LIFE INSURANCE (A) COMMITTEE

Reference:
1994 Proc. 1st Qtr. 352
1994 Proc. 2nd Qtr. 549

Robert M. Willis, Chair—D.C.
Dwight K. Bartlett, Vice Chair—Md.

CONTENTS

MINUTES

The Life Insurance (A) Committee met in Salon E of the Minneapolis Hilton in Minneapolis, Minn., at 11 a.m. on Sept. 20, 1994. A quorum was present and Robert M. Willis (D.C.) chaired the meeting. The following committee members or their representatives were present: Dwight K. Bartlett, III, Vice Chair (Md.); James H. Dill (Ala.); Terri Vaughan (Iowa); Harold T. Duryee (Ohio); Kerry Barnett (Ore.); J. Robert Hunter (Texas); Steven T. Foster (Va.); and Deborah Senn (Wash.).

1. Consider the Issues of Viatical Settlement Companies Owned by Insurers

Roger Strauss (Iowa) reported that when David Lyons was chair of the A Committee, he sent a letter to the American Council of Life Insurance (ACLI) asking for information requested by the Life Insurance (A) Committee at the summer National Meeting. Mr. Strauss said the letter asked the ACLI to survey its members and get information on several questions, and Mr. Strauss reported that the ACLI had responded that it was not a pressing question for its members and not a good way to expend its resources (Attachment One). Mr. Strauss said that Commissioner Glenn Pomeroy (N.D.) had some additional comments he would like to make on the issue of viatical settlements. Commissioner Pomeroy said that he appreciated the good work the Life Insurance (A) Committee had done on the issue of viatical settlement companies and their regulation. He reported that the full NAIC membership had adopted the Viatical Settlement Model Regulation on Sept. 18, and his state, among others, plans to introduce the Viatical Settlements Model Act in the legislature during the next session. He asked the Life Insurance (A) Committee to consider requesting an additional charge from the Executive Committee to discuss the related issue of whether insurance regulators should be concerned about the secondary market created by purchasing life insurance policies and remarketing them as investment opportunities. He reported that while he was securities commissioner in North Dakota, he had issued a cease and desist order against an individual marketing such policies in North Dakota and the Securities and Exchange Commission (SEC) had recently filed an action against the same individual. He said that it was his opinion the Life Insurance (A) Committee could add value to the study of this topic by considering whether there is an insurable interest concern with this type of marketing. Roy Olson (Wash.) said he agreed that this needs further review. Upon motion duly made and seconded, the Life Insurance (A) Committee voted to ask the Executive Committee for an additional charge to further consider issues related to viatical settlements.

2. Report of the Synthetic GIC Working Group

Reginald Berry (D.C.) reported that an informal meeting had been held to discuss the progress of the working group and it was a consensus to create a white paper to present to the A Committee to focus on the legal questions to be addressed. Upon motion duly made and seconded, the report of the Synthetic GIC Working Group was adopted (Attachment Two).

3. Report of the Genetic Testing Working Group

Robert Katz (Ohio) presented the report for Kip May (Ohio). He reported that the working group had held a hearing to receive comments from consumers, the insurance industry and other interested parties. He said the working group is exploring the issues and then intends to make a recommendation to the Life Insurance (A) Committee. Upon motion duly made and seconded, the report of the Genetic Testing Working Group was adopted (Attachment Three).

4. Report of the Life Disclosure Working Group

Commissioner Robert Wilcox (Utah) said the working group is making significant progress. He said it had spent considerable time at the Sept. 11 meeting discussing a draft of standards and requested comments by Sept. 30. He said the standards itemized what the working group wants to see in a model act and regulation on illustrations. He said the technical resource advisors had submitted an illustrations document that showed substantial progress toward meeting the working group's goals. He said sample illustrations also were attached to the working group minutes. Commissioner Wilcox reported that, while the model drafts that allowed illustrations of guarantees only were in virtually final form, the working group had decided to table consideration of them. Commissioner Wilcox additionally reported that he will be meeting with the Actuarial Standards Board (ASB) Sept. 21 to discuss what is expected of it. Commissioner Robert Willis (D.C.) said that when the working group met in Kansas City in August he was concerned about the working group delineating exactly what was appropriate for the actuarial standards and what material would be included in the model. Commissioner Wilcox agreed it was necessary for the actuarial standards to be specific to accomplish the working group's goals. Upon motion duly made and seconded, the report of the Life Disclosure Working Group was adopted (Attachment Four).

5. Life and Health Actuarial Task Force

John Montgomery (Calif.) reported that the Life and Health Actuarial (Technical) Task Force had met for two days and concentrated on only a few projects because it wants to complete these projects by the December National Meeting. Mr. Montgomery outlined the main features of the revised version of the Second Standard Nonforfeiture Law for Life Insurance, which the working group expects to finalize at an interim meeting at the end of October. Mr. Montgomery also drew the committee's attention to a revised draft of the Standard Nonforfeiture Law for Deferred Annuities. He reported that the task force had rejected, by a close vote, the concept of widening the maximum permitted spread between the cash surrender value and the account value. Commissioner Willis asked what the maximum differential is now, and Mr. Montgomery replied that it is 10%. Mr. Montgomery reported that the task force also has attached a copy of the Valuation of Life Insurance Policies Model Regulation (formerly called Guideline XXX) and also intends to finalize this regulation at its Oct. 31 meeting. In addition, Mr. Montgomery drew the Life Insurance (A) Committee's attention to the draft of Guideline GGG. Mr. Montgomery said he encouraged public comment on all of these documents and anticipates recommending adoption of all three of the models at the winter National Meeting. Mr. Olson said he opposed receiving comments on the second and third items because he said they needed a great deal more work. He said he would prefer that the Life Insurance (A) Committee return those documents to the Life and Health Actuarial Task Force for redevelopment. Upon motion duly made and seconded, the report of the Life and Health Actuarial Task Force was adopted with Washington dissenting. Commissioner Willis asked Mr. Olson to prepare a document that outlined the issues that concern him on the two models in question.

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

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

ATTACHMENT ONE

Letters Regarding Viatical Settlement Companies Owned by Insurers
From Commissioner David Lyons (Iowa) to ACLI and
ACLI Response to Commissioner Robert Willis (D.C.)

July 6, 1994

Ms. Spiezio
American Council of Life Insurance (ACLI)
1001 Pennsylvania Ave.
Washington, DC 20004-2599

Dear Ms. Spiezio:

At the Baltimore Life Insurance (A) Committee meeting, I indicated I was going to provide you with some additional information and request your help on surveying your members with some questions.

Would you please survey your membership and report the results to the A Committee in September, asking the following questions:

1. Are any insurers now investing in viatical settlement companies or do they plan to do so in the foreseeable future?

2. Are any insurers forming their own viatical settlement companies or do they plan to do so in the foreseeable future?

3. If either 1 or 2 above are true, will the viatical settlement company, which the insurer owns or has an interest in, buy back that insurer's own policy through that viatical settlement company?

4. Do the insurers who own or have an interest in a viatical settlement company also provide accelerated death benefits in their policies?

5. Do companies who have, or may have, an interest in a viatical settlement company believe it is a prudent practice to buy back their own policies through a viatical settlement company when:

   a. the policy has no accelerated death benefit option?

   b. the policy has an accelerated death benefit option?

6. Do your members see any other business or ethical questions concerning insurers entering into the viatical settlement business?

7. Are any insurers currently contemplating making loans or providing capital in any other way to viatical settlement companies?

Thanks for your help and I look forward to hearing your report in September.

Sincerely,
Commissioner David Lyons
Iowa

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American Council of Life Insurance
1001 Pennsylvania Avenue, N.W.
Washington, D.C. 20004-2599

August 5, 1994

Dear Commissioner Willis:

I am writing to you with regard to the attached letter from former Iowa Insurance Commissioner David Lyons to ACLI staff dated July 6, 1994. After much discussion and deliberation, including input from a number of ACLI member companies, the ACLI has concluded that we will be unable to conduct the survey requested by former Commissioner Lyons.

As I know you understand, the ACLI has only a limited amount of resources to dedicate to any particular project we undertake. This is particularly true of a survey of our membership, which requires an intensive amount of labor and technical resources. For that reason, any survey the ACLI does conduct of its membership is generally a result of the industry's interest in the subject matter. At this time the subject addressed in former Commissioner Lyons' letter is not of substantial interest to the majority of ACLI's members. Of course, since we will not be conducting this survey, we will also not be prepared to make a presentation on this subject to the Life Insurance (A) Committee at the September NAIC meeting in Minneapolis.

It would appear also that the nature of the survey would produce little, if any, response. If it is determined that such a survey is needed, perhaps the NAIC would be better situated to conduct it.

I appreciate your understanding of our decision regarding this matter. As always, please feel free to contact me with any questions or comments you may have.

Very truly yours,
Richard E. Barnsback
Vice President and Chief Counsel, State Relations

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ATTACHMENT TWO

Report of the Synthetic GIC Working Group of the
Life Insurance (A) Committee
Minneapolis, Minnesota
September 20, 1994

The working group has discussed its future course of action. The group recognizes that there are currently three working groups looking at different aspects of this subject: this working group, the Synthetic GIC Working Group of the Life and Health Actuarial Task Force, and the Synthetic GIC Working Group of the (EX4) Blanks Task Force.

This working group's original charge was to look into the legal aspects of synthetic guaranteed interest contracts (GICs). With the A Committee's authority, this working group held a symposium at its June 1994 meeting. Information was made available concerning a description of the types of products being sold, the risks insurers confront when selling them and the market segment that assimilated demand for the product.

Numerous questions remain unanswered and the working group now is preparing to organize its questions so that it can begin addressing the fundamental question of whether synthetic GICs are a risk that can be sold by licensed insurance companies, particularly life insurance companies. While all of the questions are not fully shaped, some examples of questions the working group will consider exploring are:

(i) What is a reasonable legal definition of the risk?
(ii) If a trust is established as a part of the sale, should that trust be subject to regulation?
(iii) Should synthetic GICs be covered by state guaranty associations?

The working group's short-run goal is to draft a white paper which will be designed to address the questions the group will develop. The working group plans to meet before the December 1994 NAIC meeting for the purpose of establishing the framework for the paper.

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ATTACHMENT THREE

Genetic Testing Working Group of the
Life Insurance (A) Committee
Minneapolis, Minnesota
September 18, 1994

The Genetic Testing Working Group of the Life Insurance (A) Committee met in Salon C of the Minneapolis Hilton in Minneapolis, Minn., at 10 a.m. on Sept. 18, 1994. Kip May (Ohio) chaired the meeting. The following working group members or their representatives were present: Don Koch (Alaska); Tom Foley (Fla.); Richard Rogers (Ill.); Mary Alice Bjork (Ore.); Dixon Larkin (Utah); and Roy Olson (Wash.).

Kip May (Ohio) said the first order of business would be a hearing on the issue of genetic testing in insurance underwriting. The first person to speak was Robbie Meyer (American Council of Life Insurance—ACLI). She said the issue of insurers' use of genetic testing was an important one because it went to the very basis of risk classification. She said genetic testing includes, but is not limited to, the results of genetic tests. Historically, genetic information has been used, such as height and weight and tests for high blood pressure and cholesterol. She said a limitation or prohibition on underwriting on the basis of genetic information or genetic tests would limit or prohibit traditional underwriting. Its elimination or significant restriction would necessitate fundamental structural changes to the market that might ultimately result in some form of socialized risk or public insurance program to satisfy insurance needs now handled privately.

The next speaker was Dr. Don Chambers (Lincoln National) who said that new DNA-based technologies coupled with computer technology are expanding our ability to analyze DNA. The Human Genome Project offers an example of how far and how fast we have come. Financed by the United States government, the goal of this project is to identify the complete make-up of all 100,000 of our genes. He said that not long ago it seemed fairly easy to distinguish between "genetic" diseases and "non-genetic" diseases. However, as we learn more and more about the genetic mechanisms of disease, we are finding it increasingly difficult to make such distinctions. He said that as we understand more about the field, it is increasingly understood that most diseases have a genetic and an environmental component. He said that cancer is a typical example of the combination of genetic information combined with environmental factors. Dr. Chambers said the insurance industry has not rushed to embrace DNA-based technologies. In fact, he said the insurance industry is approaching it very cautiously, and does not yet know to what extent it will want to make use of these technologies in underwriting. He said it was important that insurers retain their historic ability to underwrite on the basis of genetic information and genetic tests in order to continue to select appropriately classified risks as required in the existing insurance market.

Emily Crandell (Guardian) testified that through the process of risk classification and underwriting, insurance companies place applicants for coverage in groups or classes. She said the three primary purposes of a risk classification system are to protect the insurance program's financial soundness, to be fair, and to permit economic incentives to operate and thus to encourage widespread availability of coverage. Risk classification, she said, makes it possible for the insurer to determine premiums are appropriate to the levels of risk presented. She said to treat all applicants and existing policyholders fairly and to prevent unfair subsidization, insurance companies must set premiums at a level consistent with the risk represented by each applicant. Ms. Crandell suggested that underwriting is properly performed and there is "fair" discrimination when the applicant's expected future mortality and morbidity have been properly estimated and reflected in the premium rate. "Unfair" discrimination occurs when there is no sound actuarial justification for the manner in which risks are classified. She emphasized that insurers have no desire to turn away business; they seek to offer coverage to as many people as possible.

Ron Kotowski (Ill.) asked how insurers would evaluate risk if they were unable to use genetic information. Ms. Crandell replied that, if they were prohibited from using genetic information, someone who appeared to be a standard risk but was not would be subsidized by others. She said if this continued, rates for apparently healthy individuals would be much higher than necessary. Birny Birnbaum (Texas) asked how insurers had managed all these years when genetic testing was not available in setting rates. Ms. Crandell said that insurers have been using genetic information without testing. A broad prohibition on genetic testing would eliminate that use also. Mr. Birnbaum said there was already a precedent for being unable to use information in setting rates, such as race. Ms. Crandell said the basic underpinning of the insurance system was the ability to price based on risk. Mr. Birnbaum said that as more and more detailed underwriting risk classifications are used, it further segments the market. He saw a danger in limiting the market to those with the best risks. He said then insurance might become unavailable to the rest of the public. Ms. Crandell said that most companies now have the same number of risk classifications as they did 20 years ago, so it did not appear that the industry was looking to further segment the market. Mr. Birnbaum said that how risk was established seemed to be an important public policy decision and he was not sure this decision should be left to private industry.

The next speaker was Dr. Paul Billings (Stanford University). He said there was a huge expansion in the amount of genetic information available. He said the cost of the tests and the speed by which the information was available had also improved greatly in the last few years. Dr. Billings suggested said that it was possible that in the future it would be possible to do thousand of tests in one day from one DNA sample at a low cost. He said that some illnesses are not genetically based. Just because an individual has a genetic anomaly does not mean the person will get a genetic disease. He cited academic works that were available on the use of genetic information. Mr. May asked that Dr. Billings give a list of those informational documents to Carolyn Johnson (NAIC/SSO) for distribution to the working group. Dr. Billings said his own research had involved studies of persons who had been subject to genetic discrimination. He said in the insurance realm he saw discrimination against people in two forms: first, discrimination against individuals in the underwriting process, and secondly, post-contractual discrimination where the insurer tried to rescind the policy. He said that treatment had also been used as a method for identifying and discriminating against individuals. He said that those individuals were often healthier than the normal population because of their regular medical care.

Wendy McGoodwin (Council for Responsible Genetics) said she represented an 11-year-old organization of scientists and others whose goal was to educate the public about genetic testing and its uses. She said her organization concentrated on use of genetic testing in insurance, employment and other areas. Her organization's position was that insurers should be prohibited from using genetic testing. She said many tests are not clear indicators of illness, but rather just show that the individual has an elevated chance of getting the disease. She said that the odds of getting a genetically related illness are already reflected in the actuarial tables, and that genetic disease is no more prevalent than it was several years ago. Ms. McGoodwin said that fear of discrimination could lead people not to seek medical treatment because of concern that it would make them uninsurable. Ms. McGoodwin pointed out that there have been instances where public policy issues have overridden genetic issues, for example race and sex. She was concerned that use of genetic testing in life insurance would allow expansion into other areas, such as health insurance or jobs.

Dr. Robert Gleeson (Northwestern Mutual) said that genetic tests are not much different than many other kinds of tests. He said there are thousands of diseases that are genetically controlled and insurers understand that genetic tests are not a sure predictor. He said that in most cases it would change the individual's rating, but few people would be declined on the results of a genetic test.

Dr. Phillip Bereano (University of Washington) spoke next. He cautioned against the risk of implying that genetics are destiny. He said there are many more factors and environment plays a big part. He said categorizing on the basis of genetic makeup is an issue of public policy. Dr. Bereano said a regulation in Washington and laws in five states say that genetic tests cannot be used to set rates. He pointed out that the insurance system had not collapsed in those five states. He said the rationale for the Washington regulation was that if it was impossible to turn someone down for a preexisting condition, it should be equally impossible to reject one for a predisposition for disease. Roy Olson (Wash.) reported that the Washington regulation applied to health insurance only.

Dixon Larkin (Utah) said that two diametrically opposed viewpoints had been presented here. The viewpoints either were that full use should be made of genetic tests or that they could not be used at all. It was his view that the Council for Responsible Genetics wanted risk classifications for all types of insurance to be more like the direction health insurance was going with community rating and a prohibition against using preexisting conditions. Mr. Larkin asked if there wasn't some kind of middle ground. Dr. Bereano said that sometimes one side or the other was better; it didn't always need to be a middle ground.

Mark Davis (Nationwide) said that he thought it was important to make a distinction between life and health insurance. He said the public policy issues were different in health coverage. He did not think there was a widespread problem in life insurance because 95% to 98% of all applicants were sold a policy.

Mary Alice Bjork (Ore.) asked if insurers used family history to point to a propensity for disease. She asked how much weight insurers put on this information. Dr. Chambers said that companies do use the family history information to identify a higher than normal cancer or heart disease risk, for example. Ms. Bjork asked Ms. McGoodwin if she thought family history questions were inappropriate and Ms. McGoodwin responded in the affirmative. Mr. Olson said the Genetic Testing Working Group was not likely to eliminate family history questions, and he asked if the industry would ever get to the point where computers would be able to do the underwriting with information readily available. Ms. Meyers said that in the past, insurers had been very cognizant of the fact that they were dealing with sensitive information, and kept in mind its confidential nature. Dr. Gleeson said the Medical Information Bureau has 100 medical codes. By design, they are broad so that specific information is not available in the marketplace, and he did not anticipate that would change. Mr. Birnbaum said that someone would create a database to provide information of a more specific nature because that was the way capitalism worked.

Mr. May announced that the working group would have a conference call to discuss requests for technical assistance in the future. He asked Ms. Johnson to schedule a time within two weeks after the working group meeting for that conference call.

Having no further business, the Genetic Testing Working Group adjourned at 11:55 a.m.

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ATTACHMENT FOUR

Life Disclosure Working Group
of the Life Insurance (A) Committee
Minneapolis, Minnesota
September 17, 1994

The Life Disclosure Working Group of the Life Insurance (A) Committee met in the Marquette Room of the Minneapolis Hilton in Minneapolis, Minn., at 4 p.m. on Sept. 17, 1994. Robert E. Wilcox (Utah) chaired the meeting. The following working group members or their representatives were present: Don Koch (Alaska); John Montgomery (Calif.); Tom Foley (Fla.); Roger Strauss (Iowa); Lester Dunlap (La.); Tony Higgins (N.C.); Noel Morgan (Ohio); Bob Wright (Va.); and Fred Nepple (Wis.).

1. Adopt Minutes of the July 14, 1994, Conference Call and the Aug. 21-23, 1994, Meeting

Upon motion duly made and seconded, minutes of the July 14, 1994, conference call (Attachment Four-E) and the Aug. 21-23, 1994, meeting (Attachment Four-D) were adopted.

