) In determining dividends, as of the effective date of this regulation, using the Investment Generation Method, it shall, within eighteen months of such date, advise each affected policy owner residing in this state that the dividend for the policy reflects current investment earnings on funds applicable to policies issued from 19[] through 19[]. This requirement shall not apply to policies for which the amount payable upon death under the basic policy as of the date when advice would otherwise be required does not exceed \$5,000.

Drafting Note: Insert at [] the applicable years of issue.

(c) Changes its method of determining dividend scales on existing policies from or to the Investment Generation Method; it shall, no later than when the first dividend is payable on the new basis, advise each affected policy owner residing in this state of this change and of its implication on dividends payable on affected policies. This requirement shall not apply to policies for which the amount payable upon death under the basic policy as of the date when advice would otherwise be required does not exceed \$5,000.

(3) If the insurer makes a material revision in the terms and conditions under which it will limit its right to change any Nonguaranteed Factor; it shall, no later than the first policy anniversary following the revision, advise accordingly each affected policy owner residing in this state.

Section 6. Special Plans

This section modifies the application of this regulation as indicated for certain special plans of life insurance:

A. Enhanced Ordinary Life Policies.

(1) An Enhanced Ordinary Life Policy is a participating policy which has the following characteristics for all issue ages:

(a) The basic policy has a guaranteed death benefit that reduces after an initial period of one or more years to a basic amount; and

(b) A special dividend option that provides

(i) a combination of immediate paid-up additions and one-year term insurance; or

(ii) deferred paid-up additions;

either of which on the basis of the Current Dividend Scale will provide a combined death benefit (reduced basic amount plus paid-up additions plus one-year term insurance) at least equal to the initial face amount.

(2) The crossover point of an Enhanced Ordinary Life Policy is the first policy anniversary at which the sum of the reduced basic amount and paid-up additions equals or exceeds the initial death benefit. For these policies:

(a) The cash value of benefits purchased by dividends payable on or before the crossover point is included in the cash surrender value for the purpose of Section 4J(1)(a);

(b) The death benefit purchased by dividends payable on or before the crossover point is included in the amount payable upon death for the purpose of Section 4G(1);

(c) Dividends payable after the crossover point are assumed to be paid in cash for the purpose of Section 4J(1)(b).

B. Flexible Premium and Benefit Policies. For policies commonly called "universal life insurance policies," which:

(1) Permit the policy owner to vary, independently of each other, the amount or timing of premium payments, or the amount payable on death; and

(2) Provide for a cash value that is based on separately identified interest credits and mortality and expense charges made to the policy.

All indexes and other data shall be displayed assuming specific schedules of anticipated premiums and death benefits at issue.

In addition to all other information required by this regulation, the Policy Summary shall indicate when the policy will expire based on the interest rates and mortality and other charges guaranteed in the policy and the anticipated or assumed annual premiums shown in the Policy Summary.

C. Multitrack Policies. For policies which allow a policyowner to change or convert the policy from one plan or amount to another, the Policy Summary:

(1) Shall display all indexes and other data assuming that the option is not exercised; and

(2) May display all indexes and other data using a stated assumption about the exercise of the option.

D. Policies with Any Rate Subject to Continued Insurability. For policies which allow a policyowner a reduced premium rate if the insured periodically submits evidence of continued insurability, the Policy Summary:

(1) Shall display cost indexes and other data assuming that the insured always qualifies for the lowest premium;

(2) Shall display cost indexes and other data assuming that the company always charges the highest premiums allowable; and

(3) Shall indicate the conditions that must be fulfilled for an insured to qualify periodically for the reduced rate.

E. For all other special plans of life insurance, an insurer shall provide or deliver both a Policy Summary substantially similar to that described in Section 4M and a Buyer's Guide. Use of those materials shall be deemed to be substantial compliance with this regulation unless the [title of supervisory authority] makes a finding that such disclosure materials misrepresent a material term or condition of the contract or omit a material fact.

Section 7. Preneed Funeral Contracts or Prearrangements

The following information shall be adequately disclosed at the time an application is made, prior to accepting the applicant's initial premium or deposit, for a preneed funeral contract or prearrangement as defined in Section 4(O) above which is funded or to be funded by a life insurance policy:

A. The fact that a life insurance policy is involved or being used to fund a prearrangement as defined in Section 4(O) of this regulation.

B. the nature of the relationship among the soliciting agent or agents, the provider of the funeral or cemetery merchandise or services, the administrator and any other person,

C. the relationship of the life insurance policy to the funding of the prearrangement and the nature and existence of any guarantees relating to the prearrangement,

D. the impact on the prearrangement

(1) of any changes in the life insurance policy including but not limited to, changes in the assignment, beneficiary designation or use of the proceeds,

(2) of any penalties to be incurred by the policyholder as a result of failure to make premium payments,

(3) of any penalties to be incurred or monies to be received as a result of cancellation or surrender of the life insurance policy,

E. a list of the merchandise and services which are applied or contracted for in the prearrangement and all relevant information concerning the price of the funeral services, including an indication that the purchase price is either guaranteed at the time of purchase or to be determined at the time of need,

F. all relevant information concerning what occurs and whether any entitlements or obligations arise if there is a difference between the proceeds of the life insurance policy and the amount actually needed to fund the prearrangement as defined in Section 4(O),

G. any penalties or restrictions, including but not limited to geographic restrictions or the inability of the provider to perform, on the delivery of merchandise, services or the prearrangement guarantee,

H. the fact that a sales commission or other form of compensation is being paid and if so, the identity of such individuals or entities to whom it is paid.

Section 7.8. General Rules

A. Each insurer shall maintain, at its home office or principal office, a complete file containing one copy of each document authorized and used by the insurer pursuant to this regulation. Such file shall contain one copy of each authorized form for a period of three years following the date of its last authorized use.

B. An agent shall inform the prospective purchaser, prior to commencing a life insurance sales presentation, that he or she is acting as a life insurance agent and inform the prospective purchaser of the full name of the insurance company which the agent is representing to the buyer. In sales situations in which an agent is not involved, the insurer shall identify its full name.

C. Terms such as financial planner, investment advisor, financial consultant, or financial counseling shall not be used in such a way as to imply that the insurance agent is primarily engaged in an advisory business in which compensation is unrelated to sales unless such is actually the case.

D. Any reference to a dividend or Nonguaranteed Factor must include a statement that such item is not guaranteed and is based on the company's Current Dividend Scale or Current Rate Schedule. If a dividend or Nonguaranteed Factor would be reduced by the existence of a policy loan, a statement to this effect must be included in any reference to such dividend or Nonguaranteed Factor.

E. A system or presentation which does not recognize the time value of money through the use of appropriate interest adjustments shall not be used for comparing the cost of two or more life insurance policies. Such a system may be used for the purpose of demonstrating the cash-flow pattern of a policy if such presentation is accompanied by a statement disclosing that the presentation does not recognize that, because of interest, a dollar in the future has less value than a dollar today.

F. A presentation of costs or benefits, other than that required pursuant to this regulation, shall not display guaranteed and nonguaranteed factors as a single sum unless they are shown separately in close proximity thereto.

G. Any statement regarding the use of the Cost Comparison Indexes shall include an explanation to the effect that the indexes are useful only for the comparison of the relative costs of two or more similar policies.

H. A Cost Comparison Index which reflects a dividend or Nonguaranteed Factor shall be accompanied by a statement that it is based on the company's Current Dividend Scale or Current Rate Schedule and is not guaranteed.

Section 8 9. Failure to Comply

Failure of an insurer to provide or deliver a Buyer's Guide, a Policy Summary or Policy Data as provided in Sections 5 and 6 shall constitute an omission which misrepresents the benefits, advantages, conditions or terms of an insurance policy.

Section 9 10. Separability

If any provisions of this rule be held invalid, the remainder shall not be affected.

Section 10 11. Effective Date

This rule shall become effective [insert a date at least six months following adoption by the regulatory authority].

ATTACHMENT THREE

Life Insurance (A) Committee
Santa Fe, New Mexico
March 15, 1988

The Life Insurance (A) Committee met in Room 6 of the Sweeney Center in Santa Fe, N.M., at 2 p.m. on March 15, 1988. A quorum was present and Harold C. Yancey (Utah) chaired the meeting. The following committee members or their representatives were present: William D. Hager, Vice Chair (Iowa); Roxani Gillespie (Calif.); Margurite C. Stokes (D.C.); Lewis R. Crist (Mo.); and James L. Nelson (Texas).

1. Discuss 1988 Charges

Commissioner Harold Yancey (Utah) commented that the committee is cognizant of new products coming into the marketplace and invited members of the committee to bring current issues to its attention. With respect to the 1988 charges, Commissioner Yancey mentioned that Texas has been appointed to act as a liaison with the Health Promotion and Chemical Abuse (B) Task Force which is charged with developing a notice and consent form for blood testing for AIDS.

Jack Blaine (American Council of Life Insurance) commented that the states are continuing to develop notice requirements on this issue and that the ACLI encourages the NAIC to develop a form.

2. Report of Subgroup on Prepaid Funeral Plans

Commissioner William D. Hager (Iowa) reported that the Subgroup on Prepaid Funeral Plans Report (Attachment Three-A) recommends exposure of amendments to the NAIC Rules Governing the Advertising of Life Insurance (Attachment Three-A2), the Life Insurance Disclosure Model Regulation (Attachment Three-A3) and the Model Annuity and Deposit Fund Disclosure Regulation (Attachment Three-A1). He commented that the operative issue is the degree of disclosure on the items identified by the subgroup. The consensus reached was that at the advertising stage two items must be disclosed:

1. The fact that a life insurance policy or annuity contract is involved or being used to fund a prearrangement as defined in the rules; and
2. The nature of the relationship among the soliciting agent or agents, the provider of the funeral or cemetery merchandise or services, the administrator and any other person.

Full disclosure of all items identified (Attachment Three-A1) must be provided at the time of application. He stated that the subgroup, recognizing that there may be ongoing problems and abuses, recommends that a survey be conducted one year from now which will identify existing abuses. The subgroup also recommends continuation of the subgroup as well as participation by Lee Norrgard, chair of the advisory committee.

3. Report of the Advisory Committee on Prepaid Funeral Plans

Lee Norrgard (American Association of Retired Persons), chair of the advisory committee, explained that the committee met four times and made various suggestions on the draft proposal. He stated that the advisory committee recognizes and supports full disclosure at the time of application. He underscored the importance of disclosure by stating that 700,000 preneed contracts were sold last year and that insurance is rapidly replacing the trust mechanism for funding of the contracts. He stated that the advisory committee supports disclosure of the designated items except for the disclosing of commissions. Mr. Norrgard, as a consumer representative, commented that he believed that the consumer should know that a commission is being paid and to whom it is paid because of the uniqueness of this transaction.

William Albus (National Association of Life Underwriters) commented that the requirement for disclosing sales commissions is unnecessary because it is superfluous and would only confuse consumers. He stated that the purpose of disclosure is to provide information for making an informed decision and the disclosure of sales commissions has nothing to do with making this decision.

Upon motion duly made and seconded, the committee received Attachments Three-A1, Three-A2 and Three-A3 as exposure drafts for possible adoption in June. Commissioner Hager indicated that a final report would be made in June.

Having no further business, the Life Insurance (A) Committee adjourned at 2:45 p.m.

ATTACHMENT THREE-A

Report of the Subgroup on Prepaid Funeral Plans to the Life Insurance (A) Committee March 15, 1988 Santa Fe, New Mexico

Consensus of the Subgroup:

1. Require as a minimum in the Rules Governing Advertising, the disclosure of items a & b only, recognizing the difficulty involved in complying with full disclosure in all forms of advertisements and the nature of solicitation methods.
2. No change in requiring full disclosure at time of application.
3. Revise definition of "Preneed Contract or Prearrangement" as follows:

"Preneed Funeral Contract or Prearrangement" shall mean the selection of specific funeral or cemetery merchandise or services for or by an individual before the death of that individual: an agreement by or for an individual before the individual's death relating to the purchase or provision of specific funeral or cemetery merchandise or services.
4. Add the word "penalties" to subsection g which refers to geographical restrictions as follows:

Any penalties or restrictions, including but not limited to geographic restrictions or the inability of the provider to perform, on the delivery of merchandise, services or the prearrangement guarantee.
5. Amend the Life Insurance Disclosure Model Regulation to include group life products within the scope of the preneed disclosure requirements.
6. Recommend survey in one year to monitor progress of the disclosure mechanisms.
7. Recommend continuation of the Subgroup and participation by Lee Norrgard, chair of the Advisory Committee.

ATTACHMENT THREE-A1

MODEL ANNUITY AND DEPOSIT FUND DISCLOSURE REGULATION DRAFT: 3/22/88

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Section 1. Authority

This rule is adopted and promulgated by [title of supervisory authority] pursuant to sections [insert sections corresponding to Section 4(1)(a) of the Model Unfair and Deceptive Acts and Practices in the Business of Insurance Act] of the Insurance Code.

Section 2. Purpose

A. The purpose of this regulation is to require insurers to deliver to prospects for annuity contracts, for annuity riders to life insurance policies, or for deposit funds accepted in conjunction with life insurance policies or annuity contracts, information which helps the prospect select an annuity or deposit fund, or both, appropriate to the prospect's needs; improves the prospect's understanding of the basic features of the plan under consideration; and improves the prospect's ability to evaluate the relative benefits of similar plans.

B. This regulation does not prohibit the use of additional material which is not in violation of this regulation or any other [State] statute or regulation.

Section 3. Scope

A. To the extent hereinafter provided, this regulation shall apply to any solicitation, negotiation or procurement of annuity contracts, or deposit funds accepted in conjunction with individual life insurance policies or with annuity contracts which are subject to this regulation, occurring within this state. The regulation shall apply to any issuer of life insurance policies or annuity contracts, including fraternal benefit societies. For the purpose of this regulation, annuity contracts include annuity riders to life insurance policies.

B. This regulation shall apply to:

- (1) Individual deferred annuities and group annuities other than contracts exempted by Section 3C below.
- (2) Deposit funds (i.e. arrangements under which amounts to accumulate at interest are paid in addition to life insurance premiums or annuity considerations under provisions of individual life insurance policies or annuity contracts).

C. This regulation shall also apply to preneed funeral contracts or prearrangements which are funded or to be funded by any policy or contract described in subsections A and B of Section 3 of this regulation. "Prenneed funeral contract or prearrangement" means the selection of specific funeral or cemetery merchandise or services for or by an individual before the death of that individual an agreement by or for an individual before the individual's death relating to the purchase or provision of specific funeral or cemetery merchandise or services.

D. This regulation shall not apply to:

- (1) Individual deferred annuity contracts and group annuity contracts which are:
 - (a) variable annuities;
 - (b) contracts registered with the Federal Securities and Exchange Commission;
 - (c) contracts which have variable annuity features available at the option of the contract owner;
- (2) Group annuity contracts whose cost is borne in whole or in part by the annuitant's employer or by an association of which the annuitant is a member. The cost of a contract shall not be deemed to be borne by an annuitant's employer to the extent the annuitant's salary is reduced or the annuitant foregoes a salary increase;
- (3) Immediate annuity contracts;
- (4) Policies or contracts issued in connection with employee benefit plans as defined by Section 3(3) of the federal Employee Retirement Income Security Act of 1974 (ERISA) as amended from time to time;
- (5) Individual retirement accounts and individual retirement annuities as described in Section 408 of the federal Internal Revenue Code;
- (6) A single advance payment of specific premiums equal to the discounted value of such premiums;
- (7) A policyholder's deposit account established primarily to facilitate payment of regular premiums and where the anticipated balance of such account does not exceed twice the sum of the premiums payable in one year on all policies for which premiums are being paid from such account.

Section 4. Buyer's Guide to Annuities

For purposes of this regulation, "Buyer's Guide to Annuities" means the document which contains, and is limited to, the language set forth in the Appendix to this regulation or language approved by [state regulatory authority].

Section 5. Contract Summary

A. For purposes of this regulation, "Contract Summary" means a written statement describing the elements of the annuity contract and deposit fund, including but not limited to, where applicable, the following items:

- (1) A prominently placed title as follows: "Contract Summary" (This shall be followed by an identification of the annuity contract or deposit fund, or both, to which the summary applies);

- (2) The name and address of the insurance agent or, if no agent is involved, a statement of the procedure to be followed in order to receive responses to inquiries regarding the Contract Summary;
- (3) The full name and home office or administrative office address of the insurer which will issue the annuity contract or administer the deposit fund;
- (4) One of the options under the contract available for annuity payout. This form of annuity payout should be used for providing information in Items 6, 7 and 9 of this section;
- (5) A prominent statement that the contract does not provide cash surrender values if such is the case;
- (6) The amount of the guaranteed annuity payments at the scheduled commencement of the annuity, based on the assumption that all scheduled considerations are paid and there are no prior withdrawals from or partial surrender of the contract and no indebtedness to the insurer on the contract;
- (7) On the same basis as for Item 6 except for guarantees, illustrative annuity payments not greater in amount than those based on
 - (a) the current dividend scale and the interest rate currently used to accumulate dividends under such contracts, or the current excess interest rate credited by the insurer, and
 - (b) current annuity purchase rates.

A dividend scale or excess interest rate which has been publicly declared by the insurer with an effective date not more than two months subsequent to the date of declaration shall be considered a current dividend scale or current excess interest rate;

- (8) For annuity contracts or deposit funds for which guaranteed cash surrender values at any duration are less than the total considerations paid, a prominent statement that such contract or fund may result in loss if kept for only a few years, together with a reference to the schedule of guaranteed cash surrender values required by Item (9)(c) of this section;

- (9) The following amounts, where applicable, for the first ten contract years and representative contract years thereafter sufficient to clearly illustrate the patterns of considerations and benefits, including but not limited to, the twentieth contract year and at least one age from 60-70 and at the scheduled commencement of annuity payments:

- (a) The gross annual or single consideration for the annuity contract. Any additional considerations for optional benefits, such as disability premium waiver, should be shown separately;
- (b) Scheduled annual or single deposit for the deposit fund, if any;
- (c) The total guaranteed death benefit and cash surrender value at the end of the year; or, if no guaranteed cash surrender values are provided, the total guaranteed paid-up annuity at the end of the year. Values for a deposit fund must be shown separately from those for a basic contract;
- (d) The total illustrative death benefit and cash surrender value or paid-up annuity at the end of the year, not greater in amount than that based on:
 - (i) the current dividend scale and the interest rate currently used to accumulate dividends under such contracts or the current excess interest rate credited by the insurer, and
 - (ii) current annuity purchase rates.

A dividend scale or excess interest rate which has been publicly declared by the insurer with an effective date not more than two months subsequent to the date of declaration shall be considered a current dividend scale or current excess interest rate.

- (10) For a Contract Summary which includes values based on the current dividend scale or the current dividend accumulation or excess interest rate, a statement that such values are illustrations and are not guaranteed;

- (11) The following items should be shown with regard to the consideration for the basic annuity contract or deposit fund. Considerations applicable to optional benefits, such as disability premium waiver, should be excluded.

- (a) A statement of all fees, charges and loading amounts that are or may be deducted from initial or subsequent considerations paid or that are or may be deducted from the contract or fund values prior to or at contract maturity, including but not limited to any surrender penalties, discontinuance fees, partial surrender or withdrawal penalties or fees, transaction fees, and account maintenance fees.

(b) A statement of the interest rates used in calculating the guaranteed and illustrative contract or fund values.

(c) The yield on gross considerations at the end of ten years (if the annuity payments have not yet commenced) and at the scheduled commencement of annuity payments. For contracts without surrender values, only the yield at the scheduled commencement of annuity payments need be shown. The yield shall be figured on the basis of the contract value used to determine the annuity payments. These yield figures shall be shown on both a guaranteed and illustrative basis. They represent the effective annual interest rates at which the accumulation of 100% of all gross considerations would be equal to the guaranteed and illustrative cash surrender values at the points specified. For contracts without surrender values the yields shall be figured on the basis of the contract values used to determine annuity payments at the points specified.

(12) The date on which the Contract Summary is prepared.

B. The Contract Summary must be a separate document. All information required to be disclosed must be set out in such a manner as not to minimize or render any portion thereof obscure. Any amounts which remain level for two or more contract years may be represented by a single number if it is clearly indicated what amounts are applicable for each contract year. Amounts in Items (6), (7), (9) and (11)(c) of this section shall, in the case of flexible premium annuity contracts, be determined either according to an anticipated pattern of consideration payments or on the assumption that considerations payable will be \$100 a month or \$1,000 per year. If not specified in the contract, annuity payments shall be assumed to commence at age sixty-five or ten years from issue, whichever is later. Zero amounts shall be displayed as zero and shall not be displayed as blank spaces.

Section 6. Disclosure Requirements

A. The insurer shall provide to all prospective purchasers a Buyer's Guide to Annuities and a Contract Summary prior to accepting the applicant's initial consideration for the annuity contract, or in the case of a deposit fund, prior to acceptance of the applicant's initial consideration for the associated life insurance policy or annuity contract, unless the annuity contract or associated life insurance policy for which application is made provides for an unconditional refund period of at least ten days or unless the Contract Summary contains such an unconditional refund offer, in which event the Buyer's Guide to Annuities and the Contract Summary must be delivered with or prior to the delivery of the annuity contract or associated life insurance policy.

B. The insurer shall provide a Buyer's Guide to Annuities and a Contract Summary to any prospective purchaser upon request.

C. The following information shall be adequately disclosed at the time an application is made, prior to accepting the applicant's initial premium or deposit, for a preneed funeral contract or prearrangement as defined in Section 3C above which is funded or to be funded by an annuity contract:

(1) The fact that an annuity contract is involved or being used to fund a prearrangement as defined in Section 3C.

(2) the nature of the relationship among the soliciting agent or agents, the provider of the funeral or cemetery merchandise or services, the administrator and any other person.

(3) the relationship of the annuity contract to the funding of the prearrangement and the nature and existence of any guarantees relating to the prearrangement.

(4) the impact on the prearrangement

(a) of any changes in the annuity contract including but not limited to, changes in the assignment, beneficiary designation or use of the proceeds.

(b) of any penalties to be incurred by the contract holder as a result of failure to make premium payments.

(c) of any penalties to be incurred or monies to be received as a result of cancellation or surrender of the annuity contract.

(5) a list of the merchandise and services which are applied or contracted for in the prearrangement and all relevant information concerning the price of the funeral services, including an indication that the purchase price is either guaranteed at the time of purchase or to be determined at the time of need.

(6) all relevant information concerning what occurs and whether any entitlements or obligations arise if there is a difference between the proceeds of the annuity contract and the amount actually needed to fund the prearrangement as defined in Section 3C.

(7) any penalties or restrictions, including but not limited to geographic restrictions or the inability of the provider to perform, on the delivery of merchandise, services or the prearrangement guarantee.

(8) the fact that a sales commission or other form of compensation is being paid and if so, the identity of such individual or entity to who it is paid.

Section 7. General Rules

A. Each insurer shall maintain at its home office or principal office, a complete file containing one copy of each document authorized by the insurer for use pursuant to this regulation. Such file shall contain one copy of each authorized form for a period of at least three years following the date of its last authorized use.

B. An agent shall inform the prospective purchaser, prior to commencing a sales presentation, that the agent is acting as a life insurance agent and shall inform the prospective purchaser of the full name of the insurance company which the agent is representing to the buyer. In sales situations in which an agent is not involved, the insurer shall identify its full name.

C. Terms such as financial planner, investment advisor, financial consultant or financial counseling shall not be used in such a way as to imply that the insurance agent is generally engaged in an advisory business in which compensation is unrelated to sales, unless such is actually the case.

D. Any reference to dividends or to excess interest credits must include a statement that such dividends or excess interest credits are not guaranteed.

E. A presentation of benefits shall not display guaranteed and nonguaranteed benefits as a single sum unless guaranteed benefits are shown separately in close proximity thereto and with equal prominence.

F. Sales promotion literature and contract forms shall not state or imply that annuity contracts or deposit funds are the same as savings accounts or deposits in banking or savings institutions. The use of passbooks which resemble savings bank passbooks is prohibited.

Section 8. Failure to Comply

Failure of an insurer to provide or deliver a Buyer's Guide to Annuities and a Contract Summary as provided in Section 6 shall constitute an omission which misrepresents the benefits, advantages, conditions or terms of an annuity contract or of an insurance policy.

Section 9. Effective Date

This rule shall apply to all solicitations which commence on or after [insert a date at least six months following adoption by the regulatory authority].

APPENDIX — BUYER'S GUIDE TO ANNUITIES

WHAT IS AN ANNUITY?

An annuity is a series of payments made at regular intervals. You can buy annuity contracts from life insurance companies. In return for premiums that you pay, the company will pay you an annuity. The main reason to buy an annuity contract is to obtain an income, usually for retirement purposes. An annuity contract is not a life insurance policy or a health insurance policy. It is not a savings account or savings certificate, nor should it be bought for short-term purposes.

TYPES OF ANNUITY CONTRACTS

Annuity contracts may be classified in a number of ways. The most common classifications are set out below.

Annuity contracts may be either immediate or deferred. Immediate annuity contracts provide income payments that start shortly after you pay the premium. Deferred annuity contracts provide income payments that start later, often many years later.

Annuity contracts may be either single premium or installment premium. Single premium contracts require you to pay the company only one premium. Installment premium contracts are designed for a series of premiums. Most of these are flexible premium contracts; they allow you to pay as much as you wish whenever you wish, within specified limits. Others are scheduled premium contracts, which specify the size and frequency of your premiums.

Annuity contracts may be either individual or group. Individual contracts cover only one or two persons. Group contracts cover a specified group of people.

Annuity contracts may be fixed, variable, or a combination of both. During the deferred period of a fixed annuity contract, premiums (less charges) are accumulated at rates of interest set by the company. The amount of each annuity payment is determined when payments begin. During the deferred period of a variable annuity, the value of the accumulated premiums (less charges) varies with the performance of a specified pool of investments. The amount of annuity payments also varies with the performance of the pool. Combination annuities allow you to put part of your premium in a fixed annuity and part in a variable annuity.

Some companies offer deposit fund arrangements under the provisions of their life insurance policies or annuity contracts. These arrangements allow you to pay amounts, in addition to your premiums, which will be accumulated at interest in much the same way as under a deferred fixed annuity contract. The balance of this Buyer's Guide deals specifically with deferred fixed annuity contracts and, therefore, is generally applicable to deposit fund arrangements also.

ANNUITY CONTRACT FEATURES

Your value in the contract consists of the premiums you have paid, less charges, plus interest credited. This value is used to calculate the amount of most benefits that you will receive. Charges, interest and benefits are explained below.

CHARGES

Considerable diversity exists in the types and amounts of charges. Some charges may be fixed at issue; others may be changed by the company from time to time. A typical contract might contain one or more of the following types of charges. Companies may refer to these charges by different names.

Percentage of Premium Charge. This charge, often called a "load," is deducted from each premium paid. The percentage may reduce after the contract has been in force for a certain number of years or after total premiums paid have reached a certain level.

Contract Fee. This is a flat dollar amount charged either once at issue or annually.

Transaction Fee. This is a charge per premium payment or other transaction.

Surrender Charge. This charge is usually a percentage of the value of the contract or of premiums paid. The percentage may be reduced or eliminated after the contract has been in force for a certain number of years. Sometimes the charge takes the form of a reduction in the interest rate credited. In some cases, the charge is eliminated if the interest rate declared by the company falls below a certain level.

INTEREST

The interest rate used to accumulate contract values may never be less than the guaranteed rate stated in the contract. In practice, the interest rate actually used by a company, usually referred to as the "current" rate, is often higher. The company may change the current rate from time to time, but it cannot be lower than the guaranteed rate. Companies differ substantially in their methods of determining the current rate.

BENEFITS

Annuity contracts provide a number of benefits. While the annuity income benefit is the primary one, the other benefits set out below are also important.

ANNUITY INCOME BENEFIT

Income payments are usually made monthly, although other frequencies are available. The amount of the annuity payments is based on both the value of the contract and the contract's "benefit rate" when annuity payments begin. This benefit rate depends on your age and sex, and the annuity form you have chosen.

Annuity contracts contain a table of guaranteed benefit rates. Most companies periodically develop "current" benefit rates as well; these rates are subject to change by the company at any time. When annuity payments begin, the company will determine the amount of each payment according to the current benefit rates then in effect if these are more favorable to you. If the guaranteed benefit rates would provide higher income payments, those rates will be used. Once payments begin, they are unaffected by any future benefit rate changes.

The most commonly available annuity forms are:

Straight Life. The annuity is paid as long as you are alive. There are no further payments to anyone after your death.

Life With Period Certain. The annuity is paid as long as you are alive. If you die before the end of the period referred to as the "certain period," the annuity will be paid to your beneficiary for the rest of that period. Typical certain periods are ten or twenty years.

Joint and Survivor. The annuity is paid as long as either you or another named annuitant is still alive. In some variations, the annuity is decreased after the first death. A period certain may also be available with this form.

