LIFE INSURANCE (A) COMMITTEE

Reference:
1989 Proc. I p. 670
1989 Proc. II p. 414

Harold C. Yancey, Chairman—Utah
Mike Weaver, Vice Chairman—Ala.

CONTENTS

AGENDA

1. Adopt Wilmington, Chicago and Conference Call Minutes
2. Report of Life and Health Actuarial Task Force
3. Report of Product Development Task Force
4. Report on Prioritization of State Survey Concerns
5. Consider Adoption of Accelerated Benefit Riders Guideline
6. Any Other Matters Brought Before the Committee

REPORT

The Life Insurance (A) Committee met in Pavilion 1 of the Las Vegas Hilton in Las Vegas, Nev., at 1 p.m. on Dec. 6, 1989. A quorum was present and Harold C. Yancey (Utah) chaired the meeting. The following committee members or their representatives were present: Mike Weaver, Vice Chair (Ala.); Roxani Gillespie (Calif.); Margurite C. Stokes (D.C.); William D. Hager (Iowa); Douglas D. Green (La.); Gerald Grimes (Okla.); and Theodore "Ted" Kulongoski (Ore.).

1. Adoption of Sept. 12, 1989; Nov. 9 and 10, 1989; and Nov. 20, 1989, Minutes

Upon motion duly made and seconded, the minutes of the Life Insurance (A) Committee meetings of Sept. 12 (Attachment Five), Nov. 9 and 10 (Attachment Four), and Nov. 20, 1989 (Attachment Three), were adopted.

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

John Montgomery (Calif.) presented the report of the Life and Health Actuarial (Technical) Task Force giving a synopsis of the task force projects as follows:

1. 1d. Reviewing the Adequacy of the 1980 CSO Tables as a Valuation Standard. This project is being recommended for deletion from the task force agenda.

2. 2j. Revision of the Standard Valuation Law. A subgroup of the Actuarial Task Force is preparing a recommended comprehensive revision of the Standard Valuation Law which is intended to appropriately reflect the valuation actuary concept. The work of the subgroup is still in the initial stages and questions to be considered include how actuarial standards will be defined and what types of requirements should apply to smaller companies. Mr. Montgomery commented that the discussion draft was inadvertently omitted as an attachment to the task force report, and he would recommend that the Life Insurance (A) Committee direct that it be attached.

3. 3g. Revision of the Standard Nonforfeiture Laws. The task force is studying the American Academy of Actuaries Task Force on Nonforfeiture Principles report and is in the process of determining the appropriate response.

4. 4. Special Plans. The task force's request to upgrade project 4s "Special Plans - Accelerated Death Benefits" to a Priority One project was adopted by the Product Development (A) Task Force.

5. 5a. Actuarial Aspects of Reinsurance Transactions. A Reinsurance Advisory Committee has been considering the actuarial aspects, if any, with respect to a number of projects which are described in the Life and Health Actuarial Task Force report of Dec. 6, 1989.

6. 5b. Capital Management for the Life Insurance Industry. This is a proposed new project, recommended for addition to the agenda of the task force.

7. 10. Provision for Catastrophic Mortality. The Actuarial Task Force expects to monitor and review the work of the Actuarial Standards Board and the Society of Actuaries in developing a standard of practice regarding financial implications of AIDS on life insurance.

8. 11. Election of Operative Dates Under Standard Valuation Law and Standard Nonforfeiture Law. The task force is recommending adoption of an actuarial guideline which would prohibit a retroactive election.

9. 12. NAIC Model Regulation Concerning Use of Gender-Blended Mortality Tables and Smoker-Nonsmoker Mortality Tables. An actuarial guideline is desired, but no draft language has been developed.

Further, Mr. Montgomery discussed each of the Actuarial Task Force's specific recommendations:

1. Recommend that it adopt a new actuarial guideline entitled "Election of Operative Dates Under Standard Valuation Law and Standard Nonforfeiture Law." If adopted, this actuarial guideline would complete work on Project 11. This recommendation was adopted.

2. Recommend approval of the Actuarial Task Force's request to add one new project entitled "Reinsurance-Capital Management for the Life Insurance Industry." This would be numbered Project 5b. This recommendation was adopted.

3. Recommend approval of the Actuarial Task Force's request to delete Project 1d. "Experience Tables-Review Adequacy of 1980 CSO Tables as a Valuation Standard." This recommendation was adopted.

4. Recommend adoption of the Product Development Task Force report which will automatically adopt any recommendations made in this area. Consideration of this recommendation was delayed until presentation of the Product Development (A) Task Force report and its adoption by the Life Insurance (A) Committee. Subsequently, upon motion duly made and seconded, this recommendation was adopted.

Upon motion duly made and seconded, the report of the Life and Health Actuarial (Technical) Task Force was adopted, along with direction from the Life Insurance (A) Committee to the task force that the Standard Valuation Law would be attached as a part of that report.

3. Report of Product Development Task Force

Mr. Montgomery presented the report of the Product Development (A) Task Force, commenting that the task force adopted the minutes of the Consumer Disclosure Issues Working Group conference call of Nov. 17, 1989. He reported that after considerable discussion by the task force, a consensus was reached on amending the policy information forms for applicants on Universal Life Policies and Indeterminate Premium Life Policies, along with instructions for completing both of those policy information forms. Upon motion duly made and seconded, the report of the Consumer Disclosure Issues Working Group was adopted as amended.

Mr. Montgomery reviewed highlights of the report of the Life and Health Actuarial (Technical) Task Force projects and recommendations. The six specific recommendations from the task force were individually adopted. Mr. Montgomery reported that the Product Development Task Force had adopted a motion to recommend continuation of the task force in light of the work remaining to be addressed and had requested that several items be shown as a part of the 1990 charge to the task force.

Mr. Montgomery pointed out that on page 2 of the task force minutes, under item 3(6), the initials "NAIC" should be corrected to read "NALC." The motion to amend was seconded and adopted. Upon motion duly made and seconded, the report of Product Development (A) Task Force was adopted as amended.

Commissioner Harold C. Yancey (Utah) expressed the appreciation of the Committee for the work done by the Life and Health Insurance Actuarial (Technical) Task Force in reassigning a higher priority to the accelerated benefits issue.

4. Report on Prioritization of State Survey Concerns

Commissioner Yancey reported that because of the demands of the accelerated benefits guideline issue, the Life Insurance (A) Committee had not had time to appropriately address the issues raised in the Committee's state survey on graded death benefits and senior citizen life insurance products marketed at substandard rates. After some discussion, and upon motion duly made and seconded, the Committee directed that the prioritization of state survey concerns be made a part of the 1990 charge to the Life Insurance (A) Committee. Commissioner Yancey stated that at the next meeting, he hoped the Committee would review those concerns, establishing priorities and beginning its work on this project.

5. Consider Adoption of Accelerated Benefits Guideline

Commissioner Yancey gave a brief history of the work that has been done on the Accelerated Benefits Guideline this year and thanked the states which had participated. He stated that it was the intention of the A Committee to recommend that this issue be made a part of its 1990 charge in order to continue to monitor the responses of the states on implementing and administering the guideline and to discuss remaining industry concerns. He stated that the Committee was in agreement with the need to continue to refine the work product in light of changes in the marketplace. Upon motion duly made and seconded, the minutes of the Accelerated Benefits Guideline Workshop of Dec. 2, 1989, were adopted (Attachment One). Commissioner Yancey called on members of the Committee for any further comment or amendments to the Dec. 4, 1989, exposure draft of the guideline.

Sheldon Summers (Calif.) offered the following four amendments for consideration by the committee:

1. Section 8. Strike all existing language in the first sentence and add the following language: "The accelerated benefit provision may or may not provide for the waiver of premium in the absence of a regular waiver of premium provision being in effect." Mr. Summers commented that this new language allows the companies the option to waive the premium. Richard W. Carlson (Ill.) stated that this language was specific to the accelerated benefit rider only. Robert J. Callahan (N.Y.) commented that if the waiver of premium provision were in effect, there would be no option. Upon motion duly made and seconded, the amendment was adopted.

2. Section 9. Mr. Summers made a motion to add the language: "or among insureds with similar medical conditions" at the end of the first sentence. He also recommended the following language be added at the end of the second sentence: "other than those conditions specified in the policy or rider."

John T. Connor Jr. (chairman, American Council of Life Insurance Working Group on Accelerated Death Benefits Other Than Long-Term Care) suggested striking the term "medical conditions" from the first sentence and referring instead to "qualifying event" which is already defined in the guideline. Mr. Carlson questioned whether the term "qualifying event" is as restrictive as specifying medical conditions; Mr. Summers responded that he believed qualifying event would be more restrictive than the original language. James R. Swenson (Ore.) stated that he would support adding the "similar qualifying event" language.

Mr. Summers agreed to amend his motion to the following: delete the words "medical conditions" from the first sentence, substituting "qualifying events or among insureds with similar qualifying events" and adding to the end of the second sentence the words: "other than those conditions specified in the policy or rider." Upon motion duly made and seconded, the amendments to Section 9 were adopted.

3. Section 10(B)(1)(a). Mr. Summers recommended additional language in this sentence to read: "The insured may make an additional premium payment or cost of insurance charge;". He commented that often the charge made for the accelerated benefit provision may be added to the mortality charge, and this language would make provision for those instances in which the charge is the cost of insurance and not a premium payment. Upon motion duly made and seconded, this motion was adopted.

4. Section 10(B)(1)(b). Mr. Summers recommended deleting the word "discounted" in the first sentence of this section and adding the following language at the end of the first sentence: "less the present value of any future gross premiums plus the present value of any policy dividends." He said this would recognize that the policyholder can take a present value of the face amount, and the present value of any future premiums or dividends should be subtracted. Mr. Montgomery suggested instead adding the following language: "plus any applicable actuarial discount appropriate to the policy design."

Barbara Lautzenheiser (Lautzenheiser & Assoc.) commented that Mr. Summers' language was restrictive and supported Mr. Montgomery's language. Ted Becker (Texas) commented that different companies have different ideas about how to make this calculation. Commissioner Yancey discussed the drafting note placed in the guideline in which the Life Insurance (A) Committee was giving a charge to industry to set the actuarial standards on which this calculation would be based. He said the committee would then consider that standard at a subsequent meeting.

Commissioner Douglas D. Green (La.) offered a substitute amendment which would incorporate Mr. Summers' deletion of the word "discounted" and Mr. Montgomery's language, leaving subsection (b) to read as follows: "The insured may take a present value of the face amount. The calculation would be based on any applicable actuarial discount appropriate to the policy design." Further in subsection (a), his amendment removed the word "and" and the slash following. Mr. Summers withdrew his amendment and, upon motion duly made and seconded, the substitute amendment by Commissioner Green was adopted.

Commissioner Green also spoke to amending Section 5, Criteria for Payment, making a motion that the 50% payout figure be amended to 75%. Mr. Montgomery preferred to retain the present language. Mr. Swenson stated that he believed that any such limitation on the payout of the face amount of the policy is inappropriate, and he would encourage as much flexibility in the guideline as possible. He did express a concern about entrepreneurial firms providing a greater payout than under the limitation in this guideline.

Mr. Swenson offered a substitute motion to delete the second sentence of Section 5(A) in its entirety. Commissioner Green withdrew his amendment and seconded Mr. Swenson's motion. Mr. Connor expressed the American Council of Life Insurance's support of this motion. William M. Albus (National Association of Life Underwriters) expressed his association's support of this motion. Roy F. Bess Jr. (Provident Life and Accident) stated that his company fully supported removal of the percentage of payout provision. Upon motion duly made and seconded, the motion to strike the second sentence in Section 5(A) was adopted. California abstained from the vote.

Commissioner Green then discussed Section 2, Definitions, referring specifically to subsection (B)(3) which does not list cancer as one of the medical conditions under the definition of qualifying event. He referred to cancer as one of the most recognized forms of debilitating disease and made a motion that it be included within the list contained in this subsection. Commissioner Yancey responded that cancer was not included because while cancer is a catastrophic illness, the consensus of the committee was that the range of severity of the disease was so great. He said there was as much risk in including it in this list and having an insured who thinks he has access to the accelerated benefits being denied. Commissioner Green withdrew his motion, but emphasized this guideline provides for each state to accept or reject the specific medical conditions which might be considered under a qualifying event. Mr. Bess suggested including the term "life threatening cancer" as one of the medical conditions. Commissioner Yancey responded that there was a strong feeling within the medical community that doctors will be reluctant to make statements in writing that something is a life threatening disease or may result in imminent death. Mr. Carlson commented further that these are just examples and not intended to permit a policy to restrict itself to only one or two of these medical conditions. Mr. Summers disagreed and stated that the guideline was designed in this way to allow a choice of qualifying event triggers.

Mr. Connor, on behalf of the ACLI, expressed his appreciation for working with the committee and asked that they consider four additional points:

(1) Referring to Section 3, he stated that allowing state insurance departments to determine the type of product fosters unnecessary confusion. He stated that benefit payments are certain, unlike health insurance, and further stated that the only unknown is the timing of that payment. He stated the ACLI feels the product is life insurance and should be regulated solely under the life insurance code.

(2) Regarding Section 5, Mr. Connor commented that insurers should be allowed the flexibility to structure new emerging products to the varying needs of consumers. Consumers should be able to choose between a contract that offers only a lump-sum payment, only a periodic payment, or a combination of the two as it suits their needs; limiting policy design benefits no one. Further he said requiring the payment of a fixed amount for an indefinite period of time is not an appropriate payment option for the acceleration of death benefits under this guideline.

(3) In discussing Section 6, Disclosures, he stated that the required tax disclosure should not be in the contract because such a requirement is inconsistent with present regulation of life insurance. He agreed that disclosures should be in the form of written descriptive statements as in Section 6(C)(2); however, numerical illustrations, such as required in Section 6(C)(1), are estimates, particularly at time of application and are more difficult to understand. He further stated that while the committee draft accommodates direct mail solicitations, there are equally difficult problems for agents who do not know in advance of taking the application the amount of insurance being applied for. And finally, he objected to the requirement for triple signatures as being unnecessary.

(4) In Section 10, Mr. Connor pointed out that an endorsement is unnecessary, in most cases, and impractical. He said the company can instead send a new face page or a new schedule page showing the new reduced in-force face amount.

Mr. Albus stated that National Association of Life Underwriters (NALU) supports the ACLI position on disclosure, and the statement that numerical illustrations are difficult to understand. He stated that the agent would not have the required information at the time the application is taken and may give inaccurate or misleading information to the policyholder.

Mr. Callahan stated that some states have already revised their laws and their definitions of life insurance. Further, he said some states may be able to implement this guideline without a change in their laws, but that the adoption of this guideline by the NAIC will lend support to those states which feel that they must amend their laws. Eden D. Sarfaty (National Organization of Life and Health Guaranty Associations) stated that there is a lack of clarity in these products and that his association would support their definition as life insurance products.

Mr. Montgomery made a motion to adopt the ACLI's suggested language in Section 3, striking all current language in that section and substituting: "Accelerated benefit riders and life insurance policies with accelerated benefit provisions do not represent morbidity risks. They are life insurance and state insurance codes should be amended, if necessary, to permit the writing of this type of life insurance product." Upon motion duly made and seconded, that amendment to the guideline was adopted.