2. Discussion of Draft of Working Group Position Paper

Commissioner Robert Wilcox (Utah) said that the working group had drafted a list of standards that they wish to see included in a model law and regulation eventually adopted (Attachment Four-A). He said the working group would receive it section-by-section and invited comments both by the members of the working group and the meeting attendees. Bob Wright (Va.) said that Section II should be clarified that the current draft act applies to both life and annuities and the current draft regulation applies just to life insurance policies. Commissioner Wilcox responded that consistency was needed across the board. Annuities were not included in the regulation that was being discussed currently, but a draft would be prepared before the working group's task was finished. Richard Weber (Merrill Lynch Life) said that it was very important that the NAIC's product include variable life insurance, and he encouraged the group to retain this provision.

Bill Fisher (Massachusetts Mutual) asked if it was the working group's intent to require illustrations. He said this was a significant shift from the working group's earlier position. Commissioner Wilcox said it was not as much a shift as it might appear at first blush, because the information is already required in many instances. He said much of this information was currently provided in the policy form.

Commissioner Wilcox said Section III of the standards paper should be taken very seriously by the readers. He said the working group thought it was very important to provide a description that was understandable to consumers so that they could make an intelligent decision. Barbara Lautzenheiser (Lautzenheiser and Associates) said that if the industry could have provided an illustration that was understandable without the assistance of an agent, there would be only direct marketing.

She questioned the total attainability of this goal. She noted the shift from the illustration being for the purpose of sales to the purpose of consumer information. She encouraged the group to change the language to the goal of movement toward understanding and that it be used as a consumer information document as well as a sales tool.

John Montgomery (Calif.) said that complicated products are not understood by the typical applicant. Commissioner Wilcox said that a "typical applicant" for a sophisticated policy should be a sophisticated applicant, and he acknowledged that the wording might need to be clarified in that instance. Scott Cipinko (National Association of Life Companies—NALC) said that this might mean that the illustration would have to be designed for the lowest common denominator. This would limit the choices of a consumer who needed a complicated product that he might not necessarily understand.

In regard to Section IV, Commissioner Dwight Bartlett, III (Md.), asked if it was practical to require an actuary's signature on every illustration. He asked if this meant all illustrations would be prepared in the home office. Commissioner Wilcox said that would be the result if the company would not be able to design a program that would prepare illustrations within the parameters that the company defined. Mr. Montgomery pointed out that several problems that had occurred lately with large companies would have been avoided if this requirement had been in place. Tom Foley (Fla.) agreed the working group had to work on the logistics of this, but he said he was convinced this was a valid concept. Commission Robert Willis (D.C.) said one of the goals of setting responsibility for the illustration was to create a direct tie between the consumer and the company.

Michelle VanLeer (John Hancock) asked for clarification of the working group's intent for standardization. She asked if other information and formats would be permitted as long as they were not inconsistent with the basic standards. She was concerned that some of the language of the standards paper implied this. Commissioner Wilcox said that he felt it would be inappropriate for the working group to say that a company could not sell products with more complex illustrations. He said the intent of the working group was that nothing would be inconsistent with the standards being set, and he did see a need for a basic format so consumers could compare similar elements of an illustration. Tony Higgins (N.C.) agreed that the basic illustration should be similar and then the company could show how the product would be used to meet special needs. Ms. VanLeer asked that the standards be modified to clarify that language. Bruce Nickerson (N.J.) suggested it was important to clearly differentiate between the illustration of the product and the uses of the product. Andrew Ware (Northwestern Mutual) said he did not see in this document a set of alternative assumptions for a sensitivity analysis which the technical resource advisors considered important.

Fred Nepple (Wis.) said that at the last working group meeting, there had been some discussion of adding a fourth point to Section V, Part A, requiring standardized assumptions after a certain point, and he asked whether this idea should be included in the standards. Commissioner Wilcox said the working group was not prepared yet to say that it must be in the standards, but he said it was something to consider. Mr. Nepple asked if the technical resource advisors could flesh out that proposal.

Commissioner Robert Hunter (Texas) asked if the assumptions being discussed in Section V of the standards paper would be disclosed in the policy. Commissioner Wilcox responded that they did not need to be disclosed in the same manner that they would be disclosed to an actuary, but that some information would be required. Linda Lanam (Life Insurance Company of Virginia) suggested that it was important to keep in mind that the language in the illustration should be similar to the language that would be included in the policy.

Noel Morgan (Ohio) said that along with a prohibition against illustrating persistency bonuses, it would be appropriate to prohibit illustrations of vanishing premiums. Mr. Nickerson said that in many cases, the vanishing provision was part of the contract and this was simply the execution of a policy provision. He said persistency bonuses were non-contractual so that was quite a different element. Mr. Weber suggested that the illustration show that the premium does not "vanish" but show how the policy values are paying the premium. Commissioner Willis said the trouble with disclosing that the premium might at some point "resume" is that the premium never stopped. It is misleading to make a consumer think the premium is not being paid. Mr. Morgan said that this issue needs specific attention because many complaints were received in the state insurance departments on this issue. Ms. Lautzenheiser said it was not clear from this document whether guaranteed persistency bonuses were included. Commissioner Wilcox responded that the working group intended to only prohibit non-guaranteed persistency bonuses. He said regulators had perceived that there were many abuses in this area that needed to be addressed.

Ms. VanLeer said it seemed to her that some of the standards included in Part V would be more appropriately included in the actuarial standards. Commissioner Wilcox said that there was some concern among the regulators that the Actuarial Standards Board (ASB) would not be able to respond with adequate controls. He emphasized that the standards needed in this case were more extensive than generally prepared by the ASB. Frank Irish (ASB) said clearly the standards the working group was considering exceeded what the ASB had ever done before. He said ASB's marching orders were clear. Commissioner Bartlett asked how the standards in Section V would apply in the case of a new product. Commissioner Wilcox explained that the specifics of this would be in the actuarial standards so that issue would be addressed by the ASB.

Mr. Montgomery asked how companies would control brokers who were selling insurance. Commissioner Wilcox responded that even if the seller was a broker, he would need to use an illustration acceptable to the company. George Van Dusen (National Association of Independent Life Brokerages—NAILB) said his association tracked the illustration software of companies that would provide it to his association. He said controls were already in place to provide responsible illustrations.

George Coleman (Prudential) said he hoped this is a dynamic document. He said he saw elements in the standards document that need more work. Mr. Cipinko asked if interested parties would be able to submit comments on this document. Commissioner Wilcox said the working group would welcome constructive comments on the standards document sent to Carolyn Johnson (NAIC/SSO) by Sept. 30. He asked Ms. Johnson to send the comments to the members of the working group that same day.

Commissioner Wilcox called on Mr. Coleman to give a report of the technical resource advisors. Mr. Coleman said that on Aug. 31, 1994, the technical advisors had presented to the Life Disclosure Working Group a revised recommendation on model rules governing the illustrations of life insurance using disciplined current scale (Attachment Four-B). He said the resource advisors' proposal was aimed at achieving three objectives: (1) improving the understandability of illustrations; (2) assuring credibility in the scale used to illustrate nonguaranteed elements; and (3) assuring accountability of the agent and the insurer. He said their draft sought to improve illustration understandability by adopting common definitions, certain format standards and an illustration cover page requirement. He pointed out that many of the features of the document that was presented by the resource advisors were the same features required on the standards document the working group had prepared. Mr. Coleman said that in their urgency to have their document prepared by the Aug. 31 deadline, they had neglected to include a provision that said that if a policy issued was different from that illustrated, a second illustration must be prepared and signed.

Commissioner Wilcox expressed the appreciation of the working group for the significant movement in the technical resource advisors' draft and he thanked them for their quick response to the working group. He asked the technical resource advisors to prepare a document identifying the differences between their draft and the list of standards prepared by the working group.

Commissioner Wilcox next asked Ms. VanLeer to show the illustrations she had prepared that used the standards in the technical resource advisors' draft to prepare an actual illustration (Attachment Four-C). Ms. VanLeer explained the features of the illustration and pointed out the meaningful reform in illustrations over what is being used at the present time. She said she believed the illustrations her office had prepared were consumer friendly.

3. Consider Exposure of Drafts Requiring Illustration of Guarantees Only

Commissioner Wilcox asked what the working group wanted to do with the drafts that they had prepared that allowed for illustrations only of guarantees into the future and illustration of past performance. Roger Strauss (Iowa) said he would recommend that the drafts be tabled while the working group considered the illustration of nonguaranteed elements. Upon motion duly made seconded, the working group adopted a motion to table the drafts on guarantees only for the present time.

Having no further business, the Life Disclosure Working Group adjourned at 6:07 p.m.

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ATTACHMENT FOUR-A

Life Disclosure Standards Draft
Prepared by the NAIC Life Disclosure Working Group
September 17, 1994

I. Background Statement.

In recent years the "illustration" has become a standard part of the life insurance agent's sales presentation. The ostensible purpose of the illustration has been to demonstrate to the potential buyer how the policy "works." In its simplest form, the illustration summarizes the insurance contract, with a year-by-year projection of the premiums, cash value, and death benefits. As policies have become more complex, so have the illustrations, portraying not only the contract ("guarantees") but also financial benefits that are outside the contract ("non-guarantees"), illustrating not only what will happen but what could happen. Unfortunately, since "could" was invariably much more attractive than "will," such illustrations have been used to support deceptive-sales presentations, encouraging consumers to base their purchase decisions only on optimistic projections.

The problems associated with life illustrations were summarized in the working group's white paper of August 1993. They have been aired before congressional committees, in the media, and the courts. They have also been the subject of thousands of consumer complaints to state insurance departments.

Unlike many sales abuses, these have not been limited to a handful of players, but, rather, have involved some of the nation's largest companies.

As a step in the process of preparing a model act and a model regulation that will restore integrity to the life insurance sales presentation process, the NAIC Life Disclosure Working Group, based on many months of review, is summarizing here the standards and objectives that are expected to form the basis for the development of these new models.

II. Scope.

A. Specified products and markets that do not use illustrations shall be exempted from these requirements. All other applicants for life and annuity contracts, individual and group, shall receive an illustration.

B. Standard nonforfeiture laws require certain disclosures. The requirements described in this document are intended to harmonize with and avoid conflict with nonforfeiture requirements.

C. Products such as variable life that are subject to other disclosure requirements should correspond as closely as possible to these requirements.

III. Understandability.

A. Illustrations should be understandable by a typical applicant without assistance from an insurance agent.

B. The focus of the illustration must shift from use as a sales tool to consumer education.

IV. Standardization of Presentation.

A standard format and content will be used for illustrations. The standard illustration will:

A. Contain specified information in a specified sequence and format;

B. Eliminate as far as possible the use of footnotes and caveats as well as excessive detail;

C. Use a standard glossary of terms;

D. Use "consumer friendly" language that eliminates arcane insurance terminology;

E. Emphasize guaranteed values over non-guaranteed values by showing them first and at least as prominently;

F. If graphic illustrations are used they must reflect only information otherwise illustrated;

G. Use serialized page numbering (e.g., the fourth page of a seven-page illustration should be labeled "page 4 of 7 pages");

H. Be clearly labeled as a "Life Insurance Illustration";

I. Identify the insurer, the generic type of life insurance, and the policy form number;

J. Contain appropriate personal information including:
   1. name
   2. age
   3. amount
   4. rating classification
   5. additional benefits
   6. dividend option (if applicable)
   7. generic policy name

K. Contain certification of the illustration by an officer of the company and the appointed actuary;

L. Contain a statement to be signed and dated by the applicant;

M. Contain a statement to be signed and dated by the producer;

V. Assumptions.

A. Non-guaranteed elements will be based on <u>separate</u> assumptions for interest, mortality, lapse and expenses that are each not greater than the most conservative of:
   1. The rate reflected in the current credited scale;
   2. The most recent experience on the policy block; and
   3. The rate that can reasonably be expected on the policy block.

B. Mortality and lapse rates will not reflect future improvement.

C. Expense rates in each renewal year will be at least equal to expected incurred expenses.

D. Anticipated, but not yet realized, reductions in aggregate or unit expenses may not be reflected.

E. Distributions of accumulated surplus or prior gains to a policy block can be included to the extent that such distributions are both:
   1. currently being paid by the company to policyowners; and
   2. the result of a delayed crediting of gains attributable to that policyholder.

F. Lapse-supported pricing may not be illustrated. Lapse supported pricing means that minimum profit objectives cannot be met with zero lapse assumptions.

G. Persistency bonuses may not be illustrated.

H. Minimum profit objectives must be established by the regulation or the actuarial practice standard.

VI. Actuarial Standards.

A. It is preferable to have the Actuarial Standards Board develop the necessary standards.

B. The Actuarial Standards Board must work in close cooperation with the NAIC to assure that the standards drafted in response to the model meet the expectations of the NAIC with regard to specific requirements and minimal actuarial creativity.

C. In the event that the Actuarial Standards Board fails to meet the expectations of the NAIC, a regulatory standard prepared by the NAIC will be utilized.

VII. Responsibility.

A. The company shall be responsible for the accuracy and propriety of the illustration as evidenced by the signed and dated certification by a company officer.

B. The company's appointed actuary shall be responsible for the accuracy of both guaranteed and non-guaranteed portions of the illustration and shall certify that the illustration is accurate and prepared in accordance with the appropriate actuarial standards as evidenced by the signed and dated certification by the appointed actuary.

C. The producer shall be responsible to provide the appropriate illustration and to assure that no inappropriate illustration is provided to the applicant.

VIII. Annual Reports.

A. The insurer shall annually on the policy anniversary provide a report to each policyowner.

B. The report that is provided shall:
   1. Be in a format similar to that provided at the time of sale;
   2. Illustrate actual values as of the date of the report;
   3. Illustrate future non-guaranteed values using then current assumptions; and
   4. Explain changes in assumptions since the last report.

IX. Penalties.

A. A violation of the act or regulation would be subject to civil penalties.

B. If the insurer provided illustrations that the insurer knew or should have known were not prepared in accordance with these requirements or illustrated benefits that were not supportable based on the prescribed standards, the insurer may be subject to administrative penalties including a requirement to pay benefits based on the illustration.

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ATTACHMENT FOUR-B

Technical Resource Committee's Draft Suggestions Concerning
the Life Insurance Illustrations Model Regulation

The Prudential Insurance Company of America
751 Broad Street
Newark, NJ 07102-3777
(201)802-7181
Fax (201)802-6303

August 31, 1994

On behalf of the Industry Technical Resource Committee (TRC) to the Life Disclosure Working Group I am enclosing our revised proposal for the Life Insurance Illustrations Model Regulation. This revised proposal reflects a great deal of work by TRC members. During the summer we reviewed and evaluated, on your behalf, in two days of meetings, many other proposals for illustration reform. We reviewed and revised our own proposal in light of our evaluations of these other proposals. Our revised proposal is also intended to be responsive to the concerns of the Life Disclosure Working Group as reflected in our excellent meeting with you Aug. 22, 1994. Given our short deadline for crafting our revised proposal we undoubtedly left loose ends and unintended inconsistencies. We will address these as best we can between now and the September meeting of the Working Group.

Our revised proposal follows, to the extent possible, the format of your own draft proposal. We have added elements from our earlier proposals and incorporated ideas from the American Council of Life Insurance (ACLI), other insurers, organizations and the Working Group. We have presented alternatives and questions to the Working Group in drafting notes, recognizing that there is always room for clarification and improvement.

Our proposal now includes a section entitled "Prohibitions" that details some specifically prohibited practices. However, it is important to understand that our proposal, in specifically requiring certain illustration practices, also prohibits practices that don't meet the standards. We have highlighted these prohibited practices in an attachment to this letter.

Our definition of "Disciplined Current Scale" is meant to assure that insurers do not illustrate a scale that exceeds one that is logically and reasonably based on actual recent historical experience. A Disciplined Current Scale may reflect actions that already have been taken or events that have already occurred, but may not include any projected trends of improvements in experience or any assumed improvements in experience based on events that have not yet occurred or actions that have not yet been taken. Under the proposed regulation, insurers could not use a scale in illustrations that exceeded a scale produced by the application of standards for Disciplined Current Scale established by the Actuarial Standards Board (ASB) and certified as being within the standards by a company actuary.

Included with this letter is an expanded drafting note covering the major factors that we believe should be considered in the Actuarial Standards Board's development of standards for Disciplined Current Scale. The ASB has expressed its willingness to assist the NAIC in developing these standards. The factors to be considered include interest rates, mortality rates, expense assumptions, lapse rates and profit targets. We envision the NAIC using the drafting note as its charge to the ASB to develop these standards.

There was considerable discussion at your Aug. 22 meeting of lapse-based pricing. We discussed this issue at great length in our own meeting and conference calls in the 10 days since we last met with you. We have not, in this limited time, been able to craft an acceptable definition of lapse-based pricing, much less reach a conclusion on an appropriate regulatory response where it exists. In our drafting note incorporating the charge to be given the ASB, we have included consideration of lapse rates if there are benefits particular to the policy being priced that provide a particular incentive for persistency or lapsation. This is an area where we could benefit from additional dialogue. I suggest a meeting between your actuarial consultant and a small delegation form the TRC to explore this subject in more depth.

In addition to the expanded drafting note on Disciplined Current Scale and the drafting note dealing with Prohibited Practices we have also enclosed our summary evaluation of the other industry proposals that we reviewed. A chart accompanies the evaluations which allows a means of quick comparison of these proposals under the criteria we used. These criteria are largely the NAIC's own criteria as expressed in your white paper.

The Technical Resource Committee looks forward to discussing our revised proposal with you at the NAIC meeting in Minneapolis. If you have any questions prior to that time, please call me.

Sincerely,
George T. Coleman
Vice President

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Discussion Draft Amendment to the NAIC
Life Disclosure Working Group's 6/3/94 Draft

Life Insurance Illustrations Model Regulation

Table of Contents

Section 1. Purpose

The purpose of this regulation is to provide rules for life insurance policy illustrations. The rules provide illustration formats, prescribe standards to be followed when illustrations are used, and require disclosures to be used in connection with illustrations. The goal of this rule is that illustrations accurately describe policies and be understandable by purchasers of life insurance.

Section 2. Authority

This regulation is issued based upon the authority granted the Commissioner under [cite appropriate enabling legislation.]

Section 3. Applicability and Scope

A. This regulation shall apply to all group and individual life insurance policies and certificates marketed with the aid of an illustration, including variable life insurance insofar as the provisions hereof are not inconsistent with securities laws and regulations, including rules, regulations or guidelines promulgated by the National Association of Securities Dealers (NASD). With respect to variable policies, investment performance shall be illustrated in accordance with NASD rules relating to the rate of return on underlying investment portfolios, but mortality and expense elements on a guaranteed or disciplined current scale basis shall be illustrated in accordance with the provisions of this regulation.

Drafting Note: The above applicability and scope section seeks to harmonize this regulation with existing NASD regulation of variable policy illustrations. Variable life policies are different from fixed policies because generally they provide no guaranteed cash values. Under a variable policy, cash values vary based on the investment performance of the underlying investment portfolio of a separate account, whereas under a fixed policy, the investment performance is dependent on crediting or dividend rates established by the insurer subject to a guaranteed minimum. Because of this inherent difference between variable and fixed polices, certain provisions of this regulation do not apply to variable policies, especially those provisions relating to guaranteed cash values (when the policy provides no guarantees), and those elements of current disciplined scale relating to investment performance.

B. This regulation shall not apply to individual and group annuity contracts, life insurance policies issued in connection with pension and welfare plans as defined by and which are subject to the Employee Retirement Income Security Act of 1974 (ERISA), 29 U.S.C. Section 1001 et seq. as amended, and credit life insurance and life insurance policies and certificates sold without an illustration.

