

## LIFE INSURANCE (A) COMMITTEE

**Reference:**

1988 Proc. I p. 599  
1988 Proc. II p. 476

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

### CONTENTS

December 14, 1988 Report ..... 670

### AGENDA

1. Report of Life and Health Actuarial Task Force
2. Report of Life Cost Disclosure Task Force
3. Report of Product Development Task Force
4. Report of AIDS (B) Working Group Liaison
5. Any Other Matters Brought Before the Committee

### REPORT

The Life Insurance (A) Committee met in Grand Salon A at the New Orleans Hilton in New Orleans, La., at 2 p.m. on Dec. 14, 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.); Leroy Morgan (Ky.); Douglas D. Green (La.); George Dale (Miss.); Larry C. Call (Mo.); and James L. Nelson (Texas).

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

John Montgomery (Calif.) reported that the task force expected to have a draft of the standard valuation model ready for exposure at the June 1989 meeting and to recommend final adoption in December. He also indicated that the task force would be revising the standard nonforfeiture law and that the Society of Actuaries is preparing a report concerning these revisions. He also indicated that a provision for catastrophic mortality is being developed and that the Society of Actuaries is studying the financial implication of AIDS. He recommended adoption of the Product Development Task Force and Life Cost Disclosure Task Force reports, which incorporate the suggestions of the Life and Health Actuarial Task Force.

#### 2. Report of Life Cost Disclosure Task Force

Superintendent Margurite Stokes (D.C.) reported that the task force adopted the actuarial task force's recommendation that a yield index exposure draft be distributed in March 1989 and that final adoption could occur in June. Superintendent Stokes indicated that Yield Index Advisory Committee recommended that it be disbanded. She commended every member of the Life and Health Actuarial Task Force and the Yield Index Advisory Committee for their work on the yield index project. She also indicated that the task force recommended continuation.

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

#### 3. Report of Product Development Task Force

Commissioner Bill Hager (Iowa) reported that the task force met on Dec. 12 and heard a report from the Consumer Disclosure Issues Working Group regarding the preparation of disclosure documents designed for distribution to prospective buyers of universal, variable, and other interest-sensitive life insurance products. An exposure draft of these disclosure statements was adopted. Commissioner Hager announced the appointment of an advisory committee to the consumer disclosure working group and commended Ted Becker, primary author of the disclosure statements.

John Montgomery commented that the Life Financial Ratios (IRIS) Working Group is interested in preparing a report on interest-sensitive products and that the key is to identify what those products are. He indicated that this group would possibly wait for the Consumer Disclosure Issues

Working Group to complete its work before any recommendations would be made. He indicated that this work would form an excellent basis for the definition of "interest-sensitive" products.

Upon motion duly made and seconded, the report of the Product Development Task Force was adopted.

#### 4. Report of AIDS (B) Working Group (Liaison)

Staci Copelin (Texas) reported that the AIDS Notice and Consent Form Working Group will recommend to the Accident and Health Insurance (B) Committee an AIDS Notice and Consent Form to be used as a guideline for states that allow testing and that require a notice and consent form.

Ms. Copelin distributed a fourth draft dated Dec. 12 and outlined the changes that had been made at the working group's meeting on that draft. She indicated that the form had been designed to be flexible to be used as a guideline and the working group hopes that the issues raised in the minutes of these meetings will be of assistance to the states in preparing their forms.

Chuck Renn (Mo.) brought to the attention of the committee a life insurance product that contains prepayment of death benefits. He indicated that there is no segregation of the rider and cited an example of this type of benefit. He indicated this type of policy provides that if an insured suffers from a stroke, a death benefit would be paid out prematurely. He also said that a distinction is not made between mortality and morbidity. Mr. Montgomery said that this is one of the projects under way in the Life and Health Actuarial Task Force. He indicated, however, if there are other issues to bring to the attention of the Life and Health Actuarial Task Force, they should be forwarded to Jean Olson at the NAIC, with a carbon copy to John Montgomery and Ted Becker (Texas).

Having no further business, the Life Insurance (A) Committee adjourned at 2:30 p.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.; Larry C. Call, Mo.; James L. Nelson, Texas

## LIFE COST DISCLOSURE (A) TASK FORCE

### References:

1988 Proc. I p. 621  
1988 Proc. II p. 511

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

### CONTENTS

December 12, 1988 Report ..... 672

### AGENDA

1. Report of Life and Health Actuarial Task Force
2. Consider Continuation of Task Force
3. Any Other Matters Brought Before the Task Force

### REPORT

The Life Cost Disclosure (A) Task Force met in Grand Ballroom B of the New Orleans Hilton, New Orleans, La., at 2 p.m. on Dec. 12, 1988. A quorum was present and 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 Life and Health Actuarial (EX5) Task Force

John Montgomery (Calif.) presented the report of the task force which contained two recommendations. The first recommendation was a request that the Life and Health Actuarial (EX5) Task Force prepare a cover document to the yield index to assist the states with its use with the clear understanding that the work will be completed by June 1989. At that time the complete package will be recommended for adoption so that it will be available for those states which may wish to use it. Superintendent Stokes asked Mr. Montgomery whether an exposure draft would be distributed in March and he responded that that was the intention. She indicated that this recommendation was unacceptable unless there was a commitment that an exposure draft shall be issued in March. Upon motion duly made and seconded, the recommendation incorporating Superintendent Stokes' suggestion was adopted.

Superintendent Stokes emphasized the significance of developing a model to serve as a guide for resolving this yield index issue which originated in 1983. She did express her appreciation for all the effort put forth on this project.

Walter Miller (Prudential) requested that the advisory committee be disbanded.

Upon motion duly made and seconded, the second recommendation to delete project 7c was adopted.

#### 2. Consider Continuation of Task Force

Upon motion duly made and seconded, the task force recommended continuation, recognizing that the task force would move quickly to complete the yield index project within the time frame described above. Further, upon motion duly made and seconded, the task force recommended disbanding of the advisory committee. Superintendent Stokes asked Mr. Miller to thank the advisory committee members for their work.

Having no further business, the Life Cost Disclosure (A) Task Force adjourned at 2:20 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.

## PRODUCT DEVELOPMENT (A) TASK FORCE

### Reference:

1988 Proc. I p. 627  
 1988 Proc. II p. 562  
 (Formerly titled "Universal and Other News Plans Task Force")

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

### CONTENTS

December 12, 1988 Report .....	673
Consumer Disclosure Issues Working Group Report (Attachment One) .....	674
Letter from Ted Becker Pertaining to Disclosure Statements for Universal Life Plans (Attachment Two) .....	675
Revised Disclosure Statement (Attachment Two-A) .....	675
Letter from Commissioner Harold C. Yancey (Attachment-Two-B) .....	680
Subsequent Revision of the Disclosure Statement Form Incorporating Commissioner Yancey's Letter (Attachment Two-C) .....	684
Memorandum from Carole Olson Regarding Procedural Issues (Attachment Three) .....	688
Comments from Missouri Regarding the Draft Sample Disclosure Statements (Attachment Three-A) .....	689
Comments from Utah Regarding the Draft Sample Disclosure Statements (Attachment Three-B) .....	689
Sample Disclosure Statement (Attachment Four) .....	690
September 20, 1988 Report (Attachment Five) .....	701

### AGENDA

1. Adopt Mackinac Island Minutes
2. Report of Consumer Disclosure Issues Working Group
3. Report of Life and Health Actuarial Task Force
4. Consider Continuation of Task Force
5. Any Other Matters Brought Before the Task Force

### REPORT

The Product Development (A) Task Force met in Grand Ballroom A of the New Orleans Hilton in New Orleans, La., at 11 a.m. on Dec. 12, 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.); Gerald Grimes (Okla.); and Edwin J. Smith, Jr. (Texas).

#### 1. Adopt Mackinac Island Minutes

Upon a motion duly made and seconded, the minutes of the Mackinac Island meeting were adopted (Attachment Five).

#### 2. Report of Consumer Disclosure Issues Working Group

The chair called upon Roger Strauss (Iowa) to present the report of the working group. Mr. Strauss said that the working group had met on Oct. 24, 1988, (Attachment One) and again just prior to this task force meeting. He said the working group would like to request that the task force receive for exposure three documents: (1) a letter from Ted Becker and its attachments (Attachment Two); (2) a memorandum from Carole Olson and its attachments (Attachment Three) and (3) a sample disclosure statement (Attachment Four). Upon a motion duly made and seconded, the task force received the three documents for exposure.

The chair announced that the working group had recommended the formation of a Consumer Disclosure Advisory Committee consisting of Jon Ogg (National Association of Life Companies), Tony Spano (American Council of Life Insurance), Myriam Bailey (American Association of Retired Persons), Bill Albus (National Association of Life Underwriters) and John Hurley (Equitable). He asked that anyone from the industry wanting to make comments on the sample disclosure statements that are being exposed at this meeting to contact any one of those five persons. He also noted that it was the desire of the task force to move quickly on this issue and that he would like to have a final draft of the disclosure statement adopted by the June NAIC meeting.

