LIFE INSURANCE (A) COMMITTEE

Reference:
1992 Proc. II p. 663
1993 Proc. I p. 779

Mike Weaver, Chair—Ala.
David J. Lyons, Vice Chair—Iowa

CONTENTS

MINUTES

The Life Insurance (A) Committee met in the Taylor Room the Opryland Hotel in Nashville, Tenn., at 9 a.m. on March 9, 1993. A quorum was present and Mike Weaver (Ala.) chaired the meeting. The following committee members or their representatives were present: David J. Lyons, Vice Chair (Iowa); John Garamendi (Calif.); Robert M. Willis (D.C.); James H. Brown (La.); Harold T. Duryee (Ohio); Gary Weeks (Ore.); Claire Korioth (Texas); and Steven T. Foster (Va.).

1. Receive Report of the Life Disclosure Working Group

Commissioner Mike Weaver (Ala.) summarized the meeting of the Life Disclosure Working Group. He emphasized that the working group is continuing to receive input on sales illustrations. He encouraged input from concerned members of the industry. Commissioner Weaver said that there is agreement that some changes are needed in the way illustrations are prepared and used in sales presentations.

Upon motion duly made and seconded, the minutes of the Life Disclosure Working Group were adopted (Attachment One).

2. Establish Viatical Settlement Working Group

Commissioner Weaver appointed the following states to be on the working group: Chair, Iowa; Members, District of Columbia, Oregon, Texas and Virginia.

Brian Pardo (Life Partners) asked whether an advisory committee would be appointed. Commissioner David Lyons (Iowa) responded that the Executive Committee had decided not to appoint advisory committees at this time. The working group would instead solicit information in an informal manner from knowledgeable resources and in a formal manner by way of public hearings before making any final decisions. Chris MacDonald (Ohio Hemophilia Insurance Advocacy Project), one of the funded consumer representatives in attendance, offered her assistance to Commissioner Lyons and the working group.

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

Sheldon Summers (Calif.) presented the report of the Life and Health Actuarial Task Force. Recommendations are:

i. Recommend revising the priorities of the following projects from number one priority to number two priority: 2j, 2n, 4n, 4p and 5.

ii. Recommend revising the priorities of the following projects from number two priority to number three priority: 2k, 2l, 2m, 2r, 4l and 4x.

iii. Recommend that the priorities of projects 2o, 2q, 2s, 3g, 3h, 4aa, 4bb, 13 and 14 remain unchanged.

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

4. Establishing Methodology for Reviewing the Appropriate Time for Delivery of the Guide to Buying Life Insurance After Age 60

Superintendent Robert Willis (D.C.) stated his opinion that the sale of life insurance was a discovery process that could be harmed by disclosure of too much information too early in the process. He thought there was not value in disclosure at the point of application. Mary Alice Bjork (Ore.) agreed that disclosure at the point of application or even delivery was not very helpful. In her experience, most purchasers bought because they had confidence in the agent selling the life insurance. Robert Katz (Ohio) commented that Life Insurance Disclosure Model Regulation gives flexibility to each state to decide on the point of delivery of the information.

Bob Wright (Va.) said that Virginia is on record as favoring disclosure at the point of solicitation. If the consensus of the group is to maintain the prerogative of the state to require early disclosure, Virginia would support the decision. Mr. Summers said California also supported a preference for disclosure at the point of solicitation. He said that a problem encountered earlier was the difficulty of disclosure for mass marketed policies. He suggested the advertisement could offer additional information, and only those interested would respond.

Commissioner Lyons recalled that the NAIC began considering the issue of disclosure at point of sale versus point of issue several years ago. Much progress has been made in the area of disclosure; however, some states are not interested in requiring disclosure at the point of sale. The consensus is that there should be clear effective disclosure. Commissioner Lyon said he was comfortable with the model as it is because states that desire can vary their approach. He thought it was counterproductive to consider the issue further with all the other things on the agenda.

Superintendent Willis stated his opinion that an agent isn't ready to provide useful information at the point of sale. Having an option in the model creates unreal expectations and may create problems.

Upon motion duly made and seconded, the committee voted to add a drafting note to the model to clarify that states have the option to vary the delivery time of the Guide to Buying Life Insurance After Age 60.

5. Discuss Practice of Offering Unfunded Checking Accounts as an Alternative to Cash Settlement of Life Insurance

Shawn Bryan (Vt.) provided information on a practice discovered in his state where insurers offered as a life insurance settlement option an unfunded checking account. Individuals choosing this option were given what appeared to be a checkbook, but it was in fact for a draft account. No funds were transferred to the account and no Federal Deposit Insurance Corporation coverage would be available. Vermont discovered inconsistent accounting for the balance due; some insurers set up a reserve account, others did not. Concerns expressed by Mr. Bryan were the possibility that the assets would be frozen in an insolvency, the entire contract provisions might be violated by the practice, and there was the appearance of protections not really available. He said he had spoken with 17 other states with concerns about the practice.

Commissioner Weaver asked NAIC staff to survey the states to determine how widespread the problem was and the report back to the Life Insurance (A) Committee in Chicago next June.

6. Any Other Matters Brought Before the Committee

Bonnie Burns (California Association of HICAPS) said she appreciated the struggles of the committee in considering the issue of low value life insurance policies. In her counseling activities she sees many cases of individuals who have no idea what they are buying. She asked the committee to take another look at the product. Commissioner Lyons said the working group appointed several years ago had considered whether disclosure or prohibition of the policies was the best approach. If a state wishes to go beyond disclosure to banning the product, he suggested using the Washington approach as a model.

Melodie Bankers (Wash.) responded that Washington has a regulation banning products where the insured was likely to spend more in premiums than what the benefits would be. The rule promulgated in Washington was challenged, but upheld by the state Supreme Court.

Ms. Burns said she was not advocating a ban of the products because there was a place in the market for them. She urged some controls to eliminate some of the more egregious practices. In response to a question from Commissioner Lyons, she said she had seen the Buyer's Guide and still felt the products were confusing to consumers.

Upon motion duly made and seconded, the committee voted to request the Executive Committee to add a charge to the Life Insurance (A) Committee to revisit the issue of low value policies.

Having no further business, the Life Insurance (A) Committee adjourned at 9:50 a.m.

Mike Weaver, Chair, Ala.; David J. Lyons, Vice Chair, Iowa; John Garamendi, Calif.; Robert M. Willis, D.C.; James H. Brown, La.; Harold T. Duryee, Ohio; Gary Weeks, Ore.; Claire Korioth, Texas; Steven T. Foster, Va.