C. This regulation shall not be construed to require that illustrations be used to market life insurance policies. Further, this regulation shall not be construed to impose limitations upon the ability of insurers or agents to make available information in addition to an illustration provided in accordance with the provisions of this regulation, or to impose any other limitations that may interfere with a consumer's right to receive information that may be beneficial in making an informed decision.

Section 4. Definitions

A. "Disciplined current scale" means a scale of not guaranteed elements currently being illustrated by an insurer that is logically and reasonably based on actual recent historical experience as defined in standards established by the Actuarial Standards Board and certified by a qualified actuary designated by the insurer. A disciplined current scale may reflect actions that have already been taken or events that have already occurred but shall not include any projected trends of improvements in experience or any assumed improvements in experience based on events that have not yet occurred or actions that have not yet been taken.

DRAFTING NOTE: Following is a list of the major factors that go into the determination of a scale of dividends or other not guaranteed elements of a life insurance policy. A standard developed by the Actuarial Standards Board (ASB) for the determination of a Disciplined Current Scale of not guaranteed elements should address all of these factors: interest rates, mortality rates, expense assumptions, lapse rates, and profit target.

B. "Generic name" means a short title descriptive of the premium and benefit patterns of a policy.

C. "Illustration" means a ledger or proposal used in the sale of life insurance, the primary purpose of which is to show both guaranteed and not guaranteed policy elements, including premiums, death benefits and values available upon surrender. Illustrations can be in tabular, graphic, or chart format and must show the corresponding guaranteed elements if not guaranteed elements are shown.

DRAFTING NOTE: The definition of illustration is rather broad and, therefore, may inadvertently bring within its purview items that are not intended to be affected. For instance, a solicitation letter, which is clearly only an invitation to a prospective client to inquire further, should only be regulated under applicable advertising regulations and laws. This regulation is not intended to require the inclusion of a ledger-type illustration with such solicitation letters or to impose its format and minimum standards on information provided in addition to an illustration.

D. "Guaranteed elements" means the premiums, benefits, credits or charges under a policy of life insurance that are guaranteed at issue.

E. "Not guaranteed elements" means the premiums, benefits, credits, or charges under a policy of life insurance that are not guaranteed at issue, including but not limited to dividends, credited interest rates, cost of insurance charges, and expense charges.

F. "Qualified actuary" means a member in good standing of the American Academy of Actuaries or any other individual acceptable to the Commissioner which individual certifies an understanding of and agrees to be bound by the standards of practice relating to illustrations based on disciplined current scale promulgated by the Actuarial Standards Board.

G. "Contract premium" means the amount of premium that is required to be paid under a fixed premium policy in order for guaranteed benefits to be paid as illustrated.

H. "Premium outlay" means the amount of premium assumed to be paid by the premium payer in order for the benefits, guaranteed or not guaranteed, to be paid as illustrated. In the case of a policy which does not require a fixed premium to be paid, the illustrated benefits, guaranteed and not guaranteed, are based on the indicated premium outlay.

Section 5. Illustration Format

Regardless of the medium used in a sales presentation, any illustration must be incorporated into a written document in the following format:

A. The illustration shall be clearly labeled "Life Insurance Illustration," and shall include the information indicated in this section and in Section 6 following.

B. Each page of an illustration, including any explanatory notes or pages, shall be numbered and show its relationship to the total number of pages in the illustration (e.g., the fourth page of a seven-page illustration shall be labeled "page 4 of 7 pages").

C. The illustration shall have a cover page, numbered as page one, containing at least the following:

(1) Name of insurer;

(2) Name and business address of producer or insurer's other authorized representative, if any;

(3) Name, age and sex of proposed insured;

(4) Underwriting or rating classification upon which the illustration is based;

(5) Generic name of policy, company product name, if different, and form number;

(6) Dividend option elected, if applicable;

(7) A brief description of the policy being illustrated, including a statement that it is a life insurance policy.

(8) A brief description of the premium outlay and contract premium, if applicable, required by the policy.

For a policy which does not require a specific premium payment, a statement as to what premium outlay must be paid to guarantee coverage for the term of the contract, subject to maximum premiums allowable to qualify as life insurance under the applicable provisions of the Internal Revenue Code.

(9) A brief description of any policy features or options, guaranteed or not guaranteed, shown in the illustration and the impact they may have on the benefits and values of the policy, including, for example, the option to suspend premiums or any modular premium structure.

DRAFTING NOTE: It could be useful to develop a comprehensive list of such features or options but it should be recognized that such a list would be subject to change over time and so could be confusing.

(10) If the illustration shows any not guaranteed benefits and values based on the insurer's disciplined current scale, the cover page shall also show the benefits, values and the premium outlay and contract premium, if applicable, on which they are based for policy years five (5), ten (10) and twenty (20) and at age 65 on the following three bases:

(a) Policy guarantees;

(b) Insurer's disciplined current scale;

(c) Insurer's disciplined current scale but with the not guaranteed elements reduced as follows:

(i) dividends must be shown at fifty percent (50%) of the dividends contained in the disciplined current scale;

(ii) not guaranteed interest crediting rates must be shown at rates that are the average of the guaranteed rates and the rates contained in the disciplined current scale; and

(iii) all not guaranteed charges, including but not limited to cost of insurance charges, term insurance rates, and mortality and expense charges, must be shown at rates that are the average of the guaranteed rates and the rates contained in the disciplined current scale.

In addition, if coverage would cease prior to policy maturity or age 100, the year in which coverage ceases shall be identified for each of the three bases.

DRAFTING NOTE: The susceptibility of not guaranteed benefits and values to changes in the underlying assumptions can be demonstrated in various ways. The approach suggested here involves reducing the not guaranteed elements to a midpoint.

Alternative approaches could be used that would affect only the interest factor by (i) reducing it by a specific amount, e.g., two percentage points, (ii) reducing it by an amount that varies depending on the level of the current interest rate, i.e., by a larger amount if interest rates are high and by a smaller amount if interest rates are low, or (iii) using an interest rate that is the average between the guaranteed rate and the disciplined current scale rate.

(11) A statement to be signed and dated by the applicant at the time of policy application as follows: "I have received a copy of this illustration and understand that any not guaranteed elements illustrated are subject to change. No representations have been made to me to the contrary." If the illustration is produced by the insurer and mailed to the applicant no signature shall be required.

(12) A statement to be signed and dated by the insurance producer or other authorized representative of the insurer at the time of policy application as follows: "I certify that this illustration has been presented to the applicant and that I have explained that any not guaranteed elements illustrated are subject to change. I have made no representations that are inconsistent with the illustration." If the illustration is produced by the insurer and mailed to the applicant no signature shall be required.

DRAFTING NOTE: The information required to be shown on the cover page may necessitate that the cover page actually consist of more than one page. In that event, pages should be numbered accordingly. In addition it may be preferable to permit companies the flexibility to incorporate certain of the information into the body of the illustration rather than requiring it on the cover page. This option should be considered.

Section 6. Standards for Illustrations

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

(1) The assumed dates of payment receipt and benefit pay-out within a policy year shall be clearly identified.

(2) If the age of the proposed insured is shown as a component of the illustration, it shall be issue age plus the number of years the policy is assumed to have been in force.

(3) The payments assumed to be paid by the premium payer, on which illustrated benefits and values, guaranteed or not guaranteed, are based shall be identified as premium outlay. If a different amount must be paid in order for guaranteed benefits and values to be paid as illustrated, it shall be identified as contract premium. For policies which do not require a specific premium payment amount, the illustrated payments shall be identified as premium outlay.

(4) Guaranteed death benefits and values available upon surrender for the illustrated premium outlay and contract premium, if applicable, shall be shown and clearly labeled guaranteed. The guaranteed benefits and values must be shown before corresponding not guaranteed benefits and values and must be specifically referred to on any page of the illustration which shows or describes only the not guaranteed benefits and values; e.g., "See page one for guaranteed benefits and values."

(5) Illustrations may show not guaranteed benefits and values based upon the company's disciplined current scale and on any other additional scale producing lower benefits and values. These benefits and values must be clearly labeled not guaranteed.

(6) If the illustration shows that, at an insurer's disciplined current scale, the premium payer may have the option to suspend premium outlays and allow policy charges to be paid by using not guaranteed values, the illustration must disclose that a charge continues to be required and that depending upon actual results, the premium payer may need to continue or resume premium outlays. Similar disclosure must be made for fixed premium policies when the illustration shows a premium outlay of lesser amounts or shorter duration than the contract premium. The premium outlay display must not be left blank or show zero unless accompanied by an asterisk or similar mark to draw attention to the fact that the policy is not paid-up.

(7) The account or accumulation value of a policy, if shown, shall be identified by the name this value is given in the policy being illustrated and shown in close proximity to the corresponding value available upon surrender.

(8) The value available upon surrender shall be identified by the name this value is given in the policy being illustrated and shall be the amount available to the policyowner in a lump sum after deduction of any applicable surrender charges, policy loans and policy loan interest.

(9) The illustration may show the use of policy values, guaranteed or not guaranteed, to provide personal income or to meet a business need, e.g., through partial withdrawals, partial surrenders, policy loans or a combination thereof. The illustration must clearly state that such use of policy values will affect the guaranteed and not guaranteed elements of the policy.

B. Each illustration shall include, for each policy year for policy years one (1) to twenty (20) and for every fifth policy year thereafter ending at age one hundred (100) or policy maturity, the following:

(1) The premium outlay and contract premium, if applicable.

(2) The guaranteed death benefit, as provided in the policy, corresponding to the amount(s) in (1).

(3) The guaranteed value available upon surrender, as provided in the policy, corresponding to the amount(s) in (1).

C. An illustration may also show amounts corresponding to the amounts specified C. above but based on the insurer's disciplined current scale.

D. Any illustration of not guaranteed benefits and values must be accompanied by a statement indicating that: (1) they are not guaranteed, (2) the assumptions on which they are based are subject to change by the insurer, and (3) actual results may be more or less favorable.

E. Not guaranteed benefits and values shall not be displayed with any greater prominence than corresponding guaranteed benefits and values.

F. Additional or supplemental information may be provided so long as: (1) it is incorporated into or accompanied by an illustration which complies with this regulation, (2) it is not inconsistent with the provisions of this regulation, and (3) any not guaranteed elements shown are not more favorable to the policyholder than the corresponding elements based on the insurer's disciplined current scale.

Section 7. Record Retention

A copy of the signed illustration shall be submitted to the insurer at the time of submission of a policy application. A copy should also be provided to the applicant. The insurer shall maintain a copy of the signed illustration until three (3) years after the policy, if issued, is no longer in force. A copy need not be maintained if no policy is issued.

Section 8. Prohibitions

The following actions by insurers or their producers or other authorized representatives are prohibited:

A. Not representing the policy as life insurance;

B. Utilizing or describing not guaranteed elements in a manner that is misleading or has the capacity or tendency to mislead;

C. Stating or implying that the payment or amount of not guaranteed elements is guaranteed;

D. Using a policy illustration which does not comply with the requirements of Sections 5 and 6 of this regulation;

E. Using an illustration that at any policy duration depicts policy performance more favorable than that produced by the disciplined current scale of the insurer whose policy is being illustrated;

F. Providing an applicant with an incomplete illustration;

G. Representing in any way that premium payments will not be required for each year of the policy in order to maintain the illustrated death benefit, unless such is the fact.

Section 9. Notice to Policyholders; Updated Illustrations

A. In the event of a change in the insurer's disciplined current scale that adversely affects the not guaranteed elements illustrated, the insurer shall, within sixty (60) days following the policy anniversary subsequent to the change, notify the policyholder of the change and how the policyholder may obtain more information about the effects of the change on his or her policy.

B. Upon request of the policyholder, the insurer shall furnish an updated illustration based on: (1) amounts actually paid, credited, withdrawn, or charged under the policy since issue; and (2) the insurer's present disciplined current scale applicable to the policy. No signature or other acknowledgment of receipt of this illustration shall be required.

Section 10. Actuarial Standards

The use of disciplined current scale in illustrations shall be done in conformance with the standards of practice for the determination of disciplined current scale promulgated by the Actuarial Standards Board. Each insurer using disciplined current scale in its illustrations shall appoint a qualified actuary to certify that the scales of policy dividends or interest or other credits being paid and the mortality and expense or other charges being assessed are in conformance with the aforementioned standards of practice. This certification shall be updated at least annually.

Section 11. Separability

If any provision of this regulation or its application to any person or circumstance is for any reason held to be invalid by any court of law, the remainder of the regulation and its application to other persons or circumstances shall not be affected.

Section 12. Effective Date

This regulation shall become effective one year after the date of adoption and shall apply to policies sold on or after the effective date.

Drafting Note On Disciplined Current Scale

Following is a list of the major factors that go into the determination of a scale of dividends or other *not guaranteed elements* of a life insurance policy. A standard developed by the Actuarial Standards Board (ASB) to address the determination of a *Disciplined Current Scale* of not guaranteed elements should address all of these factors.

☐ Prohibitions

A disciplined current scale may reflect actions that have already been taken or events that have already occurred but shall **not** include any projected trends of improvements in experience or any assumed improvements in experience based on events that have not yet occurred or actions that have not yet been taken.

☐ General Considerations

The standard should address the ability of a company to illustrate not guaranteed elements for those durations where it is actually paying those elements.

☐ Interest rates

The earned interest rate factor used by the company in setting its scale of not guaranteed elements shall be the company's most recent experience on the assets supporting the policy block, net of investment expenses. The historical rate should be developed using the same method as is used to allocate current interest credits to policies (e.g., new money, portfolio, investment generation). The ASB should consider whether gains or losses from other lines of business should be reflected.

☐ Mortality rates

The rates used by the company in setting its scale of not guaranteed elements shall be the company's most recent mortality experience adjusted for risk class. If sufficient recent credible experience does not exist, the Society of Actuaries or other appropriate inter-company mortality experience or applicable reinsurance rates may be used. The standard should address variations in experience rates for differences in such factors as underwriting class, smoking status, and policy size.

☐ Expense assumptions

The expense factors used by the company in setting its scale of not guaranteed elements are the expenses incurred by the company and allocated to the policy, including taxes. The standard should address issues such as the proper determination of underlying expense drivers such as average policy size and sales volume, treatment of development expenses, and expense amortization. When a product has non-vested renewal commissions or service fees, the agent retention rates used shall be the company's most recent experience.

☐ Lapse rates

The persistency or lapse rates used by the company in setting its scale of not guaranteed elements are the company's most recent lapse experience. If the company hasn't sufficient credible experience, the Society of Actuaries or other inter-company mortality experience may be used. The standards should address lapse rates if there are benefits particular to the policy being priced that provide a particular incentive for persistency or lapsation.

☐ Profit target

The standard should address the form of the profit target used in the pricing of the policy. The standard should address issues such as aggregation and variance in profit target by pricing cell and distributions of accumulated surplus or prior gains to a policy block. The standard will address whether the target capital is to be included in the profit calculation for the product and, if so, on what basis.

Prohibited Practices Contained In Rules Governing
The Use of Illustrations in Connection With The Sale of Life Insurance

Prohibits:

- Illustrations of Current Scale which do not comply with the definition of Disciplined Current Scale. Disciplined Current Scale must:
  - Be based on Recent Historical Experience.
  - Only reflect actions already taken by the company, can't show projected improvements.
  - Conform to Actuarial Standard of Practice. Actuarial Standard of Practice will address:
    - Interest Rates
    - Mortality Rates
    - Expense Assumptions
    - Lapse Rates
    - Profit Targets
- Showing any not guaranteed values and benefits on a basis other than Disciplined Current Scale or lower.
- Showing not guaranteed values and benefits without showing and referencing corresponding guaranteed values and benefits.
- Showing account or accumulation values without showing corresponding surrender values in close proximity.
- Showing value available upon surrender without reflecting surrender charges, policy loans and policy loan interest.
- Illustration which doesn't show the premium necessary in order for guaranteed benefits and values to be paid as illustrated.
- Illustration which is not clearly labeled as a "Life Insurance Policy Illustration."
- Illustration which does not include pagination, such as page 1 of total number.
- Illustration which is not signed and dated by the insurance producer or representative (unless produced by the insurer and mailed directly) stating that they have:
  - Presented the illustration to the consumer.
  - Explained the not guaranteed benefits and values.
  - Made no representation inconsistent with the illustration.
- Illustration which is not signed and dated by the consumer (unless produced by the insurer and mailed directly) stating that they:
  - Have "received a copy of" the illustration.
  - "Understand" that not guaranteed values and benefits are subject to change.
- Not having a cover page(s):
  - Clearly identifying:
    - Company
    - Agent/Producer
    - Product/Product Features
    - Premium Outlay and Contract Premium (if applicable) required by the policy.
  - Providing underwriting or rating information.
  - Including not guaranteed values and benefits based on an alternative [lower] scale to Disciplined Current Scale, as required by the regulation, if not guaranteed values and benefits are shown, to demonstrate the susceptibility of not guaranteed elements to changes in underlying assumptions.
  - Signature requirements (described above)
- Illustration which does not clearly label guaranteed values and benefits as guaranteed.
- Illustration which does not clearly label not guaranteed values and benefits as not guaranteed.

- Illustration of partial withdrawals, partial surrenders, policy loans or a combination thereof, without clearly showing the effect on guaranteed and not guaranteed values and benefits.

- Illustration which fails to clearly describe:

  - The policy.

  - The premium outlay and contract premium (if applicable) required by the policy.

  - The circumstances under which the death benefit is payable.

  - Any policy features and/or options and their impact on guaranteed and not guaranteed elements.

- Illustration which fails to show policy values, premium outlay and contract premium (if applicable), and guaranteed death benefit and value available upon surrender each year from years 1 to 20 and every fifth year after that to age 100 or policy maturity.

- Illustration which fails to clearly disclose that not guaranteed benefits and values are not guaranteed, assumptions are subject to change by insurer and actual results may be more or less favorable.

- Illustration which allows not guaranteed benefits and values displayed in greater prominence then corresponding guaranteed benefits and values.

- Failure to notify policyholder if change occurs resulting in a decrease in not guaranteed elements, as illustrated, within 60 days of policy anniversary subsequent to change.

- Failure to provide additional information on policy and values to policyholder upon request.

- Utilizing or describing not guaranteed elements in a manner that is misleading or has the capacity or tendency to mislead.

- Stating or implying that the payment or amount of not guaranteed elements is guaranteed.

- Providing an applicant with an incomplete illustration.

- Representing in any way that premium payments will not be required for each year of the policy in order to maintain the illustrated death benefit, unless such is the fact according to the policy provisions.

ACTUARIAL ANALYSIS OF PROPOSED ILLUSTRATION REGULATIONS
Compiled by Technical Resource Advisors
September 1, 1994

The following analysis covers 11 proposals submitted by various companies and industry groups, including the NAIC working group's most recent proposal and the technical resource advisors' recommendation. Each is analyzed using 13 questions dealing with various attributes found in one or more of the proposals. Summary pages list short answers for quick comparison purposes. A 14th question, dealing with lapse supported pricing, has been added to the summary pages. A more detailed set of answers follows the summary page.

There is a great deal of commonalty among the company and industry proposals. They agree on the need for discipline in determining current scale and the desirability of the Actuarial Standards Board imposing that discipline. They also agree on clearer disclosure of the nonguaranteed nature of dividends and other nonguaranteed elements and a statement covering the proper uses of illustrations.

The industry is united in insisting that nonguaranteed elements be allowed in illustrations so that companies are able to show prospective clients how their polices work. They are also in agreement that clients be shown how policy values may change with changes in the experience factors that make up the nonguaranteed elements.

There are some elements that are unique to certain proposals, however, and these should be pointed out:

1. Interest - There is a difference in current interest rates between companies using various interest crediting strategies (e.g., portfolio, new money, investment year, etc.) A portfolio company may be paying a current rate of 8.5% today, whereas a new money company is paying only 7%. The suggestion has been made that all companies illustrate their current rate in year one of their illustrations, but then grade into a standardized new money rate in duration 10 or 15. This would level the playing field between companies and eliminate the artificial long-term differences between their illustrations. The Guardian and Iowa proposals address this issue. The American Academy of Actuaries also suggested this approach.