### 3. Report of Life and Health Actuarial Task Force

The chair called upon Ted Becker to present the report of the Life and Health Actuarial (EX5) Task Force. (See Attachment Two to the Life and Health Actuarial (EX5) Task Force Report.) Mr. Becker said that he would highlight only the three recommendations that were made to this task force from the Life and Health Actuarial Task Force. The recommendations include the adoption of the proposed Actuarial Guideline No. IX-B. The guideline is entitled "Clarification of Methods Under the Standard Valuation Law for Individual Single Premium Immediate Annuities, Any Deferred Payments Associated Therewith, Some Deferred Annuities, and Structured Settlement Contracts." The second recommendation was the adoption of an amendment to the NAIC Model Modified Guaranteed Life Insurance Regulation. He said the amendment is essentially a correction in the model that would make it more favorable to consumers in one specific area. The third recommendation is an amendment to the NAIC Model Variable Life Insurance Regulation that would affect the minimum death benefit guarantee. Mr. Becker said the recommendation had been under study by the actuarial task force for some time.

Upon a motion duly made and seconded, the recommendations of the actuarial task force were adopted by the Product Development Task Force.

The chair thanked Mr. Becker and his task force for their significant work which was critical to effective regulation.

### 4. Consider Continuation of Task Force

The chair noted that the task force needs to be continued to complete its work with the disclosure statement that was exposed at this meeting. Upon motion duly made and seconded, the task force recommended that the task force be continued.

Having no further business, the Product Development (A) Task Force adjourned at 11:30 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 M. Singer, Mass.; Gerald Grimes, Okla.; Edwin J. Smith, Jr., Texas; Harold C. Yancey, Utah; Richard "Dick" Marquardt, Wash.

## ATTACHMENT ONE

### Consumer Disclosure Issues Working Group of the Product Development (A) Task Force October 24, 1988 Kansas City, Missouri

The Consumer Disclosure Issues Working Group of the Product Development (A) Task Force met on Oct. 24, 1988, in Kansas City at 2 p.m. Ted Becker (Texas), Tony Higgins (N.C.), Roger Strauss (Iowa) and Carole Olson (NAIC) attended the meeting which was chaired by Commissioner Bill Hager (Iowa).

Ted Becker distributed sample disclosure statements at the Mackinac Island meeting which included two slight changes from those distributed in Kansas City. The disclosure statements were prepared for universal life flexible premium, universal life fixed premium, indeterminate premium life and variable life. He explained that each initial page of the disclosure statements is identical. The purpose of the initial page is to identify the insured and detail enough information about the policy so that the regulator is able to trace the policy.

Tony Higgins commented on the pure endowment products and a possible need to address this in the disclosure statements. One additional issue is whether disclosure information should be given on dividend practices.

Commissioner Hager suggested distributing the statements to the Product Development Task Force members, the Life Insurance (A) Committee members and the NAIC officers. He indicated that comments should be submitted by Nov. 18 and that a conference call of the working group would be scheduled shortly thereafter. The intention of the working group is to distribute the disclosure statements for exposure and comment at the New Orleans meeting and to adopt a final product in June 1989.

Commissioner Hager indicated that he would announce the appointment of an advisory committee at the New Orleans meeting (December 1989).

Carole Olson suggested that the statements be incorporated into the current NAIC models and that any inconsistencies with current language be addressed.

Having no further business, the working group adjourned at 3 p.m.

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## ATTACHMENT TWO

### Letter from Ted Becker Pertaining to Disclosure Statements for Universal Life Plans

December 11, 1988

Hon. William D. Hager  
Insurance Commissioner  
Department of Insurance  
Lucas State Office Building  
Des Moines, IA 50319

Re: NAIC Product Development Task Force Consumer Disclosure Issue Working Group Dec. 12, 1988 Meeting

Dear Commissioner Hager:

Enclosed is some revised material relating to a proposed disclosure statement for universal life plans. The attachment numbers to this material correspond to the numbers for the three points listed.

Two-A A revised disclosure statement prepared after the Oct. 24, 1988, meeting in Kansas City. This revision reflects certain changes which were either suggested at that meeting or which were suggested by other staff members at the Texas State Board of Insurance. (This was prepared before receipt of the letter from Commissioner Yancey described below.)

Two-B A letter from Commissioner Harold C. Yancey (Utah) addressed to me and dated Nov. 23, 1988, complete with all its attachments.

Two-C A subsequent revision of the disclosure statement form which attempts to incorporate the recommendations in Commissioner Yancey's letter.

Very truly yours,

Ted Becker  
Chief Life Actuary  
Texas State Board of Insurance

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## ATTACHMENT TWO-A

### SAMPLE DISCLOSURE STATEMENT Specifications - For All Disclosure Statements Draft: 12-11-88

Name of Insured: \_\_\_\_\_  
Name of Second Insured: \_\_\_\_\_  
(The name of the second insured should be filled in only if the policy is a "Joint Life" policy as indicated below)

Name of Company: \_\_\_\_\_  
Date on which this Disclosure Statement was prepared: \_\_\_\_\_

Type of Life Insurance Policy:  
☐ Universal Life Flexible Premium  
☐ Universal Life Fixed Premium  
☐ Indeterminate Premium Life  
☐ Variable Life

Policy Form Marketing Name: \_\_\_\_\_

Policy Form Number: \_\_\_\_\_

**Coverage And Premium Specifications (Leave out any extra benefit riders which require an additional premium):**

Initial Death Benefit: \_\_\_\_\_

Initial Premium: \_\_\_\_\_

Mode Selected At Issue: \_\_\_\_\_

Equivalent Initial Annual Premium: \_\_\_\_\_

(This amount is equal to the "Initial Premium" if the mode selected at issue is annual; otherwise fill in the annual premium which is equivalent to the "Initial Premium")

**Status Specifications: (Check one)**

\_\_\_\_\_ Single Life

\_\_\_\_\_ Joint Life

**Additional Specifications If Single Life is Checked**

\_\_\_\_\_ Issue Age

\_\_\_\_\_ Sex

Risk Classification \_\_\_\_\_

(Disclose such classifications as standard or substandard, smoker or nonsmoker status, degree of substandard rating if applicable, and any other classifications which affect gross premium or cash values)

**Additional Specifications If Joint Life is Checked**

\_\_\_\_\_ Joint First To Die Plan

\_\_\_\_\_ Joint Last Survivor Plan

(Check one of the two plans above)

**First Joint Insured**

\_\_\_\_\_ Issue Age

\_\_\_\_\_ Sex

Risk Classification

Risk Classification

**Second Joint Insured**

\_\_\_\_\_ Issue Age

\_\_\_\_\_ Sex

(Refer to comments for single life "Risk Classification" above)

**SAMPLE DISCLOSURE STATEMENT**  
 (Use Only For Universal Life Flexible Premium And Universal Life Fixed  
 Premium Policies)  
 Policy Values Based On Both Guaranteed And Current Assumptions

===== Guaranteed Assumptions =====						
Year	(1) Gross Annual Premium	(2) Death Benefit	(3) Interest Rate	(4) Accumulation Value At End of Year	(5) Surrender Charge	(6) Cash Surrender Value At End of Year
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						
15						
16						
17						
18						
19						
20						

===== Current Assumptions =====						
Year	(1) Gross Annual Premium	(2) Death Benefit	(3) Interest Rate	(4) Accumulation Value At End of Year	(5) Surrender Charge	(6) Cash Surrender Value At End of Year
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						
15						
16						
17						
18						
19						
20						

Values under "Current Assumptions" are not guaranteed (see next page).



**SAMPLE DISCLOSURE STATEMENT**  
(Use Only For Universal Life Flexible Premium And  
Universal Life Fixed Premium Policies)

The values under "Current Assumptions" are based on non-guaranteed interest rates, mortality charges and other charges and fees described below. The insurance company has the right to alter these to the extent described in the policy language.

Specify the non-guaranteed nature of any interest rates (including the insurer's right to alter interest rates)

\_\_\_\_\_

Specify the non-guaranteed nature of any mortality charges (including the insurer's rights to alter mortality charges)

\_\_\_\_\_

Specify the non-guaranteed nature of any charges or other fees applied to the policy (including the insurer's rights to alter such charges or fees)

\_\_\_\_\_

Identify the portions of the policy to which a specified interest rate shall be credited

\_\_\_\_\_

How often is the current interest rate reviewed for the purpose of possible redetermination?

\_\_\_\_\_

Is the policy interest-indexed? \_\_\_\_\_ If "yes," describe the index and give a description of the frequency and timing of determining the interest rate and of any adjustments made to the index in arriving at the interest rate credited under the policy.

