

Life Insurance (E4) Subcommittee
(Mtg. 36)

The Life Insurance (E4) Subcommittee meeting was held at 1:30 P.M., Wednesday, June 17, 1970 in the South Ballroom of the Sheraton-Cleveland Hotel, Cleveland, Ohio. A quorum was present.

Mr. Charles M. Sternhell, Executive Vice President and Chief Actuary of New York Life, delivered a summation of his study and conclusions regarding Variable Life Insurance. A complete discussion on this subject was presented at a Life Actuarial Meeting. He made comparison between the Dutch Variable Premium Contracts and New York Life's proposed fixed premium Variable Benefit Life Insurance Contract. He pointed out, to implement the theories, that there will be needed some changes in policy provision and in laws of some states as well as a determination as to S.E.C.'s position and to their jurisdiction and regulations.

Mr. Maurice Englemen of Equity Planning Systems, Inc., Portland, Oregon, suggested an amendment to the Model Replacement Regulations which would remove an impediment to their operations. He stated that their system is aimed at preserving permanent insurance rather than replacing it.

A memorandum from George McDonald, Deputy for Life Insurance, Florida Department, was read recommending the draft of a model guideline controlling financing of premiums on life insurance sold to college students based on the Florida Bulletin 440.

Mr. Keith Sloan, Chief Actuary for Tennessee reported on a newly developed problem of the IRS, detailing certain generally accepted and used reserve calculation procedures in applying their income tax assessment.

In Executive Session it was moved, seconded and unanimously passed that we recommend to the parent committee that the item concerning Variable Benefit Contracts other than Annuities remain on the agenda and be referred to the new appropriate subcommittee. It was also recommended that the request of Equity Planning System pertaining to an amendment to the Replacement Regulation be held for study by the successor Subcommittee or a task force appointed by them.

It was also voted that the subject of Suggested Model Guidelines controlling college premium financing likewise be referred to the successor Subcommittee with a recommendation that Subcommittee appoint a task force to come up with a set of model guidelines.

In Executive Session, Superintendent McCaskill of Missouri reported on their disapproval of term policies with termination premiums. Some

department actuaries present indicated that while there is actuarial justification for the theory it is generally not in the public interest and gets away from the basic principle of life insurance.

Hon. J. Richard Barnes, Chm., Colorado; Hon. Broward Williams, V. Chm., Florida; Hon. James L. Bentley, Georgia; Hon. James Baylor, Illinois; Hon. Frank M. Hogerty, Maine; Hon. Thomas C. Hunt, Minnesota; Hon. Richard E. Stewart, New York; Hon. Cornelius C. Bateson, Oregon; Hon. George F. Reed, Pennsylvania; Hon. Durwood Manford, Texas; Hon. C. N. Ottosen, Utah; Hon. Everette Francis, Virginia.

TABLE 1

Illustrative Face Amounts for Variable Benefit Whole Life Policy
with an Initial Face Amount of \$1,000
Issued to a Male Age 55 Where Net Annual Investment Performance
of Separate Account is 0%, 3%, 6% or 9%
(Net level premiums and reserves based on 1958 CSO Table,
3% interest and traditional functions)

End of Policy Year	Variable Premium (Dutch design)				Fixed Premium (New York Life design)			
	0%	3%	6%	9%	0%	3%	6%	9%
1	\$971	\$1,000	\$1,029	\$1,058	\$971	\$1,000	\$1,029	\$1,058
2	943	1,000	1,059	1,120	959	1,000	1,041	1,084
3	915	1,000	1,090	1,185	948	1,000	1,054	1,110
4	888	1,000	1,122	1,254	937	1,000	1,067	1,137
5	863	1,000	1,154	1,327	926	1,000	1,080	1,165
6	837	1,000	1,188	1,405	915	1,000	1,093	1,194
7	813	1,000	1,223	1,486	904	1,000	1,106	1,224
8	789	1,000	1,258	1,573	893	1,000	1,120	1,255
9	766	1,000	1,295	1,665	883	1,000	1,134	1,287
10	744	1,000	1,333	1,762	873	1,000	1,148	1,320
11	722	1,000	1,371	1,864	863	1,000	1,162	1,355
12	701	1,000	1,411	1,973	853	1,000	1,177	1,391
13	681	1,000	1,452	2,088	843	1,000	1,192	1,428
14	661	1,000	1,495	2,209	834	1,000	1,207	1,466
15	642	1,000	1,538	2,338	825	1,000	1,222	1,505
16	623	1,000	1,583	2,474	816	1,000	1,237	1,545
17	605	1,000	1,629	2,618	807	1,000	1,252	1,586
18	587	1,000	1,677	2,771	799	1,000	1,268	1,628
19	570	1,000	1,725	2,932	791	1,000	1,284	1,672
20	554	1,000	1,776	3,103	783	1,000	1,300	1,717
21	538	1,000	1,827	3,284	775	1,000	1,316	1,763
22	522	1,000	1,881	3,475	767	1,000	1,332	1,811
23	507	1,000	1,935	3,678	760	1,000	1,348	1,860
24	492	1,000	1,992	3,892	753	1,000	1,364	1,911
25	478	1,000	2,050	4,118	746	1,000	1,381	1,963
26	464	1,000	2,110	4,358	739	1,000	1,398	2,016
27	450	1,000	2,171	4,612	732	1,000	1,415	2,071
28	437	1,000	2,234	4,881	725	1,000	1,432	2,128
29	424	1,000	2,299	5,165	719	1,000	1,449	2,186
30	412	1,000	2,366	5,466	713	1,000	1,466	2,245
31	400	1,000	2,435	5,785	707	1,000	1,483	2,306
32	388	1,000	2,506	6,121	701	1,000	1,500	2,369
33	377	1,000	2,579	6,478	695	1,000	1,517	2,433
34	366	1,000	2,654	6,855	690	1,000	1,535	2,499
35	355	1,000	2,732	7,255	685	1,000	1,553	2,567
36	345	1,000	2,811	7,677	680	1,000	1,571	2,637
37	335	1,000	2,893	8,125	675	1,000	1,589	2,709
38	325	1,000	2,977	8,598	670	1,000	1,607	2,783
39	316	1,000	3,064	9,099	665	1,000	1,625	2,859
40	307	1,000	3,153	9,629	660	1,000	1,643	2,937
41	298	1,000	3,245	10,190	655	1,000	1,662	3,018
42	289	1,000	3,340	10,783	650	1,000	1,681	3,102
43	281	1,000	3,437	11,411	645	1,000	1,700	3,189
44	272	1,000	3,537	12,076	640	1,000	1,720	3,279
45	264	1,000	3,640	12,780	635	1,000	1,740	3,373