ATTACHMENT ONE

Life Disclosure Working Group
of the Life Insurance (A) Committee
Nashville, Tennessee
March 8, 1993

The Life Disclosure Working Group of the Life Insurance (A) Committee met in the Robertson BC Room of the Opryland Hotel in Nashville, Tenn., at 10 a.m. on March 8, 1993. A quorum was present and Mike Weaver (Ala.) chaired the meeting. The following working group members were present: John Montgomery (Calif.); Deb West (Iowa); Lester Dunlap (La.); Bob Katz (Ohio) and Bob Wright (Va.).

1. Review of Past NAIC Activity on Issue of Sales Illustrations

Commissioner Mike Weaver (Ala.) called on Carolyn Johnson (NAIC/SSO) to summarize what had occurred as the NAIC previously considered the issue of life insurance disclosure (Attachment One-A). She summarized the development of the Life Insurance Disclosure Model Regulation and stated that a review of state laws indicated most had adopted the 1976 version of the NAIC model without the recent modification regarding policy illustrations (Attachment One-B).

2. Report from National Association of Life Underwriters Sales Illustrations Task Force

Robert Nelson, an insurance agent from Nebraska who is chair of the National Association of Life Underwriters Sales Illustrations Task Force, reported on the conclusions reached by that task force (Attachment One-C). He summarized deliberations in three major areas: supportability, illustrations and Senator Metzenbaum's letter to the NAIC. At the conclusion of Mr. Nelson's report, Commissioner Weaver asked if working group members had any questions. Noel Morgan (Ohio) asked about illustrations that were not supportable and suggested it would be better to prohibit them than to present them and caution that it was not possible to support them actuarially. Mr. Nelson said he agreed, but the problem was in defining what is supportable. Mr. Morgan also asked about material loans that were in reality a replacement policy. Mr. Nelson stated his view that internal replacements that hurt policyholders were reprehensible. Mr. Morgan also asked what percentage a field agent was allowed to use in an illustration and Mr. Nelson responded that it could not be larger than what was currently being paid, but in a declining market that may not be a valid projection of future results.

3. Report from the American Academy of Actuaries

Walter N. Miller (Prudential) presented a statement on behalf of the American Academy of Actuaries (Attachment One-D). Commissioner Weaver thanked him for the report and noted that the task force was in the process of gathering information from many sources and would consider all the information provided. Sheldon Summers (Calif.) said the Life and Health Actuarial (Technical) Task Force was monitoring the work of the Academy of Actuaries.

4. Technical Resources Report

George Coleman (Prudential) gave a report on behalf of a number of companies and trade associations that had studied the matter of policy illustrations (Attachment One-E). He said he was very pleased that the NAIC is considering this important issue. The group he represents also recognizes that there are problems that need to be addressed. They have not yet considered whether uniform enactment of NAIC model language would solve the problems.

5. Any Other Matters Brought Before the Working Group

Commissioner Weaver asked if anyone else had comments or questions. Mr. Miller asked if this group would formulate a response to the letter from Senator Metzenbaum (attached to the September 1992 minutes) in regard to disclosure. Commissioner Weaver said the NAIC had already responded with a description of what this committee was doing, and when the group's work was complete, Senator Metzenbaum would be updated.

James Hunt (National Insurance Consumer Organization) stated that in his experience most people are very confused about the coverage they have. In some cases this committee cannot ameliorate the problem because real revisions to nonforfeiture laws are needed. He agreed with the points raised by Mr. Nelson, but thought that the public would not be helped by more disclosure, since they already suffer from information overload.

Bonnie Burns (California Association of HICAPS) said she often counseled senior citizens on life insurance. She spoke in favor of simplified illustrations so people could understand them. Some do not know they have purchased a life insurance product requiring yearly premiums. There may be long-term care benefits with a different trigger than a long-term care policy.

Commissioner Weaver asked for suggestions from the working group on the best way to proceed. He said the working group has been receiving comments for the past three or four months and should now formulate a plan.

Bob Wright (Va.) suggested that now would be an appropriate time to put together the comments received and decide what was the best approach. Mr. Morgan asked if the working group would be formulating new textual rules or what approach they would take. Commissioner Weaver responded that the group would not erode what the NAIC has previously done, but would look for places the model needs strengthening.

Mr. Morgan stated that his experience was that consumers did not understand what they had purchased. It was important to make crystal clear that they had purchased a life insurance product. He said there should be an understandable way of saying that the company is guessing because there is no way to know what will happen in the future. Melodie Bankers (Wash.) agreed that many people think they have purchased an investment and do not understand they have a continuing obligation to pay premiums.

Commissioner Weaver again asked for suggestions on how best to proceed. It was decided that members of the working group would submit suggestions to the NAIC staff within 45 days. Other interested parties were also invited to submit suggestions for draft language. The working group will discuss the proposals in a conference call and work toward the goal of having a draft ready by the summer meeting in Chicago, with final adoption by December.

Having no further business, the Life Disclosure Working Group of the Life Insurance (A) Committee adjourned at 11:45 a.m.

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ATTACHMENT ONE-A

Summary of NAIC Activity
Life Insurance Disclosure/Illustrations

I. The NAIC first adopted the Life Insurance Disclosure Model Regulation in December 1975. It briefly set forth requirements for a policy summary and some general rules for disclosure. A Buyer's Guide was added in June 1976.

II. In December 1983 the model was extensively amended to provide for various indices to assist consumers in comparing the yield of different types of policies (*Proceedings of the NAIC* 1984, vol. I page 497). The appendices which contain examples and the Buyer's Guide were inadvertently not included in the *Proceedings*. The Buyer's Guide apparently was amended to include information on universal life and other new developments, but no underlined version exists. At the time these revisions were adopted, the task force expressed concern that no index existed which could effectively measure yield. A committee was immediately appointed to come up with a rate-of-return formula. The work of this committee was completed in June 1989 when a yield index formula was adopted. It was decided to provide an alternative to the disclosure model rather than incorporating the yield index in the existing model regulation (*NAIC Model Laws, Regulations and Guidelines* page 581-1).

III. In June of 1988 provisions were added to the model regulation to require disclosures related to preneed funeral contracts (*Proceedings of the NAIC* 1988, vol. II page 509).

IV. In June 1989 the Life Insurance (A) Committee adopted disclosure statements to assist consumers in comparison of different types of interest-sensitive insurance products. After adoption the forms were tested with consumers and revisions made in December 1989 according to the comments received (*NAIC Model Laws, Regulations and Guidelines,* page 581-25). The aim of the working group was to make the statements easy to understand and distribute them to consumers early enough in the purchase process to aid in meaningful comparison. Changes to the models were made to indicate that the disclosures should be delivered at the time of application or within 15 working days thereafter. It had been the desire of the working group to require delivery at the time of application, but small insurance companies would have a great deal of trouble complying with that requirement so the extra period was allowed by way of compromise. The group identified several abuses which they attempted to address. The disclosure forms were also added to the Universal Life Model Regulation.