\_\_\_\_\_

Front End Loads \_\_\_\_\_

(Include all front end loads described in the policy)

What is the Maturity Age? \_\_\_\_\_ (This is the attained age at which an endowment will mature if the insured is still living. Use "100" if no age is specified in the policy. In the case of a joint policy, enter the maturity age of the younger person.)

Level Annual Premium Required to Provide the Initial Death Benefit to Maturity Age on a Guaranteed Basis

(To be filled in only for Universal Life Flexible Premium policies)

Would the guaranteed cost factors or initial policy cost factor assumptions result in policy values becoming exhausted prior to the policy's maturity date? \_\_\_\_\_ The policyholder should note that death benefit coverage would also cease under such circumstances.

Notes to User:

(1) The policy values shown under "Guaranteed Assumptions" on page 2 are required to be shown for information and for possible comparison of this policy with other policies.

(2) The "Accumulation Value At End of Year" and "Cash Surrender Value At End of Year" shown under "Guaranteed Assumptions" on page 2 are based on annual premiums and may not be the same amounts if premiums are paid on a mode other than annual.

**SAMPLE DISCLOSURE STATEMENT**

Instructions For Page 2 of "Sample Disclosure Statement" Applicable For Universal Life Flexible Premium And Universal Life Fixed Premium Policies

The following are pertinent to the values under "Guaranteed Assumptions" for Universal Life Flexible Premium policies:

1) The "Gross Annual Premium" must be a level amount equal to the "Equivalent Initial Annual Premium" shown, except that the "Gross Annual Premium" must be shown as zero if there is no death benefit provided by the policy during that year.

2) The "Death Benefit" shall be an amount equal to the "Initial Death Benefit" (but increased if the corresponding "Accumulation Value at End of Year" in column 4 is so large that an increase is generated by the policy language). However, if a death benefit equal to the "Initial Death Benefit" can not be provided for the entire year, the death benefit for that year shall be filled in as the "Initial Death Benefit" followed by a slash mark and a zero. The company may provide, at its option, an explanatory footnote to indicate how long into that particular year the "Initial Death Benefit" could be provided. The "Death Benefit" shall be shown as zero for any subsequent years.

- 3) The "Interest Rate" column must disclose the applicable guaranteed interest rate, used to obtain the "Accumulation Value at End of Year" amounts in column 4. These guaranteed interest rates must be consistent with the guaranteed interest rates described in the policy.
- 4) The "Accumulation Value at End of Year" shall be based on the guaranteed interest basis, and maximum charges for mortality costs (and expenses, if applicable), consistent with the corresponding amounts shown in columns 1 and 2.
- 5) The "Surrender Charge" is the amount, if any, which the contract language provides as a deduction from column 4 in determining the corresponding "Cash Surrender Value at End of Year."
- 6) The "Cash Surrender Value at End of Year" is the amount which would actually be paid as a cash surrender value never less than zero, but otherwise consistent with columns 4 and 5.

The following are pertinent to the values under "Current Assumptions" for Universal Life Flexible Premium policies:

- 1) The "Gross Annual Premium" must be a level amount equal to the "Equivalent Initial Annual Premium" shown, except that the "Gross Annual Premium" must be shown as zero if there is no death benefit provided by the policy during that year. Note that these amounts of annual premium are calculated using current assumptions.
- 2) The "Death Benefit" shall be an amount equal to the "Initial Death Benefit" (but increased if the corresponding "Accumulation Value at End of Year" in column 4 is so large that an increase is generated by the policy language). Note that these amounts of death benefit are calculated using current assumptions. However, if a death benefit equal to the "Initial Death Benefit" can not be provided for the entire year, the death benefit for that year shall be filled in as the "Initial Death Benefit" followed by a slash mark and a zero. The company may provide, at its option, an explanatory footnote to indicate how long into that particular year the "Initial Death Benefit" could be provided. The "Death Benefit" shall be shown as zero for any subsequent years.
- 3) The "Interest Rate" column must disclose the applicable interest rate, used to obtain the "Accumulation Value at End of Year" amounts in column 4.
- 4) The "Accumulation Value at End of Year" shall be based on the current interest rate, and current schedules of charges for mortality costs (and expenses, if applicable), consistent with the corresponding amounts shown with columns 1 and 2, provided that column 4 shall not be calculated using any assumption more favorable to policyholders than any assumption now in actual use by the insurance company and provided also that no enhancement or increment can be illustrated in column 4 unless it is specifically described in the contract language.
- 5) The "Surrender Charge" is the amount, if any, which the contract language provides as a deduction from column 4 in determining the corresponding "Cash Surrender Value at End of Year."
- 6) The "Cash Surrender Value at End of Year" is the amount which would actually be paid as a cash surrender value, never less than zero, but otherwise consistent with columns 4 and 5.

In the case of a Universal Life Fixed Premium policy, all of the columns shall be filled in consistently using the same principles described above for a Universal Life Flexible Premium policy with the following three exceptions. First, the "Gross Annual Premium" shown in column 1 for both "Guaranteed Assumptions" and "Current Assumptions" shall be filled in using annual premiums actually described in the Universal Life Fixed Premium policy, assuming that the policy owner does not exercise any option to change these premiums. Second, the "Death Benefit" shown in column 2 for both "Guaranteed Assumptions" and "Current Assumptions" shall be the appropriate actual death benefit provided under the policy in each year, assuming that the policy owner does not exercise any option to change these death benefits and also that premiums are paid consistent with the amounts of premiums shown in column 1. Third, some Universal Life Fixed Premium policies are constructed so that the "Accumulation Value At End of Year" minus the "Surrender Charge" is less than the minimum cash value described in the contract. In such instances, the minimum cash value should be used in column 6.

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## ATTACHMENT TWO-B

Utah State Insurance Department  
160 East 300 South  
P. O. Box 45803  
Salt Lake City, Utah 84145

November 23, 1988

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

Re: Proposed Disclosure Statements for Interest Sensitive Products.

Dear Ted:

I am enclosing a photostatic copy of some recommendations made by my staff on the Disclosure Statements that are under consideration. I believe you will find these recommendations to be self explanatory. It will be appreciated if you will take these suggestions and try to incorporate them into a final product that is submitted for consideration to the Life Insurance (A) Committee.

Kindest regards,

Harold C. Yancey, CPCU  
Insurance Commissioner

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Utah State Insurance Department  
160 East 300 South  
P. O. Box 45803  
Salt Lake City, Utah 84145

To: Commissioner Harold C. Yancey  
From: RoseMarie Parkinson  
Date: November 22, 1988  
Subject: Proposed Disclosure Statements For Interest Sensitive Products

Commissioner, this memo is in response to your note asking for any suggestions for the draft of the disclosure statements and it is a follow up to the memo from John M. Coomans dated Oct. 20, 1988.

1. A line on the disclosure statement for age 60 or 65 for the guaranteed assumptions and the current assumptions.
2. The guaranteed ending date of the policy. A statement which says: Based on guaranteed interest rates, guaranteed mortality charges and the payment of the scheduled premiums, coverage will end on \_\_\_\_\_.
3. The percentage rate of interest which is earned on any loaned accumulation values. This rate is usually less than the current percentage rate which is illustrated.

There are other items of information which were not included in the sample from NAIC: policy loan interest rate, a reference to the Buyer's Guide along with the net payment and surrender cost indexes. These items are currently required by the NAIC Life Insurance Disclosure Model Regulation. Will they continue to be required for interest sensitive policies?

Commissioner, attached is a copy of the NAIC recommended sample disclosure statement with our suggestions highlighted. Also attached is a sample disclosure statement which is representative of the statements which are being used by life insurance companies. As you can see, the insurance companies are currently disclosing age 65 information, the calculated ending date based on guaranteed rates and charges, as well as the other items that we are suggesting to the NAIC committee. We certainly do not want to require less than what is being disclosed at this time.

Thank you for your time and assistance. Please feel free to contact John or myself in regard to these suggestions.

SAMPLE DISCLOSURE STATEMENT  
Use Only For Universal Life Flexible Premium And Universal Life Fixed  
Premium Policies)  
Policy Values Based On Both Guaranteed And Current Assumptions

***** Guaranteed Assumptions *****						
	(1)	(2)	(3)	(4)	(5)	
Year	Annual Premium	* Death Benefit	Accumulation Value At End of Year	Surrender Charge	Cash Surrender Value At End of Year	Year
1						1
2						2
3						3
4						4
5						5
6						6
7						7
8						8
9						9
10						10
11						11
12						12
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## SAMPLE DISCLOSURE STATEMENT

(Use Only for Universal Life Flexible Premium and Universal Life Fixed Premium Policies)

Front End Loads \_\_\_\_\_

(Include all front end loads described in the policy)

Level Annual Premium Required to Provide the Initial Death Benefit to Age 100 on a Guaranteed Basis \_\_\_\_\_

(To be filled in only for Universal Life Flexible Premium policies)

## NOTES TO USER:

- (1) The policy values shown under "Guaranteed Assumptions" on page 2 are required to be shown for your information and for possible comparison of this policy with other policies.
- (2) The "Accumulation Value At End of Year" and "Cash Surrender Value At End of Year" shown under "Guaranteed Assumptions" on page 2 are based on annual premiums and may not be the same amounts if premiums are paid on a mode other than annual.