Upon motion duly made and seconded, the Accelerated Benefits Guideline was adopted as amended.

Having no further business, the Life Insurance (A) Committee adjourned at 2:35 p.m.

Harold C. Yancey, Chair, Utah; Mike Weaver, Vice Chair, Ala.; Roxani Gillespie, Calif.; Margurite C. Stokes, D.C.; William D. Hager, Iowa; Leroy Morgan, Ky.; Douglas Green, La.; Gerald Grimes, Okla.; Theodore "Ted" Kulongoski, Ore.

ATTACHMENT ONE

Accelerated Benefits Guideline Workshop
of the Life Insurance (A) Committee
Las Vegas, Nevada
December 2, 1989

The Life Insurance (A) Committee met on Dec. 2, 1989, at 1 p.m. in Conference Rooms 13 and 14 at the Las Vegas Hilton in Las Vegas, Nev. The meeting was chaired by Commissioner Harold C. Yancey (Utah) and the following members or their representatives were present: Roxani Gillespie (Calif.); Margurite C. Stokes (D.C.); Leroy Morgan (Ky.); and Ted Kulongoski (Oregon). Also participating from the NAIC/SSO were Samuel L. Bolinger and Judith P. Lee.

Commissioner Harold C. Yancey (Utah) called the meeting to order and explained that the intent of holding the Accelerated Benefits Guideline Workshop was to receive additional input from industry on the exposure draft. He then opened the floor for comments from industry participants.

David A. Pasant, president of Jackson National Life Insurance Company, commented that the exposure draft of the guideline fails to include cancer as one of the examples of specified diseases defined under "Qualifying Event." He further objected to the timeframe of 12 months used in the specified disease portion of the guideline.

John T. Connor Jr. (chairman, American Council of Life Insurance Working Group on Accelerated Death Benefits Other Than Long-Term Care) commented that accelerated benefits permit insureds to provide for their own financial security by allowing them the option of accelerating the payment of funds for their own needs. He stated that the exposure draft fosters confusion by allowing individual state insurance departments to determine whether the product is life insurance or health insurance. He suggested that the definition of qualifying event be amended; however, if retained as shown, he recommended elimination of the 12 month provision in the specified disease portion of the definition. He stated further that ACLI does not believe the method of payment of the benefit should be at the consumer's choice, and that the exposure draft fails to take into account that there are two distinct ways in which consumers can pay for the benefit. They may either make an additional premium payment or agree to take a discounted present value of the face amount. He commented that the 50% ceiling on payment in the exposure draft seems to the ACLI unduly restrictive on the consumer's ability to provide for his own needs.

Mr. Connor commented that the required disclosure regarding tax consequences should not be in the contract but in other supplementary materials. He disagreed with the need for the disclosure to be signed by the applicant, the policyowner and the writing agent. He commented on the requirement that the applicant be given an illustration numerically demonstrating the effect of the payment of a benefit on the policy's cash value, death benefit, premium, policy loans and policy liens as being needlessly burdensome and impractical. In Section 9 which deals with discrimination, he suggested that the Unfair Trade Practices Act language be substituted.

Bob Whitney, chief actuary of MILICO, pointed out that the language in the section on marketing disclosures which speaks to cash values and loan values of policies is not appropriate for term policies. He further commented on the requirement for separate identifiable costs being disclosed and recommended the requirement be extended to companies with policies with built-in benefits.

Walter N. Miller, vice president and actuary of Prudential, expressed the desire that the exposure draft include not only the premium payment approach, but also the approach which instead provides an option to elect accelerated benefits in qualifying situations without up-front premium payments. He suggested the addition of language in Section 10(B) after "accelerated benefits paid" to read "plus any applicable actuarial discounts appropriate to the policy design for policies without additional premium payments." Mr. Miller stated that the definition of qualifying event should be expanded to include situations where early death is not predictable, but where the insured is suffering from a condition under which it is medically determinable that the insured will have to be continually institutionalized until death occurs.

Jim Jackson (Transamerica Occidental Life) commented on other companies which are currently buying on assignment death benefit policies and spoke in favor of all companies operating in this area with the same standards.

Barbara Lautzenheiser (Lautzenheiser and Associates) discussed the need to develop criteria for use in the discounting situation.

Mary Ann Malinyak (National Home Life Company) commented that there was no allowance in the exposure draft for delivery by direct marketers who cannot provide the required numerical illustrations or written disclosures at time of application.

Having no further comments, the open session of the Accelerated Benefits Workshop adjourned at 2 p.m. to reconvene immediately in closed session for consideration of amendments to the Accelerated Benefits Guideline.

The following amendments to the exposure draft were discussed and agreed to by members of the Life Insurance (A) Committee and other interested regulators:

1. Section 2 - The definition of qualifying event was amended to mean a medical condition, resulting in a drastically limited life span, or a medical condition which requires extraordinary medical intervention without which the insured would die, or a specified disease.

2. Section 3 was left as currently written with individual state insurance departments determining whether this guideline applies to a life insurance or a health insurance product.

3. Section 4 remains as is with the insurer bearing the responsibility of receiving a signed acknowledgement of concurrence for payout from an assignee or irrevocable beneficiary.

4. In Section 5, a great deal of discussion ensued over the appropriate approach to the payout of the face amount of the policy. The committee decided to retain the current 50% limitation on payout.

5. In Section 6, the committee decided to retain the requirement for disclosure of the potential tax consequences of accepting an accelerated benefit payment on the first page of the policy or rider and any other related documents.

6. Under the Solicitation section, Section 6(C), the committee decided to add language to address the problem of direct mail solicitation companies being unable to give the applicant a numerical illustration or a written disclosure at the time of application, deciding instead to allow such disclosure to be made upon acceptance of the application.

7. The Marketing Section, 6(D), was amended to include language providing that policies which have no cash or loan values should modify the statement required on the face of every policy or rider.

8. Sections 7, 8 and 9 were not amended.

9. After extensive discussion on Section 10 dealing with premiums, the committee added an initial paragraph under (B) to allow for two ways in which consumers can pay for the accelerated benefits: (1) make an additional premium payment, or (2) take a discounted present value of the face amount. The calculation would be based on actuarial principles based upon life expectancy. A drafting note was added to state that the Life Insurance (A) Committee will give a charge to industry to standardize the actuarial principles upon which this calculation is based. In the last paragraph of (B), language was added to state that the death benefit may not be reduced more than the amount of the accelerated benefits paid, "plus any applicable actuarial discount appropriate to the policy design for policies without additional premium payments."

10. A new Section 11 entitled "Reserves" was added to the guideline. The requirement under this section is that at the time of filing of the policy form, the valuation method and assumptions need to be filed with the state insurance department. The assumption should reflect the statutory mortality and interest rate assumptions for life insurance policies and appropriate assumptions for the other provisions incorporated in the policy form.

The consensus of the committee was to amend the exposure draft as discussed.

Having no further business, the committee adjourned at 4:30 p.m.

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ATTACHMENT TWO

ACCELERATED BENEFITS GUIDELINE

Table of Contents

Section 1. Purpose

The purpose of this guideline is to assist the individual state insurance departments in addressing regulatory concerns associated with accelerated benefits of life insurance policies and to provide a minimum level of disclosure. This guideline shall not apply to policies or riders subject to the Long-Term Care Insurance Model Act.

Section 2. Definitions

A. "Accelerated benefits" covered under this guideline are benefits payable under a life insurance contract:

(1) To a policyowner, during the lifetime of the insured, in anticipation of death or upon the occurrence of specified life-threatening or catastrophic conditions as defined by the policy or rider;

(2) Which reduce the death benefit otherwise payable under the life insurance contract (excluding accidental death and other ancillary benefits); and

(3) Which are payable, in a lump sum or in periodic payments, at the option of the insured.

B. "Qualifying event" shall mean one or more of the following:

(1) A medical condition which would result in a drastically limited life span, for example, 24 months or less;

(2) A medical condition which has required or requires extraordinary medical intervention, such as, but not limited to, major organ transplant or continuous artificial life support, without which the insured would die;

(3) A medical condition which would, in the absence of extensive or extraordinary medical treatment, result in a drastically limited life span. Such conditions may include, BUT ARE NOT LIMITED TO, one or more of the following:

(a) Coronary artery disease resulting in an acute infarction or requiring surgery;

(b) Permanent neurological deficit resulting from cerebral vascular accident;

(c) End stage renal failure; or

(d) Other qualifying event which the commissioner shall approve for any particular filing.

The necessity for a second medical opinion prior to payout is a decision left to the individual state insurance departments.

Section 3. Type of Product

Accelerated benefit riders and life insurance policies with accelerated benefit provisions do not represent morbidity risks. They are life insurance and state insurance codes should be amended, if necessary, to permit the writing of this type of life insurance product.

Section 4. Assignee/Beneficiary

Prior to the payment of the accelerated benefit, the insurer shall receive from any assignee or irrevocable beneficiary a signed acknowledgement of concurrence for payout.

Section 5. Criteria for Payment

A. Percentage of Payout of Face Amount of Policy.

The benefit shall be paid in a lump sum, or in periodic payments for a fixed period of time, or in a fixed amount for an indefinite period of time, at the option of the insured. Companies may set minimums on the face amount of contracts for which the benefit shall be offered.

B. Restrictions on Use of Proceeds.

No recommendation is offered on proposed restrictions for the use of proceeds.

C. Payment Provisions.

Decisions on payments shall be made according to the contract.

Section 6. Disclosures

A. Descriptive Title.

The name given the coverage must be descriptive of the coverage provided, and the terminology "accelerated benefit" shall be included in the description.

B. Tax Consequences.

Clear disclosure is required at the time of application for the policy and at the time the accelerated benefit payment request is submitted of the potential tax implications of receiving this payout. The disclosure statement shall indicate that receipt of these accelerated benefits may be taxable, and insureds should seek assistance from their personal tax advisor. Such disclosure shall be prominently displayed on the first page of the policy or rider and any other related documents.

C. Solicitations.

(1) Prior to or concurrently with the application, the applicant shall be given an illustration numerically demonstrating the effect of the payment of a benefit on the policy's cash value, death benefit, premium, policy loans and policy liens. In the event of direct mail solicitations, the disclosure shall be made upon acceptance of the application.

(2) Prior to or concurrently with the application, the applicant shall be given a written disclosure including, but not necessarily limited to, a brief description of the accelerated benefit and definitions of the conditions or occurrences triggering payment of the benefits. The disclosure shall be signed by the applicant, the policyowner and writing agent. In the event of direct mail solicitations, the disclosure shall be made upon acceptance of the application.

D. Marketing.

This statement shall appear on the face of every policy or rider: "Cash values, loan values and the death benefit will be reduced if you receive an accelerated benefit." For policies which have no cash or loan values, this statement shall be appropriately modified.

E. Additional Premium Charge.

See additional disclosure of premium charge under Section 10.

Section 7. Effective Date of the Accelerated Benefits

The accelerated benefit shall be effective on the effective date of the policy or rider.

Section 8. Waiver of Premiums

The accelerated benefit provision may or may not provide for the waiver of premium in the absence of a regular waiver of premium provision being in effect. At the time the benefit is claimed, the company shall explain any continuing premium requirement to keep the policy in force.

Section 9. Discrimination

Insurers shall not unfairly discriminate among insureds with differing qualifying events or among insureds with similar qualifying events. Insurers shall not apply further conditions on the payment of the accelerated benefits other than those conditions specified in the policy or rider.

Section 10. Premiums

A. Disclosure of Additional Premium Charge.

The company shall disclose to the consumer any separate identifiable premium for the accelerated benefit. Those companies indicating that this accelerated benefit is offered without additional premium shall furnish a written explanation to the state insurance department when filing the product.

B. Effect on Death Benefit, Cash Values, Future Premiums and Loan Balance.

(1) Two options are available to finance the benefit.

(a) The insured may make an additional premium payment or cost of insurance charge; or

(b) The insured may take a present value of the face amount. The calculation would be based on any applicable actuarial discount appropriate to the policy design.

Drafting Note: The Life Insurance (A) Committee has given a charge to industry to set the actuarial standards on which this calculation is based.

(2) Illustration of effect on other values.

Companies are required to illustrate, by numerical example, any effect the payment of the accelerated benefit has on the face amount, specified amount, accumulation account, cash values, loan balance, and future premiums. Each time an accelerated benefit payment is paid, the company is required to send a statement to the policyowner showing the numerical expression stated above. Upon the payment of an accelerated benefit amount, the company shall issue an endorsement to the policy to reflect any new, reduced, in-force face amount of the contract.

(3) Effect on Cash Value.

(a) When an accelerated benefit is payable, the NAIC preference is for a pro-rata reduction in the cash value, not a reduction of the full amount.

(b) Alternatively, the payment of accelerated benefits can be considered a non-interest bearing lien against the death benefit of the policy or rider and the access to the cash value shall be restricted to any excess of the cash value over the sum of other outstanding loans and the lien. If the lien approach is used, any accelerated death benefit payments shall first be applied toward repaying the portion of any other outstanding policy loans which would cause the sum of the accelerated death benefit and policy loans to exceed the cash value. Future access to the cash values and to policy loans would be limited to the difference between the cash value and the sum of the lien and any other outstanding policy loans.

(c) In either case, the death benefit may not be reduced more than the amount of the accelerated benefits paid plus any applicable actuarial discount appropriate to the policy design for policies without additional premium payments. The accidental death benefit, if any, in the policy or rider shall not be affected by the payment of the accelerated benefit.

Section 11. Reserves

At the time of filing of the policy form, the valuation method and assumptions need to be filed with the state insurance department. The assumptions should reflect the statutory mortality and interest rate assumptions for life insurance policies and appropriate assumptions for the other provisions incorporated in the policy form.

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ATTACHMENT THREE

Life Insurance (A) Committee
Telephone Conference Call
November 20, 1989

The Life Insurance (A) Committee held a telephone conference call on Nov. 20, 1989, at 3 p.m. Central Standard Time. The call was chaired by Commissioner Harold C. Yancey (Utah) and the following persons participated: Commissioner Mike Weaver (Ala.); Superintendent Margurite Stokes (D.C.); Reginald Berry (D.C.); John Montgomery (Calif.); Chuck Budinger (Ill.); Roger Strauss (Iowa); Commissioner Leroy Morgan (Ky.); Thomas Bentley (La.); Bob Callahan (N.Y.); Colleen Bishop (Okla.); Jim Swenson (Ore.); and RoseMarie Parkinson (Utah). Also participating from the NAIC/SSO were Samuel L. Bolinger and Judith P. Lee.

Commissioner Harold C. Yancey (Utah) explained that the purpose of this conference call was to amend the Nov. 10 Accelerated Benefit Guideline draft and officially expose it to industry for comment.

Superintendent Margurite Stokes (D.C.) commented on the need to amend the Nov. 10 minutes. She suggested deleting the language in the disclosure section that references disclosure of the tax consequences being required at the time the "claim" is submitted. She expressed concern with using the term "claim" in connection with an accelerated benefit and suggested instead using "accelerated benefit payment request." The consensus of the committee was to accept this amended language. Further, Superintendent Stokes suggested that the title of this coverage contain the terminology "accelerated benefits." The committee agreed with this suggestion and made the appropriate amendment to the Nov. 10 minutes and the appropriate change in the guideline.