DEATH BENEFIT

Most contracts provide that, if you die before the annuity payments start, the contract value will be paid to your beneficiary. Some contracts provide that the death benefit will be the total premiums paid if that amount is greater than the value of the contract at death.

SURRENDER BENEFIT

Most annuity contracts allow you to surrender your contract if income payments have not yet started. Upon surrender, the contract terminates. The surrender benefit is equal to your contract value less surrender charge, if any.

Many annuity contracts also provide that you may withdraw a portion of your contract value, under certain conditions, without terminating the contract. A surrender charge may be deducted from the amount withdrawn.

WAIVER OF PREMIUM BENEFIT

Some companies offer a benefit which will pay premiums for you if you become disabled. A charge is made for this benefit.

HOW MUCH SHOULD I BUY?

Before buying, ask yourself these questions:

1. How much annuity income will I need in addition to social security, pensions, savings, and investments?
2. Will I need an income only for myself or for someone else also?
3. How much can I afford to pay in premiums?
4. How will the annuity contract fit in with my total financial planning?

HOW TO BUY AN ANNUITY

Buying an annuity contract is a major financial decision which should be considered carefully.

CONTRACT SUMMARY

You will receive a *Contract Summary* when an annuity contract is delivered to you, or you can ask for one now. You should review this statement thoroughly.

Accumulated values and surrender values under the contract are illustrated for various years on this statement. During the first few years, these values may be less than the premiums paid. This is why an annuity contract should not be purchased for short-term purposes.

Also illustrated is the yield on gross premiums at the end of ten years and at the time income payments are scheduled to begin. Since it takes into account not only the interest credited under the contract, but also the effect of all charges, the yield on gross premiums is a figure you can use to compare annuity contracts. Be careful in comparing this figure with yields available on investments. The tax treatment of annuity earnings is usually substantially different from that of earnings from investments. Also, only annuity contracts offer life income and waiver of premium benefits.

As stated at the beginning of this guide, the main reason to buy an annuity contract is to obtain an income. Therefore, you should also review the life income figures shown in the *Contract Summary*.

You will note that all values and income figures are shown on both a "guaranteed" and a "current" basis. Illustrations on the guaranteed basis show the minimum values and income which could be paid under the contract. Illustrations on the current basis show the values and income which would be paid if the current interest and benefit rates for the contract were to continue in effect for the period shown. Since it is impossible to predict the future course of interest and benefit rates, you will have to decide for yourself how much to rely on the current basis values when making your purchase decision.

OTHER POINTS TO CONSIDER

Be certain that you understand the effect of all charges that will be made under the contract.

Check whether the annuity contract allows you to change the amount of your premium payments. Find out what happens if you stop paying premiums altogether. You may want to obtain and compare *Contract Summaries* for similar contracts from several companies. Comparing these should help you select a good buy.

If you are buying an annuity contract for an Individual Retirement Account (IRA) or another tax deferred retirement program, make sure that you are eligible. Also, make sure that you understand any restrictions connected with the program.

If you are shown a presentation which illustrates tax savings, find out what assumptions are used. Be sure the assumptions apply in your case.

A good agent can help you choose the right annuity contract. Remember that the quality of service that you can expect from the life insurance company and the agent is an important factor also.

READ THE CONTRACT

When you receive your new annuity contract, read it carefully. Ask the agent and company for an explanation of anything you do not understand.

If you have a specific complaint or cannot get the answers you need from the agent or company, please contact your state insurance department.

Legislative History (all references are to the Proceedings of the NAIC).

1978 Proc. II 31, 34, 295, 380, 382, 388-391 (adopted).
 1980 Proc. I 34, 38, 406, 516, 518 (amended).
 1982 Proc. II 505-512 (copy of most amendments adopted 1983 Proc. I).
 1983 Proc. I 6, 35, 447, 569, 572-579 (amended; incorrectly reprinted).
 1983 Proc. II 16, 22, 554, 613 (Buyer's Guide Modified).
 1988 Proc. I 603 (adopted technical amendments; reprinted).

ATTACHMENT THREE-A2

RULES GOVERNING THE ADVERTISING OF LIFE INSURANCE DRAFT: 3/22/88

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Section I. Purpose

The purpose of these rules is to set forth minimum standards and guidelines to assure a full and truthful disclosure to the public of all material and relevant information in the advertising of life insurance policies and annuity contracts.

Section II. Definitions

For the purpose of these rules:

1. "Advertisement" shall be material designed to create public interest in life insurance or annuities or in an insurer, or in an insurance producer; or to induce the public to purchase, increase, modify, reinstate, borrow on, surrender, replace, or retain a policy including:

Comment: See drafting note caveat immediately following the definition of "Insurance Producer" in this section.

(a) printed and published material, audiovisual material, and descriptive literature of an insurer or insurance producer used in direct mail, newspapers, magazines, radio and television scripts, billboards and similar displays;

(b) descriptive literature and sales aids of all kinds, authored by the insurer, its insurance producers, or third parties, issued, distributed or used by such insurer or insurance producer; including but not limited to circulars, leaflets, booklets, depictions, illustrations and form letters;

(c) material used for the recruitment, training, and education of an insurer's insurance producers which is designed to be used or is used to induce the public to purchase, increase, modify, reinstate, borrow on, surrender, replace or retain a policy;

(d) prepared sales talks, presentations and material for use by insurance producers.

2. "Advertisement" for the purpose of these rules shall not include:

(a) communications or materials used within an insurer's own organization and not intended for dissemination to the public;

(b) communications with policyholders other than material urging policyholders to purchase, increase, modify, reinstate or retain a policy;

(c) a general announcement from a group or blanket policyholder to eligible individuals on an employment or membership list that a policy or program has been written or arranged; provided the announcement clearly indicates that it is preliminary to the issuance of a booklet explaining the proposed coverage.

3. "Insurance Producer" shall mean an individual who solicits, negotiates, effects, procures, renews, continues or binds policies of insurance covering risks located in this State.

Note: This term and words related thereto should not be included in life advertising rules or regulations unless "insurance producer" also is statutorily defined and the definitions are identical.

4. "Insurer" shall include any individual, corporation, association, partnership, reciprocal exchange, inter-insurer, Lloyd's, fraternal benefit society, and any other legal entity which is defined as an "insurer" in the insurance code of this State or issues life insurance or annuities in this State and is engaged in the advertisement of a policy.

5. "Policy" shall include any policy, plan, certificate, including a fraternal benefit certificate, contract, agreement, statement of coverage, rider or endorsement which provides for life insurance or annuity benefits.

6. "Nonguaranteed Policy Element" shall mean any premium, cash value, death benefit, endowment value, dividend or other policy benefit or pricing element or portion thereof whose amount is not guaranteed by the terms of the contract. Any policy element that contractually follows a separate account result or a defined index is not considered a nonguaranteed policy element.

7. "Preneed Funeral Contract or Prearrangement" shall mean the selection of specific funeral or cemetery merchandise or services for or by an individual before the death of that individual an agreement by or for an individual before the individual's death relating to the purchase or provision of specific funeral or cemetery merchandise or services.

Section III. Applicability

1. These rules shall apply to any life insurance or annuity advertisement intended for dissemination in this State.
2. Every insurer shall establish and at all times maintain a system of control over the content, form and method of dissemination of all advertisements of its policies. All such advertisements, regardless of by whom written, created, designed or presented, shall be the responsibility of the insurer.

Section IV. Form and Content of Advertisements

1. Advertisements shall be truthful and not misleading in fact or by implication. The form and content of an advertisement of a policy shall be sufficiently complete and clear so as to avoid deception. It shall not have the capacity or tendency to mislead or deceive.

Whether an advertisement has the capacity or tendency to mislead or deceive shall be determined by the Commissioner of Insurance from the overall impression that the advertisement may be reasonably expected to create upon a person of average education or intelligence within the segment of the public to which it is directed.

2. No advertisement shall use the terms "investment," "investment plan," "founder's plan," "charter plan," "deposit," "expansion plan," "profit," "profits," "profit sharing," "interest plan," "savings," "savings plan," or other similar terms in connection with a policy in a context or under such circumstances or conditions as to have the capacity or tendency to mislead a purchaser or prospective purchaser of such policy to believe that he will receive, or that it is possible that he will receive, something other than a policy or some benefit not available to other persons of the same class and equal expectation of life.

Section V. Disclosure Requirements

1. The information required to be disclosed by these rules shall not be minimized, rendered obscure, or presented in an ambiguous fashion or intermingled with the text of the advertisement so as to be confusing or misleading.
2. No advertisement shall omit material information or use words, phrases, statements, references or illustrations if such omission or such use has the capacity, tendency or effect of misleading or deceiving purchasers or prospective purchasers as to the nature or extent of any policy benefit payable, loss covered, premium payable, or state or federal tax consequences. The fact that the policy offered is made available to a prospective insured for inspection prior to consummation of the sale, or an offer is made to refund the premium if the purchaser is not satisfied, does not remedy misleading statements.
3. In the event an advertisement uses "Non-Medical," "No Medical Examination Required," or similar terms where issue is not guaranteed, such terms shall be accompanied by a further disclosure of equal prominence and in juxtaposition thereto to the effect that issuance of the policy may depend upon the answers to the health questions set forth in the application.

4. An advertisement shall not use as the name or title of a life insurance policy any phrase which does not include the words "life insurance" unless accompanied by other language clearly indicating it is life insurance.

5. An advertisement shall prominently describe the type of policy advertised.

6. An advertisement of an insurance policy marketed by direct response techniques shall not state or imply that because there is no insurance producer or commission involved there will be a cost saving to prospective purchasers unless such is the fact. No such cost savings may be stated or implied without justification satisfactory to the Insurance Commissioner prior to use.

7. An advertisement for a policy containing graded or modified benefits shall prominently display any limitation of benefits. If the premium is level and coverage decreases or increases with age or duration, such fact shall be prominently disclosed. An advertisement of or for a life insurance policy under which the death benefit varies with the length of time the policy has been in force shall accurately describe and clearly call attention to the amount of minimum death benefit under the policy.

8. An advertisement for the types of policies described in 6 and 7 of this Section shall not use the words "inexpensive," "low cost," or other phrase or words of similar import when such policies are being marketed to persons who are fifty years of age or older, where the policy is guaranteed issue.

9. Premiums

(a) An advertisement for a policy with non-level premiums shall prominently describe the premium changes.

(b) An advertisement in which the insurer describes a policy where it reserves the right to change the amount of the premium during the policy term, but which does not prominently describe this feature, is deemed to be deceptive and misleading and is prohibited.

(c) An advertisement shall not contain a statement or representation that premiums paid for a life insurance policy can be withdrawn under the terms of the policy. Reference may be made to amounts paid into an advance premium fund, which are intended to pay premiums at a future time, to the effect that they may be withdrawn under the conditions of the prepayment agreement. Reference may also be made to withdrawal rights under any unconditional premium refund offer.

(d) An advertisement which represents a pure endowment benefit as a "profit" or "return" on the premium paid rather than as a policy benefit for which a specified premium is paid is deemed to be deceptive and misleading and is prohibited.

10. Analogies between a life insurance policy's cash values and savings accounts or other investments and between premium payments and contributions to savings accounts or other investments must be complete and accurate.

11. An advertisement shall not state or imply in any way that interest charged on a policy loan or the reduction of death benefits by the amount of outstanding policy loans is unfair, inequitable, or in any manner an incorrect or improper practice.

12. If nonforfeiture values are shown in any advertisement, the values must be shown either for the entire amount of the basic life policy death benefit or for each \$1,000 of initial death benefit.

13. The words "free," "no cost," "without cost," "no additional cost," "at no extra cost," or words of similar import shall not be used with respect to any benefit or service being made available with a policy unless true. If there is no charge to the insured, then the identity of the payor must be prominently disclosed. An advertisement may specify the charge for a benefit or a service or may state that a charge is included in the premium or use other appropriate language.

14. No insurance producer may use terms such as "financial planner," "investment advisor," "financial consultant," or "financial counseling" in such a way as to imply that he or she is generally engaged in an advisory business in which compensation is unrelated to sales unless such actually is the case.

15. Nonguaranteed Policy Elements

(a) An advertisement shall not utilize or describe nonguaranteed policy elements in a manner which is misleading or has the capacity or tendency to mislead.

(b) An advertisement shall not state or imply that the payment or amount of nonguaranteed policy elements is guaranteed. If nonguaranteed policy elements are illustrated, they must be based on the insurer's current scale and the illustration must contain a statement to the effect that they are not to be construed as guarantees or estimates of amounts to be paid in the future.

(c) An advertisement that includes any illustrations or statements containing or based upon nonguaranteed elements shall set forth with equal prominence comparable illustrations or statements containing or based upon the guaranteed elements.

(d) If an advertisement refers to any nonguaranteed policy element, it shall indicate that the insurer reserves the right to change any such element at any time and for any reason. However, if an insurer has agreed to limit this right in any way; such as, for example, if it has agreed to change these elements only at certain intervals or only if there is a change in the insurer's current or anticipated experience, the advertisement may indicate any such limitation on the insurer's right.

(e) An advertisement shall not refer to dividends as "tax free" or use words of similar import, unless the tax treatment of dividends is fully explained and the nature of the dividend as a return of premium is indicated clearly.

16. An advertisement shall not state that a purchaser of a policy will share in or receive a stated percentage or portion of the earnings on the general account assets of the company.

17. Testimonials, Appraisals, Analysis, or Endorsements by Third Parties

(a) Testimonials, appraisals or analysis used in advertisements must be genuine; represent the current opinion of the author; be applicable to the policy advertised, if any; and be accurately reproduced with sufficient completeness to avoid misleading or deceiving prospective insureds as to the nature or scope of the testimonial, appraisal, analysis or endorsement. In using testimonials, appraisals or analysis; the insurer or insurance producer makes as its own all of the statements contained therein, and such statements are subject to all the provisions of these rules.

(b) If the individual making a testimonial, appraisal, analysis or an endorsement has a financial interest in the insurer or a related entity as a stockholder, director, officer, employee or otherwise, or receives any benefit directly or indirectly other than required union scale wages, such fact shall be prominently disclosed in the advertisement.

(c) An advertisement shall not state or imply that an insurer or a policy has been approved or endorsed by a group of individuals, society, association or other organization unless such is the fact and unless any proprietary relationship between an organization and the insurer is disclosed. If the entity making the endorsement or testimonial is owned, controlled or managed by the insurer, or receives any payment or other consideration from the insurer for making such endorsement or testimonial, such fact shall be disclosed in the advertisement.

18. An advertisement shall not contain statistical information relating to any insurer or policy unless it accurately reflects recent and relevant facts. The source of any such statistics used in an advertisement shall be identified therein.

19. Policies Sold to Students

(a) The envelope in which insurance solicitation material is contained may be addressed to the parents of students. The address may not include any combination of words which imply that the correspondence is from a school, college, university or other education or training institution nor may it imply that the institution has endorsed the material or supplied the insurer with information about the student unless such is a correct and truthful statement.

(b) All advertisements including but not limited to informational flyers used in the solicitation of insurance must be identified clearly as coming from an insurer or insurance producer, if such is the case, and these entities must be clearly identified as such.

(c) The return address on the envelope may not imply that the soliciting insurer or insurance producer is affiliated with a university, college, school or other educational or training institution, unless true.

20. Introductory, Initial or Special Offers and Enrollment Periods

(a) An advertisement of an individual policy or combination of such policies shall not state or imply that such policy or combination of such policies is an introductory, initial or special offer, or that applicants will receive substantial advantages not available at a later date, or that the offer is available only to a specified group of individuals, unless such is the fact. An advertisement shall not describe an enrollment period as "special" or "limited" or use similar words or phrases in describing it when the insurer uses successive enrollment periods as its usual method of marketing its policies.

(b) An advertisement shall not state or imply that only a specific number of policies will be sold, or that a time is fixed for the discontinuance of the sale of the particular policy advertised because of special advantages available in the policy.

(c) An advertisement shall not offer a policy which utilizes a reduced initial premium rate in a manner which overemphasizes the availability and the amount of the reduced initial premium. When an insurer charges an initial premium that differs in amount from the amount of the renewal premium payable on the same mode, all references to the reduced initial premium shall be followed by an asterisk or other appropriate symbol which refers the reader to that specific portion of the advertisement which contains the full rate schedule for the policy being advertised.

Note: Some states prohibit a reduced initial premium. This section does not imply that the states which prohibit such initial premium are not in conformity with the NAIC rules.

(d) An enrollment period during which a particular insurance policy may be purchased on an individual basis shall not be offered within this State unless there has been a lapse of not less than [insert number] months between the close of the immediately preceding enrollment period for the same policy and the opening of the new enrollment period. The advertisement shall specify the date by which the applicant must mail the application, which shall be not less than ten days and not more than forty days from the date on which such enrollment period is advertised for the first time. This rule applies to all advertising media—i.e., mail, newspapers, radio, television, magazines and periodicals—by any one insurer or insurance producer. The phrase “any one insurer” includes all the affiliated companies of a group of insurance companies under common management or control. This rule does not apply to the use of a termination or cutoff date beyond which an individual application for a guaranteed issue policy will not be accepted by an insurer in those instances where the application has been sent to the applicant in response to his request. It is also inapplicable to solicitations of employees or members of a particular group or association which otherwise would be eligible under specified provisions of the Insurance Code for group, blanket or franchise insurance. In cases where an insurance product is marketed on a direct mail basis to prospective insureds by reason of some common relationship with a sponsoring organization, this rule shall be applied separately to each sponsoring organization.

21. An advertisement of a particular policy shall not state or imply that prospective insureds shall be or become members of a special class, group, or quasi-group and as such enjoy special rates, dividends or underwriting privileges, unless such is the fact.

22. An advertisement shall not make unfair or incomplete comparisons of policies, benefits, dividends or rates of other insurers. An advertisement shall not disparage other insurers, insurance producers, policies, services or methods of marketing.

23. For individual deferred annuity products or deposit funds, the following shall apply:

(a) Any illustrations or statements containing or based upon interest rates higher than the guaranteed accumulation interest rates shall likewise set forth with equal prominence comparable illustrations or statements containing or based upon the guaranteed accumulation interest rates. Such higher interest rates shall not be greater than those currently being credited by the company unless such higher rates have been publicly declared by the company with an effective date for new issues not more than three months subsequent to the date of declaration.

(b) If an advertisement states the net premium accumulation interest rate, whether guaranteed or not, it shall also disclose in close proximity thereto and with equal prominence, the actual relationship between the gross and the net premiums.

(c) If any contract does not provide a cash surrender benefit prior to commencement of payment of any annuity benefits, any illustrations or statements concerning such contract shall prominently state that cash surrender benefits are not provided.

24. An advertisement of a life insurance product and an annuity as a single policy or life insurance policy with an annuity rider shall include the following disclosure or substantially similar statement at the point of sale before the application is taken; provided, however, if the policy contains an unconditional refund provision of at least ten days, then the disclosure statement shall be delivered with or prior to the delivery of the policy, or upon the applicant's request, whichever occurs sooner. The disclosure shall include the first five policy years, the tenth and twentieth policy years, at least one age from sixty to seventy and the scheduled commencement of annuity payments:

| Year | Gross Annual Life % | Premium Annuity % | Guaranteed Cash Value of Annuity |
|------|------------------------|----------------------|-------------------------------------|
| 1 | % | % | \$ |
| 2 | % | % | \$ |
| 3 | % | % | \$ |
| 4 | % | % | \$ |
| 5 | % | % | \$ |
| 10 | % | % | \$ |
| 20 | % | % | \$ |
| etc. | % | % | \$ |

Information in the disclosure statement shall be based on gross premium. The life and annuity percentages of the total gross premium shall equal 100% for each required duration. The guaranteed cash value of the annuity shall be the value at the end of the contract year. A copy of the disclosure statement shall be provided to the applicant.

25. An advertisement for the solicitation or sale of a preneed funeral contract or prearrangement as defined in Section II 7 above which is funded or to be funded by a life insurance policy or annuity contract shall adequately disclose the following:

(a) the fact that a life insurance policy or annuity contract is involved or being used to fund a prearrangement as defined in Section II 7 of these rules, and

(b) the nature of the relationship among the soliciting agent or agents, the provider of the funeral or cemetery merchandise or services, the administrator and any other person.

(c) the relationship of the life insurance policy or annuity contract to the funding of the prearrangement and the nature and existence of any guarantees relating to the prearrangement,

(d) the impact on the prearrangement;

(i) of any changes in the life insurance policy or annuity contract, including but not limited to, changes in the assignment, beneficiary designation or use of the proceeds,

(ii) of any penalties to be incurred by the policy or contract holder as a result of failure to make premium payments,

(iii) of any penalties to be incurred or monies to be received as a result of the cancellation or surrender of the life insurance policy or annuity contract,

(e) a list of the merchandise and services which are applied or contracted for in the prearrangement and all relevant information concerning the price of the funeral services, including an indication that the purchase price is either guaranteed at the time of purchase or to be determined at the time of need,

(f) all relevant information concerning what occurs and whether any entitlements or obligations arise if there is a difference between the proceeds of the life insurance policy or annuity contract and the amount actually needed to fund the prearrangement as defined in Section II 7,

(g) any restrictions, including but not limited to geographic restrictions or the inability of the provider to perform, on the delivery of merchandise, services or the prearrangement guarantee,

(h) the fact that a sales commission or other form of compensation is being paid and, if so, the identity of such individual or entity to whom it is paid.

Section VI. Identity of Insurer

1. The name of the insurer shall be clearly identified in all advertisements, and if any specific individual policy is advertised it shall be identified either by form number or other appropriate description. If an application is a part of the advertisement, the name of the insurer shall be shown on the application. An advertisement shall not use a trade name, an insurance group designation, name of the parent company of the insurer, name of a particular division of the insurer, service mark, slogan, symbol or other device or reference without disclosing the name of the insurer, if the advertisement would have the capacity or tendency to mislead or deceive as to the true identity of the insurer or create the impression that a company other than the insurer would have any responsibility for the financial obligation under a policy.

2. No advertisement shall use any combination of words, symbols or physical materials which by their content, phraseology, shape, color or other characteristics are so similar to a combination of words, symbols or physical materials used by a governmental program or agency or otherwise appear to be of such a nature that they tend to mislead prospective insureds into believing that the solicitation is in some manner connected with such governmental program or agency.

Section VII. Jurisdictional Licensing and Status of Insurer

1. An advertisement which is intended to be seen or heard beyond the limits of the jurisdiction in which the insurer is licensed shall not imply licensing beyond such limits.

2. An advertisement may state that an insurer or insurance producer is licensed in the state where the advertisement appears, provided it does not exaggerate such fact or suggest or imply that competing insurers or insurance producers may not be so licensed.

3. An advertisement shall not create the impression that the insurer, its financial condition or status, the payment of its claims or the merits, desirability, or advisability of its policy forms or kinds of plans of insurance are recommended or endorsed by any governmental entity. However, where a governmental entity has recommended or endorsed a policy form or plan, such fact may be stated if the entity authorizes its recommendation or endorsement to be used in an advertisement.

Section VIII. Statements About the Insurer

An advertisement shall not contain statements, pictures or illustrations which are false or misleading, in fact or by implication, with respect to the assets, liabilities, insurance in force, corporate structure, financial condition, age or relative position of the insurer in the insurance business. An advertisement shall not contain a recommendation by any commercial rating system unless it clearly defines the scope and extent of the recommendation.

Section IX. Enforcement Procedures

1. Each insurer shall maintain at its home or principal office a complete file containing a specimen copy of every printed, published or prepared advertisement of its individual policies and specimen copies of typical printed, published or prepared advertisements of its blanket, franchise and group policies, hereafter disseminated in this State, with a notation indicating the manner and extent of distribution and the form number of any policy advertised. Such file shall be subject to inspection by this Department. All such advertisements shall be maintained in said file for a period of either four years or until the filing of the next regular report on the examination of the insurer, whichever is the longer period of time.
2. If the Commissioner determines that an advertisement has the capacity or tendency to mislead or deceive the public, the Commissioner may require an insurer or insurance producer to submit all or any part of the advertising material for review or approval prior to use.
3. Each insurer subject to the provisions of these rules shall file with this Department with its Annual Statement a certificate of compliance executed by an authorized officer of the insurer wherein it is stated that to the best of his knowledge, information and belief the advertisements which were disseminated by or on behalf of the insurer in this State during the preceding statement year, or during the portion of such year when these rules were in effect, complied or were made to comply in all respects with the provisions of these rules and the Insurance Laws of this State as implemented and interpreted by these rules.

Section X. Penalties

Any insurer or any of its officer, directors, agents (producers) or employees thereof which, or who, violate any of the provisions of this regulation, or knowingly participate in or abet such violation, shall be subject to a fine up to \$1000 for each violation and/or subject to suspension or revocation of their certificate of authority or license.

Section XI. Conflict With Other Rules

It is not intended that these rules conflict with or supersede any rules currently in force or subsequently adopted in this State governing specific aspects of the sale or replacement of life insurance including, but not limited to, rules dealing with life insurance cost comparison indices, deceptive practices in the sale of life insurance, and replacement of life insurance policies. Consequently, no disclosure required under any such rules shall be deemed to be an advertisement within the meaning of these rules.

Section XII. Severability

If any Section, term or provision of this rule shall be adjudged invalid for any reason, such judgment shall not affect, impair or invalidate any other Section, term or provision of this rule, and the remaining Sections, terms and provisions shall be and remain in full force and effect.

ATTACHMENT THREE-A3

LIFE INSURANCE DISCLOSURE MODEL REGULATION DRAFT: 3/22/88

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Section 1. Authority

This rule is adopted and promulgated by [title of supervisory authority] pursuant to Sections [4(1)(a) of the Unfair and Deceptive Acts and Practices in the Business of Insurance Act] of the Insurance Code.

Section 2. Purpose

A. The purpose of this regulation is to require insurers to deliver to purchasers of life insurance information which will improve the buyer's ability to select the most appropriate plan of life insurance for the buyer's needs, improve the buyer's understanding of the basic features of the policy which has been purchased or which is under consideration and improve the ability of the buyer to evaluate the relative costs of similar plans of life insurance.

B. This regulation does not prohibit the use of additional material which is not a violation of this regulation or any other [state] statute or regulation.

Section 3. Scope

A. Except for the exemptions specified in Subsection 3B, this regulation shall apply to any solicitation, negotiation or procurement of life insurance occurring within this state. Subsection 5C only shall apply to any existing nonexempt policy held by a policyowner residing in this state. This regulation shall apply to any issuer of life insurance contracts including fraternal benefit societies.

B. Unless specifically included, this regulation shall not apply to:

- (1) Annuities;
- (2) Credit life insurance;
- (3) Group life insurance (except for disclosures relating to preneed funeral contracts or prearrangements as provided herein.
- (4) Life insurance policies issued in connection with pension and welfare plans as defined by and which are subject to the federal Employee Retirement Income Security Act of 1974 29 U.S.C. Section 1001 et seq. (ERISA) as amended;
- (5) Variable life insurance under which the amount or duration of the life insurance varies according to the investment experience of a separate account.

Section 4. Definitions

For the purposes of this regulation, the following definitions shall apply:

A. Buyer's Guide. A Buyer's Guide is a document which contains, and is limited to, the language contained in Appendix A to this regulation or language approved by [title of supervisory authority].

B. Cash Dividend. A Cash Dividend is the current illustrated dividend which can be applied toward payment of the gross premium.

C. Contribution Principal. The Contribution Principle is a basic principle of dividend determination adopted by the American Academy of Actuaries with respect to individual life insurance policies. The Academy report, Dividend Recommendations and Interpretations (November 1985), describes this principle as the distribution of the aggregate divisible surplus among policies in the same proportion as the policies are considered to have contributed to divisible surplus. In a broad sense, the Contribution Principle underlies the essential equity implied by participating business.

D. Current Dividend Scale. The Current Dividend Scale is a schedule that exhibits dividends to be distributed if there is no change in the basis of these dividends after the time of illustration.

E. Current Rate Schedule. The Current Rate Schedule is a schedule showing the premiums that will be charged or the cash values or death or other benefits that will be available if there is no change in the basis of these items after the time of illustration.

F. Discontinuity Index. The Discontinuity Index is the sum of the backward second differences squared in the Yearly Prices of Death Benefits (per 1,000) for policy years through twenty-three. Examples of calculations appear in Appendix B of this regulation.

G. Equivalent Level Death Benefit. The Equivalent Level Death Benefit of a policy or term life insurance rider is an amount calculated as follows:

- (1) Accumulate the amount payable upon death, regardless of the cause of death, at the beginning of each policy year for ten and twenty years at five percent interest compounded annually to the end of the tenth and twentieth policy years respectively.
- (2) Divide each accumulation of Step (1) by an interest factor that converts into one equivalent level annual amount that, if paid at the beginning of each year, would accrue to the value in Step (1) over the respective periods stipulated in Step (1). If the period is ten years, the factor is 13.207 and if the period is twenty years, the factor is 34.719.