Based on guaranteed values, guaranteed mortality charges and the payment of the scheduled premiums, coverage will end on \_\_\_\_\_.

Any loaned accumulation value earns interest at the rate of \_\_\_\_%.

JOHN HANCOCK LIFE INSURANCE COMPANY

POLICY SUMMARY (CONTINUED)

BASED ON GUARANTEED VALUES, POLICY MATURING AT AGE 95. BASED ON CURRENT VALUES, POLICY MATURING AT AGE 95.

\*\*CURRENT VALUES NET OF POLICY CHARGES AND INTEREST RATES AT 10% GUARANTEED. \*\*CURRENT VALUES NET OF POLICY CHARGES AND INTEREST RATES AT 10% GUARANTEED. \*\*CURRENT VALUES NET OF POLICY CHARGES AND INTEREST RATES AT 10% GUARANTEED.

EXPLANATIONS OF THE INTEREST  
USE OF THESE INDEXES ARE  
PROVIDED IN THE LIFE INSURANCE  
BUYER'S GUIDE.

\*SURRENDER COST INDEX  
CURRENT - GUARANTEED  
4.37 0.25  
0.77 0.05

POLICY LOAN INTEREST RATE IS 7.5% PAID IN ADVANCE.

EXPENSE CHARGES: 2.5% OF ALL PREMIUMS  
\$3 PER MONTH, ALL YEARS  
\$251 CREDIT ANNUAL WITHDRAWAL

SURRENDER CHARGES:	COMPLETED YEARS	SURRENDER CHARGE	COMPLETED YEARS	SURRENDER CHARGE
	0	\$127.40	10	\$61.15
	1	121.03	11	53.51
	2	114.66	12	45.86
	3	108.29	13	38.22
	4	101.92	14	30.58
	5	95.55	15	22.93
	6	89.18	16	15.29
	7	82.81	17	7.64
	8	76.44	18	.00
	9	69.08		

THIS DECLARATION IS FOR YOUR PROTECTION. IT PROVIDES BASIC INFORMATION ABOUT THE COST AND COVERAGE OF THIS POLICY. READ IT CAREFULLY. IT IS NOT AN OFFER TO CONTRACT AND DOES NOT ALTER OR MODIFY ANY POLICY COVERED.

ATTACHMENT TWO-C

Subsequent Revision of the Disclosure Statement Form  
Incorporating Commissioner Yancey's LetterSAMPLE DISCLOSURE STATEMENT  
Specifications - For All Disclosure Statements

Name of Insured: \_\_\_\_\_

Name of Second Insured: \_\_\_\_\_

(The name of the second insured should be filled in only if the policy is a "Joint Life" policy as indicated below)

Name of Company: \_\_\_\_\_

Date on which this Disclosure Statement was prepared \_\_\_\_\_

Type of Life Insurance Policy:

- ☐ Universal Life Flexible Premium  
☐ Universal Life Fixed Premium  
☐ Indeterminate Premium Life  
☐ Variable Life

Policy Form Marketing Name: \_\_\_\_\_

Policy Form Number: \_\_\_\_\_

Coverage And Premium Specifications:

Initial Death Benefit: \_\_\_\_\_

Initial Premium: \_\_\_\_\_

Mode Selected At Issue: \_\_\_\_\_

Equivalent Initial Annual Premium: \_\_\_\_\_

(This amount is equal to the "Initial Premium" if the mode selected at issue is annual; otherwise fill in the annual premium which is equivalent to the "Initial Premium")

Status Specifications:

☐ Single Life ☐ Joint Life (Check one)

Additional Specifications If Single Life is Checked

☐ Issue Age☐ Sex

Risk Classification \_\_\_\_\_

(Disclose such classifications as standard or substandard, smoker or nonsmoker status, degree of substandard rating if applicable, and any other classifications which affect gross premium or cash values)

Additional Specifications If Joint Life is Checked

☐ Joint First To Die Plan☐ Joint Last Survivor Plan

(Check one of the two plans above)

First Joint Insured

☐ Issue Age☐ Sex

Risk Classification \_\_\_\_\_

Second Joint Insured

☐ Issue Age☐ Sex

Risk Classification \_\_\_\_\_

(Refer to comments for single life "Risk Classification" above)

**SAMPLE DISCLOSURE STATEMENT**  
 (Use Only For Universal Life Flexible Premium And Universal Life Fixed  
 Premium Policies)  
 Policy Values Based On Both Guaranteed And Current Assumptions

===== Guaranteed Assumptions =====						
Year	(1) Gross Annual Premium	(2) Death Benefit	(3) Interest Rate	(4) Accumulation Value At End of Year	(5) Surrender Charge	(6) Cash Surrender Value At End of Year
1						
2						
3						
4						
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===== Current Assumptions =====						
Year	(1) Gross Annual Premium	(2) Death Benefit	(3) Interest Rate	(4) Accumulation Value At End of Year	(5) Surrender Charge	(6) Cash Surrender Value At End of Year
1						
2						
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Values under "Current Assumptions" are not guaranteed (see next page).



**SAMPLE DISCLOSURE STATEMENT**  
(Use Only For Universal Life Flexible Premium And  
Universal Life Fixed Premium Policies)

The values under "Current Assumptions" are based on non-guaranteed interest rates, mortality charges and other charges and fees described below. The insurance company has the right to alter these to the extent described in the policy language.

Policy Values based on both Guaranteed and Current Assumptions for age 60 or 65

Age	(1) Gross Annual Premium	(2) Death Benefit	(3) Interest Rate	(4) Accumulation Value At End of Year	(5) Surrender Charge	(6) Cash Surrender Value At End of Year
Guaranteed Assumptions:	_____	_____	_____ %	_____	_____	_____
Current Assumptions:	_____	_____	_____ %	_____	_____	_____

Specify the non-guaranteed nature of any interest rates (including the insurer's right to alter interest rates)

\_\_\_\_\_

Specify the non-guaranteed nature of any mortality charges (including the insurer's rights to alter mortality charges)

\_\_\_\_\_

Specify the non-guaranteed nature of any charges or other fees applied to the policy (including the insurer's rights to alter such charges or fees)

\_\_\_\_\_

Identify the portions of the policy to which a specified interest rate shall be credited

\_\_\_\_\_

How often is the current interest rate reviewed for the purpose of possible redetermination?

\_\_\_\_\_

Is the policy interest-indexed? \_\_\_\_\_ If "yes," describe the index and give a description of the frequency and timing of determining the interest rate and of any adjustments made to the index in arriving at the interest rate credited under the policy.

\_\_\_\_\_

Front End Loads \_\_\_\_\_

(Include all front end loads described in the policy)

What is the Maturity Age? \_\_\_\_\_ (This is the attained age at which an endowment will mature if the insured is still living. Use "100" if no age is specified in the policy. In the case of a joint policy, enter the maturity age of the younger person.)

Level Annual Premium Required to Provide the Initial Death Benefit to Maturity Age on a Guaranteed Basis

(To be filled in only for Universal Life Flexible Premium policies)

Would the guaranteed cost factors or initial policy cost factor assumptions result in policy values becoming exhausted prior to the policy's maturity date? \_\_\_\_\_ The policyholder should note that death benefit coverage would also cease under such circumstances.

Based on guaranteed interest rates, guaranteed mortality charges, and the payment of scheduled premiums, coverage will end on \_\_\_\_\_.

Raw percentage rate of interest which is earned on any loaned accumulation values. \_\_\_\_\_

What is the policy loan interest rate? \_\_\_\_\_

## Cost Comparison Indices under Current and Guaranteed Assumptions

(Explanations of the intended use of the following indexes are provided in the Life Insurance Buyer's Guide)

	Net Payment Cost Index		Surrender Cost Index	
	Current	Guaranteed	Current	Guaranteed
Year 10	_____	_____	_____	_____
Year 20	_____	_____	_____	_____

## Notes to User:

(1) The policy values shown under "Guaranteed Assumptions" on page 2 are required to be shown for information and for possible comparison of this policy with other policies.

(2) The "Accumulation Value At End of Year" and "Cash Surrender Value At End of Year" shown under "Guaranteed Assumptions" on page 2 are based on annual premiums and may not be the same amounts if premiums are paid on a mode other than annual.