Further comments by the committee concerned the proper placement of the marketing section. The committee decided that this section would more appropriately be placed under the disclosure section as an additional subheading. One other additional subheading was added in the disclosure section. It referenced the disclosure of any additional premium charge contained in Section 10 of the guideline.

Considerable discussion ensued about the need for a policy endorsement, once an accelerated benefit amount has been paid, in order to reflect the reduced in-force face amount of the contract. Upon adoption by the committee, this language was inserted into the section dealing with the effect on death benefit, cash values, future premiums and loan balance.

A number of grammatical and form changes were recommended and concurred in by the committee. Additionally, language under the percentage of payout of the face amount of the policy section was amended to include the IRS language as it related to defining periodic payments. Considerable reorganization of the "Effect on Death Benefit, Cash Values, Future Premiums, and Loan Balance" section was approved by the committee.

Upon consensus of the committee, the revised Accelerated Benefit Guideline draft was adopted as an official exposure draft. NAIC staff was instructed to mail this draft to interested industry representatives, members of the A Committee and other interested regulators.

Having no further business, the conference call was adjourned at 5:20 p.m. Central Standard Time.

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ATTACHMENT FOUR

Amended Minutes
Life Insurance (A) Committee
Chicago, Illinois
November 9 and 10, 1989

The Life Insurance (A) Committee meeting was held at the Hyatt Regency O'Hare Hotel in Chicago on Nov. 9 and 10, 1989. The meeting was chaired by Commissioner Harold C. Yancey (Utah) and the following persons attended: Sheldon Summers (Calif.); David Smith (Fla.); Charles Budinger (Ill.); Richard G. Gomsrud (Minn.); Robert J. Callahan (N.Y.); Leonard Wood (N.C.); Randall D. Ward (Ohio); Ken Kattner (Texas); RoseMarie Parkinson (Utah); and Ellen Hall (Va.). Also attending from the NAIC/SSO staff were Samuel L. Bolinger and Judith P. Lee.

Commissioner Yancey thanked the attendees for their participation and explained that the purpose of this meeting was to make further clarifications to the guideline for accelerated benefits. He directed that a conference call be set up with the members of the Life Insurance (A) Committee and other interested parties on Tuesday, Nov. 21, 1989, at 1 p.m. Central Standard Time. Upon conclusion of this call and any necessary redrafting of the guideline, the exposure draft of the guideline will be distributed to interested industry representatives for further comment at the workshop on Dec. 2 in Las Vegas.

Considerable discussion ensued on every section of the guideline and numerous amendments were made to the Sept. 1 draft of the guideline.

Purpose/Definitions

The purpose section of the guideline was amended to explain that the provisions of this guideline would provide only a minimum level of disclosure. The committee decided that the guideline would not apply to policies or riders subject to the NAIC Long-Term Care Insurance Model Act.

The definition of accelerated benefits was amended to allow either policies with the specified disease provision or imminence of death provision. The committee decided that accelerated benefits would not apply to annuity or endowment contracts. The insured now has the option of accepting the benefit in a lump sum or in periodic payments for a fixed period of time. Qualifying events were redefined as specified diseases and/or imminence of death.

Type of Product/Beneficiary/Assignees

It was left up to the individual state insurance departments to decide whether accelerated benefits are a life insurance or health insurance product. A provision was added in the event of a policy assignment to require the assignee's signature acknowledging concurrence for payout.

Criteria for Payment

A provision was added to make the method of payout at the option of the insured.

Disclosures

A title descriptive of the coverage must be used and must contain the terminology "accelerated benefits." Clear disclosure of the tax consequences of accepting an accelerated benefit payment is required at both the time of application and at the time the accelerated benefit payment request is submitted. Disclosure statements are also required to be prominently displayed on the first page of the policy or rider and any other related documents. A solicitation section was added to the guideline and requires that applicants be given a numerical illustration demonstrating the effect of the benefit being paid on the policy's cash value, death benefit, premiums, and policy loans and liens. A written disclosure including a brief description of the accelerated benefits and definitions of the conditions or occurrences triggering payment of the benefit must also be given to the applicant. This written disclosure must be signed by the applicant, the policyowner and the writing agent.

Effective Date/Waiver of Premium/Discrimination

The effective date of the accelerated benefit is the effective date of the policy or rider. Premiums would be waived only if a waiver of premium provision is in effect. Insurers may not unfairly discriminate among persons with differing medical conditions nor apply further conditions on the payment of accelerated benefits.

Effect of Payments on Death Benefit

Bob Callahan (N.Y.) suggested the following language be included to further clarify the effect of an accelerated benefit payment on the death benefit, cash values, future premiums and loan balance: "the payment of accelerated benefits can be considered a non-interest bearing lien against the death benefit of the policy or rider and the access to the cash value shall be restricted to any excess of the cash value over the sum of the loan and the lien." After considerable discussion, the committee decided to include this language in its entirety. Sheldon Summers (Calif.) suggested that when the lien approach is used, the proceeds of any accelerated death benefit payments would initially be applied toward repaying the portion of any outstanding policy loans which would cause the sum of the accelerated death benefit and policy loans to exceed the cash surrender value. Further, he stated that future policy loans should be limited to the difference between the cash surrender value and the sum of the lien payments made and the outstanding policy loans. Additional clarification was added to prevent the accidental death benefit in the policy or rider from being affected by the payment of an accelerated death benefit.

Adequate Reserves

Adequate reserving for accelerated benefit payments was discussed, and it was decided that this issue would be referred to the Life and Health Actuarial Task Force with a request that they determine the appropriate reserve. The Blanks Task Force will be requested to develop an experience reporting exhibit which would allow states to evaluate the reserves necessary on these products.

Marketing Considerations

The committee discussed various aspects of marketing the accelerated benefits product and decided that a statement needs to be included on the face of the policy or rider which provides as follows: "Cash values, loan values, and the death benefit will be reduced if you receive an accelerated benefit."

Other Activities

A brief discussion ensued on companies providing living benefits by purchasing life insurance contracts from persons who are terminally ill and paying a proportional amount of the face value to the policyowner. Commissioner Yancey inquired as to the legitimacy of such activities. David Smith (Fla.) suggested that such activities were valid in that under Florida law there was no prohibition against them. Sheldon Summers (Calif.) recommended that further inquiry be made as to the legitimacy of these companies before additional companies became operational throughout the United States.

Priorities

The remainder of this meeting was devoted to discussing the assignment of priorities to state concerns expressed on graded death benefits and senior citizen life insurance products marketed at sub-standard rates. After considerable discussion, it was decided that these priorities could best be decided during the conference call scheduled for November 21.

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

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ATTACHMENT FIVE

Life Insurance (A) Committee
Wilmington, Delaware
September 12, 1989

The Life Insurance (A) Committee met in the St. Jones Room of the Radisson Hotel in Wilmington, Del., at 3 p.m. on Sept. 12, 1989. A quorum was present and Harold C. Yancey (Utah) chaired the meeting. The following committee members or their representatives were present: Mike Weaver, Vice Chair (Ala.); Margurite C. Stokes (D.C.); William D. Hager (Iowa); Leroy Morgan (Ky.); Douglas D. Green (La.); Gerald Grimes (Okla.); and Theodore "Ted" Kulongoski (Ore.).

1. Report of Product Development Task Force

David Lyons (Iowa) presented the report of the Product Development Task Force. Mr. Lyons discussed the Universal Life Disclosure Form test market results prepared by Life Insurance Marketing and Research Association, showing that changes would be required in order to make the form clearly understood by the average consumer. He stated that the understanding and usefulness of the form could be increased with certain alterations.

Mr. Lyons requested industry involvement in two phases of the project: (1) Within seven days of the Sept. 11 meeting, the advisory group should submit comments on the test market results to the NAIC Support and Services Office (within 30 days a redraft of the Disclosure Form prepared by NAIC staff will be redistributed to the working group and advisory group), and (2) a 14-day comment period will be available for state and industry response. He said that at the conclusion of this time period, a final report will be made to the Product Development Task Force with the final version of the disclosure form attached, and a recommendation for its adoption in December.

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

2. Report on Accelerated Benefit/Living Benefit Riders

Commissioner Harold Yancey (Utah) briefly described the work of the Accelerated Benefit Riders Group which met in Kansas City on July 21. He commented that minutes of that meeting as well as a draft guideline were being made available to industry at this meeting. He further stated that it is the intent of the Committee that individual states will use this guideline in reviewing and approving policy filings.

Commissioner Yancey encouraged industry comment on the existing guideline, as well as encouraging any additional items for inclusion that industry might want to bring to the committee's attention. Commissioner Yancey established Oct. 15 as the deadline for receipt of industry comments; after that time frame the guidelines will be redrafted and another meeting of the Life Insurance (A) Committee will be scheduled to review and comment on the redraft. If necessary for additional industry input, he said a hearing will be scheduled in Washington, D.C., in mid-November. Commissioner Yancey stressed that this product will ultimately be considered for adoption at the December meeting in Las Vegas.

3. Survey Results

Commissioner Yancey discussed the Life Insurance (A) Committee direction to NAIC staff to conduct a survey of the states regarding their concerns on graded death benefit policies and senior citizen life insurance products marketed at substandard rates. He indicated that the results showed a number of common concerns identified by the states for committee consideration. Further, the A Committee will be reviewing these concerns and establishing priorities, and he anticipates the committee will select two or three of the most crucial to be added to the A Committee agenda for 1990.

Commissioner Yancey asked Ed Zimmerman (American Council of Life Insurance) to comment on the Washington state rule which affects life policies written in that state after July 1, 1989 and pertains to the relationship of death benefits to premiums. Specifically, he asked whether the ACLI will appeal this matter before the State Supreme Court. Mr. Zimmerman stated that the ACLI has no appeal as a matter of right; however, a brief was filed by the ACLI with the State Supreme Court a week ago, but there has been no ruling at this time on whether the Supreme Court will hear the case. Commissioner Yancey stated that the A Committee is following the Washington action since it relates closely to one of the concerns disclosed in the survey.

Having no further business, the Life Insurance (A) Committee adjourned at 2:17 p.m.

PRODUCT DEVELOPMENT (A) TASK FORCE

Reference:
1989 Proc. I p. 673
1989 Proc. II p. 428

Robert D. Haase, Chairman—Wis.
Theodore "Ted" Kulongoski, Vice Chairman-Ore.

CONTENTS

AGENDA

1. Adopt Wilmington 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 Pavilion 6 of the Las Vegas Hilton in Las Vegas, Nev., at 11 a.m. on Dec. 4, 1989. A quorum was present and Robert D. Haase (Wis.) chaired the meeting. The following task force members or their representatives were present: Theodore "Ted" Kulongoski, Vice Chair (Ore.); Roxani Gillespie (Calif.); Joaquin G. Blaz (Guam); Zack Stamp (Ill.); William D. Hager (Iowa); Gerald Grimes (Okla.); and Vacant (Texas).

1. Adopt Minutes of Consumer Disclosure Issues Working Group

Upon motion duly made and seconded, the minutes of the Consumer Disclosure Issues (A) Working Group conference call of Nov. 17, 1989 were adopted (Attachment Two).

2. Report of Consumer Disclosure Issues Working Group

Roger Strauss (Iowa) briefly described the work of the Consumer Disclosure Issues Working Group from inception through completion of the latest Policy Information Forms for Applicants on Universal Life Policies and Indeterminate Premium Life Policies, along with instructions for completing both of those policy information forms. He commented that the Decision Resources Group of Life Insurance Marketing and Research Association had been retained to test market the form and the comments from their study had been incorporated in the exposure draft under review. Further he said the Consumer Disclosure Issues Working Group had now completed its report and was recommending these three items for adoption.

John R. Hurley (Equitable Life Assurance Company), chair of the advisory committee, stated that he had found working on this project to be a positive and productive experience and expressed appreciation for the cooperation of the working group and NAIC staff in this effort. He referred to language in the Nov. 17, 1989 minutes regarding substantial compliance standards previously being resolved by model law changes made in June as particularly helpful to the advisory committee. He further discussed four additional modifications to the forms that the advisory committee would recommend to the task force:

1) On page two of the Universal Life Policy Information for Applicant form, in the mortality chart paragraph, the statement is made "This amount [will/will not] increase as you get older." The advisory committee recommends that the bracketed language be deleted and the word "may" substituted.

2) The first sentence of the Indeterminate Premium Life Policy Information for Applicant form should be redrafted to comply with the first sentence of the Universal Life Policy form.

3) In the last paragraph of the Indeterminate Premium Life Policy Information for Applicant form, there is the statement "There may be nominal dividends paid to the policyowner." The advisory committee recommends deletion of the word "nominal."

4) In the Expense Deductions section of the Universal Life Policy Information for Applicant form, the advisory committee recommends amending the sentence "The amount of the charge may vary by duration" to read "The amount of the charge may change depending on how long the policy has been in force."

Upon motion duly made and seconded, the task force voted to amend the report of the Consumer Disclosure Issues Working Group in the four areas stated above and adopted that report as amended (Attachment One).

3. Report of Life and Health Actuarial (Technical) Task Force

John Montgomery (Calif.) presented the report of the task force and highlighted work they are currently undertaking in the following areas:

1) Project 4a "Universal Life—Review Regulators Problems With Model Adopted." Because of the work being done by the Actuarial Task Force on the Standard Valuation Law and the Standard Nonforfeiture Law, the task force is requesting that this project be removed from their agenda.

2) Project 4h "Modified Guaranteed Plans." This project is being recommended for addition to the agenda of the Actuarial Task Force since the work on it needs to be reactivated.

3) Project 4j "Single Premium Life Insurance Concerns." Because of limited interest in this area, the Actuarial Task Force is recommending that this item be removed from its agenda.

4) Project 4l "Whole Life Policies Without Cash Values or Paid Up Benefits." It is anticipated that the work on this project will be completed in early 1990 and that the task force will have more to report later in that year.

5) Project 4m "Reserves for Certain Life Plans With Guaranteed Increasing Death Benefits." At the meeting of the Actuarial Task Force on Dec. 2, the members voted to recommend a revised version for adoption with the understanding that the question of retroactivity was still under study.

6) Project 4n "Update of Actuarial Guideline IV." This project concerns term policies with increasing premiums which purport to grade into whole life plans. The Actuarial Task Force has asked the American Council of Life Insurance/National Association of Life Companies Joint Task Force to continue work on this project.

7) Project 4o "Special Plans—Leveraged Corporate-Owned Life Insurance." Work is continuing on this project.

8) Project 4p "Use of Life Insurance Contracts to Provide For Non-Life Insurance Benefits." The task force is continuing to consider valuation, reporting forms and nonforfeiture values.

9) Project 4q "Reverse Mortgages." The task force is continuing to work on this project.

10) Project 4r "Joint Life Last Survivor Policies—Nonforfeiture and Valuation." Work is continuing on this project.

11) Project 4s "Accelerated Death Benefits." The Life Insurance (A) Committee has decided that the issue of adequate reserving for accelerated benefit payments be referred to the Actuarial Task Force. As a result of this additional assignment, the Actuarial Task Force is recommending that this project be a Priority One project.