Net Premiums for Selected Policy Years

1	\$39.09	\$39.09	\$39.09	\$39.09	\$39.09	\$39.09	\$39.09	\$39.09
5	34.71	39.09	43.86	49.02	39.09	39.09	39.09	39.09
10	29.94	39.09	50.62	65.08	39.09	39.09	39.09	39.09
15	25.84	39.09	58.44	86.35	39.09	39.09	39.09	39.09
20	22.28	39.09	67.43	114.61	39.09	39.09	39.09	39.09
25	19.23	39.09	77.87	152.14	39.09	39.09	39.09	39.09
30	16.57	39.09	89.87	201.90	39.09	39.09	39.09	39.09
35	14.31	39.09	103.74	267.96	39.09	39.09	39.09	39.09
40	12.35	39.09	119.77	355.68	39.09	39.09	39.09	39.09
45	10.63	39.09	138.26	472.05	39.09	39.09	39.09	39.09

TABLE 2

Illustrative Face Amounts for Fixed Premium Variable Benefit Whole Life Policy
with an Initial Face Amount of 1,000 Issued to a Male Age 25
with Separate Account Invested in Standard and Poor's Composite 500

(Net level premiums and reserves based on 1958 CSO Table,
3% interest and traditional functions)

Policy Year Ending in	Policy Issued in July of										
	1915	1920	1925	1930	1935	1940	1945	1950	1955	1960	1965
1916	\$ 1,179										
1917	1,075										
1918	936*										
1919	1,246										
1920	1,021										
1921	869*	\$ 854*									
1922	1,192	1,251									
1923	1,139	1,132									
1924	1,296	1,264									
1925	1,594	1,519									
1926	1,790	1,658	\$1,163								
1927	2,115	1,911	1,320								
1928	2,629	2,319	1,559								
1929	3,752	3,231	2,098								
1930	2,657	2,231	1,382								
1931	1,700	1,407	873*	\$ 665*							
1932	782*	646*	420*	398*							
1933	1,321	1,120	827*	1,027							
1934	1,146	976*	743*	895*							
1935	1,469	1,260	992*	1,183							
1936	2,080	1,786	1,425	1,651	\$1,436						
1937	2,200	1,882	1,501	1,676	1,299						
1938	1,625	1,386	1,104	1,197	898*						
1939	1,574	1,343	1,077	1,153	909*						
1940	1,356	1,158	935*	992*	810*						
1941	1,402	1,200	979*	1,035	880*	\$1,043					
1942	1,200	1,030	847*	892*	776*	881*					
1943	1,672	1,441	1,197	1,261	1,128	1,294					
1944	1,836	1,583	1,319	1,381	1,237	1,349					
1945	2,123	1,830	1,528	1,589	1,420	1,491					
1946	2,588	2,229	1,861	1,921	1,708	1,735	\$1,237				
1947	2,271	1,952	1,628	1,667	1,470	1,447	989*				
1948	2,306	1,980	1,652	1,681	1,477	1,429	1,023				
1949	2,230	1,913	1,596	1,615	1,415	1,352	997*				
1950	2,700	2,314	1,932	1,946	1,702	1,613	1,223				
1951	3,457	2,959	2,469	2,474	2,156	2,021	1,536	\$1,299			
1952	3,973	3,395	2,828	2,818	2,442	2,259	1,698	1,329			
1953	3,911	3,336	2,773	2,748	2,367	2,163	1,606	1,209			
1954	4,922	4,192	3,478	3,430	2,940	2,660	1,963	1,472			
1955	6,921	5,884	4,870	4,779	4,073	3,647	2,663	1,956			
1956	7,805	6,621	5,465	5,335	4,518	4,000	2,877	2,046	\$1,147		
1957	7,546	6,389	5,259	5,109	4,300	3,768	2,673	1,854	1,050		
1958	7,396	6,250	5,132	4,964	4,156	3,609	2,535	1,734	1,028		
1959	9,359	7,895	6,469	6,233	5,193	4,476	3,120	2,120	1,312		
1960	8,479	7,140	5,837	5,602	4,644	3,973	2,745	1,845	1,145		
1961	10,069	8,466	6,907	6,606	5,453	4,636	3,184	2,130	1,349	\$1,206	
1962	8,689	7,295	5,939	5,661	4,654	3,932	2,683	1,783	1,135	960*	
1963	10,191	8,544	6,944	6,599	5,407	4,545	3,089	2,051	1,330	1,160	
1964	12,095	10,127	8,216	7,786	6,357	5,317	3,598	2,381	1,556	1,344	
1965	12,222	10,220	8,278	7,822	6,365	5,298	3,568	2,350	1,537	1,301	
1966	11,832	9,881	7,991	7,531	6,109	5,062	3,395	2,228	1,461	1,225	\$ 982*
1967	13,280	11,079	8,947	8,411	6,804	5,615	3,753	2,458	1,619	1,355	1,129
1968	13,560	11,301	9,114	8,548	6,896	5,670	3,776	2,467	1,628	1,355	1,120
1969	12,573	10,468	8,432	7,891	6,350	5,203	3,454	2,252	1,489	1,235	1,022

* \$1,000 paid on death if there is a minimum death benefit guarantee of initial face amount.

Variable Annuities and Other Contracts (E6) Subcommittee

(Mtg. 8)

The Variable Annuities and Other Contracts (E6) Subcommittee met in the North Ballroom of the Sheraton-Cleveland Hotel at 1:30 P.M. on June 15, 1970. A quorum was present.