## SAMPLE DISCLOSURE STATEMENT

Instructions For Page 2 of "Sample Disclosure Statement" Applicable For Universal Life Flexible Premium And Universal Life Fixed Premium Policies

The following are pertinent to the values under "Guaranteed Assumptions" for Universal Life Flexible Premium policies:

- 1) The "Gross Annual Premium" must be a level amount equal to the "Equivalent Initial Annual Premium" shown, except that the "Gross Annual Premium" must be shown as zero if there is no death benefit provided by the policy during that year.
- 2) The "Death Benefit" shall be an amount equal to the "Initial Death Benefit" (but increased if the corresponding "Accumulation Value at End of Year" in column 4 is so large that an increase is generated by the policy language). However, if a death benefit equal to the "Initial Death Benefit" can not be provided for the entire year, the death benefit for that year shall be filled in as the "Initial Death Benefit" followed by a slash mark and a zero. The company may provide, at its option, an explanatory footnote to indicate how long into that particular year the "Initial Death Benefit" could be provided. The "Death Benefit" shall be shown as zero for any subsequent years.
- 3) The "Interest Rate" column must disclose the applicable guaranteed interest rate, used to obtain the "Accumulation Value at End of Year" amounts in column 4. These guaranteed interest rates must be consistent with the guaranteed interest rates described in the policy.
- 4) The "Accumulation Value at End of Year" shall be based on the guaranteed interest basis, and maximum charges for mortality costs (and expenses, if applicable), consistent with the corresponding amounts shown in columns 1 and 2.
- 5) The "Surrender Charge" is the amount, if any, which the contract language provides as a deduction from column 4 in determining the corresponding "Cash Surrender Value at End of Year."
- 6) The "Cash Surrender Value at End of Year" is the amount which would actually be paid as a cash surrender value never less than zero, but otherwise consistent with columns 4 and 5.

The following are pertinent to the values under "Current Assumptions" for Universal Life Flexible Premium policies:

- 1) The "Gross Annual Premium" must be a level amount equal to the "Equivalent Initial Annual Premium" shown, except that the "Gross Annual Premium" must be shown as zero if there is no death benefit provided by the policy during that year. Note that these amounts of annual premium are calculated using current assumptions.
- 2) The "Death Benefit" shall be an amount equal to the "Initial Death Benefit" (but increased if the corresponding "Accumulation Value at End of Year" in column 4 is so large that an increase is generated by the policy language). Note that these amounts of death benefit are calculated using current assumptions. However, if a death benefit equal to the "Initial Death Benefit" cannot be provided for the entire year, the death benefit for that year shall be filled in as the "Initial Death Benefit" followed by a slash mark and a zero. The company may provide, at its option, an explanatory footnote to indicate how long into that particular year the "Initial Death Benefit" could be provided. The "Death Benefit" shall be shown as zero for any subsequent years.
- 3) The "Interest Rate" column must disclose the applicable interest rate, used to obtain the "Accumulation Value at End of Year" amounts in column 4.
- 4) The "Accumulation Value at End of Year" shall be based on the current interest rate, and current schedules of charges for mortality costs (and expenses, if applicable), consistent with the corresponding amounts shown with columns 1 and 2, provided that column 4 shall not be calculated using any assumption more favorable to policyholders than any assumption now in actual use by the insurance company and provided also that no enhancement or increment can be illustrated in column 4 unless it is specifically described in the contract language.

5) The "Surrender Charge" is the amount, if any, which the contract language provides as a deduction from column 4 in determining the corresponding "Cash Surrender Value at End of Year."

6) The "Cash Surrender Value at End of Year" is the amount which would actually be paid as a cash surrender value, never less than zero, but otherwise consistent with columns 4 and 5.

In the case of a Universal Life Fixed Premium policy, all of the columns and lines shall be filled in consistently using the same principles described above for a Universal Life Flexible Premium Policy with the following two exceptions. First, the "Annual Premium" shown in column 1 for both "Guaranteed Assumptions" and "Current Assumptions" shall be filled in using annual premiums actually described in the Universal Life Fixed Premium policy, assuming that the policy owner does not exercise any option to change these premiums. Second, the "Death Benefit" shown in column 2 for both "Guaranteed Assumptions" and "Current Assumptions" shall be the appropriate actual death benefit provided under the policy in each year, assuming that the policy owner does not exercise any option to change these death benefits and also that premiums are paid consistent with the amounts of premiums shown in column 1. Third, some Universal Life Fixed Premium policies are constructed so that the "Accumulation Value At End of Year" minus the "Surrender Charge" is less than the minimum cash value described in the contract. In such instances, the minimum cash value should be used in column 6.

\*\*\*\*\*

### ATTACHMENT THREE

To: Commissioner Bill Hager, Chair, Product Development Task Force  
 From: Carole Olson, NAIC Associate Counsel  
 Date: December 7, 1988  
 Re: Consumer Disclosure Issues Working Group

Attached is a copy of my letter to Ted Becker dated Oct. 26, 1988, in which I identify some procedural issues which should be addressed after the Working Group distributes the sample disclosure statements for exposure. Because the statements affect the existing NAIC model structure (the Life Insurance Disclosure Model Regulation, the Variable Life Insurance Model Regulation and the Universal Life Insurance Model Regulation), they should be incorporated therein. It appears that there are several questions which should be resolved by the "technical experts" in this process.

Also attached are the comments I received from the states of Missouri (Attachment Three-A) and Utah (Attachment Three-B) regarding the draft sample disclosure statements.

\*\*\*\*

NAIC  
 120 W. 12th St., Suite 1100  
 Kansas City, Mo. 64105

October 26, 1988

Mr. Ted Becker  
 Reserve Actuaries  
 State Board of Insurance  
 1110 San Jacinto Boulevard  
 Austin, Texas 78701-1998

Re: Disclosure Statements for Life Insurance Products

Dear Ted:

After the working group's meeting here in Kansas City on Monday, I reviewed the NAIC's models pertaining to disclosure. The models which are affected: Life Insurance Disclosure Model Regulation, Variable Life Insurance Model Regulation and Universal Life Insurance Model Regulation. I am enclosing copies of those models highlighting the sections which apply to disclosure.

The Life Insurance Disclosure Model Regulation requires a policy summary to be issued by the insurer to all prospective purchasers prior to accepting the initial premium. Some of the requirements for the policy summary are the same as the information contained in the disclosure statement.

The Variable Life Insurance Model Regulation requires certain information to be furnished to applicants, but it does not appear that the requirements are duplicative of the disclosure statements. Please refer to Sec. 10 of the Model.

The Universal Life Insurance Model Regulation, Sec. 8, requires that any statement of policy cost factors or benefits used in connection with any advertising, solicitation, negotiation or procurement of a universal life insurance policy shall contain three items which appear to be covered by the disclosure statements which you drafted. The language is a bit unclear as to whether the existing disclosure requirement is actually a mandatory requirement; however, this could be changed and the requirement could include distribution of the sample disclosure statement.

I hope that you might have a chance to review the enclosed highlighted material and give me your input on how the statements should be incorporated into the NAIC models. As always, I appreciate your help on this and look forward to seeing you in New Orleans.

Very truly yours,

Carole J. Olson  
Associate Counsel

\*\*\*\*\*

#### ATTACHMENT THREE-A

To: Carole Olson, NAIC  
From: Charles F. Renn, Missouri Deputy Director - Company Regulation  
Subject: Draft of Disclosure Statements for Life Insurance Policies  
Date: November 29, 1988

I have reviewed the draft disclosure statements and have the following comments:

- (1) There is no mention of when the disclosure is to be delivered. I suggest that the disclosure become part of the application for coverage to allow the home office to correct any inaccuracies and present the true information to the applicant prior to policy issue.
- (2) Regarding page 2 of the disclosure application to universal life policies, the statement, "based on a guaranteed interest rate of" should read, "based on this policy's guaranteed interest rate of." The statement, "based on a current interest rate of" should read, "based on this policy's current interest rate of." This more specific language will deter agent creativity that may otherwise result in misrepresentation of actual policy guarantees or current assumptions.
- (3) There is no allowance for projections applicable to the current dividend scale for the indeterminate premium products, nor is there any statement which declares that dividends are not applicable to universal life policies (or at least are not foreseen as payable under those policies).

I have had discussions with a few Missouri agents complaining about other agents using current assumptions or current dividend projections that exceed assumptions in place for that company at the time of application. It appears these agents are projecting into the future increases in interest rates and dividends which result in projections that will probably prove inaccurate and which unfairly disadvantage the conscientious agent. I would strongly favor any action which would protect Missouri consumers from misrepresentation. I feel that a disclosure statement such as this may work to that end.

\*\*\*\*\*

#### ATTACHMENT THREE-B

Utah State Insurance Department  
160 East 300 South  
P.O. Box 45803  
Salt Lake City, Utah 84145

To: Commissioner Harold C. Yancey  
From: John M. Coomans  
Date: October 20, 1988  
Subject: Proposed disclosure statements for interest sensitive products

In answer to your Memorandums on this subject, copies attached. Yes, disclosure statements are needed. Verbal misrepresentation by omission involving these products occurs frequently.