Mr. Montgomery further discussed each of the Actuarial Task Force's specific recommendations:

1) Recommend to the Life Insurance (A) Committee that it permit deletion of Project 4a "Special Plans—Universal Life—Review Regulations Problems With Model Adopted" from the Actuarial Task Force agenda. This recommendation was adopted.

2) Recommend to the Life Insurance (A) Committee that it permit Project 4h "Modified Guaranteed Plans" to be revived on the Actuarial Task Force agenda and receive the "Modified Guaranteed Annuity Regulation" with amendments for exposure with the idea that the amendments will be offered for adoption in June. This recommendation was adopted.

3) Recommend to the Life Insurance (A) Committee that it permit deletion of Project 4j "Single Premium Life Insurance Concerns" from the Actuarial Task Force agenda. This recommendation was adopted.

4) Recommend adoption of proposed "Actuarial Guideline ZZ—Calculation of Minimum Reserves and Minimum Nonforfeiture Values for Policies With Guaranteed Increasing Death Benefits Based on an Index" as revised on Dec. 2 by the Actuarial Task Force. This recommendation was adopted.

5) Extend the exposure and comment period for the current version of Actuarial Guideline XXX. This recommendation was adopted.

6) Recommend to the Life Insurance (A) Committee that it approve the Actuarial Task Force's request to upgrade Project 4s "Special Plans— Accelerated Death Benefits" to a Priority One project. This recommendation was adopted.

Upon motion duly made and seconded, the report of the Life and Health Actuarial (Technical) Task Force was adopted as presented.

4. Consider Continuation of Task Force

Commissioner Haase discussed the 1989 charges to the Product Development Task Force and asked for comments from the task force members if a recommendation for continuation of the task force should be given to the Life Insurance (A) Committee. Mr. Montgomery commented that because of the number of issues remaining to be resolved, the task force should request continuance. Mr. Montgomery questioned whether there was additional work to be done on sample disclosure statements for variable insurance products. Mr. Hurley responded that the advisory committee's recommendation would be that it not be addressed at this time because of potential conflicts between the NAIC and Securities and Exchange Commission on this issue.

Upon motion duly made and seconded, a request for task force continuation will be forwarded to the Life Insurance (A) Committee, with the following items shown as a part of the 1990 charge to the task force:

1) Examine valuation and nonforfeiture sections of the Universal Life Insurance Model Regulation and consider proposal for revision.

2) Consider the extent and appropriateness of life insurers pricing of products with regard to the inclusion of a "mortality" charge.

3) Monitor special plans.

Having no further business the task force adjourned at 11:30 a.m.

Robert D. Haase, Chairman, Iowa; Theodore "Ted" Kulongoski, Vice Chairman, Ore.; Roxani Gillespie, Calif.; Joaquin G. Blaz, Guam; Zack Stamp, Ill.; William D. Hager, Iowa; Timothy H. Gailey, Mass.; Michael A. Hatch, Minn.; Gerald Grimes, Okla.; Texas; Harold C. Yancey, Utah.

[Editor's Note: The report of the Product Development Task Force meeting of Sept. 11, 1989, is published here as Attachment Three. It was adopted by the Life Insurance (A) Committee at its Sept. 11, 1989, meeting. See p. 449.]

ATTACHMENT ONE

POLICY INFORMATION FOR APPLICANT - UNIVERSAL LIFE POLICY

This information is being provided to help you to understand this policy and to compare it to similar policies, so you can choose the one that is best for you. If you have questions about this form, be sure to ask your agent for an explanation.

[Name of Insurance Company]
[Address of Insurance Company]

Policy Name: [insert name]
Form Number: [insert number]

A policy for [Name of Insured(s)]
Social Security Number(s): [Insert number]
Date of Birth: [Insert DOB]

Applied for on [insert date]

Your Agent is [Name of Agent]
[Agent's Address]
[Agent's Telephone Number]

POLICY APPLIED FOR

Type of Universal Life Insurance Policy: ____ Flexible Premium ____ Fixed Premium

[A flexible premium policy means that you may vary the premiums paid subject to any minimum and maximum payments stated in the policy. If you do not pay enough to cover the cost of insurance, part of your cash value will be used. Some policies can lapse without value if premiums are not paid.]

[A fixed premium policy means that you have agreed to pay a scheduled premium on each due date.]

The first year death benefit applied for is $[insert amount]. The death benefit option applied for is [describe the option].

The first year annual premium is $[insert amount].

You have agreed to pay premiums [insert frequency] and each premium payment is scheduled to be $[insert amount].

This information does not include any riders for which you may apply with this policy. Riders give you extra benefits not included in the basic policy. Riders may affect your premium and cash values. Ask your agent for a full explanation of any riders.

Risk Classification Information (as applied for):
M____ F____ Age____ Smoker____ Non-Smoker____ Other____ (Specify) ____________

YOUR POLICY CHARGES

<u>The mortality charge</u> is the amount used to pay for the basic insurance death benefit. The current mortality charge is $[insert amount] for the first year, so this much of your first year premium pays for the death benefit. This amount may increase as you get older. In addition, the mortality charge can change. The maximum mortality charge for your current age is $[insert amount]. The company reviews mortality charges every [insert frequency].

The company's fee for <u>administration</u> of this policy may change from time to time. The current fee is $[insert amount] per [insert period], so this much of your yearly premium pays for the company's administrative costs. The maximum fee that can be charged is $[insert amount] per [insert period].

<u>Expense Deductions</u> (front end loads) These are additional charges that may be deducted from your premium. The amount of the charge may change depending on how long the policy has been in force. The amount currently being charged in the first year is [insert dollar amount or percentage], and the maximum charge permitted in the first year is [insert dollar amount or percentage].

<u>Surrender charges</u> (back end loads) are charges you may pay when your policy is surrendered. The current charge is [insert dollar amount or percentage] and the maximum charge permitted is [insert dollar amount or percentage]. Surrender charges are assessed for [insert number] years [in decreasing amounts].

POLICY CREDITS

The part of your premium not used for the above charges earns interest for you. It is the cash surrender value which you can take if you should cancel this policy.

The company has the right to change the interest rates credited to amounts paid into this policy to reflect current investment earnings. The company reviews interest rates every [insert time period]. We guarantee our rates will not go below [insert amount] %.

This policy's interest rate [is/is not] interest indexed. Interest indexing means that the interest rate credited to the amounts paid in to the policy follows a formula based on changes in the [insert index].

OTHER IMPORTANT INFORMATION ABOUT THIS POLICY

The company will pay an endowment benefit to the insured if the policy is still in force, and the insured is living and attains the age of [insert number]. This is called the "maturity age." This means the company will pay your [death benefit amount] [cash surrender value] when you have reached the maturity age, instead of waiting until you die.

If interest rates and charges were to be consistent with those illustrated in Chart A, the expenses of the policy could cause it to terminate before the maturity age. This policy would terminate at age [insert number].

Under the Chart A assumptions, the level annual premium required to provide the first year death benefit to maturity age is $[insert amount].

Based on the current assumption used to develop Chart B, the policy [would/would not] terminate before the maturity age. [If it would, indicate the policy year in which it would terminate.]

ILLUSTRATION OF POLICY VALUES

Chart A shows the guaranteed minimum interest rate and how your cash value would grow if the illustrated premium and interest rate were credited every year. Chart B shows how your cash value will grow if the interest rate remains at the level currently being paid. In both cases, the effect of any riders added to the policy is not shown.

CHART A

The following values are based on the interest rates which are guaranteed by the company and based on your timely payment of the premiums in Column 1 as applied for. If you pay a different premium in any year, results will differ.

CHART B

The following values are based on the current interest rates which the company is crediting on this policy form. Interest rates may increase or decrease from this rate. Also, this chart assumes you pay the premiums shown in Column 1 as applied for.

	Chart A				Chart B				
	1*	2	3	4	1*	2	3	4	
POLICY YEAR	ANNUAL PREMIUM	DEATH BENEFIT	INTEREST RATE	CASH SURRENDER VALUE AT YEAR END	ANNUAL PREMIUM	DEATH BENEFIT	INTEREST RATE	CASH SURRENDER VALUE AT YEAR END	POLICY 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]

[Fill in other years as needed at five year intervals]

	1*	2	3	4	1*	2	3	4	
POLICY YEAR	ANNUAL PREMIUM	DEATH BENEFIT	INTEREST RATE	CASH SURRENDER VALUE AT YEAR END	ANNUAL PREMIUM	DEATH BENEFIT	INTEREST RATE	CASH SURRENDER VALUE AT YEAR END	POLICY YEAR
AGE									AGE
[60]	______	______	______	______	______	______	______	______	[60]
[65]	______	______	______	______	______	______	______	______	[65]
[70]	______	______	______	______	______	______	______	______	[70]

[To year of termination or maturity age]

* The first year annual premium includes any additional amounts to be deposited as applied for.

In addition to interest rates, changes in mortality and expense charges may affect the illustrations in Chart B. Current charges are used to determine the values in Chart B. The maximum guaranteed charges are used to determine the values in Chart A.

DISCLAIMER NOTICE REGARDING TAX LAW

The information in this "Policy Information for Applicant" is not intended to be used in tax planning nor is it intended for the purpose of providing tax advice. The possibility of future changes in tax laws must be recognized and taken into consideration.

POLICY INFORMATION FOR APPLICANT - INDETERMINATE PREMIUM LIFE POLICY

This information is being provided to help you understand this policy and to compare it to similar policies, so you can choose the one that is best for you. If you have questions about this form, be sure to ask your agent for an explanation.

[Name of Insurance Company]
[Address of Insurance Company]

Policy Name: [insert name]
Form Number: [insert number]

A policy for:[Name of Insured(s)]
Social Security Number(s): [Insert number]
Date of Birth: [Insert DOB]

Applied for on [insert date]

Your agent is:[Name of Agent]
[Agent's Address]
[Agent's Telephone Number]

This information does not include any extra benefit riders which you may apply for with this policy. Riders may affect your premium and cash values. Ask your agent for a full explanation of any riders.

The death benefit applied for is $[insert amount]. The death benefit option applied for is [describe the option]. The first year annual premium is $[insert amount].

You have agreed to pay premiums [insert frequency] and each premium payment is scheduled to be $[insert amount].

Risk Classification Information (as applied for):
M____ F____ Age____ Smoker____ Non-Smoker____ Other____ (Specify) ____________________

OTHER IMPORTANT INFORMATION ABOUT THIS POLICY

The company has the right to change the amounts of premiums required under this policy. The company reviews amounts of premiums every [insert frequency]. Amounts of premium required will not exceed the amounts shown in Column 2 of the "Illustration of Policy Values." [If there are any other limitations on the company's right to change premiums explain here.]

[If policy is a participating policy include this statement: There may be dividends paid to the policy owner. The "Illustration of Policy Values" does not include any dividends.]

ILLUSTRATION OF POLICY VALUES

The following values are based on your timely payment of the premiums required.

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

[Fill in other years as needed at five year intervals]

DISCLAIMER NOTICE REGARDING TAX LAW

The information in this "Policy Information for Applicant" is not intended to be used in tax planning nor is it intended for the purpose of providing tax advice. The possibility of future changes in tax laws must be recognized and taken into consideration.

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INSTRUCTIONS FOR FILLING IN "POLICY INFORMATION FOR APPLICANT - UNIVERSAL LIFE POLICY"

Adopted Draft: 11/27/89

The completed policy information statement may be delivered at, or before, the time an application is made. If the completed policy information statement is not delivered at the time of application, it must be delivered within fifteen working days after application is made, but at least five days before delivery of the policy except as provided in the next sentence. If the policy is delivered sooner than five days after the completed policy information statement is delivered, then the free-look period shall be extended to fifteen days. This policy information statement is required in connection with all applications for universal life policies, except where the policy is solicited by direct mail.

If any of the information ~~filled in~~ on this policy information statement changes between the date when it is delivered and the date the policy is delivered, then a ~~new~~ revised policy information statement based on the changed information must be delivered at the same time as the policy. In any such case, a written notice shall be furnished which outlines the major reason for the change. For example, the notice might state that the "~~Current~~ Interest Rate" shown in Chart B has changed. As another example, the applicant could have applied as a standard risk and after underwriting been found to be a substandard risk requiring higher mortality charges.

"Joint Life Policy": If ~~"yes" is checked,~~ the policy applied for is a joint policy, fill in the name, social security number, and date of birth of ~~only one~~ both persons under "Name of Insured." Also, fill in the blanks under "Risk Classification Information" on that sheet in duplicate with appropriate information on the sex, smoking status and age for ~~that particular~~ each person, and indicating identity for each classification. ~~A separate "Page 1" sheet for the policy information statement must then be completed for each other insured under the joint life policy, with appropriate fill-in under "Risk Classification Information" for that particular person on that same sheet. It is sufficient to fill in Chart A and Chart B of the "Illustration of Policy Values" on only one of these "Page 1" sheets. Only one "Page 2" sheet is required to be filled in for joint life policies.~~

POLICY APPLIED FOR

"Risk Classification Information (as applied for)" - If the insurance company does not distinguish between smokers and non-smokers for the policy applied for, check neither "smoker" or "non-smoker." Instead, fill in "composite" following the word "other" in the line below.

If the insured applies for a policy on a substandard basis, this should be disclosed following the word "other."

YOUR POLICY CHARGES

~~"Other Important Information about this Policy" - The section of "Page 2" below this line contains several blanks preceded by the word "every." Each of these blanks must be filled in with a period of time, such as "month," "quarter" or "year." Of course, the fill-in must be appropriate for the manner in which the insurance company makes calculations under the policy applied for.~~

All of the ~~blanks below this line~~ information in this section continues to assume that the policy does not contain any extra benefit riders that require an additional premium or additional periodic change.

~~Maximum~~ Mortality Charge - Fill in the blank with the ~~guaranteed~~ current mortality charge for Year 1. The ~~fill-in must~~ paragraph also includes wording where it can be indicated whether the maximum mortality charge increases each year.~~, if this is the case. For example, consider the case of a universal life policy on which the maximum mortality charge for Year 1 was $8 per $1,000 amount at risk, with annual increases in the maximum mortality charge thereafter. This blank could be filled in as follows: "$8 annual charge used for Year 1, per $1,000 amount at risk, with annual increases in mortality charge thereafter."~~ ~~The~~ All blanks in this paragraph must be filled in on the basis of an annual mortality charge, even if the insurance company actually makes calculations monthly. (In such cases, the annual mortality charge would be twelve times the applicable monthly charge.)

~~This blank must also be filled in on the basis of a $1,000 amount at risk, no matter what the actual death benefit may be.~~

The paragraph also provides for information on the maximum mortality change.
Since Chart A illustrates guaranteed values, the "Cash Surrender Value at Year End" for Year 1 must be calculated consistently with the amount filled in for this blank - subject to ~~the two preceding paragraphs and~~ the two notes in the paragraph which follows.

Note, that if a negative Year 1 cash surrender value is generated by the calculation, the illustrated "Cash Surrender Value at Year End" for Year 1 in Chart A must be shown as zero. Note also that some fixed premium universal life policies define the cash surrender value as the larger of two separate quantities. In such cases, the illustrated "Cash Surrender Value at Year End" for Year 1 in Chart A must be filled in consistently with the provisions in policy language.