2. Supportability - The Iowa and National Association of Life Underwriters (NALU) proposals advocate that the actuary certify that the scale of nonguaranteed elements is "supportable" for two years. The rest of the industry opposes this concept out of concern that "supportable" will be equated to "guaranteed" in the minds of consumers. Even if the actuary can certify that the scale is supportable for two years, the company's Board of Directors may still decide to change it for any number of legitimate reasons.

If the interest grading approach suggested in 1 above were utilized, there would be much less need, if any, to be concerned with "supportability."

3. Improvements in Experience Factors - This was one of the major types of abuse identified by the Society of Actuaries Task Force on Life Insurance Illustrations. All of the industry proposals except Phoenix Home's call for a ban on the projection of improvements in interest, mortality and expenses. Phoenix Home has indicated that they do not oppose such a ban.

4. Sensitivity Testing - All industry proposals call for sensitivity testing or some other means of highlighting the fact that nonguaranteed elements are subject to change. The most common method is to show results assuming an interest rate one percentage point lower than the disciplined current scale rate. The John Hancock proposal suggests showing dividends or nonguaranteed elements half-way between the current rate and the guaranteed rate. The Phoenix Home has proposed showing results at one percentage point below and above the current interest rate—a range approach. Most companies feel that, since interest is the most volatile and most easily understood of the nonguaranteed elements, showing change in it alone is sufficient.

5. Historical Experience - The NAIC proposal is alone in calling for historical experience. The industry opposes this on two grounds. First, it is meaningless to show how a modern policy would have performed assuming the experience factors of the past 10, 20, 50 or 100 years. Such a display does not answer the consumer's legitimate question as to how the company is doing today. Second, it is impossible to go back and reconstruct past experience for every age, duration, sex, underwriting class and plan of insurance being issued today. Non-participating companies do not have such experience prior to the introduction of universal life and interest sensitive polices. Only the oldest mutual companies could go back far enough to illustrate all durations to age 100 on a policy being issued to a newborn insured. The actuaries of even those companies, however, would be forced to make many, many judgment calls in order to reconstruct this past experience.

6. Guarantees Only - The Consumers Union and Merrill Lynch proposals call for illustrating guarantees only. This requirement would effectively end the sales of universal life, economatic type polices or any other policy that provides significant benefits via policy dividends or other nonguaranteed elements. Companies could not demonstrate how such polices work if they cannot illustrate nonguaranteed elements. Such a requirement would put an end to the life insurance industry as it operates today and force all companies to offer only non-participating policies similar to those offered prior to the rise in interest rates experienced in the 1970s. These policies have proven to be vastly inferior in value to both traditional participating policies and the more modern interest sensitive policies of today.

7. Lapse Supported Pricing - The Guardian proposal suggests banning lapse supported pricing. It is the only proposal that does so, but this idea has a good deal of support among other companies. Support is by no means universal, however.

Analysis of Illustration Proposals
Technical Resource Committee
September 1, 1994

Illustration Criteria	TRC	NAIC	John Hancock	Iowa	Phoenix Home
1. Is discipline imposed on nonguaranteed elements (NGEs)?	Yes - based on Disciplined Current Scale (DCS)	Actual historical experience or guarantees	Yes - based on Disciplined Current Scale (DCS)	Yes - current scale graded to new money interest rate	Yes - current scale graded to new money rate
2. Is Actuarial Standards Board called on to set standards re NGEs?	Yes	Yes - regarding measurement of past performance	Yes	No	No
3. Can companies show how a policy works?	Yes, based on DCS	Yes - to extent history exists	Yes, based on DCS	Yes	Yes
4. Is illustration clearly not a forecast?	Yes - required statement	Yes	Yes - required statement	Yes - required statement	Yes - required statement
5. Are projected improvements in NGEs banned?	Yes	Yes - past performance only	Yes	Yes	No
6. Are alternative scenarios for NGEs mandated?	Yes - all NGEs average of DCS and guarantees	No	Yes - all NGEs average of DCS and guarantees	yes - int. rate 1% lower	Yes - int. rates up or down
7. Can companies show consumers how they are doing today?	Yes, based on DCS	No	Yes - based on DCS	Yes - based on current scale	Yes
8. Is method workable for all companies?	Yes	No - newer cos. have no history	Yes	Yes	Yes
9. Is disclosure regarding uses and misuses of illustrations required?	Yes - on cover page	Yes, but not in "Rules" - only sample illus.	No - but they do not oppose	Yes	No
10. Are minimum format standards required?	Yes - including a cover page	Yes	Yes	Yes	Yes
11. Is an adequate policy description required?	Yes	Yes	Yes	Yes	Yes
12. Must policyholders be notified of adverse changes in NGEs?	Yes	No	Yes	Yes	No
13. Is certification by an actuary required	Yes	Yes	Yes	Yes	No
14. Is lapse supported pricing banned?	No	No	No	No	No

Analysis of Illustration Proposals
Technical Resource Committee
(Continued)

Guardian	NALU	FIPSCO	InsMark	Consumers Union	ACLI
1. Yes - restrictions on current scale	Supportable current experience	Supportable illustrations required	Current scale, range set by NAIC, testing by Beacon Co.	Only guaranteed values allowed	Yes, based on Disciplined Current Scale (DCS)
2. Yes	Yes - for definition of supportable	Yes	No	No	Yes
3. Yes - based on current scale	Yes - based on current scale	Yes - based on current scale	Yes	No	Yes - based on DCS
4. Yes - required statement	Yes	Yes - in buyer's guide	Yes - required statement	Only guarantees allowed	Yes - statement on cover page
5. Yes	Supportability would control	Left to ASB	No	Only guarantees allowed	Yes
6. Yes - based on standard conservative assumptions	Yes - 1% below current rate	Yes - all NGEs average of current and guaranteed	Yes - 4 bases varying interest and mortality	No	Yes - 1% lower than DCS interest rate
7. Yes - based on current scale	Yes - based on current scale	Yes - based on current scale	Yes - based on current scale	No	Yes - based on DCS
8. Yes	Yes	Yes	Yes	No	Yes
9. No	Yes	Yes - in buyer's guide.	No	No	Yes - in sample illus. but not in regulation
10. Yes	Yes	Yes	Yes	Yes	Yes
11. Yes	Yes	Yes - in buyer's guide	No	Yes	Yes
12. Yes - requires in-force illus. each anniversary	No	Yes - requires annual statement	No	No	Yes
13. Yes - Qualified Illustration Actuary	No	No	No	No	Yes
14. Yes	No	No	No	No - but can't be illustrated	No

Analysis of Illustration Proposals
Technical Resource Committee
(Continued)

NALC/Manufacturers/LifeUSA	Merrill Lynch
1. Yes - based on currently applied scale	Only guaranteed values allowed
2. No	No
3. Yes - based on current scale	No
4. Yes - in consumer notice	Only guarantees allowed
5. Yes	Only guarantees allowed
6. Yes - all NGEs average of current and guarantees	No
7. Yes	No
8. Yes	No
9. Yes - in consumer notice	No
10. Yes	Yes
11. Yes	Yes
12. Yes	Yes
13. Yes	No
14. No	No, but can't be illustrated

Technical Resource Committee Discussion Draft - 8/31/94

1. How is discipline of nonguaranteed elements (NGEs) to be imposed?

NGEs must be in accordance with Disciplined Current Scale which is based on the company's recent historical experience. (Sec.4, Sec.6A.)

2. Does the proposal rely on standards to be set by the Actuarial Standards Board?

Yes. (Sec.10)

3. Are companies able to demonstrate how a policy works, including the role and effect of NGEs?

Yes - based on Disciplined Current Scale or less favorable scenarios.

4. Is it made clear that the illustration is not a forecast of future results?

A statement is required that it is based on nonguaranteed assumptions and that actual results may be more or less favorable. (Sec.6D.)

5. Are projected improvements (including projections of trends) of experience assumptions into the future forbidden?

Yes - specifically prohibited in definition of Disciplined Current Scale. (Sec.4)

6. Is sensitivity testing mandated - how?

Yes, if NGEs are shown - assume dividends are 50% of current scale or NGEs are average of current scale and guaranteed. In addition to the 50% level of NGEs, any other basis between guarantees and disciplined current scale may be shown. (Sec.5C.)

7. Are companies able to provide legitimate consumer information based on how the company is doing today?

Yes - cash values or monthly incomes relating to those values at future ages may be supplied if based on Disciplined Current Scale or a less favorable scale.

8. Is it a method that is workable for all companies (e.g., new/old, stock/mutual, small/large, etc.)?

Yes, assuming the ASB promulgates standards such that all companies can produce a Disciplined Current Scale.

9. Is disclosure regarding the uses and misuses of illustrations required?

Yes. The cover page must contain such disclosure.

10. Are minimum standards in format required, including a clear display of what is and is not guaranteed, both for values and for premiums?

Yes. (Sec.6)

11. Is an adequate policy description required?

Yes. (Sec.5C)

12. Is notice to policyholders of adverse changes in NGEs required?

Yes. (Sec.9)

13. Is certification by a qualified actuary required?

Yes. (Sec.10)

<u>NAIC Rules Governing The Use Of Illustrations - 6/3/94</u>

1. How is discipline of NGEs to be imposed?

NGEs limited to actual past performance. (Sec.7B)

2. Does the proposal rely on standards to be set by the Actuarial Standards Board?

Yes - standards regarding measurement of past performance. If ASB doesn't act, commissioner may promulgate standards. (Sec.11)

3. Are companies able to demonstrate how a policy works, including the role and effect of NGEs?

Yes, but only to the extent that historical NGEs are available for a significant number of years.

4. Is it made clear that the illustration is not a forecast of future results?

A statement is required that illustration is of past performance and that future results may be better or worse than shown. (Sec.7B)

5. Are projected improvements (including projection of trends) of assumptions into the future forbidden?

Yes - NGEs limited to actual past performance. (Sec.7B)

6. Is sensitivity testing mandated - how?

No. There is no provision for deviating from actual historical NGEs.

7. Are companies able to provide legitimate consumer information based on how the company is doing today?

No. Companies could not provide information based on their current scales of NGEs, such as cash value at age 65 or monthly income based on such value. Thus they could not tell consumers how they are doing today. (Sec.9)

8. Is it a method that is workable for all companies (e.g., new/old, stock/mutual, small/large, etc.)?

No. New companies or companies that do not have long histories of paying NGEs could not illustrate enough durations to show how a policy works.

9. Is disclosure regarding the uses and misuses of illustrations required?

Yes. Although not found in the Rules, the sample illustration cover page attached to the rules contains disclosure.

10. Are minimum standards in format required, including a clear display of what is and is not guaranteed, both for values and for premiums?

Yes. The rules contain definitions in Sec.4. A format is provided in the sample illustration.

11. Is an adequate policy description required?

Yes. (Sec.5B)

12. Is notice to policyholders of adverse changes in NGEs required?

No, but it does require an annual notice that insured may request a report comparing the sales illustration with actual results since the last report was obtained. (Sec.10)

13. Is certification by a qualified actuary required?

Yes - that standards regarding measurement of past performance have been met. (Sec.11) Certification by the company is also required. (Sec.6)

John Hancock Draft Rules - 7/20/94

1. How is discipline of NGEs to be imposed?

NGEs must be in accordance with Disciplined Current Scale which is based on the company's recent historical experience.

2. Does the proposal rely on standards to be set by the Actuarial Standards Board?

Yes. ASB must promulgate standards regarding Disciplined Current Scale (Sec. 4).

3. Are companies able to demonstrate how a policy works, including the role and effect of NGEs?

Yes - assuming continuation of the Disciplined Current Scale or a less favorable scale. Concept illustrations are also allowed.

4. Is it made clear that the illustration is not a forecast of future results?

Requires statement that NGEs are not guaranteed and that actual results may be more or less favorable. (Sec. 6C)

5. Are projected improvements (including project of trends) of experience assumptions into the future forbidden?

Yes. (Sec. 9A(2))

6. Is sensitivity testing mandated - how?

Yes, if NGEs are shown - assume dividends are 50% of current scale or NGEs are average of current scale and guaranteed. In addition to the 50% level of NGEs, any other basis between guarantees and disciplined current scale may be shown. (Sec. 6C)

7. Are companies able to provide legitimate consumer information based on how the company is doing today?

Yes, based on Disciplined Current Scale.

8. Is it a method that is workable for all companies (e.g., new/old, stock/mutual, small/large, etc.)?

Yes, assuming the ASB promulgates standards such that all companies can produce a Disciplined Current Scale. The sample illustration includes graphs, but these are optional pages.

9. Is disclosure regarding the use and misuses of illustrations required?

No, but they are willing to add language that illustrations are not to be used by themselves to compare companies.

10. Are minimum standards in formats required, including a clear display of what is and is not guaranteed, both for values and for premiums?

Yes. (Sec. 4)

11. Is an adequate policy description required?

Yes. (Sec. 5B)

12. Is notice to policyholders of adverse changes in NGEs required?

Yes. Also, in-force ledgers are available on request. (Sec. 8)

13. Is certification by a qualified actuary required?

Yes, for actuarial standards compliance - also requires certification by (but not signature of) company officer for non-actuarial aspects. (Sec. 9)

<u>Iowa Life & Health Insurance Association Draft Regulation - 6/1/94</u>

1. How is discipline of NGEs to be imposed?

Limits NGEs to those in accordance with Currently Illustrated Scale. Grade current interest rate to the company's new money rate.

2. Does the proposal rely on standards to be set by the Actuarial Standards Board?

No.

3. Are companies able to demonstrate how a policy works, including the role and effect of NGEs?

Yes - based on Currently Illustrated Scale or less favorable scenarios.

4. Is it made clear that the illustration is not a forecast of future results?

A statement is required that it is based on not guaranteed assumptions and that actual results may be more or less favorable. (Sec. 6D)

5. Are projected improvements (including projection of trends) of experience assumptions into the future forbidden?

Yes. (Sec. 4)

6. Is sensitivity testing mandated - how?

Yes - cover page requires sensitivity testing at an interest rate 1% below rate in current scale.(Sec. 6E)

7. Are companies able to provide legitimate consumer information based on how the company is doing today?

Yes - cash values or monthly incomes relating to those values at future ages may be supplied if based on Currently Illustrated Scale or a less favorable scale.

8. Is it a method that is workable for all companies (e.g., new/old, stock/mutual, small/large, etc.)?

Yes. All companies should be able to construct a Currently Illustrated Scale.

9. Is disclosure regarding the uses and misuses of illustrations required?

Yes. The cover page must contain such disclosure. (Sec. 6D)

10. Are minimum standards in formats required, including a clear display of what is and is not guaranteed, both for values and for premiums?

Yes. (Secs. 4 and 5)

11. Is an adequate policy description required?

Yes. (Sec. 7)

12. Is notice to policyholders of adverse changes in NGEs required?

Yes. (Sec. 7)

13. Is certification by a qualified actuary required?

Yes. (Sec. 9)

<u>Phoenix Home Life's "Beyond the Numbers" - 3/94</u>

1. How is discipline of NGEs to be imposed?

The illustration uses current scale. However, they suggest that the current interest rate must be supportable assuming that current experience continues unchanged. For portfolio companies, this means the current rate must grade into the current new money rate.

2. Does the proposal rely on standards to be set by the Actuarial Standards Board?

No.

3. Are companies able to demonstrate how a policy works, including the role and effect of NGEs?

Yes.

4. Is it made clear that the illustration is not a forecast of future results?

Statements are made that current dividend scale is not guaranteed and that values may increase or decrease in the future.

5. Are projected improvements (including projection of trends) of experience assumptions into the future forbidden?

No.

6. Is sensitivity testing mandated - how?

Yes - Allows percentage changes in dividends from current scale - both negative and positive.

7. Are companies able to provide legitimate consumer information based on how the company is doing today?

Yes

8. Is it a method that is workable for all companies (e.g., new/old, stock/mutual, small/large, etc.)?

Yes.

9. Is disclosure regarding the uses and misuses of illustrations required?

No.

10. Are minimum standards in formats required, including a clear display of what is and is not guaranteed, both for values and for premiums?

Yes.

11. Is an adequate policy description required?

Yes.

12. Is notice to policyholders of adverse changes in NGEs required?

No.

13. Is certification by a qualified actuary required?

No.

<u>Guardian's Proposed Guidelines or Regulations - 5/13/94</u>

1. How is discipline of NGEs to be imposed?

Restrictions are imposed on Currently Payable Scale. Proposal would also ban lapse-supported policies and attempt to disclose the significance of different interest crediting methods.

2. Does the proposal rely on standards to be set by the Actuarial Standards Board?

Yes - requires establishment of proper professional guidelines and standards or regulations.

3. Are companies able to demonstrate how a policy works, including the role and effect of NGEs?

Yes. NGEs may be illustrated using Currently Payable Scale.

4. Is it made clear that the illustration is not a forecast of future results?

A thorough statement to this effect is required.

5. Are projected improvements (including projection of trends) of experience assumptions into the future forbidden?

Yes.

6. Is sensitivity testing mandated - how?

Yes - an alternative scale based on standard, industry-wide, conservative assumptions is suggested.

7. Are companies able to provide legitimate consumer information based on how the company is doing today?

Yes - based on Currently Payable Scale.

8. Is it a method that is workable for all companies (e.g., new/old, stock/mutual, small/large, etc.)?

Yes.

9. Is disclosure regarding the uses and misuses of illustrations required?

No.

10. Are minimum standards in formats required, including a clear display of what is and is not guaranteed, both for values and for premiums?

Yes.

11. Is an adequate policy description required?

Yes - generic and marketing names of the policy must be included.

12. Is notice to policyholders of adverse changes in NGEs required?

Yes - requires an in-force illustration on every policy anniversary.

13. Is certification by a qualified actuary required?

Yes - requires companies to appoint a Qualified Illustration Actuary.

Statement of the National Association of Life Underwriters - 1/31/94

1. How is discipline of NGEs to be imposed?

Illustrations must be based on current experience that is supportable in accordance with and for the limited time span covered by Schedule M and Exhibit 8 of the annual statement, or, a statement must appear on the illustration that this supportability requirement isn't being met.

2. Does the proposal rely on standards to be set by the Actuarial Standards Board?

Yes - for the terms "supportability" and "current experience."

3. Are companies able to demonstrate how a policy works, including the role and effect of NGEs?

Yes, based on current experience.

4. Is it made clear that the illustration is not a forecast of future results?

Proposal contains general statement that consumers should be made aware of this.

5. Are projected improvements (including projection of trends) of experience assumptions into the future forbidden?

Supportability requirement would control projecting improvements.

6. Is sensitivity testing mandated - how?

Yes - values at an interest rate 100 basis points below current must be shown.

7. Are companies able to provide legitimate consumer information based on how the company is doing today?

Yes - based on current scale.

8. Is it a method that is workable for all companies (e.g., new/old, stock/mutual, small/large, etc.)?

Yes - if companies are willing to fulfill the supportability requirements.

9. Is disclosure regarding the uses and misuses of illustrations required?

Yes.

10. Are minimum standards in formats required, including a clear display of what is and is not guaranteed, both for values and for premiums?

Yes.

11. Is an adequate policy description required?

Yes .

12. Is notice to policyholders of adverse changes in NGEs required?

Availability of in-force ledgers on request is suggested, but notification of adverse changes is not mentioned.

13. Is certification by a qualified actuary required?

No.

FIPSCO Proposal - 1/27/94 & 7/15/94

1. How is discipline of NGEs to be imposed?

Illustrations must be supportable in accordance with standards to be set.

2. Does the proposal rely on standards to be set by the Actuarial Standards Board?

The proposal mentions the Society of Actuaries, but not the ASB.