Mr. Larry Gilbertson, Chairman of the Industry Advisory Committee, presented a four-point report which:

1. Suggested certain numerical and "house-keeping" changes in the Model Variable Contract Regulation for consideration by the Subcommittee before the next regular meeting of the NAIC. The proposed changes in the Model Regulation are appended to this report. (For Model Law see I NAIC Proc. 1970 p. 367)
2. Submitted a resolution concerning the reinsurance of variable contract business to provide a means for smaller companies to engage in it. The resolution declared:

"We hereby reaffirm the right of life insurance companies, regardless of size, to participate in variable contract business either directly or on some reinsurance or other appropriate basis in accordance with the Model Variable Contract Law and Regulation."

3. Presented the following resolution concerning fraternal insurance organizations participating in variable contract business: "When the Industry Advisory Committee was working with the NAIC Variable Contract (E6) Subcommittee in the development of the Model Variable Contract Law and Regulations it was not our intention to exclude such fraternal insurance organizations from participation in the variable contract area on a basis satisfactory to the particular state legislature and insurance regulatory agency involved. Because of the fact that under most state insurance codes fraternal life insurance organizations are generally not included within the term 'life insurance companies,' it appears that the Model Variable Contract Law and Regulations could be easily modified to afford the authorization desired."

Lloyd J. Ostlund, an advisory committee member, submitted a proposed supplement to the Model Law and Regulations which is appended to this report.

4. Declared that replacement regulations which use comparison forms are not workable in the case of variable contracts.

The Industry Advisory Committee also noted the concern of the National Association of Securities Dealers regarding replacement problems. Mr. Robert Howell, representing the Compliance Subcommittee of the NASD, said that the Subcommittee wished to encourage a minimum number of replacements and wished to discourage professional replacers. He proposed a narrative approach to replacement regulations and said that one was being drafted for the approval of the Board of Governors of NASD.

In Executive Session, the Subcommittee received the report of the Industry Advisory Committee. The Subcommittee noted that none of the four items in the Advisory Committee's report was appropriate for final consideration or possible adoption by the Subcommittee at this meeting, as the first item had just been placed before the Subcommittee and the other three items were in preliminary form. After some discussion, the Subcommittee agreed that the Industry Advisory Committee should be given a deadline of October 1, 1970 for the submission, in definitive form, of any materials the Advisory Committee wishes to have considered by the Subcommittee at the December meeting in Chicago.

Extensive discussion took place concerning liaison with the Securities and Exchange Commission on the regulation of variable benefit life insurance. The Chairman of the Subcommittee had written to the Chairman of the Securities and Exchange Commission, urging that the NAIC be consulted before the SEC decided upon the extent of the jurisdiction, if any, which the SEC would assert in the area. The Chairman of the SEC had replied with the assurance that the NAIC would be so consulted. The exchange of correspondence had earlier been distributed to members of the Subcommittee. It was proposed that the Subcommittee and other NAIC representatives should take further initiative in bringing our views to the attention of the SEC as soon as possible, and it was the consensus of the Subcommittee that the NAIC should respond as soon as possible to Chairman Budge's invitation to consult with the SEC. An initial liaison meeting would determine what the issues are in the mind of the SEC. Thereafter the NAIC should forcefully present our views on those issues, so that the public interest would be protected in the best possible way and that State regulation of insurance would be preserved and strengthened.

Hon. Richard E. Stewart, Chm., New York; Hon. Robert D. Preston, V. Chm., Kentucky; Hon. J. Richard Barnes, Colorado; Hon. Edward P. Lombard, D.C.; Hon. Broward Williams, Florida; Hon. Lorne R. Worthington, Iowa; Hon. C. Eugene Farnam, Massachusetts; Hon. John A. Durkin, New Hampshire; Hon. Durwood Manford, Texas; Hon. S. C. DuRose, Wisconsin.

**MODEL VARIABLE CONTRACT REGULATION
AS AMENDED AT THE JUNE, 1970 NAIC ANNUAL MEETING**

Cleveland, Ohio

June 10, 1970

ARTICLE I: AUTHORITY

Pursuant to authority given by Section _____ of the Insurance Laws of _____, the Insurance _____, after due notice and publication and after affording interested persons opportunity to present written data, views and arguments, does hereby make and promulgate the following rules and regulations to be applicable to insurance companies delivering or issuing for delivery in this state variable contracts, as defined in Paragraph 1 of Article II, pursuant to Section _____ of the Insurance Laws of this State.

These regulations shall become effective _____.

[NOTE: This Article will obviously depend on the existing provisions under a given state's insurance code with respect to the method for adopting rules and regulations.]

ARTICLE II: DEFINITIONS

1. The term "variable contract," when used in this Regulation, shall mean any policy or contract which provides for life insurance or annuity benefits which vary according to the investment experience of any separate account or accounts maintained by the insurer as to such policy or contract, as provided for in Section _____ of the laws of this State.

[NOTE: The objective here is to define the contracts covered by the regulations to include all forms of contracts the benefits of which vary according to the investment experience of a separate account authorized by the enabling statute (including group and individual, variable accumulation and variable benefit, etc.). Exclusion of particular kinds of contracts from sections of the regulation which may be inapplicable is handled in those sections. If the enabling statute of a particular State authorizes the use of a separate account or accounts only in connection with annuity benefits, then the words "life insurance or" in the above definition should be deleted, with corresponding deletions as needed elsewhere herein.]

2. "Agent," when used in this Regulation, shall mean any person, corporation, partnership, or other legal entity which under the laws of this State is licensed as a life insurance agent, or solicitor, general agent, or life insurance broker.

[NOTE: States should make the necessary changes in terminology to conform with statutory language describing those persons eligible to be licensed to sell life insurance.]

3. "Variable contract agent," when used in this Regulation, shall mean an agent who shall sell or offer to sell any variable contract.

4. A "satisfactory alternative examination" to Part I of the written examination called for by Paragraph 3 of Article IX shall include any securities examination which is declared by the Commissioner to be an equivalent examination on the basis of content and administration. The following examinations are deemed to be a satisfactory alternative examination:

- (a). Any State Securities Sales Examination accepted by the Securities and Exchange Commission;
- (b). The National Association of Securities Dealers, Inc. Examination for Principals, or Examination for Qualification as a Registered Representative;
- (c). The various securities examinations required by the New York Stock Exchange, the American Stock Exchange, Pacific Stock Exchange, or any other registered national securities exchange;

- (d). The Securities and Exchange Commission test given pursuant to Section 15(b) (8) of the Securities Exchange Act of 1934;
- (e). The examination recommended for the testing of variable contract agents by the National Association of Insurance Commissioners, when adopted by the Insurance Department of any State or Territory of the United States and approved for use by such Department by the Securities and Exchange Commission.

