LIFE INSURANCE (A) COMMITTEE

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David J. Lyons, Chair—Iowa
Robert M. Willis, Vice Chair—D.C.

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MINUTES

The Life Insurance (A) Committee met at 2 p.m. on March 7, 1994, to hold a hearing on two proposed models. David J. Lyons (Iowa) chaired the meeting.

1. Life Insurance (A) Committee Hearing on Nonforfeiture

Commissioner David Lyons (Iowa) convened the Life Insurance (A) Committee for the purpose of conducting a hearing on the Second Standard Nonforfeiture Law for Life Insurance and the Standard Nonforfeiture Law for Deferred Annuities. He said it had come to the attention of the regulators that there may be some flaws in these models that needed to be addressed, and he asked those commenting to be specific about what needed to be changed, cautioning the speakers that if they were not, the Life and Health Actuarial (Technical) Task Force would not know how to make changes.

Bill Carroll (American Council of Life Insurance—ACLI) said the ACLI did not believe the life insurance model should be adopted in its present form because it constituted rate regulation, especially in respect to non-traditional products, referred to as fund-based products. He said he thought it created an uneven playing field between traditional and non-traditional products. He said no testing had been done, and no standards have been developed by which one would know if the test passed or failed if one was done. Mr. Carroll also reminded the regulators of the importance of having uniform nonforfeiture regulation throughout the states and expressed concern that the possibility of this model being uniformly adopted was poor.

Regarding the annuity nonforfeiture model, he said there was less concern, but a few areas need alterations. He saw a reference to the Employee Retirement Income Security Act (ERISA) in the Scope section as a problem because the implications were not well-defined. The other problem he pointed out had to do with the 10% differential allowed between the account value and the cash surrender value. The theoretical basis for this percentage should be laid out so one would know how that percentage was derived.

Barbara Lautzenheiser (Lautzenheiser and Associates) said the annuity model did not go far enough in its detail, particularly with respect to two-tier annuities. Companies need to be able to provide innovative products. Continuing policyholders should not be penalized by granting excessive nonforfeiture values to terminating policyholders. She said the problems with the annuity nonforfeiture law were very significant because one of the next crises in the United States is likely to be in the area of retirement funding. People need to be able to invest long-term in annuities. She said that the current draft has a better result for insurance for investment as opposed to insurance for retirement.

With regard to the life nonforfeiture model, Ms. Lautzenheiser saw the main problem as the difference between the fund-based (universal life) policies and the non-fund-based products. She said that minimum values should be set, not total values, which is rate regulation, and there should be common formulas for both fund-based and non-fund-based products and common assumptions and expense factors.

Commissioner Dwight K. Bartlett III (Md.) asked if either of the first two speakers could set out what the criteria for testing should be. Ms. Lautzenheiser responded that the criteria should be set for minimum cash values and that they be the same for fund-based and non-fund-based plans. It was her understanding that the purpose of the draft had been to bring fund-based plans into the standards. Commissioner Bartlett agreed that it had been his understanding all along that the task was to develop minimum cash values. Ms. Lautzenheiser agreed that had been the original intent, but the current formula controls all cash values for fund-based plans, not just minimum cash values. Ted Becker (Texas) asked if Ms. Lautzenheiser was talking about the "smoothness" requirements in the draft and she responded in the affirmative. She said the requirements in the draft were policy design rather than just minimum cash values. Reginald Berry (D.C.) expressed concern about the allegation that this was tantamount to rate regulation. He asked the speakers to explain how and why they thought rate regulation was occurring. Ms. Lautzenheiser responded that explicit expenses, mortality, and interest and the cap on the bonus were all explicit rate regulation. Mr. Becker said he did not understand why minimum values and rate regulation were diametrically opposed. Ms. Lautzenheiser responded that rate regulation occurs when all values were controlled. She said a minimum nonforfeiture law does not put any caps on those things that are a function of experience.

George Coleman (Prudential) said the original purpose of the life nonforfeiture model had been to address concerns with universal life products, but the ideas and criteria have changed over the years. The last approach he found acceptable had been drafted by John Montgomery (Calif.). He said the current draft is considerably more complex than the Standard Nonforfeiture Law for Life Insurance and recommended the current proposal be withdrawn.

Andy Ware (Northwestern Mutual Life) said he was speaking as the chair of the American Academy of Actuaries Committee on Life Insurance, commenting on the Second Standard Nonforfeiture Law for Life Insurance. He said the Academy's major concern was with the adequacy of the maximum charges. If a company is prohibited from making expense and mortality charges with adequate margins for adverse circumstances, then that company is more likely to be in danger of running into financial problems. He suggested a study of the adequacy of the charges and said the Society of Actuaries would be willing to do this study.

Brad Barks (Life USA) commented that there were many good building blocks on the models, but there had not been good objectives identified. He said in the life draft this has resulted in treating fundamentally similar products differently. The current draft limits product design, which may prevent insurers from addressing consumer needs in the future.

Mr. Barks next turned to the annuity law. He focused particularly on the 10% limit on the differential between the cash value and the account value. He said that differential will eliminate two-tier annuities. Mr. Barks said there have been no significant problems in the 10 years these products have been on the market. He said agent misrepresentations cause most of the problems and that could be addressed without outlawing the products. The annuity nonforfeiture law allows annuities with no cash values to have payouts without restrictions. He said if a company wanted to offer an emergency cash value (two-tier annuity) the draft law immediately and strictly limits the annuity benefits, based on the cash value. He said he did not understand why the availability of a cash value should cause these types of limitations to be placed.

Mr. Berry said he wrote to Life USA and asked five specific questions. The first of these was if the account value - cash surrender value differential was equal to the marketing expenses and is that equitable? Mr. Barks responded that the expense allowances were there to give the company the ability to limit the risk of early lapsation. Mr. Berry asked if it was equitable to take money from people who entered into contracts for the purpose of annuitizing and redistribute that money to persons who entered into contracts for the purpose of investing in a short-term investment until something better comes along. Mr. Barks did not think that was equitable. He thought it was similar to a bank paying the same rate on short-term and long-term certificates of deposit.

Roger Wiard-Bauer (Life USA) discussed a set of graphs that showed how the 10% cap in the annuity model would limit consumer choice.

Jim Hunt (National Insurance Consumer Organization—NICO) pointed out that there is a link between what is being discussed on illustrations and the minimum guaranteed nonforfeiture values. He expressed disappointment that the group had been unable to deal with that issue. He said he was prepared to argue the point made by Ms. Lautzenheiser that continuing policyholders should not be penalized. He said there is a corollary to the statement that continuing policyholders should not profit at the expense of terminating policyholders. He said that the insurance industry today is rife with lapse-supported pricing.

Jim Van Elsson (Allied Life) spoke in favor of even treatment of policyholders with universal life as compared to those with whole life policies.

Mr. Becker said the Life and Health Actuarial (Technical) Task Force would respond to the comments in detail. Commissioner Lyons asked anyone who had written testimony to send it to Carolyn Johnson (NAIC/SSO) so it could be distributed to the members of the Life Insurance (A) Committee before being forwarded to the Life and Health Actuarial (Technical) Task Force.

The hearing portion of the meeting adjourned at 3:10 p.m.

The Life Insurance (A) Committee reconvened in Colorado F of the Marriott Hotel in Denver, Colo., at 2 p.m. on March 8, 1994. A quorum was present and David J. Lyons (Iowa) chaired the meeting. The following committee members or their representatives were present: Robert M. Willis, Vice Chair (D.C.); James H. Dill (Ala.); Dwight K. Bartlett, III (Md.); Harold T. Duryee (Ohio); J. Robert Hunter (Texas); and Steven T. Foster (Va.).

2. Reappoint Working Groups

Commissioner Lyons announced that he had reappointed the working groups on Life Disclosure, Viatical Settlement and Synthetic GICs. He said he would wait to hear the report of the Unfunded Checking Accounts Working Group to see whether it was necessary to reappoint that working group to continue during the rest of 1994.

3. Report of the Unfunded Checking Accounts Working Group

Rhonda Myron (Texas) gave the report of the working group for Mary Alice Bjork (Ore.), chair of the working group. Ms. Myron said that the working group had determined the best approach to the problem of unfunded checking accounts was to prepare a bulletin, and she summarized the contents of that bulletin for the members of the committee. Upon motion duly made and seconded, the report of the working group, including the sample bulletin, was adopted (Attachment One). Commissioner Lyons asked Ms. Myron if there was a further task for the working group or whether it should be disbanded. Ms. Myron said the working group felt that its task was completed. Commissioner Lyons thanked the working group for its efforts and said it was a job well done.

4. Report of the Viatical Settlement Working Group

Roger Strauss (Iowa) gave the report of the Viatical Settlement Working Group. He said an initial draft of a model regulation had been prepared after the December National Meeting and distributed to interested parties. At the working group meeting March 6, comments were received. Mr. Strauss said the working group also was asking for written comments within the next 30 days. Upon motion duly made and seconded, the report of the Viatical Settlement Working Group was adopted (Attachment Two).

5. Report of the Synthetic GIC Working Group

Commissioner Robert Willis (D.C.) and Mr. Berry gave the report of the Synthetic GIC Working Group. Mr. Berry reported that on Feb. 15, 1994, there had been a meeting at the NAIC offices in Washington, D.C., of the working group members and interested parties. Commissioner Willis posed six questions to those in attendance. The questions are included in a letter from Commissioner Willis (Attachment Three). Commissioner Willis also made four recommendations to the Life Insurance (A) Committee, which are contained in the letter. He provided the working group members with materials on guaranteed interest contracts (GICs). He said the issue regarding the general account exposure was the most important, and there were ways to meet the regulatory concerns for larger companies but a greater concern was the smaller companies. Commissioner Willis said he would continue to meet with the interested parties to grapple with the technical aspects of the issues. He expected to present a final report with recommendations to the Life Insurance (A) Committee by the end of the year. Upon a motion duly made and seconded, the report of the Synthetic GIC Working Group was adopted.

6. Report of the Life Disclosure Working Group

Bob Wright (Va.) gave the report of the working group. He said a decision had been made at the meeting on March 5 that the appropriate illustration should show only policy guarantees and past performance compared to a common index. He said he realized this approach was not favored by the technical resource group, but the working group believed it was very unlikely that illustrations could be made understandable using current scale assumptions. He said the working group believed the modifications suggested by the technical resource advisors were not adequate; it was time for a new approach. The goal of the working group is to have a revised model law and a regulation for exposure at the June National Meeting. Mr. Wright said he did not think this was necessarily an ideal solution but there did not appear to be a better alternative at the current time. Commissioner Lyons pointed out that adopting the report of the working group would authorize the working group to go forward with this approach and Commissioner Lyons said he supported the work of the Life Disclosure Working Group and realized that it would make changes to the way insurance is sold.

Commissioner Willis expressed concern that the direction in which the working group was headed might be an overcorrection. He wondered if the industry had done the best that it could to show the committee the approach it recommended. He asked if the approach being followed by the working group would actually meet the needs of consumers. Commissioner Willis challenged the industry representatives to do a better job at describing the approach they favored. He expressed concern that the NAIC was becoming involved in the design of products. He said he understood how the working group had come to this point but he did not see this as an appropriate NAIC role. Commissioner Willis also expressed concern about the decision to reflect past performance. He said the illustration should be based on the actual experience of that year. If illustrations reach back, they may not be illustrating the same product. He wondered if the approach of the working group was moving from the ambit of regulator to "quasi-insurer." Commissioner Willis emphasized that he was not downgrading the work that had been accomplished by the Life Disclosure Working Group. Given what has happened, it was an appropriate response.

Commissioner Bartlett said it was his opinion that the working group was treating a symptom rather than a cause. He saw the cause as lack of standards for current assumptions.

Mr. Wright made a motion to adopt the report of the working group. Mr. Wright then agreed to a friendly amendment by Commissioner Willis to include the point that the industry be encouraged to present more alternatives. Commissioner Lyons asked if there were any comments from the audience.

Mr. Coleman spoke as a representative of the resource group. He said that at the working group meeting March 7 he had expressed disappointment, frustration and confusion. He reviewed, for the Life Insurance (A) Committee, some of the comments he had made to the Life Disclosure Working Group. He requested a forum with members of the working group, consumers and technical resource advisors to review the technical resource advisors' proposal. Scott Cipinko (National Association of Life Companies—NALC) expressed concern on behalf of small and medium companies. He said the ability to illustrate new products was taken away by the decision of the working group and he expressed concern that a fiduciary duty had been thrust upon the insurance agent. He also saw the decision as denying the use of the available technology. Ms. Lautzenheiser said that the cure will be worse than the disease. Life insurance is one of the few products that is cheaper now than it was 30 years ago. She said the decision of the working group would change product design. The suggestions of the resource group did address the issue of standards, but there needs to be time for actuaries to develop these. She also reinforced the suggestion for more dialogue on a page-by-page manner upon the resource group's suggestions. Bill Fisher (Massachusetts Mutual) said it would be a serious mistake to move ahead with the concept until it has been refined and defined.

Commissioner Lyons pointed out that if the experts in the insurance department, the interested parties, and the consumer representatives were placed in a room together to agree upon a plan, they would probably be the only ones who would understand it. He expressed his support for the project of the working group and his appreciation for the timely manner in which it had presented the alternatives. He said that he intended to vote to allow the working group to continue upon the path that it had chosen while remaining receptive to any additional proposals suggested by the interested parties. Commissioner Lyons asked for a vote on the report of the Life Disclosure Working Group, and the report was adopted (Attachment Four).

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

Commissioner Bartlett reported that the Life and Health Actuarial (Technical) Task Force had met several times by conference call and plans to meet in Kansas City in April. Mr. Becker added that there was a recommendation to include on the list of priorities a project on the actuarial aspects of synthetic GICs. Commissioner Lyons asked if this would be coordinated with the Synthetic GIC Working Group, and Mr. Becker responded that because Mr. Berry was a member of the task force, this would not be difficult to do. Upon motion duly made and seconded, the report of the Life and Health Actuarial (Technical) Task Force was adopted.

8. Any Other Matters Brought Before the Committee

Commissioner Lyons said that one of the charges given to the A Committee was to consider the issue of genetic testing and its role in life insurance. Commissioner Lyons said he felt this issue was too technical to be dealt with by the entire committee so he had asked for volunteers interested in becoming part of a working group to address the issue. He then appointed a working group to be chaired by Ohio and to include Alaska, Illinois, Oregon and Utah. Commissioner Lyons asked Bob Katz (Ohio) if he thought it would be possible to provide an outline of the problem in a white paper format by the June National Meeting. Mr. Katz agreed to this assignment.

Having no further business, the Life Insurance (A) Committee adjourned at 2:50 p.m.

David J. Lyons, Chair, Iowa; Robert M. Willis, Vice Chair, D.C.; James H. Dill, Ala.; Dwight K. Bartlett, Md.; Harold T. Duryee, Ohio; Kerry Barnett, Ore.; J. Robert Hunter, Texas; Steven T. Foster, Va.; Deborah Senn, Wash.

ATTACHMENT ONE

Unfunded Checking Accounts Working Group
of the Life Insurance (A) Committee
Denver, Colorado
March 7, 1994

The Unfunded Checking Accounts Working Group of the Life Insurance (A) Committee met in Colorado G/H of the Marriott Hotel in Denver, Colo., at 9 a.m. on March 7, 1994. A quorum was present and Mary Alice Bjork (Ore.) chaired the meeting. The following working group members or their representatives were present: Rhonda Myron (Texas); and Shawn Bryan (Vt.).

Upon motion duly made and seconded, the minutes of the Feb. 15, 1994, conference call were adopted as written (Attachment One-B).

Ms. Bjork summarized the changes made to the draft bulletin in response to the suggestions that had been received. One change that she highlighted was in reference to the guaranty associations. She said this was a complicated issue because some states mandate disclosure of guaranty fund coverage and other states prohibit it. The drafters removed all discussion of the guaranty association from the draft bulletin.

Ms. Bjork said that consumer representatives had suggested the word "should" be replaced with "shall." She said in a law or statute it was appropriate to use the word "shall" but "should" was more appropriate for a bulletin.

Gerry Goldsholle (Advice and Counsel) sent a letter to the working group proposing four changes. Shawn Bryan (Vt.) reviewed the four proposed changes for the working group. He said that a suggestion was made to add in the first subsection, "these accounts <u>which provide valuable benefits to beneficiaries</u>, are designed...." Mr. Bryan said that he did not believe it was appropriate to add this phrase to the bulletin. A bulletin's purpose was not to pass judgment on the value of a product.

The suggestions from Mr. Goldsholle included a change to Paragraph B(1) to revise the provision that says the options are preserved until the entire balance is withdrawn and to replace that with "at least one year." Mr. Bryan did not recommend adding this provision to the bulletin. He thought it was important to keep all the options open. He pointed out that the working group had compromised already by including a provision to end the option when the balance dropped below the insurer's minimum payment requirements. Members of the working group agreed that it was not appropriate to add that language to the draft.

In Subsection B(2) Mr. Goldsholle suggested changing in the last sentence, "phone number <u>or</u> address" to "phone number <u>and</u> address." Mr. Bryan thought it was an appropriate change and other members of the working group agreed. Mr. Bryan said that another suggestion was made to change Subsection C to remove a reference to interest on other options. Mr. Goldsholle's reasoning was that some of the options such as annuities might not have a disclosable interest rate. Mr. Goldsholle also had suggested adding another sentence about getting information on other settlement options. Rhonda Myron (Texas) agreed with the changes because many options did not have an interest rate.

Jon Stubenvoll (OSPIRG) said, as a consumer representative, he preferred leaving the draft as it was. He thought it was important to let the consumers decide and erring on the side of giving too much information was more appropriate than removing information. The consumer needs to understand that the checking account was just one of many options.

Julie Spiezio (American Council of Life Insurance—ACLI) agreed that it was important to get as much valuable information to consumers as possible. She suggested maybe the problem was with where the information was presented: perhaps it should be moved into Subsection B(1). Mr. Bryan agreed that Subsection C was the wrong place to provide this information and suggested adding another paragraph to Subsection B. Working group members agreed to draft another paragraph pointing out the requirement to give information about other options.

Don Switzer (Ark.) said that the term "paid" was used in several places in the draft bulletin. In his state's law, actual physical receipt of the money was required by statute, so receipt of a checkbook would not be considered payment under Arkansas state law. Ms. Bjork responded that readers should keep in mind that this was a draft bulletin about what the department would look for in a market conduct examination. Each state would tailor the bulletin to its own laws. Mr. Switzer suggested adding a drafting note to point out the difference in state laws on prompt payment, and the working group agreed.

James Hunt (National Insurance Consumers Organization—NICO) asked what protections were included in the draft bulletin for learning about the difference in interest rate when the insurer kept the funds on deposit in the regular old-fashioned way. Ms. Bjork responded that the change agreed upon requiring disclosure of information on other options would take care of this problem. Mr. Hunt asked about why there was a different rate of interest paid on the checkbook option and the money retained by the insurer on deposit. Dick Baker (Allmerica Financial) pointed out that the checking account was a demand deposit. The different interest rate that might be paid was due to the difference in short-term money and long-term money.

Mr. Stubenvoll suggested adding information that required the consumers to make an affirmative choice of the checkbook. Ms. Spiezio responded that she saw that as a problem. The majority of insurers pay the sum by way of checkbook as a death benefit. It was never intended as something that beneficiaries would affirmatively decide upon.

Mr. Bryan said that he was pleased with the draft bulletin as it had been prepared and thought that it achieved its purpose of providing information about other options and provided for a supplemental contract. He thought disclosure of the other options was important. The tone of the bulletin was to set standards for market conduct examinations. Upon motion duly made and seconded, the working group adopted the draft bulletin with the changes outlined (Attachment One-A).

Having no further business, the Unfunded Checking Accounts Working Group adjourned at 9:45 a.m.

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ATTACHMENT ONE-A

Retained Asset Accounts Sample Bulletin

TO: All Life Insurers Licensed to Write Business in [State]
FROM: [Commissioner, Director, Superintendent]
DATE: [Insert Date]
RE: Retained Asset Accounts

The purpose of this bulletin is to set forth the procedures this department expects to see in place in regard to the settlement of life insurance proceeds through the mechanism known by the term "retained asset accounts." These accounts are designed to be a temporary repository of funds while the beneficiary considers the available options. While the majority of insurers handle these accounts in an appropriate manner, the potential for misunderstanding is present. In market conduct examinations and handling of complaints these are the procedures the department will expect to find in place:

A. Supplemental Contract

If the insurer offers the beneficiary settlement options other than immediate cash payment of the full benefit amount, the insurer should provide the beneficiary with a supplemental contract that clearly discloses the rights and obligations of both the beneficiary and the insurer with respect to the benefit.

B. Disclosure

(1) The "Checkbook"

Literature describing the settlement options should clearly disclose that payment of the total proceeds is accomplished by delivery of a "checkbook," if that is the case. It should be disclosed to the beneficiary that one check can be written to access the entire proceeds, and that the other options are preserved until the entire balance is withdrawn or the balance drops below the insurers' minimum payment requirements.

Drafting Note: In some states payment is not considered made until actual physical receipt of the proceeds. The above paragraph should be changed as required by state law.

(2) The Account

The insurer should disclose whether the account is a checking or draft account and explain the account's features. The disclosure document should include information about what banking services are provided to the account holder and by whom. It should be clearly stated which services are provided at no charge, and which services involve a fee. The nature and frequency of statements should be disclosed. The disclosure document should also provide a phone number and address where the beneficiary can obtain additional information and answers to questions.

(3) Tax Implications

The disclosure information should indicate that there may be tax on the interest earned on the account, and the beneficiary should consult his or her tax advisor.

(4) Other Options

Literature describing the settlement options should clearly disclose what other options are available under the policy. Where appropriate, the interest rate being paid under those options should also be disclosed.

C. Interest

The insurer should disclose the interest rate being paid under the retained asset account. The disclosure should include a description of how the interest rate is determined and how it is credited to the account.

D. Accounting

The funds necessary to cover liabilities under these accounts shall be reported on the annual statement as required by the *Accounting Practices and Procedures Manual* of the National Association of Insurance Commissioners.

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ATTACHMENT ONE-B

Unfunded Checking Account Working Group
of the Life Insurance (A) Committee
Conference Call
February 15, 1994

The Unfunded Checking Account Working Group of the Life Insurance (A) Committee met by conference call on Feb. 15, 1994, at 2 p.m. Participating were: Mary Alice Bjork, Chair (Ore.); Beth Hill (Texas); and Shawn Bryan (Vt.). Carolyn Johnson (NAIC/SSO) also participated in the call.

Mary Alice Bjork (Ore.) called the meeting to order and said the purpose of this conference call was to consider the comments received on the sample bulletin draft exposed in December 1993. Ms. Bjork suggested going through the draft considering the comments made on each section.

Several comments were received suggesting that the term "unfunded checking accounts" be deleted and replaced with "retained asset accounts." The working group decided to change the title to retained asset accounts and delete the other terms from the draft. Another comment received was a suggestion to replace the word "should" with "shall." The members of the working group decided it was more appropriate in the context of a bulletin to use the word "should," saving the word "shall" for statutes and regulations. Next the drafters considered the issue of keeping the other options open in the case of delivery of the checkbook. Shawn Bryan (Vt.) said he had received a visit from insurer representatives in his state and they commented on this section also. They did not see any problem with keeping the options open, but did express a desire to be able to apply their rules about minimum balances. The working group decided to leave the provision as written but add a clause ending the option when the balance dropped below a set amount.

The next issue of discussion was whether or not disclosure should include the lack of Federal Deposit Insurance Corporation (FDIC) protection. This had not been well received by those commenting on the draft. The members of the working group decided that the same purpose could be served by a disclosure of the type of account that was available. The insurer should disclose whether the account was a checking or draft account and explain what the differences were.

The next issue to be considered was guaranty fund protection. The working group agreed with the commentors that it was inappropriate to disclose the statutory limit of guaranty fund protection in the state, so this provision was deleted. One suggestion received had been to require instead a disclosure statement about guaranty fund protection which is required by law in some states. The drafters decided not to include this in the draft.

The next section of the draft spoke of the tax implications of the unfunded checking account. The group decided it would be more appropriate to put in a specific statement about what would be taxable rather than just saying that there might be tax implications.

The December draft specified the interest rate that should be paid, and the working group agreed that it was probably not appropriate to dictate the rate of interest. The working group decided it was more appropriate to require disclosure of the rate of interest and so a paragraph was added to do that.

The accounting section was changed to refer to the NAIC's *Accounting Practices and Procedures Manual* to avoid any possibility of conflict with that document. The comments received from Metropolitan Life Insurance added some suggestions for disclosure and the working group decided that these were appropriate additions to the bulletin.

Ms. Bjork asked if there were any additional issues that the working group should consider. Mr. Bryan suggested that the bulletin should include a requirement that the provision for the account be a supplemental contract. He said the nature of the transaction was such that if the beneficiary did not take possession of the funds there might be a question of what the relationship of the beneficiary was to the insurer. He reported that many insurers require a signed supplemental contract before funds are paid over so the beneficiary affirmatively accepts the agreement. He considered this to be appropriate. Beth Hill (Texas) suggested adding a section to the draft on supplemental contracts and Mr. Bryan agreed to draft such a provision.

Having no further business, the Unfunded Checking Account Working Group adjourned at 2:50 p.m.

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ATTACHMENT TWO

Viatical Settlement Working Group
of the Life Insurance (A) Committee
Denver, Colorado
March 6, 1994

The Viatical Settlement Working Group of the Life Insurance (A) Committee met in Nat Hills of the Marriott Hotel in Denver, Colo., at 8 a.m. on March 6, 1994. A quorum was present and Roger Strauss (Iowa) chaired the meeting. The following working group members were present: Don Koch (Alaska); Reginald Berry (D.C.); Mary Alice Bjork (Ore.); Rhonda Myron (Texas); and Bob Wright (Va.).

1. Consideration of Minutes

The minutes of the Feb. 16, 1994, conference call were adopted as written (Attachment Two-B).