V. In 1990 a working group was appointed to look at issues specifically related to senior citizens. This working group developed a form to disclose to consumers over age 60 the possibility that premiums might exceed death benefit at a certain point. In 1991 the form was revised and the free look period on limited benefit policies extended to 30 days. Changes were made to the disclosure model to require notice and delivery of the form (*Proceedings,* 1991, vol. IA, page 549). In 1992 a Guide to Buying Life Insurance After Age 60 was adopted to explain the disclosure form (*NAIC Model Laws, Regulations and Guidelines* page 580-39).

VI. In addition to the changes to the Life Insurance Disclosure Model Act and the Universal Life Model Regulation, the Life Insurance (A) Committee has also adopted two related documents. In December 1990 a Bulletin on Illustrated Interest Projections was adopted (*NAIC Model Laws, Regulations and Guidelines* page 572-1). In June of 1986 an Illustrations Guideline for Variable Life Insurance was adopted. It contains a set of suggestions for illustrations for variable life products. (*NAIC Model Laws, Regulations and Guidelines* page 271-1) The Market Conduct Surveillance (EX3) Task Force amended the Rules Governing the Advertising of Life Insurance in 1987 to provide more disclosure (*Proceedings,* 1988, vol. I, page 138).

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ATTACHMENT ONE-B

NAIC State Adoption of Life Insurance Disclosure Provisions
Found in NAIC Model Laws

NAIC model provisions: The original Life Insurance Disclosure Model Regulation sets forth requirements for a policy summary and general disclosure rules. A Buyer's Guide was added in 1976, along with some model enhancements. The model was substantially revised in 1983 to provide for various indices to assist in comparing yield.

The Buyer's Guide was amended in 1984 to include universal life and other newer product information.

In June 1988 provisions were added to require disclosures related to prepaid funeral contracts.

In June 1989 an alternative model was prepared which included a yield index.

Also in June 1989 illustrations were prepared to disclose information on interest sensitive products.

In 1990 the NAIC developed a form to disclose information on limited benefit life insurance plans generally marketed to people over the age of 60. An explanatory guide to the Financial Review of Policy Form was developed in 1992.

State	Have Adopted Life Disclosure Rule	Require* Buyer's Guide	Have Disclosure Requirements for Preneed Funeral Contracts	Place Restrictions on the Sale of Life Insurance Policies Sold to People Age 60 and Over	Interest Sensitive Product Illustrations Included	Financial Review of Policy Form Required	Yield Indexes Required
Alabama	Reg. 64 based on 1976 model	Yes, based on 1976 version	No	No	No	No	No
Alaska	No provision	No	No	No	No	No	No
Arizona	R.4-14-211 based on 1976 model	Yes, based on 1976 version	No	No	No	No	No
Arkansas	Reg. 17 contains part of original model	No	No	No	No	No	No
California	tit. 10 §§ 2545 to 2545.5 contains part of original model	No	No	No	No	No	No
Colorado	No provision	No	Yes, §§ 10-15-101 to 10-15-121 Regs. 2-5-1, 2-5-2	No	No	No	No
Connecticut	Reg. §§ 38a-819-32 to 38a-819-39 based on 1976 model	Yes, based on 1976 version	No	No	No	No	No
Delaware	Reg. 29 based on 1976 model	Yes, based on 1976 version	No	No	No	No	No
District of Columbia	No provision	No	No	No	No	No	No
Florida	§ 626.99 based on 1976 model	Adopts 1976 guide by reference	Yes, §§ 639.07 to 639.33; Rule 4-73.001 to 4-73.015	No	No	No	No
Georgia	Reg. 120-2-31 based on 1976 model	Yes, based on 1976 version	No	No	No	No	No
Hawaii	No provision	No	No	No	No	No	No
Idaho	No provision	No	No	No	No	No	No
Illinois	tit. 50 §§ 930.10 to 930.90 based on 1976 model	Yes, based on 1976 version	Yes, tit. 50 § 930.60 based on model	No	No	No	No
Indiana	Rule 24 based on 1976 model	Yes, based on 1976 version	Yes, §§ 30-2-13-1 to 30-2-13-19	No	No	No	No

Iowa	Reg. § 191-15.66 based on 1976 model	Yes, based on 1976 version	Yes, § 191-15.69 based on model	No	No	Yes, § 191-15.69 (5) eff. Feb. 1	No
Kansas	Reg. § 40-2-14 not based on model	No	No	No	No	No	No
Kentucky	Reg. 12:020 not based on model	No	Yes, Reg. 12:131 based on model	No	No	No	No
Louisiana	Reg. 21 not based on model	No	Reg. 22 and 23 contain few disclosure provisions	No	No	No	No
Maine	Reg. ch. 240 based on 1976 model	Yes, based on 1976 version	No	No	No	No	No
Maryland	Reg. 09.30.27 based on 1976 model	Yes, based on 1976 version	No	No	No	No	No
Massachusetts	Reg. § 31.00 based on 1976 model	Yes, based on 1976 version	No	No	No	No	No
Michigan	No provision	No	No	No	No	No	No
Minnesota	No provision	No	No	No	No	No	No
Mississippi	No provision	No	No	No	No	No	No
Missouri	§§ 376.700 to 376.714 based on 1976 model	Yes, based on 1976 version	No	No	No	No	No
Montana	Reg. §§ 6.6.201 to 6.6.209 based on 1976 model	Yes, based on 1976 version	No	No	No	No	No
Nebraska	tit. 210 ch. 33 based on 1976 model	Yes, based on 1976 version	No	No	No	No	No
Nevada	Reg. 686A.410 to 686A.455 based on 1976 model	Yes	No	No	No	No	No
New Hampshire	§§ INS. 301.01 to 301.06 based on 1976 model	Yes, INS § 301.10 based on 1976 model	No	No	No	No	No
New Jersey	Reg. §§ 11:4-11.1 to 11:4-11.8 based on 1976 model	Yes, based on 1976 version	No	Yes, Reg. 11:4-21 contains disclosure requirement for limited death benefit policies	No	No	No
New Mexico	Reg. §§ 80-3-1 to 80-3-8 based on 1976 model	Yes, based on 1976 version	No	No	No	No	No