H. Generic Name. A Generic Name is a short title that is descriptive of the premium and benefit patterns of a policy or a rider.

I. Investment Generation Method. The Investment Generation Method is the method of determining dividends so that dividends for policies issued in specified years or groups of years reflect investment earnings on funds attributable to those policies.

J. Cost Comparison Indexes.

(1) **Surrender Cost Comparison Index - Illustrated Basis.** The Surrender Cost Comparison Index - Illustrated Basis is calculated by applying the following steps:

(a) Determine the cash surrender value, if any, available at the end of the tenth and twentieth policy years, based on the company's Current Rate Schedule.

(b) For participating policies, add the terminal dividend payable upon surrender, if any, to the accumulation of the annual Cash Dividends at five percent interest compounded annually to the end of the period selected and add this sum to the amount determined in Step (a).

(c) Divide the result of Step (b) (Step (a) for nonparticipating policies) by an interest factor that converts it into an equivalent level annual amount that, if paid at the beginning of each year, would accrue to the value in Step (b) (Step (a) for nonparticipating policies) over the respective periods stipulated in Step (a). If the period is ten years, the factor is 13.207 and if the period is twenty years, the factor is 34.719.

(d) Determine the equivalent level premium by accumulating each annual premium payable for the basic policy or rider, based on the company's Current Rate Schedule, at five percent interest compounded annually to the end of the period stipulated in Step (a) and dividing the result by the respective factors stated in Step (c).

(This amount is the annual premium payable for a level premium plan.)

(e) Subtract the result of Step (c) from Step (d).

(f) Divide the result of Step (e) by the number of thousands of the Equivalent Level Death Benefit, using the company's Current Rate Schedule to determine the amount payable upon death for purposes of Section 4G(1), to arrive at the Surrender Cost Comparison Index-Illustrated Basis.

(2) **Surrender Cost Comparison Index - Guaranteed Basis.** The Surrender Cost Comparison Index - Guaranteed Basis is calculated by applying the steps indicated in (1) above but assuming that the company charges the maximum premiums and provides the minimum cash values and, for purposes of Section 4(G)1, provides the minimum death benefits allowed by the policy, and, if the policy is participating, pays no dividends.

(3) **Net Payment Cost Comparison Index - Illustrated Basis.** The Net Payment Cost Comparison Index - Illustrated Basis is calculated in the same manner as the comparable Surrender Cost Comparison Index - Illustrated Basis except that the cash surrender value and any terminal dividend are set at zero.

(4) **Net Payment Cost Comparison Index - Guaranteed Basis.** The Net Payment Cost Comparison Index - Guaranteed Basis is calculated in the same manner as the comparable Surrender Cost Comparison Index - Guaranteed Basis except that the cash surrender value is set at zero.

K. Nonguaranteed Factor. A Nonguaranteed Factor is any premium, benefit, or other item entering into the calculation of the Surrender Cost Comparison Index - Illustrated Basis that can be changed by the company without the consent of the policy owner.

L. Policy Data. The Policy Data is a display or schedule of numerical values, both guaranteed and nonguaranteed, for each policy year or a series of designated policy years of the following information: illustrated annual, other periodic, and terminal dividends; premiums; death benefits; cash surrender values and endowment benefits.

M. Policy Summary. The Policy Summary is a written statement describing the elements of the policy, including, but not limited to:

(1) A prominently placed title as follows: STATEMENT OF POLICY COST AND BENEFIT INFORMATION.

(2) The name and address of the insurance agent or, if no agent is involved, a statement of the procedure to be followed in order to receive responses to inquiries regarding the Policy Summary.

(3) The full name and home office or administrative office address of the company in which the life insurance policy is to be or has been written.

(4) The Generic Name of the basic policy and each rider.

(5) The following amounts, where applicable, for the first five policy years and representative policy years

thereafter sufficient to clearly illustrate the premium and benefit patterns; including, but not necessarily limited to, the years for which Cost Comparison Indexes are displayed and the earlier of at least one age from sixty through sixty-five and policy maturity:

- (a) The annual premium for the basic policy;
 - (b) The annual premium for each optional rider;
 - (c) The amount payable upon death at the beginning of the policy year regardless of the cause of death, other than suicide or other specifically enumerated exclusions, which is provided by the basic policy and each optional rider; with benefits provided under the basic policy and each rider shown separately;
 - (d) The total cash surrender values at the end of the year with values shown separately for the basic policy and each rider;
 - (e) The Cash Dividends payable at the end of the year with values shown separately for the basic policy and each rider (Dividends need not be displayed beyond the twentieth policy year);
 - (f) Any endowment amounts payable under the policy which are not included under cash surrender values above;
 - (g) If the policy has a Nonguaranteed Factor, the maximum premium, minimum amount payable upon death, minimum cash value, and minimum endowment amounts allowed by the policy. These amounts may be shown in addition on the basis of the Company's Current Rate Schedule and Current Dividend Scale.
- (6) The effective policy loan annual percentage interest rate, if the policy contains this provision, specifying whether this rate is applied in advance or in arrears. If the policy loan interest rate is adjustable, the Policy Summary shall also indicate that the annual percentage rate will be determined by the company in accordance with the provisions of the policy and the applicable law.
- (7) The Cost Comparison Indexes for ten and twenty years but in no case beyond the premium-paying period. Indexes shall be shown on the Guaranteed Basis as defined in Sections 4J(2) and 4J(4) and, if there are dividends or a Nonguaranteed Factor, shall also be shown on the Illustrated Basis as defined in Sections 4J(1) and 4J(3). Separate indexes shall be displayed for the basic policy and for each optional term life insurance rider. Such indexes need not be included for optional riders which are limited to benefits; such as accidental death benefits, disability waiver of premium, preliminary term life insurance coverage of less than twelve months and guaranteed insurability benefits; nor for any basic policies or optional riders covering more than one life.
- (8) A Policy Summary which includes dividends shall also include a statement that dividends are based on the company's Current Dividend Scale and are not guaranteed.
- (9) If the policy has a Nonguaranteed Factor, a statement indicating that the insurer reserves the right to change the Nonguaranteed Factor at any time and for any reason. However, if the insurer has agreed to limit this right in any way; such as, for example, if it has agreed to change a Nonguaranteed Factor only at certain intervals or only if there is a change in the insurer's current or anticipated experience; the statement may indicate any such limitation on the insurer's right.
- (10) This statement in close proximity to the Cost Comparison Indexes: "An explanation of the intended use of these indexes is provided in the Life Insurance Buyer's Guide"
- (11) The date on which the Policy Summary is prepared.

The Policy Summary must consist of a separate document. All information required to be disclosed must be set out in such a manner as not to minimize or render any portion thereof obscure. Any amounts which remain level for two or more years of the policy may be represented by a single number if it is clearly indicated what amounts are applicable for each policy year. Amounts in Item (5) of this section shall be listed in total, not on a per thousand nor per unit basis. If more than one insured is covered under one policy or rider, death benefits shall be displayed separately for each insured or for each class of insureds if death benefits do not differ within the class. Zero amounts shall be displayed as a blank space.

N. Portfolio Average Method. The Portfolio Average Method is the method of determining dividends so that, except for the effect of policy loans, dividends reflect investment earnings on funds attributable to all policies whenever issued.

O. Preneed Funeral Contract or Prearrangement. The selection of specific funeral or cemetery merchandise or services for or by an individual before the death of that individual. An agreement by or for an individual before that individual's death relating to the purchase or provision of specific funeral or cemetery merchandise or services.

Ø P. Yearly Price of Death Benefits. The Yearly Price of Death Benefits per \$1,000 is calculated by applying the following formula:

$$YP = (P - Ov - (CVCv - CVP)) / (F \cdot .001)$$

Where YP = Yearly Price of Death Benefits per \$1,000

P = Annual premium

CVP = Sum of the cash value and terminal dividend at the end of the preceding year

CVC = Sum of the cash value and terminal dividend at the end of the current year

D = Annual dividend

F = Face amount

$v = 1 / (1.05)$

Section 5. Duties of Insurers

A. Requirements Applicable Generally

(1) The insurer shall provide, to all prospective purchasers, a Buyer's Guide and a Policy Summary prior to accepting the applicant's initial premium or premium deposit; provided, however, that:

(a) If the policy for which application is made or its Policy Summary contains an unconditional refund provision of at least ten days, the Buyer's Guide and Policy Summary must be delivered with the policy or prior to delivery of the policy.

(b) If the Equivalent Level Death Benefit of the policy for which application is made does not exceed \$5,000, the requirement for providing a Policy Summary will be satisfied by delivery of a written statement containing the information described in Section 4M, Items (2), (3), (4), (5a), (5b), (5c), (6), (7), (9), (10), and (11).

(2) If any prospective purchaser requests a Buyer's Guide, a Policy Summary or Policy Data, the insurer shall provide the item or material requested. Unless otherwise requested, the Policy Data shall be provided for policy years one through twenty.

(3) If the Discontinuity Index of any policy exceeds:

(a) Any of the test limits for discontinuity set forth in Appendix C herein, the insurer shall, prior to the sale of any such policy, provide to the [title of supervisory authority] a statement identifying as accurately as possible the specific policy premium or benefit causing the policy's Discontinuity Index to exceed the test limits. Upon request of the [title of supervisory authority], the insurer shall also provide to the [title of supervisory authority] the Policy Data for policy years one through thirty, and the Discontinuity Index and its component calculations.

(b) The test limit set forth in Appendix C herein for the applicant's issue age, the insurer shall provide:

(i) The following statement displayed prominently on the Policy Summary and on all other sales material that show or incorporate a Cost Comparison Index: "This policy has an unusual pattern of premiums or benefits that may make comparison with the cost indexes of other policies unreliable. You should discuss this with your agent or this company. A statement of year-by-year information is available."

(ii) If the prospective purchaser requests it, a statement identifying as accurately as possible the specific policy premium or benefit causing the policy's Discontinuity Index to exceed the applicable test limit.

B. Requirements Applicable to Participating Policies. If a life insurance company illustrates policyholder dividends that are calculated in a manner or on a basis that:

(1) Deviates substantially from the Contribution Principle, the Policy Summary and all other sales material showing illustrated policyholder dividends must display prominently the following statement: "The illustrated dividends for this policy have not been determined in accordance with the Contribution Principle. Contact this company for further information."

(2) Uses the Portfolio Average Method, the Policy Summary and all other sales material showing illustrated policyholder dividends must include the following statement: "Illustrated dividends reflect current investment earnings on funds applicable to all policies and are based on the Current Dividend Scale. Refer to your Buyer's Guide for further information."

(3) Uses the Investment Generation Method, the Policy Summary and all other sales material showing illustrated policyholder dividends must include the following statement: "Illustrated dividends reflect current investment earnings on funds attributable to policies issued since 19[] and are based on the Current Dividend Scale. Refer to your Buyer's Guide for further information."

Drafting Note: Insert at [] the earliest year of the issue-year grouping used to determine the investment earnings on currently issued policies.

(4) Uses any combination of the Portfolio Average Method and the Investment Generation Method, the Policy Summary and all other sales material showing illustrated policyowner dividends must include an appropriate statement, analogous to the statements required by Sections 5B(2) and 5B(3), indicating how current investment earnings are reflected in illustrated dividends.

C. Requirements Applicable to Existing Policies.

(1) If a policy owner residing in this state requests it, the insurer shall provide Policy Data for that policy. Unless otherwise requested, the Policy Data shall be provided for twenty consecutive years beginning with the previous policy anniversary.

The statement of Policy Data shall include cash dividends according to the Current Dividend Scale, the amount of outstanding policy loans, and the current policy loan interest rate. Policy values shown shall be based on the dividend option in effect at the time of the request. The insurer may charge a reasonable fee, not to exceed \$ __, for the preparation of the statement.

(2) If a life insurance company:

(a) Deviates substantially from the Contribution Principle, it shall annually advise each affected policy owner residing in this state that the dividend paid that year was not determined in accordance with the Contribution Principle and that the policy owner may contact the company for further information.

(b) Is determining dividends, as of the effective date of this regulation, using the Investment Generation Method, it shall, within eighteen months of such date, advise each affected policy owner residing in this state that the dividend for the policy reflects current investment earnings on funds applicable to policies issued from 19[] through 19[]. This requirement shall not apply to policies for which the amount payable upon death under the basic policy as of the date when advice would otherwise be required does not exceed \$5,000.

Drafting Note: Insert at [] the applicable years of issue.

(c) Changes its method of determining dividend scales on existing policies from or to the Investment Generation Method; it shall, no later than when the first dividend is payable on the new basis, advise each affected policy owner residing in this state of this change and of its implication on dividends payable on affected policies. This requirement shall not apply to policies for which the amount payable upon death under the basic policy as of the date when advice would otherwise be required does not exceed \$5,000.

(3) If the insurer makes a material revision in the terms and conditions under which it will limit its right to change any Nonguaranteed Factor; it shall, no later than the first policy anniversary following the revision, advise accordingly each affected policy owner residing in this state.

Section 6. Special Plans

This section modifies the application of this regulation as indicated for certain special plans of life insurance:

A. Enhanced Ordinary Life Policies.

(1) An Enhanced Ordinary Life Policy is a participating policy which has the following characteristics for all issue ages:

(a) The basic policy has a guaranteed death benefit that reduces after an initial period of one or more years to a basic amount; and

(b) A special dividend option that provides

(i) a combination of immediate paid-up additions and one-year term insurance; or

(ii) deferred paid-up additions;

either of which on the basis of the Current Dividend Scale will provide a combined death benefit (reduced basic amount plus paid-up additions plus one-year term insurance) at least equal to the initial face amount.

(2) The crossover point of an Enhanced Ordinary Life Policy is the first policy anniversary at which the sum of the reduced basic amount and paid-up additions equals or exceeds the initial death benefit. For these policies:

(a) The cash value of benefits purchased by dividends payable on or before the crossover point is included in the cash surrender value for the purpose of Section 4J(1)(a);

(b) The death benefit purchased by dividends payable on or before the crossover point is included in the amount payable upon death for the purpose of Section 4G(1);

(c) Dividends payable after the crossover point are assumed to be paid in cash for the purpose of Section 4J(1)(b).

B. Flexible Premium and Benefit Policies. For policies commonly called "universal life insurance policies," which:

(1) Permit the policy owner to vary, independently of each other, the amount or timing of premium payments, or the amount payable on death; and

(2) Provide for a cash value that is based on separately identified interest credits and mortality and expense charges made to the policy.

All indexes and other data shall be displayed assuming specific schedules of anticipated premiums and death benefits at issue.

In addition to all other information required by this regulation, the Policy Summary shall indicate when the policy will expire based on the interest rates and mortality and other charges guaranteed in the policy and the anticipated or assumed annual premiums shown in the Policy Summary.

C. Multitrack Policies. For policies which allow a policyowner to change or convert the policy from one plan or amount to another, the Policy Summary:

(1) Shall display all indexes and other data assuming that the option is not exercised; and

(2) May display all indexes and other data using a stated assumption about the exercise of the option.

D. Policies with Any Rate Subject to Continued Insurability. For policies which allow a policyowner a reduced premium rate if the insured periodically submits evidence of continued insurability, the Policy Summary:

(1) Shall display cost indexes and other data assuming that the insured always qualifies for the lowest premium;

(2) Shall display cost indexes and other data assuming that the company always charges the highest premiums allowable; and

(3) Shall indicate the conditions that must be fulfilled for an insured to qualify periodically for the reduced rate.

E. For all other special plans of life insurance, an insurer shall provide or deliver both a Policy Summary substantially similar to that described in Section 4M and a Buyer's Guide. Use of those materials shall be deemed to be substantial compliance with this regulation unless the [title of supervisory authority] makes a finding that such disclosure materials misrepresent a material term or condition of the contract or omit a material fact.

Section 7. Preneed Funeral Contracts or Prearrangements

The following information shall be adequately disclosed at the time an application is made, prior to accepting the applicant's initial premium or deposit, for a preneed funeral contract or prearrangement as defined in Section 4(O) above which is funded or to be funded by a life insurance policy:

A. The fact that a life insurance policy is involved or being used to fund a prearrangement as defined in Section 4(O) of this regulation,

B. the nature of the relationship among the soliciting agent or agents, the provider of the funeral or cemetery merchandise or services, the administrator and any other person,

C. the relationship of the life insurance policy to the funding of the prearrangement and the nature and existence of any guarantees relating to the prearrangement,

D. the impact on the prearrangement

(1) of any changes in the life insurance policy including but not limited to, changes in the assignment, beneficiary designation or use of the proceeds,

(2) of any penalties to be incurred by the policyholder as a result of failure to make premium payments,

(3) of any penalties to be incurred or monies to be received as a result of cancellation or surrender of the life insurance policy,

E. a list of the merchandise and services which are applied or contracted for in the prearrangement and all relevant information concerning the price of the funeral services, including an indication that the purchase price is either guaranteed at the time of purchase or to be determined at the time of need.

F. all relevant information concerning what occurs and whether any entitlements or obligations arise if there is a difference between the proceeds of the life insurance policy and the amount actually needed to fund the prearrangement as defined in Section 4(O).

G. any penalties or restrictions, including but not limited to geographic restrictions or the inability of the provider to perform, on the delivery of merchandise, services or the prearrangement guarantee.

H. the fact that a sales commission or other form of compensation is being paid and if so, the identity of such individuals or entities to whom it is paid.

Section 7 8. General Rules

A. Each insurer shall maintain, at its home office or principal office, a complete file containing one copy of each document authorized and used by the insurer pursuant to this regulation. Such file shall contain one copy of each authorized form for a period of three years following the date of its last authorized use.

B. An agent shall inform the prospective purchaser, prior to commencing a life insurance sales presentation, that he or she is acting as a life insurance agent and inform the prospective purchaser of the full name of the insurance company which the agent is representing to the buyer. In sales situations in which an agent is not involved, the insurer shall identify its full name.

C. Terms such as financial planner, investment advisor, financial consultant, or financial counseling shall not be used in such a way as to imply that the insurance agent is primarily engaged in an advisory business in which compensation is unrelated to sales unless such is actually the case.

D. Any reference to a dividend or Nonguaranteed Factor must include a statement that such item is not guaranteed and is based on the company's Current Dividend Scale or Current Rate Schedule. If a dividend or Nonguaranteed Factor would be reduced by the existence of a policy loan, a statement to this effect must be included in any reference to such dividend or Nonguaranteed Factor.

E. A system or presentation which does not recognize the time value of money through the use of appropriate interest adjustments shall not be used for comparing the cost of two or more life insurance policies. Such a system may be used for the purpose of demonstrating the cash-flow pattern of a policy if such presentation is accompanied by a statement disclosing that the presentation does not recognize that, because of interest, a dollar in the future has less value than a dollar today.

F. A presentation of costs or benefits, other than that required pursuant to this regulation, shall not display guaranteed and nonguaranteed factors as a single sum unless they are shown separately in close proximity thereto.

G. Any statement regarding the use of the Cost Comparison Indexes shall include an explanation to the effect that the indexes are useful only for the comparison of the relative costs of two or more similar policies.

H. A Cost Comparison Index which reflects a dividend or Nonguaranteed Factor shall be accompanied by a statement that it is based on the company's Current Dividend Scale or Current Rate Schedule and is not guaranteed.

Section 8 9. Failure to Comply

Failure of an insurer to provide or deliver a Buyer's Guide, a Policy Summary or Policy Data as provided in Sections 5 and 6 shall constitute an omission which misrepresents the benefits, advantages, conditions or terms of an insurance policy.

Section 9 10. Separability

If any provisions of this rule be held invalid, the remainder shall not be affected.

Section 10 11. Effective Date

This rule shall become effective [insert a date at least six months following adoption by the regulatory authority].

LIFE COST DISCLOSURE (A) TASK FORCE

REFERENCES:

1988 Proc. I p. 621
1987 Proc. II p. 628

Margurite C. Stokes, Chairman — D.C.
Leroy Morgan, Vice Chairman — Ky.

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AGENDA

1. Report of American Academy of Actuaries on Computing Yield Index
2. Report of Advisory Committee on Revisions to Yield Index Draft
3. Report of Life and Health Actuarial Task Force
4. Any Other Matters Brought Before the Task Force

The Life Cost Disclosure (A) Task Force met in the Marquis Room of the Marriott Marquis, New York, N.Y., at 1 p.m. on June 14, 1988. A quorum was present and Reginald Berry, representing Margurite C. Stokes (D.C.), chaired the meeting. The following task force members or their representatives were present: Leroy Morgan, Vice Chair (Ky); Roxani Gillespie (Calif.); and Kenneth D. Merin (N.J.).

1. Report of American Academy of Actuaries on Computing Yield Index

Gary Simms (American Academy of Actuaries) distributed the final report on yield comparison. He stated that the conclusions were set forth in the report (Attachment One).

In response to the task force's direction, the academy prepared a survey and submitted it to 30 insurers and obtained 24 responses. The report is submitted to the Life Cost Disclosure Task Force in response to its request to perform interest adjusted cost (IAC) and yield index (YI) calculations for certain interest sensitive products and to compare the rankings of the various products under the two indices. The report also summarizes the difficulties in applying the yield index to different plans of insurance.

2. Report of Advisory Committee on Revisions to Yield Index Draft

Walter Miller (Prudential) distributed a memo (Attachment Two) that is responsive to the task force's request at the last meeting to provide documentation of anomalies which can arise when the standardized mortality basis is differentiated by sex and/or smoking status.

3. Report of Life and Health Actuarial Task Force

John Montgomery (Calif.), chair of the Life and Health Actuarial Task Force, reported that it considered two projects, 7a "Disclosure of Interest Yield Index," and 7c "Disclosure of Risks Purported to be Assumed." He commented that the Actuarial Task Force would like to review the information on project 7a submitted by the Academy and requested that any comments be submitted to him with a carbon copy to Ted Becker (Texas) and Jean Olson (NAIC).

With respect to project 7c, the Actuarial Task Force is giving further consideration on how to address the issue in light of an inquiry raised by Storm Johnsen (Wash.). Mr. Montgomery reported that the Actuarial Task Force intends to meet in conjunction with the Society of Actuaries meeting in Boston, but has no recommendations at this time.

Upon motion duly made and seconded, the task force received the reports of the American Academy of Actuaries, the Yield Index Advisory Committee and the Life and Health Actuarial Task Force.

4. Any Other Matters Brought Before the Task Force

The task force heard comments from Joe Mintz, an insurance agent from Dallas, Texas. He stated that use of a cost comparison index should not be mandated because there are adequate regulatory mechanisms for fining or penalizing conduct which results in misrepresentation.

Having no further business, the Life Cost Disclosure (A) Task Force adjourned at 1:25 p.m.

Margurite C. Stokes, Chair, D.C.; Leroy Morgan, Vice Chair, Ky.; Roxani Gillespie, Calif.; Louis E. Bergeron, N.H.; Kenneth D. Merin, N.J.

ATTACHMENT ONE

American Academy of Actuaries
1720 I Street, N.W.
7th Floor
Washington, D.C. 20006
(202) 223-8196

TO: Interested Parties
From: Gary D. Simms
Subject: Yield Index Study
Date: June 1, 1988

Attached for your review is the final report of the Committee of Life Insurance of the American Academy of Actuaries on the NAIC Life Insurance Yield Comparison Index.

The report was prepared at the request of the Life Cost Disclosure (A) Task Force of the National Association of Insurance Commissioners (NAIC), chaired by Margurite Stokes. It is being circulated to interested parties at this time prior to anticipated review at the forthcoming June meeting of the NAIC in New York City.

Please feel free to contact me regarding any questions.

Report of the Committee on Life Insurance
of the American Academy of Actuaries
on the NAIC Life Insurance Yield Comparison Index

I. Introduction

This report is submitted to the NAIC Life Cost Disclosure (A) Task Force in response to its request of the Committee on Life Insurance (COLI) of the American Academy of Actuaries to perform interest adjusted cost (IAC) and yield index (YI) calculations for certain interest-sensitive products (primarily universal life), and to compare the rankings of the various products under the two indices. This report also presents difficulties in applying the YI to different plans of insurance.

The remainder of this report consists of the following sections and appendices:

Section/Appendix

II. Methodology
III. Summary Results
IV. Dissimilar Plans
V. Other Observations
VI. Conclusion
VII. Index to Appendices
Appendix A
Appendix B
Appendix C
Appendix D
Appendix E

Appendix F
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Appendix H

II. Methodology

The methodology of this study consists of the following items:

Obtain a database of policy data for a selection of currently issued plans of insurance.

Criteria for database:

- provide for a cross section of life insurance companies;
- provide for different product types, i.e.
 - front-end and back-end load products;
 - different policy sizes;
 - different issue ages;
 - both death benefit options; and
- provide for different premium levels.

Perform statistical analysis of the data:

- provide analysis for each combination of:
 - product type;
 - premium level; and
 - illustrated and guaranteed bases.
- calculate correlation coefficients between:
 - yield index (YI) and interest adjusted cost (IAC); and
 - rankings of product types by YI and IAC.

The correlation coefficient between two variables measures the degree of relationship between two variables. Correlation can be negative or positive. Large negative correlation indicates that given a large (small) value of the first variable there is a high probability that the value of the second variable will be small (large). Large positive correlation indicates that given a large (small) value of the first variable there is a high probability that the value of the second variable will be large (small). The value of a correlation coefficient can be from - 100 %, or perfect negative correlation, to + 100 %, or perfect positive correlation.

For the correlation coefficient between the rankings a special form of the correlation coefficient was used. This form is known as Spearman's rank correlation coefficient.

The COLI believes that it is important to examine both the correlation coefficients between the YI and the IAC and the Spearman rank correlation coefficient between the rankings of products by YI and IAC. The former will directly measure the correlation between the two indices. The latter will measure the ability of the two indices to rank order two (or more) policies, which is the practical application of a comparative index.

For a given issue age and death benefit the comparison between two (or more) policies should assume the same fixed premium level, i.e. the same amount and incidence of premium, for each. This same principle was articulated in the draft of the recommended changes to the NAIC Model Life Insurance Disclosure Regulation under the heading "Life Insurance Yield Comparison Index Additional Definitions." In this document it states: "If the policy applied for does not specify a fixed level(s) of premiums payable and the duration, the premium paying pattern shall be the level and incidence of premium payments for which the individual applied."

For completeness, information was obtained, and correlation coefficients calculated, for examples where the premium levels were not the same. This data, along with the primary findings, is included in the appendices. This topic will be recalled later in the section on dissimilar plans.

III. Summary

The following tables are excerpts from the tables "Yield Index Survey Correlation Coefficient Between Yield Index and IAC % Fixed Dollar Annual Premium" and "Yield Index Survey Correlation Coefficient Between Rankings of Yield Index and IAC (%) Fixed Dollar Annual Premium" on pages E.1 and D.1. respectively.

Correlation Coefficients
Between YI and IAC

| Product (Type) | Illustration Bases | | Guaranteed Bases | |
|-------------------|--------------------|----------|------------------|----------|
| | 10 Years | 20 Years | 10 Years | 20 Years |
| 1 | -99.88 % | -99.83 % | -99.94 % | -99.84 % |
| 2 | -99.87 | -99.75 | -99.86 | -99.68 |
| 3 | -99.79 | -99.56 | -99.50 | -97.40 |
| 4 | -99.94 | -99.70 | -99.92 | -99.80 |
| 5 | -98.75 | -99.08 | -97.21 | -77.77 |
| 6 | -99.91 | -99.30 | -99.84 | -99.79 |

| | | | | |
|---|--------|--------|--------|--------|
| 7 | -99.81 | -99.76 | -98.48 | -97.58 |
| 8 | -99.71 | -87.47 | -83.59 | -70.62 |
| 9 | -94.67 | -94.86 | -48.91 | -17.55 |

This table indicates a very strong negative correlation between the YI and the IAC. In comparing products, a product with superior financial performance over another will have the higher YI. Similarly, it will have a lower IAC. This means that large values of the YI should correspond to low values of the IAC, and vice versa. This is what the strong negative correlation in this table demonstrates. A similar result holds for the correlation coefficients calculated at five years. (Please see Appendix E.)

| Product (Type) | Correlation Coefficients between Rankings | | | |
|-------------------|--|----------|------------------|----------|
| | Illustration Bases | | Guaranteed Bases | |
| | 10 Years | 20 Years | 10 Years | 20 Years |
| 1 | 100.00 % | 100.00 % | 100.00 % | 100.00 % |
| 2 | 100.00 | 100.00 | 100.00 | 100.00 |
| 3 | 100.00 | 100.00 | 100.00 | 100.00 |
| 4 | 97.62 | 100.00 | 100.00 | 100.00 |
| 5 | 98.33 | 100.00 | 98.33 | 100.00 |
| 6 | 98.82 | 99.12 | 100.00 | 100.00 |
| 7 | 99.64 | 98.93 | 97.36 | 100.00 |
| 8 | 99.09 | 100.00 | 90.00 | 90.00 |
| 9 | 74.83 | 99.30 | 74.55 | 85.71 |

This table indicates a very strong positive correlation between the rankings of products made on the basis of the YI and the IAC. Although the correlation coefficients for 5 years are not shown above (Please see Appendix D), the same high degree of correlation across product types exists. The large and positive values of the Spearman rank correlation coefficients above indicate that the two performance measures, YI and IAC, produce similar rankings.