2. Consideration of Model Regulation

Roger Strauss (Iowa) asked for comments from regulators on sections of the Viatical Settlements Model Regulation draft. Jacqueline Hughes (Vt.) asked where the percentages in Section 4 had come from. Mr. Strauss replied that the working group had thought that a 10% return on a six-month investment seemed like a good return. Ms. Hughes asked if the drafters had thought of adding any limits to what a broker could receive as a commission. Tony Higgins (N.C.) suggested that if there was a limit set on the amount of the discount this indirectly set a cap on commissions. Mr. Strauss recommended adding to the heading on the minimum discounts in Section 4 that the minimum percentage of face value should be less outstanding loans, and this was added to the draft. Don Switzer (Ark.) said it seemed to him that the percentages were reversed. If a viator had a longer life span, he would have a greater need for money and the way the draft was structured he would actually get a smaller percentage if his life span was longer. Katherine Campbell (Alaska) responded that the person providing the funds has to get a return on his money and if he is going to provide the money for a longer period of time he should be recompensed appropriately. Mr. Switzer also asked why a regulation was referring to A.M. Best or other services because the insurance departments had actuaries and others available to them. Mr. Strauss responded that it had seemed to the drafting group that there should be a deduction if the company was not highly rated and referring to one of the services seemed appropriate. Hearing no further comments from regulators Mr. Strauss opened the floor to other interested parties.

Parker Willson (National Viatical Association) said that it seemed to him that setting discount rates was a way of setting prices. He asked if an attorney present in the room would venture an opinion as to whether the group was getting close to or was engaging in price fixing. Hearing no comment, he said that he would not participate in the discussion because he did not want to be involved in price fixing. John Banks (Viaticus) said he represented a viatical settlement company and asked why the drafters were setting minimum rates at all. He asked what the impact would be. Mr. Strauss responded that the impact would be that the viator would get a reasonable return for his policy. Mr. Banks responded that the returns on viatical settlement policies were now similar to any start-up business. He said that the problem with Section 4 was that it would be difficult to get a physician to say how long someone would live. Mr. Strauss asked Mr. Banks to explain exactly how his viatical settlement company worked. Mr. Banks responded that two physicians would look at the medical records and give an opinion of how long the individual's life expectancy might be. He said a doctor would not give an exact number but rather a range.

Reginald Berry (D.C.) suggested that basically the viatical settlement companies were underwriting. He asked if they were making payments based on their own experience or industry experience. Mr. Banks responded that he only knew about the experience in his own company. Rhonda Myron (Texas) said that if the regulators were going to examine this section they needed more information. Mr. Banks asked what information they needed and what they would do with the information. Mr. Strauss responded that the information would help the working group decide if the numbers that had been included in the draft were reasonable. Bob Wright (Va.) said the working group had been asking for over a year for this type of information. The working group had been told that there were industry standards but they had not received these in writing. Without having more information, the working group had to set rather arbitrary standards. Mr. Strauss quoted a paragraph from an article in the *National Underwriter* that said individuals with a life expectancy of six months generally got about 80% of the face value of their policy and viators with a four-year life expectancy generally received around 40%.

Commissioner David Lyons (Iowa) asked why the commentors thought that the working group was engaged in price fixing. He said there were many instances where insurance regulators had set minimums on returns.

Cynthia Martin (Mass.) said that the Accelerated Benefits Model Regulation had a 12-month period without any tiers and suggested the working group consider doing the same thing with this regulation.

Mr. Banks said that in a mature industry he could see setting these kinds of limits, but not in a start-up industry. He said the best way to prevent market abuse was to have a lot of capital flowing into the industry. Mr. Banks said that he thoroughly encouraged the disclosure part of the regulation but did not feel it needed to go further than that.

Commissioner Lyons asked when the first viatical settlement company was established, and Mr. Banks responded that he believed it had been 1989. Commissioner Lyons asked how many players were now in the market. Mr. Willson responded that there were 54 viatical companies at the current time. Commissioner Lyons said that one way to determine or to describe a mature market was that there was competition and that start-up markets did not have much competition. It seemed to him that there was a great deal of competition if there were 54 companies involved. He also had been led to understand that there was an international market for viatical settlement companies.

Mr. Berry said that he did not believe that he was in favor of a position that guaranteed investors a good return on their money. He was more interested in protecting the individual viators.

Carol Ostapchuk (Fla.) described the bill that was pending in her state's legislature. The Florida bill concentrated on disclosure and prior approval of contracts and would license brokers and companies. She said in Florida they did not think there was enough information available to set minimum discounts. Florida plans to include in a regulation a mechanism to collect data on settlements and will then review whether it is necessary to set standards for the discounts on viatical settlements.

David Reddick (Ind.) reported that Indiana had just passed a bill in the past week that regulated viatical settlement companies in a manner similar to the California law.

Mr. Willson asked what the purpose of Section 5C was where a referral fee was denied to a physician or attorney or accountant. He said that many people do not know what a viatical settlement is and a doctor would be doing a great service to explain to his patient about viatical settlements. Commissioner Lyons responded that a doctor should be referring a patient to a viatical settlement company in the patient's best interest, not the doctor's.

Robert Callahan (N.Y.) reported that a regulation had been drafted in New York and would be ready for formal exposure next week. He said that, as currently proposed, the New York regulation requires disclosure of the price paid for a viatical settlement as part of an exhibit to the company's annual statement. Because it is part of the annual statement the amounts paid will become public information.

Commissioner Lyons summarized by stating that when dealing with an industry that had not been regulated before, he was not surprised to see individuals interested in zealous protection of their industry. He said they should not be surprised to find regulators trying to zealously protect the interests of the viators. He thought it was important to note that on the issues of disclosure and enforcement the industry and the regulators were in basic agreement. He said the three aspects of regulation were all important and he reinforced the desire of the working group to provide for disclosure, enforcement and minimum value. He invited the industry to tell the working group if they were wrong on how to measure minimum value.

Mr. Willson said the viatical industry was in the process of becoming a self-regulatory industry. He offered to provide the members of the working group and interested parties with a packet of information on the viatical industry.

Mr. Strauss invited written comments on the model regulation (Attachment Two-A) and asked that those comments be sent to Carolyn Johnson (NAIC/SSO) within 30 days.

Having no further business, the Viatical Settlement Working Group adjourned at 9:50 a.m.

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ATTACHMENT TWO-A

VIATICAL SETTLEMENTS MODEL REGULATION
Draft: 3/6/94

Table of Contents

Section 1. License Requirements for Viatical Settlement Providers
Section 2. License Requirements for Viatical Settlement Brokers
Section 3. Other Requirements for Brokers
Section 4. Standards for Evaluation of Reasonable Payments
Section 5. General Rules

Section 1. License Requirements for Viatical Settlement Providers

A viatical settlement provider, as defined in [insert reference to Section 2 of Viatical Settlement Act], shall not enter into or solicit a viatical settlement contract without first obtaining a license from the commissioner.

A. The application shall be on a form required by the commissioner.

B. Only those individuals named in the application may act as viatical settlement providers.

C. The commissioner may ask for such additional information as is necessary to determine whether the applicant complies with the requirements of Section [insert reference to Section 3 of Viatical Settlement Act].

Section 2. License Requirements for Viatical Settlement Brokers

A viatical settlement broker shall not solicit a viatical settlement contract without first obtaining a license from the commissioner.

A. A viatical settlement broker shall make application on a form required by the commissioner.

B. The application shall be accompanied by a fee of $[insert amount]. The license may be renewed yearly by payment of a fee of $[insert amount]. Failure to pay the renewal fee within the time prescribed shall result in automatic revocation of the license.

C. The license shall be a limited license which allows solicitation only of viatical settlements.

D. Prelicensing education and continuing education required of other agents and brokers in Section [insert section] shall not apply to viatical settlement brokers.

Drafting Note: Delete Subsection D if the state does not require prelicensing and continuing education.

E. Viatical settlement brokers shall acquire and maintain a surety in the amount of $[insert amount]. A copy of the executed bond shall be filed with the commissioner at the time of application for a license.

F. The commissioner shall have the right to suspend, revoke or refuse to renew the license of any viatical settlement broker if the commissioner finds that:

(1) There was any misrepresentation in the application for a license;

(2) The broker has been found guilty of fraudulent or dishonest practices, has been found guilty of a felony or any misdemeanor of which criminal fraud is an element, or is otherwise shown to be untrustworthy or incompetent; or

(3) The licensee has violated any of the provisions of this Act.

G. Before the commissioner shall deny a license application or suspend, revoke or fail to renew the license of a viatical settlement broker, the commissioner shall conduct a hearing in accordance with [cite the state's administrative procedure act].

Section 3. Other Requirements for Brokers

A. In the absence of a written agreement making the broker the viator's agent, viatical settlement brokers shall be presumed to be agents of viatical settlement providers.

B. Viatical settlement brokers shall not, without the written agreement of the viator obtained prior to performing any services in connection with a viatical settlement, seek or obtain any compensation from the viator.

Section 4. Standards for Evaluation of Reasonable Payments

In order to assure that viators receive a reasonable return for viaticating an insurance policy, the following shall be minimum discounts:

Insured's Life Expectancy	Minimum Percentage of Face Value Less Outstanding Loans Received by Viator
Less than 6 months	[90%]
At least 6 but less than 12 months	[85%]
At least 12 but less than 18 months	[75%]
Eighteen months or more	[70%]

The percentage may be reduced by [5%] for viaticating a policy written by an insurer rated less than the highest [4] categories by A.M. Best, or a comparable rating by another rating agency.

Section 5. General Rules

A. With respect to policies containing a provision for double or additional indemnity for accidental death, the additional payment shall remain payable to the beneficiary last named by the viator prior to entering into the viatical settlement agreement, or to such other beneficiary, other than the viatical settlement provider, as the viator may thereafter designate, or in the absence of a designation, to the estate of the viator.

B. No viatical settlement provider or broker shall discriminate in the making of viatical settlements on the basis of race, age, sex, national origin, creed, religion, occupation, marital or family status, sexual orientation, or discriminate between viators with dependents and without.

C. No viatical settlement provider or broker shall pay or offer to pay any finder's fee, commission or other compensation to any viator's physician, attorney, accountant or other person providing medical, legal or financial planning services to the viator, or to any other person acting as an agent of the viator with respect to the viatical settlement.

D. Contacts for the purpose of determining the health status of the viator by the viatical settlement provider or broker after the viatical settlement has occurred should be limited to once every three (3) months for viators with a life expectancy of more than one year, and to no more than one per month for viators with a life expectancy of less than one year. The provider or broker shall explain the procedure for these contacts at the time the viatical settlement contract is entered into.

E. Viatical settlement providers and brokers shall not solicit investors who could influence the treatment of the illness of the viators whose coverage would be the subject of the investment.

F. Advertising standards:

(1) Advertising should be truthful and not misleading by fact or implication.

(2) If the advertiser emphasizes the speed with which the viatication will occur, the advertising must disclose the average time frame from completed application to the date of offer and from acceptance of the offer to receipt of the funds by the viator.

(3) If the advertising emphasizes the dollar amounts available to viators, the advertising shall disclose the average purchase price as a percent of face value obtained by viators contracting with the advertiser during the past six (6) months.

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ATTACHMENT TWO-B

Viatical Settlement Working Group
of the Life Insurance (A) Committee
Conference Call
February 16, 1994

The Viatical Settlement Working Group of the Life Insurance (A) Committee met by conference call at 1 p.m. on Feb. 16, 1994. Roger Strauss (Iowa) chaired the call. The following working group members participated: Don Koch (Alaska); Mary Alice Bjork (Ore.); Rhonda Myron (Texas); Beth Hill (Texas); and Bob Wright (Va.). Carolyn Johnson (NAIC/SSO) also participated in the call.

Roger Strauss (Iowa) said the purpose of the conference call was to develop a time-table for completion of the draft Viatical Settlement Model Regulation. The working group agreed to send the draft under discussion to all interested parties and notify them of the working group meeting time at the March National Meeting in Denver. Those who could not comment at the Denver meeting would be encouraged to submit written comments between the March and June meetings.

Mr. Strauss next asked the working group members to review the draft regulation section by section and make any comments they desired. Mr. Strauss asked whether an application form was necessarily a part of the regulation. He pointed out that the draft mentioned an application form required by the commissioner but did not include such a form. He asked if it would be necessary for the working group to design a form. It was a consensus of the working group that it was not necessary to include the application as part of the regulation.

In response to a question about whether a doctor would give an opinion on the length of life, Bob Wright (Va.) pointed out the Accelerated Benefits Model Regulation also has a length of life trigger. He said that under these circumstances he did not think it would be difficult to get an opinion from the viator's physician. He also suggested that the viatical settlement company would probably have its own doctor examine the viator also.

Discussion turned to the percentages of return in Section 4 of the draft. Rhonda Myron (Texas) said that a 15% return on an investment would be a wonderful return at this point in time. She said that the percentages included in Section 4 in some cases gave a larger return. The working group agreed to consider this issue further at the March National Meeting.

Mr. Wright asked about the provision relating to unfair trade practices. He pointed out that the Unfair Trade Practices Act requires a pattern of business practices and he thought the intent of the working group was to be able to take action on the occasion of one unfair act. The working group agreed this had been its intent and decided that the group should review further whether an amendment to the Viatical Settlement Model Act would be necessary.

The working group agreed to go over the draft section by section during the March National Meeting and allow time for comments of interested parties and other regulators.

Having no further business, the Viatical Settlements Working Group adjourned at 2 p.m.

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ATTACHMENT THREE

Report of Synthetic GIC Working Group
From Commissioner Robert Willis (D.C.)

On Feb. 15, 1994, the Synthetic GIC Working Group met at the NAIC D.C. office. Of the three members of the working group, the District of Columbia and New York attended. Also in attendance were industry representatives, law firms and purchasers of guaranteed interest contracts (GIC) products.

The agenda of the meeting was focused around six questions prepared by the working group:

1. What is a Synthetic GIC as distinguished from a bank investment contract (BIC) and the regular GIC?

2. Whether new/creative pension services/products such as a Synthetic GIC should be subject to insurance regulation based on the potential/foreseeable impact on the financial condition of the issuer and/or state guaranty funds?
3. Whether the contract arrangement such as the actively managed wrapper or the buy and hold wrapper, sufficiently insulate the exposure of the issuer assets in the event of an insolvency?
4. Is it possible to quantify, segregate and insulate in Synthetic GIC arrangement/product into a separate account or other structure?
5. Will there be consistency in the FASB accounting treatment of Syn GIC arrangement established by bank and insurance issuers?
6. Whether you foresee any regulatory involvement of the PBGC (Pension Benefit Guaranty Corporation), and whether this anticipated involvement will create any conflict in the NAIC direction.

The ensuing dialogue focused on the perspectives of the buyers and sellers. The buyers expressed their need to stabilize the value of the assets they manage on behalf of the employees. The sellers generally discussed the various GIC designs and the exposure to risks and their various methods of protecting against that exposure.

While no regulatory conclusions were drawn, the working group recognized a need to continue its work.

During the working group meeting, the GIC Association announced a "Stable Asset Symposium" to be held in Minneapolis March 4, 1994. The District of Columbia sent its representative, Reginald Berry, to attend. With the Association's permission, the working group submits copies of the agenda and materials distributed at the symposium.

Today's report combines the working group's efforts to date. Based on its work, the following recommendations are made:

1. That the A Committee formally establish the working group.
2. That the A Committee acknowledge that the working group continues to be in an information gathering phase.
3. That the A Committee authorize the working group to establish a three-hour panel discussion on Synthetic GICs at the June meeting in Baltimore.
4. That the A Committee announce that the GIC Association will hold its next forum Oct. 9, 1994, in Washington, D.C., and to encourage interested regulators to attend.

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ATTACHMENT FOUR

Life Disclosure Working Group
of the Life Insurance (A) Committee
Denver, Colorado
March 5 and 7, 1994

The Life Disclosure Working Group of the Life Insurance (A) Committee met in Matchless of the Marriott Hotel in Denver, Colo., at 3 p.m. on March 5, 1994. A quorum was present and Bob Wright (Va.) chaired the meeting. The following working group members were present: Don Koch (Alaska); Sheldon Summers (Calif.); Roger Strauss (Iowa); Lester Dunlap (La.); Tony Higgins (N.C.); Noel Morgan (Ohio); Robert Wilcox (Utah) and Fred Nepple (Wis.).

Chairman Bob Wright (Va.) said that the purpose of the March 5 session was to hear presentations from various parties that had submitted recommendations on illustrations. He called upon George Coleman (Prudential) to describe the recommendation of the technical advisors (Attachment Four-A).

1. <u>Presentations on Illustrations</u>

Mr. Coleman said that the group's new recommendations were a distillation and enhancement of its prior recommendations. He said in June 1993 it had recommended an explanation page, which was supplemented in November 1993 with a sensitivity analysis, signature requirements, and updated policy explanations on request. The technical advisors current recommendations put the provisions into the form of a regulation and illustration format conventions. He said his group believed it was critical to be able to illustrate non-guaranteed elements at current scales. The problems being experienced currently are due to several years of declining interest rates.

Bill Fisher (Massachusetts Mutual) gave an overview of the explanatory page accompanying the illustration. He said its purpose was to improve customer understanding which could be explained best in a narrative fashion. He believed it was important to set minimum content standards rather than to have a set format. He said the most important aspect was to clearly disclose the non-guaranteed nature. The sensitivity index, which the technical advisors recommend, would make clear how results would be affected by different interest rates. He said the technical advisors' product also includes signature requirements to address the issue of accountability.

Linda Lanam (Life Insurance Company of Virginia) described the illustration. She said the primary focus of the worksheet is to present the guaranteed elements first. The most difficult aspect of the task was the technical advisors' effort to deal with vanishing premiums. They were recommending that the area not be left blank or have a zero inserted. Some companies' programs are not written in such a manner that they can continue to show the premiums paid, but if they cannot do that, an asterisk should be used with a reference explaining its use.

Bill Koenig (Northwestern Mutual Life) described the actuarial standards included in the advisors' regulation recommendation. He said there are currently no standards as to what "current scale" means. He thinks there is a discipline in current scale and that the Actuarial Standards Board should work on that aspect. He said that companies almost always exceed their guarantees, so showing guarantees only does the buyers a disservice. Showing only historical data would also mislead in this time of decreasing interest rates.

Judy Faucet (Coopers & Lybrand) chairs the American Academy of Actuaries Task Force on Illustrations. She reviewed the technical resource advisors' suggestions and the suggestions of the National Association of Life Underwriters. She felt these went a long way to solving the problems identified by the task force she chairs. She emphasized that changing the illustrations as recommended by the technical resource advisors would cost the industry a great deal of money and computer time.

Joe Mintz, an insurance agent, asked how he could sell policies without comparing the actual costs between different policies. Mr. Wright responded that the material presented so far to the working group indicated that using illustrations to compare different policies was inappropriate.

Noel Morgan (Ohio) asked why the technical advisors recommended using current rates of less than 1%. Mr. Fisher responded that many companies now use that standard and it would clarify the difference a lower interest carries. Tony Higgins (N.C.) said he thought the sensitivity index actually made the illustrations less understandable because interest rates are not the only variable. Using this might lead people to believe that it was the only variable. Ms. Faucet responded that the interest rate was used as a proxy for the other variables. She said interest rate differentials account for 60% of the variation of non-guaranteed elements. Mr. Higgins said that he thought what was shown might imply that there were no other variable elements.

Mr. Wright next called on Chris Kite (FIPSCO) to report on the illustrations presentation he had sent to the working group (Attachment Four-B). He said his company was a software developer of life insurance illustrations. He strongly recommended against showing guarantees only and in his material he said he also included a buyer's guide which would help consumers understand the illustration. He said the best use of the illustration was to compare the policy with itself, but people will compare different policies no matter what is put on the form. His illustration showed the dividends or other non-guaranteed items but did not add them into totals which would have compounded the uncertainty.

Mr. Wright next called on Gary Corbett (Actuarial Standards Board), who said that the Actuarial Standards Board was eager to assist in the efforts of the working group. He said if the Life Disclosure Working Group had at least a draft regulation now, his committee could draft standards from that and would have them in place possibly by the end of the year. In order to achieve that time frame, his committee needed to have a draft completed by the end of April. He said there are currently two actuarial standards that might impact policy illustrations. Actuarial Standard No. 1 does not actually address policy illustrations, but Actuarial Standard No. 15 deals with dividends. It helps the actuaries test to see if a company could actually pay the dividends in the near future that they are disclosing on their illustrations.

Bob Nelson (National Association of Life Underwriters—NALU) said, as chair of the Task Force on Sales Illustrations of the NALU, he was bringing to the working group today a more technically correct version of the paper he had submitted earlier (Attachment Four-C). He said he believes that meaningful reform of the illustration is near at hand.

Mary Griffin (Consumers Union) stated her group's preference for prohibiting the use of future projections other than the guarantees provided by the policy. She also described how the "key features" document that she drafted for the group's consideration worked. But she said dealing with the illustrations is only one part of the solution. She suggested that regulators take action to 1) level agent commission structures; 2) establish, by law, suitability standards similar to those used in the area of securities; and 3) develop rules to require red warning stickers to be placed on all policies warning consumers that they should not purchase the policy if they do not plan to maintain it for at least 10 years (Attachment Four-D).

2. Vote on Approach to Use in Development of Regulation

At 4:30 p.m., Mr. Wright ended the public comment portion of the meeting and the working group went into executive session. He then asked the working group members for their preference among the various alternatives. Some of the alternatives proposed by various members of the working group were: current scale illustrations, past performance and future guarantees only, text but not numerical illustrations, guarantees only, current scale plus guarantees, and historical comparison. The working group members agreed that what the industry had submitted did not improve a great deal on what is currently being presented to the consumer.

Several members of the working group commented that if insurance departments' policy staff could not understand the illustrations, it would be hard for an uninitiated consumer to understand them. The working group agreed that it was important that the buyer understand what was guaranteed.

Upon motion duly made and seconded, the working group voted to recommend that illustrations of future performance be guaranteed amounts. Upon motion duly made and seconded, the working group also voted to allow illustration of past performance using a common index for comparison purposes.

Having no further business, the Life Disclosure Working Group adjourned at 5:15 p.m.

The Life Disclosure Working Group of the Life Insurance (A) Committee reconvened in Colorado I/J of the Marriott Hotel in Denver, Colo., at 10 a.m. on March 7, 1994. A quorum was present and Bob Wright (Va.) reconvened the meeting. The following working group members were present: Don Koch (Alaska); Sheldon Summers (Calif.); Roger Strauss (Iowa); Lester Dunlap (La.); Tony Higgins (N.C.); Noel Morgan (Ohio); Robert Wilcox (Utah) and Fred Nepple (Wis.).

3. Adoption of Conference Call Minutes

Upon motion duly made and seconded, the minutes of the Feb. 24, 1994, conference call were adopted (Attachment Four-E).

Mr. Wright began by filling in the attendees on the decisions made in the executive session at the end of the March 5 meeting. The regulators reached a decision to require that illustrations only show guarantees of future performance and actual past performance. The working group has been studying this issue since the fall of 1992 and it has become apparent to the members of the working group that because of the complexity of illustrations, the use of current scale assumptions cannot be used in illustrations that consumers can understand without the aid of an agent. He said the working group would need to rewrite the model act currently exposed and would write a regulation to set out the framework. It was the goal of the working group to have an exposure draft at the June 1994 NAIC meeting, but he hoped to have a draft to circulate before that time.

Mr. Wright then opened the floor to comments. S. Reed Ashwill (NAILBA) asked if the working group's intent was to require insurers to show guarantees and what prior years' performance had been. He reminded the group that this was the time period in which interest rates were between 10% and 15%. Mr. Wright clarified that past performance was also to be compared with an index such as the Consumer Price Index or the prime rate. Scott Cipinko (National Association of Life Companies—NALC) asked if this would prohibit agents from projecting into the future if asked by the consumer.

Mr. Coleman said he was very disappointed with the plan announced. He was critical of the proposal that the future performance could be demonstrated by the guarantees. He said he was very frustrated because there had never been a two-way discussion on the technical resource advisors' proposal. Few questions were asked of his group, he said, and there had been no opportunity to discuss the proposal. He asked the working group to reconsider and open up opportunities to discuss the issues.

Jim Hunt (National Insurance Consumer Organization—NICO) registered the same complaint. He said he had not been part of the resource group and had no discussion with the regulators. Richard Minck (American Council of Life Insurance—ACLI) urged that before exposure, distribution be made of the working group's draft product. He suggested having examples of what illustrations would look like with past performance and future guarantees to see if this was what the working group intended. He said the most striking change in life insurance in past years was in the non-guaranteed elements. Barbara Lautzenheiser (Lautzenheiser & Associates) expressed concern that because of the fact that life insurance has been treated as an investment the guarantees do not reflect what will actually happen. People will infer that life insurance is a bad investment and choose to put their money in another investment. She pointed out that mutual funds do not have to say in big print that it is possible that the investor will not get any money back, and compared that to the requirements on illustrations. Mr. Hunt suggested that it would be helpful to show the dollar figures and constant purchasing power.

Commissioner David Lyons (Iowa) asked Ms. Faucet to describe the quotation by her that had recently appeared in the *New York Times*. She said she was quoted as saying that if you put 10 actuaries in a room you would get 40 conclusions about what the numbers they were examining meant. She said it was important that there be better understanding and discipline about what "current scale" means. There is no place actuaries can go to get answers to the questions that they currently have about products. She saw problems with whichever approach the working group chose. She thought it was important for buyers to see how the policy would work but the current approach of the working group would not allow that to happen. Commissioner Lyons asked what percentage of those 40 conclusions generated by actuaries would be understood by the consumers. Ms. Faucet responded that people spend more time buying a microwave than they do an insurance policy.

Commissioner Robert Wilcox (Utah) expressed significant concern about the whole issue. He said that he was not comfortable with what the working group had decided but he was also not comfortable with the other options. He said it was a difficult process and he did not see any fully satisfactory answer. There has already been a decade of discussion which had not led to any significant compromise.

Commissioner Dwight Bartlett (Md.) said he did not think there was a satisfactory answer in the working group's approach. He said the problem of how to determine current scale must be worked on by actuaries first before illustrations guidelines can be written. He thought the working group had the cart before the horse.

Mr. Corbett said he did not consider it the job of the Actuarial Standards Board to decide what was involved after the standards had been written; he emphasized the need of the board to be involved in drafting the regulation and to be involved in the whole process.