~~"Current Mortality Charge" - Fill in the blank with the current mortality charge for Year 1. The fill-in must also include wording that indicates that the current mortality charge is expected to increase each year, if this is the case. For example, consider the case of a universal life policy on which the maximum mortality charge for Year 1 was $6 per $1,000 amount at risk, with annual increases in the current mortality charge thereafter. This blank could be filled in as follows: "$6 annual charge used for Year 1, per $1,000 amount at risk, with annual increases in mortality charge thereafter."~~

~~This blank must be filled in on the basis of an annual mortality charge, even if the insurance company actually makes calculations monthly. (In such cases, the annual mortality charge would be twelve times the applicable monthly charge.)~~

~~This blank must also be filled in on the basis of a $1,000 amount at risk, no matter what the actual death benefit may be.~~

Since Chart B illustrates current values, the "Cash Surrender Value at Year End" for Year 1 must be calculated consistently with the amount filled in as the current mortality change. ~~for this blank~~ - subject to the ~~two preceding paragraphs and the~~ two notes in the paragraph ~~which follows.~~ above which refers to Chart A, and are also true of Chart B.

~~Note that if a negative Year 1 cash surrender value is generated by the calculation, the illustrated Surrender Value at Year End for Year 1 in Chart B must be shown as zero. Note also that some fixed premium universal life policies define the cash surrender value as the larger of two separate quantities. In such cases, the illustrated Surrender Value at Year End for Year 1 in Chart B must be filled in consistently with the provisions in the policy language.~~

Fee for Administration - The policy information statement contains blanks for both the current and the maximum fee for administration. For the purpose of filling in these blanks, a "fee for administration" refers to any type of charge made by the insurance company, other than a mortality charge, which is applied whether or not a premium is paid and which is required to maintain the policy in force. ~~"Current Fee for Administration" -~~ If the policy language makes no provision for a fee for administration, ~~this~~ these blanks must be filled in with appropriate wording such as "none~~" or "not applicable~~."

If there are such fees, the fill-in ~~for this blank~~ must describe those fees on a current basis ~~for each and every year. The amount of the fee need not be filled in on an annual basis, but~~ and indicate the frequency with which the fee is charged~~ must be indicated in the fill-in~~. If the fee is only charged for a limited period, indicate that here. Thus, in the case of a universal life policy on which the current fee was $5 each month for the first five years only, ~~this blank could be filled in as follows~~ the paragraph could say: $5 each month for the first five years, no fee thereafter."

In some cases, the policy language may provide for such a fee, but it is not currently being charged by the insurance company. In the case of such a policy, this ~~blank could be filled in as follows~~ paragraph could state: "~~n~~ No fee is currently being charged; however, policy language permits such a fee during the first five years."

Since Chart B illustrates current values, the "Surrender Value at Year End" amounts must be calculated consistently with the current fee for administration, if there is such a fee. However, this is subject to the two notes in the paragraph which follows.

Note that if any negative cash surrender values are generated by the calculations, the illustrated "Cash Surrender Value~~s~~ at Year End" in Chart B must be shown as zero for such years. Note also that some fixed premium universal life policies define the cash surrender value as the larger of two separate quantities. In such cases, the illustrated "Cash Surrender Value~~s~~ at Year End" in Chart B must be filled in consistently with the provisions in the policy language.

~~"Maximum Fee for Administration" - If the policy language makes no provision for a fee for administration, this blank must be filled in with appropriate wording such as "none" or "not applicable."~~

~~If there are such fees, the fill-in for this blank must describe those fees on a guaranteed basis for each and every year. The amount of the fee need not be filled in on an annual basis, but the frequency with which the fee is charged must be indicated in the fill-in. Thus, in the case of a universal life policy on which the guaranteed fees was $10 each month for the first five years only, this blank could be filled in as follows: "$10 each month for the first five years, no fee thereafter."~~

Since Chart A illustrates guaranteed values, the "Cash Surrender Value at Year End" amounts must be calculated consistently with the maximum fee for administration, if there is such a fee. However, this is subject to the two notes in the paragraph ~~which follows~~ above which described Chart B, and are also true of Chart A.

~~Note that if any negative cash surrender values are generated by the calculations, the illustrated Surrender Value at Year End in Chart A must be shown as zero for such years. Note also that some fixed premium universal life policies define the cash surrender value as the larger of two separate quantities. In such cases, the illustrated Surrender Values at year End in Chart A must be filled in consistently with the provisions in the policy language.~~

"Expense Deductions (Front End Loads)" - The policy information statement contains blanks for both the current and the maximum expense deductions. For the purpose of filling in these blanks, an "expense deduction" refers to a charge which is deducted by the insurance company when premiums are paid - but not otherwise.

These expense deductions are sometimes called "front end loads" because they are deducted immediately after premiums are paid. Therefore, they affect the amount earning interest under the policy, while that policy is maintained in force.

~~"Maximum Expense Deductions" -~~ If the policy language makes no provision for an expense deduction, ~~this~~ these blanks must be filled in with appropriate wording such as "none~~" or "not applicable~~."

~~If there are such expense deductions, the fill-in for this blank must describe those deductions on a guaranteed basis for each and every year. Thus, in the case of a universal life policy in which the maximum expense deduction was 8% of each premium paid, this blank could be filled in as follows: "8% of each premium paid."~~

Since Chart A illustrates guaranteed values, the "Cash Surrender Value at Year End" amounts for year one must be calculated consistently with the maximum expense deductions, if there are such deductions. However, this is subject to the two notes in the paragraph which follows.

Note that if any negative cash surrender values are generated by the calculations, the illustrated "Cash Surrender Values at Year End" in Chart A must be shown as zero for such years. Note also that some fixed premium universal life policies define cash surrender values as the larger of two separate quantities. In such cases, the illustrated Surrender Values at Year End in Chart A must be filled in consistently with the provisions in the policy language.

~~"Current Expense Deductions" - If the policy language makes no provision for an expense deduction, this blank must be filled in with appropriate wording such as "none" or "not applicable."~~

~~If there are such expense deductions, the fill-in for this blank must describe these deductions on a current basis for each and every year. Thus, in the case of a universal life policy in which the current expense deduction was 8% of each premium paid, this blank could be filled in as follows: "8% of each premium paid."~~

~~If the maximum expense deductions and the current expense deductions are the same, the blank for current expense deductions can be filled in as follows: "same as maximum expense deductions."~~

Since Chart B illustrates current values, the "Cash Surrender Value at Year End" amounts for year one must be calculated consistently with the current expense deductions, if there are such deductions. However, this is subject to the two notes in the paragraph ~~which follows~~ above which referred to Chart A, and are also true of Chart B.

~~Note that if any negative cash surrender values are generated by the calculations, the illustrated Surrender Values at Year End in Chart B must be shown as zero for such years. Note also that some fixed premium universal life policies define cash surrender values as the larger of two separate quantities. In such cases, the illustrated Surrender Values at Year End in Chart B must be filled in consistently with the provisions in the policy language.~~

"Surrender Charges (Back End Loads)" - The policy information statement contains blanks for both the current and the maximum surrender charge. For the purpose of filling in these blanks, a "surrender charge" refers to a charge which is deducted by the insurance company if the policy is surrendered for its cash surrender value - but not otherwise.

The surrender charges are sometimes called "back end loads" because they do not affect the amount earning interest under the policy, while that policy is maintained in force.

~~"Maximum Surrender Charges" -~~ If the policy language makes no provision for a surrender charge, this blank must be filled in with appropriate wording such as "none~~" or "not applicable~~." If the charges decrease as the years pass, indicate how at the end of the paragraph. ~~If there are such surrender charges, the fill-in for this blank must describe these charges on a guaranteed basis for each year that there is such a charge - up to and including Year 20. Thus, in the case of a universal life policy with a surrender charge of $300 in Year 1, reducing by $25 each year until the charge is extinguished, this blank could be filled in as follows~~ For example the paragraph could say: "Year 1 - $400, Year 2 - $375, reducing by $25 each year until it reaches 0 at Year 13."

A surrender charge must be disclosed if the policy contains a provision that this surrender charge can be charged under certain conditions, even if it is waived by the insurance company under other conditions. (Such provisions are commonly called "bail-out" provisions.)

Since Chart A illustrates guaranteed values, the "Cash Surrender Value at Year End" amounts must be calculated consistently with the maximum surrender charges, if there are such charges. However, please see the two notes in the paragraph which follows.

Note that if any negative cash surrender values are generated by the calculations, the illustrated "Cash Surrender Values at Year End" in Chart A must be shown as zero for such years. Note also that some fixed premium universal life policies define cash surrender values as the larger of two separate quantities. In such cases, the illustrated Surrender Values at Year End in Chart A must be filled in consistently with the provisions in the policy language.

~~"Current Surrender Charges" - If the policy language makes no provision for a surrender charge, this blank must be filled in with appropriate wording such as "none" or "not applicable."~~

~~If there are such surrender charges, the fill-in for this blank must describe these charges on a current basis for each year that there is such a charge - up to and including Year 20.~~

~~However, if the maximum surrender charges and the current surrender charges are the same, the blank for current surrender charges can be filled in as follows: "same as maximum surrender charges."~~

~~A surrender charge must be disclosed if the policy contains a provision that this surrender charge can be charged by the insurance company under certain conditions, even if it is waived by the insurance company under other conditions. (Such provisions are commonly called "bail-out" provisions.)~~

Since Chart B illustrates current values, the "Cash Surrender Value at Year End" amounts must be calculated consistently with the current surrender charges, if there are such charges. However, please see the two notes in the paragraph ~~that follows~~ above which referred to Chart A, and are also true of Chart B.

~~Note that if any negative cash surrender values are generated by the calculations, the illustrated Surrender Values at Year End in Chart A must be shown as zero for such years. Note also that some fixed premium universal life policies define cash surrender values as the larger of two separate quantities. In such cases, the illustrated Surrender Values at Year End in Chart B must be filled in consistently with the provisions in the policy language.~~

YOUR POLICY CREDITS

The fill-ins should be consistent with Charts A and B to the extent applicable.

OTHER IMPORTANT INFORMATION ABOUT THIS POLICY

Maturity Age - This must be filled in consistently with the policy language. ~~Please see also the note above, in these instructions, describing "Age 60," "Age 65" and "Age __." The Maturity Age, referred to in that note, means an age consistent with the age filled in for this blank.~~

~~"Policy Year of Termination under~~ If, under the assumptions of Chart A, ~~" - If "yes" is checked, this blank must be filled in. The fill-in must be consistent with the fill-in for the "Annual Premium" and "Death Benefit" columns in Chart A, if~~ termination would occur during one of the years illustrated in that ~~C~~chart, indicate year.

~~Please see also Note (5), in these instructions, describing how to fill in Chart A for a flexible premium policy. In testing to determine if any of the three lines for "Age 60," "Age 65" and "Age __" need to be filled in for Chart A, this same policy year of termination should be used.~~

~~"Policy Year of Termination~~ If, under the Assumptions of Chart B, ~~" - If "yes" is checked, this blank must be filled in. The fill-in must be consistent with the fill-in for the "Annual Premium" and "Death Benefit" columns in Chart B, if~~ termination would occur during one of the years illustrated in that chart, indicate year. Since Chart B is based on current assumptions, the ~~"P~~policy ~~Y~~year of ~~T~~termination under ~~C~~chart B~~"~~ may be a later year than the ~~"P~~policy ~~Y~~year of ~~T~~termination under Chart A~~"~~.

~~Please see also Note (5), in these instructions, describing how to fill in Chart B for a flexible premium policy. In testing to determine if any of the three lines for "Age 60," "Age 65" and "Age __" need to be filled in for Chart B, this same policy year of termination should be assumed.~~

~~Range of Company Investment Earnings - This blank must be filled in on an annual basis, with two interest rates differing by no more than 1%. Thus, the blank could be filled in "9% to 10%," assuming that that was the appropriate range of earnings for that insurance company.~~

~~Moody's Corporate Average Yield - This blank must be filled in for the last calendar quarter on which published data on this yield rate is readily available.~~

~~"Will the Illustrated Values in Chart B Be Paid If Economic and Mortality Conditions Do Not Change?" - In most cases, this blank should be filled in "yes." If "no" is checked, a detailed explanation is required.~~

ILLUSTRATION OF POLICY VALUES

~~"Illustration of Policy Values" -~~ If "flexible premium policy" is checked, Charts A and B are based on a policy with level annual premiums and level death benefits, except that there may be an additional amount assumed to be deposited in year one as illustrated in Charts A and B. This policy is assumed not to contain any extra benefit riders that require an additional premium or additional periodic charge. This policy is also assumed not to have any policy loans against it at any time.

If "fixed premium policy" is checked, Charts A and B are based on a policy with annual premiums and death benefits consistent with automatic options in the language of the policy applied for. This policy is assumed not to contain any extra benefit riders that require an additional premium or periodic charge. This policy is also assumed not to have any policy loans against it at any time.

"Age 60~~," "Age 65" and "Age __~~" - Both Chart A and Chart B contain lines for "Age 60~~," "Age 65" and "Age __~~" in the "Year" columns. "Age 60" refers to the year that the insured would have attained age 60 by the end of that year. For example, if the issue age of the insured is filled in as 34, "Age 60" refers to the year that the insured would have attained age ~~65~~ 60 at the end of that year. If the issue age is 34, "Age 65" would refer to the 31st year. The same rule will hold true for the other ages required to be listed. ~~Finally, "Age __" refers to the year on which the insured would attain the age when an endowment would be paid by the company, if the insured is still living. The blank should be filled in to show that age. If no such age is specified in the policy, 100 should be used in this blank. Assuming that 100 is the Maturity Age and assuming that the issue age is 34, "Age 100" would refer to the 66th year.~~

"Chart A" - Chart A is an illustration on a "Guaranteed Basis, " assuming that the insurance company consistently credits interest at the minimum rate permitted by the language in the policy, and that all charges and deductions are the maximums permitted by the policy language. However, as stated above, it is assumed that the policy contains no extra benefit riders requiring an additional premium or periodic charge.

The following instructions apply to Chart A if "flexible premium policy" is checked.

(1) The "Annual Premium" must be a level amount equal to the "First Year 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, provided, however, that there may be an additional amount assumed to be deposited in year one as illustrated in Charts A and B.

(2) The "Death Benefit" shall be an amount equal to the "First Year Death Benefit" (but increased if the amount earning interest under the policy is so large that an increase in death benefit is generated by the policy language). However, if a death benefit equal to the "First Year Death Benefit" cannot be provided for the entire year, the death benefit for that year shall be filled in as the "First Year Death Benefit" followed by a slash mark and a zero. The "Policy Information for Applicant" form may provide, but is not required to provide, an explanatory footnote to indicate how long into that particular year the "First Year 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 in calculating the amounts in the "Cash Surrender Value at Year End" column. These guaranteed interest rates must be consistent with the guaranteed interest rates described in the policy. However, these guaranteed interest rates must be filled in on an annual interest rate basis. An equivalent annual interest rate must be filled in, if the "Cash Surrender Value at Year End" is determined by making monthly calculations for each twelve months.