New York	§ 3209, tit. 11 §§ 53.1 to 53.8 (Reg. 74) based on 1976 version	Yes, based on 1976 version	No	No	No	No	No
North Carolina	§§ 58-60-1 to 58-60-30 based on 1976 model	Adopt NAIC model by reference	Yes, § 58-60-35 based on model	No	No	No	No
North Dakota	§§ 45-04-01-01 to 45-04-01-07 based on 1976 model	Yes, based on 1976 version	No	No	No	No	No
Ohio	Rule 3901-1-33 based on 1976 model	Yes, based on 1976 version	Yes, § 3905.451	No	No	No	No
Oklahoma	No provision	No	No	No	No	No	No
Oregon	R. 836-51-005 to 836-51-025 based on 1976 model	Yes, based on 1976 version	No	No	No	No	No
Pennsylvania	tit. 31 §§ 83.1 to 83.57 based on 1976 model	No	No	No	No	No	No
Puerto Rico	No provision	No	No	No	No	No	No
Rhode Island	Reg. XXVII based on 1976 model	Yes, based on 1976 version	No	No	No	No	No
South Carolina	Reg. 69-30 based on 1976 model	Yes, based on 1984 version	No	No	No	No	No
South Dakota	Reg. 20:06:14 based on 1976 model	Yes, based on 1976 version	No	No	No	No	No
Tennessee	Reg. 0780-1-40 based on 1976 model	Yes, based on 1976 version	Yes, Reg. §§ 0780-1-48-.01 to 0780-1-48-.14	No	No	No	No
Texas	Reg. §§ 21.501 to 21.508 is a surrender value comparison index	No	No	No	No	No	No
Utah	R540-79 based on 1976 model	Yes, based on 1984 version	Yes, R540-79-5 based on model	No	No	No	No
Vermont	Reg. 77-2 based on 1976 model	Yes, based on 1976 version	No	No	No	No	No
Virgin Islands	No provision	No	No	No	No	No	No

Virginia	Reg. 23 provides disclosure standards. Not based on NAIC model	No	Yes, Admin. Letter 1991-13	No	No	No	No
Washington	Reg. §§ 284.23.200 to 284.23.270 based on 1976 model	Yes, based on 1976 version	No	Reg. § 284-23-550 prohibits sale of limited death benefit policies	No	No	No
West Virginia	Reg. §§ 114-11-1 to 114-11-9 contains some disclosure requirement s	No	No. Preneed funeral contracts regulated by attorney general's office	No	No	No	No
Wisconsin	INS. § 2.14 based on 1976 model	Yes, based on 1976 version	No	No	No	No	No
Wyoming	No provision	No	No	No	No	No	No
TOTALS	41	32	12	2	0	1	0

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ATTACHMENT ONE-C

Statement of the National Association of Life Underwriters
to the National Association of Insurance Commissioners
Life Disclosure Working Group
of the Life Insurance (A) Committee
March 8, 1993
Opryland Hotel
Nashville, Tennessee

STATEMENT OF NALU TO NAIC

My name is Robert M. Nelson. I am in the insurance business as an agent in Omaha, Neb., and I am appearing here today as chairman of the National Association of Life Underwriters Task Force on Sales Illustrations. NALU, founded in 1890, is a federation of 1,000 state and local life underwriter associations throughout the United States and Europe. The 142,000 members of these local associations are sales professionals in life and health insurance and other related financial services. The NALU Task Force was formed last year in response to a growing concern of agents over difficulties associated with some illustrations of non-guaranteed life insurance policy elements[1] and dividends that are now occurring in the marketplace.

At the outset, we would like to point out that regulators and the insurance industry have already begun to address the problems associated with illustrations of non-guaranteed policy elements and dividends. The industry has supported, among other consumer measures adopted by the NAIC: the Life Insurance Disclosure Model Regulation, the Universal Life Model Regulation, disclosure statements to assist consumers in comparison of different types of interest-sensitive insurance products, disclosure forms specifically directed toward consumers over age 60, and the use of "current scale" in all advertisements illustrating non-guaranteed policy elements and dividends. Fortunately, efforts continue to improve the existing state of regulation regarding illustrations of dividends and non-guaranteed policy elements.

However, agents are generally the first to hear the disappointments, confusion and bitterness created by the unrealized expectations of policyholders and, consequently, are in a unique position to comment upon the problems associated with the illustrations that often cause that frustration. NALU appreciates the opportunity today to place before the Working Group its recommendations for alleviating, if not eliminating, some of the problems associated with illustrations of non-guaranteed policy elements and dividends.

1 In this statement we intend to have "non-guaranteed elements" include dividende on participating policies.

The NALU Task Force is composed of members representing all the principal life and health insurance field organizations. The Task Force includes field representatives from the American Society of CLU and ChFC, the Association for Advanced Life Underwriting, the Association of Health Insurance Agents, the General Agents and Managers Association, the Million Dollar Round Table and, of course, NALU itself. In addition, actuaries from both stock and mutual companies representing the American Academy of Actuaries and the Society of Actuaries serve on our Task Force.

The Task Force included in its deliberations the results of the extensive time and effort expended by the American Society of CLU and ChFC on its Life Insurance Illustration Questionnaire. The Task Force also studied the Society of Actuaries Task Force Report, "Research on Life Insurance Sales Illustrations," as well as the American Academy of Actuaries recommendations in its preliminary report on illustrations. Our Task Force has agreed on a number of recommendations to help reduce the unfortunate consequences sometimes associated with some of the illustrations of non-guaranteed elements and dividends as they are created and used in today's marketing environment. The NALU Board of Trustees has approved and adopted these recommendations.

This testimony is divided into three sections. Those sections are: 1) supportability; 2) the construction and use of illustrations themselves, and 3) specific responses to some of the concerns expressed in Senator Metzenbaum's letter to the NAIC, which are not dealt with elsewhere in this statement.

<u>SUPPORTABILITY</u>

Of paramount concern to agents is the fact that illustrations may not be supportable under current actuarial standards of practice. Agents appreciate that there may be practical problems with framing actuarial standards of practice for determination and redetermination of non-guaranteed policy elements insofar as the actuarial professional is concerned but feel the existing situation can be improved.

We understand that the illustration is not the policy or even a guarantee of future policy performance. We also understand that eventually consumers and companies and agents can be better educated regarding illustrations, their use and their meaning—but these issues of education are for implementation over the longer term.

We are here to concentrate on serious problems of illustrations of non-guaranteed elements and dividends that are being faced by agents today. The fundamental problem is that the illustration data the agent and prospective purchaser receive, while it may accurately reflect current rates, may also, in today's climate, be unsupportable for even a few years into the future. For example, dividends for a portfolio-based company, declared for 1993 (payable in 1993), will, if projected forward for illustration purposes, typically overstate the dividends that will actually be paid in 1994 and future years if new money rates stay below portfolio rates.