Mr. Cipinko said that consumers put proposals side by side and compare whether the agent suggests this to them or not. He suggested that the approach being taken by the working group penalized small companies which came up with innovative new products. He said the goal of the working group ought to be to protect the consumer as well as to protect the industry. Commissioner Lyons said the goal of the working group was not to kill the entrepreneurial spirit. He understood the goal of the working group to be to simplify the process, to make the illustrations consumer-friendly. Mr. Minck pointed out that the day's events were not a contest between the interest of consumers and insurance companies. He thought it was possible to serve everyone's interest.

Mr. Higgins suggested that the audience was underestimating insurance agents. He felt sure that they would come up with new ways to sell the products. He suggested letting agents verbally explain how variable interest rates might impact on the policy in the future and to explain the product. What he objected to was the written material. Mr. Albus cautioned that if the decision on how to present the information is left to the agent it will open Pandora's Box. The agent cannot show how a policy will work without showing how it has worked.

Ms. Griffin spoke in support of the decision of the working group. She said it was possible to tell how a policy would work without the projections of interest rates and that it was important that consumers had the ability to understand the total cost including agents' commissions.

John Booth (ACLI) asked what message the NAIC was sending with this action and the action of the Life Risk-Based Capital Working Group. He wondered if the two actions together might be taken as a signal that the way to compare companies was according to their risk-based capital levels and suggested that these decisions might lead to imprudent practices of insurers to raise guarantees.

Dick Baker (Allmerica Financial) said his company wrote variable contracts and in a variable contract it was difficult to show guarantees. He suggested that the working group's action would eliminate many of the newer products. He also pointed out that insurers object strenuously and he did not think the draft would be adopted in any state because it was too major a change. He also suggested that an unintended fallout would be to change the balance of stock and mutual companies in the United States.

Mr. Wright said the working group was not opposed to showing current scale providing consumers could understand the illustrations, but he had not seen any evidence of an illustration that did that to this point. He invited anyone to come forward with a proposal that would provide clear disclosure, but he indicated it would have to be quite persuasive to influence the working group at this late date. Commissioner Lyons said the working group was required to move quickly and if they could not do that with current scale the members would choose another option.

Having no further business, the Life Disclosure Working Group adjourned at 11 a.m.

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ATTACHMENT FOUR-A

Recommendations of the Technical Resource Advisors
to the NAIC Life Insurance Disclosure Working Group
for a Life Insurance Illustration Model Regulation

- Cover letter from George T. Coleman for the Technical Resource Advisors to the NAIC Life Insurance Disclosure Working Group
- Draft Model Life Insurance Illustration Regulation
- Policy Illustrations with Explanation Pages

1. Whole Life -- Accelerated Benefits Option, Abbreviated Payment Stream
2. Whole Life -- Abbreviated Payment Stream
3. Whole Life with Supplemental Insurance Option, Benefits Reducing after 22 Years
4. Whole Life, Modified Premium with Variable Insurance Amount, Accelerated Benefits Option

* * * *

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January 31, 1994

The Honorable Steven T. Foster
Commissioner of Insurance
Commonwealth of Virginia
Richmond, Virginia 23206

Dear Commissioner Foster:

The Technical Resource Advisors to the NAIC Life Disclosure Working Group is pleased to offer its recommendation for a Life Insurance Illustration Model Regulation. The mission of our committee, since its formation in November 1992, has been to assist the NAIC in furtherance of its goal of improving life insurance policy disclosure. To that end we have presented several written recommendations to the working group over the past year. Our recommendation for a model Life Insurance Illustration Regulation is both a distillation and a major enhancement of our previous recommendations.

We have been actively assisting your effort because we believe that policy illustrations, and more specifically, policy illustrations on the basis of current scale, are vital to the insurance consumer. It may he helpful to review for you the reasons we believe this so strongly.

Life insurance exists for protection against the financial consequences of premature death. Because of the life insurance product's structure (level premium for increasing costs), this protection inevitably produces growth of an internal fund which creates a financial instrument to control risk. It is unlike any other financial instrument.

An illustration is a tool to describe the operation of a life insurance policy to a buyer. There are two types of values shown in the illustration:

- guaranteed values, which define the minimum benefits the buyer will receive;
- not guaranteed values, which describe the benefits the buyer could anticipate based on the policy's current scale of not guaranteed credits, charges and/or dividends, in addition to its guaranteed values.

The not guaranteed elements are often used to increase benefits or to reduce costs. Demonstrating how this can be done provides important information to the buyer. A policy's operation cannot be described solely through the illustration of its guaranteed values.

Current regulations require companies to illustrate current scale when describing not guaranteed elements. The current dividend scale is based on the most recent historical experience data available (Actuarial Standard of Practice #15). The current scale of not guaranteed charges and credits is based on anticipated experience. Anticipated experience should be based on recent experience and expected trends in experience (Actuarial Standard of Practice #1). Therefore, current scale is based on the most recent historical experience, and it is what is currently being paid on in-force policies.

Some have suggested that historical experience should replace current scale as the basis for describing how the not guaranteed elements of the policy can operate. Values beyond the point for which a historical scale is available would be based only on the policy's guarantees. Few of the policies issued today have a historical track record of more than five years. Such a limited display of not guaranteed factors would not adequately describe the operation of the policy to the buyer. Even if a company had 20 years of historical scales for a product, illustration of such values would not be as appropriate as current scale, i.e., its most recent historical experience. The historical scales represent what was paid based on the experience at that time, which is no better predictor of the future than current scale. The experience of the past 20 years includes years with experience significantly different from current. For example, the interest rates were significantly higher during those years than they are today. The historical scales would exceed what is currently being paid. This misleads buyers. Current scale, although also based on historical experience, is based on the most recent historical experience and reflects what is currently being paid.

Substitution of historical performance for current scale would not solve many of the problems related to sales illustrations. Since it is basically the replacement of one set of numbers with another, it would still require virtually all of the protections that apply to current scale. For example, assuring that the applicant understands the not guaranteed nature of the numbers would continue to be necessary, as would the need for simplifying the presentation format of the numbers.

Changing to historical performance also would involve a massive and very expensive effort. Even the companies with sophisticated sales illustration capability do not currently have the ability to illustrate past dividend scales or not guaranteed elements. Illustration of the current scale alone requires a complex process, and the prospect of retaining and illustrating currently, multiple scales for multiple policies at multiple ages and durations, is, frankly, overwhelming.

It has been suggested that life insurance should use the language and return measurements of other financial instruments. While this may have the appeal of a "simpler life," important differences exist that "real life" currently reflects.

The illustration of life insurance is not directly comparable to other financial instruments. Insurance products provide insurance benefits. Insurance benefits are the primary purpose of life insurance. Cash values, which are the residual amounts of prefunding reserves returned to policyholders if the contracts are terminated, are secondary benefits. Insurance contracts have guarantees. Showing the guarantees under a life insurance contract shows the contract's worst case scenario. Showing the non-guarantees under a life insurance contract reflects the company's current experience in investments, expenses and insurance costs. This current experience is better than the guaranteed, i.e., the worst case scenario.

Mutual funds are an investment. As such, they have no guarantees. Mutual funds, however, even in their prospectuses do not show their worst case scenario, i.e., no return of even principal. Instead, they assume that the principal will remain intact and show various rates of return above that. The principal is not guaranteed in a mutual fund.

Also, mutual funds are driven primarily by interest. While future projections of mutual funds are not permitted, a buyer can simply apply a historical rate of return number to project an estimated value in any future year, assuming performance continues at the historical level. Since insurance products provide insurance benefits, they introduce insurance costs into the equation, in addition to interest and expenses. Hence, a buyer cannot independently determine how all three of these elements interact year-by-year to effect the development of policy values. Insurance policy values do not change at a constant rate each year. Insurance is distinctly different from an investment and the illustration must reflect the difference.

The only way a buyer can accurately see how an insurance policy works is through an illustration of both guaranteed and not guaranteed elements. Utilization of the current scale is the most appropriate way to illustrate not guaranteed values. Disclosure that these not guaranteed values will almost surely change from those illustrated is critical. Utilization of the not guaranteed values, based on the current scale which is being paid, is just as critical in allowing buyers to make an informed buying decision.

Our recommendations have been developed to address a common complaint, that life insurance policy illustrations are too complicated and that many insurance consumers misunderstand the policies they are buying. Insurance contracts are complex financial instruments, but we believe they can be explained in such a way as to make their key elements understandable to most consumers. To that end, our recommendations for a model Life Insurance Illustration Regulation distill into a regulatory format all of our previous recommendations to the NAIC. Key elements from our earlier recommendations include:

1. An illustration explanation page requirement
2. A signature requirement
3. A policy update requirement
4. A sensitivity analysis requirement.

Since our last meeting with the working group, we have studied, discussed and debated additional measures to improve illustrations. The product of those discussions has been agreement on illustration format conventions and on actuarial standards for current scale illustrations. These are most significant additions to our earlier recommendations and further reflect our commitment to improving life insurance policy disclosure.

Our illustration format conventions are designed to assure that every illustration meets minimum standards by providing certain essential information. In certain instances, we prescribe how that information should be presented. Within the parameters established by these standards, insurers would retain the ability to give their illustration a personalized look.

Our proposal would also require that insurers appoint qualified actuaries to annually certify current scales of dividends and other not guaranteed elements used in illustrations. This certification would have to be in conformance with standards for current scale illustrations established by the American Academy of Actuaries Actuarial Standards Board. No insurer or agent could use illustrations which depict policy performance more favorable than that produced by application of the insurer's current scale.

Enclosed with this letter are sample illustrations and illustration explanation pages prepared in conformance with our draft Model Life Insurance Illustration Regulation. Because of our winter storms, some of these samples have been late arriving, and we haven't had time to completely debug them while at the same time meeting your timetable. We hope to forward additional samples to you later this week. Your indulgence in this regard is appreciated.

We would like the opportunity to make a presentation to the working group at the March NAIC meeting in Denver or at any earlier time of your choosing. We would like to explain our recommendations to you and the reasons we are making them. Once again, we are very appreciative of your consideration of our views and look forward to working with you to bring this important project to a successful conclusion.

Sincerely,

George Coleman
for the Technical Resource Advisors

* * * *

Life Insurance Illustration Model Regulation
Draft: January 31, 1994

Section 1. Purpose

The purpose of this regulation is to provide minimum standards for life insurance policy illustration formats, to prescribe the establishment of standards for the determination of current scale used in illustrations and to require certain disclosures in addition to and in connection with illustrations.

Section 2. Authority

This regulation is issued under the authority granted the Commissioner under the (appropriate enabling legislation).

Section 3. Applicability and Scope

A. Except as otherwise provided, this regulation shall apply to the illustration of all life insurance policies issued on an individual basis.

B. This regulation shall not apply to individual or group annuity contracts, to policies or certificates sold without illustration, or to variable life insurance.

Section 4. Definitions

Illustration: A sales ledger or proposal showing a life insurance policy's guaranteed and not guaranteed future contract premium, premium outlays, surrender values and death benefits.

Contract Premium: The amount of money required by the contract in order for benefits (guaranteed or current) to be paid as illustrated.

Premium Outlay: The portion (100% or less) of the contract premium anticipated to be paid by the policy owner in order for benefits (guaranteed or current) to be paid as illustrated.

Qualified Actuary: An individual who is a member in good standing of the American Academy of Actuaries who has certified an understanding of the standards for current scale illustrations promulgated by the Actuarial Standards Board.

Section 5. Illustration Formats

All illustrations used in connection with the sale of life insurance shall comply with the following minimum standards:

A. Each illustration shall identify the insurance company and be clearly labeled "Life Insurance Policy Sales Illustration." This label shall be at the top of the page in prominent type. The generic type of the policy and its company product name, if different, shall follow.

B. The payments anticipated to be paid by the policy owner in order for benefits, guaranteed or not guaranteed, to be paid as illustrated shall be included in a column headed "Premium Outlay." If a different amount must be paid in order for benefits, guaranteed or not guaranteed, to be paid as illustrated, it shall be included in a column headed "Contract Premium." For universal life policies which do not require a specific payment amount, the heading Premium Outlay must be used for the illustrated payment stream.

C. Each illustration shall include guaranteed surrender values and death benefits for the Premium Outlay stream shown and the columns in which the guaranteed values are shown shall be titled "Guaranteed." Guaranteed values and benefits will be shown before corresponding not guaranteed values and benefits and must be specifically referred to on any page of the illustration which shows only not guaranteed values and benefits; e.g.: "see page one for guaranteed values."

D. Illustrations may also include not guaranteed values and benefits based upon the company's current scale and on any other scale producing lower values and benefits. These not guaranteed values and benefits must be clearly labeled as "Not Guaranteed." If not guaranteed values and benefits are shown, the illustration must include a statement that these values and benefits are based on assumptions which are not guaranteed and that actual results may be less or more favorable.

E. The rating classification must be clearly indicated in the illustration.

F. The assumed dates of payment receipt and benefit pay-out within a policy year must be clearly indicated.

G. If the age of the insured is shown in a tabular column, it shall be issue age plus the number of years the policy is assumed to have been in force.

H. If the illustration shows a premium outlay stream which, at a company's current scale, would allow the policyowner the option to suspend premium outlays at some point before the end of the contract premium period, the illustration must disclose that the policy continues to require a charge and that, depending on the actual policy results, premium outlays may need to be continued or resumed. In addition, when showing suspended premium outlays, the premium outlay column on the illustration must not be left blank or show zero. The amount of the contract premium, asterisks or other similar mark must appear in the column to draw attention to the policy's continuing premium requirements.

I. The account or accumulation value of a policy, if shown, should be shown in a column headed with the name this value is given in the policy illustrated. This column must be next to that for the surrender value. The surrender value column should show only the value which is available to the policyowner in a lump sum.

J. If the illustration contains cost comparison indexes, it must include, at the minimum, the following language: "These cost comparison indexes provide two means of comparing the relative cost of similar plans of insurance. A low index number represents a lower cost than a high one." Both the guaranteed and not guaranteed indexes must be shown.

Section 6. Illustration Explanation

Each life insurance policy illustration shall be accompanied by an explanation page(s) containing the following information:

A. Policy Description

1. A heading, which would include a statement that the policy being illustrated is a life insurance contract. If additional benefits are provided, they can be described in the body of the narrative text.

2. The generic name of the policy being illustrated. The generic name is a short title that is descriptive of the premium and benefit patterns of the policy.

B. Premium Requirements

1. A statement as to the length of time that the contract premium is required under the terms of the contract.

2. If a policy would lapse or the face amount of coverage would decrease before the end of the policy term when only the illustrated premium outlay is paid under a worst-case scenario, i.e., guaranteed interest crediting rate, guaranteed mortality and guaranteed expense charges, a statement must be included as to what additional premium outlay must be paid to guarantee coverage for the entire term of the contract, subject to maximum premiums allowable to qualify as life insurance under current tax laws.

C. Benefits Payable

1. A statement describing when or under what circumstances death benefits are payable.

2. The illustration explanation page(s) shall also include a more specific brief description of policy features or options, either guaranteed or not guaranteed, that have or will have a material impact on the continued values, benefits or costs of the policy and what impact they will have, including the following:

a. Scheduled changes in premium outlay levels or benefits.

b. Persistency bonuses.

c. The details of any modular premium outlay structure, including the significance of the proportion of whole life and term, and a statement that the not guaranteed elements are subject to change.

d. Multiple benefit streams arising from policies variously described as two-tier, multiple benefit or the like, including those with life and annuity components. With such policies, the varying availability of benefits must be disclosed.

e. Changes in surrender value upon the first death for a second-to-die or multiple-life policy. If values do change, the insurer shall describe when the first death is illustrated to occur and why this assumption was made.

f. Where premium outlays are illustrated on an abbreviated payment schedule, a statement must be included that premium outlays will not cease as illustrated if actual results are less favorable than those shown in the illustration. The statement must advise that in such a case, additional premium outlays may need to be paid in order to maintain policy values and to keep the policy inforce. Further, it must be disclosed that reaching a point where premium outlays no longer need to be paid under an abbreviated payment schedule does not mean that the policy is paid-up.

D. Potential Variance of Actual Benefits and Values From Illustrated Benefits and Values

1. If not guaranteed benefits are illustrated, a statement to the effect that the illustration is based on assumptions which are not guaranteed and that actual results may be less or more favorable than those illustrated.

2. A statement that the illustration is intended to assist the customer in understanding how the policy works; that illustrations are not to be used by themselves to compare different policies; and that for comparison purposes other factors are important, such as the insurer's services that policyholders expect to receive and the individual policy features themselves.

E. Sensitivity Analysis

If benefits are illustrated in a way that includes not guaranteed values, the illustration explanation page(s) shall include contract premium and values at five, 10 and 20 years on three bases: guaranteed, current scale and 1% below the interest component of the current scale or the current crediting rate, but no lower than the guaranteed interest component of the dividend or the guaranteed crediting rate.

F. Signature Requirements

The illustration explanation page(s) shall include at the end a clause to be signed by the presenting agent and the applicant attesting to the delivery of the illustration and the illustration explanation page(s) and to the guaranteed and not guaranteed nature of the values illustrated. The illustration explanation page(s), with signatures affixed, shall be submitted to the insurance company at the time of the submission of the application. If an illustration is generated by the insurance company and mailed directly to the customer, no signature will be required. However, the insurance company shall be required to keep a copy of the illustration mailed to the insured if the policy is issued.

G. Policies Issued on a Basis Other Than Applied For

If the policy is issued on a basis other than as applied for, or if a rating is imposed that affects values, a revised illustration explanation page(s) will be delivered with the policy. This requirement may be satisfied by incorporating the illustration explanation page(s) into the policy summary delivered with the policy.

Section 7. Policy Updates

A. Policyholders shall be notified on or before the policy anniversary next following the date of any dividend scale decrease or adverse change in credits or charges to the policy since the last policy anniversary. The notice shall inform the policyholder how to obtain more information on the effect of these changes on policy values or premium outlay requirements.

B. Upon request of the policyholder, the insurer shall provide policy updates providing information similar to that provided in the illustration explanation page(s), based on actual policy values and the (then) current scale. Insurers may satisfy this requirement by issuing an updated policy illustration in lieu of the policy update.

Section 8. Actuarial Standards for Current Scale Illustration

A. Each insurer shall appoint a Qualified Actuary to certify the current scales of policy dividends or interest being paid and the mortality and expenses charges being assessed that the insurer can use in its illustrations. Such actuarial certification shall be in conformance with standards to be promulgated by the Actuarial Standards Board for current scale illustrations.

B. No insurer or agent may use an illustration which depicts policy performance more favorable than that produced by application of the current scales of policy dividends or interest or other credits being paid and the mortality and expense charges being assessed for existing policies by the insurer whose policy is being illustrated as determined by its actuary in accordance with standards promulgated by the Actuarial Standards Board.

C. Actuarial certification of current scale shall be effective for a period of one year after the date of certification by the Qualified Actuary.

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January 31, 1994

COMPANY NAME

POLICY ILLUSTRATION EXPLANATION

Proposed Insured	John Doe
Age	35-Male
Rating Class	Standard
Plan	Whole Life, Estate 25
Amount of Insurance	$50,000
Excludes Waiver of Premium	
Dividend Option	Used to purchase additional insurance

The attached illustration is for a life insurance policy. The type of policy is whole life insurance. It guarantees insurance death benefits will remain the same, no matter when you die. Premium must be paid for the entire period of your life. The death benefit will be paid to the person or persons named by you as beneficiary or as otherwise required by law.

This illustration also shows benefits which are not guaranteed by the insurance company. These benefits are based on the company's current dividend scale. Actual benefits are likely to be different from those shown. They may be less or more favorable.

The policy illustrated is eligible for the company's Living Needs Benefit rider, at no additional premium. This rider allows you to access certain life insurance benefits from your policy if you are diagnosed as terminally ill or if you become permanently confined to a nursing home. Your agent can provide more details.

The illustration's Abbreviated Payment Ledger shows premiums in later years being paid from not guaranteed dividends, rather than being paid in cash by you. If actual future dividends are less than shown in the not guaranteed current column, you may have to pay premiums in cash for longer than shown or start paying cash premiums once again to maintain policy values. This type of premium payment arrangement does not make the policy paid-up when out-of-pocket premiums cease.

Since the values and benefits that are shown here will change over time, you should check the status of your policy periodically with the company or your insurance agent.

This illustration is designed to help you understand how the policy works. You should not use illustrations by themselves to compare different policies. For comparison purposes, other factors are important, such as how financially stable the company is, how well it has performed in the past, the service you expect to receive and the specific policy features you want.

This illustration shows certain guaranteed and not guaranteed benefits for a number of years. To help show you how the not guaranteed benefits can be affected by future changes, here are results at various years based on the current dividend scale; the current dividend scale assuming a 1% decrease in the interest rate built into that scale; and the policy's guarantees. All results assume full premium payments in cash. Those values at five, 10 and 20 years are as follows:

	Guaranteed			Not Guaranteed Current Scale			Not Guaranteed Current Scale (Less 1% in the Interest Component)		
Policy Year	Annual Premium Outlay	Death Benefit	Surrender Value	Annual Premium Outlay	Death Benefit	Surrender Value	Annual Premium Outlay	Death Benefit	Surrender Value
5 Years	832	50,000	838	832	51,054	1,985	832	50,900	1,924
10 Years	832	50,000	2,085	832	56,368	3,993	832	53,495	3,784
20 Years	832	50,000	9,874	832	69,745	16,152	832	65,697	15,346

I (we) have reviewed the information provided above concerning the policy for which I (we) have applied and the policy illustration that I (we) have received. I (we) understand that neither this illustration explanation page(s) nor the illustration is part of the policy for which I (we) have applied. Any policy issued will set forth the entire contract between me (us) and the insurer.

I (we) understand that some of the values and benefits are not guaranteed and are likely to change.

Date: ____________________

____
Signature of Applicant

____
Signature of Coapplicant

Policy Illustration Explanation and Sales Illustration Presented By:

____
Signature of Agent (If Any)

****

<u>The Company Name</u>

Life Insurance Policy Sales Illustration

Prepared for: John Doe
Age 35, Male, Standard
Excludes Waiver of Premium Benefit

On: January 26, 1994

Initial
Annual
Payment
=======
$832.00

$50,000 Whole Life (Estate 25)

By: Agent John Doe

****

Dividend* Usage
=============
Provide Paid-Up Additional Insurance

****

Annual Payment Schedule
=========================
Year 1 to 65 $832.00

Full Payment Ledger

This illustration is incomplete without the footnote page(s).

The Full Payment Ledger assumes that contractual policy premiums are paid for all years by the insured.

		GUARANTEED		NOT GUARANTEED (CURRENT)		
Policy Year	Annual Premium Outlay	Cash Value	Death Benefit	*Annual Dividend	*Total Cash Value	*Total Death Benefit
1	832	0	50000	0	0	50000
2	832	93	50000	68	160	50000
3	832	582	50000	78	732	50311
4	832	698	50000	89	1340	50661
5	832	838	50000	101	1985	51054
6	832	1006	50000	121	2283	52075
7	832	1207	50000	145	2625	53117
8	832	1448	50000	175	3019	54179
9	832	1738	50000	209	3472	55262
10	832	2085	50000	251	3993	56368
11	832	2502	50000	302	4591	57495
12	832	3003	50000	362	5280	58645
13	832	3604	50000	434	6072	59818
14	832	4324	50000	521	6983	61014
15	832	5189	50000	625	8030	62235
20	832	9874	50000	1556	16152	69745
30	832	11849	50000	1867	21041	75412
40	832	14219	50000	2241	25748	87458
50	832	17062	50000	2689	29610	98745

* Dividends are based on the current scale and are not guarantees or estimates for the future. Amounts indicated as 'GUARANTEED' are based on rates contained in the policy. Amounts designated 'NOT GUARANTEED' include dividends based on the current scale, actual results may be less or more favorable.

Full Payment Ledger

This illustration is incomplete without the footnote page(s).

The Full Payment Ledger assumes that contractual policy premiums are paid for all years by the insured. Results are Not Guaranteed. See the previous attached Full Payment Ledger for Guaranteed values.

Results Based on a
Not Guaranteed
Dividend Interest Rate 1%
Lower than Current Scale

Policy Year	Annual Premium Outlay	*Total Cash Value	*Total Death Benefit
1	832	0	50000
2	832	147	50000
3	832	711	50251
4	832	1303	50568
5	832	1924	50900
6	832	2213	51243
7	832	2578	51648
8	832	2897	52130
9	832	3254	52777
10	832	3784	53495
11	832	4215	54280
12	832	4932	55115
13	832	5793	56038
14	832	6487	57066
15	832	7894	58206
20	832	15346	65697
30	832	20798	70345
40	832	24658	81365
50	832	28934	89356

* Dividends are based on the current scale and are not guarantees or estimates for the future. Amounts indicated as 'GUARANTEED' are based on rates contained in the policy. Amounts designated 'NOT GUARANTEED' include dividends based on the current or indicated scale, actual results may be less or more favorable. See page 2 for guaranteed values.

Abbreviated Payment Ledger

This illustration is incomplete without the footnote page(s).

The Abbreviated Payment Alternative uses dividend values to limit the number of out-of-pocket payments. Results are not guaranteed. See the attached Full Payment Ledger for guaranteed values.

	Results Based on the Not Guaranteed Current Dividend Scale			Results Based on a Not Guaranteed Dividend Interest Rate 1% Lower than Current Scale		
Policy Year	Annual Premium Outlay	*Total Cash Value	*Total Death Benefit	Annual Premium Outlay	*Total Cash Value	*Total Death Benefit
1	832	0	50000	832	0	50000
2	832	160	50000	832	147	50000
3	832	732	50311	832	711	50251
4	832	1025	50661	832	924	50568
5	832	1435	51054	832	1202	50900
6	832	1835	51488	832	1624	51243
7	832	2569	54114	832	2111	53293
8	832	3597	56874	832	2745	55424
9	832	5035	59774	832	3568	57641
10	832	7049	62823	832	4638	59947
11	832	8274	63985	832	5525	60547
12	&	9101	65247	832	6628	62984
13	&	10012	66578	832	7794	64718
14	&	11013	68123	&	8524	65978
15	&	12114	70125	&	9014	68347
20	&	18745	84125	&	10547	74587
30	&	25481	98712	&	18794	84579
40	&	38745	109465	&	24687	98632
50	&	49154	125789	&	32547	113678

& Based on our current dividend scale which is not guaranteed, no out-of-pocket cash outlay is required, it DOES NOT make the policy paid up or reduce the number of premiums that must be paid. Premiums are assumed to be paid by application of dividend credits. A reduction in the current scale could require you to make additional out-of-pocket cash outlays in one or more of these years.