3. Are companies able to demonstrate how a policy works, including the role and effect of NGEs?

Yes

4. Is it made clear that the illustration is not a forecast of future results?

Yes - a buyer's guide would explain this.

5. Are projected improvements (including projection of trends) of experience assumptions into the future forbidden?

Society of Actuaries would determine which improvements cannot be illustrated.

6. Is sensitivity testing mandated - how?

Yes - NGEs half way between guarantees and the current scale.

7. Are companies able to provide legitimate consumer information based on how the company is doing today?

Yes - based on current scale.

8. Is it a method that is workable for all companies (e.g., new/old, stock/mutual, small/large, etc.)?

Yes.

9. Is disclosure regarding the uses and misuses of illustrations required?

Yes - buyer's guide would contain such an explanation.

10. Are minimum standards in formats required, including a clear display of what is and is not guaranteed, both for values and for premiums?

Yes - a sample illustration is included.

11. Is an adequate policy description required?

Yes - in the buyer's guide.

12. Is notice to policyholders of adverse changes in NGEs required?

Yes - annual statements are required.

13. Is certification by a qualified actuary required?

No.

Insmark Letter To NAIC - 6/3/94

1. How is discipline of NGEs to be imposed?

First choice is to show current scale. Fall back position is to suggest a range of assumptions set by the NAIC (or an agency designated by the NAIC) or testing by The Beacon Company.

2. Does the proposal rely on standards to be set by the Actuarial Standards Board?

No, but they could be. This is a debatable point.

3. Are companies able to demonstrate how a policy works, including the role and effect of NGEs?

Yes.

4. Is it made clear that the illustration is not a forecast of future results?

Statement included in the illustration.

5. Are projected improvements (including projection of trends) of experience assumptions into the future forbidden?

No.

6. Is sensitivity testing mandated - how?

Yes - shows four bases: current interest, current mortality; 1% less than current interest, current mortality; 1% less than current interest, 125% of current mortality; guaranteed interest, guaranteed mortality.

7. Are companies able to provide legitimate consumer information based on how the company is doing today?

Yes - based on current scale.

8. Is it a method that is workable for all companies (e.g., new/old, stock/mutual, small/large, etc.)?

Yes.

9. Is disclosure regarding the uses and misuses of illustrations required?

No.

10. Are minimum standards in formats required, including a clear display of what is and is not guaranteed, both for values and for premiums?

Yes - sample illustration included.

11. Is an adequate policy description required?

No.

12. Is notice to policyholders of adverse changes in NGEs required?

No.

13. Is certification by a qualified actuary required?

No.

Consumers Union Letter - 1/31/94

1. How is discipline of NGEs to be imposed?

Only guaranteed values would be allowed.

2. Does the proposal rely on standards to be set by the Actuarial Standards Board?

No.

3. Are companies able to demonstrate how a policy works, including the role and effect of NGEs?

No.

4. Is it made clear that the illustration is not a forecast of future results?

Only guaranteed values are allowed.

5. Are projected improvements (including projection of trends) of experience assumptions into the future forbidden?

Only guaranteed values are allowed.

6. Is sensitivity testing mandated - how?

No.

7. Are companies able to provide legitimate consumer information based on how the company is doing today?

No.

8. Is it a method that is workable for all companies (e.g., new/old, stock/mutual, small/large, etc.)?

Yes - if guaranteed values only is workable.

9. Is disclosure regarding the uses and misuses of illustrations required?

No.

10. Are minimum standards in formats required, including a clear display of what is and is not guaranteed, both for values and for premiums?

Yes.

11. Is an adequate policy description required?

Yes - through a "key features" page.

12. Is notice to policyholders of adverse changes in NGEs required?

No.

13. Is certification by a qualified actuary required?

No.

<u>ACLI Discussion Draft 7/15/94</u>

1. How is discipline of NGEs to be imposed?

NGEs must be based on Disciplined Current Scale which is defined.

2. Does the proposal rely on standards to be set by the Actuarial Standards Board?

Yes.

3. Are companies able to demonstrate how a policy works, including the role and effect of NGEs?

Yes, based on disciplined current scale.

4. Is it made clear that the illustration is not a forecast of future results?

Yes, cover page must include a statement signed by the applicant that it is understood that NGEs are subject to change by the insurer.

5. Are projected improvements (including projection of trends) of experience assumptions into the future forbidden?

Yes.

6. Is sensitivity testing mandated - how?

Yes. Cover page must show values at 5, 10 and 20 years at an interest rate 1% lower than disciplined current scale.

7. Are companies able to provide legitimate consumer information based on how the company is doing today?

Yes - based on disciplined current scale.

8. Is it a method that is workable for all companies (e.g., new/old, stock/mutual, small/large, etc.)?

Yes.

9. Is disclosure regarding the uses and misuses of illustrations required?

Included in the sample illustration, but not in the proposed regulation.

10. Are minimum standards in formats required, including a clear display of what is and is not guaranteed, both for values and for premiums?

Yes.

11. Is an adequate policy description required?

Yes. (Sec. 7)

12. Is notice to policyholders of adverse changes in NGEs required?

Yes. (Sec. 10)

13. Is certification by a qualified actuary required?

Yes. (Sec. 11)

NALC/Manufacturers/Life USA

1. How is discipline of NGEs to be imposed?

Limits NGEs to currently applied scale and a midpoint scale.

2. Does the proposal rely on standards to be set by the Actuarial Standards Board?

No, but they would like to use ASB standards.

3. Are companies able to demonstrate how a policy works, including the role and effect of NGEs?

Yes.

4. Is it made clear that the illustration is not a forecast of future results?

Yes, in the consumer notice and in the illustration itself.

5. Are projected improvements (including projection of trends) of experience assumptions into the future forbidden?

Yes.

6. Is sensitivity testing mandated - how?

Requires an alternate illustration using the midpoint between current scale and guarantees.

7. Are companies able to provide legitimate consumer information based on how the company is doing today?

Yes.

8. Is it a method that is workable for all companies (e.g., new/old, stock/mutual, small/large, etc.)?

Yes.

9. Is disclosure regarding the uses and misuses of illustrations required?

Yes, in the consumer notice.

10. Are minimum standards in formats required, including a clear display of what is and is not guaranteed, both for values and for premiums?

Yes.

11. Is an adequate policy description required?

Yes, in the policy feature and cash value descriptions.

12. Is notice to policyholders of adverse changes in NGEs required?

Yes, an annual statement is required.

13. Is certification by a qualified actuary required?

Yes.

Merrill Lynch

1. How is discipline of NGEs to be imposed?

Only guaranteed values would be allowed.

2. Does the proposal rely on standards to be set by the Actuarial Standards Board?

No.

3. Are companies able to demonstrate how a policy works, including the role and effect of NGEs?

No.

4. Is it made clear that the illustration is not a forecast of future results?

Only guaranteed values are allowed.

5. Are projected improvements (including projection of trends) of experience assumptions into the future forbidden?

Only guaranteed values are allowed.

6. Is sensitivity testing mandated - how?

No.

7. Are companies able to provide legitimate consumer information based on how the company is doing today?

No.

8. Is it a method that is workable for all companies (e.g., new/old, stock/mutual, small/large, etc.)?

Yes, if guaranteed values only is workable.

9. Is disclosure regarding the uses and misuses of illustrations required?

No.

10. Are minimum standards in formats required, including a clear display of what is and is not guaranteed, both for values and for premiums?

Yes.

11. Is an adequate policy description required?

Yes.

12. Is notice to policyholders of adverse changes in NGEs required?

Yes.

13. Is certification by a qualified actuary required?

No.

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ATTACHMENT FOUR-C

Sample Policy Illustrations

ABC LIFE INSURANCE COMPANY

A Life Insurance Policy Illustration

Flexible Premium Adjustable Life

Universal Life

Designed for

Mr. Client Name
123 Main Street
Anytown, USA 12345

Presented by

Ms. Agent Name
999 Main Street
Anytown, USA 12345

September 17, 1994

Form 12345

ABC Life Insurance Company

Policy Illustration Explanation

Universal Life - A Flexible Premium Adjustable Life Plan

Designed for:
Mr. Client Name
Male Age 35

Universal Life Insurance	ABC Company's Universal Life policy which you are considering, also known as Flexible Premium Adjustable Life, is a life insurance policy providing for a flexible death benefit and flexible premium payments. These flexible premiums are payable to age 95. The values in the life insurance contract change based on the amount of your premium payments, monthly policy charges, and the interest rate credited to the policy. This rate is subject to change at any time, but is guaranteed by ABC Life never to be below a 4% minimum (effective annual rate). Additional not-guaranteed elements of this policy are described on the following pages.
Underwriting class: **Preferred**	The premium outlay for this coverage has been calculated assuming this policy is issued in the preferred underwriting class. Actual premiums for the insurance coverage will ultimately depend on the outcome of the underwriting process, and may vary from what is shown on this illustration. If so, you will receive a revised illustration with your insurance contract.
Initial Insurance Benefit	The death benefit provided at issue is assumed to be $100,000. The death benefit is the amount payable in the event of death, as stated on the front page of a policy. The actual amount payable may be decreased by loans or increased by additional insurance benefits.
Death Benefit Option	This illustration is based on a Level Death Benefit Option. The death benefit is equal to the policy face amount.
Guaranteed Coverage Based on Planned Premium Outlay	Provided a premium of at least $1,400 is paid each year until age 95, and no withdrawals or loans are made, the Initial Insurance Benefit of $100,000 is guaranteed to remain in force until age 95. If your planned premium outlay of $1,200 is made each year for 11 years, assuming the guaranteed interest rate and guaranteed charges, the Insurance coverage of $100,000 would cease at age 64.
Cash Surrender Value	The amount available to the insured upon surrender of the policy.

Form 12345

Presented by: Agent Name
September 17, 1994

This is page 1 of 6 pages and is not valid unless all pages are included.

ABC LIFE INSURANCE COMPANY

Policy Illustration Explanation (Continued)

Universal Life - A Flexible Premium Adjustable Life Plan

Designed for:
Mr. Client Name
Male Age 35

Not-Guaranteed Elements of the Policy

Many aspects of your life insurance contract are guaranteed, including your minimum interest rate and maximum charges. However, certain aspects of the policy can't be predicted with absolute certainty. For example, the interest rate credited may exceed the guaranteed rate and monthly charges may be less than the maximum guaranteed charges.

The not-guaranteed elements can increase the value of your life insurance policy in one of two ways:

- by reducing the out-of-pocket cost of your policy; or
- by increasing your policy's cash value and/or death benefit.

The not-guaranteed pages provide snapshots of your policy assuming higher interest and lower expenses than those that are guaranteed. Since interest and expenses cannot be predicted with absolute certainty, ranges of results have been illustrated. The actual policy values will be less or more favorable than those illustrated ranges of results. Variations in these factors could affect:

- Death benefit
- Policy cash values, and
- Total "Out of Pocket" payments over the lifetime of the policy.

Presented by: Agent Name
September 17, 1994

This is page 2 of 6 pages and is not valid unless all pages are included.

ABC LIFE INSURANCE COMPANY

A Life Insurance Policy Illustration

Universal Life - A Flexible Premium Whole Life Policy

Designed for:
Mr. Client Name
Male Age 35
Underwriting class:
Preferred

Presented by:
Ms. Agent Name
999 Main Street
Anytown, USA 12345

Option to suspend premiums assumes not- guaranteed values are used to pay the monthly deductions beginning after the year indicated. Results may be more or less favorable.

Guaranteed
Based on your planned premium outlay of $1,200 for 11 years, assuming the guaranteed interest rate and guaranteed charges, the insurance coverage of $100,000 would cease at age 64.

Not-Guaranteed*
Current
Assumes current interest rate of 6.5% and current policy charges will remain in effect. Based on a payment of $1,200 each year for 11 years, insurance coverage would remain in force to age 95.

Alternate Scenario
Assumes an interest rate of 5.25% which is midway between the guaranteed and current rate and an average of current and guaranteed charges. Based on a payment of $1,200 each year for 11 years, insurance coverage of $100,000 would cease at age 78.

$100,000 Universal Life Policy Summary
Planned Premium Outlay $1,200

Pay $1,200 for 11 Years	Guaranteed	Not-Guaranteed *	
		Current	*Alternate Scenario*
Summary Year 5			
# Years Premiums are Paid	5	5	5
Cash Surrender Value	$ 3,712	$ 4,591	$ 4,355
Net Death Benefit	$100,000	$100,000	$100,000
Summary Year 10			
# Years Premiums are Paid	10	10	10
Cash Surrender Value	$ 9,271	$ 12,430	$ 11,367
Net Death Benefit	$100,000	$100,000	$100,000
Summary Year 20			
# Years Premiums are Paid	11	11	11
Cash Surrender Value	$ 8,595	$ 22,864	$ 17,066
Net Death Benefit	$100,000	$100,000	$100,000
Summary Age 65			
# Years Premiums are Paid	11	11	11
Cash Surrender Value	$0	$ 35,284	$ 18,421
Net Death Benefit	$0	$100,000	$100,000

I have received a copy of this illustration and understand that any not guaranteed elements illustrated are subject to change. No representations have been made to me to the contrary.

Applicant *Date*

I certify that this illustration has been presented to the applicant and that I have explained that any not-guaranteed elements illustrated are subject to change. I have made no representations that are inconsistent with the illustration.

Marketing Representative *Date*

Form 12345

Presented by: Agent Name
September 17, 1994

This is page 3 of 6 pages and is not valid unless all pages are included.

ABC LIFE INSURANCE COMPANY

A Life Insurance Policy Illustration

Designed for:
Mr. Client Name
Male Age 35

Underwriting class:
Preferred

Flexible Premium Adjustable Life Initial Insurance Benefit:
$100,000

Level Death Benefit Option

Planned Premium Outlay:
$1,200

Guaranteed
Based on your planned premium outlay of $1,200 for 11 years, assuming the guaranteed interest rate and guaranteed charges, the insurance coverage of $100,000 would cease at age 64.

Not-Guaranteed
Assumes current interest rate of 6.5% and current policy charges will remain in effect. In this scenario, payment of $1,200 is made each year for 11 years.

Any outstanding loan and loan interest would reduce the death benefit and cash value.

Premiums are assumed to be paid at the beginning of the year and policy values are illustrated as of the end of the year.

Form 12345

Universal Life - a Flexible Premium Adjustable Life Plan

$100,000 Universal Life Policy

This illustration assumes not-guaranteed values are used to pay monthly deductions as they are due. Not-guaranteed values are based on the Company's current interest rate and current Mortality and Expense Charges. Results may be more or less favorable than what is illustrated.

			Guaranteed		Not Guaranteed	
Age	Year	Premium Outlay	Cash Surrender Value	Death Benefit	Cash Surrender Value	Death Benefit
36	1	1,200	0	100,000	0	100,000
37	2	1,200	713	100,000	893	100,000
38	3	1,200	1,708	100,000	2,051	100,000
39	4	1,200	2,731	100,000	3,282	100,000
40	5	1,200	3,772	100,000	4,591	100,000
41	6	1,200	4,832	100,000	5,985	100,000
42	7	1,200	5,913	100,000	7,456	100,000
43	8	1,200	7,016	100,000	9,022	100,000
44	9	1,200	8,131	100,000	10,677	100,000
45	10	1,200	9,271	100,000	12,430	100,000
	1-10	12,000				
46	11	1,200	10,426	100,000	14,318	100,000
47	12	*	10,433	100,000	15,143	100,000
48	13	*	10,406	100,000	15,991	100,000
49	14	*	10,341	100,000	16,874	100,000
50	15	*	10,228	100,000	17,786	100,000
51	16	*	10,052	100,000	18,730	100,000
52	17	*	9,810	100,000	19,707	100,000
53	18	*	9,498	100,000	20,721	100,000
54	19	*	9,102	100,000	21,775	100,000
55	20	*	8,595	100,000	22,864	100,000
	1-20	13,200				

** Based upon the current interest rate, premium outlays may be suspended. However, these outlays may resume depending on the interest actually paid.*
*** Based upon your planned premium outlay of $1,200 for 11 years under guaranteed interest and charges, the policy would cease at age 64.*

Presented by: Agent Name
September 17, 1994

This is page 4 of 6 pages and is not valid unless all pages are included.

ABC LIFE INSURANCE COMPANY

A Life Insurance Policy Illustration

Designed for:
Mr. Client Name
Male Age 35

Underwriting class:
Preferred

Flexible Premium Adjustable Life
Initial Policy Amount:
$100,000

Level Death Benefit Option

Planned Premium Outlay:
$1,200 for 11 years

Guaranteed
Based on your planned premium outlay of $1,200 for 11 years, assuming the guaranteed interest rate and guaranteed charges, the insurance coverage of $100,000 would cease at age 64.

Not-Guaranteed
Assumes current interest rate of 6.5% and current policy charges will remain in effect. In this scenario, payment of $1,200 is made each year for 11 years.

Any outstanding loan and loan interest would reduce the death benefit and cash value.

Premiums are assumed to be paid at the beginning of the year and policy values are illustrated as of the end of the year.

Form 12345

Universal Life - A Flexible Premium Adjustable Life Plan

$100,000 Universal Life Policy

This illustration assumes not-guaranteed values are used to pay monthly deductions as they are due. Not-guaranteed values are based on the Company's current interest rate and current Mortality and Expense Charges. Results may be more or less favorable than what is illustrated.

			Guaranteed		Not Guaranteed	
Age	Year	Premium Outlay	Cash Surrender Value	Death Benefit	Cash Surrender Value	Death Benefit
60	25	*	3,821	100,000	28,632	100,000
65	30	*	**	**	35,284	100,000
	1-30	13,200				
70	35	*	**	**	42,573	100,000
75	40	*	**	**	50,023	100,000
	1-40	13,200				
80	45	*	**	**	56,929	100,000
85	50	*	**	**	61,955	100,000
	1-50	13,200				
90	55	*	**	**	62,004	100,000
95	60	*	**	**	47,677	100,000
	1-60	13,200				

** Based upon the current interest rate, premium outlays may be suspended. However, these outlays may resume depending on the interest actually paid.*
*** Based upon your planned premium outlay of $1,200 for 11 years under guaranteed interest and charges, the policy would cease at age 64.*

Presented by: Agent Name
September 17, 1994

This is page 5 of 6 pages and is not valid unless all pages are included.

ABC LIFE INSURANCE COMPANY

Not-Guaranteed Elements of Your Policy

Universal Life - A Flexible Premium Adjustable Life Plan

Designed for:
Mr. Client Name
Male Age 35
Underwriting class:
Preferred

Flexible Premium Adjustable Life Initial Insurance Benefit:
$100,000

Level Death Benefit Option

Planned Premium Outlay:
$1,200 for 11 years

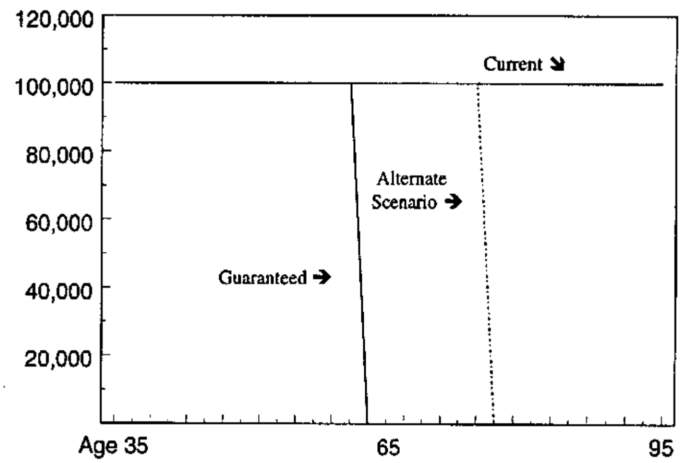
Guaranteed
Based on your planned premium outlay of $1,200 for 11 years, assuming the guaranteed interest rate and guaranteed charges, the insurance coverage of $100,000 would cease at age 64.