Some distortion may be experienced in the correlation of rankings where the calculated YI for each of two products is very close. To illustrate, consider the following sample data taken from Appendices F and G. The basis of the sample is: 20 year illustrated basis; fixed premium level; Product Type 9; numbers (see Section VI for definition of number) 2, 11, and 19.

| No. | YI | IAC | YI Rank | IAC Rank |
|-----|--------|--------|---------|----------|
| 2 | 8.36 % | -11.85 | 4 | 4 |
| 11 | 7.85 % | 26.34 | 5 | 6 |
| 19 | 7.84 % | 22.20 | 6 | 5 |

It is possible to make a clear distinction between No. 2 and No. 11 or No. 2 and No. 19. But it is hard to distinguish between No. 11 and No. 19. Also note that the YI results are "compressed" relative to the IAC results, i.e. the range of the YI values is smaller than the range of the corresponding IAC values.

The remaining results in the appendices examine premium paying patterns other than the "fixed premium level." These are: whole life equivalent (the unique premium for each policy that will endow the policy); a 5 pay whole life equivalent; and the IAC 7702 guideline level premium (different for each policy). These results still show considerable correlation, but not to the degree found in the "fixed premium level" example. A cause for this is given in the next section.

IV. Dissimilar Plans

It is a well known caveat that dissimilar plans should not be compared by using the typical cost comparison indices, e.g. IAC or Interest Adjusted Premium (IAP). Evidence suggests that this is also true for the YI.

Plans may be dissimilar for a multitude of reasons. In this report two major sources of difference are discussed. The first source is that the death benefits under the plans may be different. The second source is premium as for flexible premium universal life plans the level of premiums paid can impact both the death benefit and the cash surrender values. Hence, even if the nominal death benefits are the same but different premiums are paid, then the cash surrender values will be different. In this case the actual death benefits could also be different due to the action of the DEFRA death benefit corridor.

Neither method performs adequately for dissimilar policies because of the distortion caused by a difference between (a) the fixed assumption in the index (interest is fixed at 5% in the IAC and the mortality assumption is fixed in the YI) and (b) the actual operation of the policy's cost structure (actual mortality charges and actual interest credits). Just as the IAC will improve if interest is more favorable than the fixed 5%, so the YI will improve if the actual mortality charges are below the fixed YI mortality basis. The "benefit" of using a lower actual mortality charge flows through the calculation and is expressed as an increase in the YI. Because low premium policies are not inherently better or worse than high premium policies, any method that can result in improved indices simply because of a change in premium level is flawed and should not be used to compare dissimilar policies.

In Appendix H the details of two examples are presented. The first example illustrates that the YI can differ noticeably for even a modest difference in death benefit level. The second example consists of a single policy and death benefit Option A, but is illustrated at six different premium levels. In these examples the 20th year cash values decline with the drop in premium, but the YI generally increases.

The second example illustrates that, with declining premiums, the YI increases, indicating a better value, and the IAC decreases, indicating a poorer value. The two different indices send "mixed signals" by moving in opposite directions with declining premium levels.

These two examples demonstrate that use of the YI for dissimilar plans is not advised.

Recall that the database and statistical analysis included cases where the premium levels were not identical for each plan within a policy type. In these cases the magnitudes of the correlation coefficients were neither as large nor as consistent as those found in the fixed premium level assumption. The information presented in this section provides an explanation for this behavior.

V. Other Observations

The COLI is concerned that the name "yield index" and its similarity to an interest rate may confuse the consumer. First, the emphasis on yield may lead to invalid comparisons of life insurance policies with the financial instruments offered by other financial media. Second, in those cases where the yield index exceeds the credited rate the credibility of the method and/or the life insurance policy may suffer.

In the prior section it was noted that distortions with the YI can occur when the actual mortality charges in the policy differ from the mortality assumption used in the YI. The mortality basis in the YI is differentiated by two classes, smokers and non-smokers. There is a trend emerging for companies to split each of these classes into "standard" and "preferred" classes, i.e. there are "standard smoker," "preferred smoker," "standard non-smoker," and "preferred non-smoker" classes. The existence of the "preferred" category will increase the difference between the actual mortality charge and the assumption used in the YI, which can intensify the problems addressed in the last section.

In the case of the IAC the fixed assumption was interest equal to 5%. The resulting calculations were straightforward and brief. In the YI the fixed assumption is that of select and ultimate mortality. The use of the select and ultimate factors makes the computations more complex. This situation is complicated by the use of the smoker/non-smoker versions of the male/female tables and the unisex blends (smoker, non-smoker, and aggregate). Special difficulties are presented by the age last tables. The procedure for computing age last select and ultimate rates was described in the "Report of the Committee on Specifications for Monetary Values - 1980 CSO Tables," 1983, submitted to the Society of Actuaries. This procedure is very elaborate. The lengthy and complex calculations involved in obtaining accurate mortality rates suggests the risk that the YI may not be correctly determined in all cases and may not be reasonably capable of verification.

VI. Conclusion

The conclusions of the committee with regard to the YI are:

Due to the strong correlation between the YI and the IAC and the strong correlation between rankings of policies by these methods neither method provides a superior index when comparing similar plans;

Neither the YI nor the IAC is an adequate index for dissimilar plans;

Due to the "mixed signals" presented by the YI and IAC in certain situations, it is not recommended to show both indices; and

Consideration of the above coupled with the misleading behavior of the YI in low premium plans and the observations in Section V suggest that the YI is not a worthy replacement of the IAC as a comparative measure of financial performance.

The COLI appreciates being of assistance in this matter.

John J. Palmer, Chairperson
Jeffrey N. Altman
David N. Becker
Kent H. Cannon
William Carroll
William C. Koenig

J. Alan Lauer
Donald B. Maier
Edward P. Mohoric
Philip K. Polkinghorn
Forrest A. Richen
Stephen A. J. Sedlak

VII. Index to Appendices

The following table describes the information presented in each appendix.

Appendix A Definition of Product Types
Appendix B Copy of Data Request Letter
Appendix C List of Participating Companies

Appendix D Correlation Coefficients For Rankings for Each Premium Level
 Appendix E Correlation Coefficients Between YI and IAC for Each Premium Level
 Appendix F Rankings of YI and IAC for 20th Year
 Appendix G Actual YI and IAC Data for 20th Year
 Appendix H Dissimilar Policy Examples

Notes:

1. Death Benefit Option A - means the death benefit equals the specified amount, i.e. includes the policy value.
2. Death Benefit Option B - means the death benefit equals the sum of the specified amount plus the policy value.
3. In Appendix D the term "Size" means the number of distinct policies tested within each product type.
4. In Appendix F the items labeled "No. 1," "No. 2," etc. represent the labels assigned to participating companies. The assignment was made by the Academy and the COLI does not know which company is represented by a given number. The blank entries mean that the given company did not have a policy in the given product type.

APPENDIX A
 Definition of Product Types

| Product Type | Issue Age | Load Type | Specified Amount | Death Benefit Option |
|--------------|-----------|-----------|------------------|----------------------|
| 1 | 30 | front-end | \$ 100,000 | A |
| 2 | 30 | front-end | \$ 100,000 | B |
| 3 | 50 | front-end | \$ 100,000 | A |
| 4 | 30 | front-end | \$ 25,000 | A |
| 5 | 50 | front-end | \$ 25,000 | A |
| 6 | 30 | back-end | \$ 100,000 | A |
| 7 | 50 | back-end | \$ 100,000 | A |
| 8 | 30 | back-end | \$ 25,000 | A |
| 9 | 50 | back-end | \$ 25,000 | A |

APPENDIX B

February 29, 1988

NO ITEM TO INSERT

Re: AAA comparison of product rankings under interest-adjusted and yield index calculations.

Dear

NO ITEM TO INSERT

:

REQUEST

On behalf of the NAIC Life Cost Disclosure (A) Task Force, we would like to request your assistance in gathering on the enclosed diskette projected cash value, premium and death benefit information as produced by your standard illustration system for interest-sensitive products under various illustration scenarios. This data will be used strictly to compare rankings of different products under corresponding interest-adjusted cost (IAC) indexes and yield indexes. The final report will include a list of participating companies, but will not link individual companies to the indexes calculated with their data. In fact I will confidentially retain the only list linking company name to the data supplied. A copy of the final report will automatically be supplied to participating companies.

BACKGROUND

Presently, there is a proposal before the NAIC Life Cost Disclosure (A) Task Force to adopt a yield index to be added to the current IAC index for cost disclosure purposes. The ACLI and some companies have indicated that yield indexes produce basically the same relative rankings among different policies as the IAC indexes. At its June 1987 meeting, the Life Cost Disclosure (A) Task Force asked the Committee on Life Insurance (COLI) of the American Academy of Actuaries to perform IAC and yield index calculations for certain interest-sensitive products (primarily universal life), and to compare the rankings of the various products under the two indices. The COLI agreed to complete the requested study.

SPECIFICATIONS FOR DATA COLLECTION

Specifically, we are asking you to supply data from a series of illustrations for a front-end and a back-end loaded product in your portfolio. If you have more than one product in either category, please use the one predominantly used for new issues. For each product, we would like illustrations for four premium payment scenarios, as described below, from each of the following combinations of issue age, initial face amount and death benefit options.

Life Cost Disclosure (A) Task Force

| <u>Issue Age</u> | <u>Initial Face Amount</u> | <u>Death Benefit Option</u> |
|----------------------|------------------------------------|-------------------------------------|
| 30 | \$ 100,000 | A |
| 30 | 100,000 | B |
| 50 | 100,000 | A |
| 30 | 25,000 | A |
| 50 | 25,000 | A |

Please note whether your company uses age last or age nearest birthday.

For flexible premium products the four premium payment scenarios to be used for each issue age, initial face amount and death benefit option grouping here are as follows:

A. The level annual premium payable in all years required to mature the policy at the initial face amount using the company's current interest and mortality assumptions. The premium is assumed to be paid in all years.

B. The level annual premium payable for five years required to mature the policy at the initial face amount using the company's current interest and mortality assumptions. The premium is assumed to be paid only for the first five years.

C. The level annual premium payable in all years required to mature the policy at the initial face amount using the company's guaranteed interest and mortality assumptions (guideline level annual premium). The premium is assumed to be paid in all years.

D. An annual premium per \$1,000 of initial face amount as follows:

| <u>Age</u> | <u>Premium Per \$1,000 of Initial Face Amount</u> |
|------------|---|
| 30 | \$ 10.00 |
| 50 | 20.00 |

For fixed premium products use the current premium and assume it is paid in all years. All values should be calculated using the following common assumptions:

| | |
|--------------------|---|
| policy loans | none |
| withdrawals | none |
| premium mode | payable annually at the beginning of each policy year |
| sex | male |
| underwriting class | non-smoker |

If your company has multiple non-smoker classes, e.g., standard, preferred, use the class which is predominantly used for new issues.

Once the illustrations are prepared, please transfer to the enclosed Lotus diskette premiums, cash values and death benefits for the first 20 durations. The instructions for loading the data on diskette are found in the attached Exhibit A. Please transmit the completed diskette to me at the following address:

Gary D. Simms, General Counsel
American Academy of Actuaries
1720 1 Street, N.W. 7th Floor
Washington, D.C. 20006

I will remove any reference to your company and forward the generic diskette to the COLI for analysis. If any questions should arise, I will retain a cross reference list and act as an intermediary between the COLI and your company to get the question resolved.

ANALYSIS OF DATA

Once collected, IACs and yield indexes will be centrally calculated for each illustration. Rankings will then be performed between all plans and correlation coefficients calculated for each premium payment pattern, product structure, issue age, death benefit option and face amount grouping.

SCHEDULE

In order to meet the suggested schedule for this project, please return the enclosed diskette no later than April 1, 1988. If you have any questions, please contact me at (202) 223-8196 or Ed Mohoric, a COLI representative, at (215) 687-5644. If you contact Mr. Mohoric, please refrain from providing him any information which is not publicly available. Your help on this project is greatly needed and appreciated.

Sincerely,
Gary D. Simms, General Counsel

APPENDIX C
List of Participating Companies

| | |
|-------------------------------|-----------------------|
| Aetna | Metropolitan |
| Aid Association for Lutherans | Mutual Benefit |
| CIGNA | Northwestern National |
| CNA | Penn Mutual |
| Connecticut Mutual | Prudential |
| Fidelity Union | State Farm |
| First Capitol | State Mutual |
| First Colony | Transamerica |
| IDS | Travelers |
| Lincoln National | Union Central |
| Lutheran Brotherhood | Western-Southern |
| Maccabees Mutual | Woodmen of the World |

The Committee on Life Insurance expresses its appreciation to the above companies for participating in this study.

Please note that any given company did not necessarily provide data for each product type listed in Appendix A. The reasons for this include, but are not limited to, a company not having either a front-end or back-end load product, not having a \$25,000 specified amount available, or given product design had Internal Revenue Service Code Section 7702 premium limitation lower than the fixed premium asked to be used.

APPENDIX D

YIELD INDEX SURVEY
CORRELATION COEFFICIENT BETWEEN RANKINGS OF YIELD INDEX AND IAC (%)
FIXED DOLLAR ANNUAL PREMIUM

RUN DATE: 5/19/88
RUN TIME: 9:57:54

| | -----ILLUSTRATION BASIS----- | | | | -----GUARANTEED BASIS----- | | | |
|-----------|------------------------------|---------|----------|----------|----------------------------|---------|----------|----------|
| | SIZE | 5 YEARS | 10 YEARS | 20 YEARS | SIZE | 5 YEARS | 10 YEARS | 20 YEARS |
| PRODUCT 1 | 10 | 100.00 | 100.00 | 100.00 | 10 | 100.00 | 100.00 | 100.00 |
| PRODUCT 2 | 10 | 100.00 | 100.00 | 100.00 | 10 | 100.00 | 100.00 | 98.79 |
| PRODUCT 3 | 10 | 100.00 | 100.00 | 100.00 | 10 | 100.00 | 100.00 | 100.00 |
| PRODUCT 4 | 8 | 100.00 | 97.62 | 100.00 | 8 | 100.00 | 100.00 | 100.00 |
| PRODUCT 5 | 9 | 95.00 | 98.33 | 100.00 | 9 | 96.67 | 98.33 | 100.00 |
| PRODUCT 6 | 16 | 100.00 | 98.62 | 99.12 | 14 | 99.56 | 100.00 | 100.00 |
| PRODUCT 7 | 15 | 100.00 | 99.64 | 98.93 | 14 | 99.56 | 97.36 | 100.00 |
| PRODUCT 8 | 11 | 86.36 | 99.09 | 100.00 | 9 | 83.33 | 90.00 | 90.00 |
| PRODUCT 9 | 12 | 80.42 | 74.83 | 99.30 | 9 | 83.33 | 74.55 | 85.71 |

YIELD INDEX SURVEY
CORRELATION COEFFICIENT BETWEEN RANKINGS OF YIELD INDEX AND IAC (%)
WHOLE LIFE EQUIVALENT PREMIUM

RUN DATE: 5/19/88
RUN TIME: 9:57:34

| | -----ILLUSTRATION BASIS----- | | | | -----GUARANTEED BASIS----- | | | |
|-----------|------------------------------|---------|----------|----------|----------------------------|---------|----------|----------|
| | SIZE | 5 YEARS | 10 YEARS | 20 YEARS | SIZE | 5 YEARS | 10 YEARS | 20 YEARS |
| PRODUCT 1 | 9 | 80.00 | 91.52 | 98.79 | 10 | 67.27 | 75.76 | 7.14 |
| PRODUCT 2 | 9 | 73.33 | 95.15 | 92.73 | 10 | 76.97 | 53.94 | 53.94 |
| PRODUCT 3 | 10 | 92.73 | 98.79 | 100.00 | 9 | 31.67 | -8.57 | 100.00 |
| PRODUCT 4 | 7 | 85.71 | 97.62 | 83.33 | 8 | 88.10 | 90.48 | 85.71 |
| PRODUCT 5 | 9 | 86.67 | 98.33 | 100.00 | 9 | 53.33 | 69.05 | 100.00 |
| PRODUCT 6 | 16 | 78.53 | 99.12 | 60.29 | 11 | 97.27 | 95.45 | 91.52 |
| PRODUCT 7 | 16 | 91.18 | 99.41 | 49.41 | 9 | 91.67 | 48.33 | 100.00 |
| PRODUCT 8 | 11 | 90.91 | 90.00 | 61.82 | 7 | 100.00 | 96.43 | 85.71 |
| PRODUCT 9 | 12 | 91.61 | 82.52 | 10.49 | 6 | 82.86 | 46.43 | 100.00 |

YIELD INDEX SURVEY
CORRELATION COEFFICIENT BETWEEN RANKINGS OF YIELD INDEX AND IAC (%)
5 PAY WHOLE LIFE EQUIVALENT PREMIUM

RUN DATE: 5/19/88
RUN TIME: 9:57:41

| | -----ILLUSTRATION BASIS----- | | | | -----GUARANTEED BASIS----- | | | |
|-----------|------------------------------|---------|----------|----------|----------------------------|---------|----------|----------|
| | SIZE | 5 YEARS | 10 YEARS | 20 YEARS | SIZE | 5 YEARS | 10 YEARS | 20 YEARS |
| PRODUCT 1 | 10 | 91.52 | 89.09 | 90.30 | 10 | 61.21 | 63.64 | 62.42 |
| PRODUCT 2 | 10 | 86.67 | 41.02 | 30.91 | 10 | 33.33 | 45.45 | 53.94 |
| PRODUCT 3 | 10 | 68.48 | 96.36 | 98.79 | 10 | 73.33 | 64.85 | 41.02 |
| PRODUCT 4 | 8 | 97.62 | 97.62 | 73.01 | 8 | 97.62 | 95.24 | 90.48 |
| PRODUCT 5 | 9 | 83.33 | 98.33 | 91.67 | 9 | 85.00 | 75.00 | 45.00 |
| PRODUCT 6 | 16 | 91.18 | 82.06 | 76.18 | 14 | 96.04 | 98.68 | 73.19 |
| PRODUCT 7 | 18 | 96.47 | 89.71 | 75.00 | 14 | 93.85 | 91.65 | 42.31 |
| PRODUCT 8 | 11 | 79.09 | 80.00 | 85.45 | 9 | 86.67 | 80.00 | 80.00 |
| PRODUCT 9 | 12 | 89.51 | 81.12 | 79.72 | 10 | 81.02 | 87.88 | 35.76 |

YIELD INDEX SURVEY
CORRELATION COEFFICIENT BETWEEN RANKINGS OF YIELD INDEX AND IAC (%)
GUIDELINE LEVEL ANNUAL PREMIUM

RUN DATE: 5/19/88
RUN TIME: 9:57:47

| | -----ILLUSTRATION BASIS----- | | | | -----GUARANTEED BASIS----- | | | |
|-----------|------------------------------|---------|----------|----------|----------------------------|---------|----------|----------|
| | SIZE | 5 YEARS | 10 YEARS | 20 YEARS | SIZE | 5 YEARS | 10 YEARS | 20 YEARS |
| PRODUCT 1 | 10 | 95.15 | 98.79 | 95.15 | 10 | 96.36 | 100.00 | 96.36 |
| PRODUCT 2 | 10 | 96.36 | 96.36 | 90.30 | 10 | 89.09 | 96.36 | 95.15 |
| PRODUCT 3 | 10 | 100.00 | 95.15 | 87.88 | 10 | 84.24 | 98.79 | 98.79 |
| PRODUCT 4 | 7 | 100.00 | 100.00 | 100.00 | 8 | 73.81 | 76.19 | 76.19 |
| PRODUCT 5 | 9 | 98.33 | 100.00 | 95.00 | 9 | 91.67 | 95.00 | 88.33 |
| PRODUCT 6 | 14 | 96.04 | 93.41 | 67.83 | 16 | 94.41 | 97.35 | 94.12 |
| PRODUCT 7 | 14 | 96.04 | 96.92 | 82.42 | 16 | 96.47 | 98.82 | 100.00 |
| PRODUCT 8 | 9 | 90.00 | 93.33 | 90.00 | 11 | 80.00 | 80.91 | 86.36 |
| PRODUCT 9 | 10 | 85.45 | 95.15 | 89.09 | 12 | 76.92 | 81.82 | 60.84 |

APPENDIX E

YIELD INDEX SURVEY
CORRELATION COEFFICIENT BETWEEN YIELD INDEX AND IAC (X)
FIXED DOLLAR ANNUAL PREMIUM

RUN DATE: 5/19/88
RUN TIME: 9:57:27

| | -----ILLUSTRATION BASIS----- | | | | -----GUARANTEED BASIS----- | | | |
|-----------|------------------------------|---------|----------|----------|----------------------------|---------|----------|----------|
| | SIZE | 5 YEARS | 10 YEARS | 20 YEARS | SIZE | 5 YEARS | 10 YEARS | 20 YEARS |
| PRODUCT 1 | 10 | - 99.80 | - 99.88 | - 99.83 | 10 | -99.88 | -99.94 | -99.84 |
| PRODUCT 2 | 10 | - 99.80 | - 99.87 | - 99.75 | 10 | -99.91 | -99.86 | -99.68 |
| PRODUCT 3 | 10 | - 99.57 | - 99.79 | - 99.56 | 10 | -99.57 | -99.50 | -97.40 |
| PRODUCT 4 | 8 | - 99.40 | - 99.94 | - 99.70 | 8 | -99.43 | -99.92 | -99.80 |
| PRODUCT 5 | 9 | - 96.74 | - 98.75 | - 99.08 | 9 | -95.56 | -97.21 | -77.77 |
| PRODUCT 6 | 16 | - 99.89 | - 99.91 | - 99.30 | 14 | -99.79 | -99.84 | -99.79 |
| PRODUCT 7 | 15 | - 99.87 | - 99.81 | - 99.76 | 14 | -98.64 | -98.48 | -97.58 |
| PRODUCT 8 | 11 | - 90.35 | - 99.71 | - 87.47 | 9 | -85.69 | -83.59 | -70.62 |
| PRODUCT 9 | 12 | - 77.59 | - 94.67 | - 94.86 | 9 | -60.80 | -48.91 | -17.55 |

YIELD INDEX SURVEY
CORRELATION COEFFICIENT BETWEEN YIELD INDEX AND IAC (%)
WHOLE LIFE EQUIVALENT PREMIUM

RUN DATE: 5/19/88
RUN TIME: 9:57:07

| | -----ILLUSTRATION BASIS----- | | | | -----GUARANTEED BASIS----- | | | |
|-----------|------------------------------|---------|----------|----------|----------------------------|---------|----------|----------|
| | SIZE | 5 YEARS | 10 YEARS | 20 YEARS | SIZE | 5 YEARS | 10 YEARS | 20 YEARS |
| PRODUCT 1 | 9 | - 88.75 | - 83.70 | - 97.49 | 10 | -61.14 | -46.55 | 1.98 |
| PRODUCT 2 | 9 | - 76.94 | - 90.01 | - 92.85 | 10 | -55.31 | -52.43 | -40.84 |
| PRODUCT 3 | 10 | - 69.09 | - 97.43 | - 98.98 | 9 | -46.89 | 6.34 | 100.00 |
| PRODUCT 4 | 7 | - 81.51 | - 88.74 | - 78.34 | 8 | -80.95 | -80.66 | -53.88 |
| PRODUCT 5 | 9 | - 87.11 | - 98.12 | - 99.21 | 9 | -67.25 | -65.79 | -100.00 |
| PRODUCT 6 | 16 | - 83.56 | - 98.26 | - 78.20 | 11 | -90.95 | -94.13 | -80.98 |
| PRODUCT 7 | 16 | - 83.12 | - 99.14 | - 56.25 | 9 | -86.69 | -57.07 | 100.00 |
| PRODUCT 8 | 11 | - 89.92 | - 86.79 | - 51.14 | 7 | -98.00 | -97.10 | -94.86 |
| PRODUCT 9 | 12 | - 68.84 | - 76.32 | - 61.55 | 6 | -91.96 | -81.03 | -100.00 |

YIELD INDEX SURVEY
CORRELATION COEFFICIENT BETWEEN YIELD INDEX AND IAC (%)
5 PAY WHOLE LIFE EQUIVALENT PREMIUM

RUN DATE: 5/19/88
RUN TIME: 9:57:13

| | -----ILLUSTRATION BASIS----- | | | | -----GUARANTEED BASIS----- | | | |
|-----------|------------------------------|---------|----------|----------|----------------------------|---------|----------|----------|
| | SIZE | 5 YEARS | 10 YEARS | 20 YEARS | SIZE | 5 YEARS | 10 YEARS | 20 YEARS |
| PRODUCT 1 | 10 | - 87.17 | - 97.80 | - 83.97 | 10 | -70.39 | -75.05 | -51.15 |
| PRODUCT 2 | 10 | - 89.27 | - 77.05 | - 18.31 | 10 | -43.50 | -49.86 | -47.08 |
| PRODUCT 3 | 10 | - 85.67 | - 98.13 | - 98.74 | 10 | -71.06 | -62.88 | -9.47 |
| PRODUCT 4 | 8 | - 96.50 | - 98.06 | - 95.20 | 8 | -96.96 | -97.81 | -93.40 |
| PRODUCT 5 | 9 | - 94.46 | - 99.06 | - 96.43 | 9 | -82.84 | -80.52 | -33.85 |
| PRODUCT 6 | 16 | - 96.84 | - 83.84 | - 75.90 | 14 | -93.85 | -94.14 | -79.38 |
| PRODUCT 7 | 16 | - 97.62 | - 99.19 | - 98.01 | 14 | -88.46 | -95.37 | -35.01 |
| PRODUCT 8 | 11 | - 93.81 | - 87.40 | - 78.18 | 9 | -90.35 | -79.87 | -49.48 |
| PRODUCT 9 | 12 | - 86.37 | - 90.47 | - 88.36 | 10 | -70.72 | -46.14 | -14.16 |

YIELD INDEX SURVEY
CORRELATION COEFFICIENT BETWEEN YIELD INDEX AND IAC (%)
GUIDELINE LEVEL ANNUAL PREMIUM

RUN DATE: 5/19/88
RUN TIME: 9:57:20

| | -----ILLUSTRATION BASIS----- | | | | -----GUARANTEED BASIS----- | | | |
|-----------|------------------------------|---------|----------|----------|----------------------------|---------|----------|----------|
| | SIZE | 5 YEARS | 10 YEARS | 20 YEARS | SIZE | 5 YEARS | 10 YEARS | 20 YEARS |
| PRODUCT 1 | 10 | - 93.08 | - 99.45 | - 98.46 | 10 | -84.81 | -98.78 | -99.46 |
| PRODUCT 2 | 10 | - 96.66 | - 99.46 | - 97.90 | 10 | -90.26 | -98.84 | -98.70 |
| PRODUCT 3 | 10 | - 96.58 | - 99.58 | - 97.91 | 10 | -85.50 | -97.63 | -99.70 |
| PRODUCT 4 | 7 | - 99.45 | - 99.82 | - 99.74 | 8 | -89.81 | -89.11 | -91.09 |
| PRODUCT 5 | 9 | - 97.80 | - 99.56 | - 99.29 | 9 | -96.89 | -96.76 | -96.42 |
| PRODUCT 6 | 14 | - 97.44 | - 92.09 | - 80.91 | 16 | -97.30 | -96.57 | -97.93 |
| PRODUCT 7 | 14 | - 97.68 | - 96.68 | - 90.31 | 16 | -95.31 | -98.17 | -99.48 |
| PRODUCT 8 | 9 | - 88.55 | - 98.60 | - 86.34 | 11 | -88.91 | -84.89 | -72.72 |
| PRODUCT 9 | 10 | - 83.91 | - 97.95 | - 83.47 | 12 | -69.75 | -54.61 | -45.75 |