* Dividends are based on the current scale and are not guarantees or estimates for the future. Amounts indicated as 'GUARANTEED' are based on rates contained in the policy. Amounts designated 'NOT GUARANTEED' include dividends based on the current or indicated scale, actual results may be less or more favorable.

Footnotes

For use in the state of New Jersey.

Interest Adjusted Cost Indexes* per $1,000 at 5% Interest:

		10 Years	20 Years
Surrender Index	Guaranteed	13.48	10.95
	Current	8.13	4.38

These cost comparison indexes provide two means of comparing the relative costs of two or more similar plans of insurance. A low index number represents a lower cost than a high one.

Cost results (except for interest adjusted cost indexes) do not reflect that, because of interest, a dollar payable in the future has less value than one payable today.

Yearly Life Income - 10 Years Certain (1/12 per month):

Age	Guaranteed	Total
65	$810.23	$2,602.03
73	$1,292.83	$5,606.92

The Life Income amounts shown reflect the settlement option rates as of 9/29/93. The total Life Income amounts are subject to change.

Premiums are due at the beginning of each policy year.

This illustration assumes that no policy loans or withdrawals are made.

We offer this illustration to help you understand this plan and we do not intend that it change any provision in the contract.

Death benefit amounts shown are as of the beginning of each policy year. Dividends and cash values become available at the end of the policy year.

See Brochure ORD 87906 for details on the Abbreviated Payment Plan.

Refer to brochure ORD 87360 for additional information regarding permanent insurance.

* Based on our current dividend scale which is not guaranteed, no out-of-pocket cash outlay is required. Premiums are assumed to be paid by application of dividend credits. A reduction in the current scale could require you to make additional out-of-pocket cash outlays in one or more of these years.

* Dividends are based on the company's current scale and are not guarantees or estimates for the future. Illustrated dividends reflect current investment earnings on funds attributable to policies issued since January 1, 1993, and are likely to change as current interest rates changes. Amounts indicated as "Guaranteed" or "Total" include dividends based on the current or indicated company scale.

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ABC LIFE INSURANCE COMPANY
ANY TOWN, USA 12345
JANUARY 28, 1994

Policy Illustration Explanation

The attached illustration is for a life insurance policy. The type of policy is whole life insurance. It guarantees insurance death benefits will remain the same no matter when the insured dies. Premiums must be paid during the insured's lifetime.

This illustration shows benefits which are not guaranteed by ABC Life Insurance Company. These benefits are based on the company's current dividend scale. Actual benefits are likely to be different from those shown. They may be more or less favorable.

To help show you how the non-guaranteed benefits can be affected by future changes, here are results at various years based on the current dividend scale; the current dividend scale assuming a 1% decrease in the interest rate built into that scale; and the policy's guarantees. All results assume full premium payments in cash.

Policy Year	Not Guaranteed Current Dividend Scale Premium	Cash Value	Death Benefit	Not Guaranteed Current Dividend Scale less 1% Premium	Cash Value	Death Benefit	Guaranteed Premium	Cash Value	Death Benefit
5	$1,464	4,554	100,664	$1,464	4,491	100,435	$1,464	4,370	100,000
10	$1,464	14,324	105,576	$1,464	13,717	103,757	$1,464	12,465	100,000
20	$1,464	51,294	143,711	$1,464	46,321	133,035	$1,464	29,868	100,000

The illustration shows premiums in later years being paid from non-guaranteed dividends, rather than being paid in cash by you. If actual future dividends are less than shown, you may have to pay premiums in cash for longer than shown or start paying cash premiums again at a later date. The premium payment plan shown in this illustration does not make this a "paid-up" policy.

Since the benefits that are shown in the illustration will change over time, you should check the status of your policy periodically with your insurance company or your insurance agent.

This illustration is designed to help you understand how the policy works. You should not use illustrations by themselves to compare different policies. For comparison purposes, other factors are important, such as how financially stable the company is, how well it has performed in the past, the service you expect to receive and the specific policy features you want.

I (we) have reviewed this Policy Illustration Explanation and the accompanying Life Insurance Policy Sales Illustration, which I (we) understand are not part of the policy contract. I (we) also understand that some of the values and benefits are not guaranteed and are likely to change in the future.

Date ________________ ________________________________
Applicant Signature

Policy Illustration Explanation and Sales Illustration presented by:

____
Signature of Agent (if any)

Proposed Insured: Greg Smith
Age: 40 Male
Rating Class: Standard Nonsmoker
Plan: Whole Life Policy
Amount of Insurance: $100,000
Dividend Option: Dividends used to purchase Paid-Up Additions.

****

ABC LIFE INSURANCE COMPANY
ANY TOWN, USA 12345
JANUARY 28, 1994

Life Insurance Policy Sales Illustration

Whole Life Policy

Proposed Insured: Greg Smith
Guaranteed Amount of Insurance: $100,000 for life
Dividend Option: Dividends used to Purchase Paid-Up Additions.
See Explanatory Notes.

Age: 40 Male
Rating Class: Standard Nonsmoker
Annual Premium: $1,464

		GUARANTEED				NOT GUARANTEED					
Year	Age End of YR	Contract Premium Beg of Yr	Cash Value End of YR	Death Benefit End of YR	Annual Surrender Beg of YR	Premium Outlay Beg of YR	Annual Dividend End of YR	Cash Value of Additions End of YR	Total Cash Value End of YR	Paid-Up Additions End of YR	Total Death Benefit End of Yr
1	41	1,464	0	100,000	0	1,464	0	0	0	0	100,000
2	42	1,464	77	100,000	0	1,464	33	33	110	133	100,133
3	43	1,464	1,465	100,000	0	1,464	35	70	1,535	271	100,271
4	44	1,464	2,895	100,000	0	1,464	44	117	3,012	436	100,436
5	45	1,464	4,370	100,000	0	1,464	63	184	4,554	664	100,664
6	46	1,464	5,891	100,000	0	1,464	87	279	6,170	967	100,967
7	47	1,464	7,461	100,000	0	1,464	193	482	7,943	1,611	101,611
8	48	1,464	9,078	100,000	0	1,464	306	805	9,883	2,597	102,597
9	49	1,464	10,746	100,000	0	1,464	424	1,259	12,005	3,917	103,917
10	50	1,464	12,465	100,000	0	1,464	553	1,859	14,324	5,576	105,576
11	51	1,464	14,055	100,000	0	1,464	688	2,614	16,669	7,569	107,569
12	52	1,464	15,683	100,000	0	1,464	837	3,545	19,228	9,908	109,908
13	53	1,464	17,348	100,000	1,464	+	930	3,084	20,432	8,325	108,325
14	54	1,464	19,047	100,000	1,464	+	1,030	2,707	21,754	7,060	107,060
15	55	1,464	20,776	100,000	1,464	+	1,113	2,399	23,452	6,048	106,325
16	56	1,464	22,534	100,000	1,464	+	1,232	2,198	25,333	5,362	105,963
17	57	1,464	24,321	100,000	1,464	+	1,354	2,113	27,407	4,988	105,961
18	58	1,464	26,139	100,000	1,464	+	1,486	2,157	29,690	4,930	106,324
19	59	1,464	27,988	100,000	1,464	+	1,622	2,337	32,191	5,176	107,042
20	60	1,464	29,868	100,000	1,464	+	1,760	2,661	34,520	5,712	107,703

+ Dividends are used to buy paid-up additions for 12 years. Then, premiums are paid from dividends and paid-up additions, as needed. A dividend change may increase or decrease the number of cash premium payments.

We strongly recommend you look at a lower scale illustration. The non-guaranteed values are based on dividends which may be lower or higher in the long term. See explanatory notes for assumptions and explanations.

Explanatory Notes

Premium Payment Plan

This illustration assumes that only the first 12 years of premiums are paid in cash. It is assumed that subsequent premiums will be paid by the application of current dividends, or the surrender of paid-up additions, or both. If actual dividends are lower than assumed in the illustration, cash payments may be required for more than 12 years, or, if cash premiums are stopped after 12 years, payments may have to be resumed at a later date.

Dividends

Based on the 1994 dividend schedule. Dividends are not guaranteed and can fluctuate significantly. We strongly recommend you look at an illustration showing a lower dividend scale. This illustration is neither a projection nor an estimate of future results. Transfer of policy ownership to a qualified pension or profit sharing plan could result in a different dividend schedule. The first year dividend, although included in this illustration, is contingent on payment of the entire second year premium. The first year dividend is not used in the calculation of first year paid-up insurance. This policy is available at issue with a policy loan rate of either 8% or an annually adjustable rate. This illustration assumes no policy loans. For the 8% policy, loans will affect dividends.

Important Tax Information

As illustrated, this policy would not become a Modified Endowment Contract (MEC) under the Internal Revenue Code. Loans and distributions from a MEC are subject to income tax and may also trigger a penalty tax. Changes made to the policy may cause the policy to become a MEC.

Additional Information

Values shown for Net/Total Cash Value, Total/Net Total Death Benefit, and Increase in CSV columns include any applicable settlement dividend which is not guaranteed and is payable on surrender, maturity or death.

This illustration was produced using state-dependent rate information valid through the end of March 1994.

This illustration does not recognize the time value of money and should not be used to compare policy costs. See attached page for policy cost information.

Life Insurance Adjusted Cost Comparison Index

	Current Assumptions Not Guaranteed		Guaranteed	
	Policy Year		Policy Year	
	10	20	10	20
Life Insurance Surrender Cost Index	$3.88	$0.68	$6.50	$3.30
Life Insurance Net Payment Cost Index	$13.32	$9.86	$15.00	$12.50

The Interest Adjusted Cost Comparison Indexes provide two means of comparing the relative cost of similar plans of insurance issued by the same company or by different companies. A low index number represents a lower cost than a higher one. These indexes reflect the time value of money by applying a 5% interest factor to policy premiums, dividends, and for the surrender cost index, the 10 and 20 year cash values. The dividends used in calculating these indexes are based on current year's scale and are not guarantees nor estimates of future dividends.

The indexes do not consider: (1) the value of the services of an agent or company; (2) the relative strength and reputation of the company and its actual dividend performance; or (3) differences in the policy provisions.

The 20 Year Life Insurance Surrender Cost Index includes the settlement dividend which is not guaranteed and is payable on surrender, maturity or death.

Presented by: Sally Q. Agent

****

ABC LIFE INSURANCE COMPANY
ANY TOWN, USA 12345
JANUARY 28, 1994

Policy Illustration Explanation

The attached illustration is for a life insurance policy. The type of policy is whole life insurance which guarantees a death benefit for the insured's entire life. The guaranteed amount of death benefit will reduce one time and will then remain at that lower level. Premiums must be paid during the insured's lifetime.

This illustration shows benefits that are not guaranteed by ABC Life Insurance Company. These benefits are based on the company's current dividend scale and current term insurance rates. Actual benefits are likely to be different from those shown. They may be more or less favorable.

To help show you how the non-guaranteed benefits can be affected by future changes, here are results at various years based on the current dividend scale; the current dividend scale assuming a 1% decrease in the interest rate built into that scale; and the policy's guarantees.

	Not Guaranteed Current Dividend Scale			Not Guaranteed Current Dividend Scale less 1%			Guaranteed		
Policy Year	Premium	Cash Value	Death Benefit	Premium	Cash Value	Death Benefit	Premium	Cash Value	Death Benefit
5	$720	1,928	100,063	$720	1,901	100,050	$720	1,835	100,000
10	$720	6,492	100,107	$720	6,339	100,084	$720	6,102	100,000
20	$720	21,245	101,186	$720	19,379	100,934	$720	19,379	100,000

The illustrated total death benefit contains both guaranteed and not guaranteed portions. The not guaranteed portion is a major part of the total death benefit. It is a combination of one-year term insurance and paid-up additional insurance, both of which are bought with dividends. Actual future dividends may be less than shown and actual future term insurance costs may be higher than those used in the illustration. In either case, the not guaranteed death benefits may be less than shown, and you may have to pay more premiums to keep the death benefit at its original level.

Since the benefits that are shown in the illustration will change over time, you should check the status of your policy periodically with your insurance company or your insurance agent.

This illustration is designed to help you understand how the policy works. You should not use illustrations by themselves to compare different policies. For comparison purposes, other factors are important, such as how financially stable the company is, how well it has performed in the past, the service you expect to receive and the specific policy features you want.

I (we) have reviewed this Policy Illustration Explanation and the accompanying Life Insurance Policy Sales Illustration, which I (we) understand are not part of the policy contract. I (we) also understand that some of the values and benefits are not guaranteed and are likely to change in the future.

Date ________________ ________________________________

Applicant Signature

Policy Illustration Explanation and Sales Illustration presented by:

____

Signature of Agent (if any)

Proposed Insured: John Jones
Age: 35 Male
Rating Class: Standard Nonsmoker
Plan: Whole Life Policy with Supplemental Insurance Option
Amount of Insurance: $100,000
Dividend Option: Supplemental Insurance Dividend option with Paid-Up Additions after crossover age.

****

ABC LIFE INSURANCE COMPANY
ANY TOWN, USA 12345
JANUARY 28, 1994

Life Insurance Policy Sales Illustration

Whole Life Policy with Supplemental Insurance Option
"Enhanced Whole Life"

Proposed Insured: John Jones — Age: 34 Male
Guaranteed Amount of Insurance: $100,000 for 22 years, $60,000 thereafter — Rating Class: Standard Nonsmoker
Annual Premium: $720
Dividend Option: Supplemental Insurance Dividend Option with Paid-Up Additions after crossover age. See Explanatory Notes.

		GUARANTEED			NOT GUARANTEED					
Year	Age End of YR	Contract Premium Beg of Yr	Cash Value End of YR	Death Benefit End of YR	Annual Dividend Beg of YR	Cash Value of Additions End of YR	Total Cash Value End of YR	Paid-Up Additions End of YR	Amount of One Year Term Beg of YR	Total Death Benefit End of Yr
1	41	720	0	100,000	18	18	18	2	0	100,018
2	42	720	0	100,000	26	26	26	17	39,998	100,026
3	43	720	319	100,000	33	37	356	48	39,983	100,033
4	44	720	1,064	100,000	47	58	1,122	128	39,952	100,047
5	45	720	1,835	100,000	63	93	1,928	263	39,872	100,063
6	46	720	2,632	100,000	84	146	2,778	462	39,737	100,084
7	47	720	3,457	100,000	89	203	3,660	655	39,538	100,089
8	48	720	4,310	100,000	93	262	4,572	838	39,345	100,093
9	49	720	5,191	100,000	100	324	5,515	1,020	39,162	100,100
10	50	720	6,102	100,000	107	390	6,492	1,200	38,980	100,107
11	51	720	6,887	100,000	117	463	7,350	1,387	38,800	100,117
12	52	720	7,695	100,000	209	623	8,318	1,852	38,613	100,209
13	53	720	8,527	100,000	308	882	9,409	2,597	38,148	100,308
14	54	720	9,382	100,000	407	1,242	10,624	3,604	37,403	100,407
15	55	720	10,261	100,000	516	1,717	11,978	4,883	36396	100,516
16	56	720	11,164	100,000	631	2,317	13,481	6,434	35,117	100,631
17	57	720	12,090	100,000	755	3,057	15,147	8,266	33,566	100,755
18	58	720	13,036	100,000	888	3,950	16,986	10,384	31,734	100,888
19	59	720	14,001	100,000	1,031	5,012	19,013	12,799	29,616	101,031
20	60	720	14,983	100,000	1,186	6,262	21,245	15,629	27,201	101,186
25	65	720	20,150	60,000	1,703	14,704	34,854	31,437	12,021	101,703
30	70	720	25,682	60,000	2,506	28,289	53,971	52,387	0	112,387
40	80	720	36,872	60,000	5,839	81,212	118,084	117,699	0	177,699

We strongly recommend you look at a lower scale illustration. The non-guaranteed values are based on dividends which may be lower or higher in the long term. A dividend reduction may result in a later crossover age, an additional out-of-pocket cost or a decrease in death benefit, according to the terms of the policy. See explanatory notes for assumptions and explanations.

Explanatory Notes

Supplemental Insurance Dividend (SID) Option and Crossover Age

Under the SID option, dividends are used to purchase a combination of one-year term insurance and paid-up insurance such that the total death benefit equals the guaranteed amount of insurance. The crossover age is the point in time when there is sufficient paid-up additional insurance purchased by dividends so that one-year term insurance is no longer required to maintain the guaranteed amount of insurance. Based on the illustrated dividend scale, the crossover age for this policy is attained age 63. Beyond the crossover age, the dividends will automatically be used to purchase paid-up additions, unless another dividend option is elected. The death benefits illustrated would be significantly affected by a change in the dividend option prior to the crossover age. A dividend reduction may result in a later crossover age, an additional out-of-pocket cost or a decrease in death benefit, according to the terms of the policy.

This policy has a guarantee period of 22 years. During the guarantee period the total death benefit will not be less than the initial guaranteed amount of insurance even if the dividend scale is reduced.

Dividends

Based on the 1994 dividend schedule for policies with adjustable loan interest rate provision. Dividends are not guaranteed and can fluctuate significantly. This illustration is neither a projection nor an estimate of future results. Transfer of policy ownership to a qualified pension or profit sharing plan could result in a different dividend schedule. The first year dividend, although included in this illustration, is contingent on payment of the entire second year premium. The first year dividend is not used in the calculation of first year paid-up insurance.

Important Tax Information

As illustrated, this policy would not become a Modified Endowment Contract (MEC) under the Internal Revenue Code. Loans and distributions from a MEC are subject to income tax and may also trigger a penalty tax. Changes made to the policy may cause the policy to become a MEC.

Additional Information

This illustration was produced using state-dependent rate information valid through the end of March 1994. This illustration does not recognize the time value of money and should not be used to compare policy costs. See attached page for policy cost information.

Life Insurance Adjusted Cost Comparison Index

	Current Assumptions Not Guaranteed		Guaranteed	
	Policy Year		Policy Year	
	10	20	10	20
Life Insurance Surrender Cost Index	$2.29	$1.08	$6.50	$3.30
Life Insurance Net Payment Cost Index	$7.20	$7.20	$9.00	$9.00

The Interest Adjusted Cost Comparison Indexes provide two means of comparing the relative cost of similar plans of insurance issued by the same company or by different companies. A low index number represents a lower cost than a higher one. These indexes reflect the time value of money by applying a 5% interest factor to policy premiums, cash dividends, and for the surrender cost index, the 10 and 20 year cash values. The dividends used in calculating these indexes are based on our current year's scale and are not guarantees nor estimates of future dividends. In computing the indexes for this policy, it is assumed that dividends payable on or before the crossover age are used to purchase a combination of one year term insurance and paid-up insurance as provided by the supplemental insurance dividend option. After the crossover age, dividends are assumed to be paid in cash.

The indexes do not consider: (1) the value of the services of an agent or company; (2) the relative strength and reputation of the company and its actual dividend performance; or (3) differences in the policy provisions.

****

January 31, 1994

COMPANY NAME

POLICY ILLUSTRATION EXPLANATION

Proposed Insured	John Doe
Age	35-Male
Rating Class	Standard
Plan	Whole Life, Modified Premium With Variable Insurance Amount
Amount of Insurance	$60,000

The attached illustration is for a life insurance policy. The type of policy is modified premium whole life insurance. It guarantees certain insurance death benefits and surrender values for life as long as the annual premium outlay is paid. The annual premium outlay increases once during your life and then stays the same. Additional premiums may be paid on this policy at any time subject to certain limits. If premium amounts less than the annual premium outlay are paid, the policy cash values may become less than the guaranteed cash values and the policy may lapse. The death benefit will be paid to the person or persons named by you as beneficiary or as otherwise required by law.

This illustration also shows benefits which are not guaranteed by the company. These benefits are based on the company's current scale of interest, mortality and expense. Actual benefits are likely to be different from those shown. They may be less or more favorable.

The policy illustrated is eligible for the company's Living Needs Benefit rider, at no additional premium. This rider allows you to access certain life insurance benefits from your policy if you are diagnosed as terminally ill or if you become permanently confined to a nursing home. Your agent can provide more details.

Since the values and benefits that are shown here will change over time, you should check the status of your policy periodically with the (insurance company) or your insurance agent.

This illustration is designed to help you understand how the policy works. You should not use illustrations by themselves to compare different policies. For comparison purposes, other factors are important, such as how financially stable the company is, how well it has performed in the past, the service you expect to receive and the specific policy features you want.

This illustration shows certain guaranteed and not guaranteed benefits for a number of years. To help show you how the not guaranteed benefits can be affected by future changes, here are results at various years based on the current scale; the current scale minus 1% in the interest rate portion of that scale unless that would be below the policy guarantee, in which case a lesser reduction is shown; and the policy's guarantees. All results assume full premium payments in cash. Those values at five, 10 and 20 years are as follows:

	Guaranteed			Not Guaranteed Current Scale			Not Guaranteed Current Scale (Less 1% in the Interest Component)		
Policy Year	Annual Premium Outlay	Death Benefit	Surrender Value	Annual Premium Outlay	Death Benefit	Surrender Value	Annual Premium Outlay	Death Benefit	Surrender Value
5 Years	809	60,011	1,652	809	60,043	1,684	809	60,011	1,652
10 Years	809	60,028	4,531	809	60,400	4,902	809	60,278	4,780
20 Years	809	60,090	7,697	809	62,602	10,210	809	62,065	9,673

I (we) have reviewed the information provided above concerning the policy for which I (we) have applied and the policy illustration that I (we) have received. I (we) understand that neither this illustration explanation page(s) nor the illustration is part of the policy for which I (we) have applied. Any policy issued will set forth the entire contract between me (us) and the insurer.

I (we) understand that some of the values and benefits are not guaranteed and are likely to change.

Date: ____________________

____
Signature of Applicant

____
Signature of Coapplicant

Policy Illustration Explanation and Sales Illustration Presented by:

____
Signature of Agent (If Any)

The Company Name

Life Insurance Policy Sales Illustration

Prepared for: John Doe
Age 35, Male, Standard
Excludes Waiver of Premium Benefit

On: January 26, 1994

Initial Annual Payment
=======
$890.11

$60,000 Modified Premium Whole Life Insurance
Variable Insurance Amount (Appreciable Life)

By: Agent John Doe

****

Annual Payment Schedule
=============

Years 1 to 30 $809.11
Years 31 to 65 $4,431.74

Full Payment Ledger

This illustration is incomplete without the footnote page(s).

		Guaranteed Basis* Interest Rate 4.00%			Not Guaranteed Basis* Assumed Interest Rate 4.40%		
Policy Year	Annual Premium Outlay	Contract Fund	Cash Value	Death Benefit	Contract Fund	Cash Value	Death Benefit
1	809	446	0	60002	448	0	60004
2	809	889	272	60004	906	279	60010
3	809	1357	730	60006	1369	742	60019
4	809	1817	1190	60008	1838	1211	60029
5	809	2279	1652	60011	2311	1684	60043
6	809	2740	2238	60014	2824	2322	60098
7	809	3197	2821	60017	3341	2965	60161
8	809	3650	3399	60020	3861	3610	60232
9	809	4095	3970	60024	4382	4256	60311
10	809	4531	4531	60028	4902	4902	60400
11	809	4955	4955	60032	5421	5421	60499
12	809	5366	5366	60037	5937	5937	60607
13	809	5761	5761	60041	6447	6447	60727
14	809	6138	6138	60047	6949	6949	60858
15	809	6492	6492	60053	7440	7440	61001
20	809	7697	7697	60090	9557	10210	62602
30	809	8245	8245	60231	12349	13594	70594
40	4482	8678	8678	61720	56524	58063	95494
50	4482	9245	9245	65478	104512	114241	143254

* Any amounts indicated as "Guaranteed" are based on rates contained in the policy. Those amounts designated as "Not Guaranteed" are based on the assumption that an illustrative not guaranteed rate of interest will be credited to the contract fund and our current mortality rates and other charges will apply, actual results may be less or more favorable.

Full Payment Ledger

This illustration is incomplete without the footnote page(s).

The Full Payment Ledger assumes that contractual policy premiums are paid for all years by the insured. Results are Not Guaranteed. See the previous attached Full Payment Ledger for Guaranteed values.

Results Based on a
Not Guaranteed
Interest Crediting Rate of 4%
(Lower than Current Scale)

Policy Year	Annual Premium Outlay	*Total Cash Value	*Total Death Benefit
1	809	0	60002
2	809	272	60004
3	809	730	60006
4	809	1190	60008
5	809	1652	60011
6	809	2278	60054
7	809	2906	60102
8	809	3533	60154
9	809	4158	60213
10	809	4780	60278
11	809	5273	60350
12	809	5759	60429
13	809	6236	60516
14	809	6702	60611
15	809	7154	60715
20	809	9673	62065
30	809	12164	69164
40	4482	54137	91568
50	4482	115336	138417

Any amounts indicated as "Guaranteed" are based on rates contained in the policy. Those amounts designated as "Not Guaranteed" are based on the assumption that an illustrative not guaranteed rate of interest will be credited to the contract fund and our current mortality rates and other charges will apply. See page 2 for guaranteed values.

Footnotes

LIVING NEEDS BENEFITS+

	ILLUSTRATIVE BASIS	4.00%		GUARANTEED BASIS	4.00%	
Age	Nursing Home	Terminal Illness #	Total Death Ben	Nursing Home	Terminal Illness #	Guaranteed Death Ben
55	43,446	55,859	62,065	42,063	54,081	60,090
65	48,415	62,248	69,164	42,162	54,208	60,231
73	59,845	76,943	85,493	42,902	55,159	61,288

#Certain organ transplants are eligible for payment under this option.

This policy is eligible for company's new Living Needs Benefit rider, at no additional premium. This rider allows you to access benefits from your life insurance policy should you be diagnosed as terminally ill or become permanently confined to a nursing home. Please ask your company representative for a generic illustration and a description of the requirements and conditions.