As we see it, "current illustrative dividend scales" and non-guaranteed elements and dividends, which historically understated actual results for future illustrations, have in recent years tended to overstate the amount of dividends and non-guaranteed elements and dividends likely to be paid. As a result, some policyholders and agents may be led to expect results which are not likely to be realized even in the short run.

From our observation, it appears that there are several causes of this problem. The first is that current illustrated dividend scales for portfolio-based policies in a decreasing new money interest rate environment (or their non-par counterparts) are clearly likely to be higher than the actual dividends that may be payable in the first few years of those policies.

Secondly, market pressure and perceived competitive needs are exacerbating the difference between the current scale and what is payable in the future, making the problem even more serious than it might otherwise be.

The third element of this problem is that company disclosures on Schedule M and Exhibit 8 and its accompanying interrogatories are too indefinite and therefore permit too much leeway for companies in the fashioning of answers regarding their ability to support their illustrations. We do recognize that <u>some</u> leeway is necessary, since no actuary can be expected to "know" the future, but too much leeway defeats the purpose of the interrogatories.

In essence, NALU feels that there must be more precise definitions and stricter rules governing the definitions of "supportability" and "current experience." The agents' basic concern is that numbers they are getting may not be supportable. We believe this situation to be potentially so confusing that if companies are issuing illustrations that are not supportable they should be required to disclose that fact on the illustrations themselves.

To this end, NALU testified at the March 3, 1993, Actuarial Standards Board (ASB) public hearing on the determination and illustration of non-guaranteed elements and dividends.

As you know, the ASB—although an independent organization—is closely allied with the American Academy of Actuaries. It was formed approximately five years ago to establish standards of practice for the actuarial profession. The participating organizations are the American Academy of Actuaries, the American Society of Pension Actuaries, the Conference of Consulting Actuaries, the Casualty Actuarial Society, and the Society of Actuaries. The members of these organizations comprise most of the actuaries in the United States. The standards of the ASB have been written into the NAIC Annual Statement Blank and the NAIC Model Standard Valuation Law.

NALU asked the ASB to review the current actuarial practices and help define and strengthen the definitions and rules regarding the supportability of illustrations and "current experience," for use not just in the existing downward market interest rate trend, but also over the long term for all economic cycles.

We hope such action will assist agents to better communicate with and serve their clients and help to prevent future unfortunate surprises and the complaints they engender from disappointed and disgruntled policyholders.

NALU requests that the NAIC ask the Academy of Actuaries to suggest, as soon as possible, revisions that would strengthen the interrogatories to Schedule M and Exhibit 8 so that companies must provide straight answers about the supportability of their illustrations. We would also request that the NAIC join with NALU in urging the ASB to strengthen its standards on dividends and non-guaranteed elements and to develop stricter definitions of "supportability" and "current experience."

In addition, the Task Force strongly believes that, at a minimum, insurers should be required to inform their agents when Schedule M information or the interrogatories of Exhibit 8 reveal that their illustrations are unsupportable for at least two years if current experience continues. This concern is reflected in Recommendations Nos. 1 and 2 under the next section of our statement.

ILLUSTRATIONS

To enhance the utilization, understanding and reliability of illustrations, NALU believes that the NAIC should take action to:

1. Require that consumers receive a supportable[2] illustration as defined by the Actuarial Standards Board or a statement, prominently displayed on the illustration, that the current illustration is not supportable[3]. If it is not so supportable, an alternative illustration that would not require this qualification would be desirable. As noted earlier, a prerequisite for adopting this recommendation is a usable definition of "supportable."

2. Sensitize policyholders to material changes in the policy as illustrated by requiring a short, simplified sensitivity summary to accompany illustrations. It would contain policy data for a given amount of premium, using both current and lower interest rates, similar to that shown on the next page.

Simplified Sensitivity Summary

Term	Current Scale	Current Scale Minus 100 Basis Points
Total Cash Value		
10 yrs.	$______	$______
20 yrs.	$______	$______
Total Death Benefits		
10 yrs.	$______	$______
20 yrs.	$______	$______

[If the illustration is particularly sensitive to changes in non-guaranteed elements and dividends other than interest, this fact should also be covered by the summary. For example, many illustrations of so-called "blended" or "modular" policy/rider combinations are quite sensitive to changes in mortality charges.]

3. Mandate a signed disclosure statement whereby the consumer acknowledges that he or she has read the illustration, understands it, and knows that non-guaranteed elements and dividends are not guaranteed. If an agent does not use an illustration, then require the agent to sign a statement attesting that an illustration was not used in the sales process.

4. To better identify items that should be regulated as illustrations, precisely define the term "sales illustration," including what it is intended to do and what it encompasses so that agents and companies will understand when regulations apply.

5. Make certain that a description of all policy types and all riders integral to the product being illustrated accompanies the illustration.

6. Require that illustrations show the first 20 years, year-by-year, plus years when significant policy changes may occur, such as premium reappearance, and, optionally, every fifth or 10th year increment to maturity. The figures should be rounded down to the lower hundred dollars.

7. In the case of vanishing premium illustrations, require, as recommended by the AAA, that:

- adequate disclosure of the vanishing concept be illustrated or footnoted,[4]

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2 i.e., for at least two years if current experience continues.
3 i.e., for at least two years if current experience continues.
4 The language recently recommended by the American Society of CLU and ChFC is a good example of adequate disclosure in this area.

- guaranteed and non-guaranteed elements and dividend values be illustrated based on a specified premium pattern, and

- the premiums necessary to maintain the original death benefit for all years under guaranteed assumptions be stated.

8. With respect to illustrations of second-to-die policies, require, as recommended by the AAA:

- a statement whether the policy values change at the first death, and if so, how they change,

- if values do change, a statement describing when the first death is illustrated to occur, and why this assumption was selected. An illustration should display the operation of the contract when both insureds are alive, and after the first death.

9. In illustrations of "blended" or "modular" policy/rider combinations, require, again as recommended by the AAA:

- clear disclosure of the "modular" structure in the illustration. Further, the values based on policy guarantees should be consistent with the premium pattern,

- disclosure of the current guaranteed premium for any applicable term coverage (whether provided by riders or dividends), and

- illustration of the annual cost of the total death benefit for all years, based on policy guarantees.

10. Provide, as recommended by the AAA, that sales illustrations should not be used by themselves for comparative policy performance and require the use of language similar to the following, as an explanation included in, or accompanying, illustrations.