It is assumed that the disclosure statements will be presented under the heading of Statement of Policy Cost and Benefit Information, according to the NAIC Life Insurance Solicitation Rule. The rule identifies that one age from 60 to 65 or maturity, whichever is earlier, must also be illustrated. That requirement is not noted on the proposed disclosure statements and it ought to be included.

RoseMarie Parkinson and I believe that additional disclosure should be required in the actual policy. RoseMarie is insisting that the Policy Schedule Page identifies the date when the policy will lapse based on paying the planned premium and guaranteed assumptions of interest and mortality rates. She is returning policy filings that do not clarify this. She is doing this based on 31A-21-301 UCA, which refers to disclosing the beginning and ending dates of insurance protection. It is believed that this will suffice, but it would be nice to include the requirements in a NAIC model rule.

If you have questions, please contact either RoseMarie or me.

\*\*\*\*\*

## ATTACHMENT FOUR

SAMPLE DISCLOSURE STATEMENT  
Specifications - For All Disclosure Statements  
Draft: 10-24-88

Name of Insured: \_\_\_\_\_  
Name of Second Insured: \_\_\_\_\_  
(The name of the second insured should be filled in only if the policy is a "Joint Life" policy as indicated below)

Name of Company: \_\_\_\_\_

Type of Life Insurance Policy:  
☐ Universal Life Flexible Premium  
☐ Universal Life Fixed Premium  
☐ Indeterminate Premium Life  
☐ Variable Life

Policy Form Marketing Name: \_\_\_\_\_

Policy Form Number: \_\_\_\_\_

Coverage And Premium Specifications:

Initial Death Benefit: \_\_\_\_\_  
Initial Premium: \_\_\_\_\_  
Mode Selected At Issue: \_\_\_\_\_  
Equivalent Initial Annual Premium: \_\_\_\_\_  
(This amount is equal to the "Initial Premium" if the mode selected at issue is annual; otherwise fill in the annual premium which is equivalent to the "Initial Premium")

Status Specifications:  
☐ Single Life      ☐ Joint Life      (Check one)

Additional Specifications If Single Life is Checked

☐ Issue Age  
☐ Sex  
Risk Classification \_\_\_\_\_  
(Disclose such classifications as standard or substandard, smoker or nonsmoker status, degree of substandard rating if applicable, and any other classifications which affect gross premium or cash values)

Additional Specifications If Joint Life is Checked

☐ Joint First To Die Plan      ☐ Joint Last Survivor Plan  
(Check one of the two plans above)

First Joint Insured	Second Joint Insured
<input type="checkbox"/> Issue Age	<input type="checkbox"/> Issue Age
<input type="checkbox"/> Sex	<input type="checkbox"/> Sex
Risk Classification	Risk Classification

\_\_\_\_\_  
(Refer to comments for single life "Risk Classification" above)

**SAMPLE DISCLOSURE STATEMENT**  
 Use Only For Universal Life Flexible Premium And Universal Life Fixed  
 Premium Policies)  
 Policy Values Based On Both Guaranteed And Current Assumptions

===== Guaranteed Assumptions =====					
	(1)	(2)	(3)	(4)	(5) Cash
Year	Annual	Death	Accumulation	Surrender	Surrender
	Premium	Benefit	Value At	Charge	Value At
			End of Year		End of Year
1					
2					
3					
4					
5					
6					
7					
8					
9					
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19					
20					

Based on a guaranteed interest rate of \_\_\_\_\_ %

===== Current Assumptions =====					
	(1)	(2)	(3)	(4)	(5) Cash
Year	Annual	Death	Accumulation	Surrender	Surrender
	Premium	Benefit	Value At	Charge	Value At
			End of Year		End of Year
1					
2					
3					
4					
5					
6					
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8					
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10					
11					
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13					
14					
15					
16					
17					
18					
19					
20					

Based on a current interest rate of \_\_\_\_\_ %

**SAMPLE DISCLOSURE STATEMENT**  
(Use Only For Universal Life Flexible Premium And  
Universal Life Fixed Premium Policies)

**Front End Loads**

(Include all front end loads described in the policy)

**Level Annual Premium Required to Provide the Initial Death Benefit to Age 100 on a Guaranteed Basis**

(To be filled in only for Universal Life Flexible Premium policies)

**Notes to User:**

- (1) The policy values shown under "Guaranteed Assumptions" on page 2 are required to be shown for your information and for possible comparison of this policy with other policies.
- (2) The "Accumulation Value At End of Year" and "Cash Surrender Value At End of Year" shown under "Guaranteed Assumptions" on page 2 are based on annual premiums and may not be the same amounts if premiums are paid on a mode other than annual.

**SAMPLE DISCLOSURE STATEMENT**

**Instructions For Page 2 of "Sample Disclosure Statement" Applicable For Universal Life Flexible Premium And Universal Life Fixed Premium Policies**

The following are pertinent to the values under "Guaranteed Assumptions" for Universal Life Flexible Premium policies:

- 1) The "Annual Premium" must be a level amount equal to the "Equivalent Initial Annual Premium" shown, except that the "Annual Premium" must be shown as zero if there is no death benefit provided by the policy during that year.
- 2) The "Death Benefit" shall be an amount equal to the "Initial Death Benefit" (but increased if the corresponding "Accumulation Value at End of Year" in column 3 is so large that an increase is generated by the policy language). However, if a death benefit equal to the "Initial Death Benefit" can not be provided for the entire year, the death benefit for that year shall be filled in as the "Initial Death Benefit" followed by a slash mark and a zero. The company may provide, at its option, an explanatory footnote to indicate how long into that particular year the "Initial Death Benefit" could be provided. The "Death Benefit" shall be shown as zero for any subsequent years.
- 3) The "Accumulation Value at End of Year" shall be based on the guaranteed interest basis, and maximum charges for mortality costs (and expenses, if applicable), consistent with the corresponding amounts shown in columns 1 and 2.
- 4) The "Surrender Charge" is the amount, if any, which the contract language provides as a deduction from column 3 in determining the corresponding "Cash Surrender Value at End of Year."
- 5) The "Cash Surrender Value at End of Year" is the amount which would actually be paid as a cash surrender value never less than zero, but otherwise consistent with columns 3 and 4.
- 6) The "Based on a Guaranteed Interest Rate" line must disclose the applicable guaranteed interest rate, used to obtain the "Accumulation Value at End of Year" amounts in column 3 under "Guaranteed Assumptions." If there is any variation in this guaranteed interest rate for any policy year 1 through 20, the line must be filled in so that the guaranteed interest rate for each of these years is determinable. These guaranteed interest rates must be consistent with the guaranteed interest rates described in the policy.

The following are pertinent to the values under "Current Assumptions" for Universal Life Flexible Premium policies:

- 1) The "Annual Premium" must be a level amount equal to the "Equivalent Initial Annual Premium" shown, except that the "Annual Premium" must be shown as zero if there is no death benefit provided by the policy during that year. Note that these amounts of annual premium are calculated using current assumptions.
- 2) The "Death Benefit" shall be an amount equal to the "Initial Death Benefit" (but increased if the corresponding "Accumulation Value at End of Year" in column 3 is so large that an increase is generated by the policy language). Note that these amounts of death benefit are calculated using current assumptions. However, if a death benefit equal to the "Initial Death Benefit" cannot be provided for the entire year, the death benefit for that year shall be filled in as the "Initial Death Benefit" followed by a slash mark and a zero. The company may provide, at its option, an explanatory footnote to indicate how long into that particular year the "Initial Death Benefit" could be provided. The "Death Benefit" shall be shown as zero for any subsequent years.
- 3) The "Accumulation Value at End of Year" shall be based on the current interest rate, and current schedules of charges for mortality costs (and expenses, if applicable), consistent with the corresponding amounts shown with columns 1 and 2, provided that column 3 shall not be calculated using any assumption more favorable to policyholders than any assumption now in actual use by the insurance company and provided also that no enhancement or increment can be illustrated in column 3 unless it is specifically described in the contract language.

- 4) The "Surrender Charge" is the amount, if any, which the contract language provides as a deduction from column 3 in determining the corresponding "Cash Surrender Value at End of Year."
- 5) The "Cash Surrender Value at End of Year" is the amount which would actually be paid as a cash surrender value, never less than zero, but otherwise consistent with columns 3 and 4.

In the case of a Universal Life Fixed Premium policy, all of the columns and lines shall be filled in consistently using the same principles described above for a Universal Life Flexible Premium Policy with the following two exceptions. First, the "Annual Premium" shown in column 1 for both "Guaranteed Assumptions" and "Current Assumptions" shall be filled in using annual premiums actually described in the Universal Life Fixed Premium policy, assuming that the policy owner does not exercise any option to change these premiums. Second, the "Death Benefit" shown in column 2 for both "Guaranteed Assumptions" and "Current Assumptions" shall be the appropriate actual death benefit provided under the policy in each year, assuming that the policy owner does not exercise any option to change these death benefits and also that premiums are paid consistent with the amounts of premiums shown in column 1.