+ Amounts shown are estimates based on the death benefit and current Living Needs mortality and interest rate assumptions. At the time of claim, amounts will be recalculated based on the then current death benefit and assumptions and a $150 processing fee will be deducted. If a Living Needs Benefit claim is made for the full amount, the death benefit will be reduced to zero. Partial claims may be available.

Interest Adjusted Cost Indexes* per $1,000 at 5% Interest:

	GUARANTEED BASIS 10 YEARS	GUARANTEED BASIS 20 YEARS	ILLUSTRATIVE BASIS* 10 YEARS	ILLUSTRATIVE BASIS* 20 YEARS
Surrender Index	7.80	9.83	7.35	8.68

These cost comparison indexes provide two means of comparing the relative costs of two or more similar plans of insurance. A low index number represents a lower cost than a high one.

Premiums are assumed to be paid at the beginning of each policy year. Contract funds, cash values and death benefits have been calculated on the basis of the premium mode selected and are shown as of the end of each policy year.

Cost results (except for interest adjusted cost indexes) do not reflect that, because of interest, a dollar payable in the future has less value than one payable today.

Surrender Information

	ILLUSTRATIVE BASIS Assumed Interest Rate 4.00%			GUARANTEED BASIS Interest Rate 4.00%		
Age	Cash Value	Premiums Paid	Net Result	Cash Value	Premiums Paid	Net Result
65	12,164	24,273	-12,109	3,231	24,273	-21,042
73	44,495	60,127	-15,633	20,290	60,127	-39,837

Yearly Life Income - 10 Years Certain (1/12 per month):

	ILLUSTRATIVE BASIS Assumed Interest Rate 4.00%			GUARANTEED BASIS Interest Rate 4.00%		
Age	Cash Value	Guaranteed Annuity	Total Annuity&&	Cash Value	Guaranteed Annuity	Total Annuity&&
65	12,164	836	993	3,231	222	264
73	44,495	3,716	4,223	20,290	1,695	1,926

&& The Life Income amounts shown above reflect the settlement option rates as of 12/10/93. The total Life Income amounts are subject to change.

Each premium is added to the contract fund after a 3.35% deduction to cover taxes attributable to premiums (2.10% for state taxes and 1.25% for federal taxes) and a $2.00 deduction for the premium payment fee.

Interest rates illustrated for the contract fund:
Guaranteed Basis - 4.00%
Illustrative Basis - 4.00%

*The 4.40% is less than our current interest rate of 4.40%.

*Any amounts indicated as "Guaranteed" are based on rates contained in the policy. Those amounts designated as "Illustrative" are based on the assumption that an illustrative non-guaranteed rate of interest will be credited to the contract fund and our current mortality rates and other charges will apply. A detailed illustration based on our current rate for this policy is available upon request.

Using illustrated premiums, the 4.00% interest rate assumption, and the current charges, the company will increase your death benefit starting in policy year 54. We reserve the right to limit premium payments after this point.

If premium payments are made as shown in this illustration, this contract will become a "Modified Endowment" in policy year 55. According to federal tax law, loans or withdrawals on the policy may be subject to income tax and a 10% penalty tax. (You may be able to avoid this tax treatment by making lower premium payments. For example, level annual premium payments of up to $2,953.00 for seven years would be allowable.) Please consult your company representative for premium schedules extending beyond seven years that would also be allowable.

Footnotes

This illustration assumes that no policy loans or withdrawals are made.

We offer this illustration to help you understand this plan and we do not intend that it change any provision in the contract.

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ATTACHMENT FOUR-B

FIPSCO
Insurance Marketing Specialists
1090 Executive Way
Des Plaines, IL 60018
(708)803-4700
Fax (708)803-4735

January 27, 1994

RE: Life Insurance Illustrations Model Act

Dear Ms. Johnson:

Enclosed please find my recommendations for the NAIC Life Insurance Illustrations Model Act. I hope to offer a unique perspective in this regard.

I came to the life insurance industry in 1982 when dramatic changes in products and computer support began. My perspective is both as a consumer and a financial analyst. My training is in math and economics. I taught finance at Brigham Young University and provided consulting to the banking industry prior to joining FIPSCO in 1982. While at FIPSCO, I have worked with a wide range of companies to illustrate hundreds of different life insurance products. I am keenly aware of the need for good consumer information and continue to work on practical ways to address problems that exist.

Attached is a bibliography of pertinent articles and correspondences that I have written on the subject of life insurance illustrations. Please let me know if you would like copies of any of this material.

Since FIPSCO does not sell life insurance, I am not disposed to favor one type of company or product over another. My goal is to bring together many viewpoints. Our current user group comprises more than 50 life insurance companies. These companies illustrate virtually every product combination available in the marketplace. As part of our user group I have promoted a dialogue with Richard Weber in regard to Due Care, and Judy Faucett in regard to the Society of Actuaries studies. I have also maintained dialogue with Jane Bryant Quinn and others on how life insurance is presented.

Attached you will see examples of a two-page standard format that can be used with virtually any life insurance product. I have attempted to address issues raised by the NAIC. My goal has been to make the format clear to consumers while also being sufficiently comprehensive.

Also attached are comments which explain the reasoning behind these formats. I have included items which respond to the outline in the NAIC's 12/7/93 draft.

Please feel free to call me if I can be of assistance. I would be glad to meet with the committee to discuss these ideas.

Yours truly,
Chris W. Kite

Bibliography of Articles and Correspondences
Regarding Life Insurance Illustrations and Values
by Chris Kite

Articles

"Flexible Endowment$_{tm}$, Never Let Them See You Lapse." Soon to be published in *Life Insurance Selling*. Describes how universal life can be adjusted to stay in force under virtually any premium, interest, or cost scenario.

"Apples to Oranges, Proposed California Illustration Law" (August 93). Article accepted for publication by *Full Coverage* magazine. Publication pending purchase of magazine by another firm.

"Back to the Future" (*Life Insurance Selling* March 1993). How to get back to the basics of needs selling by using new products and support tools.

"Life Portraits$_{tm}$ - Goal Oriented Insurance Illustrations" (*Life Insurance Selling* October 1992). Principles for improving consumer understanding of how life insurance works.

"The Opportunity in Pension Max" (*Life Insurance Selling* March 1991). A response to Jane Bryant Quinn's critique of Pension Max. She noted FIPSCO's illustration as the only one which fairly portrayed the concept.

"The Strange World of Age 95, Illustrations in the Twilight Zone" (*Life Insurance Selling* May 1990). Understanding the interest and cost dynamics of long-term projections.

"Accurate Presentations in the Mortgage Market" (*Life Insurance Selling* April 1989). How to properly consider the time value of money when using life insurance to protect or prepay a mortgage.

"The Seven Year Itch" (*Best Review* May 1989). A review of TAMRA and how the tax law limits investment oriented insurance. Simpler, less costly alternatives are proposed.

"A Look at Zero Cost Loans" (*Life Insurance Selling* August 1987). Analysis of the use of these policy loans in single premium and other life policies.

"Cost Index Eulogy - A proposal for using rates of return" (6-1-92). Paper presented at FIPSCO user group.

Other Papers

- Yield Index Alternatives, May 25, 1993

- Paper presented at public hearing on proposed law in California to replace Surrender Cost Index (follow-up letters on 6-7-93, 8-12-93, 9-29-93, 12-15-93).

- Response to *Money* magazine's Life Insurance Test (1-28-92) and other *Money* magazine advice on life insurance (1-5-94, 8-24-90)

- Letter to Brian Fetchell comparing his Fungible Present Value Analysis to rate of return analysis (1-12-94)

- Responses to "Should Illustrations Only Show Guarantees?" Series of letters with David Wood of Massachusetts Mutual who supported only showing guarantees. In the original article, Steve Parrish of Central Life advocated showing more than guarantees (10-20-93 to 1-18-94)

- Response to Jane Bryant Quinn, "Is Your Life Insurance in Danger?" (Jan. 1994)

- Review of "What Consumers Aren't Told in Sales Illustrations" from Senator Metzenbaum's Committee (9-30-92)

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TO: Carolyn Johnson, NAIC/SSO
FROM: Chris Kite, FIPSCO
DATE: February 22, 1994
RE: Corrections to 1-27-94 Proposal for NAIC Life Insurance Illustration Model Act

An error was made in calculating a cost index (% of 80CSO) for Case 1 and Case 2. The percentage was based on smoker 80CSO rates although the illustration was on a non-smoker. Using non-smoker rates and a $60 annual fee, the percentages should be 82% and 71%, respectively, instead of 50%. Attached are updated copies of these two pages.

A client has also made me aware that in regard to the role of determining supportability, I should probably be recommending the American Academy of Actuaries instead of the Society of Actuaries. In either case, the point is to give appropriate power to those who can properly define actuarial supportability.

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Projected Growth Rates Non-Guaranteed Values

To put a long-term projection into perspective, you should consider the effective annual growth rates represented by the illustration. Based on a premium of $6,058 per year to age 65, the illustrated cash value exceeds the total premium paid as of year 7. To match the illustrated cash value in year 20, the premiums (net of distributions) represent a 4.86% net annual growth rate. As of age 80, the net annual growth rate would be 5.99% for the illustrated cash value. This rate is lower than the policy interest rate due to insurance costs. If you access cash values by loans or withdrawals, a corresponding decrease in the death benefit occurs.

7 years until projected cash value exceeds the premiums paid

Projected Net Growth Rate	Cash Value While Living	or	Benefit in Case of Death
In 20 Years	4.86%		12.18%
At Age 80	5.99%		6.14%

Based on a 6.85% interest rate and current costs

If death were to occur in year 20, the premiums (net of distributions) would represent a 12.18% net annual growth rate. As of age 80, the net annual growth rate would be 6.14% for the illustrated death benefit. These returns are based on the non-guaranteed projected values.

Evaluating Long-Term Projections

Life insurance provides a higher than average return in case of early death. As a long-term average, an insurance company can only pay out what it accumulates via your premiums and its investments net of its expenses. A current interest rate on 30 Year Treasury Bonds of 6.20% may be a useful index for comparing long-term investments. A description of the investments supporting this policy's cash value growth is available upon request.

A comparison to the industry standard for guaranteed costs (80CSO) can be used to show the reasonableness of costs built into the illustration. Based on a net growth rate of 6.85%, the cash value illustrated as of age 80 represents an average of 82% of this standard for insurance costs. Current costs are typically lower than this guaranteed standard. Be careful if you compare this policy against another. The policy illustrating greater long-term values may not be superior. Its cost and interest assumptions may only be more optimistic.

I have reviewed this Life Insurance Buyer's Guide and understand which values are not guaranteed in the attached illustration. I understand that long-term projections depend on assumptions used for growth rates and costs.

____
Signature

____
Date

Case 1: Universal Life - Maximum Premium

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Projected Growth Rates Non-Guaranteed Values

To put a long-term projection into perspective, you should consider the effective annual growth rates represented by the illustration. Based on a premium of $3,073 per year for life, the illustrated cash value exceeds the total premium paid as of year 14. To match the illustrated cash value in year 20, the premiums (net of distributions) represent a 1.40% net annual growth rate. As of age 80, the net annual growth rate would be 2.36% for the illustrated cash value. This rate is lower than the policy interest rate due to insurance costs. If you access cash values by loans or withdrawals, a corresponding decrease in the death benefit occurs.

14 years until projected cash value exceeds the premiums paid

Projected Net Growth Rate	Cash Value While Living	or	Benefit in Case of Death
In 20 Years	1.40%		17.52%
At Age 80	2.36%		4.90%

Based on a 6.85% interest rate and current costs

If death were to occur in year 20, the premiums (net of distributions) would represent a 17.52% net annual growth rate. As of age 80, the net annual growth rate would be 4.90% for the illustrated death benefit. These returns are based on the non-guaranteed projected values.

Evaluating Long-Term Projections

Life insurance provides a higher than average return in case of early death. As a long-term average, an insurance company can only pay out what it accumulates via your premiums and its investments net of its expenses. A current interest rate on 30 Year Treasury Bonds of 6.20% may be a useful index for comparing long-term investments. A description of the investments supporting this policy's cash value growth is available upon request.

A comparison to the industry standard for guaranteed costs (80CSO) can be used to show the reasonableness of costs built into the illustration. Based on a net growth rate of 6.85%, the cash value illustrated as of age 80 represents an average of 71% of this standard for insurance costs. Current costs are typically lower than this guaranteed standard. Be careful if you compare this policy against another. The policy illustrating greater long-term values may not be superior. Its cost and interest assumptions may only be more optimistic.

I have reviewed this Life Insurance Buyer's Guide and understand which values are not guaranteed in the attached illustration. I understand that long-term projections depend on assumptions used for growth rates and costs.

Signature

Date

Case 2: Universal Life - Current Assumption Premium

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NAIC Life Insurance Illustration Model Act
Proposed by Chris Kite
1-27-94

Overview of Proposed Models

The NAIC is looking for a format to help set standards for insurance illustrations. Consideration has been given to:

1) the Great Britain model of using standard assumptions for all products
2) illustration of only guaranteed values
3) illustration of only historical results

Instead of going to the extreme of these approaches, consumers can be provided with ways to understand how a policy illustration compares to standards for costs and interest.

Richard Weber in a recent article on Due Care (Life Insurance Selling, Jan. 1994) noted that Great Britain has done away with its previous model. It does not help consumers distinguish one policy or company from another. The illustration of only guaranteed values would have the same problem. In addition, it would only show the worst case scenario. If a policy outperforms its guarantees even briefly, it will exceed guaranteed values.

Only illustrating guarantees would be comparable to adjustable rate mortgages only telling you what you pay at the highest rate possible. Consumers would not have good information on how the products work.

Illustrating historical results is helpful with variable life to show the ups and downs of equities. For non-variable life insurance, a current interest or crediting rate is often a better indicator of the future than past performance. Past performance of rates relative to the market can be helpful information, but problems with only illustrating historical values are well noted in other NAIC discussions. In addition, insurance costs are related to attained ages rather than historical calendar years.

Proposed Buyer's Guide

I recommend that the industry move toward descriptive and graphic presentations which allow the consumer to easily see a range of expected values. A picture of how the policy works is better than focusing on a column of numbers that gives an impression of rigid predictability. However, to keep solutions practical, the two-page buyer's guide I am proposing could be used with illustrations currently provided by insurance companies. The guide also works in the key elements of the three alternatives listed above.

Examples of this proposed buyer's guide are included in this proposal. Some examples are accompanied by a full illustration currently used by Standard Insurance of Oregon. These illustrations do a good job of communicating important concepts to consumers.

As recommended by the Society of Actuaries, a buyer's guide should emphasize that illustrations are mainly to show how the policy works. The comparison of long-term numbers from illustrations of different policies should be discouraged or at least put into perspective.

How to Keep the Policy In Force

Consistent with a law proposed in California, the buyer's guide immediately emphasizes what annual premium must be paid to guarantee benefits. Focusing on this one number is much better than trying to explain a column of guaranteed values that will almost always be significantly less than actual results.

When the consumer chooses to pay less premium, the consumer needs to be aware of the possible consequences. Additional disclosure could explain how premiums or benefits should be adjusted if performance is less than illustrated. My simple rule is that if the policy cash value is going to decrease, an adjustment needs to be made immediately to keep the policy as permanent insurance.

Two Rates of Return to Replace Indices

The guide also attempts to clearly distinguish between cash value and death benefit. Every life insurance policy has trade-offs between these two ways of receiving a return on premium paid. Buying more death benefit reduces cash value and vice-versa. This is reflected in the text and in the two rates of return.

As noted in my bibliography, I recommend showing two rates of return in lieu of a yield index based on a rate of return after term costs (Linton Yield). This method is endorsed by William Brownlie, CLU, ChFC in his books, *The Life Insurance Buyer's Guide* and *Life Insurance: Its Rate of Return.*

These growth rates would replace the Net Payment Index and Surrender Cost Index. They are easy to verify and much easier for consumers to understand. They reflect the dual nature of life insurance - cash value while living, substantial additional benefit in case of death. This dual nature makes life insurance distinct from other investments. The growth rates emphasize that life insurance is not a short term investment, but is for long-term protection.

I recommend showing returns at age 80 as a simple proxy for life expectancy. Senator Metzenbaum's committee wanted to see a measure of life expectancy on the illustration. This measure approximates an average age for paying out death benefits.

I also show rates of return in the 20th year. Prior to year 20, I simply show how many years until the policyholder could get back its premium from the cash value. In the early years, the consumer can look at the values without significant problems of putting the time value of money in perspective.

Cost Index Variation of Linton Yield

A goal of the Linton Yield and the proposed California Yield Index is to build in a measure of the policy net amount at risk and effective insurance cost. The measure is good if you agree upon the term insurance rates to use. However, if the rates are too high, a bias toward low cash value illustrations occurs. If the rates are too low, the bias favors high cash value illustrations.

To improve upon this yield index, I propose that the same equations be used to solve for a percentage of guaranteed standard insurance costs implied by the illustration. You would set an appropriate current interest rate for the policy or use a long-term rate such as 30 year treasury bonds instead of solving for the interest rate. Here are the equations:

$$CV_t = (CV_{t-1} + P - C - F)(1 + i)$$

P	=	Premium net of a standard load (net of distributions also)
F	=	Fixed costs or standard fees
i	=	Interest rate
CV	=	Cash value
C	=	Cost of insurance
	=	$(DB_{t-1} - CV_{t-1} - P + F) * q * f$
DB	=	Death Benefit
q	=	Ultimate 80CSO Cost of Insurance rate
f	=	Factor for percentage of q

By iterations, solve for f instead of i

Calculations can be adjusted for modes, but an annual calculation is probably sufficient. Select rates for the first 10 years could be used, but this complication is probably not necessary. Start-up costs tend to offset the lower select rates.

From my testing and from reviewing many actuarial specifications, most companies charge insurance rates equal to 50% to 90% of 80CSO. Rated policies would be higher. A lapse-supported illustration may assume less than 25% of 80CSO in the long term. Consumers should at least have a red flag if an illustration is based on aggressive cost assumptions.

Beacon Company Inc. (West Bloomfield, Mich.) provides an illustration evaluation service recommended by Jane Bryant Quinn. To calculate a benchmark cash value, it uses 85% of 80CSO Select and Ultimate plus an estimate of start-up costs. A graph then shows a range of expected cash values. The cost index I am proposing can be used for similar benchmarking.

The rate of return and cost index methods in this proposal should capture the essence of what National Insurance Consumer Organization and other rate of return services provide to consumers. Translating future values into an annual growth rate helps to solve the problem of putting long-term numbers into perspective. Even with standards and reasonable assumptions, a 2% spread in growth over 36 years of an illustration equals a doubling of values. Consumers need to see the long-term effects of interest and costs to see how a policy works, but better disclosure will help to put these values into perspective.

Supportability and Limits on Projections

I endorse the idea of giving the Society of Actuaries more power to determine supportability. I think the general principles outlined by Harold Phillips (August 19, 1993) are very good in this regard. The percent of 80CSO cost index could be used as a practical tool for testing supportability. Along with a comparison of the crediting rate to long-term market rates, you have clear ways of comparing cost and growth components.

The Society of Actuaries could refine definitions of what assumed mortality and interest improvements should not be illustrated. If columns of projected values are not allowed with these assumed improvements, then you could still allow a description by the company of what and why improvements may occur.

Notification of Changes in Assumptions

Because of the long-term nature of life insurance, effective annual statements are timely enough to notify policyholders of changes in assumptions. An exception would be for policies that will lapse in less than a year. More frequent notification may be very costly and these costs will eventually be passed on to the policyholder.

A simple warning signal is if the cash value is projected to decrease due to costs in excess of growth. At this point, the policyholder needs to either increase premium payments or else decrease benefits to keep the policy as permanent insurance. A good annual statement is sufficient to properly adjust for the dynamics of changing costs and interest rates (or dividends).

Penalties

Clear measures of supportability must be developed by the Society of Actuaries in order for a penalty to be imposed on unsupportable illustrations. The cost index to 80CSO is recommended. If the penalty were to pay the benefits based on the illustration which is most favorable, enforcement would be complicated. A reasonable time limit would have to be established. What can be supported changes over time.

For example, suppose a company illustrates 8% interest as current when clearly (if it can be clear) only 7½% interest is supportable even if 8% is temporarily paid. The penalty would be to continue paying 8% when the company finally goes to 7½%. If the current or supportable rate continues to drop, the penalty should at least be limited to a ½% over the new rate. If rates go back up to 8%, then the penalty should probably be waived since 8% becomes supportable. A time limit would be needed to prevent the penalties from being excessive. I recommend that simpler penalties be considered. A stronger penalty could be imposed if the company is not truly charging or crediting what it calls "current."

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LIFE INSURANCE BUYER'S GUIDE
Case 1
Universal Life - Maximum Premium

Proposed by Chris Kite
For NAIC Model Illustration Act
1-27-94

Life Insurance Buyer's Guide For John Doe

How to Guarantee Benefits

Universal Life is a life insurance policy which provides a benefit in case of death or cash value while the insured is living. To guarantee a level death benefit of $500,000 for life, you must pay an annual premium of $6,058 for life. This premium is based on the risk classification of male, age 35, non-smoker.

Level Death Benefit:	$500,000
Annual Premium to Guarantee Benefit:	$6,058

Contractual guarantees are a minimum interest rate of 4.00% and maximum fees and insurance costs based on an industry standard for guaranteed costs (80CSO). See the policy contract for further details.

Policy Performance and Benefits

If the policy outperforms its guarantees, the additional interest and cost savings can be used to build cash value or to purchase additional death benefit. Within IRS limits, the death benefit is typically free of income tax; but use of the cash value has additional restrictions that must be considered before planning any distributions. Currently the policy has a 6.85% interest rate and costs below the guaranteed maximums. Detailed information on historical rates and costs are available upon request.

Illustration of How Policy Works

The attached illustration gives an example of how the policy works. It is not a contract. Actual results will vary due to changes in the economy and life expectancy. The further into the future you go, the more uncertain the projection becomes. Caution should be used in comparing one policy to another. You should put greater emphasis on a company's ability to meet its projections than on the illustrated difference in long-term numbers.

You will receive an annual statement to show your policy status. If cash value growth is less than projected, then you may need to pay more premiums (within IRS limits) or lower the death benefit in order to meet your goals. If cash values start to decrease, these adjustments may become critical to keeping the policy in force.

Projected Growth Rates Non-Guaranteed Values

To put a long-term projection into perspective, you should consider the effective annual growth rates represented by the illustration. Based on a premium of $6,058 per year to age 65, the illustrated cash value exceeds the total premium paid as of year 7. To match the illustrated cash value in year 20, the premiums (net of distributions) represent a 4.86% net annual growth rate. As of age 80, the net annual growth rate would be 5.99% for the illustrated cash value. This rate is lower than the policy interest rate due to insurance costs. If you access cash values by loans or withdrawals, a corresponding decrease in the death benefit occurs.

Seven years until projected cash value exceeds the premiums paid

Projected Net Growth Rate	Cash Value While Living	or	Benefit in Case of Death
In 20 Years	4.86%		12.18%
At Age 80	5.99%		6.14%

Based on a 6.85% interest rate and current costs

If death were to occur in year 20, the premiums (net of distributions) would represent a 12.18% net annual growth rate. As of age 80, the net annual growth rate would be 6.14% for the illustrated death benefit. These returns are based on the non-guaranteed projected values.

Evaluating Long-Term Projections

Life insurance provides a higher than average return in case of early death. As a long-term average, an insurance company can only pay out what it accumulates via your premiums and its investments net of its expenses. A current interest rate on 30 Year Treasury Bonds of 6.20% may be a useful index for comparing long-term investments. A description of the investments supporting this policy's cash value growth is available upon request.

A comparison to the industry standard for guaranteed costs (80CSO) can be used to show the reasonableness of costs built into the illustration. Based on a net growth rate of 6.85%, the cash value illustrated as of age 80 represents an average of 50% of this standard for insurance costs. Current costs are typically lower than this guaranteed standard. Be careful if you compare this policy against another. The policy illustrating greater long-term values may not be superior. Its cost and interest assumptions may only be more optimistic.

I have reviewed this Life Insurance Buyer's Guide and understand which values are not guaranteed in the attached illustration. I understand that long-term projections depend on assumptions used for growth rates and costs.