[NOTE: It is the intent of this Paragraph to avoid duplication of effort and excessive burden and cost to the companies by recognizing the successful completion of any basic securities examination which satisfies federal security law requirements, as satisfying also the State's interest in testing basic securities knowledge as to variable contracts.]

ARTICLE III: QUALIFICATION OF INSURANCE COMPANIES TO ISSUE VARIABLE CONTRACTS

1. No company shall deliver or issue for delivery variable contracts within this State unless (a) it is licensed or organized to do a life insurance or annuity business in this State, and (b) the Commissioner is satisfied that its condition or method of operation in connection with the issuance of such contracts will not render its operation hazardous to the public or its policyholders in this State. In this connection, the Commissioner shall consider among other things:

- (i) The history and financial condition of the company;
- (ii) The character, responsibility and fitness of the officers and directors of the company; and
- (iii) The law and regulation under which the company is authorized in the state of domicile to issue variable contracts.

2. If the company is a subsidiary of an admitted life insurance company, or affiliated with such company by common management or ownership, it may be deemed by the Commissioner to have satisfied the provisions of clause (b) of Paragraph 1 hereof if either it or such admitted life company satisfies the aforementioned provisions; provided, further, that companies licensed and having a satisfactory record of doing business in this State for a period of at least 3 years may be deemed to have satisfied the Commissioner with respect to clause (b) of Paragraph 1 above.

3. Before any company shall deliver or issue for delivery variable contracts within this State it shall submit to the Commissioner (a) a general description of the kinds of variable contracts it intends to issue, (b) if requested by the Commissioner, a copy of the statutes and regulations of its state of domicile under which it is authorized to issue variable contracts, and (c) if requested by the Commissioner, biographical data with respect to officers and directors of the company on the NAIC uniform biographical data forms.

[NOTE: Paragraph 3 suggests the type of submission which might be appropriate to afford a basis for determining that a company meets the test in clause (b) of Paragraph 1. The NAIC biographical data forms may be found at Pages 383-385, Proceedings of the NAIC, 1967, Volume II.

Some state statutes provide seasoning requirements for the licensing of foreign life insurance companies; these statutes presumably will also apply to companies seeking to be licensed to sell variable contracts. The Committee does not believe that there is a need for seasoning requirements for companies writing variable contracts beyond those required for life companies generally. If, however, an additional seasoning requirement for companies writing variable contracts is considered desirable, the Committee feels that such a requirement should be specifically provided by statute and recommends that the statute expressly require consideration of the experience of a parent or affiliated company. See Paragraph 2 above.

The Committee recommends that if there are specific capital and surplus requirements for companies writing variable contracts, these should be the same as those for life insurance companies generally. If stricter capital and surplus requirements should be considered necessary, these should be specifically provided by statute and it is strongly recommended that the statute permit waiver of such requirements pursuant to rules and regulations duly adopted by the Commissioner. A regulation to accomplish this purpose might read as follows:

The Commissioner may waive any or all of the requirements set forth in Section _____ if by reason of a company's capital structure, surplus, amount of business in force and plan of operations, it substantially conforms to such requirements, or, in the opinion of the Commissioner, otherwise affords adequate protection to contractholders.]

ARTICLE IV: SEPARATE ACCOUNT OR SEPARATE ACCOUNTS

A domestic company issuing variable contracts shall establish one or more separate accounts pursuant to Section _____ of the Insurance Laws of this State, subject to the following provisions of this Article:

1(a). Except as may be provided with respect to reserves for guaranteed benefits and funds referred to in Paragraph 1(b), (i) amounts allocated to any separate account and accumulations thereon may be invested and reinvested without regard to any requirements or limitations prescribed by the laws of this State governing the investments of life insurance companies and (ii) the investments in such separate account or accounts shall not be taken into account in applying the investment limitations otherwise applicable to the investments of the company.

1(b). Reserves for (i) benefits guaranteed as to dollar amount and duration and (ii) funds guaranteed as to principal amount or stated rate of interest may be maintained in a separate account if a portion of the assets of such separate account at least equal to such reserve liability is invested in accordance with the laws and regulations of this State governing the investments of life insurance companies. Such portion of the assets also shall not be taken into account in applying the investment limitations otherwise applicable to the investments of the company. If a variable contract includes incidental minimum guarantees as referred to in Subparagraph 4(c) of Article VI, this paragraph shall apply only to the reserve for any excess of such minimum guarantees over the reserves for the benefits that would be payable under the contract if there were no such minimum guarantees.

1(c). With respect to 75% of the market value of the total assets in a separate account no company shall purchase or otherwise acquire the securities of any issuer, other than securities issued or guaranteed as to principal or interest by the United States, if immediately after such purchase or acquisition the market value of such investment, together with prior investments of such separate account in such security taken at market, would exceed 10% of the market value of the assets of said separate account; provided, however, that the Commissioner may waive such limitation if, in his opinion, such waiver will not render the operation of such separate account hazardous to the public or the policyholders in this State.

1(d). Unless otherwise permitted by law or approved by the Commissioner, no company shall purchase or otherwise acquire for its separate accounts the voting securities of any issuer if as a result of such acquisition the insurance company and its separate accounts, in the aggregate, will own more than 10% of the total issued and outstanding voting securities of such issuer; provided, that the foregoing shall not apply with respect to securities held in separate accounts, the voting rights in which are exercisable only in accordance with instructions from persons having interests in such accounts.

1(e). The same separate account may not be used for both variable annuities and variable life insurance.

1(f). The limitations provided in Paragraphs 1(c), 1(d) and 1(e) above shall not apply to the investment with respect to a separate account in the securities of an investment company registered under the Investment Company Act of 1940, provided that the investments of such investment company comply in substance with Paragraphs 1(c) and 1(d) hereof.