**SAMPLE DISCLOSURE STATEMENT**  
Specifications - For All Disclosure Statements

Name of Insured: \_\_\_\_\_

Name of Second Insured: \_\_\_\_\_

(The name of the second insured should be filled in only if the policy is a "Joint Life" policy as indicated below)

Name of Company: \_\_\_\_\_

Type of Life Insurance Policy:

- ☐ Universal Life Flexible Premium  
☐ Universal Life Fixed Premium  
☐ Indeterminate Premium Life  
☐ Variable Life

Policy Form Marketing Name: \_\_\_\_\_

Policy Form Number: \_\_\_\_\_

Coverage And Premium Specifications:

Initial Death Benefit: \_\_\_\_\_

Initial Premium: \_\_\_\_\_

Mode Selected At Issue: \_\_\_\_\_

Equivalent Initial Annual Premium: \_\_\_\_\_

(This amount is equal to the "Initial Premium" if the mode selected at issue is annual; otherwise fill in the annual premium which is equivalent to the "Initial Premium")

Status Specifications:

☐ Single Life      ☐ Joint Life      (Check one)

Additional Specifications If Single Life is Checked

☐ Issue Age

☐ Sex

Risk Classification \_\_\_\_\_

(Disclose such classifications as standard or substandard, smoker or nonsmoker status, degree of substandard rating if applicable, and any other classifications which affect gross premium or cash values)

Additional Specifications If Joint Life is Checked

☐ Joint First To Die Plan

☐ Joint Last Survivor Plan

(Check one of the two plans above)

First Joint Insured

Second Joint Insured

☐ Issue Age

☐ Issue Age

☐ Sex

☐ Sex

Risk Classification \_\_\_\_\_

Risk Classification \_\_\_\_\_

(Refer to comments for single life "Risk Classification" above)



SAMPLE DISCLOSURE STATEMENT  
(Use Only For Indeterminate Premium Life Policies)

Year	(1) Maximum Annual Premium (Guaranteed Assumptions)	(2) Possible Annual Premium (Current Assumptions)	(3) Death Benefit	(4) Cash Surrender Value At End of Year	Year
1					1
2					2
3					3
4					4
5					5
6					6
7					7
8					8
9					9
10					10
11					11
12					12
13					13
14					14
15					15
16					16
17					17
18					18
19					19
20					20

### SAMPLE DISCLOSURE STATEMENT

**Specifications - For All Disclosure Statements**

Name of Insured: \_\_\_\_\_

Name of Second Insured: \_\_\_\_\_

(The name of the second insured should be filled in only if the policy is a "Joint Life" policy as indicated below)

Name of Company: \_\_\_\_\_

Type of Life Insurance Policy:

           Universal Life Flexible Premium

**Universal Life Fixed Premium**

Indeterminate Premium Life

Variable Life

Policy Form Marketing Name: \_\_\_\_\_

Policy Form Number:

### Coverage And Premium Specifications:

Initial Death Benefit: \_\_\_\_\_

Initial Premium: \_\_\_\_\_

Mode Selected At Issue: \_\_\_\_\_

Equivalent Initial Annual Premium: \_\_\_\_\_

(This amount is equal to the "Initial Premium" if the mode selected at issue is annual; otherwise fill in the annual premium which is equivalent to the "Initial Premium")

**Status Specifications: (Check one)**

**Single Life**

### Joint Life

### Additional Specifications If Single Life is Checked

\_\_\_\_\_ Issue Age

**Sex**

Risk Classification \_\_\_\_\_

(Disclose such classifications as standard or substandard, smoker or nonsmoker status, degree of substandard rating if applicable, and any other classifications which affect gross premium or cash values)

### Additional Specifications If Joint Life is Checked

## Joint First To Die Plan

\_\_\_\_\_ Joint Last Survivor Plan

(Check one of the two plans above)

First Joint Insured

### Second Joint Insured

\_\_\_\_\_ Issue Age

\_\_\_\_\_ Issue Age

**Sex**

Sex

### Risk Classification

### Risk Classification

(Refer to comments for single life "Risk Classification" above)

### SAMPLE DISCLOSURE STATEMENT

(Use Only For Variable Life Policies)

### Table of Surrender Charges Used In Determining Cash Surrender Values

Policy Year	Surrender Charge	Policy Year	Surrender Charge
1		11	
2		12	
3		13	
4		14	
5		15	
6		16	
7		17	
8		18	
9		19	
10		20	

## Front End Loads \_\_\_\_\_

(Include all front end loads described in the policy)

## Death Benefit Guarantees \_\_\_\_\_

(Disclose any guarantees of death benefits provided in the policy)

Is this product structured such that an insured can lose his or her entire investment even though the insured has paid the scheduled premiums?

☐ Yes ☐ No (Check one)

If the answer to the question above is "Yes," then describe briefly how this could happen. Also, address what the affect would be on any death benefit guarantees (if any) as provided above if such a loss of the insured's investment would occur.

Is The Premium In The Policy Fixed or Guaranteed? ☐ Yes ☐ No (Check one)

**SAMPLE DISCLOSURE STATEMENT**  
Specifications - For All Disclosure Statements

Name of Insured: Client

Name of Second Insured: \_\_\_\_\_

(The name of the second insured should be filled in only if the policy is a "Joint Life" policy as indicated below)

Name of Company: Insurance Company

## Type of Life Insurance Policy:

- ☒ Universal Life Flexible Premium  
☐ Universal Life Fixed Premium  
☐ Indeterminate Premium Life  
☐ Variable Life

Policy Form Marketing Name: Ultimate Life 85+Policy Form Number: POD Ed. 9-85

## Coverage And Premium Specifications:

Initial Death Benefit: 17,921Initial Premium: 1,000Mode Selected At Issue: AnnualEquivalent Initial Annual Premium: 1,000

(This amount is equal to the "Initial Premium" if the mode selected at issue is annual; otherwise fill in the annual premium which is equivalent to the "Initial Premium")

## Status Specifications:

☒ Single Life ☐ Joint Life (Check one)

## Additional Specifications If Single Life is Checked

☐ Issue Age☐ SexRisk Classification Standard, Nonsmoker

(Disclose such classifications as standard or substandard, smoker or nonsmoker status, degree of substandard rating if applicable, and any other classifications which affect gross premium or cash values)

## Additional Specifications If Joint Life is Checked

☐ Joint First To Die Plan☐ Joint Last Survivor Plan

(Check one of the two plans above)

First Joint Insured

☐ Issue Age☐ Sex

Risk Classification \_\_\_\_\_

Second Joint Insured

☐ Issue Age☐ Sex

Risk Classification \_\_\_\_\_

(Refer to comments for single life "Risk Classification" above)

**SAMPLE DISCLOSURE STATEMENT**  
 (Use Only For Universal Life Flexible Premium And Universal Life Fixed  
 Premium Policies)  
 Policy Values Based On Both Guaranteed And Current Assumptions

===== Guaranteed Assumptions =====						
	(1)	(2)	(3)	(4)	(5) Cash	
Year	Annual Premium	Death Benefit	Accumulation Value At End of Year	Surrender Charge	Surrender Value At End of Year	Year
1	1,000	17,921	600	774	0	1
2	1,000	17,921	1,176	688	488	2
3	1,000	17,921	1,742	646	1,096	3
4	1,000	17,921	2,284	602	1,687	4
5	1,000	17,921	2,812	559	2,253	5
6	1,000	17,921	3,306	531	2,775	6
7	1,000	17,921	3,768	503	3,265	7
8	1,000	17,921	4,194	476	3,718	8
9	1,000	17,921	4,577	447	4,130	9
10	1,000	17,921	4,913	419	4,494	10
11	1,000	17,921	5,188	336	4,852	11
12	1,000	17,921	5,379	252	5,127	12
13	1,000	17,921	5,454	158	5,296	13
14	1,000	17,921	5,411	84	5,327	14
15	1,000	17,921	5,180	0	5,180	15
16	1,000	17,921	4,718	0	4,718	16
17	1,000	17,921	3,950	0	3,950	17
18	1,000	17,921	2,769	0	2,769	18
19	1,000	17,921	1,015	0	1,015	19
20	1,000	17,921/0	0	0	0	20

Based on a guaranteed interest rate of 4 %

===== Current Assumptions =====						
	(1)	(2)	(3)	(4)	(5) Cash	
Year	Annual Premium	Death Benefit	Accumulation Value At End of Year	Surrender Charge	Surrender Value At End of Year	Year
1	1,000	17,921	626	774	0	1
2	1,000	17,921	1,300	688	612	2
3	1,000	17,921	1,992	646	1,246	3
4	1,000	17,921	2,707	602	1,855	4
5	1,000	17,921	3,448	559	2,334	5
6	1,000	17,921	4,217	531	2,686	6
7	1,000	17,921	5,017	503	3,514	7
8	1,000	17,921	5,858	476	4,382	8
9	1,000	17,921	6,749	447	5,302	9
10	1,000	17,921	7,702	419	6,284	10
11	1,000	17,921	8,732	336	7,396	11
12	1,000	17,921	9,852	252	8,600	12
13	1,000	17,921	11,043	158	9,925	13
14	1,000	17,921	12,494	84	11,411	14
15	1,000	17,921	14,115	0	14,115	15
16	1,000	17,921	16,046	0	16,046	16
17	1,000	17,921	18,315	0	18,315	17
18	1,000	21,754	20,747	0	20,747	18
19	1,000	24,518	23,351	0	23,351	19
20	1,000	27,440	26,133	0	26,133	20