Signature

Date

Case 1: Universal Life - Maximum Premium

01-28-94 STANDARD INSURANCE COMPANY

UNIVERSAL LIFE II PLUS

ILLUSTRATION FOR: John Doe AGE: 35 MALE
PROVIDED BY: Your Agent NONSMOKER

INITIAL DEATH BENEFIT: 500,000 INITIAL OPTION: Level
LUMP SUM DEPOSIT: 0 FIRST YEAR PREMIUM: 6,058.33

				GUARANTEED VALUES			CURRENT VALUES		
AGE	END OF YR	ANNUAL OUTLAY	MODE	SURR VALUE	ACCUM VALUE	DEATH BENEFIT	SURR VALUE	ACCUM VALUE	DEATH BENEFIT
36	1	6058	A	0	5136	500000	43	5553	500000
37	2	6058	A	5227	10447	500000	6234	11454	500000
38	3	6058	A	10996	15926	500000	12787	17717	500000
39	4	6058	A	16937	21577	500000	19722	24362	500000
40	5	6058	A	23047	27397	500000	27057	31407	500000
41	6	6058	A	29332	33392	500000	34822	38882	500000
42	7	6058	A	35787	39557	500000	43032	46802	500000
43	8	6058	A	42420	45900	500000	51722	55202	500000
44	9	6058	A	49230	52420	500000	60914	64104	500000
45	10	6058	A	56224	59124	500000	70653	73553	500000
46	11	6058	A	63688	66008	500000	81251	83571	500000
47	12	6058	A	71333	73073	500000	92453	94193	500000
48	13	6058	A	79162	80322	500000	104306	105466	500000
49	14	6058	A	87181	87761	500000	116854	117434	500000
50	15	6058	A	95384	95384	500000	130140	130140	500000
51	16	6058	A	103198	103198	500000	143640	143640	500000
52	17	6058	A	111190	111190	500000	157976	157976	500000
53	18	6058	A	119347	119347	500000	173249	173249	500000
54	19	6058	A	127663	127663	500000	189548	189548	500000
55	20	6058	A	136122	136122	500000	206947	206947	500000
56	21	6058	A	144715	144715	500000	225533	225533	500000
57	22	6058	A	153433	153433	500000	245396	245396	500000
58	23	6058	A	162281	162281	500000	266651	266651	500000
59	24	6058	A	171256	171256	500000	289422	289422	500000
60	25	6058	A	180343	180343	500000	313842	313842	500000
61	26	6058	A	189528	189528	500000	340060	340060	500000
62	27	6058	A	198798	198798	500000	368237	368237	500000
63	28	6058	A	208129	208129	500000	398565	398565	502192
64	29	6058	A	217491	217491	500000	431050	431050	534502
65	30	6058	A	226856	226856	500000	465673	465673	568121

This illustration includes the following riders:

*** NONE ***

01-28-94 STANDARD INSURANCE COMPANY

UNIVERSAL LIFE II PLUS

ILLUSTRATION FOR: John Doe AGE: 35 MALE
PROVIDED BY: Your Agent NONSMOKER

INITIAL DEATH BENEFIT: 500,000 INITIAL OPTION: Level
LUMP SUM DEPOSIT: 0 FIRST YEAR PREMIUM: 6,058.33

* * * SUMMARY * * *

				GUARANTEED VALUES			CURRENT VALUES		
AGE	END OF YR	ANNUAL OUTLAY	MODE	SURR VALUE	ACCUM VALUE	DEATH BENEFIT	SURR VALUE	ACCUM VALUE	DEATH BENEFIT
40	5	6058	A	23047	27397	500000	27057	31407	500000
45	10	6058	A	56224	59124	500000	70653	73553	500000
50	15	6058	A	95384	95384	500000	130140	130140	500000
55	20	6058	A	136122	136122	500000	206947	206947	500000
60	25	6058	A	180343	180343	500000	313842	313842	500000
65	30	6058	A	226856	226856	500000	465673	465673	568121
70	35	0		237703	237703	500000	639119	639119	741378
75	40	0		225930	225930	500000	878756	878756	940269
80	45	0		154656	154656	500000	1212947	1212947	1273595
85	50	0					1667867	1667867	1751261
90	55	0					2279443	2279443	2393415
95	60	0					3128916	3128916	3160205
100	65	0					4357436	4357436	4357436

	GUARANTEED		CURRENT	
	10 YEAR	20 YEAR	10 YEAR	20 YEAR
SURRENDER COST INDEX:	3.60	4.28	1.42	0.20
NET PAYMENT INDEX:	12.12	12.12	12.12	12.12

GUARANTEED VALUES: Based on the guaranteed interest rate of- 4.00% and the guaranteed cost of insurance.

CURRENT VALUES: Based on the CURRENT interest rate of 6.85% and the current cost of insurance, which are subject to change.

MODE: (A) Annual (S) Semi-annual (Q) Quarterly (M) Monthly
(L) Loan (R) Loan repay (W) Withdrawal (F) Forceout

The Minimum Premium is $1,860.00.
The Target Premium is $3,360.00.
The TAMRA Premium is $18,630.63.
The Guideline Level Premium is $6,058.33.
The Guideline Single Premium is $66,962.64.

01-28-94

STANDARD INSURANCE COMPANY

UNIVERSAL LIFE II PLUS

ILLUSTRATION FOR:	John Doe	AGE: 35	MALE
PROVIDED BY:	Your Agent		NON-SMOKER
INITIAL DEATH BENEFIT:	500,000	INITIAL OPTION:	Level
LUMP SUM DEPOSIT:	0	FIRST YEAR PREMIUM:	6,058.33

This illustration assumes:
- insurance charges remain on the current scale,
- premiums are received the first day of each period, and
- the lesser of the current interest rate of 6.00% is credited to the accumulation value equal to any loan.

Face amount increases require sufficient evidence of insurability.
The time value of money is not recognized.

UNIVERSAL LIFE ILLUSTRATION DISCLOSURE STATEMENT

All accompanying illustrations are necessarily based on assumptions. Since these assumptions will change over time, actual policy values will differ from the figures illustrated.

CURRENT INTEREST RATES: Current or Illustrated interest rate assumptions are neither estimates, projections nor guarantees. Current Cost of Insurance charges are not guaranteed. Unless modified in the headings or footnotes to the policy illustration, accumulation and surrender values are based on Standard's current rates and charges.

INTEREST CREDITED AND COST OF INSURANCE CHARGES WILL DEPEND ON STANDARD'S INVESTMENT, CLAIM AND TAX EXPERIENCE.

IF YOU STOP PAYING PREMIUMS: The Cost of Insurance is charged against and interest is credited to the accumulation value. If the assumptions in the accompanying illustration differ from actual charges and credits, the policy may not have sufficient values to keep it in force until the age illustrated. In that case, premium or loan payments would be required. IF THE POLICY LAPSES BECAUSE OF INSUFFICIENT CASH VALUES AND THERE IS AN OUTSTANDING LOAN, THERE COULD BE SIGNIFICANT INCOME TAX LIABILITY TO THE POLICYOWNER.

RETIREMENT BENEFITS: Illustrated retirement distributions taken from policy values are largely based on current interest rate assumptions which are not guaranteed. Because of this, actual retirement benefits could be substantially lower or higher than illustrated. Material changes to the policy could cause the policy to become a Modified Endowment Contract as defined in the Internal Revenue Code. If this happens, loans or withdrawals could be taxable.

LEGAL/TAX ADVICE: It is understood that neither Standard nor its agent/broker may give legal advice. You are urged to consult your personal tax advisor regarding the effect on you of current and proposed tax laws and accounting principles.

AGENT'S STATEMENT: This plan and disclosure statement, including all Illustrations, were fully and carefully explained to the applicant. A copy of this statement, after it was explained, was given to the applicant.

__________ __________________________

Date Agent/Broker Signature

I understand this plan and have received a copy of this notice and statement.

__________ __________________________

Date Applicant Signature

****

LIFE INSURANCE BUYER'S GUIDE
Case 2
Universal Life - Current Assumption Premium

Proposed by Chris Kite
For NAIC Model Illustration Act
1-27-94

Life Insurance Buyer's Guide

For John Doe

How to Guarantee Benefits

Universal Life is a life insurance policy which provides a benefit in case of death or cash value while the insured is living. To guarantee a level death benefit of $500,000 for life, you must pay an annual premium of $6,058 for life. This premium is based on the risk classification of male, age 35, non-smoker.

Level Death Benefit:	$500,000
Annual Premium to Guarantee Benefit:	$6,058

Contractual guarantees are a minimum interest rate of 4.00% and maximum fees and insurance costs based on an industry standard for guaranteed costs (80CSO). See the policy contract for further details.

Policy Performance and Benefits

If the policy outperforms its guarantees, the additional interest and cost savings can be used to build cash value or to purchase additional death benefit. Within IRS limits, the death benefit is typically free of income tax; but use of the cash value has additional restrictions that must be considered before planning any distributions. Currently the policy has a 6.85% interest rate and costs below the guaranteed maximums. Detailed information on historical rates and costs are available upon request.

Illustration of How Policy Works

The attached illustration gives an example of how the policy works. It is not a contract. Actual results will vary due to changes in the economy and life expectancy. The further into the future you go, the more uncertain the projection becomes. Caution should be used in comparing one policy to another. You should put greater emphasis on a company's ability to meet its projections than on the illustrated difference in long-term numbers.

You will receive an annual statement to show your policy status. If cash value growth is less than projected, then you may need to pay more premiums (within IRS limits) or lower the death benefit in order to meet your goals. If cash values start to decrease, these adjustments may become critical to keeping the policy in force.

Projected Growth Rates Non-Guaranteed Values

To put a long-term projection into perspective, you should consider the effective annual growth rates represented by the illustration. Based on a premium of $3,073 per year for life, the illustrated cash value exceeds the total premium paid as of year 14. To match the illustrated cash value in year 20, the premiums (net of distributions) represent a 1.40% net annual growth rate. As of age 80, the net annual growth rate would be 2.36% for the illustrated cash value. This rate is lower than the policy interest rate due to insurance costs. If you access cash values by loans or withdrawals, a corresponding decrease in the death benefit occurs.

14 years until projected cash value exceeds the premiums paid

Projected Net Growth Rate	Cash Value While Living	or	Benefit in Case of Death
In 20 Years	1.40%		17.52%
At Age 80	2.36%		4.90%

Based on a 6.85% interest rate and current costs

If death were to occur in year 20, the premiums (net of distributions) would represent a 17.52% net annual growth rate. As of age 80, the net annual growth rate would be 4.90% for the illustrated death benefit. These returns are based on the non-guaranteed projected values.

Evaluating Long-Term Projections

Life insurance provides a higher than average return in case of early death. As a long-term average, an insurance company can only pay out what it accumulates via your premiums and its investments net of its expenses. A current interest rate on 30 Year Treasury Bonds of 6.20% may be a useful index for comparing long-term investments. A description of the investments supporting this policy's cash value growth is available upon request.

A comparison to the industry standard for guaranteed costs (80CSO) can be used to show the reasonableness of costs built into the illustration. Based on a net growth rate of 6.85%, the cash value illustrated as of age 80 represents an average of 50% of this standard for insurance costs. Current costs are typically lower than this guaranteed standard. Be careful if you compare this policy against another. The policy illustrating greater long-term values may not be superior. Its cost and interest assumptions may only be more optimistic.

I have reviewed this Life Insurance Buyer's Guide and understand which values are not guaranteed in the attached illustration. I understand that long-term projections depend on assumptions used for growth rates and costs.

____
Signature

____
Date

Case 2: Universal Life - Current Assumption Premium

01-28-94 STANDARD INSURANCE COMPANY

UNIVERSAL LIFE II PLUS

ILLUSTRATION FOR: John Doe 2 AGE: 35 MALE
PROVIDED BY: Your Agent NONSMOKER

INITIAL DEATH BENEFIT: 500,000 INITIAL OPTION: Level
LUMP SUM DEPOSIT: 0 FIRST YEAR PREMIUM: 3,072.69

				GUARANTEED VALUES			CURRENT VALUES		
AGE	END OF YR	ANNUAL OUTLAY	MODE	SURR VALUE	ACCUM VALUE	DEATH BENEFIT	SURR VALUE	ACCUM VALUE	DEATH BENEFIT
36	1	3073	A	0	2150	500000	0	2358	500000
37	2	3073	A	0	4350	500000	0	4838	500000
38	3	3073	A	1657	6587	500000	2508	7438	500000
39	4	3073	A	4217	8857	500000	5521	10161	500000
40	5	3073	A	6804	11154	500000	8653	13003	500000
41	6	3073	A	9413	13473	500000	11915	15975	500000
42	7	3073	A	12031	15801	500000	15298	19068	500000
43	8	3073	A	14660	18140	500000	18812	22292	500000
44	9	3073	A	17287	20477	500000	22449	25639	500000
45	10	3073	A	19911	22811	500000	26227	29127	500000
46	11	3073	A	22806	25126	500000	30424	32744	500000
47	12	3073	A	25671	27411	500000	34748	36488	500000
48	13	3073	A	28497	29657	500000	39206	40366	500000
49	14	3073	A	31274	31854	500000	43799	44379	500000
50	15	3073	A	33982	33982	500000	48522	48522	500000
51	16	3073	A	36031	36031	500000	52796	52796	500000
52	17	3073	A	37964	37964	500000	57181	57181	500000
53	18	3073	A	39746	39746	500000	61723	61723	500000
54	19	3073	A	41344	41344	500000	66447	66447	500000
55	20	3073	A	42708	42708	500000	71350	71350	500000
56	21	3073	A	43797	43797	500000	76432	76432	500000
57	22	3073	A	44563	44563	500000	81686	81686	500000
58	23	3073	A	44966	44966	500000	87125	87125	500000
59	24	3073	A	44958	44958	500000	92759	92759	500000
60	25	3073	A	44462	44462	500000	98590	98590	500000
61	26	3073	A	43394	43394	500000	104619	104619	500000
62	27	3073	A	41662	41662	500000	110827	110827	500000
63	28	3073	A	39139	39139	500000	117218	117218	500000
64	29	3073	A	35674	35674	500000	123766	123766	500000
65	30	3073	A	31094	31094	500000	130457	130457	500000

This illustration includes the following riders:

*** NONE ***

01-28-94

STANDARD INSURANCE COMPANY

UNIVERSAL LIFE II PLUS

ILLUSTRATION FOR: John Doe 2 AGE: 35 MALE
PROVIDED BY: Your Agent NONSMOKER

INITIAL DEATH BENEFIT: 500,000 INITIAL OPTION: Level
LUMP SUM DEPOSIT: 0 FIRST YEAR PREMIUM: 3,072.69

* * * SUMMARY * * *

				GUARANTEED VALUES			CURRENT VALUES		
AGE	END OF YR	ANNUAL OUTLAY	MODE	SURR VALUE	ACCUM VALUE	DEATH BENEFIT	SURR VALUE	ACCUM VALUE	DEATH BENEFIT
40	5	3073	A	6804	11154	500000	8653	13003	500000
45	10	3073	A	19911	22811	500000	26227	29127	500000
50	15	3073	A	33982	33982	500000	48522	48522	500000
55	20	3073	A	42708	42708	500000	71350	71350	500000
60	25	3073	A	44462	44462	500000	98590	98590	500000
65	30	3073	A	31094	31094	500000	130457	130457	500000
70	35	3073	A				166986	166986	500000
75	40	3073	A				206908	206908	500000
80	45	3073	A				247429	247429	500000
85	50	3073	A				290442	290442	500000
90	55	3073	A				335677	335677	500000
95	60	3073	A				396116	396116	500000
100	65	3073	A				500163	500163	500163

	GUARANTEED		CURRENT	
	10 YEAR	20 YEAR	10 YEAR	20 YEAR
SURRENDER COST INDEX:	3.13	3.69	2.17	2.04
NET PAYMENT INDEX:	6.15	6.15	6.15	6.15

GUARANTEED VALUES: Based on the guaranteed interest rate of 4.00% and the guaranteed cost of insurance.

CURRENT VALUES: Based on the CURRENT interest rate of 6.85% and the current cost of insurance, which are subject to change.

MODE: (A) Annual (S) Semi-annual (Q) Quarterly (M) Monthly
(L) Loan (R) Loan repay (W) Withdrawal (F) Forceout

The Minimum Premium is $1,860.00.
The Target Premium is $3,360.00.
The TAMRA Premium is $18,630.63.
The Guideline Level Premium is $6,058.33.
The Guideline Single Premium is $66,962.64.

01-28-94

STANDARD INSURANCE COMPANY

UNIVERSAL LIFE II PLUS

ILLUSTRATION FOR:	John Doe 2	AGE: 35	MALE
PROVIDED BY:	Your Agent		NON-SMOKER
INITIAL DEATH BENEFIT:	500,000	INITIAL OPTION:	Level
LUMP SUM DEPOSIT:	0	FIRST YEAR PREMIUM:	3,072.69

This illustration assumes:

- insurance charges remain on the current scale,
- premiums are received the first day of each period, and
- the lesser of the current interest rate of 6.00% is credited to the accumulation value equal to any loan.

Face amount increases require sufficient evidence of insurability.
The time value of money is not recognized.

UNIVERSAL LIFE ILLUSTRATION DISCLOSURE STATEMENT

All accompanying illustrations are necessarily based on assumptions. Since these assumptions will change over time, actual policy values will differ from the figures illustrated.

CURRENT INTEREST RATES: Current or Illustrated interest rate assumptions are neither estimates, projections nor guarantees. Current Cost of Insurance charges are not guaranteed. Unless modified in the headings or footnotes to the policy illustration, accumulation and surrender values are based on Standard's current rates and charges.

INTEREST CREDITED AND COST OF INSURANCE CHARGES WILL DEPEND ON STANDARD'S INVESTMENT, CLAIM AND TAX EXPERIENCE.

IF YOU STOP PAYING PREMIUMS: The Cost of Insurance is charged against and interest is credited to the accumulation value. If the assumptions in the accompanying illustration differ from actual charges and credits, the policy may not have sufficient values to keep it in force until the age illustrated. In that case, premium or loan payments would be required. IF THE POLICY LAPSES BECAUSE OF INSUFFICIENT CASH VALUES AND THERE IS AN OUTSTANDING LOAN, THERE COULD BE SIGNIFICANT INCOME TAX LIABILITY TO THE POLICYOWNER.

RETIREMENT BENEFITS: Illustrated retirement distributions taken from policy values are largely based on current interest rate assumptions which are not guaranteed. Because of this, actual retirement benefits could be substantially lower or higher than illustrated. Material changes to the policy could cause the policy to become a Modified Endowment Contract as defined in the Internal Revenue Code. If this happens, loans or withdrawals could be taxable.

LEGAL/TAX ADVICE: It is understood that neither Standard nor its agent/broker may give legal advice. You are urged to consult your personal tax advisor regarding the effect on you of current and proposed tax laws and accounting principles.

AGENT'S STATEMENT: This plan and disclosure statement, including all Illustrations, were fully and carefully explained to the applicant. A copy of this statement, after it was explained, was given to the applicant.

__________ Date   ____________________ Agent/Broker Signature

I understand this plan and have received a copy of this notice and statement.

__________ Date   ____________________ Applicant Signature

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LIFE INSURANCE BUYER'S GUIDE
Case 3
Whole Life with Term Rider and Vanish

Proposed by Chris Kite
For NAIC Model Illustration Act
1-27-94

Life Insurance Buyer's Guide — For Jane Doe

How to Guarantee Benefits

Whole Life with Term Rider is a life insurance policy which provides a benefit in case of death or cash value while the insured is living. To guarantee a level death benefit of $300,000 for life, you must pay an annual premium of $6,080 for life. This premium is based on the risk classification of female, age 45, smoker.

Level Death Benefit:	$300,000
Annual Premium to Guarantee Benefit:	$6,080

Contractual guarantees are based on an interest rate of 4.00% and maximum fees and insurance costs based on an industry standard for guaranteed costs (80CSO). See the policy contract for further details.

Policy Performance and Benefits

If the policy outperforms its guarantees, the dividends can be used to build cash value or to purchase additional death benefit. Within IRS limits, the death benefit is typically free of income tax; but use of the cash value has additional restrictions that must be considered before planning any distributions. Dividends represent current investment growth and cost savings compared to guaranteed costs. Detailed information on historical dividends and premiums are available upon request.

Illustration of How Policy Works

The attached illustration gives an example of how the policy works. It is not a contract. Actual results will vary due to changes in the economy and life expectancy. The further into the future you go, the more uncertain the projection becomes. Caution should be used in comparing one policy to another. You should put greater emphasis on a company's ability to meet its projections than on the illustrated difference in long-term numbers.

You will receive an annual statement to show your policy status. If cash value growth is less than projected, then you may need to pay more premiums (within IRS limits) or reduce the benefits in order to meet your goals. If cash values start to decrease, these adjustments may become critical to keeping the policy in force.

Projected Growth Rates Non-Guaranteed Values

To put a long-term projection into perspective, you should consider the effective annual growth rates represented by the illustration. The illustration is based on a premium of $3,637 paid for 14 years out of pocket, then paid by dividends. The illustrated cash value exceeds the total premium paid as of year 12. To match the illustrated cash value in year 20, the premiums (net of distributions) represent a 4.60% net annual growth rate. As of age 80, the net annual growth rate would be 6.12% for the illustrated cash value. These rates are net of the policy growth used to cover insurance costs. If you access cash values by loans or withdrawals, a corresponding decrease in the death benefit occurs.

12 years until projected cash value exceeds the premiums paid

Projected Net Growth Rate	Cash Value While Living	or	Benefit in Case of Death
In 20 Years	4.60%		13.13%
At Age 80	6.12%		6.47%
Based on current dividend scale			

If death were to occur in year 20, the premiums (net of distributions) would represent a 13.13% net annual growth rate. As of age 80, the net annual growth rate would be 6.47% for the illustrated death benefit. These returns are based on the non-guaranteed projected values.

Evaluating Long-Term Projections

Life insurance provides a higher than average return in case of early death. As a long-term average, an insurance company can only pay out what it accumulates via your premiums and its investments net of its expenses. A current interest rate on 30 Year Treasury Bonds of 6.20% may be a useful index for comparing long-term investments. A description of the investments supporting this policy's cash value growth is available upon request.

A comparison to the industry standard for guaranteed costs (80CSO) can be used to show the reasonableness of costs built into the illustration. Based on a net growth rate of 7.50%, the cash value illustrated as of age 80 represents an average of 45% of this standard for insurance costs. Current costs are typically lower than this guaranteed standard. Be careful if you compare this policy against another. The policy illustrating greater long-term values may not be superior. Its cost and growth assumptions may only be more optimistic.

I have reviewed this Life Insurance Buyer's Guide and understand which values are not guaranteed in the attached illustration. I understand that long-term projections depend on assumptions used for growth rates and costs.

____
Signature

____
Date

Case 3: Whole Life with Term Rider and Vanish

****

To: NAIC
From: Chris Kite
Re: Misc. Notes on Model Illustration
Date: 1-28-94

Standards

1. Loans and withdrawals should be illustrated as beginning of year values. Premiums should be beginning of year or month. Cash values and death benefits should be illustrated as end of year values. These standards provide consistency for using any yield index, rate of return, or cash flow comparison.

2. Account Value which does not have surrender charge deducted should not be called Cash Value. If Account Value or Death Benefit is illustrated without being net of a loan balance, then the net values should be shown beside them with equal prominence. Net surrender values should always be shown.

Calculation Methods

1. Similar to a dividend, an interest sensitive policy could display each year how much the illustrated cash value depends on performance better than guarantees. Within IRS and underwriting limits, the consumer might have to put in these amounts to stay on the illustrated cash value track. This disclosure could be a good signal for non-guaranteed elements. It might even replace the need to show the guaranteed columns and avoid getting lost in too many scenarios.

In a similar way, some policies could illustrate how much the benefit might have to be reduced each year if performance is below projected.

Buyer's Guide

I would be glad to provide additional case studies for variable life, joint life, term life and any other product combinations.

I am working on a graphical Buyer's Guide which explains term costs, guaranteed cash values, projected values and different policy combinations.

I recommend the use of all capital letters be prohibited in illustrations. Studies have shown that all capitals are harder to read. If only a few words were in all capitals, they could be made to stand out.

****

TO: Harold Phillips, California Department of Insurance
Robert L. Wright, Virginia Bureau of Insurance
Carolyn Johnson, NAIC/SSO
FROM: Chris Kite, FIPSCO
DATE: February 23, 1994
RE: Life Insurance Illustration Model Act

NAIC Meeting

Richard Weber and James Hunt recommend that I attend the illustration committee meeting 3–5 p.m March 5 in Denver. I plan to meet with Mr. Weber and Mr. Hunt prior to the meeting. We have been discussing ways to improve consumer disclosure. Please let me know if you have any suggestions regarding my involvement or any other meetings that I should attend. My position paper was submitted to Carolyn Johnson last month. Would I be able to explain my recommendations and answer any questions at the meeting? I think I could be a very valuable resource. Based on various discussions with Jane Bryant Quinn, I feel confident that I can help develop standards to satisfy even the critics of the industry.

I write a regular column for FIPSCO's newsletter and also have articles published in *Life Insurance Selling* and *Best's Review*. My only interest is in attending the illustration committee meeting.

Guarantees with Description of How to Use Enhancements

As a follow-up to my position paper, I would also like to share with you an approach that may resolve many concerns with illustrations. It relates to the idea of only showing guaranteed values. My refinement is that only guaranteed accumulation values and death benefits would be shown in columns of yearly values (similar to what is in a contract). These guarantees would be based on a column of outlays (premiums less distributions). A column for annual non-guaranteed enhancements would also be included subject to rules developed for supportability. For whole life, this column is simply the annual dividend.

Supportability should be based on historical data with an emphasis on recent history for insurance costs and crediting rates. Life insurance policies other than variable life do not need to look at a great deal of history to set a reasonable crediting rate. In contrast, variable life needs to look at a greater amount of history to capture the ups and downs of equities.

For interest sensitive products, an equivalent value is calculated as the annual enhancement. In the first year it equals the difference between the projected and guaranteed values. A similar calculation continues each year based on the prior year's guaranteed value. Optional descriptions and graphs would be provided on separate pages on how the client can use the annual enhancements.

This approach simplifies the ledger, clearly separates guarantees from non-guaranteed enhancements, and avoids the illusion of rigid predictability that a column of projected accumulation values shows. Each annual enhancement has some uncertainty to it, but this uncertainty is not compounded into a long-term accumulation column.

Examples of optional descriptions and graphs are attached. These materials are similar to what Richard Weber has been promoting in his Due Care training. They allow the consumer to better understand how the policy works.

Assumptions of Cost and Interest

The year by year ledger could include columns or footnotes for the annual cost and interest assumptions built into the column for the annual enhancements. The cost assumptions could be expressed as a percentage of guarantees, or of an 80CSO standard. The interest rate column could disclose the crediting rate for a dividend scale. Either column could be used to explain retroactive or prospective bonuses. Those bonuses, if supportable, will show up as large annual enhancements.

Buyer's Guide

For your interest, I am also enclosing a copy of how we have formatted the Life Insurance Buyer's Guide proposed for California. Let me know if you would like additional copies.

02-24-94

NAIC MODEL ILLUSTRATION

WHOLE LIFE

Provided for: NAIC Case
MALE Age: 35 NONSMOKER

Initial Premium: 3,570.00
Additional Premium: 0.00
Initial Death Benefit: 200,000

Provided by: FOR DEMO ONLY

		GUARANTEED VALUES			NOT GUARANTEED
END OF YR	ATT AGE	ANNUAL PREMIUM	GUAR CASH VALUE	GUAR DEATH BENEFIT	ANNUAL DIVIDEND
1	36	3,570	0	200,000	0
2	37	3,570	500	200,000	40
3	38	3,570	3,538	200,000	162
4	39	3,570	6,670	200,000	286
5	40	3,570	9,896	200,000	406
6	41	3,570	12,594	200,000	696
7	42	3,570	15,358	200,000	986
8	43	3,570	18,192	200,000	1,272
9	44	3,570	21,092	200,000	1,558
10	45	3,570	24,060	200,000	1,842
11	46	3,570	27,096	200,000	2,128
12	47	3,570	30,204	200,000	2,416
13	48	3,570	33,382	200,000	2,724
14	49	3,570	36,634	200,000	3,042
15	50	3,570	39,958	200,000	3,360
16	51	3,570	43,354	200,000	3,674
17	52	3,570	46,816	200,000	3,976
18	53	3,570	50,340	200,000	4,274
19	54	3,570	53,920	200,000	4,586
20	55	3,570	57,548	200,000	4,938
21	56	3,570	61,032	200,000	5,302
22	57	3,570	64,550	200,000	5,676
23	58	3,570	68,110	200,000	6,036
24	59	3,570	71,710	200,000	6,374
25	60	3,570	75,350	200,000	6,698
26	61	3,570	79,026	200,000	7,000
27	62	3,570	82,728	200,000	7,308
28	63	3,570	86,448	200,000	7,622
29	64	3,570	90,172	200,000	7,952
30	65	3,570	93,892	200,000	8,290

Dividends are based on projected costs and crediting rates which are not guaranteed. The values do not include any cumulative growth on dividends. They only represent annual enhancements in excess of guarantees. Options for how to use these dividends are described as attached. The column of annual dividends in this report are based on an 8.00% crediting rate and a cost index equal to 75% of guaranteed costs.