[NOTE: Virtually all statutes contain the broad language in Paragraph 1(a) permitting investments without regard to investment limitations with respect to life insurance companies. Paragraph 1(c) would impose a quantitative limitation to promote diversification and limit investment risk. It should be noted that while separate accounts registered under the 1940 Act will be subject to the 5% rule under that Act, there would appear to be sound reasons for permitting greater flexibility, up to 10%, with respect to those separate accounts not so subject. It is further provided that the Commissioner may waive this limitation where such would not render the operation of the account hazardous.]

Paragraph 1(d) would prohibit the acquisition by the separate account of the securities of an issuer if the acquisition would result in the ownership of more than 10% of the voting securities of such issuer, with the holdings by the company and all of its separate accounts aggregated, except when there is a pass-through of voting rights to contractholders.

Paragraph 1(f) is intended primarily to permit the operation of a separate account as a unit investment trust under the 1940 Act, with all of its assets being invested in the securities of a registered investment company. It should be noted, however, that the Commissioner would retain indirect control since the exception from the application of Paragraphs 1(c) and 1(d) would not apply if the investments of the investment company did not comply with such Paragraphs.

Basic authority for exemption from investment limitations, as well as the quantitative limitations in Paragraphs 1(c) and 1(d) and the exemption from these limitations in Paragraph 1(f), should probably be covered by statute.]

2. Unless otherwise approved by the Commissioner, assets allocated to a separate account shall be valued at their market value on the date of valuation, or if there is no readily available market, then as provided under the terms of the contract or the rules or other written agreement applicable to such separate account; provided, that unless otherwise approved by the Commissioner, the portion, if any, of the assets of such separate account equal to the company's reserve liability with regard to the benefits and funds referred to in clauses (i) and (ii) of Paragraph 1(b) shall be valued in accordance with the rules otherwise applicable to the company's assets.

[NOTE: In the case of variable contracts involving a 1940 Act registered account and in many group contracts the procedure for valuing assets will be stated in rules of the separate account or in a separate applicable written agreement, and the regulation is drafted to permit this.]

3. If and to the extent so provided under the applicable contracts, that portion of the assets of any such separate account equal to the reserves and other contract liabilities with respect to such account shall not be chargeable with liabilities arising out of any other business the company may conduct.

[NOTE: To achieve effective insulation of certain assets held in separate accounts from claims of general creditors it is probably necessary, as a matter of general corporate law, that such insulation be specifically authorized by statute.]

4. Notwithstanding any other provisions of law a company may
 - (a). with respect to any separate account registered with the Securities and Exchange Commission, as a unit investment trust exercise voting rights in connection with any securities of a regulated investment company registered under the Investment Company

Act of 1940 and held in such separate accounts in accordance with instructions from persons having interests in such accounts ratably as determined by the company, or

- (b). with respect to any separate account registered with the Securities and Exchange Commission as a management investment company, establish for such account a committee, board, or other body, the members of which may or may not be otherwise affiliated with such company and may be elected to such membership by the vote of persons having interests in such account ratably as determined by the company. Such committee, board or other body may have the power, exercisable alone or in conjunction with others to manage such separate account and the investment of its assets.

A company, committee, board or other body may make such other provisions in respect to any such separate account as may be deemed appropriate to facilitate compliance with requirements of any federal or state law now or hereafter in effect; provided that the Commissioner approves such provisions as not hazardous to the public or the company's policyholders in this State.

[NOTE: Certain separate accounts are registered with the Securities and Exchange Commission under the Investment Company Act of 1940, and contractholders in such separate accounts must be given voting rights, principally in connection with the management of the assets of the account. Subparagraph 4(a) is intended to provide for a separate account registered with the SEC as a unit investment trust, under which all of the assets of the account are invested in a separate mutual fund. In this connection, see also Paragraph 1(f). Subparagraph 4(a) would permit a pass-through of voting rights in the shares of the underlying mutual fund to the contractholders.

Where a separate account is registered under the 1940 Act as a management investment company the contractholders have the right to elect a committee with power to manage the account and invest its assets. Subparagraph 4(b).

As with the insulation provision in Paragraph 3 of Article IV above, it would probably be wise in most states to provide authority for the above regulation by statute, since many states require that the assets of an insurer be managed by its board of directors.]

5. No sale, exchange or other transfer of assets may be made by a company between any of its separate accounts or between any other investment account and one or more of its separate accounts unless, in case of a transfer into a separate account, such transfer is made solely to establish the account or to support the operation of the contracts with respect to the separate account to which the transfer is made, and unless such transfer, whether into or from a separate account, is made (a) by a transfer of cash, or (b) by a transfer of securities having a valuation which could be readily determined in the marketplace, provided that such transfer of securities is approved by the Commissioner. The Commissioner may authorize other transfers among such accounts if, in his opinion, such transfers would not be inequitable.

[NOTE: This provision, common to many existing statutes and regulations, is intended to prevent unfair or discriminatory transfer among accounts. Regular cash flow should permit those transfers to and from the general account necessary to the operation of the variable contract business to be made in cash.]

6. The company shall maintain in each such separate account assets with a value at least equal to the reserves and other contract liabilities with respect to such account, except as may otherwise be approved by the Commissioner.

[NOTE: This section varies from a number of existing

regulations which provide that assets shall be equal to reserves. The Committee agrees that a deficit should not be permitted, but that build-up of surplus within the separate account should not be prohibited as it would apparently be under the existing regulations referred to.]

7. Rules under any provision of the Insurance Laws of this State or any regulation applicable to the officers and directors of insurance companies with respect to conflicts of interest shall also apply to members of any separate account's committee, board or other similar body. No officer or director of such company nor any member of the committee, board or body of a separate account shall receive directly or indirectly any commission or any other compensation with respect to the purchase or sale of assets of such separate account.

ARTICLE V: FILING OF CONTRACTS

The filing requirements applicable to variable contracts shall be those filing requirements otherwise applicable under existing statutes and regulations of this State with respect to individual and group life insurance and annuity contract form filings, to the extent appropriate.

ARTICLE VI: CONTRACTS PROVIDING FOR VARIABLE BENEFITS

1. Any variable contract providing benefits payable in variable amounts delivered or issued for delivery in this State shall contain a statement of the essential features of the procedures to be followed by the insurance company in determining the dollar amount of such variable benefits. Any such contract, including a group contract and any certificate in evidence of variable benefits issued thereunder, shall state that such dollar amount will vary to reflect investment experience and shall contain on its first page a clear statement to the effect that the benefits thereunder are on a variable basis.