> Sales illustrations should not be used by themselves to compare policies. Life insurance policies are complex financial instruments, which generally contain both guaranteed and nonguaranteed elements. A sales illustration may be helpful in understanding how a particular policy performs under specified circumstances. It is not feasible, however, to use sales illustrations alone to determine whether one policy is a better buy than another.
>
> Today's illustrations are not adequate for comparison purposes because it is generally impossible to obtain illustrations from different companies, or even for different policies of the same company, that are based on sufficiently similar factors to be comparable.
>
> This results from the fact that there are considerable differences among companies in the bases they use for various non-guaranteed elements and dividends and other pricing elements underlying their sales illustrations, and, at present, there is relatively little dissemination of information regarding these bases.
>
> Questions involved in selecting an insurance company require knowledge and analysis of assumptions; consideration of financial circumstances of the company; the quality and availability of service of the company and agent, and the individual policy provisions under consideration.

11. Delete the interest-adjusted cost indexes from point-of-sale illustrations and in the NAIC Model Buyer's Guide because these indexes are no longer useful for today's products. These index numbers can be useful for historical purposes, but there is no index that can be devised to adequately compare policies. This is because indexes are based on illustrations, and illustrations alone, as already explained, cannot be satisfactorily used to compare policies.

12. Require that if an agent provides the buyer with a self-prepared or third-party vendor software illustration, it must be accompanied by a company-prepared or endorsed illustration.

These recommendations are the result of the Task Force's experience in the field and its contact with consumers and their reaction to illustrations used in sales situations. Agents certainly have a responsibility to point out and discuss with their clients all relevant clarifying footnotes and disclosures on illustrations. But the raw material makes up the structure and content of the illustration itself, and we hope the foregoing recommendations are viewed as ways to constructively enhance the value of illustrations to agents and the public.

METZENBAUM LETTER TO NAIC

The minutes of the Nov. 8, 1992, Boston meeting of the NAIC Life Disclosure Working Group note that the formation of the Working Group was prompted in part by the letter of Sept. 18, 1992, from Sen. Howard M. Metzenbaum, Chairman of the U.S. Senate Judiciary Subcommittee on Antitrust, Monopolies and Business Rights, to the NAIC, regarding the adequacy of information disclosed or available to consumers of life insurance. The sense of the Working Group was that, consonant with the criticisms contained in the Senator's letter, the problems of life insurance illustrations and how they are used should be addressed.

In his letter, Senator Metzenbaum pointed to a number of specific problems he believes the NAIC should consider in the context of any discussion of life insurance illustrations. We believe that the recommendations we have made in this statement for the reform of illustrations will serve to answer many of the special problems of disclosure that the Senator raises. In addition, we have itemized below what appear to be some of the Senator's other major concerns, and have included with each what we believe might be a reasonable and appropriate NAIC response.

I. LIFE INSURANCE ILLUSTRATIONS CONTAIN NO CLEAR AND ACCURATE BREAKDOWN OF POLICY-RELATED ADMINISTRATIVE CHARGES AND OTHER EXPENSES, INCLUDING AGENTS' COMMISSIONS THAT CAN RANGE FROM 55 TO 105%.

Life insurance policies do not provide a breakdown year-by-year of the actual administrative charges and other expenses. Many policies do not specifically itemize such charges and expenses. If there is no direct charge for these expenses, it may even be misleading to the buyer for an insurer to make an attempt to isolate them. Even a policy that does have explicit expense charges may provide for absorption of some of these expenses through conservative margins in other policy elements (higher mortality charges or lower credited interest rates), or through surrender charges.

What is most relevant to the buyer is the disclosure of the guaranteed cash values and the cash values based on the current scale of dividends and non-guaranteed elements. The cash value may be derived from several elements:

(1) the premium that is paid;
(2) the mortality charges that are assessed;
(3) the expense charges that are assessed; and
(4) the interest that is credited.

It is the interaction of these elements that is important to the buyer. To isolate any one element will give the buyer an incomplete or misleading picture of the operation of the life insurance policy. A buyer of an auto wants to know the overall price of a car and its features and performance; not the price of individual components.

Dividend-paying policies, for example, may have no explicit mortality costs or expense charges. The dividend allocates back to the policyowner his or her share of divisible surplus based on contributions to surplus, or experience that is better than the guarantees. Dividends are not broken down for the policyholder by element so that the true mortality cost, expense charges or interest credits cannot be easily derived. However, the cash values resulting from this annual distribution are clearly displayed in the illustration.

One of the policy expenses mentioned in Senator Metzenbaum's letter is agents' commissions. This is an expense that should be considered in relation to the overall cost of the product to the buyer, as would be done in the case of other services (e.g., real estate sales), rather than as a percentage of the dollar amount of the first installment.

Consider an example of a male, age 45, who purchases a whole life policy with a face amount of $100,000. A typical annual premium for such a policy would be about $2300. The policy would be the kind that would accumulate cash values and pay dividends over the years. A policy issued at age 45 can be expected to remain in force, on the average, for a period of approximately 12 years, according to the Life Insurance Management and Research Association (LIMRA). During that time the insured would pay, in premiums, a total of $27,600.

A composite of the career agent's contracts of 48 New York and non-New York licensed life insurance companies, also developed by LIMRA, provides for a commission of an average of 53% of the first annual premium on a whole life policy, plus an additional 44%, spread out over the next nine years. Payment of the renewal commissions would be dependent on the payment by the policyholder of each renewal premium. Thus the agent would typically be paid a total of 97% of one annual premium, but over a 10-year period.

The agent will thus earn $1,219 when the policy is sold (53% x $2,300); in the aggregate, the agent will receive $2,231 of the $27,600 that the insured will pay in premiums over the 12 years the policy is in force (97% x $2,300). The agent will therefore have ultimately received 8.0% of the total premium in commission payments. Compare this with, for example, the real estate agent's commission, which is not only payable in toto immediately, but is based on a much higher dollar amount.

Not only will the life insurance agent's aggregate compensation be partially deferred over a period of 10 years, but it will also be contingent upon each annual renewal of the policy and the agent's continued employment. And in the event that the whole life policy should remain in force longer than the average of 12 years, the 8.0% paid to the agent would be commensurately reduced, so that, for example, should the policy be in force for 20 years, the agent's total compensation would be only 4.8% of the aggregate premiums paid.

The commission to be paid to the agent is no more relevant to the life insurance purchasing decision than would be knowledge of the profit margin of the seamstress in the purchase of a dress. The question is, "What does the insurance (or the garment) cost?," and the cost is a function of the premiums, the death benefit, and the cash value, if it is a permanent policy. Commissions are clearly an expense item, just as are other costs of distribution, administration, and policy service functions, such as medical examinations of applicants. Each carrier incorporates these costs into its pricing structure on both a guaranteed basis as well as in consideration of the non-guaranteed elements and dividends which are made possible by achieving better-than-guaranteed investment returns, mortality costs, and the aforementioned expenses.