Based on a current interest rate of 8 %

**SAMPLE DISCLOSURE STATEMENT**  
(Use Only For Universal Life Flexible Premium And  
Universal Life Fixed Premium Policies)

Front End Loads .03 Per \$1.00 of Premium in All Years Plus \$3 Per  
Month in All Years

(Include all front end loads described in the policy)

Level Annual Premium Required to Provide the Initial Death Benefit to Age 100 on a Guaranteed Basis  
\$1,093.40

(To be filled in only for Universal Life Flexible Premium policies)

**Notes to User:**

(1) The policy values shown under "Guaranteed Assumptions" on page 2 are required to be shown for your information and for possible comparison of this policy with other policies.

(2) The "Accumulation Value At End of Year" and "Cash Surrender Value At End of Year" shown under "Guaranteed Assumptions" on page 2 are based on annual premiums and may not be the same amounts if premiums are paid on a mode other than annual.

**SAMPLE DISCLOSURE STATEMENT**  
Specifications - For All Disclosure Statements

Name of Insured: Client

Name of Second Insured: \_\_\_\_\_

(The name of the second insured should be filled in only if the policy is a "Joint Life" policy as indicated below)

Name of Company: Insurance Company

**Type of Life Insurance Policy:**

☐ Universal Life Flexible Premium  
☐ Universal Life Fixed Premium  
☒ Indeterminate Premium Life  
☐ Variable Life

Policy Form Marketing Name: \_\_\_\_\_

Policy Form Number: 822375

**Coverage And Premium Specifications:**

Initial Death Benefit: 25,000

Initial Premium: 277

Mode Selected At Issue: Annual

Equivalent Initial Annual Premium: 277

(This amount is equal to the "Initial Premium" if the mode selected at issue is annual; otherwise fill in the annual premium which is equivalent to the "Initial Premium")

**Status Specifications:**

☒ Single Life ☐ Joint Life (Check one)

**Additional Specifications If Single Life is Checked**

☐ Issue Age

☐ Sex

Risk Classification Standard

(Disclose such classifications as standard or substandard, smoker or nonsmoker status, degree of substandard rating if applicable, and any other classifications which affect gross premium or cash values)

**Additional Specifications If Joint Life is Checked**

☐ Joint First To Die Plan

☐ Joint Last Survivor Plan

(Check one of the two plans above)

First Joint Insured

Second Joint Insured

☐ Issue Age

☐ Issue Age

☐ Sex

☐ Sex

Risk Classification \_\_\_\_\_

Risk Classification \_\_\_\_\_

(Refer to comments for single life "Risk Classification" above)

**SAMPLE DISCLOSURE STATEMENT**  
 (Use Only For Indeterminate Premium Life Policies)

Year	(1) Maximum Annual Premium (Guaranteed Assumptions)	(2) Possible Annual Premium (Current Assumptions)	(3) Death Benefit	(4) Cash Surrender Value At End of Year	Year
1	277.00	277.00	25,000	0	1
2	277.00	277.00	25,000	0	2
3	277.00	277.00	25,000	303	3
4	304.70	277.00	25,000	1,409	4
5	304.70	277.00	25,000	2,555	5
6	304.70	277.00	25,000	3,740	6
7	335.17	277.00	25,000	4,964	7
8	335.17	277.00	25,000	6,224	8
9	335.17	277.00	25,000	7,533	9
10	368.64	277.00	25,000	8,874	10
11	368.64	277.00	25,000	10,265	11
12	368.64	277.00	25,000	11,692	12
13	405.56	277.00	25,000	13,157	13
14	405.56	277.00	25,000	14,660	14
15	405.56	277.00	25,000	16,220	15
16	423.00	277.00	25,000	17,775	16
17	423.00	277.00	25,000	19,384	17
18	423.00	277.00	25,000	21,026	18
19	423.00	277.00	25,000	22,699	19
20	423.00	277.00	25,000	24,404	20

**SAMPLE DISCLOSURE STATEMENT**  
Specifications - For All Disclosure Statements

Name of Insured: Client

Name of Second Insured: \_\_\_\_\_

(The name of the second insured should be filled in only if the policy is a "Joint Life" policy as indicated below)

Name of Company: Insurance Company

Type of Life Insurance Policy:

☐ Universal Life Flexible Premium☐ Universal Life Fixed Premium☐ Indeterminate Premium Life☒ Variable Life

Policy Form Marketing Name: \_\_\_\_\_

Policy Form Number: 85-300 TXA

Coverage And Premium Specifications:

Initial Death Benefit: 50,000Initial Premium: 500Mode Selected At Issue: AnnualEquivalent Initial Annual Premium: 500

(This amount is equal to the "Initial Premium" if the mode selected at issue is annual; otherwise fill in the annual premium which is equivalent to the "Initial Premium")

Status Specifications:

☒ Single Life ☐ Joint Life (Check one)

Additional Specifications If Single Life is Checked

35 Issue AgeM SexRisk Classification Standard Nonsmoker

(Disclose such classifications as standard or substandard, smoker or nonsmoker status, degree of substandard rating if applicable, and any other classifications which affect gross premium or cash values)

Additional Specifications If Joint Life is Checked

☐ Joint First To Die Plan☐ Joint Last Survivor Plan

(Check one of the two plans above)

First Joint Insured

     Issue Age     SexRisk Classification     

Second Joint Insured

     Issue Age     SexRisk Classification     

(Refer to comments for single life "Risk Classification" above)

**SAMPLE DISCLOSURE STATEMENT**  
(Use Only For Variable Life Policies)

Table of Surrender Charges Used In Determining Cash Surrender Values

Policy Year	Surrender Charge	Policy Year	Surrender Charge
1	<u>\$180</u>	11	<u>0</u>
2	<u>180</u>	12	<u>0</u>
3	<u>180</u>	13	<u>0</u>
4	<u>180</u>	14	<u>0</u>
5	<u>180</u>	15	<u>0</u>
6	<u>180</u>	16	<u>0</u>
7	<u>144</u>	17	<u>0</u>
8	<u>108</u>	18	<u>0</u>
9	<u>72</u>	19	<u>0</u>
10	<u>36</u>	20	<u>0</u>

Front End Loads 7.5% of each premium payment (or less at the discretion of the insurance company) \$5 monthly administrative charge (or less at the discretion of the company and an additional charge applicable on first premium payment)

(Include all front end loads described in the policy)

Death Benefit Guarantees 50,000 face amount if the policy account is adequate to support the death benefit. However, the policy owner has certain contractual rights to increase or decrease this amount.

(Disclose any guarantees of death benefits provided in the policy)

Is this product structured such that an insured can lose his or her entire investment even though the insured has paid the scheduled premiums?

☒ Yes ☐ No (Check one)

If the answer to the question above is "Yes," then describe briefly how this could happen. Also, address what the affect would be on any death benefit guarantees (if any) as provided above if such a loss of the insured's investment would occur.

This is a flexible premium variable life policy.

Is The Premium In The Policy Fixed or Guaranteed?

☐ Yes ☒ No (Check one)

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#### ATTACHMENT FIVE

#### Product Development (A) Task Force Mackinac Island, Michigan September 20, 1988

The Product Development (A) Task Force met in the Chief Mackinac Room of the Grand Hotel in Mackinac Island, Mich., at 8:15 a.m. on Sept. 20, 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.); Leroy Morgan (Ky.); Edwin J. Smith, Jr. (Texas); and Harold C. Yancey (Utah).

#### 1. Report of Consumer Disclosure Issues Working Group

Roy Ray (Texas), representing Ted Becker (Texas), distributed sample disclosure statements designed to address the disclosure issues identified at the New York meeting in June. Carole Olson (NAIC) outlined the items identified by the states as a result of the survey conducted after the June meeting and indicated that the comments received after her July 1, 1988, report to the working group would be distributed.

Commissioner Harold Yancey (Utah) asked whether an advisory committee would be appointed. Commissioner Hager indicated that the appointment of an advisory committee would be discussed at a meeting of the working group to be held before the New Orleans meeting. Commissioner Hager suggested that the working group meet in Kansas City to focus on the issues and to prepare an exposure draft for distribution in New Orleans.

Having no further business, the Product Development (A) Task Force adjourned at 8:25 a.m.