(4) The "Cash Surrender Value at Year End" must be filled in as the amount which would actually be paid as a cash surrender value. If the cash surrender value would be negative at the end of any year which is illustrated, the "Cash Surrender Value at Year End" must be shown as zero for that year. Some universal life policies contain provisions for surrender charges which are deducted under certain conditions, but not under others. (Such provisions are commonly called "bail-out" provisions.) The surrender values for policies containing such provisions must be illustrated assuming that the insurance company can and will deduct the maximum surrender charge.

(5) ~~At least one of t~~The ~~three~~ lines for "Age 60," "Age 65" and "Age ~~—~~ 70" and on must be filled in unless the following sentence applies. This is not required if either (a) the "Death Benefit" is filled in as zero in Chart A for the twentieth year or (b) the "Death Benefit" would go down to zero before the year in which insured would attain age 60 at the end of the year. Guaranteed assumptions are used in testing for this possibility. Please see the note above in these instructions describing "Age 60," ~~"Age 65," and "Age —~~" for additional information concerning these ~~three~~ lines.

To fill in Chart A if "fixed premium policy" is checked, use the same principles described above for a flexible premium policy with the following three exceptions. First, the "Annual Premium" column must be filled in using annual premiums actually described in the universal life fixed premium policy, without any extra benefit riders, and assuming that the policy owner does not exercise any option to change the amounts of premiums. Second, the "Death Benefits" column must be filled in using the appropriate actual death benefits provided under the policy in each year, without any extra benefit riders, and assuming that the policy owner does not exercise any option to change the amounts of death benefits and also assuming that the premiums are paid consistently with the amounts of premiums shown in the "Annual Premiums" column. Third, some fixed premium universal life policies define the cash surrender value as the larger of two separate quantities. The "Cash Surrender Value at Year End" column must be filled-in consistently with any such provision in the policy language.

"Chart B" - Chart B is an illustration on a "Current Basis," assuming that the company consistently credits interest at current interest rates, and all charges and deductions are also on a current basis. These current interest rates, ~~and~~ current charges and deductions~~;~~ are not guaranteed. The insurance company has the right to change these current interest rates, ~~and~~ charges and deductions~~;~~ to the extent described in the contract. However, as stated above, it is assumed that the policy contains no extra benefit riders requiring an additional premium or periodic charge.

The following instructions apply to Chart B if "flexible premium policy" is checked.

(1) The "Annual Premium" must be a level amount equal to the "First Year 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, provided, however, that there may be an additional amount assumed to be deposited in year one as illustrated in Charts A and B. Since Chart B is based on current assumptions, the "Annual Premium" will in some cases become zero in a later year under Chart B than under Chart A.

(2) The "Death Benefit" shall be an amount equal to the "First Year Death Benefit" (but increased if the amount earning interest under the policy is so large that an increase in death benefit is generated by the policy language). However, if a death benefit equal to the "First Year Death Benefit" cannot be provided for the entire year, the death benefit for that year shall be filled in as the "First Year Death Benefit" followed by a slash mark and a zero. The "Policy Information for Applicant" form may provide, but is not required to provide, an explanatory footnote to indicate how long into that particular year the "First Year Death Benefit" could be provided. The "Death Benefit" shall be shown as zero for any subsequent years. Since Chart B is based on current assumptions, the "Death Benefit" may become zero in a later year under Chart B than Chart A.

(3) The "Interest Rate" column must disclose the applicable interest rate, used in calculating the amounts in the "Cash Surrender Value" at Year End" column. No increase in this interest rate can be illustrated for future years, unless such an increase is specifically described and guaranteed in the policy language. However, the current interest rates must be filled in on an annual interest rate basis. An equivalent annual interest rate must be filled in, if the "Cash Surrender Value at Year End" is determined by making monthly calculations for each twelve months.

(4) The "Cash Surrender Value at Year End" is the amount which would actually be paid as a cash surrender value. Chart B is intended to illustrate cash surrender values on a current basis, and not on the basis of non-guaranteed future improvements that may be anticipated or hoped for. No enhancement or increment can be illustrated in Chart B unless such enhancement or increment is specifically described and guaranteed in the policy language. If the cash surrender value would be negative at the end of any year which is illustrated, the "Cash Surrender Value at Year End" must be shown as zero for that year. Some universal life policies contain provisions for surrender charges which are deducted under certain conditions, but not under others. (Such provisions are commonly called "bail-out" provisions.) The surrender values for policies containing such provisions must be illustrated assuming that the insurance company can and will deduct the current surrender charge.

(5) ~~At least one of t~~The ~~three~~ lines for "Age 60," "Age 65" and "Age ~~—~~70" and on must be filled in unless the following sentence applies. This is not required either if (a) the "Death Benefit" is filled in as zero in Chart B for the twentieth year, or (b) the "Death Benefit" would go down to zero before the year in which the insured would attain age 60 at the end of the year. Current assumptions are used in testing for this possibility. Please see the note above in these instructions, describing "Age 60~~," "Age 65" and "Age —~~" for additional information concerning these three lines.

To fill in Chart B if "fixed premium policy" is checked, use the same principles described above for a "flexible premium policy" with the following three exceptions. First, the "Annual Premium" column must be filled in using annual premiums actually described in the universal life fixed premium policy, without any extra benefit riders, and assuming that the policy owner does not exercise any option to change the amounts of premiums. Second, the "Death Benefits" column must be filled in using the appropriate actual death benefit provided under the policy in each year, without any extra benefit riders, and assuming that the policy owner does not exercise any option to change the amounts of death benefits and also assuming that the premiums are paid consistently with the amounts of premiums shown in the "Annual Premiums" column. Third, some fixed premium universal life policies define the cash surrender value as the larger of two separate quantities. The "Cash Surrender Value at Year End" column must be filled in consistently with any such provision in the policy language.

INSTRUCTIONS FOR FILLING IN
"POLICY INFORMATION FOR APPLICANT - INDETERMINATE PREMIUM LIFE PLANS"

The completed policy information statement may be delivered at, or before, the time an application is made. If the completed policy information statement is not delivered at the time of application, it must be delivered within fifteen working days after application is made, but at least five days before delivery of the policy except as provided in the next sentence. If the policy is delivered sooner than five days after the completed policy information statement is delivered, then the free-look period shall be extended to fifteen days. This policy information statement is required in connection with all applications for indeterminate premium life policies, except where the policy is solicited by direct mail.

If any of the information filled in on this policy information statement changes between the date when it is delivered and the date the policy is delivered, then a new revised policy information statement based on the changed information must be delivered at the same time as the policy. In any such case, a written notice shall be furnished which outlines the major reason for the change. For example, the applicant could have applied as a standard risk and after underwriting been found to be a substandard risk requiring higher premium rates.

"Joint Life Policy": If the policy applied for is a joint policy, ~~"yes" is checked,~~ fill in the name, social security number and date of birth of ~~only one~~ both persons under "Name of Insured." Also, fill in the blanks under "Risk Classification Information" on that sheet in duplicate with appropriate information on the sex, smoking status and age for ~~that particular~~ each person and indicating identity for each classification. ~~A separate "Page 1" sheet for the policy information statement must then be completed for each other insured under the joint life policy, with appropriate fill-in under "Risk Classification Information" for that particular person on that same sheet. It is sufficient to fill in the "Illustration of Policy Values" on one of these "Page 1" sheets. Only one "Page 2" sheet is required to be filled in for joint life policies.~~

"Risk Classification Information (as applied for)" - If the insurance company does not distinguish between smokers and non-smokers for the policy applied for, check neither "smoker" or "non-smoker." Instead, fill in "composite" following the word "other" in the line below.

If the insured applies for a policy on a substandard basis, this should be disclosed following the word "other."

OTHER IMPORTANT INFORMATION ABOUT THIS POLICY

"The company reviews amounts of premiums every _____." - This blank must be filled in with a period of time, such as "month," "quarter" or "year." Of course, the fill-in must be appropriate for the manner in which the insurance company makes calculations under the policy applied for.

If there are any ~~"L~~ limitations on the ~~C~~company's ~~R~~right to ~~C~~change ~~P~~premiums~~" - If "yes" is checked~~, describe any such limitations which may apply. This would include calling attention to any provision in the policy language which could prevent the insurance company from charging the maximum premiums shown in the illustration on Page ~~1~~ 2 of the policy information sheet.

ILLUSTRATION OF POLICY VALUES

~~"Illustrated of Policy Values" -~~ The values in this illustration are based on a policy with annual premiums and death benefits consistent with automatic options in the language of the policy applied for. This policy is assumed not to contain any extra benefit riders that require an additional premium or periodic charge. This policy is also assumed not to have any policy loans against it at any time.

~~"Age 60," "Age 65" and "Age __" - This illustration contains lines for "Age 60," "Age 65" and "Age __" in the "Year" columns. "Age 60" refers to the year that the insured would have attained age 60 at the end of that year. For example, if the issue age of the insured is filled in as 34, "Age 60" would refer to the 26th year. Similarly, "Age 65" refers to the year that the insured would have attained age 65 at the end of that year. If the issue age is 34, "Age 65" would refer to the 31st year. Finally, "Age __" refers to the year in which the insured would attain the age when an endowment would be paid by the company, if the insured is still living. The blank should be filled in to show that age. If no such age is specified in the policy, 100 should be used in this blank. Assuming that the issue age is 34, "Age 100" would refer to the 66th year.~~

~~(1)~~ Maximum Annual Premiums (Guaranteed Assumptions) - The blanks in this column must be filled in with the maximum annual premium which is allowed under the policy language for the basic policy, but not including the additional premium for any extra benefit riders. For Year 1, this must be equal to the "First Year Annual Premium" shown elsewhere on Page 1 of the policy information statement.

~~(2)~~ Possible Annual Premium (Current Assumptions) - the blanks in this column must be filled in with the amount of annual premium which would be charged under the insurance company's current non-guaranteed premium rate schedule, but not including the additional premium for any extra benefit riders. For Year 1, this must be equal to the "First Year Annual Premium" shown elsewhere on Page 1 of the policy information statement.

~~(3)~~The "Death Benefit" column must be filled in with the amount of death benefit provided at the beginning of the year under the basic policy, but not including the death benefit for any riders that require an additional premium. For Year 1, this must be identical to the "~~First Year~~ Death Benefit," shown elsewhere on Page 1 of the policy information statement.

~~(4)~~The "Cash Surrender Value at Year End" column must be filled in with the amount which would actually be paid as a cash surrender value, under the basic policy. The cash value of any extra benefit riders, requiring an extra premium, is not included. If the cash surrender value would be negative at the end of any year which is illustrated, the "Cash Surrender Value at Year End" must be shown as zero for that year.

~~(5) At least one of the three lines for "Age 60," "Age 65" and "Age __" must be filled in unless the following sentence applies. This is not required if either (a) the "Death Benefit" is filled in as zero for the twentieth year or (b) the "Death Benefit" would go down to zero before the year in which insured would attain age 60 at the end of the year. Please see the note above in these instructions, describing "Age 60," "Age 65" and "Age __" for additional information concerning these three lines.~~

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ATTACHMENT TWO

Consumer Disclosure Issues (A) Working Group
Conference Call
November 17, 1989

The Consumer Disclosure Issues (A) Working Group held a conference call on Nov. 17, 1989, at 10 a.m. A quorum was present and Roger Strauss (Iowa) chaired the call. The following working group members were present: Ted Becker (Texas); John Montgomery (Calif.); Tony Higgins (N.C.); and Dave Heinick (Wis.). Also participating in the call were Carolyn J. Johnson and Judith P. Lee (NAIC/SSO).

Roger Strauss (Iowa) began the meeting by reviewing the latest advisory committee draft of Policy Information Forms for Applicants on Universal Life Policies and Indeterminate Premium Life Policies and comments, comparing them to the most recent NAIC working group draft. Considerable discussion followed by working group members of the differences in those drafts. The issue of substantial compliance standards raised by the advisory committee had previously been resolved by the model law changes made in June which approved the use of substantially compliant language.

The introductory paragraph to the NAIC draft was amended to reference a comparison between "similar" insurance policies. Both the date of birth and social security number of the insured are now required in the disclosure form. The reference to minimum and maximum payments required in universal life policies was amended to state that some policies can lapse without value if the premium is not paid. In the statement regarding the fixed premium policy "the same premium" was changed to "the scheduled premium" since many fixed premium policies do not provide for payment of the same premium on each due date. The reference to the death benefit option was clarified by adding language requiring that the option be described since the information included in this blank will be dependent upon the policy language. References to riders in the industry advisory committee draft were deleted since it was the consensus of the working group that riders should not be included. The section of the NAIC draft entitled "Your Premium Dollar" was amended into two separate sections; one entitled "Your Policy Charges" which includes mortality charges, expense deductions, administrative charges, and surrender charges, and the second titled "Your Policy Credits" which includes interest information and a definition of cash surrender values. The reference to mortality charge in the NAIC draft was amended to include a reference to clearly indicate that the listed charges are only for the first year of the policy.

Members of the working group agreed to delete from the disclosure form references to Moody's Bond Index since consumers do not easily recognize the significance of its inclusion. Considerable discussion ensued about the appropriate wording of the expense deduction paragraph. The working group decided to delete all references in the disclosure form to percentages since this might be confusing to the insured.

Under the heading "Other Important Information," clarifications were made so that the language specifically referred to the appropriate charts on the following pages. In the Illustration of Policy Values section, the reference to the fact that the effect of any riders added to the policy are not shown was left in to further emphasize that riders are not included in this disclosure form. The language for both Chart A and Chart B was left as shown in the industry advisory committee draft, with the exception that the reference in the indeterminate premium policy chart was changed from Column 1 to Column 2.

Upon acceptance of the revised draft by the working group, the NAIC staff was instructed to complete the redraft of the disclosure form and the instructions and distribute them to members of the working group, the Product Development (A) Task Force, and John Hurley as chair of the advisory committee by Nov. 27. A cover letter should be sent to Mr. Hurley requesting that any further comments from the advisory committee be made to the Product Development (A) Task Force in December.

Having no further business, the conference call was adjourned at 11:45 a.m.

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ATTACHMENT THREE

Product Development (A) Task Force
Wilmington, Delaware
September 11, 1989

The Product Development (A) Task Force met in the Hoornkill Room at the Radisson Hotel in Wilmington, Del., at 1 p.m. on Sept. 11, 1989. A quorum was present and Robert D. Haase (Wis.) chaired the meeting. The following task force members or their representatives were present: Theodore "Ted" Kulongoski, Vice Chair (Ore.); Roxani Gillespie, (Calif.); John E. Washburn (Ill.); William D. Hager (Iowa); and A. W. Pogue (Texas).

1. Report of Consumer Disclosure Issues Working Group

The Consumer Disclosure Issues (A) Working Group met on Sept. 11, 1989, at the Radisson Hotel in Wilmington, Del. David Lyons (Iowa) chaired the meeting and discussed the Universal Life Disclosure Form test market results prepared by Life Insurance Marketing and Research Association. Based on those results, the Consumer Disclosure Issues Working Group is recommending that, after a seven-day comment period for industry input, the NAIC/SSO staff redraft the disclosure form within 30 days and distribute it to the working group and the advisory group. A 14-day comment period will be allowed, and upon receipt of those comments, a report will be made to the Product Development (A) Task Force with a final version of the disclosure forms attached. Mr. Lyons stated that by following this timeframe we would have an amended draft ready for adoption in December. Mr. Lyons further reported that John Hurley, chair of the advisory committee, had indicated industry's willingness to respond within the recommended time frame. Upon motion duly made and seconded, the minutes of the Consumer Issues Disclosure Issues Working Group meeting of Sept. 11, 1989 were adopted (Attachment Three-B).