02-24-94 NAIC MODEL ILLUSTRATION

WHOLE LIFE

Provided for: NAIC Case
MALE Age: 35 NONSMOKER

Initial Premium: 3,570.00
Additional Premium: 0.00
Initial Death Benefit: 200,000

Provided by: FOR DEMO ONLY

		GUARANTEED VALUES			NOT GUARANTEED
END OF YR	ATT AGE	ANNUAL PREMIUM	GUAR CASH VALUE	GUAR DEATH BENEFIT	ANNUAL DIVIDEND
31	66	3,570	97,600	200,000	8,630
32	67	3,570	101,298	200,000	8,962
33	68	3,570	104,988	200,000	9,200
34	69	3,570	108,672	200,000	9,624
35	70	3,570	112,348	200,000	9,946
36	71	3,570	116,004	200,000	10,280
37	72	3,570	119,626	200,000	10,644
38	73	3,570	123,188	200,000	11,036
39	74	3,570	126,668	200,000	11,430
40	75	3,570	130,046	200,000	11,816
41	76	3,570	133,318	200,000	12,176
42	77	3,570	136,488	200,000	12,512
43	78	3,570	139,568	200,000	12,802
44	79	3,570	142,580	200,000	13,056
45	80	3,570	145,532	200,000	13,276
46	81	3,570	148,422	200,000	13,470
47	82	3,570	151,238	200,000	13,624
48	83	3,570	153,956	200,000	13,802
49	84	3,570	156,552	200,000	14,000
50	85	3,570	159,012	200,000	14,222
51	86	3,570	161,340	200,000	14,616
52	87	3,570	163,548	200,000	14,806
53	88	3,570	165,662	200,000	14,960
54	89	3,570	167,714	200,000	15,074
55	90	3,570	169,740	200,000	15,160
56	91	3,570	171,786	200,000	15,228
57	92	3,570	173,906	200,000	15,378
58	93	3,570	176,168	200,000	15,622
59	94	3,570	178,652	200,000	15,878
60	95	3,570	181,418	200,000	16,142
61	96	3,570	184,498	200,000	16,416
62	97	3,570	187,858	200,000	16,706
63	98	3,570	191,386	200,000	17,008
64	99	3,570	194,834	200,000	17,320
65	100	3,570	200,000	200,000	17,628

Life Insurance Buyer's Guide

How to get the most for your money when shopping for life insurance

- Buying life insurance
- How much do you need?
- What is the right kind?
- Finding a low cost policy
- Things to remember

Prepared by the National Association of Insurance Commissioners. The National Association of Insurance Commissioners is an association of state insurance regulatory officials. This association helps the various Insurance Departments to coordinate insurance laws for the benefit of all consumers. This guide does not endorse any company or policy.

Buying Life Insurance

When buying life insurance, you want coverage that fits your needs and doesn't cost too much.

- *First, decide how much you need - and for how long - and what you can afford to pay.*
- *Next, find out what kinds of policies are available to meet your needs and pick one that best suits you.*
- *Then, find out what different companies charge for that kind of policy for the amount of insurance you want. You can find important cost differences between life insurance policies by using cost comparison indexes as described in this guide.*

It makes good sense to ask a life insurance agent or company to help you. An agent can be particularly useful in reviewing your insurance needs and in giving you information about the kinds of policies that are available. If one kind doesn't seem to fit your needs, ask about others. This guide provides only basic information. You can get more facts from a life insurance agent or company, or at your public library.

What about your present policy?

Think twice before dropping a life insurance policy you already have to buy a new one.

- *It can be costly because much of what you paid in the early years of the policy you now have was used for the company's expense of selling and issuing the policy. This expense will be incurred again for a new policy.*
- *If you are older or your health has changed, premiums for the new policy will often be higher.*
- *You may have valuable rights and benefits in your present policy that are not in the new one.*
- *You might be able to change your present policy or even add to it to get the coverage or benefits you now want.*

Check with the agent or company that issued your present policy - get both sides of the story. In any case, don't give up your present policy until you are covered by a new one.

How Much Do You Need?

To decide how much life insurance you need, figure out what your dependents would have if you were to die now, and what they would actually need. Your new policy should come as close to making up the difference as you can afford.

What you Have

In figuring what you have, count your present insurance, including any:

- *group insurance where you work*
- *social security*
- *veteran's insurance*

Also add other assets you have:

- *savings*
- *investments*
- *real estate*
- *personal property*

What you Need

In figuring what you need, think of income for your dependents:

- *family living expenses*
- *educational costs*
- *any other future needs*

Think also of cash needs:

- *the expenses of final illness*
- *paying taxes*
- *mortgage*
- *other debts*

What is the Right Kind?

All life insurance policies agree to pay an amount of money when you die, but all policies are not the same. Some provide permanent coverage and others provide temporary coverage. Some build up cash values and others do not. Some policies combine different kinds of insurance, and others let you change from one kind of insurance to another. Your choice should be based on your needs and what you can afford.

A wide variety of plans is being offered today. Term and whole life are the two most common and basic kinds, with some combinations and variations. This guide will give you a brief description of both. For detailed information check with an insurance agent or company.

Term Insurance

Term insurance covers you for a period of one or more years. It pays a death benefit only if you die during that period. Term insurance generally provides the largest immediate death protection for your premium dollar.

Most term insurance policies are renewable for one or more additional terms even if your health has changed. Each time you renew the policy for a new term, premiums will typically be higher. Check the premiums at older ages and how long the policy can be continued.

Many term insurance policies can be traded before the end of a conversion period to a whole life policy - even if you are not in good health. Premiums for the new policy will be higher than what you have been paying for the term insurance.

Whole Life Insurance

Whole life insurance covers you for as long as you live. The most common type is called straight life or ordinary life insurance - you pay the same premiums for as long as you live. These premiums can be several times higher than you would pay at first for the same amount of term insurance, but they are smaller than the premiums you would eventually pay if you were to keep renewing a term policy until your later years.

Some whole life policies let you pay premiums for a shorter period such as 20 years, or until age 65. Premiums for these policies are higher than for ordinary life insurance since the premium payments are squeezed into a shorter period.

Whole life policies develop cash values. If you stop paying premiums, you can take the cash - or you can use the cash value to buy continuing insurance protection for a limited period of time or a reduced amount (some term policies that provide coverage for a long period also have cash values).

You may borrow against the cash value by taking out a policy loan. Any loan and interest on the loan that you do not pay back will be deducted from the benefits if you die, or from the cash value if you discontinue the policy.

Combinations and Variations

You can combine different kinds of insurance. For example, you can buy whole life insurance for lifetime coverage and add term insurance for the period of your greatest insurance need. Usually the term insurance is on your life - but it can also be bought for your spouse or children.

Endowment Insurance policies pay a sum or income to you if you live to a certain age. If you die before that age, the death benefit is paid to the person you named as beneficiary.

Other policies may have special features which allow flexibility as to premiums and coverage. Some let you choose the death benefit you want and the premium amount you can pay. The kind of insurance and coverage period are determined by these choices.

One kind of flexible premium policy, often called Universal Life, lets you vary your premium payments every year, and even skip a payment if you wish. The premiums you pay (less expense charges) go into a policy account that earns interest, and charges for the insurance are deducted from the account. Here, insurance continues as long as there is enough money in the account to pay the insurance charges.

Variable Life is a special kind of insurance where the death benefits and cash values depend upon investment performance of one or more separate accounts. Be sure to get the prospectus provided by the company when buying this kind of policy. The method of cost comparison outlined in this guide does not apply to policies of this kind.

Finding a Low Cost Policy

After you have decided which kind of life insurance is best for you, compare similar policies from different companies to find which one is likely to give you the best value for your money. A simple comparison of the premiums is not enough. There are these other things to consider. For example:

- *Do premiums or benefits vary from year to year?*
- *How much cash value builds up under the policy?*

- *What part of the premiums or benefits are not guaranteed?*
- *What is the effect of interest on money paid and received at different times on the policy?*

Comparison Index numbers, which you get from your life insurance agents or companies, take these items into account and can point the way to better buys. There are two types of comparison index numbers. Both assume you will live and pay premiums for the period of index.

Yield Comparison Index

The Life Insurance Yield Comparison Index is a measure of cash value growth over the index period which takes into account the interest credited, the estimated value of the death protection provided, and the expenses charged. A higher yield index number generally indicates a better buy. Since this index reflects items other than interest earnings, it may differ from the credited interest rate advertised or guaranteed in your policy. For the same reasons, the yield index may differ from the return on a pure investment like a savings account. Keep this in mind if you attempt to compare yield indexes with investment returns.

Net Payment Cost Comparison Index

The Net Payment Cost Comparison Index helps you compare costs over the index period assuming you will continue to pay premiums on your policy and do not take its cash value. It is useful if your main concern is the benefits that are to be paid at your death.

Guaranteed and Illustrated Figures

Many policies provide benefits on a more favorable basis than the minimum guaranteed basis in the policy. They may do this by paying dividends, or by charging less than the maximum premium specified. Or they may do this in other ways, such as by providing higher cash values or death benefits than the minimums guaranteed in the policy. The currently illustrated basis reflects the company's current scale of dividends, premiums, or benefits. These scales can be changed after the policy is issued, so that the actual dividends, premiums, or benefits over the years can be higher or lower than those assumed in the indexes on the currently illustrated basis.

Some policies are sold only on a guaranteed or fixed cost basis. These policies do not pay dividends; the premiums and benefits are fixed at the time you buy the policy and will not change.

Using Comparison Indexes

The most important thing to remember is that, when using the Net Payment Cost Comparison Index, a policy with smaller index numbers is generally a better buy than a similar policy with larger index numbers. When using the Life Insurance Yield Comparison Index, the opposite is true: a policy with larger Yield Comparison Index numbers is generally a better buy than one with smaller Yield Comparison Index numbers.

Compare index numbers only for similar policies—those which provide essentially the same benefits, with premiums payable for the same length of time. Where possible the same amount of planned premium should be used. Make sure they are for your age, and for the kind of policy and amount you intend to buy. Remember that no one company offers the lowest cost at all ages for all kinds and amounts of insurance.

Small differences in index numbers should be disregarded, particularly where there are dividends or nonguaranteed premiums or benefits. Also, small differences could easily be offset by other policy features, or differences in the quality of service from the agent or company or differences in the strength of the companies. When you find small differences in the indexes, your choice should be based on something other than cost.

Finally, keep in mind that index numbers cannot tell you the whole story. You should also consider:

- The level and quality of service from the agent or company, the strength and reputation of the company, the history (track record) of how the company treats various classes of policyholders, e.g., longtime policyholders versus current purchasers.

- The pattern of policy benefits. Some policies have low cash values in the early years that build rapidly later on. Other policies have a more level cash value build-up. A year-by-year display of values and benefits can be very helpful. The agent or company will give you a Policy Summary that will show benefits and premiums for selected years.

- Any special policy features that may be particularly suited to your needs.

- The methods by which nonguaranteed values are calculated. For example, interest rates are an important factor in determining policy dividends. In some companies, dividends reflect the average interest earnings on all policies whenever issued. In others, the dividends for policies issued in a recent year, or group of years, reflect the interest earnings on those policies; in this case, dividends are likely to change more rapidly when interest rates change.

Things to Remember

- Review your particular insurance needs and circumstances. Choose the kind of policy with benefits that most closely fit your needs. Ask an insurance agent or company to help you.

- Be sure that the premiums are within your ability to pay. Don't look only at the initial premiums, but take account of any later premium increase.

- Ask about comparison index numbers and check several companies which offer similar policies. Remember, smaller index numbers generally represent a better buy when using the Net Payment Cost Comparison Indexes. But larger index numbers generally represent a better buy when using the Life Insurance Yield Comparison Indexes.

- Don't buy life insurance unless you intend to stick with it. It can be very costly if you quit during the early years of the policy.

- Read your policy carefully. Ask your agent or company about anything that is not clear to you.

- Review your life insurance program with your agent or company every few years to keep up with changes in your income and your needs.

Options for Using Annual Dividends

Dividends are not guaranteed. Actual results may vary.

For: NAIC Model 2/24/94
Male, Age 35 Nonsmoker

Initial Death Benefit $200,000
Initial Annual Premium $3,570

Paid-up Additions

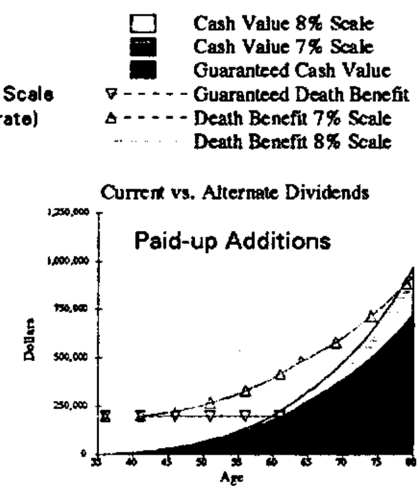
Dividends can be used to purchase additional amounts of insurance, each increment of which also has its own cash value. Each dividend purchases only as much additional death benefit as can be guaranteed by the dividend cash value. Depending on the dividend scale assumed, total values for dividends plus guarantees would be the following:

Age 65	No Dividends	Alternate Dividend Scale (7.00% credit rate)	Current Dividend Scale (8.00% credit rate)
Total Cash Value	$ 93,892	$301,009	$357,132
Total Death Benefit	$200,000	$529,733	$620,710

Assuming premiums are paid to age 65.

Withdrawals or loans to will allow you to use the policy cash value for retirement or other needs. Consideration needs to be made regarding the tax status of any cash distribution. Also, as you plan distributions you need to consider how much death benefit you want to support with the remaining cash value.

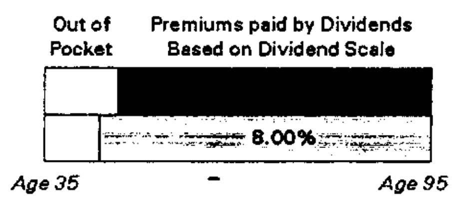
You can also convert the cash value into a lifetime monthly income. A percentage of this income would be taxable to the extent the cash value exceeds the total premiums paid. Details are available upon request.



Pay Premiums from Dividend Cash Value

You can use the annual dividends to immediately reduce the next year's premium or you can build up dividend values until the full premium can be paid from the cash value. Any option to stop paying premiums out of pocket depends on future dividends which are not guaranteed. Here are two possible scenarios:

	Current Dividend Scale (8.00% credit rate)	Alternate Dividend Scale (7.00% credit rate)
Years to Pay Premium	10 years	11 years

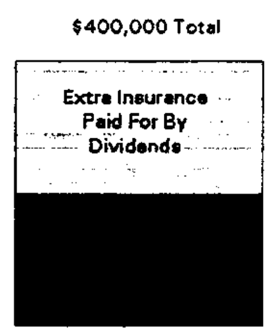


Purchase Term Insurance

Dividends can be used each year to purchase term insurance in addition to the base policy benefits. One popular option is to buy enough term insurance to provide a higher level death benefit and use any additional amounts for paid-up additions. As the paid-up additions increase, smaller amounts of term insurance are purchased. Projected dividends could support:

	Current Dividend Scale (8.00% credit rate)	Alternate Dividend Scale (7.00% credit rate)
Total Death Benefit at age 65	$400,000 $558,410	$400,000 $480,805

Assuming premiums are paid to age 65.



ATTACHMENT FOUR-C

Statement of the National Association of Life Underwriters (NALU)
to the NAIC Life Disclosure Working Group
of the Life Insurance (A) Committee
on Life Insurance Illustrations
January 31, 1994

THE NATIONAL ASSOCIATION OF LIFE UNDERWRITERS IS TOTALLY COMMITTED TO ILLUSTRATION REFORM. The insurance industry and the insurance regulators have learned much during recent years about the effect on our products of wide swings in interest rates. Additionally, there have been major technological advances in the industry's ability to illustrate, communicate and design insurance products. It is now time to apply this knowledge and insight to bring clarity to the purchase of life insurance to help the consumer make an *informed decision.*

STATEMENT

Everyone benefits from a satisfied customer! The life insurance industry is no exception. Life insurance purchased for the right reasons, understood by the consumer at the time of purchase and throughout the term of the contract, is fundamental for creating and keeping a satisfied customer in our business.

As agents we strongly believe that the sales illustration is a useful tool to demonstrate how a policy works and to aid the consumer in making an informed decision at the time of purchase. We have long pleaded our case that illustrations need reform—well thought-out reform!

As we are in the final days of that process, we hope to show how rational reform can transform the sales illustration into the user-friendly aid that we all desire it to be. We will show that a reformed sales illustration can, by itself, add to the consumer's understanding of the policy and, in fact, make an informed decision more likely.

The following are our major recommendations that we are positive will eliminate, or minimize, whatever lack of understanding exists in the marketplace today. NALU is prepared to actively support the adoption of legislation and/or regulations containing these provisions in each of the 50 states and the District of Columbia.

RECOMMENDATIONS

1. Consumers must receive illustrations of values that insurers, at the time of presentation, reasonably expect to support, in accordance with and for the limited time span covered by Schedule M and Exhibit 8 of their annual statements. If the company is unable to provide such an illustration, then a statement must be prominently displayed on the illustration to the effect that it does not meet this requirement. This will answer the NAIC Life Insurance Disclosure Working Group's concern about supportability as expressed in its August 1993 Position Paper on Life Insurance Illustrations.

2. Consumers should sign a disclosure statement whereby they acknowledge that they have read the illustration, and understand that non-guaranteed elements and dividends are not guaranteed. The agent must also sign the disclosure statement verifying that he or she has explained the guaranteed and non-guaranteed policy elements. Such a requirement would satisfy the accountability problem mentioned by the NAIC. *Exhibit 1*

3. Consumers must be made aware that current illustrative results are not a prediction of future values, but rather a snapshot of how the policy would work if current scale were to remain unchanged. Sensitivity to change can be accomplished by showing three columns of values: guaranteed, current and current minus 1% (100 basis points). If the policy is particularly sensitive to changes in non-guaranteed elements other than interest, (i.e., mortality), this fact should also be disclosed. The illustrated values will demonstrate the impact of change and additional narrative clarifications can be described on the "Cover" or "Explanation" Page proposed by the Technical Resource Group in its June 21, 1993, letter to the NAIC Working Group. The Cover Page is intended to incorporate information of this type. This approach will address the concerns over changes in underlying assumptions that the NAIC stated in its Position Paper. *Exhibit 2*

4. Sales illustrations should not be used by themselves to compare policies. The following paragraphs describe why illustrations should not be used by themselves for comparison purposes and the substance of these remarks should be incorporated into the Technical Resource Group's proposed Cover or Explanation Page.

> Sales illustrations should not be used by themselves to compare policies. Life insurance policies are complex financial instruments, which generally contain both guaranteed and non-guaranteed 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. 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.

This will aid consumer understanding and prevent misuse of illustrations, a concern noted by the NAIC.

5. Consumers must receive descriptions of all policy types and all riders integral to the product being illustrated, as is being recommended by the Technical Resource Group. These Cover Page explanations will enhance consumer comprehension of policy provisions and minimize misunderstanding.

6. Consumers should receive illustrations that show year-by-year values for the first 20 years, plus years when significant policy changes may occur, such as premium reappearance. In addition, they should receive illustrated values for ten-year-period increments to maturity. The figures should be rounded down after year 10 from inception of the policy to the lower hundred dollars. The years illustrated are important to demonstrate to consumers when major changes to policy values might take place and the rounding down lessens the impression of precision. *Exhibit 3*

7. Consumers considering illustrations that demonstrate vanishing premiums should receive adequate disclosure of the vanishing concept. The illustration will show guaranteed and non-guaranteed elements and dividend values based on a specific premium pattern and the premiums necessary to maintain the original death benefit to maturity for all years under guaranteed assumptions, subject to the maximum premium allowed under Internal Revenue Code §7702. These factors will also be explained in a narrative on the Cover Page. This will alleviate the problems associated with "vanishing premium" policies. *Exhibit 4*

8. If consumers are considering illustrations that demonstrate second-to-die policies, they should receive information on the Cover Page as to whether the policy values change at the first death and, if so, how they change.

9. If consumers are considering illustrations that demonstrate "blended" or "modular" policy/rider combinations they should receive clear disclosure of the modular structure in the illustration.

10. In order for consumers to understand changes that have taken place which affect their policies, and how to use their policies through changing times to achieve desired results, policyholders or their agents should be able to receive in-force policy illustrations upon request. This would help resolve the NAIC's concerns with explaining the significance of changes in current scales to policyowners. *Exhibit 5*

11. 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, if available, or the agent's assurance that the third party vendor's illustration accurately reflects the policy's guaranteed and non-guaranteed values based on current scale. This will ease the NAIC's fear that agents will manipulate the values in the company illustration.

12. NALU has referred to the Actuarial Standards Board a request for actuarial standards encompassing more precise definitions and more detailed methodology governing the terms "supportability" and "current experience." This will address the concern the NAIC has expressed regarding the application of these terms to current scales.

13. The Cover Page for any illustration should contain the annual premium necessary to maintain the policy to maturity based solely upon the guarantees in the policy. This will assist the policyowner in understanding the differences between guaranteed and non-guaranteed policy features.

CONCLUSIONS

These recommendations are the result of the NALU Task Force's experiences in the field and its contact with consumers and their reaction to illustrations used in sales situations.

It is also the culmination of the year-long review by NALU and our reassessment of the problems after dialogue with the NAIC. We have diligently reviewed our position and redefined our firmest beliefs. We have the utmost confidence in the benefits of a strong "Cover Page" as is being developed by the Technical Resource Group. We firmly believe that a reformed sales illustration along with a descriptive cover page and the requirement of a signature page is a responsible way to meet the need for change.

The marketplace will never be perfect but an informed consumer is the next best thing in a free market society.

NALU looks forward to the opportunity of working with state insurance departments in making certain consumers have the benefit of these improvements in how policy features are described.

Exhibit 1

CASE DESIGN ASSUMPTIONS

Your policy is illustrated on a current policy value basis.
It is assumed there is no change in the risk classification after issue.

You should carefully review the full proposal including the section entitled "Important Information About This Proposal."

I have received and reviewed all 7 pages of this proposal, including the section entitled "Important Information About this Proposal."

*

____
Policyowner (For Trust: this should be signed by the Trustee)

____
Date

Presented by: ROBERT WELSON, CLU Date

Agent

JANUARY 05, 1994

* To assure that the policyowner does understand the difference between guarantees and non-guarantees, the following language may be inserted:

> "I have had explained to me the guaranteed values in this policy and I recognize the difference between the guaranteed and non-guaranteed values contained in the illustration."