APPENDIX F

| | | YIELD INDEX SURVEY | | | | | | | | | | | | | | |
|-----------|-------------|---------------------------------|------|------|------|------|------|------|------|------|-------|-------|-------|-------|-------|-------|
| | | RANKINGS OF YIELD INDEX AND IAC | | | | | | | | | | | | | | |
| | | 20 YEAR ILLUSTRATION BASIS | | | | | | | | | | | | | | |
| | | WHOLE LIFE EQUIVALENT PREMIUM | | | | | | | | | | | | | | |
| | | MO 1 | MO 2 | MO 3 | MO 4 | MO 5 | MO 6 | MO 7 | MO 8 | MO 9 | MO 10 | MO 11 | MO 12 | MO 13 | MO 14 | MO 15 |
| PRODUCT 1 | IAC | - | 5 | - | - | - | 4 | 7 | - | - | 3 | - | - | - | 2 | 9 |
| | YIELD INDEX | - | 4 | - | - | - | 5 | 7 | - | - | 3 | - | - | - | 2 | 9 |
| PRODUCT 2 | IAC | - | 7 | - | - | - | 3 | 8 | - | - | 4 | - | - | - | 2 | 9 |
| | YIELD INDEX | - | 5 | - | - | - | 3 | 7 | - | - | 4 | - | - | - | 1 | 9 |
| PRODUCT 3 | IAC | - | 6 | - | - | - | 5 | 4 | - | - | 2 | - | - | - | 1 | 7 |
| | YIELD INDEX | - | 6 | - | - | - | 5 | 4 | - | - | 2 | - | - | - | 1 | 7 |
| PRODUCT 4 | IAC | - | 1 | - | - | - | 6 | 5 | - | - | - | - | - | - | 7 | 3 |
| | YIELD INDEX | - | 2 | - | - | - | 5 | 4 | - | - | - | - | - | - | 7 | 6 |
| PRODUCT 5 | IAC | - | 5 | - | - | - | 3 | 2 | - | - | - | - | - | - | 4 | 6 |
| | YIELD INDEX | - | 5 | - | - | - | 3 | 2 | - | - | - | - | - | - | 4 | 6 |
| PRODUCT 6 | IAC | 12 | 7 | 1 | 9 | 5 | - | 16 | 8 | 6 | 3 | 10 | 2 | 13 | - | - |
| | YIELD INDEX | 11 | 1 | 9 | 8 | 5 | - | 16 | 4 | 13 | 3 | 7 | 10 | 12 | - | - |
| PRODUCT 7 | IAC | 14 | 6 | 1 | 12 | 5 | - | 9 | 7 | 3 | 4 | 11 | 2 | 10 | - | - |
| | YIELD INDEX | 14 | 1 | 9 | 12 | 5 | - | 4 | 6 | 13 | 3 | 8 | 10 | 7 | - | - |
| PRODUCT 8 | IAC | - | 1 | 6 | 3 | 8 | - | 5 | - | 4 | - | 10 | 7 | - | - | - |
| | YIELD INDEX | - | 4 | 8 | 1 | 6 | - | 5 | - | 7 | - | 10 | 9 | - | - | - |
| PRODUCT 9 | IAC | - | 7 | 2 | 6 | 4 | - | 5 | - | 1 | - | 9 | 3 | - | - | - |
| | YIELD INDEX | - | 1 | 8 | 6 | 3 | - | 2 | - | 10 | - | 7 | 9 | - | - | - |

RUN DATE: 5/20/88
 RUN TIME: 7:43:59

YIELD INDEX SURVEY
 RANKINGS OF YIELD INDEX AND IAC
 20 YEAR ILLUSTRATION BASIS
 WHOLE LIFE EQUIVALENT PREMIUM

RUN DATE: 5/20/88

RUN TIME: 7:44.07

| | NO 16 | NO 17 | NO 18 | NO 19 | NO 20 | NO 21 |
|-------------|-------|-------|-------|-------|-------|-------|
| PRODUCT 1 | | | | | | |
| IAC | - | 6 | 8 | 10 | - | 1 |
| YIELD INDEX | - | 6 | 8 | 10 | - | 1 |
| PRODUCT 2 | | | | | | |
| IAC | - | 5 | 6 | 10 | - | 1 |
| YIELD INDEX | - | 6 | 8 | 10 | - | 2 |
| PRODUCT 3 | | | | | | |
| IAC | - | 8 | 9 | 10 | - | 3 |
| YIELD INDEX | - | 8 | 9 | 10 | - | 3 |
| PRODUCT 4 | | | | | | |
| IAC | - | - | 4 | 8 | - | 2 |
| YIELD INDEX | - | - | 3 | 8 | - | 1 |
| PRODUCT 5 | | | | | | |
| IAC | - | 8 | 7 | 9 | - | 1 |
| YIELD INDEX | - | 8 | 7 | 9 | - | 1 |
| PRODUCT 6 | | | | | | |
| IAC | 11 | 14 | 15 | 4 | - | - |
| YIELD INDEX | 6 | 14 | 15 | 2 | - | - |
| PRODUCT 7 | | | | | | |
| IAC | 13 | 16 | 15 | 6 | - | - |
| YIELD INDEX | 11 | 15 | 16 | 2 | - | - |
| PRODUCT 8 | | | | | | |
| IAC | 9 | - | 2 | 11 | - | - |
| YIELD INDEX | 2 | - | 3 | 11 | - | - |
| PRODUCT 9 | | | | | | |
| IAC | 11 | 12 | 10 | 8 | - | - |
| YIELD INDEX | 5 | 12 | 11 | 4 | - | - |

YIELD INDEX SURVEY
RANKINGS OF YIELD INDEX AND IAC
20 YEAR ILLUSTRATION BASIS
5 PAY WHOLE LIFE EQUIVALENT PREMIUM

RUN DATE: 5/20/88
RUN TIME: 7:44:12

| | MO 1 | MO 2 | MO 3 | MO 4 | MO 5 | MO 6 | MO 7 | MO 8 | MO 9 | MO 10 | MO 11 | MO 12 | MO 13 | MO 14 | MO 15 |
|-------------|------|------|------|------|------|------|------|------|------|-------|-------|-------|-------|-------|-------|
| PRODUCT 1 | | | | | | | | | | | | | | | |
| IAC | - | 6 | - | - | - | 1 | 7 | - | - | 5 | - | - | - | 2 | 9 |
| YIELD INDEX | - | 5 | - | - | - | 2 | 6 | - | - | 4 | - | - | - | 1 | 8 |
| PRODUCT 2 | | | | | | | | | | | | | | | |
| IAC | - | 9 | - | - | - | 2 | 8 | - | - | 8 | - | - | - | 4 | 10 |
| YIELD INDEX | - | 5 | - | - | - | 2 | 6 | - | - | 4 | - | - | - | 1 | 8 |
| PRODUCT 3 | | | | | | | | | | | | | | | |
| IAC | - | 7 | - | - | - | 3 | 4 | - | - | 2 | - | - | - | 1 | 6 |
| YIELD INDEX | - | 7 | - | - | - | 4 | 3 | - | - | 2 | - | - | - | 1 | 6 |
| PRODUCT 4 | | | | | | | | | | | | | | | |
| IAC | - | 5 | - | - | - | 3 | 6 | - | - | - | - | - | - | 4 | 8 |
| YIELD INDEX | - | 3 | - | - | - | 2 | 5 | - | - | - | - | - | - | 4 | 8 |
| PRODUCT 5 | | | | | | | | | | | | | | | |
| IAC | - | 5 | - | - | - | 1 | 4 | - | - | - | - | - | - | 2 | 6 |
| YIELD INDEX | - | 5 | - | - | - | 1 | 2 | - | - | - | - | - | - | 4 | 6 |
| PRODUCT 6 | | | | | | | | | | | | | | | |
| IAC | 12 | 3 | 9 | 1 | 5 | - | 4 | 6 | 16 | 2 | 11 | 13 | 13 | - | - |
| YIELD INDEX | 10 | 1 | 11 | 9 | 3 | - | 7 | 4 | 15 | 6 | 8 | 12 | 13 | - | - |
| PRODUCT 7 | | | | | | | | | | | | | | | |
| IAC | 12 | 8 | 10 | 3 | 7 | - | 4 | 6 | 13 | 2 | 9 | 11 | 16 | - | - |
| YIELD INDEX | 12 | 1 | 9 | 11 | 3 | - | 5 | 7 | 13 | 6 | 8 | 10 | 16 | - | - |
| PRODUCT 8 | | | | | | | | | | | | | | | |
| IAC | - | 6 | 8 | 2 | 5 | - | 4 | - | 10 | - | 7 | 9 | - | - | - |
| YIELD INDEX | - | 5 | 8 | 2 | 4 | - | 3 | - | 10 | - | 7 | 9 | - | - | - |
| PRODUCT 9 | | | | | | | | | | | | | | | |
| IAC | - | 5 | 8 | 1 | 4 | - | 2 | - | 11 | - | 6 | 9 | - | - | - |
| YIELD INDEX | - | 1 | 8 | 7 | 4 | - | 3 | - | 10 | - | 5 | 9 | - | - | - |

YIELD INDEX SURVEY
RANKINGS OF YIELD INDEX AND IAC
20 YEAR ILLUSTRATION BASIS
5 PAY WHOLE LIFE EQUIVALENT PREMIUM

RUN DATE: 5/20/88

RUN TIME: 7:44:21

| | NO 16 | NO 17 | NO 18 | NO 19 | NO 20 | NO 21 |
|-------------|-------|-------|-------|-------|-------|-------|
| PRODUCT 1 | | | | | | |
| IAC | - | 4 | 8 | 10 | - | 3 |
| YIELD INDEX | - | 7 | 9 | 10 | - | 3 |
| PRODUCT 2 | | | | | | |
| IAC | - | 5 | 1 | 7 | - | 3 |
| YIELD INDEX | - | 7 | 9 | 10 | - | 3 |
| PRODUCT 3 | | | | | | |
| IAC | - | 8 | 10 | 9 | - | 5 |
| YIELD INDEX | - | 8 | 10 | 9 | - | 5 |
| PRODUCT 4 | | | | | | |
| IAC | - | - | 2 | 7 | - | 1 |
| YIELD INDEX | - | - | 6 | 7 | - | 1 |
| PRODUCT 5 | | | | | | |
| IAC | - | 8 | 7 | 9 | - | 3 |
| YIELD INDEX | - | 7 | 8 | 9 | - | 3 |
| PRODUCT 6 | | | | | | |
| IAC | 7 | 15 | 14 | 8 | - | - |
| YIELD INDEX | 2 | 14 | 16 | 5 | - | - |
| PRODUCT 7 | | | | | | |
| IAC | 1 | 15 | 14 | 5 | - | - |
| YIELD INDEX | 4 | 14 | 15 | 2 | - | - |
| PRODUCT 8 | | | | | | |
| IAC | 3 | - | 1 | 11 | - | - |
| YIELD INDEX | 1 | - | 6 | 11 | - | - |
| PRODUCT 9 | | | | | | |
| IAC | 3 | 12 | 10 | 7 | - | - |
| YIELD INDEX | 2 | 12 | 11 | 6 | - | - |

| | | YIELD INDEX SURVEY | | | | | | | | | | | | | | |
|-----------|-------------|---------------------------------|------|------|------|------|------|------|------|------|-------|-------|-------|-------|-------|-------|
| | | RANKINGS OF YIELD INDEX AND IAC | | | | | | | | | | | | | | |
| | | 20 YEAR ILLUSTRATION BASIS | | | | | | | | | | | | | | |
| | | GUIDELINE LEVEL ANNUAL PREMIUM | | | | | | | | | | | | | | |
| | | MO 1 | MO 2 | MO 3 | MO 4 | MO 5 | MO 6 | MO 7 | MO 8 | MO 9 | MO 10 | MO 11 | MO 12 | MO 13 | MO 14 | MO 15 |
| PRODUCT 1 | IAC | - | 2 | - | - | - | 1 | 6 | - | - | 4 | - | - | - | 9 | 10 |
| | YIELD INDEX | - | 3 | - | - | - | 1 | 4 | - | - | 5 | - | - | - | 9 | 10 |
| PRODUCT 2 | IAC | - | 2 | - | - | - | 1 | 6 | - | - | 4 | - | - | - | 9 | 10 |
| | YIELD INDEX | - | 4 | - | - | - | 1 | 3 | - | - | 5 | - | - | - | 9 | 10 |
| PRODUCT 3 | IAC | - | 2 | - | - | - | 3 | 5 | - | - | 4 | - | - | - | 9 | 10 |
| | YIELD INDEX | - | 5 | - | - | - | 1 | 3 | - | - | 4 | - | - | - | 8 | 10 |
| PRODUCT 4 | IAC | - | 3 | - | - | - | 1 | - | - | - | - | - | - | - | 6 | 7 |
| | YIELD INDEX | - | 3 | - | - | - | 1 | - | - | - | - | - | - | - | 6 | 7 |
| PRODUCT 5 | IAC | - | 3 | - | - | - | 1 | 4 | - | - | - | - | - | - | 8 | 9 |
| | YIELD INDEX | - | 4 | - | - | - | 1 | 2 | - | - | - | - | - | - | 8 | 9 |
| PRODUCT 6 | IAC | 7 | 3 | - | 4 | 6 | - | 9 | 5 | 11 | 8 | 2 | - | 12 | - | - |
| | YIELD INDEX | 10 | 7 | - | 8 | 3 | - | 5 | 4 | 12 | 9 | 6 | - | 11 | - | - |
| PRODUCT 7 | IAC | 10 | 3 | - | 9 | 4 | - | 8 | 5 | 11 | 7 | 1 | - | 14 | - | - |
| | YIELD INDEX | 11 | 6 | - | 8 | 3 | - | 4 | 7 | 10 | 9 | 5 | - | 13 | - | - |
| PRODUCT 8 | IAC | - | 3 | - | 2 | 4 | - | 6 | - | 7 | - | 5 | - | - | - | - |
| | YIELD INDEX | - | 5 | - | 2 | 3 | - | 4 | - | 8 | - | 6 | - | - | - | - |
| PRODUCT 9 | IAC | - | 3 | - | 6 | 4 | - | 5 | - | 7 | - | 2 | - | - | - | - |
| | YIELD INDEX | - | 5 | - | 6 | 2 | - | 3 | - | 8 | - | 4 | - | - | - | - |

YIELD INDEX SURVEY
RANKINGS OF YIELD INDEX AND IAC
20 YEAR ILLUSTRATION BASIS
GUIDELINE LEVEL ANNUAL PREMIUM

RUN DATE: 5/20/88
RUN TIME: 7:44:34

| | NO 16 | NO 17 | NO 18 | NO 19 | NO 20 | NO 21 |
|-------------|-------|-------|-------|-------|-------|-------|
| PRODUCT 1 | | | | | | |
| IAC | - | 5 | 7 | 8 | - | 3 |
| YIELD INDEX | - | 6 | 7 | 8 | - | 2 |
| PRODUCT 2 | | | | | | |
| IAC | - | 5 | 8 | 7 | - | 3 |
| YIELD INDEX | - | 6 | 8 | 7 | - | 2 |
| PRODUCT 3 | | | | | | |
| IAC | - | 8 | 6 | 7 | - | 1 |
| YIELD INDEX | - | 6 | 9 | 7 | - | 2 |
| PRODUCT 4 | | | | | | |
| IAC | - | - | 4 | 5 | - | 2 |
| YIELD INDEX | - | - | 4 | 5 | - | 2 |
| PRODUCT 5 | | | | | | |
| IAC | - | 5 | 6 | 7 | - | 2 |
| YIELD INDEX | - | 5 | 6 | 7 | - | 3 |
| PRODUCT 6 | | | | | | |
| IAC | 1 | 13 | 14 | 10 | - | - |
| YIELD INDEX | 1 | 13 | 14 | 2 | - | - |
| PRODUCT 7 | | | | | | |
| IAC | 2 | 12 | 13 | 6 | - | - |
| YIELD INDEX | 2 | 12 | 14 | 1 | - | - |
| PRODUCT 8 | | | | | | |
| IAC | 1 | - | 8 | 9 | - | - |
| YIELD INDEX | 1 | - | 7 | 9 | - | - |
| PRODUCT 9 | | | | | | |
| IAC | 1 | 10 | 9 | 8 | - | - |
| YIELD INDEX | 1 | 10 | 9 | 7 | - | - |

| | | YIELD INDEX SURVEY RANKINGS OF YIELD INDEX AND IAC 20 YEAR ILLUSTRATION BASIS FIXED DOLLAR ANNUAL PREMIUM | | | | | | | | | | | | | | |
|-----------|-------------|--|------|------|------|------|------|------|------|------|-------|-------|-------|-------|-------|-------|
| | | MO 1 | MO 2 | MO 3 | MO 4 | MO 5 | MO 6 | MO 7 | MO 8 | MO 9 | MO 10 | MO 11 | MO 12 | MO 13 | MO 14 | MO 15 |
| PRODUCT 1 | IAC | - | 5 | - | - | - | 2 | 4 | - | - | 6 | - | - | - | 1 | 8 |
| | YIELD INDEX | - | 5 | - | - | - | 2 | 4 | - | - | 6 | - | - | - | 1 | 8 |
| PRODUCT 2 | IAC | - | 6 | - | - | - | 2 | 4 | - | - | 5 | - | - | - | 1 | 8 |
| | YIELD INDEX | - | 6 | - | - | - | 2 | 4 | - | - | 5 | - | - | - | 1 | 8 |
| PRODUCT 3 | IAC | - | 7 | - | - | - | 2 | 4 | - | - | 3 | - | - | - | 1 | 6 |
| | YIELD INDEX | - | 7 | - | - | - | 2 | 4 | - | - | 3 | - | - | - | 1 | 6 |
| PRODUCT 4 | IAC | - | 3 | - | - | - | 2 | 4 | - | - | - | - | - | - | 5 | 7 |
| | YIELD INDEX | - | 3 | - | - | - | 2 | 4 | - | - | - | - | - | - | 5 | 7 |
| PRODUCT 5 | IAC | - | 5 | - | - | - | 1 | 3 | - | - | - | - | - | - | 4 | 6 |
| | YIELD INDEX | - | 5 | - | - | - | 1 | 3 | - | - | - | - | - | - | 4 | 6 |
| PRODUCT 6 | IAC | 12 | 7 | 9 | 8 | 2 | - | 4 | 3 | 14 | 11 | 6 | 10 | 13 | - | - |
| | YIELD INDEX | 12 | 7 | 9 | 8 | 2 | - | 5 | 4 | 14 | 11 | 6 | 10 | 13 | - | - |
| PRODUCT 7 | IAC | 12 | 5 | 9 | 11 | 3 | - | 2 | 6 | 13 | 7 | 8 | 10 | - | - | - |
| | YIELD INDEX | 12 | 5 | 9 | 11 | 2 | - | 4 | 6 | 13 | 7 | 8 | 10 | - | - | - |
| PRODUCT 8 | IAC | - | 5 | 8 | 2 | 4 | - | 3 | - | 11 | - | 6 | 9 | - | - | - |
| | YIELD INDEX | - | 5 | 8 | 2 | 4 | - | 3 | - | 11 | - | 6 | 9 | - | - | - |
| PRODUCT 9 | IAC | - | 4 | 8 | 7 | 3 | - | 2 | - | 10 | - | 5 | 9 | - | - | - |
| | YIELD INDEX | - | 4 | 8 | 7 | 3 | - | 2 | - | 10 | - | 6 | 9 | - | - | - |

YIELD INDEX SURVEY
RANKINGS OF YIELD INDEX AND IAC
20 YEAR ILLUSTRATION BASIS
FIXED DOLLAR ANNUAL PREMIUM

RUN DATE: 5/20/88
RUN TIME: 7:44:40

| | NO 16 | NO 17 | NO 18 | NO 19 | NO 20 | NO 21 |
|-------------|-------|-------|-------|-------|-------|-------|
| PRODUCT 1 | | | | | | |
| IAC | - | 7 | 9 | 10 | - | 3 |
| YIELD INDEX | - | 7 | 9 | 10 | - | 3 |
| PRODUCT 2 | | | | | | |
| IAC | - | 7 | 9 | 10 | - | 3 |
| YIELD INDEX | - | 7 | 9 | 10 | - | 3 |
| PRODUCT 3 | | | | | | |
| IAC | - | 8 | 10 | 9 | - | 5 |
| YIELD INDEX | - | 8 | 10 | 9 | - | 5 |
| PRODUCT 4 | | | | | | |
| IAC | - | - | 6 | 8 | - | 1 |
| YIELD INDEX | - | - | 6 | 8 | - | 1 |
| PRODUCT 5 | | | | | | |
| IAC | - | 7 | 8 | 9 | - | 2 |
| YIELD INDEX | - | 7 | 8 | 9 | - | 2 |
| PRODUCT 6 | | | | | | |
| IAC | 1 | 15 | 16 | 5 | - | - |
| YIELD INDEX | 1 | 15 | 16 | 3 | - | - |
| PRODUCT 7 | | | | | | |
| IAC | 4 | 14 | 15 | 1 | - | - |
| YIELD INDEX | 3 | 14 | 15 | 1 | - | - |
| PRODUCT 8 | | | | | | |
| IAC | 1 | - | 7 | 10 | - | - |
| YIELD INDEX | 1 | - | 7 | 10 | - | - |
| PRODUCT 9 | | | | | | |
| IAC | 1 | 12 | 11 | 6 | - | - |
| YIELD INDEX | 1 | 12 | 11 | 5 | - | - |

| | | YIELD INDEX SURVEY | | | | | | | | | | | | | | | | |
|-------------|--|---------------------------------|------|------|------|------|------|------|------|------|-------|-------|-------|-------|-------|-------|--|--|
| | | RANKINGS OF YIELD INDEX AND IAC | | | | | | | | | | | | | | | | |
| | | 20 YEAR GUARANTEED BASIS | | | | | | | | | | | | | | | | |
| | | WHOLE LIFE EQUIVALENT PREMIUM | | | | | | | | | | | | | | | | |
| | | MO 1 | MO 2 | MO 3 | MO 4 | MO 5 | MO 6 | MO 7 | MO 8 | MO 9 | MO 10 | MO 11 | MO 12 | MO 13 | MO 14 | MO 15 | | |
| PRODUCT 1 | | | | | | | | | | | | | | | | | | |
| IAC | | - | - | - | - | - | 3 | 2 | - | - | 4 | - | - | - | 1 | 6 | | |
| YIELD INDEX | | - | - | - | - | - | 2 | 1 | - | - | 5 | - | - | - | 7 | 6 | | |
| PRODUCT 2 | | | | | | | | | | | | | | | | | | |
| IAC | | - | 6 | - | - | - | 3 | 2 | - | - | 5 | - | - | - | 1 | 7 | | |
| YIELD INDEX | | - | 10 | - | - | - | 3 | 2 | - | - | 7 | - | - | - | 1 | 8 | | |
| PRODUCT 3 | | | | | | | | | | | | | | | | | | |
| IAC | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | |
| YIELD INDEX | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | |
| PRODUCT 4 | | | | | | | | | | | | | | | | | | |
| IAC | | - | 5 | - | - | - | 4 | 1 | - | - | - | - | - | - | 6 | 8 | | |
| YIELD INDEX | | - | 5 | - | - | - | 3 | 2 | - | - | - | - | - | - | 8 | 6 | | |
| PRODUCT 5 | | | | | | | | | | | | | | | | | | |
| IAC | | - | - | - | - | - | - | 1 | - | - | - | - | - | - | - | - | | |
| YIELD INDEX | | - | - | - | - | - | - | 1 | - | - | - | - | - | - | - | - | | |
| PRODUCT 6 | | | | | | | | | | | | | | | | | | |
| IAC | | 8 | - | - | 7 | 3 | - | 10 | 1 | 9 | 6 | 2 | - | 4 | - | - | | |
| YIELD INDEX | | 9 | - | - | 8 | 2 | - | 10 | 1 | 6 | 7 | 3 | - | 4 | - | - | | |
| PRODUCT 7 | | | | | | | | | | | | | | | | | | |
| IAC | | - | - | - | - | - | - | - | - | - | - | 1 | - | - | - | - | | |
| YIELD INDEX | | - | - | - | - | - | - | - | - | - | - | 1 | - | - | - | - | | |
| PRODUCT 8 | | | | | | | | | | | | | | | | | | |
| IAC | | - | 7 | - | 2 | 3 | - | 5 | - | 6 | - | 4 | - | - | - | - | | |
| YIELD INDEX | | - | 7 | - | 1 | 4 | - | 3 | - | 6 | - | 5 | - | - | - | - | | |
| PRODUCT 9 | | | | | | | | | | | | | | | | | | |
| IAC | | - | - | - | - | - | - | 1 | - | - | - | 2 | - | - | - | - | | |
| YIELD INDEX | | - | - | - | - | - | - | 1 | - | - | - | 2 | - | - | - | - | | |

YIELD INDEX SURVEY
 RANKINGS OF YIELD INDEX AND IAC
 20 YEAR GUARANTEED BASIS
 WHOLE LIFE EQUIVALENT PREMIUM

RUN DATE: 5/20/88

RUN TIME: 7:50:48

| | NO 16 | NO 17 | NO 18 | NO 19 | NO 20 | NO 21 |
|-------------|-------|-------|-------|-------|-------|-------|
| PRODUCT 1 | | | | | | |
| IAC | - | - | 5 | 7 | - | - |
| YIELD INDEX | - | - | 3 | 4 | - | - |
| PRODUCT 2 | | | | | | |
| IAC | - | 8 | 9 | 10 | - | 4 |
| YIELD INDEX | - | 9 | 4 | 5 | - | 6 |
| PRODUCT 3 | | | | | | |
| IAC | - | - | 1 | - | - | - |
| YIELD INDEX | - | - | 1 | - | - | - |
| PRODUCT 4 | | | | | | |
| IAC | - | - | 3 | 7 | - | 2 |
| YIELD INDEX | - | - | 4 | 7 | - | 1 |
| PRODUCT 5 | | | | | | |
| IAC | - | - | 2 | - | - | - |
| YIELD INDEX | - | - | 2 | - | - | - |
| PRODUCT 6 | | | | | | |
| IAC | - | - | 5 | - | - | - |
| YIELD INDEX | - | - | 5 | - | - | - |
| PRODUCT 7 | | | | | | |
| IAC | - | - | - | - | - | - |
| YIELD INDEX | - | - | - | - | - | - |
| PRODUCT 8 | | | | | | |
| IAC | - | - | 1 | - | - | - |
| YIELD INDEX | - | - | 2 | - | - | - |
| PRODUCT 9 | | | | | | |
| IAC | - | - | - | - | - | - |
| YIELD INDEX | - | - | - | - | - | - |

YIELD INDEX SURVEY
RANKINGS OF YIELD INDEX AND IAC
20 YEAR GUARANTEED BASIS
5 PAY WHOLE LIFE EQUIVALENT PREMIUM

RUN DATE: 5/20/88
RUN TIME: 7:50:53

| | MO 1 | MO 2 | MO 3 | MO 4 | MO 5 | MO 6 | MO 7 | MO 8 | MO 9 | MO 10 | MO 11 | MO 12 | MO 13 | MO 14 | MO 15 |
|-------------|------|------|------|------|------|------|------|------|------|-------|-------|-------|-------|-------|-------|
| PRODUCT 1 | | | | | | | | | | | | | | | |
| IAC | - | 6 | - | - | - | 3 | 2 | - | - | 4 | - | - | - | 1 | 7 |
| YIELD INDEX | - | 9 | - | - | - | 3 | 2 | - | - | 7 | - | - | - | 1 | 8 |
| PRODUCT 2 | | | | | | | | | | | | | | | |
| IAC | - | 6 | - | - | - | 3 | 2 | - | - | 5 | - | - | - | 1 | 7 |
| YIELD INDEX | - | 10 | - | - | - | 3 | 2 | - | - | 7 | - | - | - | 1 | 8 |
| PRODUCT 3 | | | | | | | | | | | | | | | |
| IAC | - | 7 | - | - | - | 4 | 3 | - | - | 2 | - | - | - | 1 | 5 |
| YIELD INDEX | - | 9 | - | - | - | 2 | 4 | - | - | 5 | - | - | - | 1 | 7 |
| PRODUCT 4 | | | | | | | | | | | | | | | |
| IAC | - | 3 | - | - | - | 5 | 1 | - | - | - | - | - | - | 6 | 7 |
| YIELD INDEX | - | 3 | - | - | - | 4 | 1 | - | - | - | - | - | - | 7 | 8 |
| PRODUCT 5 | | | | | | | | | | | | | | | |
| IAC | - | 4 | - | - | - | 2 | 1 | - | - | - | - | - | - | 5 | 6 |
| YIELD INDEX | - | 9 | - | - | - | 2 | 1 | - | - | - | - | - | - | 3 | 6 |
| PRODUCT 6 | | | | | | | | | | | | | | | |
| IAC | 11 | 3 | - | 12 | 2 | - | 7 | 4 | 14 | 9 | 5 | - | 8 | - | - |
| YIELD INDEX | 11 | 12 | - | 10 | 2 | - | 7 | 4 | 14 | 9 | 3 | - | 8 | - | - |
| PRODUCT 7 | | | | | | | | | | | | | | | |
| IAC | 9 | 1 | - | 10 | 3 | - | 4 | 6 | 11 | 7 | 8 | - | - | - | - |
| YIELD INDEX | 8 | 11 | - | 10 | 3 | - | 5 | 7 | 13 | 9 | 1 | - | - | - | - |
| PRODUCT 8 | | | | | | | | | | | | | | | |
| IAC | - | 4 | - | 2 | 5 | - | 3 | - | 8 | - | 6 | - | - | - | - |
| YIELD INDEX | - | 7 | - | 1 | 4 | - | 3 | - | 9 | - | 5 | - | - | - | - |
| PRODUCT 9 | | | | | | | | | | | | | | | |
| IAC | - | 1 | - | 6 | 3 | - | 2 | - | 7 | - | 4 | - | - | - | - |
| YIELD INDEX | - | 9 | - | 7 | 3 | - | 1 | - | 10 | - | 2 | - | - | - | - |