Not-Guaranteed
Current
Assumes current interest rate of 6.5% and current policy charges will remain in effect. Based on a payment of $1,200 each year for 11 years, insurance coverage would remain in force to age 95.

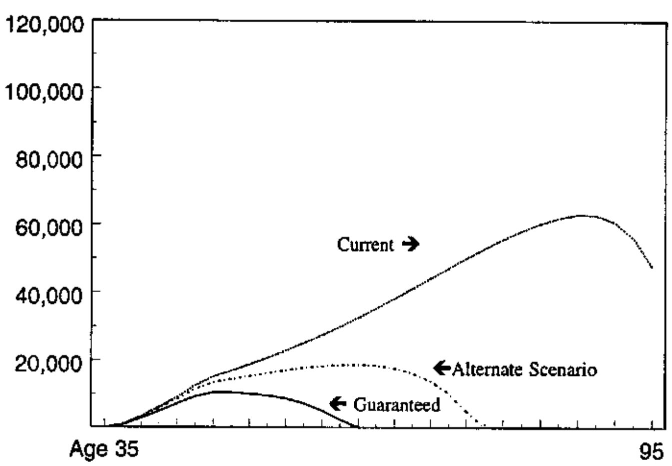
Alternate Scenario
Assumes an interest rate of 5.25% which is midway between the guaranteed and current rate and an average of current and guaranteed charges. Based on a payment of $1,200 each year for 11 years, insurance coverage of $100,000 would cease at age 78.

Form 12345

Policy Death Benefit



Policy Surrender Value



** - Based upon the current interest rate, premium outlays may be suspended. However, these outlays may resume depending on the interest actually paid.*

Presented by: Agent Name
September 17, 1994

This is page 6 of 6 pages and is not valid unless all pages are included.

ABC LIFE INSURANCE COMPANY

A Life Insurance Policy Illustration

Level Premium Whole Life

Level Plus

Designed for

Mr. Client Name
123 Main Street
Anytown, USA 12345

Presented by

Ms. Agent Name
999 Main Street
Anytown, USA 12345

September 17, 1994

Form 12345

ABC LIFE INSURANCE COMPANY

Policy Illustration Explanation

Level Plus - A Level Premium Whole Life Plan

Designed for:
Mr. Client Name
Male Age 35

Whole Life Insurance

The Traditional Whole Life insurance policy that you are considering offers permanent protection with guaranteed premiums, cash values and death benefits. ABC Company's Level Plus is a Traditional Whole Life Insurance policy with guaranteed level premiums payable to age 90.

***Underwriting class:* Preferred**

The premiums required for this coverage have been calculated assuming this policy is issued in the preferred underwriting class.

Actual premiums required for the insurance coverage will ultimately depend on the outcome of the underwriting process, and may vary from what is shown on this illustration. If so, you will receive a revised illustration with your insurance contract.

Initial Insurance Benefit

The death benefit provided at issue is assumed to be $100,000. The death benefit is the amount payable in the event of death, as stated on the front page of a policy. The actual amount payable may be decreased by loans or increased by additional insurance benefits.

Contract Premium

Provided the Contract Premium of $1,563 is paid each year, the Initial Insurance Benefit of $100,000 is guaranteed to be paid.

Cash Surrender Value

The amount available to the insured on surrender of the policy.

Not-Guaranteed Elements of the Policy

Many aspects of your life insurance contract are guaranteed, including your premiums, cash surrender values and death benefit. However, certain aspects of the policy are based on not-guaranteed dividends which can't be predicted with absolute certainty, just as future interest rates or stock dividends can't be guaranteed.

Form 12345

Presented by: Agent Name
September 17, 1994

This is page 1 of 9 pages and is not valid unless all pages are included.

ABC LIFE INSURANCE COMPANY

Policy Illustration Explanation

Level Plus - A Level Premium Whole Life Plan

Designed for:
Mr. Client Name
Male Age 35

Dividends

Dividends paid by ABC are based on the Company's year-by-year experience which depends on items such as the general interest rate environment, the amount and timing of benefit claims that ABC pays, and ABC's operating expenses. Dividends are not guaranteed and are subject to change by the company. Results may be more or less favorable.

Dividends increase the value of your life insurance policy in one of two ways:

- by reducing the out-of-pocket cost of your policy; or
- by increasing your policy's cash value and/or death benefit.

You have several options for the use of the dividends generated by the policy. Your dividend options are:

- automatically applied to reduce your premiums;
- paid up additions - dividends are used to purchase more insurance, without any evidence of insurability (this additional insurance may even earn its own dividends;)
- left on deposit to accumulate, earning interest;
- sent out each year in the form of a check; or
- split among several different options.

Dividend option selected:
Paid up additions

The not-guaranteed pages provide snapshots of your policy assuming dividends purchase paid up insurance. Since actual dividends cannot be predicted the following chart is presented to show a range of values available under various scenarios: guaranteed, the Company's current dividend scale and half of the Company's current dividend scale. The actual policy values will be less or more favorable than these illustrated ranges of dividend payments. Variations in dividends paid would affect:

- Death benefit provided by dividends
- Policy cash values provided by dividends
- Total "Out of Pocket" payments over the lifetime of the policy.

Form 12345

Presented by: Agent Name
September 17, 1994

This is page 2 of 9 pages and is not valid unless all pages are included.

ABC LIFE INSURANCE COMPANY

A Life Insurance Policy Illustration

LevelPlus - A Level Premium Whole Life Plan

Designed for:
Mr. Client Name
Male Age 35
Underwriting class:
Preferred
Dividend option selected:
Paid up additions

Presented by:
Ms. Agent Name
999 Main Street
Anytown, USA 12345

Option to suspend premiums assumes not-guaranteed dividend values are used to pay contract premiums beginning after the year indicated. Results may be more or less favorable.

Form 12345

$100,000 Level Premium Whole Life Policy Summary
Contract Premium $1,563

Pay All Years	Guaranteed	Not-Guaranteed	
		Current Dividend Scale	*Half of Current Dividend Scale*
Summary Year 5			
# Years Premiums are Paid	5	5	5
Surrender Value	$ 3,399	$ 3,713	$ 3,611
Net Death Benefit	$100,000	$100,367	$100,212
Summary Year 10			
# Years Premiums are Paid	10	10	10
Surrender Value	$ 10,223	$ 14,122	$ 12,970
Net Death Benefit	$100,000	$111,638	$108,216
Summary Year 20			
# Years Premiums are Paid	20	20	20
Surrender Value	$ 25,127	$ 50,749	$ 41,429
Net Death Benefit	$100,000	$159,153	$137,343
Summary Age 65			
# Years Premiums are Paid	30	30	30
Surrender Value	$ 43,164	$122,782	$ 87,251
Net Death Benefit	$100,000	$240,530	$177,307

Suspend Premium Payments		Not-Guaranteed	
		Current Dividend Scale	*Half of Current Dividend Scale*
Summary Age 65			
# Years Premiums are Paid		11	15
Surrender Value		$ 55,230	$ 49,948
Net Death Benefit		$117,837	$108,977

I have received a copy of this illustration and understand that any not guaranteed elements illustrated are subject to change. No representations have been made to me to the contrary.

Applicant *Date*

I certify that this illustration has been presented to the applicant and that I have explained that any not-guaranteed elements illustrated are subject to change. I have made no representations that are inconsistent with the illustration.

Marketing Representative *Date*

Presented by: Agent Name
September 17, 1994

This is page 3 of 9 pages and is not valid unless all pages are included.

ABC LIFE INSURANCE COMPANY

Illustration of Guaranteed Elements

Level Plus - A Level Premium Whole Life Plan

Designed for:
Mr. Client Name
Male Age 35
Underwriting class:
Preferred
Dividend option selected:
Paid up additions

Level Premium Whole Life
Initial Policy Amount:
$100,000

Contract Premium:
$1,563 Each Year

These policy values and benefits are guaranteed provided the Contract Premiums are paid in full each year.

- Policy death benefit
- Policy cash value
- Policy premiums

Any outstanding loan and loan interest would reduce the death benefit and cash value.

Premiums are assumed to be paid at the beginning of the year and policy values are illustrated as of the end of the year.

Form 12345

$100,000 Level Premium Whole Life Policy
Contract Premium $1,563

Age	Year	Contract Premium	Cash Surrender Value	Death Benefit
36	1	1,563	0	100,000
37	2	1,563	0	100,000
38	3	1,563	970	100,000
39	4	1,563	2,163	100,000
40	5	1,563	3,399	100,000
41	6	1,563	4,677	100,000
42	7	1,563	5,996	100,000
43	8	1,563	7,360	100,000
44	9	1,563	8,768	100,000
45	10	1,563	10,223	100,000
	1-10	15,630		
46	11	1,563	11,539	100,000
47	12	1,563	12,894	100,000
48	13	1,563	14,289	100,000
49	14	1,563	15,723	100,000
50	15	1,563	17,198	100,000
51	16	1,563	18,714	100,000
52	17	1,563	20,267	100,000
53	18	1,563	21,855	100,000
54	19	1,563	23,476	100,000
55	20	1,563	25,127	100,000
	1-20	31,260		

Presented by: Agent Name
September 17, 1994

This is page 4 of 9 pages and is not valid unless all pages are included.

ABC LIFE INSURANCE COMPANY

Illustration of Guaranteed Elements *(Continued)*

Level Plus - A Level Premium Whole Life Plan

Designed for:
Mr. Client Name
Male Age 35
Underwriting class:
Preferred
Dividend option selected:
Paid up additions

Level Premium Whole Life
Initial Policy Amount:
$100,000

Contract Premium:
$1,563 Each Year

These policy values and benefits are guaranteed provided the Contract Premiums are paid in full each year.

- Policy death benefit
- Policy cash value
- Policy premiums

Any outstanding loan and loan interest would reduce the death benefit and cash value.

Premiums are assumed to be paid at the beginning of the year and policy values are illustrated as of the end of the year.

Form 12345

$100,000 Level Premium Whole Life Policy
Contract Premium $1,563

Age	Year	Contract Premium	Cash Surrender Value	Death Benefit
60	25	1,563	35,649	100,000
65	30	1,563	45,069	100,000
	1-30	46,890		
70	35	1,563	54,731	100,000
75	40	1,563	64,262	100,000
	1-40	62,520		
80	45	1,563	73,421	100,000
85	50	1,563	82,519	100,000
	1-50	78,150		
90	55	0	87,138	100,000
95	60	0	92,862	100,000
	1-60	78,150		
100	65	0	100,000	100,000

Presented by: Agent Name
September 17, 1994

This is page 5 of 9 pages and is not valid unless all pages are included.

ABC Life Insurance Company

See pages 4 and 5 for Guaranteed Benefits and Values.

Illustration of Not Guaranteed Elements

Level Plus - A Level Premium Whole Life Plan

Designed for:
Mr. Client Name
Male Age 35
Underwriting class:
Preferred
Dividend option selected:
Paid up additions

Level Premium Whole Life
Initial Policy Amount:
$100,000

Required Contract Premium:
$1,563 Each Year

Any outstanding loan and loan interest would reduce the death benefit and cash value.

Premiums are assumed to be paid at the beginning of the year and policy values are illustrated as of the end of the year.

Form 12345

$100,000 Level Premium Whole Life Policy

This illustration assumes not-guaranteed values are used to pay the contract premium which is required to be paid each year. Not-guaranteed values are based on the Company's current dividend scale. Dividends are not guaranteed and are subject to change by the Company. Results may be more or less favorable.

Current Dividend Scale

Age	Year	Premium Outlay	Cash Surrender Value	Death Benefit
36	1	1,563	0	100,000
37	2	1,563	0	100,000
38	3	1,563	970	100,000
39	4	1,563	2,178	100,015
40	5	1,563	3,713	100,367
41	6	1,563	5,416	101,783
42	7	1,563	7,294	103,631
43	8	1,563	9,362	105,892
44	9	1,563	11,632	108,563
45	10	1,563	14,122	111,638
	1-10	15,630		
46	11	1,563	16,615	115,077
47	12	**	17,612	113,268
48	13	**	18,679	111,672
49	14	**	19,821	110,284
50	15	**	21,043	109,101
51	16	**	22,530	108,298
52	17	**	24,133	107,723
53	18	**	25,856	107,375
54	19	**	27,707	107,257
55	20	**	29,690	107,369
	1-20	17,193		

*** - Based upon the current dividend scale premium outlays may be suspended. However, these outlays may resume depending on dividends actually paid.*

Presented by: Agent Name
September 17, 1994

This is page 6 of 9 pages and is not valid unless all pages are included.

ABC LIFE INSURANCE COMPANY

See pages 4 and 5 for Guaranteed Benefits and Values.

Illustration of Not Guaranteed Elements

Level Plus - A Level Premium Whole Life Plan

Designed for:
Mr. Client Name
Male Age 35
Underwriting class:
Preferred
Dividend option selected:
Paid up additions

Level Premium Whole Life
Initial Policy Amount:
$100,000

Required Contract Premium:
$1,563 Each Year

Any outstanding loan and loan interest would reduce the death benefit and cash value.

Premiums are assumed to be paid at the beginning of the year and policy values are illustrated as of the end of the year.

Form 12345

$100,000 Level Premium Whole Life Policy

This illustration assumes not-guaranteed values are used to pay the contract premium which is required to be paid each year. Not-guaranteed values are based on the Company's current dividend scale. Dividends are not guaranteed and are subject to change by the Company. Results may be more or less favorable.

Current Dividend Scale

Age	Year	Premium Outlay	Cash Surrender Value	Death Benefit
60	25	**	40,626	110,133
65	30	**	55,230	117,837
	1-30	17,193		
70	35	**	74,515	130,994
75	40	**	98,936	149,356
	1-40	17,193		
80	45	**	130,322	174,686
85	50	**	171,938	208,438
	1-50	17,193		
90	55	**	227,375	261,531
95	60	**	300,850	327,409
	1-60	17,193		
100	65	**	402,833	402,833

*** - Based upon the current dividend scale premium outlays may be suspended. However, these outlays may resume depending on dividends actually paid.*

Presented by: Agent Name
September 17, 1994

This is page 7 of 9 pages and is not valid unless all pages are included.

ABC LIFE INSURANCE COMPANY

These elements use not-guaranteed assumptions. Actual results may be less or more favorable than illustrated.

Not-Guaranteed Elements of Your Policy

LevelPlus - A Level Premium Whole Life Plan

Designed for:
Mr. Client Name
Male Age 35
Underwriting class:
Preferred
Dividend option selected:
Paid up additions

Level Premium Whole Life
Initial Policy Amount:
$100,000

Required Contract Premium:
$1,563 to be paid each year.

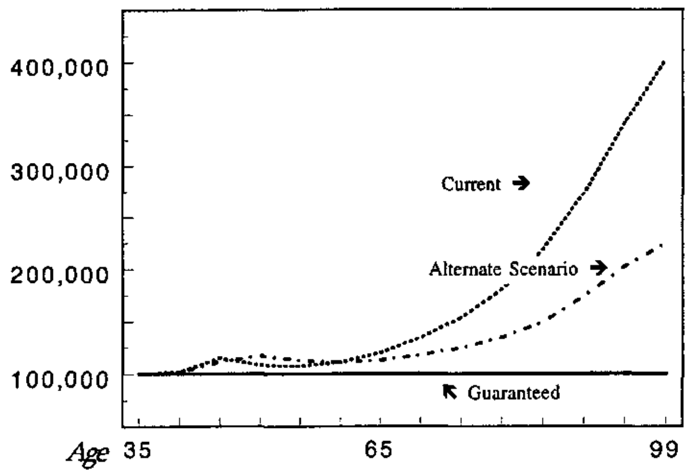
Guaranteed
$1,563 must be paid each year in order to provide the guaranteed surrender value and guaranteed death benefits shown.

Not-Guaranteed
Current
Assumes not-guaranteed values are used to pay $1,563 each year beginning in Year 12. Not guaranteed values are based on 100% of Company's Current Dividend Scale.

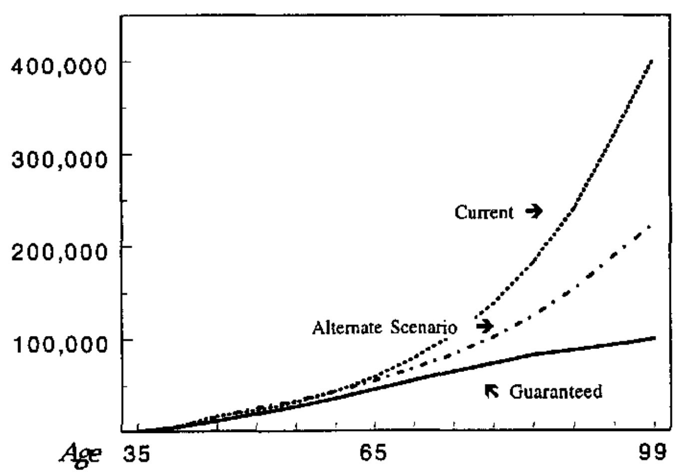
Alternate Scenario
Assumes not-guaranteed values are used to pay $1,563 each year beginning in Year 16. Not-guaranteed values are based on 50% of Company's Current Dividend Scale.

Form 12345

Policy Death Benefit



Policy Surrender Value



Presented by: Agent Name
September 17, 1994

This is page 8 of 9 pages and is not valid unless all pages are included.

ABC Life Insurance Company

These elements use not-guaranteed assumptions. Actual results may be less or more favorable than illustrated.

Not-Guaranteed Elements of Your Policy

Level Plus - A Level Premium Whole Life Plan

Designed for:
Mr. Client Name
Male Age 35
Underwriting class:
Preferred
Dividend option selected:
Paid up additions

Level Premium Whole Life
Initial Policy Amount:
$100,000

Required Contract Premium:
$1,563 to be paid each year, total outlay at age 80 would be $71,898.

Guaranteed
$1,563 must be paid each year in order to provide the guaranteed surrender value and guaranteed death benefits shown.

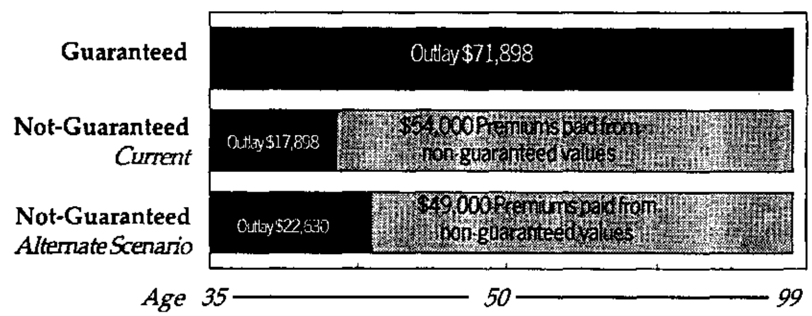
Not-Guaranteed
Current
Assumes not-guaranteed values are used to pay $1,563 each year beginning in Year 12. Not guaranteed values are based on 100% of Company's Current Dividend Scale.

Alternate Scenario
Assumes not-guaranteed values are used to pay $1,563 each year beginning in Year 16. Not-guaranteed values are based on 50% of Company's Current Dividend Scale.

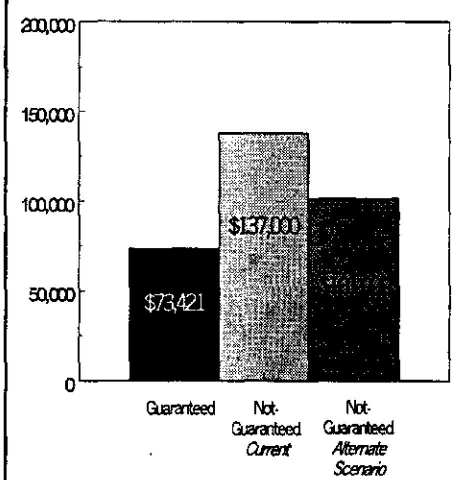
Form 12345

Dividends cannot be predicted with absolute certainty. The following graphs are designed to illustrate the impact of the not-guaranteed elements of your policy and their impact on premium outlay and benefits.