Exhibit 2

Mr. John Doe

Male Non-smoker
Age 45

Universal Life Insurance Illustration

			GUARANTEED			NON-GUARANTEED (CURRENT)		
YR	Age	Premium Paid	Loans, Withdrawals, Dividends Received	Net Surrender Value	Net Death Benefit	Loans, Withdrawals, Dividends Received	Net Surrender Value	Net Death Benefit
1	45	1,085	0	0	100,000	0	0	100,000
2	46	1,085	0	0	100,000	0	0	100,000
3	47	1,085	0	0	100,000	0	472	100,000
4	48	1,085	0	590	100,000	0	1,494	100,000
5	49	1,085	0	1,343	100,000	0	2,568	100,000
6	50	1,085	0	2,094	100,000	0	3,697	100,000
7	51	1,085	0	2,836	100,000	0	4,888	100,000
8	52	1,085	0	3,563	100,000	0	6,148	100,000
9	53	1,085	0	4,267	100,000	0	7,479	100,000
10	54	1,085	0	4,939	100,000	0	8,878	100,000
11	55	1,085	0	5,400	100,000	0	10,200	100,000
12	56	1,085	0	5,900	100,000	0	11,600	100,000
13	57	1,085	0	6,300	100,000	0	13,000	100,000
14	58	1,085	0	6,600	100,000	0	14,500	100,000
15	59	1,085	0	6,900	100,000	0	16,000	100,000
16	60	1,085	0	7,000	100,000	0	17,600	100,000
17	61	1,085	0	7,100	100,000	0	19,200	100,000
18	62	1,085	0	7,000	100,000	0	20,900	100,000
19	63	1,085	0	6,800	100,000	0	22,600	100,000
20	64	1,085	0	6,300	100,000	0	24,400	100,000
27	71	1,085	0	###	###	0	39,200	100,000
30	74	1,085				0	44,000	100,000
40	84	1,085				0	65,100	100,000
41	85	1,085				0	67,600	100,000
50	94	1,085				0	100,800	101,800

Exhibit 2

Mr. John Doe

Male Non-smoker
Age 45

Universal Life Insurance Illustration

NON-GUARANTEED (ALTERNATIVE)

YR	Age	Premium Paid	Loans, Withdrawals, Dividends Received	Net Surrender Value	Net Death Benefit
1	45	1,085	0	0	100,000
2	46	1,085	0	0	100,000
3	47	1,085	0	438	100,000
4	48	1,085	0	1,435	100,000
5	49	1,085	0	2,473	100,000
6	50	1,085	0	3,556	100,000
7	51	1,085	0	4,686	100,000
8	52	1,085	0	5,871	100,000
9	53	1,085	0	7,110	100,000
10	54	1,085	0	8,398	100,000
11	55	1,085	0	9,600	100,000
12	56	1,085	0	10,800	100,000
13	57	1,085	0	12,100	100,000
14	58	1,085	0	13,300	100,000
15	59	1,085	0	14,600	100,000
16	60	1,085	0	15,900	100,000
17	61	1,085	0	17,200	100,000
18	62	1,085	0	18,500	100,000
19	63	1,085	0	19,900	100,000
20	64	1,085	0	21,200	100,000
27	71	1,085	0	33,500	100,000
30	74	1,085	0	31,000	100,000
40	84	1,085	0	4,500	100,000
41	85	1,085	0	###	###
50	94	1,085			

Additional premiums necessary to continue coverage

Exhibit 3

Mr. John Doe

Male Non-smoker
Age 45

Universal Life Insurance Illustration

			GUARANTEED			NON-GUARANTEED (CURRENT)		
YR	Age	Premium Paid	Loans, Withdrawals, Dividends Received	Net Surrender Value	Net Death Benefit	Loans, Withdrawals, Dividends Received	Net Surrender Value	Net Death Benefit
1	45	1,085	0	0	100,000	0	0	100,000
2	46	1,085	0	0	100,000	0	0	100,000
3	47	1,085	0	0	100,000	0	472	100,000
4	48	1,085	0	590	100,000	0	1,494	100,000
5	49	1,085	0	1,343	100,000	0	2,568	100,000
6	50	1,085	0	2,094	100,000	0	3,697	100,000
7	51	1,085	0	2,836	100,000	0	4,888	100,000
8	52	1,085	0	3,563	100,000	0	6,148	100,000
9	53	1,085	0	4,267	100,000	0	7,479	100,000
10	54	1,085	0	4,939	100,000	0	8,878	100,000
11	55	1,085	0	5,400	100,000	0	10,200	100,000
12	56	1,085	0	5,900	100,000	0	11,600	100,000
13	57	1,085	0	6,300	100,000	0	13,000	100,000
14	58	1,085	0	6,600	100,000	0	14,500	100,000
15	59	1,085	0	6,900	100,000	0	16,000	100,000
16	60	1,085	0	7,000	100,000	0	17,600	100,000
17	61	1,085	0	7,100	100,000	0	19,200	100,000
18	62	1,085	0	7,000	100,000	0	20,900	100,000
19	63	1,085	0	6,800	100,000	0	22,600	100,000
20	64	1,085	0	6,300	100,000	0	24,400	100,000
27	71	1,085	0	###	###	0	39,200	100,000
30	74	1,085				0	44,000	100,000
40	84	1,085				0	65,100	100,000
41	85	1,085				0	67,600	100,000
50	94	1,085				0	100,800	101,800

Exhibit 3

Mr. John Doe

Male Non-smoker
Age 45

Universal Life Insurance Illustration

NON-GUARANTEED (ALTERNATIVE)

YR	Age	Premium Paid	Loans, Withdrawals, Dividends Received	Net Surrender Value	Net Death Benefit
1	45	1,085	0	0	100,000
2	46	1,085	0	0	100,000
3	47	1,085	0	438	100,000
4	48	1,085	0	1,435	100,000
5	49	1,085	0	2,473	100,000
6	50	1,085	0	3,556	100,000
7	51	1,085	0	4,686	100,000
8	52	1,085	0	5,871	100,000
9	53	1,085	0	7,110	100,000
10	54	1,085	0	8,398	100,000
11	55	1,085	0	9,600	100,000
12	56	1,085	0	10,800	100,000
13	57	1,085	0	12,100	100,000
14	58	1,085	0	13,300	100,000
15	59	1,085	0	14,600	100,000
16	60	1,085	0	15,900	100,000
17	61	1,085	0	17,200	100,000
18	62	1,085	0	18,500	100,000
19	63	1,085	0	19,900	100,000
20	64	1,085	0	21,200	100,000
27	71	1,085	0	33,500	100,000
30	74	1,085	0	31,000	100,000
40	84	1,085	0	4,500	100,000
41	85	1,085	0	###	###
50	94	1,085			

Additional premiums necessary to continue coverage

Exhibit 4

Mr. John Doe

Male Non-smoker
Age 45

Universal Life Insurance Illustration

			GUARANTEED			NON-GUARANTEED (CURRENT)		
YR	Age	Premium Paid	Loans, Withdrawals, Dividends Received	Net Surrender Value	Net Death Benefit	Loans, Withdrawals, Dividends Received	Net Surrender Value	Net Death Benefit
1	45	1,855	0	0	100,000	0	170	100,000
2	46	1,855	0	1,071	100,000	0	1,509	100,000
3	47	1,855	0	2,273	100,000	0	2,992	100,000
4	48	1,855	0	3,923	100,000	0	4,986	100,000
5	49	1,855	0	5,623	100,000	0	7,109	100,000
6	50	1,855	0	7,347	100,000	0	9,375	100,000
7	51	1,855	0	9,174	100,000	0	11,796	100,000
8	52	1,855	0	11,021	100,000	0	14,387	100,000
9	53	1,855	0	12,913	100,000	0	17,159	100,000
10	54	1,855	0	14,848	100,000	0	20,120	100,000
11	55	0	0	14,800	100,000	0	21,200	100,000
12	56	0	0	14,700	100,000	0	22,500	100,000
13	57	0	0	14,600	100,000	0	23,700	100,000
14	58	0	0	14,400	100,000	0	25,100	100,000
15	59	0	0	14,000	100,000	0	26,400	100,000
16	60	0	0	13,600	100,000	0	27,800	100,000
17	61	0	0	13,000	100,000	0	29,200	100,000
18	62	0	0	12,200	100,000	0	30,700	100,000
19	63	0	0	11,200	100,000	0	32,200	100,000
20	64	0	0	9,900	100,000	0	33,800	100,000
23	67	0	0	###	###	0	39,700	100,000
30	74	0				0	51,000	100,000
34	78	0				0	58,100	100,000
40	84	0				0	69,100	100,000
50	94	0				0	100,300	101,300

Exhibit 4

Mr. John Doe

Male Non-smoker
Age 45

Universal Life Insurance Illustration

NON-GUARANTEED (ALTERNATIVE)

YR	Age	Premium Paid	Loans, Withdrawals, Dividends Received	Net Surrender Value	Net Death Benefit
1	45	1,855	0	157	100,000
2	46	1,855	0	1,468	100,000
3	47	1,855	0	2,909	100,000
4	48	1,855	0	4,842	100,000
5	49	1,855	0	6,883	100,000
6	50	1,855	0	9,040	100,000
7	51	1,855	0	11,322	100,000
8	52	1,855	0	13,741	100,000
9	53	1,855	0	16,305	100,000
10	54	1,855	0	19,015	100,000
11	55	0	0	19,900	100,000
12	56	0	0	20,800	100,000
13	57	0	0	21,700	100,000
14	58	0	0	22,600	100,000
15	59	0	0	23,600	100,000
16	60	0	0	24,400	100,000
17	61	0	0	25,300	100,000
18	62	0	0	26,200	100,000
19	63	0	0	27,000	100,000
20	64	0	0	27,900	100,000
23	67	0	0	31,600	100,000
30	74	0	0	30,100	100,000
34	78	0	0	###	###
40	84	0			
50	94	0			

Additional premiums necessary to continue coverage

Exhibit 5

Mr. John Doe

Policy Number 6745330

Universal Life Insurance Inforce Illustration

			GUARANTEED			NON-GUARANTEED (CURRENT)		
YR	Age	Premium Paid	Loans, Withdrawals, Dividends Received	Net Surrender Value	Net Death Benefit	Loans, Withdrawals, Dividends Received	Net Surrender Value	Net Death Benefit
4	48	1,855	0	4,681	100,000	0	4,986	100,000
5	49	1,855	0	6,622	100,000	0	7,109	100,000
6	50	1,855	0	8,217	100,000	0	9,375	100,000
7	51	1,855	0	10,064	100,000	0	11,796	100,000
8	52	1,855	0	11,961	100,000	0	14,387	100,000
9	53	1,855	0	13,907	100,000	0	17,159	100,000
10	54	1,855	0	15,899	100,000	0	20,120	100,000
11	55	0	0	15,900	100,000	0	21,200	100,000
12	56	0	0	15,900	100,000	0	22,500	100,000
13	57	0	0	15,900	100,000	0	23,700	100,000
14	58	0	0	15,700	100,000	0	25,100	100,000
15	59	0	0	15,400	100,000	0	26,400	100,000
16	60	0	0	15,100	100,000	0	27,800	100,000
17	61	0	0	14,600	100,000	0	29,200	100,000
18	62	0	0	13,900	100,000	0	30,700	100,000
19	63	0	0	13,000	100,000	0	32,300	100,000
20	64	0	0	11,900	100,000	0	33,800	100,000
24	73	0	0	###	###	0	41,100	100,000
30	74	0				0	51,000	100,000
34	78	0				0	58,100	100,000
40	84	0				0	69,100	100,000
50	94	0				0	100,300	101,300

Exhibit 5

Mr. John Doe

Policy Number 6745330

Universal Life Insurance Inforce Illustration

NON-GUARANTEED (ALTERNATIVE)

YR	Age	Premium Paid	Loans, Withdrawals, Dividends Received	Net Surrender Value	Net Death Benefit
4	48	1,855	0	4,928	100,000
5	49	1,855	0	6,975	100,000
6	50	1,855	0	9,138	100,000
7	51	1,855	0	11,427	100,000
8	52	1,855	0	13,854	100,000
9	53	1,855	0	16,426	100,000
10	54	1,855	0	19,145	100,000
11	55	0	0	20,000	100,000
12	56	0	0	20,900	100,000
13	57	0	0	21,900	100,000
14	58	0	0	22,800	100,000
15	59	0	0	23,700	100,000
16	60	0	0	24,600	100,000
17	61	0	0	25,500	100,000
18	62	0	0	26,400	100,000
19	63	0	0	27,300	100,000
20	64	0	0	28,100	100,000
24	73	0	0	32,000	100,000
30	74	0		30,300	100,000
34	78	0		###	###
40	84	0			
50	94	0			

Additional premiums necessary to continue coverage

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ATTACHMENT FOUR-D

Key Featuares of Universal Life Policy

Consumers Union
1666 Connecticut Ave., Suite 310
Washington, D.C. 20009-1039
January 31, 1994

Mr. Robert Wright
Virginia Insurance Department
1300 East Main Street
Richmond, VA 23219

Dear Bob:

We are writing to you in your capacity as chair of the Life Insurance Disclosure Working Group.

Key Features Document

As promised, attached please find a draft document entitled "Key Features." For this draft, we chose to exemplify a universal life insurance policy. We hope that a standard Key Features document will be developed for each type of life insurance to show to potential purchasers prior to the time of sale. Please note that this is a "working draft" and we hope to add numbers to exemplify the policy listed. We wanted to use an actual policy so the numbers accurately reflect what is on the market.

As the working group has stated, it is important that standard definitions and formats be developed to avoid some of the problems with deceptive and misleading sales presentations. We hope such work can be combined with the "Key Features" document. We would like to be able to comment on any proposals the industry group submits to you.

Private Cause of Action

It was noted in the minutes from the Hawaii meeting that the working group deleted the section of the draft model that creates a private cause of action for aggrieved parties. Since we believe a private cause of action is a useful tool for consumers, we are concerned about the group's decision. The minutes indicated that this action was based partly on an industry representative's assertion that such a remedy is already available for consumers. That was a surprise as the understanding was such relief was not available and hence the controversy surrounding this provision. We would request that NAIC clear up this matter through an analysis of what recourse is typically available to an aggrieved consumer. We would appreciate it if the NAIC legal department could render an opinion as to how a private cause of action already exists for a party aggrieved by unsupportable or otherwise "illegal" assumptions or presentation in the illustrations.

Use of Future Projections should be Banned

We continue to have concerns about the use of illustrations. As the cases of Metropolitan Life and Prudential suggest, no amount of oversight or self-policing will protect consumers from unethical or illegal company and agent practices. The structure of the market needs to change. Toward that end, we continue to believe that future projections, beyond the guarantees, should be prohibited. We understand the level of industry pressure in this area but we hope that you will continue along the path of your stated preference of prohibiting future projections.

"Underlying Assumptions" Problem with Illustrations

As stated previously, agent practices in the sales of life insurance is only part of the problem. The structure of the market and these products fuel these practices. In a document submitted to your group by Jim Hunt, he outlines some very disturbing problems with illustrations. He notes Lilfe Insurance Marketing and Research Association's (LIMRA's) data on lapses for life insurance policies. These lapse rates—60% in the first 10 years—are very troubling, particularly in light of the fact that surrender charges in the first 10 years eat away at the net surrender value of the policy.

As a first, and much needed, step to addressing the problem, Jim suggested that the Unfair Trade Practices Act be used and that the commissioners prescribe certain maximum rates to be applied. These could be changed if new information warrants.

Consumers, and agents for that matter, have no way to second guess underlying assumptions used by company actuaries but these go to the heart of deceptive pricing patterns. Commissioners need to take action to ensure the policies are priced as accurately as possible—based on accurate assumptions that relate to actual, not "dream-like," experience. Jim has issued several warnings about these practices over the past few years. We hope that the commissioners are listening and take action that will ensure consumers the kind of protection they need.

We look forward to continuing to work with the group this year. Please call if you have any questions or need further information about the document submitted.

Sincerely,

Mary Griffin
Insurance Counsel
Washington Office

DRAFT 1-31-94

UNIVERSAL LIFE INSURANCE POLICY

Policy: Universal Life Insurance

Goals:
1. To have a death benefit that may be adjusted over time.
2. To provide for a rate of return on investment.
3. To have the option of paying varying levels of premiums and adjust the death benefit according to financial needs.

Your commitment:
1. To monitor the investment portion of the policy since it will affect how much premium you need to pay in to maintain a death benefit of a certain amount.
2. To maintain the policy over time because if you cash in early you may be penalized.
3. To monitor the policy to ensure that it is providing the amount of death benefit and cash build-up to meet your needs.

Risk Factors:
1. If assumptions change, e.g., the charges and expenses are higher than expected, investment performance may not be as good as expected and cash values may be lower than with other products.
2. If the investment does not perform as well as expected, your payments may not cover the death benefit; you may have to increase your premiums.
3. Depending on investment performance, the death benefit may be affected and you may have to pay in more premium to maintain benefit.
4. Your circumstances may change, forcing you to cash in early and subjecting you to high penalty charges.

Key differences between this policy and traditional "whole life" insurance:
1. Flexibility in premium payments.
2. Ability to adjust the death benefit.
3. Guaranteed cash surrender values are a function of illustrated premiums, not of the plan of insurance selected.

Universal Life Insurance
General Illustration—Table

Premium: Annual—Flexible/varied
Male/Female: Male
Contract term:

Option B: Varying death benefit
Age Next Birthday: 35
Smoker/Non-Smoker: Non-smoker

Year	Premium	Commission	Total Premiums	Expense Charges	Mortality Charges	Interest Credit	Net Value	Death Benefit
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								
20								
25								

Terms:
Premium: The amount paid in the particular year (premium period). This policy provides for flexible payment, which is demonstrated here in varying amounts. The net value and possibly amount of death benefit will change according to how much you pay in as premiums each year and what the rate of interest is at that time.

Commission: Your agent will receive commission based on the size and kind of policy, the contract term as well as the amount of premiums paid.

Total premiums represent the full amount paid into the policy as of that year. The expense charges are deducted each year and may be subject to change.

Mortality charges deducted each year cover the insurer's risk that you may die during the year and that the death benefit will be paid to your beneficiary.

The *interest credit* is added depending on what rate of interest the policy's investments are performing, and may be divided into guaranteed and excess.

The *Death Benefit* would be paid if you die during the year while the policy is in force.

Example 2/Table

Premium: Annual—Flexible/varied
Male/Female: Male
Contract term:

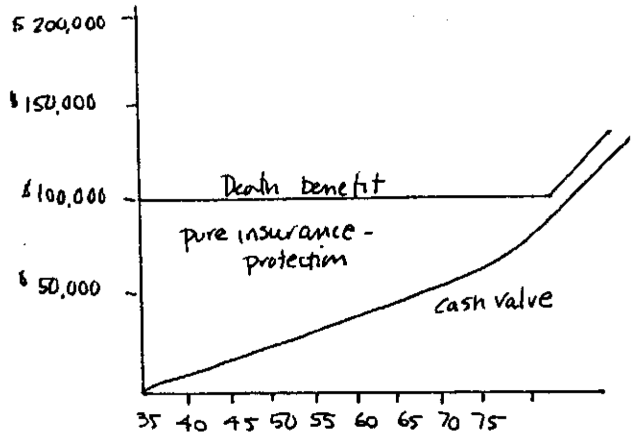
Option B: Varying death benefit
Age Next Birthday: 35
Smoker/Non-Smoker: Non-smoker

Year	Prem.	Com'n	Total Prem.	Charges	Int't Credit	Policy Value	Surr. Charge	Net SurrVal	Death Ben.
1									
2									
3									
4									
5									
6									
7									
8									
9									
10									
11									
12									
13									
14									
15									
20									
25									
30									

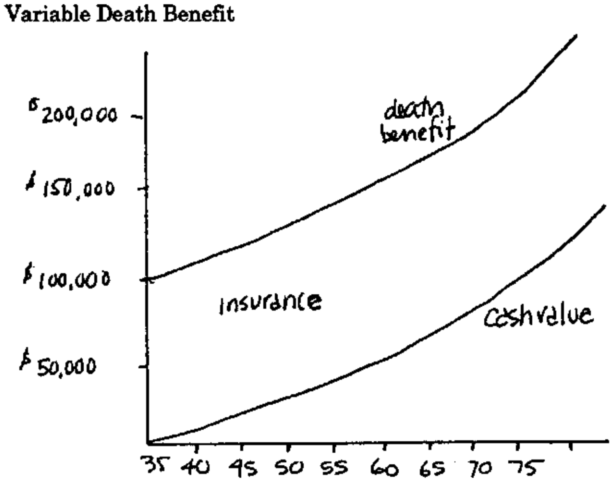
Terms: same as example 1 with some additions.

Universal Life Insurance
General Illustration—Graph

Option A: Level Death Benefit



Option B: Variable Death Benefit



NOTE: Each illustration assumes premiums continue to be paid for the period of time shown.

Universal Life Insurance
General Information
Read Carefully

What happens next—Before you can sign an application, a specific illustration will be prepared for you. This will follow the same general pattern as the general illustration table on page XX, but with the details specific to you. You may then sign the application. After the application is accepted, you still have an opportunity to change your mind.

Flexible premium—A universal life policy allows you to pay different levels of premiums subject to company maximums and minimums.

THIS KIND OF POLICY CARRIES GREATER RISKS BECAUSE THE PREMIUMS MAY NOT BE SUFFICIENT TO PAY FOR THE POLICY AND THE POLICY WILL BE TERMINATED.

BE CAREFUL—your policy may lapse (terminate) because of not enough premiums. You may opt for a "planned" or "target" premium—a predetermined amount to be paid on a regular basis to help protect you from lapsing the policy. The premium period may be monthly, yearly or at some other interval.

Adjustable death benefit—A universal life policy allows you to increase (subject to evidence of insurability) or lower the policy death benefits. Two options are provided in these policies. Option A includes a level death benefit whereas Option B provides a death benefit that varies with the cash value. If the death benefit continues to increase under Option B, the mortality charges will be higher than under Option A.

Charges—The charges and expenses used to calculate the general illustrations are based on company charges at XXX. They could vary in the future. The effect of all the charges over the life of the policy is to reduce the average growth. Therefore, the rate of return stated will not be the actual rate you receive because of these reductions. Note: Some policies will assess costs or charges by crediting a lower interest rate and not separately deduct charges. ALL POLICIES HAVE COSTS CHARGED TO YOU BY THE COMPANY.

Mortality Charges—These are deducted each payment period to cover the insurer's risk that you may die during the year and that the death benefit shown will be paid to your beneficiary. BE CAREFUL—the rate charged can increase over the life of the policy, subject to a maximum rate stated in the policy. Be sure to check the rate—this will be multiplied by the "net amount at risk" to determine the charges.

Interest credit—The company *must* credit your premiums with interest at the specified "guaranteed rate." The company *may* credit the account with a higher interest rate but that depends on several factors. As you know, interest rates can change dramatically over time. If a company paid a higher rate in the past, this does not mean it can or will continue to pay such rate in the future. DO NOT BE TEMPTED BY PROMISES ON INTEREST RATES.

Surrender Charges—If you terminate your policy early on, e.g., within the first 15 years, you will have to pay surrender charges, often expressed as either a percentage of the premium paid in the first year or a flat amount that decreases yearly after the first 5 years. BE CAREFUL because these charges mean you will probably get back less than you paid in if you stop the policy in the first 5 years.

Cancellation Rights—After your application is accepted, you will receive a notice of your right to cancel when the policy is delivered to you. You will then have XX days to cancel your policy.

Annual Report—To be sure that you know how much is in your fund and what charges are being deducted and interest credited, the company will send you an annual report with this information. Read it carefully.

Who to complain to—If you have a complaint or a question, call or write the company at XXX. You can also complain to your state insurance department. Filing a complaint does not affect your right to take legal action.

An example of cash value build-up

The way a universal life build-up of cash values works:
(Assuming a 5% guaranteed rate only)

First Period	Second Period	Third Period	Fourth Period
Initial premium paid	Cash value (Period 1)	Cash Value (Period 2)	Cash Value (Period 3)
- expense charges	+ premium paid	+ premium paid	+ premium paid
- mortality charges	- expense charges	- expense charges	- expense charges
+ interest	- mortality charges	- mortality charges	- mortality charges
= Cash Value (Period one)	+ interest	+ interest	+ interest
- Surrender Charges	= Cash Value (Period 2)	= Cash Value (Period 3)	= Cash Value (Period 4)
= Net Surrender Value	- Surrender Charges	- Surrender Charges	- Surrender Charges
	= Net Surrender Value	= Net Surrender Value	= Net Surrender Value
Assuming the following premium payments:			
	CV =	CV =	CV =
$1,500 (Initial premium)	+ $1,000	+ $750	+ $900
-	-	-	-
-	-	-	-
+	+	+	+
=	=	=	=
-	-	-	-
=	=	=	=

What if you stop paying premiums?

BE CAREFUL, YOU COULD LOSE A LOT!!

If you stop paying on the policy, any cash values will be used to pay off premiums to maintain a death benefit. If you terminate the policy or cash in early, penalty charges are applied which could mean you don't get as much as you paid in. Do not purchase this policy unless you plan to continue paying the premiums.

At end of year	Amount paid in	What you might get back
1		
2		
3		
4		
5		

You can expect the best value on your policy if you maintain it for as long as the policy period or your needs are met. The table below shows what your return would be if your investment grew at 5% each year. These numbers take into account current charges and the company's method of valuing policies that are stopped.

At end of year	Amount paid in	What you might get back
10		
15		
20		
24		
25		

PLEASE NOTE:

The figures in both tables only serve as a guide and are not guaranteed.

Effect of Charges and Expenses

Not all the premiums you pay will be used for the insurance or the investment (cash value) portion of the policy. A certain amount goes to paying for your insurance, some of your money will go to meet the company's charges and expenses, and the remainder will be included as your "cash-value."

These expenses and charges are higher in the early years but if you held your policy, continuing to pay premiums on a planned or target premium basis*, for the full 25 years and if each year the company achieved an average investment return (to be credited to the cash value) of 5%, then on average the overall effect of the current expenses would be:

about the same as if we had deducted XX from every $1 (dollar) you paid in.

Or, to put it another way, our expenses would have the effect of reducing the investment return from 5% to X% a year:

the investment return would be reduced by X% each year.

Further information

More detailed information about this policy can be found .....

* Please note: Though Universal Life allows you to pay a flexible premium, these numbers assume you pay the same premium each year for 25 years.

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ATTACHMENT FOUR-E

Life Disclosure Working Group
of the Life Insurance (A) Committee
February 23, 1994

The Life Disclosure Working Group of the Life Insurance (A) Committee met by conference call on Feb. 23, 1994, at 2 p.m. Participating were Bob Wright (Va.), Chair; Don Koch (Alaska); John Montgomery (Calif.); Roger Strauss (Iowa); Lester Dunlap (La.); Tony Higgins (N.C.); Noel Morgan (Ohio); Robert Wilcox (Utah); and Fred Nepple (Wis.). Also participating was Carolyn Johnson (NAIC/SSO).

Bob Wright (Va.) summarized the schedule for the spring National Meeting in Denver. He reviewed the agenda for the meetings scheduled March 5 and March 7. He said his goal for the Denver meeting is to arrive at a consensus on the approach to be used for life insurance illustrations. He asked Carolyn Johnson (NAIC/SSO) to fax to the members of the working group a summary prepared in his office that would show the comments that had been received on the model act and the illustration concepts.

Mr. Wright then asked the members of the working group for their first impressions of the model illustrations they had received from the technical resource advisors. Several members of the working group shared opinions that they had garnered from members of their staff who had reviewed this material. After discussing the illustrations at length, the members of the working group decided that, after hearing the presentation of the resource group and other commentors at the March 5 meeting, it would be appropriate to decide on the approach to use in writing a model regulation. Most of the members of the working group expressed the opinion that there was some improvement over the old illustrations but there was still more refinement needed. Tony Higgins (N.C.) said the problem with an illustration was that there were so many variables to the illustration.

Commissioner Robert Wilcox (Utah) pointed out that the members of the working group were significantly more knowledgeable than the target audience of the illustration. He said if it was difficult for these regulators to understand the illustrations, think how difficult it would be for a potential buyer to understand them. Noel Morgan (Ohio) highlighted the difficulty of trying to show too many of the variables on the illustration. He said that those illustrations had so much detail that the information became overwhelming. Roger Strauss (Iowa) asked about the actuarial standards. One of the comments received had talked about some of the standards and he asked if standards for life insurance illustrations already existed. Commissioner Wilcox responded that some standards exist but that they did not provide much comfort except to another actuary. He said the standards could not be ignored, but much more was needed to define the issues in life insurance illustrations. Mr. Wright said that the actuarial standards did not begin to address the problem of clarity of the illustration.

Mr. Wright asked the members of the working group to be prepared to make a decision at the Life Disclosure Working Group meeting in Denver on the approach to take in handling illustrations.

Having no further business the Life Disclosure Working Group adjourned at 3 p.m.