YIELD INDEX SURVEY
RANKINGS OF YIELD INDEX AND IAC
20 YEAR GUARANTEED BASIS
5 PAY WHOLE LIFE EQUIVALENT PREMIUM

RUN DATE: 5/20/88

RUN TIME: 7:51:01

| | NO 16 | NO 17 | NO 18 | NO 19 | NO 20 | NO 21 |
|-------------|-------|-------|-------|-------|-------|-------|
| PRODUCT 1 | | | | | | |
| IAC | - | 9 | 8 | 10 | - | 5 |
| YIELD INDEX | - | 10 | 4 | 5 | - | 6 |
| PRODUCT 2 | | | | | | |
| IAC | - | 8 | 9 | 10 | - | 4 |
| YIELD INDEX | - | 9 | 4 | 5 | - | 6 |
| PRODUCT 3 | | | | | | |
| IAC | - | 8 | 10 | 9 | - | 6 |
| YIELD INDEX | - | 8 | 3 | 6 | - | 10 |
| PRODUCT 4 | | | | | | |
| IAC | - | - | 4 | 8 | - | 2 |
| YIELD INDEX | - | - | 5 | 6 | - | 2 |
| PRODUCT 5 | | | | | | |
| IAC | - | 7 | 8 | 9 | - | 3 |
| YIELD INDEX | - | 5 | 4 | 8 | - | 7 |
| PRODUCT 6 | | | | | | |
| IAC | 6 | 13 | 10 | 1 | - | - |
| YIELD INDEX | 8 | 13 | 5 | 1 | - | - |
| PRODUCT 7 | | | | | | |
| IAC | 5 | 12 | 13 | 2 | - | - |
| YIELD INDEX | 4 | 12 | 6 | 2 | - | - |
| PRODUCT 8 | | | | | | |
| IAC | 9 | - | 1 | 7 | - | - |
| YIELD INDEX | 6 | - | 2 | 8 | - | - |
| PRODUCT 9 | | | | | | |
| IAC | 10 | 9 | 8 | 5 | - | - |
| YIELD INDEX | 6 | 8 | 5 | 4 | - | - |

| | | YIELD INDEX SURVEY | | | | | | | | | | | | | | | | |
|-------------|--|---------------------------------|------|------|------|------|------|------|------|------|-------|-------|-------|-------|-------|-------|--|--|
| | | RANKINGS OF YIELD INDEX AND IAC | | | | | | | | | | | | | | | | |
| | | 20 YEAR GUARANTEED BASIS | | | | | | | | | | | | | | | | |
| | | GUIDELINE LEVEL ANNUAL PREMIUM | | | | | | | | | | | | | | | | |
| | | MO 1 | MO 2 | MO 3 | MO 4 | MO 5 | MO 6 | MO 7 | MO 8 | MO 9 | MO 10 | MO 11 | MO 12 | MO 13 | MO 14 | MO 15 | | |
| PRODUCT 1 | | | | | | | | | | | | | | | | | | |
| IAC | | - | 9 | - | - | - | 3 | 2 | - | - | 6 | - | - | - | 1 | 8 | | |
| YIELD INDEX | | - | 8 | - | - | - | 3 | 2 | - | - | 6 | - | - | - | 1 | 10 | | |
| PRODUCT 2 | | | | | | | | | | | | | | | | | | |
| IAC | | - | 10 | - | - | - | 3 | 2 | - | - | 7 | - | - | - | 1 | 8 | | |
| YIELD INDEX | | - | 9 | - | - | - | 3 | 2 | - | - | 7 | - | - | - | 1 | 10 | | |
| PRODUCT 3 | | | | | | | | | | | | | | | | | | |
| IAC | | - | 9 | - | - | - | 2 | 3 | - | - | 5 | - | - | - | 1 | 4 | | |
| YIELD INDEX | | - | 9 | - | - | - | 2 | 3 | - | - | 4 | - | - | - | 1 | 5 | | |
| PRODUCT 4 | | | | | | | | | | | | | | | | | | |
| IAC | | - | 5 | - | - | - | 3 | 1 | - | - | - | - | - | - | 6 | 8 | | |
| YIELD INDEX | | - | 4 | - | - | - | 2 | 5 | - | - | - | - | - | - | 6 | 8 | | |
| PRODUCT 5 | | | | | | | | | | | | | | | | | | |
| IAC | | - | 7 | - | - | - | 2 | 1 | - | - | - | - | - | - | 3 | 6 | | |
| YIELD INDEX | | - | 7 | - | - | - | 2 | 1 | - | - | - | - | - | - | 3 | 8 | | |
| PRODUCT 6 | | | | | | | | | | | | | | | | | | |
| IAC | | 14 | 13 | 6 | 3 | 4 | - | 1 | 9 | 15 | 12 | 11 | 7 | 8 | - | - | | |
| YIELD INDEX | | 14 | 13 | 9 | 3 | 4 | - | 1 | 8 | 15 | 12 | 7 | 10 | 6 | - | - | | |
| PRODUCT 7 | | | | | | | | | | | | | | | | | | |
| IAC | | 14 | 13 | 2 | 1 | 8 | - | 7 | 9 | 15 | 12 | 5 | 3 | 10 | - | - | | |
| YIELD INDEX | | 14 | 13 | 2 | 1 | 8 | - | 7 | 9 | 15 | 12 | 5 | 3 | 10 | - | - | | |
| PRODUCT 8 | | | | | | | | | | | | | | | | | | |
| IAC | | - | 8 | 9 | 2 | 4 | - | 3 | - | 7 | - | 5 | 10 | - | - | - | | |
| YIELD INDEX | | - | 9 | 10 | 2 | 4 | - | 3 | - | 8 | - | 5 | 11 | - | - | - | | |
| PRODUCT 9 | | | | | | | | | | | | | | | | | | |
| IAC | | - | 9 | 5 | 1 | 4 | - | 2 | - | 10 | - | 3 | 6 | - | - | - | | |
| YIELD INDEX | | - | 10 | 6 | 1 | 5 | - | 4 | - | 11 | - | 3 | 7 | - | - | - | | |

YIELD INDEX SURVEY
RANKINGS OF YIELD INDEX AND IAC
20 YEAR GUARANTEED BASIS
GUIDELINE LEVEL ANNUAL PREMIUM

RUN DATE: 5/20/88

RUN TIME: 7:51:15

| | NO 16 | NO 17 | NO 18 | NO 19 | NO 20 | NO 21 |
|-------------|-------|-------|-------|-------|-------|-------|
| PRODUCT 1 | | | | | | |
| IAC | - | 10 | 5 | 7 | - | 4 |
| YIELD INDEX | - | 9 | 5 | 7 | - | 4 |
| PRODUCT 2 | | | | | | |
| IAC | - | 9 | 6 | 5 | - | 4 |
| YIELD INDEX | - | 8 | 5 | 6 | - | 4 |
| PRODUCT 3 | | | | | | |
| IAC | - | 10 | 7 | 8 | - | 6 |
| YIELD INDEX | - | 10 | 7 | 8 | - | 6 |
| PRODUCT 4 | | | | | | |
| IAC | - | - | 4 | 7 | - | 2 |
| YIELD INDEX | - | - | 3 | 7 | - | 1 |
| PRODUCT 5 | | | | | | |
| IAC | - | 8 | 5 | 9 | - | 4 |
| YIELD INDEX | - | 5 | 6 | 9 | - | 4 |
| PRODUCT 6 | | | | | | |
| IAC | 10 | 16 | 5 | 2 | - | - |
| YIELD INDEX | 11 | 16 | 5 | 2 | - | - |
| PRODUCT 7 | | | | | | |
| IAC | 6 | 16 | 11 | 4 | - | - |
| YIELD INDEX | 6 | 16 | 11 | 4 | - | - |
| PRODUCT 8 | | | | | | |
| IAC | 11 | - | 1 | 6 | - | - |
| YIELD INDEX | 6 | - | 1 | 7 | - | - |
| PRODUCT 9 | | | | | | |
| IAC | 12 | 11 | 8 | 7 | - | - |
| YIELD INDEX | 2 | 12 | 9 | 8 | - | - |

| | | YIELD INDEX SURVEY | | | | | | | | | | | | | | | | |
|-------------|--|---------------------------------|------|------|------|------|------|------|------|------|-------|-------|-------|-------|-------|-------|--|--|
| | | RANKINGS OF YIELD INDEX AND IAC | | | | | | | | | | | | | | | | |
| | | 20 YEAR GUARANTEED BASIS | | | | | | | | | | | | | | | | |
| | | FIXED DOLLAR ANNUAL PREMIUM | | | | | | | | | | | | | | | | |
| | | MO 1 | MO 2 | MO 3 | MO 4 | MO 5 | MO 6 | MO 7 | MO 8 | MO 9 | MO 10 | MO 11 | MO 12 | MO 13 | MO 14 | MO 15 | | |
| PRODUCT 1 | | | | | | | | | | | | | | | | | | |
| IAC | | - | 8 | - | - | - | 3 | 2 | - | - | 6 | - | - | - | 1 | 9 | | |
| YIELD INDEX | | - | 8 | - | - | - | 3 | 2 | - | - | 6 | - | - | - | 1 | 9 | | |
| PRODUCT 2 | | | | | | | | | | | | | | | | | | |
| IAC | | - | 9 | - | - | - | 3 | 2 | - | - | 6 | - | - | - | 1 | 7 | | |
| YIELD INDEX | | - | 9 | - | - | - | 3 | 2 | - | - | 6 | - | - | - | 1 | 8 | | |
| PRODUCT 3 | | | | | | | | | | | | | | | | | | |
| IAC | | - | - | - | - | - | 2 | 3 | - | - | 4 | - | - | - | 1 | 5 | | |
| YIELD INDEX | | - | - | - | - | - | 2 | 3 | - | - | 4 | - | - | - | 1 | 5 | | |
| PRODUCT 4 | | | | | | | | | | | | | | | | | | |
| IAC | | - | 5 | - | - | - | 4 | 1 | - | - | - | - | - | - | 6 | 8 | | |
| YIELD INDEX | | - | 5 | - | - | - | 4 | 1 | - | - | - | - | - | - | 6 | 8 | | |
| PRODUCT 5 | | | | | | | | | | | | | | | | | | |
| IAC | | - | - | - | - | - | 2 | 1 | - | - | - | - | - | - | 3 | 5 | | |
| YIELD INDEX | | - | - | - | - | - | 2 | 1 | - | - | - | - | - | - | 3 | 5 | | |
| PRODUCT 6 | | | | | | | | | | | | | | | | | | |
| IAC | | 12 | 11 | - | 9 | 3 | - | 1 | 7 | 13 | 10 | 6 | - | 5 | - | - | | |
| YIELD INDEX | | 12 | 11 | - | 9 | 3 | - | 1 | 7 | 13 | 10 | 6 | - | 5 | - | - | | |
| PRODUCT 7 | | | | | | | | | | | | | | | | | | |
| IAC | | 10 | 9 | - | 12 | 3 | - | 4 | 5 | - | 8 | 2 | - | 7 | - | - | | |
| YIELD INDEX | | 10 | 9 | - | 12 | 3 | - | 4 | 5 | - | 8 | 2 | - | 7 | - | - | | |
| PRODUCT 8 | | | | | | | | | | | | | | | | | | |
| IAC | | - | 8 | - | 2 | 4 | - | 3 | - | 7 | - | 5 | - | - | - | - | | |
| YIELD INDEX | | - | 9 | - | 2 | 4 | - | 3 | - | 8 | - | 5 | - | - | - | - | | |
| PRODUCT 9 | | | | | | | | | | | | | | | | | | |
| IAC | | - | 6 | - | 7 | 2 | - | 3 | - | - | - | 1 | - | - | - | - | | |
| YIELD INDEX | | - | 7 | - | 8 | 2 | - | 3 | - | - | - | 1 | - | - | - | - | | |

YIELD INDEX SURVEY
RANKINGS OF YIELD INDEX AND IAC
20 YEAR GUARANTEED BASIS
FIXED DOLLAR ANNUAL PREMIUM

RUN DATE: 5/20/88
RUN TIME: 7:51:28

| | NO 16 | NO 17 | NO 18 | NO 19 | NO 20 | NO 21 |
|-------------|-------|-------|-------|-------|-------|-------|
| PRODUCT 1 | | | | | | |
| IAC | - | 10 | 5 | 7 | - | 4 |
| YIELD INDEX | - | 10 | 5 | 7 | - | 4 |
| PRODUCT 2 | | | | | | |
| IAC | - | 10 | 5 | 8 | - | 4 |
| YIELD INDEX | - | 10 | 5 | 7 | - | 4 |
| PRODUCT 3 | | | | | | |
| IAC | - | - | - | - | - | 6 |
| YIELD INDEX | - | - | - | - | - | 6 |
| PRODUCT 4 | | | | | | |
| IAC | - | - | 3 | 7 | - | 2 |
| YIELD INDEX | - | - | 3 | 7 | - | 2 |
| PRODUCT 5 | | | | | | |
| IAC | - | - | 6 | - | - | 4 |
| YIELD INDEX | - | - | 6 | - | - | 4 |
| PRODUCT 6 | | | | | | |
| IAC | 8 | 14 | 4 | 2 | - | - |
| YIELD INDEX | 8 | 14 | 4 | 2 | - | - |
| PRODUCT 7 | | | | | | |
| IAC | 6 | - | 11 | 1 | - | - |
| YIELD INDEX | 6 | - | 11 | 1 | - | - |
| PRODUCT 8 | | | | | | |
| IAC | 9 | - | 1 | 6 | - | - |
| YIELD INDEX | 6 | - | 1 | 7 | - | - |
| PRODUCT 9 | | | | | | |
| IAC | 8 | - | 5 | 4 | - | - |
| YIELD INDEX | 5 | - | 6 | 4 | - | - |

APPENDIX G

| | | YIELD INDEX SURVEY | | | | | | | | | | | | | | | | |
|-------------|--|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--|--|
| | | YIELD INDEX AND IAC | | | | | | | | | | | | | | | | |
| | | 20 YEAR ILLUSTRATION BASIS | | | | | | | | | | | | | | | | |
| | | UNOLE LIFE EQUIVALENT PREMIUM | | | | | | | | | | | | | | | | |
| | | MO 1 | MO 2 | MO 3 | MO 4 | MO 5 | MO 6 | MO 7 | MO 8 | MO 9 | MO 10 | MO 11 | MO 12 | MO 13 | MO 14 | MO 15 | | |
| PRODUCT 1 | | | | | | | | | | | | | | | | | | |
| IAC | | - | 140.94 | - | - | - | 138.24 | 175.43 | - | - | 125.71 | - | - | - | 125.21 | 241.05 | | |
| YIELD INDEX | | - | 6.87 | - | - | - | 6.83 | 5.66 | - | - | 7.76 | - | - | - | 8.03 | 3.66 | | |
| PRODUCT 2 | | | | | | | | | | | | | | | | | | |
| IAC | | - | 115.09 | - | - | - | 80.15 | 134.54 | - | - | 83.98 | - | - | - | 79.19 | 206.07 | | |
| YIELD INDEX | | - | 6.99 | - | - | - | 7.52 | 6.44 | - | - | 7.38 | - | - | - | 8.34 | 4.90 | | |
| PRODUCT 3 | | | | | | | | | | | | | | | | | | |
| IAC | | - | 604.13 | - | - | - | 550.90 | 515.29 | - | - | 385.96 | - | - | - | 304.17 | 635.24 | | |
| YIELD INDEX | | - | 6.66 | - | - | - | 7.07 | 7.54 | - | - | 8.91 | - | - | - | 9.14 | 6.46 | | |
| PRODUCT 4 | | | | | | | | | | | | | | | | | | |
| IAC | | - | 4.37 | - | - | - | 61.86 | 58.71 | - | - | - | - | - | - | 73.00 | 38.03 | | |
| YIELD INDEX | | - | 7.51 | - | - | - | 6.44 | 6.76 | - | - | - | - | - | - | 4.99 | 5.68 | | |
| PRODUCT 5 | | | | | | | | | | | | | | | | | | |
| IAC | | - | 198.51 | - | - | - | 162.39 | 154.60 | - | - | - | - | - | - | 181.25 | 222.20 | | |
| YIELD INDEX | | - | 5.88 | - | - | - | 7.60 | 7.38 | - | - | - | - | - | - | 5.88 | 4.90 | | |
| PRODUCT 6 | | | | | | | | | | | | | | | | | | |
| IAC | | 121.58 | 91.32 | 19.71 | 97.09 | 69.67 | - | 233.58 | 91.73 | 83.48 | 36.26 | 97.83 | 19.71 | 134.99 | - | - | | |
| YIELD INDEX | | 7.23 | 9.35 | 7.67 | 7.68 | 6.43 | - | 3.75 | 8.44 | 6.35 | 8.79 | 7.68 | 7.67 | 6.84 | - | - | | |
| PRODUCT 7 | | | | | | | | | | | | | | | | | | |
| IAC | | 532.34 | 333.69 | 188.76 | 458.67 | 356.42 | - | 403.64 | 391.15 | 277.23 | 327.80 | 455.22 | 168.76 | 423.58 | - | - | | |
| YIELD INDEX | | 6.90 | 9.95 | 7.78 | 7.17 | 8.70 | - | 8.98 | 8.47 | 6.95 | 9.30 | 7.97 | 7.78 | 8.09 | - | - | | |
| PRODUCT 8 | | | | | | | | | | | | | | | | | | |
| IAC | | - | -6.58 | 53.00 | 40.90 | 53.07 | - | 51.81 | - | 44.30 | - | 66.07 | 53.03 | - | - | - | | |
| YIELD INDEX | | - | 7.87 | 6.12 | 8.70 | 7.00 | - | 7.26 | - | 6.31 | - | 5.66 | 6.12 | - | - | - | | |
| PRODUCT 9 | | | | | | | | | | | | | | | | | | |
| IAC | | - | 137.53 | 96.94 | 137.32 | 124.96 | - | 131.00 | - | 92.73 | - | 155.67 | 96.94 | - | - | - | | |
| YIELD INDEX | | - | 9.10 | 7.16 | 7.18 | 8.15 | - | 8.59 | - | 6.88 | - | 7.18 | 7.16 | - | - | - | | |

RUN DATE: 5/20/88
 RUN TIME: 7.44.54

YIELD INDEX SURVEY
YIELD INDEX AND IAC
20 YEAR ILLUSTRATION BASIS
WHOLE LIFE EQUIVALENT PREMIUM

RUN DATE: 5/20/88
RUN TIME: 7:45:04

| | NO 16 | NO 17 | NO 18 | NO 19 | NO 20 | NO 21 |
|-------------|--------|--------|--------|--------|-------|--------|
| PRODUCT 1 | | | | | | |
| IAC | - | 143.77 | 195.01 | 293.33 | - | 90.14 |
| YIELD INDEX | - | 6.22 | 4.91 | 2.99 | - | 8.56 |
| PRODUCT 2 | | | | | | |
| IAC | - | 101.82 | 114.93 | 213.03 | - | 41.36 |
| YIELD INDEX | - | 6.66 | 5.79 | 4.86 | - | 8.17 |
| PRODUCT 3 | | | | | | |
| IAC | - | 670.13 | 957.03 | 990.05 | - | 443.68 |
| YIELD INDEX | - | 5.68 | 3.44 | 3.26 | - | 8.06 |
| PRODUCT 4 | | | | | | |
| IAC | - | - | 48.76 | 124.39 | - | 25.04 |
| YIELD INDEX | - | - | 6.90 | 1.47 | - | 12.26 |
| PRODUCT 5 | | | | | | |
| IAC | - | 246.40 | 239.44 | 310.81 | - | 125.49 |
| YIELD INDEX | - | 3.94 | 3.98 | 2.26 | - | 8.21 |
| PRODUCT 6 | | | | | | |
| IAC | 110.64 | 151.36 | 158.34 | 52.74 | - | - |
| YIELD INDEX | 7.89 | 6.11 | 5.67 | 8.85 | - | - |
| PRODUCT 7 | | | | | | |
| IAC | 487.03 | 684.18 | 670.26 | 372.22 | - | - |
| YIELD INDEX | 7.72 | 5.63 | 5.33 | 9.50 | - | - |
| PRODUCT 8 | | | | | | |
| IAC | 62.57 | - | 39.59 | 68.77 | - | - |
| YIELD INDEX | 8.08 | - | 7.91 | 5.35 | - | - |
| PRODUCT 9 | | | | | | |
| IAC | 252.16 | 297.94 | 167.56 | 150.13 | - | - |
| YIELD INDEX | 7.74 | 2.59 | 5.97 | 7.76 | - | - |

RUN DATE: 5/20/88
 RUN TIME: 7:45:10

YIELD INDEX SURVEY
 YIELD INDEX AND IAC
 20 YEAR ILLUSTRATION BASIS
 5 PAY WHOLE LIFE EQUIVALENT PREMIUM

| | MO 1 | MO 2 | MO 3 | MO 4 | MO 5 | MO 6 | MO 7 | MO 8 | MO 9 | MO 10 | MO 11 | MO 12 | MO 13 | MO 14 | MO 15 |
|-------------|--------|--------|-------|--------|-------|--------|--------|-------|--------|--------|-------|-------|---------|--------|--------|
| PRODUCT 1 | | | | | | | | | | | | | | | |
| IAC | - | 47.27 | - | - | - | 6.54 | 54.93 | - | - | 42.85 | - | - | - | 13.73 | 102.16 |
| YIELD INDEX | - | 7.31 | - | - | - | 7.94 | 7.17 | - | - | 7.56 | - | - | - | 8.51 | 6.27 |
| PRODUCT 2 | | | | | | | | | | | | | | | |
| IAC | - | -22.60 | - | - | - | -98.96 | -28.06 | - | - | -46.89 | - | - | - | -63.18 | 32.45 |
| YIELD INDEX | - | 7.61 | - | - | - | 8.25 | 7.55 | - | - | 7.72 | - | - | - | 8.64 | 6.79 |
| PRODUCT 3 | | | | | | | | | | | | | | | |
| IAC | - | 240.86 | - | - | - | 100.66 | 111.58 | - | - | 59.54 | - | - | - | 11.71 | 216.20 |
| YIELD INDEX | - | 7.30 | - | - | - | 7.97 | 8.10 | - | - | 8.45 | - | - | - | 9.27 | 7.49 |
| PRODUCT 4 | | | | | | | | | | | | | | | |
| IAC | - | 22.33 | - | - | - | 21.08 | 33.11 | - | - | - | - | - | - | 22.24 | 75.26 |
| YIELD INDEX | - | 7.66 | - | - | - | 7.80 | 7.04 | - | - | - | - | - | - | 7.18 | 4.74 |
| PRODUCT 5 | | | | | | | | | | | | | | | |
| IAC | - | 87.34 | - | - | - | 42.50 | 50.29 | - | - | - | - | - | - | 43.06 | 103.31 |
| YIELD INDEX | - | 6.94 | - | - | - | 7.90 | 7.85 | - | - | - | - | - | - | 7.42 | 6.62 |
| PRODUCT 6 | | | | | | | | | | | | | | | |
| IAC | 8.87 | -8.82 | 0.92 | -34.69 | -5.46 | - | -5.80 | -3.54 | 65.09 | -10.78 | 2.11 | 0.92 | 9.65 | - | - |
| YIELD INDEX | 7.98 | 9.02 | 7.82 | 8.19 | 8.79 | - | 8.45 | 8.77 | 6.58 | 8.69 | 8.26 | 7.82 | 7.66 | - | - |
| PRODUCT 7 | | | | | | | | | | | | | | | |
| IAC | 128.37 | 37.64 | 89.08 | 16.72 | 37.21 | - | 21.29 | 28.28 | 175.95 | 9.60 | 86.55 | 89.08 | 2171.44 | - | - |
| YIELD INDEX | 7.75 | 9.26 | 8.03 | 7.85 | 9.02 | - | 8.92 | 8.73 | 7.34 | 8.79 | 8.47 | 8.03 | -2.16 | - | - |
| PRODUCT 8 | | | | | | | | | | | | | | | |
| IAC | - | 23.03 | 28.38 | 7.21 | 21.54 | - | 18.12 | - | 29.28 | - | 27.34 | 28.38 | - | - | - |
| YIELD INDEX | - | 7.95 | 6.94 | 8.28 | 8.01 | - | 8.04 | - | 6.81 | - | 7.31 | 6.94 | - | - | - |
| PRODUCT 9 | | | | | | | | | | | | | | | |
| IAC | - | 44.06 | 50.36 | 20.14 | 31.35 | - | 24.89 | - | 56.44 | - | 48.30 | 50.36 | - | - | - |
| YIELD INDEX | - | 8.83 | 7.60 | 7.85 | 8.66 | - | 8.66 | - | 7.33 | - | 8.03 | 7.60 | - | - | - |

YIELD INDEX SURVEY
YIELD INDEX AND IAC
20 YEAR ILLUSTRATION BASIS
5 PAY WHOLE LIFE EQUIVALENT PREMIUM

RUN DATE: 5/20/88

RUN TIME: 7:45:20

| | NO 16 | NO 17 | NO 18 | NO 19 | NO 20 | NO 21 |
|-------------|-------|--------|---------|--------|-------|--------|
| PRODUCT 1 | | | | | | |
| IAC | - | 41.72 | 59.43 | 111.46 | - | 22.58 |
| YIELD INDEX | - | 6.99 | 6.10 | 5.64 | - | 7.63 |
| PRODUCT 2 | | | | | | |
| IAC | - | -47.80 | -113.63 | -45.36 | - | -75.35 |
| YIELD INDEX | - | 7.29 | 6.43 | 6.35 | - | 7.76 |
| PRODUCT 3 | | | | | | |
| IAC | - | 268.41 | 447.07 | 414.93 | - | 149.98 |
| YIELD INDEX | - | 6.73 | 5.44 | 5.71 | - | 7.64 |
| PRODUCT 4 | | | | | | |
| IAC | - | - | 14.87 | 71.27 | - | 9.80 |
| YIELD INDEX | - | - | 6.98 | 4.83 | - | 8.64 |
| PRODUCT 5 | | | | | | |
| IAC | - | 116.22 | 111.63 | 151.95 | - | 45.44 |
| YIELD INDEX | - | 5.77 | 5.70 | 5.21 | - | 7.68 |
| PRODUCT 6 | | | | | | |
| IAC | -0.56 | 31.92 | 21.54 | 0.42 | - | - |
| YIELD INDEX | 8.85 | 7.05 | 6.56 | 8.73 | - | - |
| PRODUCT 7 | | | | | | |
| IAC | 2.13 | 248.46 | 218.45 | 26.12 | - | - |
| YIELD INDEX | 9.02 | 6.80 | 6.38 | 9.26 | - | - |
| PRODUCT 8 | | | | | | |
| IAC | 9.59 | - | 5.41 | 43.47 | - | - |
| YIELD INDEX | 8.90 | - | 7.52 | 6.54 | - | - |
| PRODUCT 9 | | | | | | |
| IAC | 28.41 | 137.03 | 54.61 | 48.78 | - | - |
| YIELD INDEX | 8.73 | 5.36 | 6.67 | 7.99 | - | - |