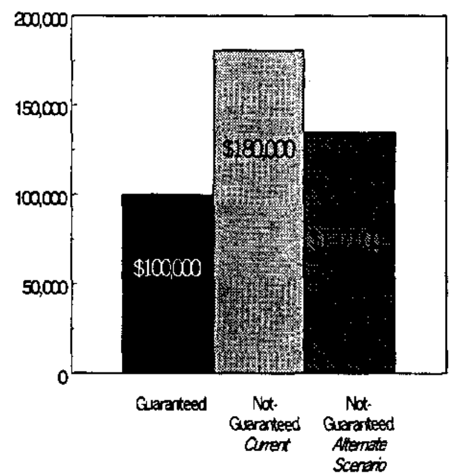
Ranges of Possible Premium Outlays At Age 80



Ranges of Possible Policy Surrender Value At Age 80



Ranges of Possible Death Benefits At Age 80



Presented by: Agent Name
September 17, 1994

This is page 9 of a 9 page illustration and is not valid unless all pages are included.

ATTACHMENT FOUR-D

Life Disclosure Working Group
of the Life Insurance (A) Committee
Kansas City, Missouri
August 21-23, 1994

The Life Disclosure Working Group of the Life Insurance (A) Committee met at the Radisson Suites Hotel in Kansas City, Mo., on Aug. 21, 1994, at 1 p.m. The meeting was called to order by Bob Wright (Va.), chair. The following working group members or their representatives were in attendance: Roger Strauss (Iowa); Lester Dunlap (La.); Tony Higgins (N.C.); Noel Morgan (Ohio); and Commissioner Robert E. Wilcox (Utah). Also in attendance were Tom Foley (Fla.); Mark Peavy (NAIC/SSO); and Carolyn Johnson (NAIC/SSO).

Bob Wright (Va.) said the goal of the Aug. 21 session was to review the comments that had been received in response to the drafts of the Life Insurance Illustrations Model Act and Regulation providing for illustrations of guarantees only that had been released at the summer National Meeting. Tom Foley (Fla.) reported on what his state was doing in regard to illustrations of annuities. He saw a major problem in his state because so many retired citizens had annuities. He asked whether the working group was planning to cover annuities in the draft regulation. Mr. Wright responded that this regulation was for life insurance, but after this project was finished the group intended to address the issue of annuities.

1. Actuarial Standards Board

Mark Peavy (NAIC/SSO) asked where the Actuarial Standards Board (ASB) fit in the working group's plans. Commissioner Robert Wilcox (Utah) said he had discussed the draft with Gary Corbett (ASB), and Mr. Corbett said his organization was willing to work with the working group on this project. Commissioner Wilcox emphasized that it was important that the ASB and the NAIC work together throughout the project rather than simply reacting after the project was completed. Mr. Peavy asked whether the ASB would be able to produce a product with the level of specificity desired by the working group. Mr. Foley offered his assistance in drafting standards if the ASB was not able to react within the working group's time frame. Mr. Foley said he had reviewed the draft prepared by the American Council of Life Insurance (ACLI) and said he liked the emphasis in the ACLI's draft on the actuary's responsibilities. He said in many cases the marketing staff of the insurer had been in control, and he felt the actuary needed to have more input in setting standards. Mr. Foley suggested putting the actuary's name on the illustration, and Commissioner Wilcox agreed that empowering the actuary through the illustration process would be very helpful. Mr. Foley said the actuary would make sure the numbers used in the illustration were supportable because his name and professional reputation were on the line. Mr. Wright agreed that this was an important aspect of accountability. Commissioner Wilcox said that under Australian law a company is responsible for anything its agents say. He saw some value to that level of accountability.

2. Standardized Assumptions

Tony Higgins (N.C.) asked the working group to consider projections into the future for only a few years of the non-guaranteed elements, and then projections further into the future of standardized assumptions or guarantees. Mr. Wright said this allows a company to show how its policy works without the problem of projections of non-guaranteed elements far into the future. Lester Dunlap (La.) also expressed interest in the idea of standardized assumptions to show how the policy works. He said projections far into the future can border on misrepresentation. Mr. Dunlap also suggested rounding off the numbers in the illustrations to thousands to avoid the impression that the illustration is precise. Commissioner Wilcox also spoke favorably of a new provision in California where the illustration of non-guaranteed elements must show the lesser of the amount being currently paid, the amount the company is currently earning, or the amount the company can expect to earn.

3. Review of Comments on Drafts

At this point, Mr. Wright asked the members of the working group to turn to the comments they had received on the June drafts of the Life Insurance Illustration Act and Regulation. The first issue for discussion was whether to include variable life policies in the draft. Mr. Higgins said his department had received many complaints on variable life products recently. The working group decided to take out the language creating an exemption for variable life. Mr. Wright asked Carolyn Johnson (NAIC/SSO) to obtain a copy of the Securities Exchange Commission (SEC) rules on variable life so that the working group would be able to determine potential conflicts with the SEC rules. The working group agreed that it would be helpful to apply the provisions on the cover page, the signature requirements and other aspects of the rule to variable life.

Another suggestion was to add a definition of producer. The working group decided to add the same definition found in the NAIC's Single License Procedure Model Act.

The working group decided to add language that would cover the situation where an applicant received the illustration and signed it, but also was shown other illustrative material by the agent. The language added was to get across the point that the applicant was to rely only on the illustration that he or she had signed.

The working group adjourned at 5:30 p.m. and reconvened on Aug. 22, 1994, at 9 a.m. in the Radisson Suites Hotel. The following working group members or their representatives were present: Bob Wright (Va.), Chair; Don Koch (Alaska); Roger Strauss (Iowa); Lester Dunlap (La.); Tony Higgins (N.C.); Noel Morgan (Ohio); and Commissioner Robert E. Wilcox (Utah).

4. Discussion of Model Limited to Illustration of Guarantees and Past Performance

Mr. Wright announced to the interested parties in attendance that the working group had met the prior day and had gone through the comments received on the two drafts limited to guarantees and past performance. Mr. Wright summarized the points of agreement for those in attendance (Attachments Four-D1 and Four-D2). Commissioner Robert Willis (D.C.) asked what was signed if the agents used ledger illustrations and other illustrative materials. Commissioner Wilcox responded that the definition of illustration included more than a ledger. It was the working group's intent that it be broad enough to require a signature on whatever materials the agent used. He said if the company did not agree that the materials utilized were accurate, the company would prepare a new illustration and the agent would be required to get a new signature of the applicant and to explain how this new illustration was different than the initial one. He said the problem still not addressed is that an agent could use a split dollar illustration, for example, and the company could say that it preferred just to show the standard illustration. It would be very confusing to the applicant if the illustration he received was different in looks from the one the agent that had given him which was also correct. Commissioner Willis emphasized the importance of communication between the applicant and the agent in this regard. Dave Beard (National Travelers Life) said that, if the agent could use a base illustration and then further illustrations to show options, the consumer would be able to compare those with the base illustration. Mr. Foley asked about illustrations that had not been prepared on the company's software. Linda Lanam (Life of Virginia) said the regulators would not be able to reach those outside the insurance companies that they were charged with regulating and it would be up to the companies to review whether the software met the company's standards.

Michele Van Leer (John Hancock) questioned the working group's decision on the inclusion of variable life. Mr. Wright responded that there should be equity between the various types of policies. He said the working group intended to take a look at federal law to be sure there was no conflict with federal requirements. Mr. Wright said the decision to include variable life was in response to several comments that had recommended inclusion.

Randy Barkacs (Western Southern) asked the working group if it had considered banning illustrations altogether. Mr. Wright responded that it was not a consideration at the present time.

Ms. Van Leer said that the actuary could sign off on standardized assumptions, but much in this draft was not within the realm of an actuary. She expressed the opinion that it would go beyond the actuarial training and into some legal questions. Commissioner Wilcox responded that, in many companies, the actuary did not have the ability to control illustrations; this regulation would bring credibility and integrity to the process. George Coleman (Prudential) expressed concern with the administrative complexity of adding another signature to the illustration. Bill Koenig (Northwestern Mutual) said the actuary could provide some discipline to the illustration process with standards established by the ASB. Larry Adams (Protective Life) asked what the purpose of the actuary's signature was. He asked if that same certification was not accomplished by filing an actuarial statement with the department. Scott Cipinko (National Association of Life Companies—NALC) emphasized the problems this created for small companies. He said if they waited for approval of each illustration, it would slow down the sales process. Commissioner Willis said, if the agent used a format the company had already seen and approved, it would not create a problem. Problems that occur now are sometimes because the company did not see what the agent had prepared. Mr. Cipinko said when a company officer signed, he was signing for the whole company, so he questioned the need for another signature. Mr. Koenig responded that the actuary was also subject to the ASB so this added another layer of accountability. Commissioner Wilcox pointed out that the annual statement was signed by more than one officer of the company. He said it was his personal preference to make the appointed actuary responsible for the tools used to sell.

Mr. Adams asked if it was the intent of the working group to consider placing the burden of suitability on the company. He said the draft language speaks of using a correct illustration, without emphasizing whether the illustration is of a policy that is right for the policyholder. Mr. Higgins added that SEC-regulated products are required to make this determination, but he said the working group was not ready to talk about suitability. Bob Nelson (National Association of Life Underwriters—NALU) said that when he generated an illustration from approved software, he would not want to go back to the company and ask them to review it again. He said additional signatures would do nothing for consumers. Mr. Koenig said the area where the working group could make the most impact was to set standards for the actuaries, to determine what is an actuarially sound illustration.

Commissioner Willis asked Mr. Nelson if he would be opposed to certification that what he produced was the same as what had been approved by the company. Mr. Nelson responded that, once definitions had been established by the ASB, it would resolve many problems with illustrations. Commissioner Willis emphasized that his interest was in protecting consumers. Mr. Nelson stated that, in his opinion, consumers can not differentiate between illustrations that show what is possible and improvements that are probably not possible.

Mr. Wright said that many comments had been received on the portion of Section 7 dealing with past performance. He said the working group did not currently anticipate making changes to this section, but that the NAIC was hiring an actuarial consultant who would review this section for the working group.

5. Discuss Model Including Future Projections of Non-Guaranteed Elements

Mr. Wright said the working group's intention next was to seek input on how a model allowing future projections would look. Mr. Higgins asked the interested parties if a proposal that used disciplined current scale for the first five years and then went to standard assumptions would satisfy the needs of the industry. Chris Kite (FIPSCO) said five years would not be a long enough period of time. Ms. Van Leer responded that a company with a poor record would look significantly better on that type of illustration. Mr. Nelson said it would be one more thing to explain to the consumer, one more step from reality. He thought it was better to sensitize the applicant to the possibility of change. Mr. Koenig suggested that it might be a better alternative to require a standardized interest rate after a certain period of time and let the company use its own expense and mortality predictions. Mr. Coleman said he was concerned about standardized assumptions because he feared it would lead to standardized policies. Mr. Kite suggested allowing a comparison between the company's illustration and a standardized illustration. Ms. Van Leer said the suggestion by Mr. Higgins would allow a company to show mechanically how its policy worked, but did not allow for a company to show how it operates. A company that was structured to reduce its expenses would look the same as other companies. Mr. Koenig suggested that a five-year cutoff before standardized assumptions would encourage companies to postpone paying expenses until later years to make the early year numbers higher. Mr. Cipinko said smaller companies would probably have to show the costs up front, which would put them at a competitive disadvantage. Ed Coover (National Travelers Life) said the problem was explaining to consumers that the illustration was only a snapshot. He suggested using the annual review to show how circumstances change. He cautioned the working group against trying to solve all the problems that have ever occurred with life insurance illustrations. He suggested that some of the proposals might create *more* confusion. Mr. Barkacs suggested the illustration concentrate on concept disclosure. He said many consumers can not distinguish between universal life and whole life. He said a narrative explanation was needed because many did not understand the numbers or the fact that a universal life policy might drain the cash value until there was no coverage left.

Mr. Wright asked what sensitivity testing would achieve that standardized illustrations did not. He said the purpose of both was to show that there could be a variable result. Mr. Nelson said it was important to sensitize consumers to the inevitability of change. He said he told his clients that illustrations were not a prediction. Mr. Foley said there were already too many numbers on an illustration, but he personally preferred illustrating a number half way between the guarantees and the current scale. Mr. Higgins said a sensitivity test with only interest rate variables might cause consumers to think that that was the only variable. Commissioner Wilcox responded that when the ASB drew up standards, problems with variables in other areas would be reduced.

Mr. Koenig presented information to assist in understanding how dividends were calculated by his company. He said the dividend was made up of excess interest, expense factors and mortality factors. Commissioner Willis asked about how a persistency bonus was created and shown on an illustration. Mr. Kite said some companies set aside reserves for these bonuses and others do not. Many companies use the assumption that a certain percentage of people will lapse their policies, and he questioned whether this was a reasonable assumption. Commissioner Willis asked if it was fair to say that the diminishing numbers of policyholders benefit the remaining few. Mr. Kite responded that there was an important distinction as to whether the bonus was driven by assuming lapses. Ms. Van Leer said that historically lapse rates are very high in the first years of a policy. She said if all the policyholders persisted, the company would be much better off because the costs were higher in the first years. Commissioner Willis responded that this deals with policy design. He was asking whether the consumer understood what the bonus meant in the illustration. Ms. Van Leer responded that the ASB should require a demonstration of lapse-supported rates in its standards. Commissioner Willis said he would not allow the demonstration of lapse-supported rates because it was perceived as a bonus. He compared it to a pyramid scheme, only the opposite, because it started with many and ended with few. Mr. Adams said his company has been paying guaranteed bonuses for many years and set aside reserves for them. He said that his company made very clear that only those that persist to the year of the bonus will get it. He said it encouraged long-term persistency. He acknowledged there was a gray area where this motivation crossed with the notion that companies wish some would leave so they would not have to pay so many bonuses. Mr. Foley said this sounded very much like a tontine policy to him, but those had been outlawed. He asked if Mr. Adams' company explained that those amounts were forfeited if the policy is lapsed. Ms. Van Leer said that if everyone persisted and the company could not pay the bonus, it would be a tontine. She said it was important for the ASB to address what a good persisting bonus is.

Commissioner Wilcox questioned the equity for those who stay most of the time but not quite long enough for the bonus. Mark Milton (Kansas City Life) said the illustration of bonuses really concerned him. He said there were clearly abuses in this area and he thought it was one of the reasons the working group had been formed. Commissioner Willis said this was not an actuarial issue but an issue of fundamental fairness to the insured and an issue of communication. Mr. Koenig said the group would get no defense of bonuses from him. He said some could only be explained as tontines and he personally did not like lapse-supported pricing. Commissioner Willis said what concerned him was the cliff nature of the benefit. He said he would not want to have to try to explain this to the consumers that came to his office. Christine DelVaglio (Lautzenheiser & Associates) said the American Society of Chartered Life Underwriters (CLU) had a disclosure form for the persistency bonus and she offered to provide that form to the working group. Jim Johnson (Mutual Group) said the most important part of the illustration was the footnotes at the end. He suggested that instead of many footnotes there should be a simple, clear explanation at the beginning. He said consumer understanding was important and suggested a set of common definitions. Don Koch (Alaska) said the focus of this group had always been on understandability.

6. Plans for the Fall National Meeting

Ms. Van Leer said she was concerned about the past performance section of the model draft that the working group had been considering. She asked the working group to reconsider exposure of this draft until the alternative draft allowing future projections was ready or combining the two versions into one. Mr. Wright responded that the current plan is to pursue the guarantees only because some states are interested in adopting such legislation and the working group feels obligated to assist them. He said he was encouraged by the better proposals being put forth by the technical resource advisors and he saw potential for real reform. He said whether the working group actually goes forward to expose and adopt the past performance and guarantees-only draft would depend on the progress of the ASB and the continuing progress of the discussion between the regulators and the interested parties. Mr. Coleman said he was concerned because exposure had often given a life of its own to proposals that might not have been very good. He said he would like to see both models developed together, compared honestly, and the best one chosen. He thought it was better to wait with exposure of one until the other was ready. Mr. Foley said that if the technical resource advisors brought a proposal in September to Minneapolis with the i's dotted and the t's crossed, it would be very difficult to proceed with the guarantees-only draft. Mr. Wright said that he believed the guarantees-only provisions in the model draft were close to complete, and another alternative was to take out the section on past performance.

Mr. Higgins asked the interested parties what elements they thought were important to include in a draft containing disciplined current scale. Ms. Lanam said it should include definitions that were broad enough for all the products that would be illustrated. Commissioner Willis said he hoped they would focus on the positive beneficial impact on consumers. Mr. Cipinko said that if states adopt a guarantees-only draft, it would mean less informed consumers. Ms. Lanam said that her biggest concern was the past performance part of the draft. She said, if the working group intended to go with a guarantees-only draft until a usable disciplined current scale draft was produced, she was motivated to work on that project. Ms. Van Leer asked if the working group could focus on the technical resource advisors' proposal and go through it section-by-section. Ms. Lanam said that one of the issues that was confusing to the resource group was whether the working group intended to encourage standardization of the illustrations or company innovation. Mr. Wright responded that the working group wanted to standardize the format to the extent of uniform definitions, serialized page numbering, and a structure that would be the same for all of the types of illustrations. Mr. Koch asked the technical resource group to provide them with various options for an illustration and also an analysis of which option was preferred. Mr. Coleman said the technical resource advisors were working to incorporate good suggestions from any other proposals into their draft. They were also attempting to get the "puff" out of illustrations. He said the technical resource advisors would be meeting on Aug. 24 and would incorporate the suggestions into their proposal for the working group.

Mr. Wright announced Virginia would be resigning as chair of the Life Disclosure Working Group but would continue as a member of the working group. He indicated that Commissioner Robert Willis, chair of the Life Insurance (A) Committee, would be appointing a new chair. Commissioner Willis thanked Mr. Wright for his able leadership. He said it had required great patience to get to the point where the working group was today. The working group meeting adjourned at 4 p.m.

The working group reconvened on Aug. 23, 1994, at 9 a.m. at the offices of the NAIC in Kansas City. The meeting was called to order by Commissioner Robert Wilcox (Utah). The following working group members or their representatives were in attendance: Don Koch (Alaska); Roger Strauss (Iowa); Lester Dunlap (La.); Tony Higgins (N.C.); Noel Morgan (Ohio); and Bob Wright (Va.). Also in attendance were Commissioner Robert Willis (D.C.); Mark Peavy (NAIC/SSO); and Carolyn Johnson (NAIC/SSO). John Montgomery, Hal Phillips, Sheldon Summers and John Gilcrest (Calif.) and Fred Nepple (Wis.) joined for part of the day by conference call.

Commissioner Wilcox announced that Mr. Foley was appointed vice chair of the working group. He asked Ms. Johnson to incorporate the decisions made by the working group into the draft allowing illustrations of guarantees only and past performance and to send it to the working group members for their review. Mr. Peavy showed the group a copy of an actuarial standard so that the members of the working group could see what form these took. He pointed out that in many areas the actuarial standard was not very specific. Commissioner Wilcox said that if the model included specific requirements, the actuarial standards would follow those. If the drafters were more general, than the ASB would have more discretion.