2. Illustrations of benefits payable under any variable contract shall not include projections of past investment experience into the future or attempted predictions of future investment experience; provided that nothing contained herein is intended to prohibit use of hypothetical assumed rates of return to illustrate possible levels of benefits.

3. No individual variable annuity contract calling for the payment of periodic stipulated payments shall be delivered or issued for delivery in this State unless it contains in substance the following provisions or provisions which in the opinion of the Commissioner are more favorable to the holders of such contracts:

- (a). A provision that there shall be a period of grace of 30 days or of one month, within which any stipulated payment to the insurer falling due after the first may be made, during which period of grace the contract shall continue in force. The contract may include a statement of the basis for determining the date as of which any such payment received during the period of grace shall be applied to produce the values under the contract arising therefrom;
- (b). A provision that, at any time within _____ year(s) from the date of default, in making periodic stipulated payments to the insurer during the life of the annuitant and unless the cash surrender value has been paid, the contract may be reinstated upon payment to the insurer of such overdue payments as required by the contract, and of all indebtedness to the insurer on the contract, including interest. The contract may include a statement of the basis for determining the date as of which the amount to cover such overdue payments and indebtedness shall be applied to produce the values under the contract arising therefrom;
- (c). A provision specifying the options available in the event of default in a periodic stipulated payment. Such options may include an option to surrender

the contract for a cash value as determined by the contract, and shall include an option to receive a paid-up annuity if the contract is not surrendered for cash, the amount of such paid-up annuity being determined by applying the value of the contract at the annuity commencement date in accordance with the terms of the contract.

[NOTE: The Committee would recommend inclusion of provisions dealing with grace, reinstatement and non-forfeiture only if the law of a particular state requires these in individual fixed dollar deferred annuities. Several companies issuing variable annuity contracts do not require contractholders to make periodic stipulated payments. If a contractholder ceases making payments he may resume doing so thereafter at any time. It is assumed that Paragraph 3(a) would be inapplicable to such contracts since the provisions described above would be regarded as more favorable to the contractholders than a 30 day grace period.]

4. No individual variable life insurance policy shall be delivered or issued for delivery in this state unless it contains in substance the following provisions or provisions which in the opinion of the Commissioner are more favorable to the holders of such policies:

- (a). A provision that there shall be a period of grace of 30 days or of one month, within which payment of any premium after the first may be made, during which period of grace the policy shall continue in force, but if a claim arises under the policy during such period of grace before the overdue premiums or the deferred premiums of the current policy year, if any, are paid, the amount of such premiums, together with interest not in excess of _____% per annum, may be deducted from any amount payable under the policy in settlement. The policy may contain a statement of the basis for determining any variation in benefits that may occur as a result of the payment of premium during the period of grace.

[NOTE: The intent here is that the first sentence of Subparagraph 4(a) follow the existing State law which applies to fixed dollar life insurance.]

- (b). A provision that the policy will be reinstated at any time within _____ years from the date of default, unless the cash surrender value has been paid or unless the period of extended insurance has expired, upon the application of the insured and the production of evidence of insurability, including good health, satisfactory to the insurer and the payment of an amount not exceeding the greater of (i) all overdue premiums and the payment of any other indebtedness to the insurer upon said policy with interest at a rate not exceeding 6 per centum per annum compounded annually, or (ii) 110% of the increase in cash surrender value resulting from reinstatement.
- (c). A provision for cash surrender values and paid-up insurance benefits available as non-forfeiture options under the policy in the event of default in a premium payment after premiums have been paid for a specified period. If the policy does not include a table of figures for the options so available, the policy shall provide that the company will furnish at least once in each policy year a statement showing the cash value as of a date no earlier than the prior policy anniversary.

The method of computation of cash values and other non-forfeiture benefits, as described either in the policy or in a statement filed with the Commissioner of the jurisdiction in which the policy is delivered, shall be in accordance with actuarial procedures that recognize the variable nature of the policy. The method of computation must be such that, if the net investment return credited to the contract at all times from the date of issue should be equal to the assumed investment increment factor if the contract provides for such a factor, or $3\frac{1}{2}\%$ if not, with premiums and benefits determined accordingly under the terms of the policy, the resulting cash values and other non-forfeiture benefits would be at least equal to the minimum values required by Section _____ of the Insurance Laws of this State (Standard Non-Forfeiture Law) for a fixed dollar policy with such premiums and benefits. The method of computation may disregard incidental minimum guarantees as to the dollar amounts payable. Incidental minimum guarantees include, for example, but are not to be limited to, a guarantee under a policy which provides for an assumed investment increment factor that the amount payable at death or maturity shall be at least equal to the amount that otherwise would have been payable if the net investment return credited to the contract at all times from the date of issue had been equal to such factor.

5. Any variable annuity contract delivered or issued for delivery in this State shall stipulate the investment increment factors to be used in computing the dollar amount of variable benefits or other variable contractual payments or values thereunder, and may guarantee that expense and/or mortality results shall not adversely affect such dollar amounts. In the case of an individual variable annuity contract under which the expense and mortality results may adversely affect the dollar amount of benefits, the expense and mortality factors shall be stipulated in the contract.

In computing the dollar amount of variable benefits or other contractual payments or values under an individual variable annuity contract:

- (a). The annual net investment increment assumption shall not exceed 5%, except with the approval of the Commissioner;
- (b). To the extent that the level of benefits may be affected by future mortality results, the mortality factor shall be determined from the Annuity Mortality Table for 1949, Ultimate, or any modification of that table not having a lower life expectancy at any age, or, if approved by the Commissioner, from another table.

"Expense," as used in this Paragraph, may exclude some or all taxes, as stipulated in the contract.

6. Any individual variable life insurance policy delivered or issued for delivery in this State shall stipulate the investment increment factor to be used in computing the dollar amount of variable benefits or other variable contractual payments or values thereunder and shall guarantee that expense and mortality results shall not adversely affect such dollar amounts.