YIELD INDEX SURVEY
YIELD INDEX AND IAC
20 YEAR ILLUSTRATION BASIS
SUIDELINE LEVEL ANNUAL PREMIUM

RUN DATE: 5/20/88
RUN TIME: 7:45:25

| | MO 1 | MO 2 | MO 3 | MO 4 | MO 5 | MO 6 | MO 7 | MO 8 | MO 9 | MO 10 | MO 11 | MO 12 | MO 13 | MO 14 | MO 15 |
|-------------|----------|---------|---------|---------|----------|---------|---------|---------|---------|---------|----------|-------|---------|--------|---------|
| PRODUCT 1 | | | | | | | | | | | | | | | |
| IAC | -258.83 | - | - | - | -303.96 | -98.13 | - | - | -185.25 | - | - | - | - | 168.90 | 542.08 |
| YIELD INDEX | 7.64 | - | - | - | 8.48 | 7.49 | - | - | 7.43 | - | - | - | - | 5.17 | 1.31 |
| PRODUCT 2 | | | | | | | | | | | | | | | |
| IAC | -1047.92 | - | - | - | -1174.21 | -608.50 | - | - | -850.70 | - | - | - | - | 157.41 | 890.90 |
| YIELD INDEX | 7.97 | - | - | - | 8.78 | 7.98 | - | - | 7.64 | - | - | - | - | 5.31 | 2.37 |
| PRODUCT 3 | | | | | | | | | | | | | | | |
| IAC | -571.15 | - | - | - | -561.64 | -402.98 | - | - | -533.63 | - | - | - | - | 474.24 | 1664.17 |
| YIELD INDEX | 7.46 | - | - | - | 8.25 | 7.83 | - | - | 7.67 | - | - | - | - | 5.59 | 0.19 |
| PRODUCT 4 | | | | | | | | | | | | | | | |
| IAC | -36.05 | - | - | - | -46.58 | - | - | - | - | - | - | - | - | 140.52 | 199.07 |
| YIELD INDEX | 7.66 | - | - | - | 8.27 | - | - | - | - | - | - | - | - | 2.22 | -0.01 |
| PRODUCT 5 | | | | | | | | | | | | | | | |
| IAC | -86.55 | - | - | - | -113.64 | -51.24 | - | - | - | - | - | - | - | 332.11 | 480.78 |
| YIELD INDEX | 7.19 | - | - | - | 8.14 | 7.63 | - | - | - | - | - | - | - | 2.29 | -0.51 |
| PRODUCT 6 | | | | | | | | | | | | | | | |
| IAC | -295.79 | -363.09 | - | -346.54 | -322.34 | - | -243.46 | -336.82 | -213.31 | -293.69 | -426.14 | - | -210.88 | - | - |
| YIELD INDEX | 8.07 | 8.50 | - | 8.43 | 8.99 | - | 8.70 | 8.76 | 7.51 | 8.24 | 8.62 | - | 7.94 | - | - |
| PRODUCT 7 | | | | | | | | | | | | | | | |
| IAC | -571.98 | -820.50 | - | -652.08 | -760.04 | - | -650.14 | -727.06 | -460.98 | -682.94 | -1050.74 | - | 56.96 | - | - |
| YIELD INDEX | 7.84 | 8.50 | - | 8.22 | 8.94 | - | 8.71 | 8.46 | 7.86 | 8.20 | 8.60 | - | 6.56 | - | - |
| PRODUCT 8 | | | | | | | | | | | | | | | |
| IAC | -54.25 | - | -57.83 | -44.80 | - | -30.78 | - | -25.45 | - | -40.45 | - | - | - | - | - |
| YIELD INDEX | 8.00 | - | 8.49 | 8.42 | - | 8.33 | - | 7.39 | - | 7.91 | - | - | - | - | - |
| PRODUCT 9 | | | | | | | | | | | | | | | |
| IAC | -168.02 | - | -128.12 | -154.51 | - | -135.24 | - | -91.53 | - | -195.07 | - | - | - | - | - |
| YIELD INDEX | 8.23 | - | 8.13 | 8.65 | - | 8.50 | - | 7.78 | - | 8.28 | - | - | - | - | - |

YIELD INDEX SURVEY
YIELD INDEX AND IAC
20 YEAR ILLUSTRATION BASIS
GUIDELINE LEVEL ANNUAL PREMIUM

RUN DATE: 5/20/88

RUN TIME: 7:45:35

| | NO 16 | NO 17 | NO 18 | NO 19 | NO 20 | NO 21 |
|-------------|---------|---------|---------|---------|-------|---------|
| PRODUCT 1 | | | | | | |
| IAC | - | -161.72 | 22.90 | 28.60 | - | -210.61 |
| YIELD INDEX | - | 7.11 | 6.00 | 6.00 | - | 7.77 |
| PRODUCT 2 | | | | | | |
| IAC | - | -790.64 | -356.91 | -537.86 | - | -995.66 |
| YIELD INDEX | - | 7.44 | 6.45 | 6.92 | - | 8.28 |
| PRODUCT 3 | | | | | | |
| IAC | - | -286.28 | 317.22 | 141.06 | - | -627.55 |
| YIELD INDEX | - | 6.86 | 5.44 | 5.96 | - | 7.91 |
| PRODUCT 4 | | | | | | |
| IAC | - | - | 5.73 | 68.84 | - | -37.61 |
| YIELD INDEX | - | - | 6.77 | 4.86 | - | 8.17 |
| PRODUCT 5 | | | | | | |
| IAC | - | 22.40 | 79.51 | 107.90 | - | -88.66 |
| YIELD INDEX | - | 6.12 | 5.66 | 5.31 | - | 7.48 |
| PRODUCT 6 | | | | | | |
| IAC | -430.87 | -175.39 | -20.48 | -234.81 | - | - |
| YIELD INDEX | 9.30 | 7.15 | 6.66 | 9.00 | - | - |
| PRODUCT 7 | | | | | | |
| IAC | -867.64 | -294.35 | 26.27 | -688.95 | - | - |
| YIELD INDEX | 9.07 | 6.91 | 6.47 | 9.22 | - | - |
| PRODUCT 8 | | | | | | |
| IAC | -198.24 | - | -5.13 | 17.00 | - | - |
| YIELD INDEX | 9.26 | - | 7.51 | 6.98 | - | - |
| PRODUCT 9 | | | | | | |
| IAC | -440.63 | 65.10 | 6.56 | -66.13 | - | - |
| YIELD INDEX | 9.07 | 5.72 | 6.72 | 8.01 | - | - |

YIELD INDEX SURVEY
YIELD INDEX AND IAC
20 YEAR ILLUSTRATION BASIS
FIXED DOLLAR ANNUAL PREMIUM

RUN DATE: 5/20/88
RUN TIME: 7:45:41

| | MO 1 | MO 2 | MO 3 | MO 4 | MO 5 | MO 6 | MO 7 | MO 8 | MO 9 | MO 10 | MO 11 | MO 12 | MO 13 | MO 14 | MO 15 |
|-------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|--------|-------|
| PRODUCT 1 | | | | | | | | | | | | | | | |
| IAC | -114.94 | - | - | - | -262.87 | -125.54 | - | - | -106.76 | - | - | - | -277.07 | -20.01 | - |
| YIELD INDEX | 7.47 | - | - | - | 8.44 | 7.54 | - | - | 7.41 | - | - | - | 8.55 | 6.76 | - |
| PRODUCT 2 | | | | | | | | | | | | | | | |
| IAC | -81.79 | - | - | - | -219.27 | -91.09 | - | - | -89.22 | - | - | - | -258.29 | 15.50 | - |
| YIELD INDEX | 7.45 | - | - | - | 8.40 | 7.52 | - | - | 7.50 | - | - | - | 8.67 | 6.69 | - |
| PRODUCT 3 | | | | | | | | | | | | | | | |
| IAC | 228.50 | - | - | - | -81.09 | -27.09 | - | - | -65.80 | - | - | - | -344.92 | 170.35 | - |
| YIELD INDEX | 6.93 | - | - | - | 7.97 | 7.79 | - | - | 7.90 | - | - | - | 8.80 | 7.14 | - |
| PRODUCT 4 | | | | | | | | | | | | | | | |
| IAC | -0.47 | - | - | - | -20.92 | 7.71 | - | - | - | - | - | - | 17.59 | 85.12 | - |
| YIELD INDEX | 7.53 | - | - | - | 8.14 | 7.27 | - | - | - | - | - | - | 6.97 | 4.30 | - |
| PRODUCT 5 | | | | | | | | | | | | | | | |
| IAC | 127.44 | - | - | - | 27.03 | 44.11 | - | - | - | - | - | - | 108.89 | 150.14 | - |
| YIELD INDEX | 6.30 | - | - | - | 7.80 | 7.55 | - | - | - | - | - | - | 6.62 | 5.88 | - |
| PRODUCT 6 | | | | | | | | | | | | | | | |
| IAC | -196.08 | -275.26 | -242.64 | -253.54 | -354.12 | - | -310.60 | -311.89 | -59.23 | -234.13 | -278.34 | -242.64 | -180.41 | - | - |
| YIELD INDEX | 8.01 | 8.53 | 8.34 | 8.38 | 9.01 | - | 8.73 | 8.75 | 7.13 | 8.27 | 8.54 | 8.34 | 7.91 | - | - |
| PRODUCT 7 | | | | | | | | | | | | | | | |
| IAC | 37.40 | -298.70 | -93.47 | -14.67 | -361.11 | - | -362.58 | -259.24 | 180.05 | -219.63 | -211.65 | -93.47 | - | - | - |
| YIELD INDEX | 7.51 | 8.67 | 8.04 | 7.69 | 8.84 | - | 8.77 | 8.51 | 7.11 | 8.38 | 8.35 | 8.04 | - | - | - |
| PRODUCT 8 | | | | | | | | | | | | | | | |
| IAC | -11.90 | 11.32 | -32.67 | -26.04 | - | -27.51 | - | 21.35 | - | -3.23 | 11.32 | - | - | - | - |
| YIELD INDEX | 7.89 | 7.18 | 8.45 | 8.31 | - | 8.31 | - | 6.83 | - | 7.61 | 7.18 | - | - | - | - |
| PRODUCT 9 | | | | | | | | | | | | | | | |
| IAC | -11.85 | 59.06 | 27.84 | -19.65 | - | -34.72 | - | 90.88 | - | 22.70 | 59.06 | - | - | - | - |
| YIELD INDEX | 8.36 | 7.38 | 7.72 | 8.45 | - | 8.54 | - | 6.88 | - | 7.84 | 7.38 | - | - | - | - |

| YIELD INDEX SURVEY YIELD INDEX AND IAC 20 YEAR ILLUSTRATION BASIS FIXED DOLLAR ANNUAL PREMIUM | | | | | | |
|--|---------|--------|--------|---------|-------|---------|
| RUN DATE: 5/20/88 | | | | | | |
| RUN TIME: 7:45:51 | | | | | | |
| | NO 16 | NO 17 | NO 18 | NO 19 | NO 20 | NO 21 |
| PRODUCT 1 | | | | | | |
| IAC | - | -57.53 | 85.44 | 144.25 | - | -159.88 |
| YIELD INDEX | - | 7.00 | 5.87 | 5.33 | - | 7.77 |
| PRODUCT 2 | | | | | | |
| IAC | - | -38.64 | 124.41 | 194.48 | - | -132.71 |
| YIELD INDEX | - | 7.08 | 5.74 | 5.06 | - | 7.81 |
| PRODUCT 3 | | | | | | |
| IAC | - | 360.42 | 933.30 | 909.80 | - | -23.81 |
| YIELD INDEX | - | 6.32 | 3.59 | 3.78 | - | 7.79 |
| PRODUCT 4 | | | | | | |
| IAC | - | - | 21.37 | 106.57 | - | -27.37 |
| YIELD INDEX | - | - | 6.80 | 3.27 | - | 8.31 |
| PRODUCT 5 | | | | | | |
| IAC | - | 215.38 | 233.32 | 328.65 | - | 34.98 |
| YIELD INDEX | - | 4.51 | 4.11 | 1.57 | - | 7.67 |
| PRODUCT 6 | | | | | | |
| IAC | -403.46 | -53.16 | -4.72 | -298.29 | - | - |
| YIELD INDEX | 9.28 | 7.01 | 6.62 | 8.99 | - | - |
| PRODUCT 7 | | | | | | |
| IAC | -337.09 | 383.66 | 482.95 | -499.25 | - | - |
| YIELD INDEX | 8.77 | 6.32 | 5.85 | 9.23 | - | - |
| PRODUCT 8 | | | | | | |
| IAC | -173.46 | - | -1.19 | 17.74 | - | - |
| YIELD INDEX | 9.24 | - | 7.52 | 6.97 | - | - |
| PRODUCT 9 | | | | | | |
| IAC | -135.68 | 311.78 | 120.73 | 26.34 | - | - |
| YIELD INDEX | 8.72 | 2.09 | 6.31 | 7.85 | - | - |

| | | YIELD INDEX SURVEY YIELD INDEX AND IAC 20 YEAR GUARANTEED BASIS WHOLE LIFE EQUIVALENT PREMIUM | | | | | | | | | | | | | | |
|-------------|--|--|--------|------|--------|--------|--------|--------|--------|--------|--------|---------|-------|--------|--------|--------|
| | | MO 1 | MO 2 | MO 3 | MO 4 | MO 5 | MO 6 | MO 7 | MO 8 | MO 9 | MO 10 | MO 11 | MO 12 | MO 13 | MO 14 | MO 15 |
| PRODUCT 1 | | | | | | | | | | | | | | | | |
| IAC | | - | - | - | - | - | 339.25 | 338.45 | - | - | 354.11 | - | - | - | 324.00 | 425.65 |
| YIELD INDEX | | - | - | - | - | - | 1.21 | 1.78 | - | - | -1.76 | - | - | - | -5.30 | -4.30 |
| PRODUCT 2 | | | | | | | | | | | | | | | | |
| IAC | | - | 420.63 | - | - | - | 356.31 | 352.23 | - | - | 404.93 | - | - | - | 324.79 | 449.05 |
| YIELD INDEX | | - | -2.54 | - | - | - | 2.43 | 2.74 | - | - | -0.22 | - | - | - | 3.12 | -1.19 |
| PRODUCT 3 | | | | | | | | | | | | | | | | |
| IAC | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| YIELD INDEX | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| PRODUCT 4 | | | | | | | | | | | | | | | | |
| IAC | | - | 124.79 | - | - | - | 110.07 | 68.32 | - | - | - | - | - | - | 151.00 | 198.40 |
| YIELD INDEX | | - | 4.24 | - | - | - | 8.33 | 11.69 | - | - | - | - | - | - | -32.20 | 1.40 |
| PRODUCT 5 | | | | | | | | | | | | | | | | |
| IAC | | - | - | - | - | - | - | 336.00 | - | - | - | - | - | - | - | - |
| YIELD INDEX | | - | - | - | - | - | - | 0.45 | - | - | - | - | - | - | - | - |
| PRODUCT 6 | | | | | | | | | | | | | | | | |
| IAC | | 379.16 | - | - | 363.46 | 293.78 | - | 474.75 | 292.08 | 445.24 | 343.73 | 292.94 | - | 307.09 | - | - |
| YIELD INDEX | | -5.49 | - | - | -0.71 | 4.74 | - | -9.71 | 4.79 | 1.40 | 1.27 | 4.66 | - | 3.80 | - | - |
| PRODUCT 7 | | | | | | | | | | | | | | | | |
| IAC | | - | - | - | - | - | - | - | - | - | - | 1159.84 | - | - | - | - |
| YIELD INDEX | | - | - | - | - | - | - | - | - | - | - | -8.36 | - | - | - | - |
| PRODUCT 8 | | | | | | | | | | | | | | | | |
| IAC | | - | 144.03 | - | 91.65 | 110.38 | - | 111.31 | - | 136.68 | - | 110.52 | - | - | - | - |
| YIELD INDEX | | - | 2.91 | - | 12.61 | 7.32 | - | 7.47 | - | 3.16 | - | 6.69 | - | - | - | - |
| PRODUCT 9 | | | | | | | | | | | | | | | | |
| IAC | | - | - | - | - | - | - | 305.00 | - | - | - | 330.79 | - | - | - | - |
| YIELD INDEX | | - | - | - | - | - | - | 3.24 | - | - | - | -8.17 | - | - | - | - |

RUN DATE: 5/20/88
 RUN TIME: 7:51:35

YIELD INDEX SURVEY
YIELD INDEX AND IAC
20 YEAR GUARANTEED BASIS
WHOLE LIFE EQUIVALENT PREMIUM

RUN DATE: 5/20/88
RUN TIME: 7:51:45

| | NO 16 | NO 17 | NO 18 | NO 19 | NO 20 | NO 21 |
|-------------|-------|--------|---------|--------|-------|--------|
| PRODUCT 1 | | | | | | |
| IAC | - | - | 412.70 | 467.41 | - | - |
| YIELD INDEX | - | - | 0.97 | -0.43 | - | - |
| PRODUCT 2 | | | | | | |
| IAC | - | 481.12 | 496.62 | 524.19 | - | 386.76 |
| YIELD INDEX | - | -2.22 | 2.30 | 1.34 | - | 0.61 |
| PRODUCT 3 | | | | | | |
| IAC | - | - | 1957.51 | - | - | - |
| YIELD INDEX | - | - | -35.64 | - | - | - |
| PRODUCT 4 | | | | | | |
| IAC | - | - | 103.17 | 168.43 | - | 90.80 |
| YIELD INDEX | - | - | 7.25 | -0.14 | - | 26.94 |
| PRODUCT 5 | | | | | | |
| IAC | - | - | 489.07 | - | - | - |
| YIELD INDEX | - | - | -24.15 | - | - | - |
| PRODUCT 6 | | | | | | |
| IAC | - | - | 338.42 | - | - | - |
| YIELD INDEX | - | - | 3.22 | - | - | - |
| PRODUCT 7 | | | | | | |
| IAC | - | - | - | - | - | - |
| YIELD INDEX | - | - | - | - | - | - |
| PRODUCT 8 | | | | | | |
| IAC | - | - | 84.60 | - | - | - |
| YIELD INDEX | - | - | 10.29 | - | - | - |
| PRODUCT 9 | | | | | | |
| IAC | - | - | - | - | - | - |
| YIELD INDEX | - | - | - | - | - | - |

| | | YIELD INDEX SURVEY | | | | | | | | | | | | | | | | |
|-------------|--|-------------------------------------|--------|--------|---------|-----------|---------|--------|---------|-----------|---------|---------|-------|----------|---------|-------|--|--|
| | | YIELD INDEX AND IAC | | | | | | | | | | | | | | | | |
| | | 20 YEAR GUARANTEED BASIS | | | | | | | | | | | | | | | | |
| | | 5 PAY WHOLE LIFE EQUIVALENT PREMIUM | | | | | | | | | | | | | | | | |
| | | MO 1 | MO 2 | MO 3 | MO 4 | MO 5 | MO 6 | MO 7 | MO 8 | MO 9 | MO 10 | MO 11 | MO 12 | MO 13 | MO 14 | MO 15 | | |
| PRODUCT 1 | | | | | | | | | | | | | | | | | | |
| IAC | | - 389.10 | - | - | - | - 352.43 | 332.47 | - | - | - 364.43 | - | - | - | - 311.98 | 438.46 | | | |
| YIELD INDEX | | - -0.33 | - | - | - | - 2.68 | 3.59 | - | - | - 0.47 | - | - | - | - 3.98 | 0.31 | | | |
| PRODUCT 2 | | | | | | | | | | | | | | | | | | |
| IAC | | - 456.35 | - | - | - | - 380.86 | 351.83 | - | - | - 431.06 | - | - | - | - 312.89 | 474.51 | | | |
| YIELD INDEX | | - 0.79 | - | - | - | - 3.13 | 3.85 | - | - | - 1.96 | - | - | - | - 4.16 | 1.33 | | | |
| PRODUCT 3 | | | | | | | | | | | | | | | | | | |
| IAC | | - 1212.11 | - | - | - | - 1140.89 | 1103.02 | - | - | - 1063.76 | - | - | - | - 947.73 | 1177.71 | | | |
| YIELD INDEX | | - -8.77 | - | - | - | - -2.34 | -3.51 | - | - | - -4.80 | - | - | - | - -1.26 | -6.22 | | | |
| PRODUCT 4 | | | | | | | | | | | | | | | | | | |
| IAC | | - 110.18 | - | - | - | - 114.43 | 87.25 | - | - | - | - | - | - | - 141.05 | 175.09 | | | |
| YIELD INDEX | | - 5.73 | - | - | - | - 5.39 | 7.19 | - | - | - | - | - | - | - 1.27 | -0.65 | | | |
| PRODUCT 5 | | | | | | | | | | | | | | | | | | |
| IAC | | - 339.77 | - | - | - | - 306.41 | 304.33 | - | - | - | - | - | - | - 348.80 | 354.36 | | | |
| YIELD INDEX | | - -5.47 | - | - | - | - -1.00 | 0.54 | - | - | - | - | - | - | - -1.07 | -4.03 | | | |
| PRODUCT 6 | | | | | | | | | | | | | | | | | | |
| IAC | | 365.13 | 297.73 | - | 376.96 | 295.38 | - | 317.86 | 293.57 | 482.20 | 374.48 | 299.81 | - | 322.50 | - | - | | |
| YIELD INDEX | | 0.40 | 0.11 | - | 1.97 | 4.68 | - | 3.75 | 4.46 | -20.57 | 1.99 | 4.46 | - | 3.90 | - | - | | |
| PRODUCT 7 | | | | | | | | | | | | | | | | | | |
| IAC | | 1174.24 | 927.23 | - | 1234.17 | 966.14 | - | 980.04 | 1022.42 | 1265.61 | 1024.85 | 1028.33 | - | - | - | - | | |
| YIELD INDEX | | -4.15 | -7.71 | - | -6.91 | -0.07 | - | -2.02 | -2.54 | -16.77 | -4.33 | 0.34 | - | - | - | - | | |
| PRODUCT 8 | | | | | | | | | | | | | | | | | | |
| IAC | | - 110.48 | - | - | 96.04 | 110.82 | - | 109.62 | - | 145.91 | - | 113.31 | - | - | - | - | | |
| YIELD INDEX | | - 3.31 | - | - | 6.80 | 5.46 | - | 5.50 | - | -10.92 | - | 5.36 | - | - | - | - | | |
| PRODUCT 9 | | | | | | | | | | | | | | | | | | |
| IAC | | - 256.73 | - | 327.12 | 272.72 | - | 271.67 | - | 338.72 | - | 291.82 | - | - | - | - | - | | |
| YIELD INDEX | | - -5.73 | - | -3.32 | 0.85 | - | 5.05 | - | -14.51 | - | 0.98 | - | - | - | - | - | | |

RUN DATE: 5/20/88
 RUN TIME: 7:51:50

YIELD INDEX SURVEY
YIELD INDEX AND IAC
20 YEAR GUARANTEED BASIS
\$ PAY WHOLE LIFE EQUIVALENT PREMIUM

RUN DATE: 5/20/88
RUN TIME: 7:52:00

| | NO 16 | NO 17 | NO 18 | NO 19 | NO 20 | NO 21 |
|-------------|--------|---------|---------|---------|-------|---------|
| PRODUCT 1 | | | | | | |
| IAC | - | 451.98 | 442.13 | 493.95 | - | 386.53 |
| YIELD INDEX | - | -1.14 | 2.59 | 1.73 | - | 0.59 |
| PRODUCT 2 | | | | | | |
| IAC | - | 512.84 | 582.21 | 589.50 | - | 428.37 |
| YIELD INDEX | - | 0.94 | 3.06 | 2.50 | - | 2.41 |
| PRODUCT 3 | | | | | | |
| IAC | - | 1384.08 | 1860.11 | 1716.49 | - | 1198.33 |
| YIELD INDEX | - | -8.06 | -3.31 | -5.26 | - | -8.84 |
| PRODUCT 4 | | | | | | |
| IAC | - | - | 110.52 | 176.83 | - | 99.87 |
| YIELD INDEX | - | - | 5.13 | 1.83 | - | 7.08 |
| PRODUCT 5 | | | | | | |
| IAC | - | 450.24 | 465.18 | 483.84 | - | 322.26 |
| YIELD INDEX | - | -3.83 | -2.00 | -4.86 | - | -4.83 |
| PRODUCT 6 | | | | | | |
| IAC | 301.35 | 462.40 | 344.85 | 284.07 | - | - |
| YIELD INDEX | 3.72 | -1.41 | 3.93 | 5.08 | - | - |
| PRODUCT 7 | | | | | | |
| IAC | 982.34 | 1385.46 | 1623.06 | 932.67 | - | - |
| YIELD INDEX | -1.99 | -8.12 | -2.17 | 0.29 | - | - |
| PRODUCT 8 | | | | | | |
| IAC | 164.17 | - | 94.96 | 128.33 | - | - |
| YIELD INDEX | 5.31 | - | 6.10 | 2.59 | - | - |
| PRODUCT 9 | | | | | | |
| IAC | 521.19 | 492.28 | 405.77 | 299.79 | - | - |
| YIELD INDEX | -1.62 | -3.52 | -0.76 | -0.52 | - | - |

| | | YIELD INDEX SURVEY | | | | | | | | | | | | | | | | |
|-------------|--|--------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|--|--|
| | | YIELD INDEX AND IAC | | | | | | | | | | | | | | | | |
| | | 20 YEAR GUARANTEED BASIS | | | | | | | | | | | | | | | | |
| | | GUIDELINE LEVEL ANNUAL PREMIUM | | | | | | | | | | | | | | | | |
| | | MO 1 | MO 2 | MO 3 | MO 4 | MO 5 | MO 6 | MO 7 | MO 8 | MO 9 | MO 10 | MO 11 | MO 12 | MO 13 | MO 14 | MO 15 | | |
| PRODUCT 1 | | | | | | | | | | | | | | | | | | |
| IAC | | - | 548.16 | - | - | - | 382.03 | 355.07 | - | - | 508.80 | - | - | - | 280.74 | 542.08 | | |
| YIELD INDEX | | - | 2.17 | - | - | - | 3.63 | 3.84 | - | - | 2.39 | - | - | - | 4.84 | 2.05 | | |
| PRODUCT 2 | | | | | | | | | | | | | | | | | | |
| IAC | | - | 951.06 | - | - | - | 579.98 | 466.93 | - | - | 889.46 | - | - | - | 289.19 | 890.98 | | |
| YIELD INDEX | | - | 2.67 | - | - | - | 3.79 | 4.66 | - | - | 2.83 | - | - | - | 5.06 | 2.66 | | |
| PRODUCT 3 | | | | | | | | | | | | | | | | | | |
| IAC | | - | 1952.00 | - | - | - | 1299.75 | 1357.05 | - | - | 1666.48 | - | - | - | 1169.87 | 1664.17 | | |
| YIELD INDEX | | - | -0.58 | - | - | - | 1.90 | 1.61 | - | - | 0.40 | - | - | - | 2.60 | 0.36 | | |
| PRODUCT 4 | | | | | | | | | | | | | | | | | | |
| IAC | | - | 137.31 | - | - | - | 120.88 | 92.79 | - | - | - | - | - | - | 177.19 | 199.07 | | |
| YIELD INDEX | | - | 3.79 | - | - | - | 4.48 | 3.76 | - | - | - | - | - | - | 1.98 | 1.41 | | |
| PRODUCT 5 | | | | | | | | | | | | | | | | | | |
| IAC | | - | 488.27 | - | - | - | 348.03 | 343.84 | - | - | - | - | - | - | 422.21 | 480.78 | | |
| YIELD INDEX | | - | -0.03 | - | - | - | 2.21 | 2.30 | - | - | - | - | - | - | 0.95 | -0.04 | | |
| PRODUCT 6 | | | | | | | | | | | | | | | | | | |
| IAC | | 486.40 | 471.08 | 343.44 | 333.40 | 335.77 | - | 295.78 | 376.19 | 513.19 | 426.40 | 385.60 | 343.44 | 362.31 | - | - | | |
| YIELD INDEX | | 2.62 | 2.77 | 3.67 | 4.25 | 4.12 | - | 4.59 | 3.68 | 2.46 | 3.22 | 3.77 | 3.67 | 3.85 | - | - | | |
| PRODUCT 7 | | | | | | | | | | | | | | | | | | |
| IAC | | 1600.50 | 1543.01 | 1036.30 | 1001.45 | 1193.72 | - | 1177.26 | 1318.43 | 1622.56 | 1498.29 | 1155.22 | 1036.30 | 1350.68 | - | - | | |
| YIELD INDEX | | 0.64 | 0.94 | 3.15 | 3.67 | 2.47 | - | 2.47 | 1.88 | 0.57 | 1.11 | 2.85 | 3.15 | 1.71 | - | - | | |
| PRODUCT 8 | | | | | | | | | | | | | | | | | | |
| IAC | | - | 155.38 | 155.63 | 92.60 | 121.01 | - | 104.77 | - | 152.60 | - | 129.57 | 155.63 | - | - | - | | |
| YIELD INDEX | | - | 3.05 | 2.09 | 5.66 | 4.53 | - | 5.35 | - | 3.15 | - | 4.09 | 2.09 | - | - | - | | |
| PRODUCT 9 | | | | | | | | | | | | | | | | | | |
| IAC | | - | 423.72 | 335.59 | 255.70 | 335.30 | - | 324.74 | - | 430.88 | - | 328.42 | 335.59 | - | - | - | | |
| YIELD INDEX | | - | 0.97 | 2.23 | 4.22 | 2.54 | - | 2.67 | - | 0.78 | - | 2.75 | 2.23 | - | - | - | | |