The commission an agent receives, if required to be "revealed," is more than likely to confuse the process of selecting the best product, much as would occur if one decided to shop for clothing on the basis of a comparison of the profit margins of several different stores, or the salaries or sales commissions paid by those stores. The issue of commissions is a red herring. The essential issues for the buyer are, "What do I need, what does it cost me, and what is its value" Those are perfectly valid questions to pose about any good or service to be acquired.

II. THERE IS NO CLEAR INDICATION OF SURRENDER CHARGES.

Imposing surrender charges is one approach to the way in which a carrier can protect itself against termination of the policy too soon to recover its initial costs. If the carrier uses this method, the account value of the policy (the account into which premiums and interest are credited and against which mortality and other expenses are debited) is shown in the illustration along with the surrender value of the policy. The surrender value is easily determined as the account value minus that year's surrender charge. The surrender charge will typically persist for 10 to 20 years, and generally diminishes over time. Once the surrender charge has diminished to zero, the account value and the surrender value are the same. This should be clearly shown in the policy illustration.

A more traditional approach to incorporating the financial protection needed by the carrier in the event of early termination, is to charge all or most of the initial cost of issuing the policy against the cash surrender value of the policy over the first year or two. The surrender value of such a policy will typically be $0 in the first year, and cash values will begin to emerge in the second policy year.

III. THERE IS NO INDICATION WHICH POLICY BENEFITS ARE GUARANTEED.

The NAIC models and the majority of states that have adopted solicitation and disclosure rules require that illustrations indicate which policy benefits are guaranteed when non-guaranteed policy elements and dividends are illustrated, and these indications must be made with equal prominence. This has also become a common practice in the industry.

IV. THERE IS NO INDICATION HOW MANY YEARS IT WILL TAKE A REPLACING POLICY TO OFFSET THE LOSSES OF A REPLACED POLICY.

Life insurance replacement regulations attempt to deal with problems such as this in two ways: first, by requiring the replacing company to send a notice of the proposed replacement to the existing insurer, to give that insurer the opportunity to provide its policyholder with meaningful comparative information; second, by requiring that the policyholder be given a written notice to the effect that the wisdom of making a replacement cannot be determined without a careful comparison of the two policies. The notice urges the policyholder to hear both sides before making a decision.

Perhaps even a better answer can be found in the growing number of companies that now have in-force illustration systems which would demonstrate the value of insurance already in place.

In this area, the Senator's concerns are particularly well founded. Perhaps more work on the part of the NAIC is called for to regulate policy replacement, especially in light of the knowledge that there is presently one large national life insurance sales force at work that has seemingly dedicated itself to the deplorable mission of indiscriminately replacing every whole life policy in America, without making the kind of disclosure that the Senator feels is vital.

V. SALARIES AND BENEFITS FOR TOP EXECUTIVES NOT DISCLOSED

This information is available from several different sources for all companies doing business in the State of New York, as well as for stock carriers from their 10-K filings with the Securities and Exchange Commission. Variable life policies will reflect this information in the prospectus. In all cases this information is quite as irrelevant as the amount of commission being earned by the selling agent.

There are readily available policy performance histories which can be obtained from agents or from the public library, and this is far more relevant to the buyer than executive compensation would be.

* * *

NALU believes the implementation of the recommendations in this statement will assist agents to better communicate with, and serve, their clients and to help to prevent future unfortunate surprises and the complaints they engender from disappointed and disgruntled policyholders.

I would like to thank the Working Group for the opportunity to express NALU's thoughts on this matter of importance to policyholders, regulators, companies, agents, and indeed all consumers who are prospective purchasers of life insurance products. NALU is very concerned with the situation as it exists today and is anxious to work with the NAIC and its committees in an attempt to solve these serious problems with illustrations.

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ATTACHMENT ONE-D

Statement of American Academy of Actuaries Task Force
on Life Insurance Illustrations
to the NAIC Life Disclosure Working Group
March 8, 1993

I am Walter N. Miller, a vice president of the American Academy of Actuaries and chairman of its Life Practice Council. Our Task Force on Life Insurance Sales Illustrations reports to this council in the Academy structure.

At last December's NAIC meeting, our task force submitted its preliminary recommendations to the Life Disclosure Working Group. These recommendations were substantive and covered areas we think are suitable for immediate regulatory action, as well as a number of other items which we believe should be studied on a short- or long-term basis.

We hope that our proposals are receiving serious consideration by the Life Disclosure Working Group, and when I have finished this short statement I will certainly be glad to answer any questions you might have concerning our recommendations. We are also gratified to see that our proposals are receiving serious study by other groups working on illustration questions such as those that are represented here today. We believe that at least some of our recommendations will find support among these groups.

We are particularly pleased to see growing recognition of one very important concept that was developed in the comprehensive study conducted by our task force and commented on in the recommendations we submitted last December. This is that illustrations alone should not be used to compare policies, because of sometimes wide differences in the bases of different illustrations and other important reasons. We also recognized that it is not practically possible to legislate that illustrations should not be used alone to compare. It is, however, possible to educate agents and the public on this important point and we hope this task is specifically undertaken by everyone involved—regulators, companies, agents, actuaries and others.

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ATTACHMENT ONE-E

Report of the Former Technical Resources Group to the
NAIC Life Disclosure (A) Working Group
March 8, 1993

At the December 1992 NAIC Meeting in Atlanta, the Life Disclosure Working Group received a preliminary report from the Academy of Actuaries dealing with recommendations concerning illustration practices. The primary focus of the Academy's report was on changes of benefit to consumers. A secondary focus was on the improvement of illustration methodology. The Academy's recommendations fell into three categories:

1. Those it thought could and should be implemented quickly;
2. Those which would require more deliberate consideration and time for implementation, perhaps over the next few years; and
3. Those of a longer term, educational nature.

The Technical Resources Committee believed that an appropriate starting point for our own study of insurance policy disclosure was the report from the Academy of Actuaries. We approached our task with some trepidation since the subject of disclosure is one with such a long history within the industry and at the NAIC. We did not want to ignore the work of the past and the lessons learned previously.

But we do recognize that there are problems with illustrations that should be addressed. In that spirit, we have begun our critical examination of the recommendations of the Academy of Actuaries. At this stage we have not yet attempted to determine how the uniform adoption of existing NAIC model laws and regulations might already address these concerns. We are told by some of our members with long memories of these issues that some of the solutions to the problems confronting us already exist in these models.