The working group continued its discussion of the suggestion to standardize the assumptions after the first five years. Mr. Peavy suggested that this might increase company game-playing during the first five years so that the numbers would look better. Commissioner Wilcox thought that going for a longer period than five years might be better. Mr. Wright said that if there were actuarial standards, perhaps standardized assumptions for illustration were not necessary. Commissioner Wilcox suggested that the working group prepare a paper outlining the standards that it wished to see in a draft of a model allowing projections into the future of non-guaranteed elements. He suggested that this be prepared before the September meeting in Minneapolis so that the working group could use it to analyze the product of the technical resource advisors. Commissioner Wilcox asked Ms. Johnson to contact Mr. Coleman and request that the materials being prepared by the technical resource advisors on Aug. 24 be given to Ms. Johnson by Sept. 2, so that they could be reviewed by the members of the working group before the fall National Meeting. Commissioner Wilcox said that he thought then it would be possible to have a productive meeting in Minneapolis.

Commissioner Wilcox asked Mr. Wright to review the pertinent details of the prior day's meeting with the members of the working group who were participating by conference call. After Mr. Wright summarized the decision to require an actuary's signature, John Montgomery (Calif.) asked how the actuary would be able to accomplish all of the administrative details. Commissioner Wilcox explained that, if the diskette that agents used to prepare illustrations followed the company standards, the administrative details would not be that extensive. He said it was not the working group's intent to dictate the mechanics, just to make sure the actuary had a degree of responsibility.

When Mr. Wright summarized the discussion on standardized assumptions, Mr. Montgomery agreed that standardized assumptions would serve the purpose of showing how the policy works, which is the main purpose of an illustration. Fred Nepple (Wis.) said he had discussed this approach with some of the technical resource advisors and saw real progress in coming to an agreement on an approach.

When Mr. Wright described the conversation on persistency bonuses, Hal Phillips (Calif.) said that he believed companies should be allowed to pay bonuses, but should not be allowed to illustrate them. Mr. Wright said the working group was not trying to impact policy design. Commissioner Wilcox said this was a policyholder equity question. He wondered whether it was fair to build in a bonus at the end of the 10th year if a consumer dropped the policy at 9 1/2 years. The concept of nonforfeiture says that he is entitled to a share of the bonus. Mr. Montgomery asked if this was not the same concept as a bank's early withdrawal penalty. Commissioner Wilcox said the rules of the life insurance industry are different and he would not want them to be judged by banking standards. Mr. Montgomery said the persistency bonus did not belong in an illustration, and the members of the working group agreed.

When Mr. Wright described the discussion on the sensitivity analysis, the working group members agreed that it added another level of complexity to the illustration. Mr. Montgomery said he did not think sensitivity analysis was important until you talked about large dollar policies with more sophisticated purchasers. He suggested requiring the sensitivity analysis for policies above a certain threshold dollar amount.

The working group then considered elements to be included in the paper to be prepared for the meeting in September.

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

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ATTACHMENT FOUR-D1

LIFE INSURANCE ILLUSTRATIONS MODEL ACT
Draft: 8/23/94

Table of Contents

Section 1. Applicability and Purpose

This Act shall apply to all life insurance companies and fraternal benefit societies licensed to do business in this state and to all [producers, agents and brokers] licensed to sell life insurance or annuities. The purpose of the Act is to authorize standards which shall be followed in the illustration of life insurance products.

Drafting Note: Insert the appropriate terminology consistent with state licensing laws.

Drafting Note: This section refers to both life insurance policies and annuity contracts. A separate regulation will be required for each.

Section 2. Prohibited Practices

No person engaged in the business of insurance shall misrepresent the benefits, advantages, conditions or terms of any life insurance policy or annuity contract.

Section 3. Authority to Promulgate Regulations

The commissioner shall promulgate regulations that establish standards:

A. For the illustration of projections of future benefits using guaranteed assumptions only; and

B. For the illustration of past performance of the policy form.

Drafting Note: Insert the title of the chief insurance regulatory official wherever the term "commissioner" appears.

Drafting Note: In a state where the commissioner already has this authority, adoption of the model act may not be necessary in order to promulgate the model regulation.

Section 4. Penalties

A violation of this Act by any person shall be subject to the penalties found in Section [insert penalty section of unfair trade practices law].

Section 5. Separability

If any provision of this Act or its application to any person or circumstance is for any reason held to be invalid, the remainder of the Act and the application of the provision to other persons or circumstances shall not be affected.

Section 6. Effective Date

This Act shall be effective [insert date].

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ATTACHMENT FOUR-D2

Life Insurance Illustrations Model Regulation
Draft: 8/23/94

Table of Contents

Section 1. Purpose

The purpose of this regulation is to provide rules for life insurance policy illustrations based upon policy guarantees and past performance. The regulation provides illustration formats, prescribes standards to be followed when illustrations are used, and requires disclosures to be used in connection with illustrations. The goal of this regulation is that illustrations accurately describe policies and be understandable by purchasers of life insurance without explanation by a producer or others possessing specialized insurance knowledge.

Section 2. Authority

This regulation is issued based upon the authority granted the commissioner under [cite appropriate enabling legislation].

Drafting Note: Insert the title of the chief insurance regulatory official wherever the term "commissioner" appears.

Section 3. Applicability and Scope

This regulation shall apply to all group and individual life insurance policies and certificates marketed with the aid of an illustration. It shall not apply to individual and group annuity contracts and credit life insurance. Variable life insurance is included to the extent the provisions of this regulation do not conflict with federal law or regulations in [cite].

Section 4. Definitions

A. "Guaranteed benefits" means those benefits which the insurer guarantees as provided in the policy contract, assuming all required or illustrated premiums have been paid to the date of surrender.

B. "Guaranteed cash value" means the minimum values guaranteed by the policy that will be available on surrender of the contract, assuming all required or illustrated premiums have been paid to the date of surrender.

C. "Illustration" means any numerical or graphic description of the performance over time of policy values or benefits which is:

(1) Used by a producer or insurer to sell a policy; or

(2) Represented by the producer or insurer as describing the past or future performance of a policy.

D. "Net cash value" is the total cash value of a policy less any policy loans.

E. "Net increase" means the net cash value minus the net cash value at the end of the prior year and minus the premium paid.

F. "Past performance" means a demonstration of amounts credited to a policy during each year that a policy form has been issued, including both guaranteed and non-guaranteed values.

G. "Producer" means a person who solicits, negotiates, effects, procures, delivers, renews, continues or binds policies of insurance for risks residing, located or to be performed in this state.

H. "Qualified actuary" means a member in good standing of the American Academy of Actuaries or any other individual acceptable to the Commissioner.

I. "Rate of increase" means the ratio of the net increase to the sum of the net cash value at the end of the prior year and the premiums paid.

Section 5. Illustration Format Standards

Regardless of the medium used in a sales presentation, any illustration must be incorporated into a written document in the following format:

A. Each page of an illustration, including any explanatory notes or pages, shall be numbered, showing its relationship to the total number of pages in the illustration (e.g., the fourth page of a seven-page illustration shall be labeled "page 4 of 7 pages").

B. The illustration shall be clearly labeled "Life Insurance Illustration," identify the insurer, the generic type of life insurance, the company product name, if different, and the policy form number.

C. The illustration shall have a cover page, numbered as page one, which contains the following:

(1) The rating classification upon which this illustration is based, a narrative explanation of this classification, and the percentage of insureds who are covered by this form and who are included in this as well as a better rating classification. In calculating the percentage of insureds covered, the insurer should use actual experience or, in the absence of meaningful actual experience during the first year after issue of a new policy, reasonably anticipated experience.

(2) A statement to be signed and dated by the applicant as follows: "I have received a copy of this illustration of the life insurance policy for which I have applied. I understand this signed document is the only illustration on which I should rely."

(3) A statement to be signed and dated by the insurance producer as follows: "I certify that this illustration accurately represents the life insurance policy applied for and that no representations have been made that are inconsistent with the illustration."

(4) If a subsequent illustration is used as allowed or required by Section 6C, a statement to be signed and dated by the applicant as follows: "The difference between this illustration and the one I reviewed prior to application has been explained to me. I understand this is the illustration that pertains to the policy actually issued."

Section 6. Certification by the Insurer; Disclosure

A. At or prior to delivery of a life insurance policy, an insurer shall provide the applicant with a second copy of the illustration provided under Section 5, which is certified by the insurer as:

(1) Appropriate for the rating classification of the applicant and the policy issued;

(2) Accurately describing the guaranteed values and past performance of the policy; and

(3) Prepared in compliance with the standards of the Actuarial Standards Board.

B. An officer of the insurer shall sign and date the certification required under Subsection A. The officer of the insurer may authorize the use of his facsimile signature.

C. The appointed actuary of the insurer shall sign and date the certification required under Subsection A. The actuary may authorize the use of his facsimile signature.

D. An insurer may comply with Subsection A by substituting a different illustration than the illustration signed by the applicant under Section 5, but only if:

(1) The substituted illustration complies with Section 5 and is signed and dated by the producer and the applicant as required by Section 5C; and

(2) The substituted illustration includes on the cover page a clear and prominent disclosure that it is a revised illustration and that it should be carefully reviewed prior to acceptance of the policy.

Section 7. Standards for Illustrations

A. An illustration shall show guaranteed values, in a manner consistent with Appendix B, as follows:

(1) Producer's name and address;

(2) Insured's name;

(3) Age and sex of insured;

(4) Underwriting class;

(5) Columns as follows:

(a) Policy years listed annually for years one to twenty (20) and five-year intervals beginning at age sixty (60) and ending at age 100, if applicable;

(b) Premium for each year sufficient to produce an endowment at age 100 with totals at year ten (10) and year twenty (20) and age sixty-five (65);

(c) Net cash surrender value for each year; and

(d) Death benefit for each year.

B. Illustrations of past performance shall be utilized in connection with the sale of a policy subject to the requirements of this section.

(1) Illustrations of past performance shall be the results of the application of the individual assumptions actually used by the company to derive the nonguaranteed policy benefits for the prior periods being illustrated.

(a) If the company used consistent assumptions for all policy forms, those assumptions may be applied to prepare an illustration of past performance to be used in connection with the sale of any current policy form. If the company is the result of a corporate merger and one predecessor company predominates, the merger alone will not be sufficient reason to construe that assumptions are not consistent.

(b) If the company did not use assumptions that were consistent for all policy forms, an illustration of past performance must be based only on the assumptions used for the policy form being sold. The term policy form shall include all forms issued by the company that are identical with regard to all provisions that affect the illustration of past performance.

(c) Application of these assumptions is limited to illustrating the actual periods when the assumptions were used.

(2) Illustrations of past performance are not to be utilized to illustrate future performance of the policy form being sold. Each illustration must contain the following in prominent form:

"This illustration of past performance shows the actual results achieved by the company for the periods shown. Future results may be better or worse than the results shown."

(3) Illustrations of past performance may be in tabular, graphic or narrative form or any combination of those forms.

(4) Each illustration of past performance shall contain the following information:

(a) Individual characteristics of the insured that affect results such as:

(i) Gender;

(ii) Smoker or non-smoker status;

(iii) Issue age;

(iv) Underwriting rating; or

(v) Issue date;

(b) Policy definition characteristics such as:

(i) Policy form description;

(ii) Face amount;

(iii) Premium amounts;

(iv) Premium mode;

(v) Ancillary benefits;

(vi) Dividend option; or

(vii) Other options exercised such as policy loans;

(c) Policy Year

(d) Premium paid;

(e) Death benefits;

(f) Net cash value;

(g) Net increase;

(h) Rate of increase; and

(i) The following explanations of the information disclosed:

(i) "Net cash value is the total cash value of a policy less any policy loans."

(ii) "Net increase is the net cash value minus the net cash value at the end of the prior year and minus the premium paid."

(iii) "Rate of increase is the ratio of the net increase to the sum of the net cash value at the end of the prior year and the premium paid."

Section 8. Record Retention

An insurer shall maintain a copy of the signed illustration delivered with the policy until three (3) years after the policy is no longer in force.

Section 9. Prohibitions

The following actions by insurers or their producers are prohibited:

A. Representing the policy as anything other than life insurance; or

B. Making any representation about the future performance of the policy, including but not limited to potential dividends, rate of return or cash value other than those which are guaranteed by the insurer and described in the illustration.

Drafting Note: The working group recognizes that it may be desirable to allow some demonstration of the mechanics of the policy. The working group has asked the technical resources advisors to suggest precisely circumscribed exceptions to Subsection B which would permit such a demonstration.

C. Making any representation regarding the past performance of the policy other than the representations contained in the illustration;

D. Using a policy illustration which does not comply with the requirements of Section 5 of this rule;

E. Providing an applicant with an incomplete policy illustration;

F. Representing in any way that contractual premium payments will not be required in order to maintain the illustrated death benefit; or

G. Illustrating any product not identified pursuant to Section 5B.

Section 10. Annual Report

The insurer shall provide annually a notice to the insured that he or she may request a report which compares the illustrations made at the time of sale with the actual results attained since the last report was prepared. The notice shall be given no later than thirty (30) days after each anniversary date. The report requested shall contain information similar in format to the original illustration and any changes which affect policy values or premium outlay requirements shall be explained. The report shall be provided within thirty (30) days of the request.

Section 11. Actuarial Standards

Illustrations shall meet standards with regard to measurement of past performance established by the Actuarial Standards Board. Each insurer shall require a qualified actuary to certify that the illustrations used by the company meet these standards. In the event that the Actuarial Standards Board does not develop standards that are acceptable to the Commissioner, the Commissioner may prescribe alternative standards to be met in connection with illustrations.

Section 12. Separability

If any provision of this regulation or the application thereof to any person or circumstance is for any reason held to be invalid by any court of law, the remainder of the regulation and its application to other persons or circumstances shall not be affected thereby.

Section 13. Effective Date

This regulation shall become effective one year after the date of adoption, and shall apply to policies and certificates sold on or after the effective date.

Appendix A

Company Name

LIFE INSURANCE POLICY ILLUSTRATION

Proposed Insured____________________ Age/Sex: ____________
Rating Class ____________________ Amount of Insurance: ____________
Plan Type/Name: ______________________________
Dividend Option: ______________________________

This is an illustration for a [***twenty-pay whole***] life insurance policy. Payment of premiums is required as follows: [***annually for twenty (20) years***].

The purpose of this illustration is to help you understand how the policy works. In comparing different policies, you should not rely solely upon illustrations. You should also consider the financial stability of the company, past performance, the service you expect to receive and the specific policy features you want.

If this illustration demonstrates the policy's past performance, you should understand that future results may be better or worse than the past. Because the values and benefits shown in the illustration will change over time, you should keep this illustration with the policy. The company will annually provide a report that shows account value. You should compare the actual results with the information presented in the illustration. Also, you should periodically contact the company or your agent to check on the status of your policy.

Explanation of Rating Classification. Health history, occupation and recreational activities are used to determine the proposed insured's Rating Class. This illustration is based upon [***an average likelihood of claim***] designated as [***standard***]. [***Ninety percent***] of insureds covered by this type of policy are rated [***standard or better***].

I (we) have received a copy of this illustration of the life insurance policy for which I (we) have applied. I understand this signed document is the illustration on which I should rely.

____
Applicant Date

____
Co-Applicant Date

I certify that this illustration accurately represents the life insurance policy applied for and that no representations have been made that are inconsistent with the illustration.

____
Agent Date

Appendix B

ABC LIFE INSURANCE COMPANY
ILLUSTRATION OF GUARANTEED BENEFITS

This table shows guaranteed benefits under a policy issued by the company on the date shown. Future results may be better than shown but the company promises they will not be worse.

Participating Whole Life Insurance Policy
Policy Form xyz1234

Producer's Name:
Insured's Name:

Underwriting Class:

Individual Rating Characteristics

Gender:	Male
	Nonsmoker
Rating:	Preferred
Age:	35
Issue Date:	01/01/95

Policy Definition

Annual Premium:	$1,000.00
Death Benefit:	$100,000.00

End of Policy Year	Premium Paid	Death Benefit	Net Cash Value	Net Increase	Rate of Increase
1	$1,000	$100,000	$325	$(675)	-67.50%
2	1,000	100,000	1,350	25	1.89%
3	1,000	100,000	2,425	75	3.19%
4	1,000	100,000	3,550	125	3.65%
5	1,000	100,000	4,725	175	3.85%

The Net Cash Value is the total guaranteed cash value of the policy minus any policy loans. This is the amount that is guaranteed to be available upon surrender of the policy.

The Net Increase is the Net Cash Value minus the Net Cash Value at the end of the prior year and minus the premium paid.

The Rate of Increase is the ratio of the Net Increase to the sum of the Net Cash Value at the end of the prior year and the Premium Paid.

Appendix C

ABC LIFE INSURANCE COMPANY
ILLUSTRATION OF PAST PERFORMANCE

This table shows what actually happened under a policy issued by the company on the date shown. Future results may be better or worse.

Participating Whole Life Insurance Policy
Policy Form xyz1234

Individual Rating Characteristics

Gender:	Male
	Nonsmoker
Rating:	Preferred
Age:	35
Issue Date:	01/01/90

Policy Definition

Annual Premium:	$1,000.00
Death Benefit:	$100,000.0 0
Dividend Option:	Paid-up Additions

End of Policy Year	Premium Paid	Death Benefit	Net Cash Value	Net Increase	Rate of Increase
1	$1,000	$105,000	$350	$(650)	-65.00%
2	1,000	112,000	1,450	100	7.41%
3	1,000	121,000	2,650	200	8.16%
4	1,000	131,000	3,950	300	8.22%
5	1,000	142,000	5,250	300	6.06%

The Net Cash Value is the total cash value of the policy minus any policy loans. This is the amount that is available upon surrender of the policy.

The Net Increase is the Net Cash Value minus the Net Cash Value at the end of the prior year and minus the premium paid.

The Rate of Increase is the ratio of the Net Increase to the sum of the Net Cash Value at the end of the prior year and the Premium Paid.

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ATTACHMENT FOUR-E

Life Disclosure Working Group
of the Life Insurance (A) Committee
July 14, 1994

The Life Disclosure Working Group of the Life Insurance (A) Committee met by conference call at 2 p.m., on July 14, 1994. A quorum was present and Bob Wright (Va.) chaired the call. The following working group members or their representatives participated: Don Koch (Alaska); John Montgomery (Calif.); Roger Strauss (Iowa); Lester Dunlap (La.); Tony Higgins (N.C.); Noel Morgan (Ohio); Robert E. Wilcox (Utah); and Fred Nepple (Wis.).

Bob Wright (Va.) said the purpose of the conference call was to get input from the members of the working group on several important issues. He said the current plan is to expose the drafts of the Life Insurance Illustration Model Act and Regulation that allow illustrations based on guarantees and past performance only at the September National Meeting. He said then the working group would begin the task of creating an alternative model that would permit projections into the future of non-guaranteed elements. John Montgomery (Calif.) said he thought that was an appropriate approach because some states may not be able to enact models that provide only for guarantees. Fred Nepple (Wis.) asked if the working group would actually end up proposing two different models with opposite approaches. Mr. Montgomery said that he did not see much other choice because some regulators were very much opposed to illustration of non-guaranteed elements and other regulators supported that approach to a great extent. Mr. Wright said that the plan at the current time was to propose two different models with alternative approaches. He asked Carolyn Johnson (NAIC/SSO) to make a list of models where the NAIC had alternative approaches already in existence.

Mr. Wright reported that the NAIC had agreed to hire an actuarial consultant to assist the working group in its task. He asked the working group for suggestions of appropriate actuaries. Members of the working group suggested several names and discussed their recommendations.

Next the working group discussed the advisability of scheduling an interim meeting. They decided that it would be necessary to meet, and scheduled a meeting for Aug. 21 through 23 in Kansas City, Missouri. Mr. Montgomery said California would be unable to attend but asked to participate by conference call on the 23rd. Noel Morgan (Ohio) suggested the working group communicate to the industry ideas that would help them focus on the issues on which the working group wanted to hear comments. Roger Strauss (Iowa) agreed that this was a good suggestion. He said it was important to finish the guarantees only drafts before working on the non-guaranteed elements. Mr. Wright said he thought the working group needed to spend some time on the past performance section of the draft.

Having no further business, the Life Disclosure Working Group adjourned at 2:45 p.m.