Mr. Lyons further requested that the Task Force formally receive the test market results prepared by LIMRA as well as a cover letter prepared by Commissioner William Hager (Iowa) outlining the issues still before the working group. Upon motion duly made and seconded, the formal LIMRA report and Commissioner Hager's letter were received (Attachment Three-A).

Having no further business the Task Force adjourned at 1:15 p.m.

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ATTACHMENT THREE-A

State of Iowa
Insurance Division
Iowa Department of Commerce
Lucas Building
Des Moines, Iowa 50319

To: Product Development (A) Task Force—Chairman Robert Haase, Wisconsin
From: Bill Hager, Chair, Consumer Disclosure Issues Working Group
Date: September 11, 1989
Re: Consumer Disclosure Issues Working Group

1. For the past several months this working group and the Advisory Committee, chaired by John Hurley (Equitable Society), have been working on the Universal Life Disclosure Form attached.

2. At the June 1989 meeting in Cincinnati a consensus was reached on the form you have before you. It was also decided to have this form "test marketed" to determine its understandability by the consumer. Life Insurance Marketing and Research Association was commissioned to conduct this study, a copy of which is also attached to this report.

3. This study conducted by LIMRA shows that we need to have the form redeveloped by an expert within or outside the NAIC to increase understandability.

4. We have a good product that this study can help us make even better by incorporating the appropriate suggestions found in the test market survey.

5. Two recommendations to consider to complete this project and revise the form where needed would be:

A. Have an appropriate staff member at the NAIC in Kansas City redesign the form including the appropriate changes.

B. I have talked with Bob Baranoff at LIMRA and they would be willing to redesign the form to incorporate the changes described in the study and the fee for their service would be between $2,000 and $3,000.

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State of Iowa
Insurance Division
Iowa Department of Commerce
Lucas Building
Des Moines, Iowa 50319

September 8, 1989

Mr. Robert Baranoff
Life Insurance Marketing and Research Association
P. O. Box 208
Hartford, CT 06141

Dear Mr. Baranoff:

I want to thank you for the excellent report you have prepared at our request. We find the results interesting and useful.

At the September NAIC meeting in Wilmington, Del., your findings will be discussed by our working group.

Depending upon the outcome of those discussions, we may be contacting you for additional assistance to complete this project.

Again, we appreciate your good work and expeditious preparation of this report for our consideration at the September NAIC meeting.

Sincerely,
William D. Hager
Insurance Commissioner

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DECISION RESOURCES GROUP

Universal Life Disclosure Form
Focus Group Summary

Life Insurance Marketing and Research Association

RECOMMENDATIONS

Based on the four focus groups that were held to test the proposed universal life disclosure form, many changes would be required in order to make the form clearly understood by the average consumer. The specifics as to what the layman can and cannot understand on the form are too numerous for a separate listing here and are contained within the body of this report. The recommendations listed below, therefore, are of a more general nature, but capture the spirit and/or essence of what the focus group participants had to say.

1. For clarity sake, the form should be divided into individual sections that are labeled clearly with titles that reflect what is contained in that section. For example, a section entitled "How Your Premium Dollar Is Being Spent," or something of that nature, is far more descriptive than "Other Important Information About This Policy."

2. The first section of the form, or perhaps a cover page, should inform the applicant of the purpose of the form, i.e., why it is being sent to him or her in the first place.

3. There should be a glossary of terms included with the form, either up front or at the end of the form but with a note up front that the applicant will find a glossary at the back of the document. A reading of the body of this report will make evident which terms should be included in the glossary.

4. Since the focus group participants assumed that the form would be filled out by the insurance company's computer, they felt it would be very easy, and certainly desirable, for the form that the applicant received to be tailored to him or her. Several areas thus affected would be:

— Rider information should be included on the form. Those riders that had been applied for should be listed and their cost reflected in the premium figures.

— Any parts of the form that were not applicable to the particular applicant should be omitted from the form that that person received.

— Wherever applicable, the form should refer to the policyowner's age rather than policy year. This would affect the charts, for example, but also the discussion of policy maturity and termination.

5. A lot of misunderstanding revolved around the two charts and the explanatory notes on the top of the second page. In the section of the form that contains the charts, there should be an opening paragraph that explains that the two charts refer to the same policy; Chart A shows what the policy values would be if the company paid you the minimum interest rate allowed in your policy (4%), while Chart B shows your policy values if the company continues forever to pay the interest rate that it is currently paying (8.75%). The paragraph should further include a statement to the effect that your policy has a maturity age of 95, which means that if the insured person is still alive and the policy is still in force, the company will pay an amount equal to the death benefit even though the person is still living. If appropriate, the paragraph might add something like "The amount of premium you have elected to pay, $300 per year, is however insufficient to keep the policy in force to age 95 at the guaranteed minimum interest rate of 4%; the policy would terminate at age 66. To be sure that the policy continues to age 95, even at the minimum interest rate of 4%, you would have to pay $644.30 per year for the entire life of the policy."

This type of explanation would be far clearer to the average person and it is important that it just <u>precede</u> the two charts, preferably on the same page. Also, the charts should show all ages of the insured, in this case from 36 through 95, without any gaps (e.g., from 60 to 65 and from 65 to 95).

6. the section that shows the various charges (mortality, administrative, front end load, back end load, etc.) should be set up in such a fashion that the $300 first year premium is broken down into its component parts. In other words, there should be a column of numbers shown that sums to $300. Alternatively, the column of numbers could be made to sum to $1.00, showing where each premium dollar is going.

7. Finally, some people feel that there is just too much detail on the form; other people, however, claim that the detail (e.g., what the various mortality and expense charges are, what the company would have to earn to support their current interest rate, etc.) is useful information and that they would like to see it. Therefore, the detail information should be included, but later on the form (as it is now) and clearly labeled as to what it is (as indicated above).

Once again, supporting documentation for these and other more detailed suggestions lies within the body of this report. It is strongly urged that the report be read in full.

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<u>Universal Life Disclosure Form Focus Group Summary</u>
<u>INTRODUCTION</u>

<u>Objective of the Study</u>

The objective of this study was to test a universal life policy disclosure form to see if the average consumer could understand it and to see if the layman found the information provided to be useful.

<u>Methodology</u>

In order to test the form, four focus groups were held on the evenings of Aug. 15 and 17, 1989, at LIMRA's focus group facility in Farmington, Conn. Each evening, one focus group was held from 5:30 to 7:30 p.m. and a second focus group was held from 7:45 to 9:45 p.m. Participants, each of whom was paid $40 for his or her time and efforts, were pre-screened to insure that they were the financial decision maker or joint decision maker in their household, that no one in their household worked in the financial services or market research industries, and that they had purchased an individual life insurance policy within the last two years. When the attendees showed up for the focus groups, it was discovered that there were several minor exceptions to this last criterion: one person had simply added on to a group policy at work, a second had purchased mortgage insurance, and a third had purchased her policy three years ago rather than two. It was decided that input from these individuals would nonetheless be useful and they were allowed to participate.

While 12 people were recruited for each of the four focus groups with the expectation that 10 would show up, the participation rate was somewhat disappointing. The number of participants, as well as the characteristics of those in the focus groups, are shown below in Table 1.

TABLE I

Focus Group	Sex	Age	Number of Participants
1	Male	45 - 54	8
2	Male	25 - 44	9
3	Female	25 - 44	7
4	Male	25 - 44	5

While no occupation criteria were set in the screening process (other than the exclusions noted above), a reasonable cross-section of occupations were represented across the four groups. Participants ranged from tool makers to sales agents and managers, clerks to homemakers, teachers to small businessmen.

Each focus group session was divided into two parts. For the first 30 to 40 minutes, participants read through the disclosure form which, for ease of discussion purposes, was divided into seven sections (see appendix for copy of the form used). While reading through the form, the participants were asked to rate each of the seven sections on both understandability (5 = completely understandable, 1 = not at all understandable) and usefulness (5 = extremely useful, 1 = not at all useful). In addition, they were asked to note any problems they had in understanding the individual sections. In this way, we were able to obtain ratings based on their first impression.

During the remainder of the two hour session, the focus group moderator led the participants through a discussion of the individual sections of the form. The purpose of the discussion was, once again, to determine how easy it was for the laymen to understand what the disclosure form was telling them. In many cases, people who thought they had understood the form realized during the discussion that they had not understood it at all. That is, they thought they had understood it, but what they understood was not at all what was intended. These findings are the subject of the next section of this report.

FINDINGS

Overall

On an overall basis, many people found the disclosure form to be quite confusing, especially the second page. In at least two of the four focus groups, for example, a significant number of people (approximately half) thought that they had to choose between the policy illustrated in Chart A and the policy illustrated in Chart B. They didn't see how the different parts of the form related to each other and, when they tried to relate certain parts to others, that only served to increase their confusion. For example, the first section of the form indicates that the policy applied for is a flexible premium policy, but the charts illustrate what appears to the layman to be a "fixed" premium (i.e., a fixed premium was interpreted as being synonymous with a level premium). In addition, many people failed to see how the information on the top of page 2 related to the charts at all.

A great deal of the confusion seems to stem from a lack of understanding of how cash value insurance products work and a lack of understanding of insurance terminology. The lack of understanding of cash value products was evidenced by the fact that the majority of people could not understand why, in Chart A, if you continue to pay your premium, the benefit would run out before age 95 and why the surrender value declines after a certain point. As far as the lack of understanding of insurance terminology is concerned, several groups independently volunteered that a glossary of terms should be included with the disclosure form (although one group, the women, did not want a glossary but rather preferred that definitions be included where the terms were actually being used). Furthermore, it was strongly recommended that the form use words appropriate for a reading level that most people could understand (e.g., fifth or sixth grade reading level).

In addition, people assume that in this day of modern technology that the form would be printed out by a computer. Given this assumption, they would like to see the form tailored to the individual. Thus, the information on the form should reflect any riders they have applied for, the charts should show their specific age (rather than policy year) from now until policy maturity (without skipping any years), and all information that is not applicable to their situation should not be included on the form. They feel that this would provide more complete information in a clearer fashion, and is reasonable to expect in this day of modern computers.

Finally, as further evidence of the fact that the form is not clearly understood, the reader should consider the fact that insurance companies are provided with 11 pages of instructions on how to fill out the two page form. If it is not self-evident to the insurance company as to what is to be included, then why would you expect it be self-evident to the consumer?

As far as usefulness is concerned, when they understood what the information was supposed to be telling them, they generally felt that it was useful information to have. However, it should be noted that there was a high correlation between the ratings for usefulness and understandability. What they did not understand, they did not find useful.

Another significant factor regarding usefulness is the fact that there seem to be two distinct groups of people. Some people want the form to be kept as simple as possible. They don't care how the premium is broken down or what the company needs to earn in order to credit them with the current interest rate. They only want the basic facts ("Keep it simple, stupid"). Another significant group of people are more analytical in nature and do like getting all the detailed breakdowns. Perhaps the best way to accommodate both groups is to have the basic information up front and the more detailed information, clearly labeled as such, in a separate section at the end of the disclosure form.

Another suggestion regarding overall clarity of the form would be to divide the form into sections with clearly labeled titles. The first section of the form, by the way, should be a statement as to the purpose of the form; why is it being sent to the applicant to begin with? An example of the type of section heading that should be used is something like "How Your Premium Dollar Is Being Spent" instead of the current title "Other important Information About This Policy," which was seen as very vague and not at all helpful in communicating what that information was all about.

One further general comment is in order. Many consumers have a generally negative attitude toward insurance companies and think that insurance companies are making excessive profits at their expense. Thus, many people viewed Chart A as disclosing that the insurance company was ripping off the consumer; that is, if he paid his premium every year, his cash values would nonetheless decline after a certain point and he would be without protection after a certain point. (Indeed, one person noted that the policy values go down in the later years, just when you need them most!) Furthermore, they saw the explanation of charges on the second page as being "add-ons" in many cases, rather than as already being included in the premium. Once again, some people saw this as just another opportunity for the insurance company to rip them off.

Specific comments about each section of the disclosure form follow.

Section I

Understandability Rating - 4.4 out of a possible 5.0 (initial rating prior to discussion)

Usefulness Rating - 4.0

Section I was generally found to be understandable, although there were a few questionable items. To begin with, one of the focus groups felt that the applicant's name should be up at the top, along with some identifying material, such as date of birth, address, and/or social security number, to make sure that the form is being sent to the right person. More problematic, however, was the fact that the title of the form said universal life policy, but the policy name was given as "Ultimate Life 50+." It was not evident to many people that the policy name referred to the brand name of Farm Springs Insurance Company's universal life policy.

The form number was seen as confusing, primarily because the company used letters instead of a number. People then started to question what the letters "FOD" stood for and how many form numbers were appropriate to any particular policy type. Generally speaking, the form number meant nothing to consumers and serves no purpose for them, although a couple of people did recognize that it might be something you could refer back to if there were a question later on. In this case, however, they felt it would be more appropriate to have a unique reference number or case number rather than a simple form number.

Also confusing in Section I was the Joint Life Policy question. Many people did not know what a joint life policy was (something which could be taken care of by means of a glossary). And, by not knowing what a joint life policy was, their minds could only wonder at what the alternative might be, since "No" had been checked on this particular disclosure form. Also, one group indicated that if it were a joint life policy, they would want to see the names of all insureds listed.

Finally, almost nobody understood the difference between a flexible premium and fixed premium policy. As indicated previously, this confusion was enhanced by the fact that the charts showed a level premium which they interpreted as being a fixed premium. Once again, this needs to be made clear in a glossary of terms.

Section II

Understandability Rating - 4.5 Usefulness Rating - 4.2

Many people did not understand what was meant by "extra benefit riders." Some people felt that examples of riders might be appropriate to include, and this terminology would certainly be a good candidate for the glossary. They felt that the statement "Riders may affect your premium and cash values" was pretty scary when they did not understand what a rider was. Furthermore, they felt that if they were indeed applying for riders as well as the basic coverage, that the information should be reflected throughout the disclosure form. Some people felt that the disclosure form would not be terribly useful if it did not adequately reflect the coverage that they were indeed applying for.

Because they did not understand how the insurance product worked, one focus group had a problem with the fact that the Death Benefit Applied For and the Annual Premium had the words "first year" in front of them. Their perception, reinforced by a quick glance at the two charts below, was that the death benefit and the premium were constant every year. In addition, people felt that the amount of the premium payment and the frequency with which it is paid should be made clear in one simple statement, rather than the two lines in Section II. Also, a couple of people did not know what the abbreviation "N/A" meant. Again, if this form is being filled out by a computer, then there seems to be no reason why the selected premium and premium mode could not simply be indicated.

While the women had no problem with the risk classification information as it currently stands, the men certainly did have problems with it. One person, for example, questioned what it would mean if the "other" box had been checked. Others questioned what other types of risk classification might be relevant. A significant number of people wanted to see the additional information, so they could be sure that it was correct.