7. The reserve liability for variable contracts shall be established pursuant to the requirements of the Standard Valuation Law in accordance with actuarial procedures that recognize the variable nature of the benefits provided and any mortality guarantees.

ARTICLE VII: REQUIRED REPORTS

1. Any company issuing individual variable contracts shall mail to the contractholder at least once in each contract year after the first at his last address known to the company, a statement or statements reporting the investments held in the separate account. The company shall submit annually to the Insurance Commissioner a

statement of the business of its separate account or accounts in such form as may be prescribed by the National Association of Insurance Commissioners.

[NOTE: The Committee intended to leave this language sufficiently flexible to apply in the event that the separate account statement is combined with the regular life blank.]

2. Any company issuing individual variable contracts shall mail to the contractholder at least once in each contract year after the first at his last address known to the company, a statement reporting as of a date not more than four months previous to the date of mailing: (a) in the case of an annuity contract under which payments have not yet commenced, (i) the number of accumulation units credited to such contract and the dollar value of a unit, or (ii) the value of the contractholder's account; and (b) in the case of a life insurance policy, the dollar amount of the death benefit.

ARTICLE VIII: FOREIGN COMPANIES

If the law or regulation in the place of domicile of a foreign company provides a degree of protection to the policyholders and the public which is substantially equal to that provided by these regulations, the Commissioner, to the extent deemed appropriate by him in his discretion, may consider compliance with such law or regulation as compliance with these regulations.

[NOTE: This blanket provision would permit a Commissioner to waive any or all of those requirements applicable to foreign companies in cases where the quality of regulation in the state of domicile is such that he would have every reason to expect that the company would be adequately regulated.]

ARTICLE IX: EXAMINATION OF AGENTS AND OTHER PERSONS

1(a). No agent shall be eligible to sell or offer for sale a variable contract unless prior to making any solicitation or sale of such a contract, he also be licensed as a variable contract agent.

[NOTE 1: The inapplicability to home office employees of examination and licensing requirements with respect to life insurance shall equally apply to the sale of variable contracts. However in the event that a home office employee does possess a license to sell life insurance and variable contracts in a particular state, it is presumed that he possesses the same privilege as an agent has to sell variable contracts.]

[NOTE 2: State laws and regulations should permit variable contract agents to be licensed by the insurance company selling the variable contracts and also permit an affiliated or subsidiary company distributing the variable contracts as broker/dealer to receive commissions. The affiliated or subsidiary distributor frequently will be used by those insurance companies which plan to market both variable contracts and mutual funds through their own agency forces; such distributor may distribute both the variable contracts and the mutual funds without multiple broker/dealer registration. State laws which prohibit incorporated general agencies or which prohibit a life company from owning a general agency should either be changed to permit the subsidiary or affiliated broker/dealer or be interpreted so as to not apply to subsidiary or affiliated broker/dealers which were not contemplated when the prohibitions were enacted into the state statute or regulation.]

1(b). Any agent who participates only in the sale or offering for sale of variable contracts that are not registered under the Federal Securities Act of 1933 need not be licensed as a variable contract agent.

[NOTE: Under current regulations and interpretations of the federal securities acts, sales of certain variable group contracts meeting the terms of Rule 156 under the Securities Act of 1933 are not required to be registered

under that Act. It is understood that this exemption may be expanded somewhat in the reasonably near future.]

2. Any agent applying for a license as a variable contract agent shall do so by filing with this Department "Uniform Form AP for Securities Salesmen, Variable Contract Salesmen and Other Associated Persons."

[NOTE 1: The form of application referred to has been the subject of conversations and meetings with the SEC, with the purpose of agreeing on a standard form which could serve common purposes of (a) application to the state insurance department and (b) reporting form to the SEC and state securities department where applicable. This form would be a counterpart to and substitute for the present SECO-2 form of the SEC Personnel Form.]

[NOTE 2: An application for a license to sell life insurance and an application for a license to act as a variable contract agent may be made at the same time, and the examinations, if any, required for each license may be administered at the same time.]

3. The licensing as a variable contract agent of any agent complying with Paragraph 2 shall not become effective until such agent shall have satisfactorily passed a written examination upon securities and variable contracts. Such examination shall be divided into two parts. Part I shall be on securities generally. Part II shall deal with variable contracts, and shall be composed of at least fifteen questions, but not more than fifty questions, concerning the history, purpose, regulation, and sale of variable contracts.

4. The examination will be given in such places and at such times as the Commissioner shall from time to time designate. Upon application for license as a variable contract agent, the applicant shall be notified of the date of the next examination.

5. The examination recommended for the testing of variable contract agents by the National Association of Insurance Commissioners is hereby adopted for use in this State in its present form, or as it may be amended, and it shall be used in all tests given pursuant to this Regulation.

[NOTE: Copies of the examination may be secured by an Insurance Department from the Executive Secretary of the NAIC. The NAIC examination, in the two forms, should be filed with the Securities and Exchange Commission upon its adoption, if the Department has not previously done so. The submission of the forms for approval should be directed to: Chief, Branch of Non-NASD Regulation, Securities and Exchange Commission, Washington, D. C. 20549. At the same time, the SEC must be advised that a passing grade for each examination will be 70%, and that the examination will be conducted as a closed book, monitored examination. The security of these examinations is most important, and it may be necessary to revise the examinations from time to time to provide the maximum security. Any proposed change in either form must be submitted to the SEC and approved by it prior to use.

Variable contract agents taking the NAIC examination must achieve a minimum passing grade of 70% on the general securities portion of the examination (Part I) called for by the Regulation. However, certain sales supervisory and home office employees are required to achieve a grade of at least 80% on this examination. The categories of persons required to achieve a grade of at least 80% will vary from company to company, depending upon the organization of the company and the manner in which it organizes its agency force.

It is the responsibility of the company to determine which persons must achieve the higher grade, and this Regulation does not attempt to describe such persons. It is to be expected, however, that upon promotion or change of duties, certain applicants who have passed

Part I of the examination with a grade of less than 80% may be required to retake that portion of the Department's examination to attain a higher passing grade.]