RUN DATE: 5/20/88
 RUN TIME: 7:52:06

YIELD INDEX SURVEY
YIELD INDEX AND IAC
20 YEAR GUARANTEED BASIS
GUIDELINE LEVEL ANNUAL PREMIUM

RUN DATE: 5/20/88
RUN TIME: 7:52:16

| | NO 16 | NO 17 | NO 18 | NO 19 | NO 20 | NO 21 |
|-------------|---------|---------|---------|---------|-------|---------|
| PRODUCT 1 | | | | | | |
| IAC | - | 559.15 | 484.05 | 528.85 | - | 426.10 |
| YIELD INDEX | - | 2.07 | 2.74 | 2.35 | - | 3.20 |
| PRODUCT 2 | | | | | | |
| IAC | - | 924.89 | 838.65 | 838.09 | - | 611.09 |
| YIELD INDEX | - | 2.77 | 3.12 | 3.06 | - | 3.71 |
| PRODUCT 3 | | | | | | |
| IAC | - | 1976.36 | 1825.72 | 1828.37 | - | 1687.45 |
| YIELD INDEX | - | -0.80 | -0.20 | -0.30 | - | 0.27 |
| PRODUCT 4 | | | | | | |
| IAC | - | - | 121.00 | 187.89 | - | 105.77 |
| YIELD INDEX | - | - | 4.46 | 1.95 | - | 5.18 |
| PRODUCT 5 | | | | | | |
| IAC | - | 497.64 | 456.50 | 523.08 | - | 427.79 |
| YIELD INDEX | - | 0.55 | 0.39 | -0.71 | - | 0.82 |
| PRODUCT 6 | | | | | | |
| IAC | 385.19 | 561.20 | 339.46 | 310.16 | - | - |
| YIELD INDEX | 3.56 | 2.10 | 4.11 | 4.39 | - | - |
| PRODUCT 7 | | | | | | |
| IAC | 1176.44 | 1919.44 | 1482.58 | 1082.72 | - | - |
| YIELD INDEX | 2.69 | -0.54 | 1.13 | 2.99 | - | - |
| PRODUCT 8 | | | | | | |
| IAC | 208.74 | - | 84.88 | 141.05 | - | - |
| YIELD INDEX | 3.87 | - | 6.20 | 3.26 | - | - |
| PRODUCT 9 | | | | | | |
| IAC | 555.85 | 508.86 | 370.65 | 359.43 | - | - |
| YIELD INDEX | 3.33 | 0.50 | 1.82 | 1.86 | - | - |

| | | YIELD INDEX SURVEY YIELD INDEX AND IAC 20 YEAR GUARANTEED BASIS FIXED DOLLAR ANNUAL PREMIUM | | | | | | | | | | | | | | |
|-------------|--|--|---------|------|---------|-----------|---------|---------|---------|-----------|---------|---------|-------|-----------|---------|-------|
| | | MO 1 | MO 2 | MO 3 | MO 4 | MO 5 | MO 6 | MO 7 | MO 8 | MO 9 | MO 10 | MO 11 | MO 12 | MO 13 | MO 14 | MO 15 |
| PRODUCT 1 | | | | | | | | | | | | | | | | |
| IAC | | - 504.97 | - | - | - | - 378.04 | 356.61 | - | - | - 471.22 | - | - | - | - 289.45 | 507.65 | |
| YIELD INDEX | | - 1.72 | - | - | - | - 3.59 | 3.88 | - | - | - 2.27 | - | - | - | - 4.92 | 1.68 | |
| PRODUCT 2 | | | | | | | | | | | | | | | | |
| IAC | | - 534.28 | - | - | - | - 409.23 | 388.44 | - | - | - 497.94 | - | - | - | - 302.26 | 531.90 | |
| YIELD INDEX | | - 1.46 | - | - | - | - 3.45 | 3.74 | - | - | - 2.10 | - | - | - | - 4.85 | 1.51 | |
| PRODUCT 3 | | | | | | | | | | | | | | | | |
| IAC | | - | - | - | - | - 1389.59 | 1468.71 | - | - | - 1688.62 | - | - | - | - 1283.45 | 1706.42 | |
| YIELD INDEX | | - | - | - | - | - 0.26 | -0.52 | - | - | - -3.68 | - | - | - | - 1.42 | -3.97 | |
| PRODUCT 4 | | | | | | | | | | | | | | | | |
| IAC | | - 126.26 | - | - | - | - 118.29 | 92.74 | - | - | - | - | - | - | - 164.80 | 183.50 | |
| YIELD INDEX | | - 4.17 | - | - | - | - 4.65 | 5.99 | - | - | - | - | - | - | - 1.32 | 0.26 | |
| PRODUCT 5 | | | | | | | | | | | | | | | | |
| IAC | | - | - | - | - | - 374.19 | 372.15 | - | - | - | - | - | - | - 432.60 | 493.76 | |
| YIELD INDEX | | - | - | - | - | - 0.46 | 0.62 | - | - | - | - | - | - | - -2.79 | -0.83 | |
| PRODUCT 6 | | | | | | | | | | | | | | | | |
| IAC | | 461.19 | 449.27 | - | 396.36 | 338.84 | - | 290.97 | 372.48 | 479.62 | 407.50 | 360.24 | - | 357.50 | - | - |
| YIELD INDEX | | 2.42 | 2.62 | - | 3.34 | 4.12 | - | 4.65 | 3.67 | 2.14 | 3.22 | 3.82 | - | 3.85 | - | - |
| PRODUCT 7 | | | | | | | | | | | | | | | | |
| IAC | | 1671.05 | 1607.65 | - | 1857.34 | 1249.70 | - | 1287.92 | 1353.87 | - | 1557.13 | 1223.63 | - | 1435.87 | - | - |
| YIELD INDEX | | -3.19 | -2.24 | - | -7.87 | 1.64 | - | 1.26 | 0.68 | - | -1.62 | 1.78 | - | -0.48 | - | - |
| PRODUCT 8 | | | | | | | | | | | | | | | | |
| IAC | | - 145.30 | - | - | 99.10 | 119.21 | - | 105.04 | - | 141.86 | - | 122.75 | - | - | - | - |
| YIELD INDEX | | - 2.94 | - | - | 5.63 | 4.65 | - | 5.36 | - | 3.16 | - | 4.38 | - | - | - | - |
| PRODUCT 9 | | | | | | | | | | | | | | | | |
| IAC | | - 442.55 | - | - | 464.34 | 354.03 | - | 361.86 | - | - | - | 344.75 | - | - | - | - |
| YIELD INDEX | | - -3.38 | - | - | -5.81 | 1.43 | - | 1.03 | - | - | - | 1.68 | - | - | - | - |

RUN DATE: 5/20/88
 RUN TIME: 7:52:21

YIELD INDEX SURVEY
YIELD INDEX AND IAC
20 YEAR GUARANTEED BASIS
FIXED DOLLAR ANNUAL PREMIUM

RUN DATE: 5/20/88

RUN TIME: 7:52:31

| | NO 16 | NO 17 | NO 18 | NO 19 | NO 20 | NO 21 |
|-------------|---------|--------|---------|---------|-------|---------|
| PRODUCT 1 | | | | | | |
| IAC | - | 523.90 | 458.14 | 500.91 | - | 416.61 |
| YIELD INDEX | - | 1.50 | 2.47 | 1.79 | - | 3.08 |
| PRODUCT 2 | | | | | | |
| IAC | - | 553.71 | 458.14 | 531.90 | - | 450.39 |
| YIELD INDEX | - | 1.22 | 2.43 | 1.51 | - | 2.85 |
| PRODUCT 3 | | | | | | |
| IAC | - | - | - | - | - | 1898.93 |
| YIELD INDEX | - | - | - | - | - | -9.34 |
| PRODUCT 4 | | | | | | |
| IAC | - | - | 114.54 | 173.85 | - | 103.42 |
| YIELD INDEX | - | - | 4.84 | 1.05 | - | 5.45 |
| PRODUCT 5 | | | | | | |
| IAC | - | - | 500.00 | - | - | 481.88 |
| YIELD INDEX | - | - | -27.64 | - | - | -8.09 |
| PRODUCT 6 | | | | | | |
| IAC | 380.78 | 521.39 | 339.36 | 316.76 | - | - |
| YIELD INDEX | 3.57 | 1.44 | 4.08 | 4.34 | - | - |
| PRODUCT 7 | | | | | | |
| IAC | 1363.61 | - | 1723.55 | 1123.97 | - | - |
| YIELD INDEX | 0.60 | - | -4.42 | 2.61 | - | - |
| PRODUCT 8 | | | | | | |
| IAC | 203.88 | - | 84.85 | 140.95 | - | - |
| YIELD INDEX | 3.94 | - | 6.32 | 3.25 | - | - |
| PRODUCT 9 | | | | | | |
| IAC | 698.12 | - | 430.90 | 370.68 | - | - |
| YIELD INDEX | 0.70 | - | -2.76 | 0.73 | - | - |

APPENDIX H

Dissimilar Policy Examples

Example 1

The following table presents the assumptions for this example:

- Front-end load universal life policy;
- \$100,000 specified amount;
- insured is a male, age 45, non-smoker;
- premium is \$1,430 in all years; and
- credited interest rate is 9.75%

The policy is illustrated under death benefit options A and B. The yield indices for each are shown below:

| Option | 20th Year Yield Index | 20th Year Yield Index |
|--------|-----------------------|-----------------------|
| A | 10.04% | 2.35 |
| B | 10.73% | 3.42 |

Note that the amount of pure insurance is larger in the Option B version and it has a higher YI.

Example 2

The following table represents the assumptions for this example:

- back-end load universal life policy;
- \$100,000 specified amount, death benefit option A;
- insured is a male, age 50, non-smoker;
- credited rate is 8.75%; and
- six premium levels, shown below.

| Premium Level | Description |
|---------------|---|
| A | IRC Section 7702 Guideline Single Premium (\$32,766.82). |
| B | IRC Section 7702 Guideline Level Premium (\$3,083.55). |
| C | Target Premium of \$1,374 years 1 to 20. |
| D | Target Premium of \$1,374 years 1 to 10, \$0 years 11 to 20. |
| E | Target Premium of \$1,374 years 1 to 5, \$0 years 6 to 15, and \$1,200 years 16 to 20. |
| F | "ART" premium scenario, i.e. target premium in years 1 and 2 followed by minimum premium to keep policy in force. |

| Premium Level | 20th Year Yield Index | 20th Year IAC | 20th Year Cash Surrender Value |
|---------------|-----------------------|---------------|--------------------------------|
| A | 8.48% | - 17.00 | \$ 152,451 |
| B | 8.30% | - 8.50 | 138,236 |
| C | 8.53% | 2.54 | 38,936 |
| D | 8.82% | 4.08 | 15,459 |
| E | 9.46% | 6.66 | 467 |
| F | 10.07% | 7.59 | 31 |

Note that the YI drops slightly from premium level A to B, but then increases as premium levels continue to fall. The YI for premium levels D, E, and F exceeds the credited rate of 8.75%.

The IAC for premium level F is 7.59. If both YI and IAC are shown, then a "mixed signal" is presented by the presence of a large YI (10.07%), typically associated with superior performance, and a large IAC (7.59), typically associated with inferior performance.

ATTACHMENT TWO

The Prudential

May 19, 1988

Mr. John O. Montgomery
 Chief Actuary and Deputy Insurance Commissioner
 California Department of Insurance
 600 South Commonwealth Avenue
 Los Angeles, California 90005

Dear John:

Here's the Yield Index Advisory Committee's response to the request for some documentation of anomalies which can arise when the standardized mortality basis is differentiated by sex and/or Life and Health Actuarial Task Force smoking status.

Let me ask you to either (a) distribute this to your L&HATF members or (b) send me a current membership list and we'll take care of the distribution.

It was good to see you in Louisville—all best wishes.

Sincerely,
 Walter Miller
 Chairman
 Advisory Committee on Yield Indexes

MEMORANDUM TO THE NAIC LIFE COST DISCLOSURE TASK FORCE

Subject: Yield Indexes - Apparent Anomalies Caused by Using Standardized Mortality Basis that Varies by Sex and Smoking Status

From: Walter N. Miller
 Date: May 19, 1988

At the June 1987 NAIC meeting, you asked our committee to provide some documentation of these anomalies. This is shown in the following table which relates to a traditional participating whole life policy issued by a large mutual company for a \$50,000 face amount at age 55. The cost of insurance for these yield index calculations are on the basis recommended in our November 1986 report - i.e., using a formula geared to mortality rates according to the 1980 CSO basic table (with 10 year select modification) and using the male or female, smoker or non-smoker versions of that table as appropriate. The results are as follows:

| <u>End of Year</u> | <u>Non-Smoker</u> | <u>Male Smoker</u> | <u>Female Smoker</u> |
|------------------------|-------------------|------------------------|--------------------------|
| 5 | -8.0% | -9.3% | -8.8% |
| 10 | 4.4 | 4.2 | 4.1 |
| 20 | 8.1 | 8.6 | 8.4 |

As can be seen:

The indexes for male non-smokers are more favorable than those for male smokers at durations 5 and 10, but less favorable at duration 20.

The indexes for female smokers are less favorable than those for male smokers at all three durations studied.

From the standpoint of appropriate inclusions in regulatory literature, we think the table above is ample documentation of the fact that these types of anomalies can occur when the mortality basis specified for the yield index calculation is differentiated by sex and/or smoking status. It would, of course, have been possible for us to prepare additional sets of numbers for other issue ages and types of policies. However, this would have served no useful purpose because the extent of these types of anomalies (how many, and of what size?) can't be successfully predicted from the construction of a few more samples.

As we've stated before, the basic reason these anomalies occur is that they are inevitable whenever (a) the mortality table specified for yield index calculations and (b) the one used by the company to price the policy in question incorporate different relationships among mortality rates by sex or smoking status.

It's clear that such anomalies could be avoided if companies were allowed to use their "internal pricing basis" for the mortality rates to be used in the yield index calculation. However, our Committee felt that allowing this choice would provide undesirable incentives for the companies and would result in yield indexes that could be of very limited value to customers and regulators.

Another way to "solve" the problem of these anomalies would be to have a standardized mortality basis consisting of just one table with no differentiation by sex or smoking status. This would successfully address the situation without the disadvantage of having non-standardized mortality rates. But our Committee felt that this approach would also produce an exceedingly misleading impression; namely, that rates of interest internally credited to various policies were in fact a function of the underwriting classification. We felt this would be a very unfortunate outcome, especially in a context where the main purpose of a yield index (and as we understand it, the main reason our Committee was formed) was to address life insurance advertising and sales promotion that prominently features an interest rate but creates the impression that this rate is being credited on all the gross funds being paid into the contract.

Utopia would consist of having a system under which the yield index for a given plan/age cell would be invariant by underwriting classification. Our Committee couldn't find a practical way to produce such a result. The system we proposed is our idea of the next best approach after considering all of the factors involved.

Walter Miller
Chairman
Advisory Committee on Yield Indexes

cc: Advisory Committee on Yield Indexes
NAIC Life and Health Actuarial Task Force

UNIVERSAL AND OTHER NEW PLANS (A) TASK FORCE

Reference:

1988 Proc. I p. 627
1987 Proc. II p. 630

William D. Hager, Chairman — Iowa
Robert D. Haase, Vice Chairman—Wis.

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| June 3, 1988 Report (Attachment Two) | 564 |

AGENDA

1. Adopt Minutes of June 3, 1988, Meeting in Kansas City
2. Report of Life and Health Actuarial Task Force
 - a. Valuation and Nonforfeiture Sections of NAIC Universal Life Insurance Model Regulation
 - b. Actuarial Guideline IX Proposal
 - c. Consider Adoption of Amendment to Model Regulation on Variable Life Insurance Regarding Minimum Death Benefit Guarantees
 - d. Issues Regarding Reserves and Nonforfeiture Values of Single Premium Life Insurance
3. Discussion of Disclosure Issues Regarding Universal and Variable Life Policies
4. Any Other Matters Brought Before the Task Force

The Universal and Other New Plans (A) Task Force met in the Marquis Room of the Marriott Marquis in New York, N.Y., at 11 a.m. on June 13, 1988. A quorum was present and William D. Hager (Iowa) chaired the meeting. The following task force members or their representatives were present: Robert D. Haase, Vice Chair (Wis.); Roxani Gillespie (Calif.); David N. Levinson (Del.); Roger Singer (Mass.); Edwin J. Smith, Jr. (Texas); and Richard "Dick" Marquardt (Wash.).

1. Adoption of Kansas City Meeting Minutes

Upon motion duly made and seconded, the minutes of the June 3, 1988, meeting of the task force in Kansas City were adopted. (Attachment Two).

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

a. Valuation and Nonforfeiture Sections of NAIC Universal Life Insurance Model Regulation

John Montgomery (Calif.) reported on the progress of amendments to the NAIC Universal Life Insurance Model Regulation, consisting of two items: nonforfeiture and valuation. Mr. Montgomery indicated that the nonforfeiture provisions of the model will be discussed at a meeting to be held this afternoon. With respect to the valuation section, he referred task force members to the California draft which will be discussed by the Actuarial Task Force concerning valuation of universal life insurance plans.

b. Structured Settlements

Mr. Montgomery reported that the task force originally considered modifying Actuarial Guideline IX to include structured settlements in substandard annuities, but now has proposed two separate guidelines: IX-A (Structured Settlements) and IX-B (Substandard Annuities).

c. Interest-Indexed Project

Mr. Montgomery reported that the Life and Health Actuarial Task Force recommends deletion of this project. He further reviewed the pending projects before the task force

(Attachment One). He then listed the recommendations for this task force:

1. Delete Project 4D - Interest Indexed Plans
2. Add Project 4I - Whole Life Policies Without Cash Values or Paid-up Benefits
3. Add Project 4M - Reserves for Certain Life Plans With Guaranteed Increasing Death Benefits
4. Add Project 4N - Update of Actuarial Guideline IV
5. Add Project 4P - Use of Life Insurance Contracts to Provide for Non-Life Insurance Benefits

Commissioner Hager then reviewed each project of the Life and Health Actuarial Task Force and noted the action required.

Upon motion duly made and seconded, the task force received for exposure Attachments Two-A and Two-B of the Life and Health Actuarial Task Force Report relating to nonforfeiture and valuation.

Also, motion duly made and seconded, Attachments Two-C and Two-D of the Life and Health Actuarial Task Force Report relating to the proposed actuarial guideline regarding substandard annuities were received for exposure and will be considered for adoption in December.

Upon motion duly made and seconded, the task force received for exposure Attachment Two-E to the Life and Health Actuarial Task Force report regarding minimum death benefit guarantees.

Commissioner Hager commented on the significance of the exposure drafts for purposes of facilitating comments from the public. Mr. Montgomery requested that comments be submitted by Sept. 1 on the exposure drafts with carbon copies to Jean Olson (NAIC) and Ted Becker (Texas).

Upon motion duly made and seconded, the task force adopted the recommendations of the Life and Health Actuarial Task Force regarding addition and deletion of the projects described in Attachment One.

2. Any Other Matters Brought Before the Task Force

Mr. Montgomery made a motion to recommend changing the name of the task force to the "Product Development (A) Task Force." He explained that the reason for considering the name change is to include the numerous products other than universal life that are being addressed by this task force. In addition, he commented that the name change would parallel the section of the Society of Actuaries dealing with the same issues. The motion was seconded and adopted.

Commissioner Hager asked the Life and Health Actuarial Task Force to expound on its discussion of disclosure issues. Mr. Montgomery commented on the flexible premium universal life policy and the fact that it is not really a whole life policy, but a term policy until the premium is actually paid. He also commented on the difficulty in preparing and analyzing the yield index disclosure conflict.

Upon motion duly made and seconded, the task force established a working group on identifying consumer disclosure issues to be chaired by Iowa and to include the states of California, Texas and Massachusetts. Any other states interested in serving on this working group should contact the chair following the meeting and a notice will be posted on the fifth floor of the Marriott concerning a meeting to be held tomorrow. He also commented that the disclosure issue would be coordinated with the Life Cost Disclosure Task Force.

Commissioner Hager asked for a report on the result of the survey which was sent over the State Telecommunications Network to all states asking them for identification of any consumer/disclosure concerns over universal life insurance, variable life insurance and any other related

interest-sensitive products. Carole Olson (NAIC) reported that at least five states had responded to the message which was sent out on June 4 and that a written report would be presented at the September meeting.

Having no further business, the Universal and Other New Plans (A) Task Force adjourned at 11:45 a.m.

William D. Hager, Chairman, Iowa; Robert D. Haase, Vice Chairman, Wis.; Roxani Gillespie, Calif.; David N. Levinson, Del.; Leroy Morgan, Ky.; Joseph A. Edwards, Maine; Roger Singer, Mass.; Gerald Grimes, Okla.; Edwin J. Smith, Jr., Texas; Harold C. Yancey, Utah; Richard "Dick" Marquardt, Wash.

ATTACHMENT ONE

Project No. 4d "Interest-Indexed Projects"

This project is recommended for deletion at this meeting. The follow-up period on this project has now ended with no further comments.

Project No. 4i "Variable Life Minimum Death Benefit Guarantee"

The previously proposed change in the NAIC Model Regulation For Variable Life Insurance regarding the minimum death benefit guarantee was formed in need of a substantial revision thus requiring a further period of disclosure for possible adoption at the December 1988 meeting. Attachment Two-E of Life and Health Actuarial Task Force report describes in more detail the revised proposal.

Project No. 4j "Single Premium Life Insurance Concerns"

Work is continuing on this project, but the Actuarial Task Force does not have any attachments or recommendations to present with this report.

Project No. 4l "Whole Life Policies Without Cash Values or Paid Up Benefits"

This project is proposed for addition to the agenda since several states now have legislation regarding such plans.

Project No. 4m "Reserves for Certain Life Plans with Guaranteed Increasing Death Benefits"

This project is proposed for addition to the agenda regarding concern for the need for a guideline to cover such plans.

Project No. 4n "Update of Actuarial Guideline No. IV"

This project is proposed for addition to the agenda and Ron Olson (Wash.) has been asked to draft two guidelines, one for reserves and one for nonforfeiture values.

The project concerns term policies with increasing premiums which purport to grade into whole life plans.

Project No. 4o "Leveraged Corporate-Owned Life Insurance"

The Society of Actuaries has a Study Note regarding this subject. Before considering the recommendation to add this project to the agenda, the Life & Health Actuarial Task Force will review this note.

Project No. 4p "Use of Life Insurance Contracts To Provide For Non-Life Insurance Benefits"

This includes such situations as accelerated death benefits payable under certain health conditions and the use of life insurance benefits to fund long-term care benefits. This project is proposed for addition to the agenda.

ATTACHMENT TWO

Universal & Other New Plans (A) Task Force
Kansas City, Missouri
June 3, 1988

The Universal & Other New Plans (A) Task Force met in the main conference room of the NAIC office in Kansas City at 9 a.m. on June 3, 1988. William D. Hager (Iowa) chaired the meeting. The following states or their representatives were present: Roxani Gillespie (Calif.); Robert D. Haase (Wis.); and Edwin J. Smith (Texas).

Universal and Other New Plans (A) Task Force

1. Discussion of Proposals for the Universal Life and Other New Plans Task Force

For discussion, John Montgomery (Calif.) distributed a reserve proposal for universal life insurance which is being considered for adoption in the state of California. He also distributed a copy of Robert Callahan's (N.Y.) letter of May 20, 1988, which attached a revised draft nonforfeiture proposal for universal life insurance. Mr. Montgomery also distributed a letter dated May 18, 1988, from Errol Cramer (Allstate Life) commenting on the proposed new actuarial guideline IXB for structured settlements.

2. Discussion of task force charges

Commissioner Hager (Iowa) indicated that two components of the task force charges were to be the focus of the discussion: (1) the activity of the actuarial task force and; (2) whether there are disclosure problems with universal and variable products. The members then reviewed all of the task force's charges as follows:

a. Examine valuation and nonforfeiture sections of the Universal Life Insurance Model Regulation.

John Montgomery reviewed California's approach which requires excess interest guarantee reserves. He also reviewed the progress of the Life and Health Actuarial Task Force on the reserve and nonforfeiture issue. Commissioner Hager stressed that there appeared to be disclosure problems with universal life plans and that the identification of these items should be placed on the Actuarial Task Force agenda. Mr. Montgomery agreed and mentioned that one problem is gross premiums which are term premiums on a guaranteed premium basis.

John Montgomery suggested a change in the name of this task force to "Product Development Task Force." Mr. Montgomery, Ted Becker (Texas) and Dave Heineck (Wis.) suggested that this change would parallel the way the subject is considered by the Society of Actuaries and would place less emphasis on the universal product alone. The consensus was to recommend this name change to the task force members and to the Life Insurance (A) Committee.

Commissioner Hager requested the Actuarial Task Force to prepare an exposure draft by December 1988 resolving the disclosure elements of the Universal Life Insurance Model Regulation regarding nonforfeiture and valuation.

Ted Becker identified a problem occurring with increments or enhancements to the policy's accumulation account. He indicated that this problem affects the projects currently under study by the Actuarial Task Force and is a disclosure related concern. Mr. Montgomery agreed to bring this concern to the attention of the Society of Actuaries as well. The problem is with accumulation-type policies which make certain payouts upon 10 or 20 years if a policyholder survives, but pay nothing up until that point. Equity is the issue.

Mr. Montgomery noted that Pennsylvania is no longer participating in the activities of the Actuarial Task Force.

b. Consider adoption of amendment to Actuarial Guideline IX regarding structured settlements.

Mr. Montgomery indicated that this charge has been split into two items: (1) mortality for substandard annuities and; (2) structured settlements. He indicated that the Actuarial Task Force will be requesting the Universal and Other New Plans Task Force to expose two documents in New York and will propose adoption at the December meeting.

c. Consider adoption of amendment to Model Regulation on Variable Life Insurance regarding minimum death benefit guarantees.

Mr. Montgomery indicated that significant change has been made in the Actuarial Task Force's proposal on minimum death benefit guarantees which will make the provision apply to both fixed and flexible premium policies. He indicated that an exposure draft would be presented to the Universal and Other New Plans Task Force in June.

d. Study issues involving reserves and nonforfeiture values of single premium life insurance.

It was indicated that the Life and Health Actuarial Task Force has made no progress on this particular item. Mr. Montgomery commented that this is a new product which is being affected by recent actions of the Internal Revenue Service and Congress in taxing the inside build-up.

Discussion followed on other new products/consumer concerns. Corporate-owned leveraged life insurance was identified as a serious concern. A corporation issues a policy on an individual with the corporation as owner of the policy and benefits payable to the corporation. The policy is used as funding mechanism for post retirement benefits for employees and may be issued on either a group or individual basis. The policies may or may not be issued on a "key man" basis. The premiums are large premiums because they are funding an ordinary life policy. The money flows into the company and tax advantages are made of the inside build-up. Questions arise as to whose benefit the policy is purchased and whether a group deposit should be made by those administering the fund. Mr. Montgomery indicated that these questions may be legal questions. The Actuarial Task Force indicated that it would charge someone to address this issue and will report at the Universal and Other New Plans Task Force meeting in New York (June 1988).

Another issue involves setting aside additional reserves for AIDS. The Actuarial Task Force also will be reporting to the Life Insurance (A) Committee on this. The Actuarial Task Force also will report to the Universal Task Force on whole life policies without cash values.

It was suggested that Actuarial Guideline IV be revised to address the type of policy in which early premiums are so low that they do not support the value of the policy. The problem is that there may be atypical lapses, i.e. not enough people to pay the more expensive premium to support the benefits.

Another item concerning certain life insurance plans with increasing death benefits was identified as a potential problem. It was noted that Michigan has unlimited death benefit increases which are related to the consumer price index which applies to single premium life policies. Ted Becker suggested that the Task Force consider assigning this issue to the Actuarial Task Force.

e. Study issues regarding disclosure of information on universal and variable life products.

Task force members discussed the current disclosure provisions of the NAIC Universal Life Insurance Model Regulation and the Variable Life Insurance Model Regulation which contains an Illustrations Guideline for Variable Life Policies.

Commissioner Hager suggested surveying the states to determine the consumer concerns regarding universal life and variable life products. Carole Olson (NAIC) was requested to survey the states over the State Telecommunications Network and report to the task force at the New York meeting.

The members present agreed that the disclosure issues extend to variable life as well as universal life. The main concern is that an unsophisticated buyer purchases a policy and does not know what the coverages, benefits and limitations are. It was suggested that Sections 8 and 9(f) of the Universal Life Insurance Model Regulation need considerable expansion. It was suggested that disclosure requirements be placed in the illustrations section of the models as well as in the contract itself. Dave Heineck (Wis.) identified some of the items which should be disclosed: (1) what is guaranteed versus what is not; (2) adequate disclosure of the fact that a premium quoted will not support the contract for the whole life if the policy is a universal life policy; (3) disclosure of the guaranteed surrender values on a flexible premium policy.

The Actuarial Task Force will coordinate work on amending the disclosure requirements along with making changes in the valuation and nonforfeiture sections of the NAIC model regulations.

An additional issue was raised by Mr. Heineck regarding the tie-in of long-term care insurance riders to a universal life insurance policy. There was discussion on the actuarial aspects of this product. The actuarial concern is that payment of long-term care benefits depletes a person's life insurance coverage and leaves nothing to protect the policyholder for burial expenses. Mr. Heineck commented that none of the policies currently issued deplete the benefits to zero. Mr. Montgomery commented that in California it is illegal under the standard nonforfeiture law to issue this type of product. It was suggested that the standard nonforfeiture law be revised to address this issue. Mr. Montgomery commented that he would refer the issue to the Society's Advisory Committee for comment.

Having no further discussion items, the task force adjourned at 11:05 a.m.