Section II was viewed as fairly useful information, especially so they could check to see that it accurately reflected what they wanted to purchase and the assumptions upon which the premium was being based. However, as indicated previously, the consensus seemed to be that it would only be useful if riders were included.

Section III and IV

Section III - Understandability Rating - 4.0 Usefulness Rating - 3.9

Section IV - Understandability Rating - 3.9 Usefulness Rating - 3.4

One of the major problems with Sections III (Chart A) and IV (Chart B) is that half the people did not understand the difference between Charts A and B, with a few of the men and about half of the women seeing the applicant as having a choice between two different policies. A number of the women saw Chart A as providing a policy analogous to a fixed rate mortgage while Chart B was more like a variable rate mortgage. Even those who understood the difference between the two tables emphasized the need to make the distinction far more clear.

A second major problem concerning Chart A stems from the fact that people do not understand how cash value life insurance works. Thus, focus group participants were clearly thrown by the fact that the surrender value declined after year 20 and by the fact that there was no death benefit at age 95, despite the fact that the annual premium was paid continuously. Furthermore, about half of the people assumed that the policy values shown at age 65 remained constant through age 94. For this reason, many people suggested that the charts be enlarged to include every year from the time the policy was purchased until maturity. Furthermore, instead of showing policy years 1 through 20 and then switching over to age of the insured, they would prefer to see the insured's age listed consistently from age 36 through age 95.

Just how to clarify Charts A and B was somewhat more problematic. To begin with, there was general agreement that all ages should be shown, as just mentioned. Beyond that, however, the suggestions vary greatly. One suggestion was to make the two charts into one, since columns 1 and 2 were virtually identical for the two charts. Of course, this runs into a problem in later years, and the best suggestion made, a footnote explaining the situation, leaves something to be desired. Another suggestion that was made was to illustrate the two charts in graphical form, but this suggestion did not meet with universal acceptance when it was suggested. Basically, what people seemed to want was simply a clearer explanation, in bold print, that one chart was showing the "worst case scenario" while the other chart was based on what the company was currently paying in today's environment and assumed that the environment did not significantly change. Furthermore, since few people related the information in Section V (top of page 2) to the charts, a statement should be included to the effect that, in the worst case scenario (i.e., a 4% interest rate being credited), a $300 premium is only sufficient to keep the policy in force until age 66. If the policyholder would like to be guaranteed that the policy would remain in force until age 95, then a premium of $644.30 would need to be paid every year from the date of purchase.

Most people found Charts A and B to be quite useful. The more cynical of the focus group members rated Chart B slightly less useful, only because they felt the assumption that the current interest rate would not change to be an unrealistic assumption.

Finally, a few people did not notice the statement underneath the charts and, if they were not at a focus group specifically to read the disclosure form, undoubtedly several more would not have noticed that statement. For those who did read it, it raised a natural question in their minds: What other variables might affect the performance of the policy and the illustrations shown in Chart B? Are they talking about your health? Investments? Or what?

Section V

Understandability Rating - 2.6 Usefulness Rating - 2.9

As the understandability rating above indicates, Section V really was not understood terribly well by the focus group participants. To begin with, few recognized how the information in this section related to the charts shown on the previous page. The information supplied in this section should be rewritten in simpler terminology and should precede the charts or at least be placed on the same page with them.

The biggest thorn in this section was the $644.30. Most people had no idea what this figure signified or, if they did think they understood it, they thought that this was the amount that had to be paid after age 65 on the guaranteed basis to keep the policy in force. They did not recognize that this amount would have had to have been paid from the very first year (which is the way I interpret that statement—there is nothing in the instructions to indicate one way or the other).

Also, because most people presume that if you pay your premium continuously, your policy will remain in effect, quite a few people had a hard time understanding how or why the policy would terminate in policy year 31. This was simply foreign to their way of thinking. Also, they would prefer that the statement said age 66 rather than policy year 31. People also did not understand what an endowment benefit was and several wanted to know what the endowment benefit would in fact be (i.e., the amount of the benefit). One person was so confused that he said that the maturity age and endowment benefit were moot points, since the policy was going to end at year 31 anyway.

While this section was not viewed as important initially, some people felt that it was very important once they understood what it meant.

Section VI

Understandability Rating - 2.4 Usefulness Rating - 3.1

This section was given the lowest ratings for understandability of all the sections on the disclosure form. As one person said, "If you thought you understood this form up to now, you won't understand this!" Indeed, one person interpreted this section as meaning, "Every month we're gonna review the interest, mortality, etc. and then we're gonna charge you [an administration fee] for it."

For many people, Section VI is giving them more information than they ever want to know. Some people are perfectly happy in knowing how much coverage they're getting for how much premium. The information in this section is simply too much detail for them. On the other hand, people who are more analytical in nature do want this information (or at least claim they want it). But everyone agreed that the information could be presented far more clearly.

Part of the problem could once again be solved by a glossary. People simply did not understand what was meant by such phrases as mortality charge, fee for administration, interest indexed, expense deductions and front-end loads, and surrender charges and back-end loads. Furthermore, they did not see the distinction between a fee for administration and an expense deduction.

It was also unclear to a significant number of people as to whether the expenses shown here were included in the premium or were in addition to it. In particular, the administrative fee and, to a lesser extent, the expense deductions, were thought of as "add-ons" rather than already included in the premium.

Perhaps the easiest thing from the consumer's point of view would be to take the $300 and show how much of it in the first year is going for the various components (i.e., mortality, administration, expenses, etc.) Either this should be done in such a way that a column of numbers sums to $300 or else it should show a breakdown of each premium dollar (in other words, for each premium dollar, how much of it goes toward mortality charges, expenses, administrative fees, etc.). A sentence or two might then be added to explain how these factors might change in later years, although admittedly this might once again confuse the issue.

As to the mortality charge in particular, it was terribly confusing to show a maximum mortality charge and then make the statement that it can increase annually. To the average person on the street, if it can increase annually, then it is not a maximum. And while the temptation might be to solve this problem by including the words "first year" in with maximum mortality charge, this would only serve to further confuse the poor layman. Perhaps the best one can do is to have a section entitled "How Your Premium Dollar Is Being Spent" with clearly labeled subheadings "Explanation of First Year Charges" and "How Charges May Change in Later Years."

Also, people did not understand what "Moody's Corporate Average Yield" is. Some people had absolutely no idea what that meant, while others took a guess, usually incorrect. Most people took it to mean that 9.8% was what the company had actually earned in the previous quarter, as reported by Moody's. Most people did not find this information, even when they understood what it was supposed to mean, to be terribly important. They would, however, like to see some type of indication as to what the company's actual experience has been, not some corporate average.

Finally, a significant number of people did not understand the surrender charges. They did not all understand that it was a "penalty for early withdrawal" of sorts. When they did understand that, it was not clear whether these surrender charges were already reflected in Charts A and B or whether these amounts had to be deducted from the figures shown in those charts. Most people seem to assume that these amounts would have to be deducted and, in early years, many people assumed that they would have to pay money to the company if they surrendered their policy.

<u>Section VII</u>

<u>Understandability Rating</u> - 4.3 <u>Usefulness Rating</u> - 3.2

The focus group participants had very few comments to make regarding the tax law disclaimer notice. They all seemed to understand it well enough, but a number of people did not find it terribly useful and even wondered why it was there (one person wondered if it was required by law).

APPENDIX A

Draft 5/22/89

POLICY INFORMATION FOR APPLICANT - UNIVERSAL LIFE POLICY

I

Name of Insurance Company FARM SPRINGS INSURANCE CO.
Address of Insurance Company NEW YORK, NEW YORK
Name of Insured JOHN SMITH Joint Life Policy ____ YES ✓ NO
Date of Application AUGUST 1, 1989
Name of Agent THOMAS JONES Agent's Telephone Number (203) 555-5555
Agent's Address HARTFORD, CONNECTICUT

Policy Name: ULTIMATE LIFE 50+
Form Number: FOD

Type of Universal Life Insurance Policy: ✓ Flexible Premium ____ Fixed Premium

II

Coverage Applied For and Premium NOTE: This information does not include any extra benefit riders which you may apply for with this policy. Riders may affect your premium and cash values. Ask your agent for a full explanation of any riders.

First Year Death Benefit Applied For: 50,000
First Year Annual Premium: 300
If premium is not paid once a year, state the frequency of and the amount of the periodic premium: N/A

Risk Classification Information (as applied for):
M ✓ F ____ Age 35 Smoker ____ Non-Smoker ✓ Other ____

ILLUSTRATION OF POLICY VALUES

III

Chart A: The following values are based on the interest rates which are guaranteed by the company and based on your timely payment of the premiums in Column 1.

IV

Chart B: The following values are based on the interest rates which the company is currently crediting on this policy form. Interest rates may increase or decrease from this rate. Also this chart assumes you pay the premiums shown in Column 1.

	Chart A				Chart B				
	1	2	3	4	1	2	3	4	
YEAR	ANNUAL PREMIUM	DEATH BENEFIT	INTEREST RATE	SURRENDER VALUE AT YEAR END	ANNUAL PREMIUM	DEATH BENEFIT	INTEREST RATE	SURRENDER VALUE AT YEAR END	YEAR
1	300	50,000	4%	0	300	50,000	8.75%	192	1
2	300	50,000	4%	0	300	50,000	8.75%	395	2
3	300	50,000	4%	0	300	50,000	8.75%	610	3
4	300	50,000	4%	0	300	50,000	8.75%	845	4
5	300	50,000	4%	20	300	50,000	8.75%	1094	5
6	300	50,000	4%	255	300	50,000	8.75%	1,360	6
7	300	50,000	4%	485	300	50,000	8.75%	1,643	7
8	300	50,000	4%	718	300	50,000	8.75%	1,946	8
9	300	50,000	4%	947	300	50,000	8.75%	2,265	9
10	300	50,000	4%	1,172	300	50,000	8.75%	2,606	10
11	300	50,000	4%	1,483	300	50,000	8.75%	2,966	11
12	300	50,000	4%	1,784	300	50,000	8.75%	3,348	12
13	300	50,000	4%	2,080	300	50,000	8.75%	3,752	13
14	300	50,000	4%	2,367	300	50,000	8.75%	4,177	14
15	300	50,000	4%	2,643	300	50,000	8.75%	4,623	15
16	300	50,000	4%	2,773	300	50,000	8.75%	5,099	16
17	300	50,000	4%	2,686	300	50,000	8.75%	5,608	17
18	300	50,000	4%	2,974	300	50,000	8.75%	6,142	18
19	300	50,000	4%	3,039	300	50,000	8.75%	6,716	19
20	300	50,000	4%	3,072	300	50,000	8.75%	7,326	20
Age 60	300	50,000	4%	3,604	300	50,000	8.75%	10931	Age 60
Age 65	300	50,000	4%	241	300	50,000	8.75%	15,582	Age 65
Age 95	—	0	—	0	300	147,036	8.75%	140,630	Age __

-2-

V

The company will pay an endowment benefit to the insured if the policy is still in force, and the insured is living and attains the age of 95. This is called the Maturity Age, and it corresponds to policy year 60.

Based on guaranteed assumptions, consistent with those illustrated in Chart A, will the policy terminate before the Maturity Age? ✓ Yes ___ No. If "yes," what is the policy year in which it would terminate? 31.

Based on current assumptions, consistent with Chart B, will the policy terminate before the Maturity Age? ___ Yes ✓ No. If "yes," what is the policy year in which it would terminate? N/A.

Level Annual Premium Required to Provide the First Year Death Benefit to Maturity Age on a Guaranteed Basis $644.30 (Flexible Premium Policies Only).

VI

OTHER IMPORTANT INFORMATION ABOUT THIS POLICY

The company has the right to change the interest rates credited to amounts paid in to this policy. The company reviews interest rates every MONTH.

The mortality charge, which is the amount used to fund the death benefit, may also change. The company reviews mortality charges every MONTH.
The maximum mortality charge is $1.68 PER YEAR PER $1000 NET RISK AMOUNT - INCREASES ANNUALLY
The current mortality charge is $1.68 PER YEAR PER $1000 NET RISK AMOUNT - INCREASES ANNUALLY

The company (does/does not) charge a fee for administration of this policy. The fee may change from time to time.
The current fee is $3.00 PER MONTH IN ALL YEARS.
The maximum fee that can be charged is $3.00 PER MONTH IN ALL YEARS

This policy's interest rate (is/is not) interest/indexed. If it is interest indexed, this means that the interest rate credited to the amounts paid in to the policy follows a formula based on changes in the N/A Bond Index.
The company makes these changes every N/A.

In order to support the values illustrated in Chart B, the company investment earnings, before investment expenses, must be in the range of 9.75%-10.75% Moody's Corporate Average Yield for the previous calendar quarter is 9.80%.

Will the illustrated values in Chart B be paid if economic and mortality conditions do not change? X Yes ___ No. If "no," explain. ______.

Expense Deductions (front end loads):
Maximum 3% ON ALL PREMIUMS IN ALL YEARS
Current 3% ON ALL PREMIUMS IN ALL YEARS

Surrender Charges (back end loads): Shown For Years 1-14 Respectively as Per Tables Below ZERO Thereafter
Maximum 360 (First Year), 540, 720, 810, 900, 855, 810, 765, 720, 675, 540, 405, 270, 135.
Current 360 (First Year), 540, 720, 810, 900, 855, 810, 765, 720, 675, 540, 405, 270, 135.

VII

Disclaimer Notice Regarding Tax Law

The information in this "Policy Information for Applicant" is not intended to be used in tax planning nor is it intended for the purpose of providing tax advice. The possibility of future changes in tax laws must be recognized and taken into consideration.

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ATTACHMENT THREE-B

Consumer Disclosure Issues (A) Working Group
Wilmington, Delaware
September 11, 1989

The Consumer Disclosure Issues (A) Working Group met in the Thomas McKean Room of the Radisson Hotel in Wilmington, Del., at 11 a.m. on Sept. 11, 1989. A quorum was present and David Lyons (Iowa), chaired the meeting. The following working group members were present: Roger Strauss (Iowa), Ted Becker (Texas), Stan DuRose (Wis.) and Sheldon Summers (Calif.).

David Lyons (Iowa) discussed the Universal Life Disclosure Form test market results prepared by Life Insurance Marketing and Research Association. He stated that based on four focus groups that were held to test the proposed Universal Life Disclosure Form, changes would be required in order to make the form clearly understood by the average consumer. Further, he stated that the understanding and usefulness of the form could be increased with certain additions to the form.

Mr. Lyons proposed that the present version of the form along with the results of the LIMRA study be given to the NAIC/SSO staff for further attention to the issues of understanding and usefulness. A redraft will be prepared by NAIC staff within 30 days and distributed to the working group and advisory committee. A 14 day comment period will be allowed. Upon receipt of the advisory committee and working group comments, a report will be made to the Product Development (A) Task Force with a final version attached. A recommendation for adoption in December will accompany that report.

Mr. Lyons asked for industry involvement in two phases of this project: (1) within seven days of today's meeting, the advisory committee should submit comments on the LIMRA results to the NAIC/SSO; and (2) that they agree to conform to the 14-day response period once the redraft is completed and distributed by staff.

John R. Hurley, chairman of the advisory committee, stated that they would make every effort to respond within the recommended time frame.

Having no further business the working group adjourned at 11:05 a.m.