Our Technical Resources Committee has held two meetings since the December 1992 NAIC meeting. While I would say we believe that we and the NAIC are at a very early stage in our study of these issues, we have reached some preliminary conclusions, as follow:

Vanishing Premium Illustrations

1. We agree in concept with the Academy's recommendations concerning vanishing premium illustrations. We think such illustrations should include an explanation that premiums only vanish if assumptions reflected in the illustration continue unchanged into the future, and that additional premiums may be required to keep the policy in force. Insurers should retain the discretion to provide this disclosure in any format, providing that it is reasonable and not misleading. The options suggested by the Academy for such disclosure, including footnotes, additional columns of numbers or multiple/alternative illustrations of the same contract under different assumptions or showing various premium scenarios would be among those that we believe are

appropriate. We believe that the language recommendation of the Society of CLU regarding vanishing premiums is also worthy of company consideration.

2. We agree that illustrations must be based on premiums which are consistent with death benefit patterns. Values that are dependent on the continuation of yearly out-of-pocket premium payments by the insured should be so illustrated.

3. Disclosure packages should include an illustration which shows the premiums necessary to maintain the original death benefit until maturity under the policy guarantees.

4. The Technical Resources Committee believes that the terminology "guaranteed values" remains the most appropriate for traditional life insurance. For non-traditional products, the phrase "values based on policy guarantees" is preferable.

Second-To-Die Policies

The Committee recognizes that there is a current problem with certain illustrations used in the "second-to-die" market. While this problem will likely disappear as more companies adopt a design that does not produce a cash value increase at the first death, we agree with the Academy's recommendations for second-to-die illustrations; namely, that a statement be provided as to whether policy values change at the first death, and if so, how they change. If values do change, the insurer would describe when the first death is illustrated to occur and why this assumption was selected (policyholder request, life expectancy of that insured, etc.). To be complete, the illustration should demonstrate the operation of the contract when both insureds are alive and after the first death.

We believe proper disclosure requires an explanation of what, if anything, happens at the first death. For example, it would be improper to compare cash values after the first death without also showing the same duration value, assuming both insureds are alive.

Also, if the first death affects the "vanish" point for premium payments, it is essential that this be disclosed.

Modular Policy Illustrations

1. These are policies that allow for different blends of term riders, paid-up addition riders and dividend options to provide an integrated package of benefits. We believe that every modular policy illustration should clearly disclose the modular structure (both initial premiums and initial death benefits) in the illustration. It should be clear from the illustration what portion of the original death benefit is guaranteed (whole life or single premium) and what portion is non-guaranteed (term insurance). The illustrated guaranteed values should be consistent with the illustrated premium pattern.

2. It is important to understand that these policies are sold as a package. While the proportion of whole life, term and paid-up additions may be flexible, once a given combination is selected (to produce a certain premium, death benefit or cash value pattern), it is acceptable to show results as a package. While further breakdown may be desired by some sophisticated individual purchasers, it should not be required for all. Companies should be willing to disclose guaranteed term premiums. With certain policies, however, term charges are not guaranteed but are incorporated in dividend scales. This is proprietary information which is not disclosed. This information is not likely to be helpful to consumers in any case, since current charges are no indication of what future charges will be.

3. The key concept for consumers to understand is that non-guaranteed elements are just that, non-guaranteed and vulnerable to change. Certainly this information should be disclosed, but not necessarily through the use of extensive numerical illustrations. We don't favor another illustration for this purpose. Appropriate narrative material would likely be easier to understand and more effective.

Two-Tier Policies

We would prefer to rename this "Multiple Benefit Policies" (including two-tiered policies). We believe it would be a mistake to develop solutions to problems directed at specific policy labels. Labels are too easy to change. The Technical Resources Committee believes that in the illustration of policies with multiple benefits, including those with life and annuity components, the inherent differences in availability of benefit components must be disclosed. This would include illustrating life insurance benefits with annuitization benefits; life insurance benefits illustrated with long-term care benefits, etc. Inherent difference in availability of benefits includes such things as: cash availability and annuitization-only availability; or other contingent-benefit availability (such as availability only upon impairments in activities of daily living). Benefits based on policy guarantees must be shown for every illustrated benefit based on current charges and credits.

Cost Comparison

We agree with the Academy that sales illustrations should not be used for comparative policy performance purposes. The utility of policy illustration is in demonstrating how a policy would perform given a certain set of assumptions. It is not an appropriate tool to use to measure one policy against the other. We see merit in the Academy's recommendation that the interest-adjusted cost index be deleted from point-of-sale illustrations, since these indices are generally used to compare policy costs. However, we want to consider this further.

It is important to stop and refocus here on what we are doing. We are looking at ways to improve life policy disclosure. The issue of cost comparisons has a long and colorful history within the industry and at the NAIC. We do not believe there is any need for us to duplicate the exhaustive work on this subject done over the years to competently and comprehensively address our current task.

Short-Term Recommendations

The Academy listed six items, recommended by one or another industry faction for industry-wide consideration. We have spent only a limited amount of time considering these suggestions and, therefore, our analysis is by no means completed. Nevertheless, we are prepared to share some preliminary reactions.

1. Disclosure of Assumptions. Assumptions underlying policy performance are quite complex. We have concerns about being able to explain, in an understandable way, the multitude of assumptions with a bearing on policy performance. One of our members is going to provide us with a historical retrospective of the issue to assist us in our consideration.

2. Standardized Earned-Rate Assumptions. The Committee does not favor standardized earned-rate assumptions. It would penalize well performing companies. Furthermore, it would do nothing to prevent the possible manipulation of other elements, with the same effect. We will have more to say on this at a later date.

3. Other sensitivity analysis. The non-guaranteed performance of a policy is generated by the interest, mortality and expense components. For a typical policy, over half of the non-guaranteed performance is derived from the interest component. But not all policies are so interest sensitive. Our members have reported seeing policies where the mortality component accounts for two-thirds of the non-guaranteed performance. There are other examples of this. There is also the cost of supporting an increasingly complicated illustration system. Finally, while sensitivity analysis may help a buyer understand there is more than one possible outcome, it will not identify inappropriate assumptions or flawed policy designs. We are, however, willing to review suggestions in this area.

4. & 5. Standardized Definitions. We are asking the Society of Actuaries to undertake the task of developing standardized definitions of terms and standardized notes.

Long-Term Changes

We agree that it is part of our collective challenge to better educate consumers, agents and company personnel. We will be following with interest any work by the Society of Actuaries on better methodologies for comparing companies and products. They are the appropriate group to undertake this major task.