6. Any applicant for license as a variable contract agent shall not be required to take Part I of the NAIC examination if, at the time of application, evidence is presented that the applicant (a) has previously passed a satisfactory alternative examination as defined in Paragraph 4 of Article II of these Regulations, or (b) is currently registered with the federal Securities and Exchange Commission as a broker-dealer, or is currently associated with a broker-dealer and has met qualification requirements with respect to such association.

[NOTE: An "associated person," with respect to a registered broker-dealer securities firm, is a technical term defined in the federal securities laws. An "associated person" who is engaged directly or indirectly in the sale of securities, who supervises, recruits or trains such sales persons, is together with certain other home office personnel required to have passed a general securities examination, or alternatively must have been continuously in the securities business since July 1, 1963. This is also true of a person registered as a broker-dealer.

The federal securities laws and regulations specifically exempt a person from federal securities examination requirements if he was registered as a broker-dealer, or became an "associated person" prior to July 1, 1963, and has been continuously so registered or associated, and has not had any disciplinary sanction imposed on him by any federal or state securities agency or securities exchange or otherwise found to be a cause of any disciplinary action. It is not deemed necessary that such broker-dealer or persons be required to take the securities portion of the NAIC examination (Part I) because of their experience and record; however, it will be necessary that these persons take and pass Part II of the NAIC examination, with such additional questions appended thereto as a state insurance department may require.

It is contemplated that in most instances the insurance company with whom the applicant is to be licensed will submit a statement of the basis for any exemption claimed from the examination requirement, as in most cases this will be the only evidence available to the Department by reason of the manner in which test scores are reported by the SEC and the NASD. Their practice is to simply enter the grade on a return-address paper, and no other formal document is readily available to the applicant or the company.]

7. Every applicant applying for license as a variable contract agent shall satisfactorily complete Part II of the examination required by Paragraph 3, with a grade of at least seventy percent (70%), or shall present evidence of successful completion of either a variable contract examination given under the supervision of an insurance department of any State or Territory of the United States which has adopted Part II of the examination recommended for the testing of variable contract agents by the National Association of Insurance Commissioners or has been examined and licensed by any such department prior to its adoption of the National Association of Insurance Commissioners Model Regulation.

[NOTE: Part II of the NAIC examination is not required to satisfy any federal or state law. This portion of the examination, dealing exclusively with variable contracts, is provided to test specific knowledge of the history, purpose and regulation of variable contracts over and above the general knowledge of the securities business required to pass Part I of the NAIC examination.]

8(a). Any applicant who fails to pass Part I of the examination required by Paragraph 3 may not take Part I of the examination again until 30 days after initially taking it. After a second such failure, such applicant may not take the examination again until 60 days after taking the second examination. After a third

and any subsequent such failure, such applicant may not take the examination again, until 90 days after the third and any subsequent examinations.

8(b). Any applicant failing to pass Part II of the examination may take Part II again 20 days after the first and any subsequent examinations.

9. Every application for a license as a variable contract agent shall be accompanied by an examination fee of \$———. A fee of \$——— will be charged for each re-examination administered to an applicant.

[NOTE: It is contemplated that the examination fee charged for an application for a license as a variable contract agent shall be an amount equal to the fee of a life insurance license.]

10. Report of the results of any examination given pursuant to this Regulation shall be made by the Department on "Commissioner's Report of Examination No. ————," a copy of which is attached hereto as Exhibit A.

11. (OPTIONAL) Except as modified by these Regulations, the Regulations of this Department governing the licensing of life insurance agents including examinations therefor shall apply hereto.

12. Part I of the written examination provided for in Paragraph 3 shall also be administered to other persons who are not required to be licensed to sell life insurance in this State upon their submission of "Uniform Form AP for Securities Salesmen, Variable Contract Salesmen and Other Associated Persons" and payment of the examination fee.

[NOTE: As heretofore indicated under the Securities Exchange Act of 1934, it may be necessary for certain supervisory personnel and certain home office employees to be registered with the Securities and Exchange Commission even though they are not required to be licensed by state insurance departments as agents. The Regulation authorizes the examination of such persons by the Insurance Department to enable them to comply with such federal requirements.]

13(a). Results of the examination administered pursuant to Paragraph 3 will be reported by this Department to the applicant's company. In addition, examination results will be reported by this Department to any other State Insurance Department requesting confirmation of the examination grade, either upon request of such Department or upon request of the applicant or his company.

[NOTE: It is hoped that a uniform form for reporting results of an examination can be adopted by the various states which could serve the reporting functions outlined in this Paragraph of the Regulation. A copy of the suggested form is attached hereto as Exhibit A.]

13(b). (OPTIONAL) A charge of (50¢) shall be made for the second and each subsequent report of examination results.

14. Records of the examination grade of each applicant upon an examination administered by this Department, or upon an examination deemed to be a satisfactory alternative examination and administered by another agency or authority and reported to this Department, will be retained in the file pertaining to said applicant.

15. Any person licensed in this State as a variable contract agent shall immediately report to the Commissioner (a) any suspension or revocation of his variable contract agent's license or life insurance agent's license in any other State or Territory of the United States, (b) the imposition of any disciplinary sanction (including suspension or expulsion from membership, suspension or revocation of or denial of registration) imposed upon him by any national securities exchange, or national securities association, or any federal, or state or territorial agency with jurisdiction over securities or contracts on a variable basis, (c) any judgment or injunction entered against him on the basis of conduct deemed to have involved fraud, deceit, misrepresentation, or violation of any insurance or securities law or regulation.

16. The Commissioner may reject any application or suspend or revoke or refuse to renew any variable contract agent's license upon any ground that would bar such applicant or such agent from being licensed to sell life insurance contracts

in this State. The rules governing any proceeding relating to the suspension or revocation of a life insurance agent's license shall also govern any proceeding for suspension or revocation of a variable contract agent's license.

17. Renewal of a variable contract agent's license shall follow the same procedure established for renewal of an agent's license to sell life insurance contracts in this State.

(See Addendum)

*Addendum for Model Variable Contract Regulation**

The following information shall be furnished to an applicant for a contract of variable life insurance prior to execution of the application:

- (a). A summary description of the insurance company and its principal activities.
- (b). A summary explanation in non-technical terms of the principal variable features of the contract and of the manner in which any variable benefits reflect the investment experience of a separate account.
- (c). A brief description of the investment policy for the separate account with respect to such contract.
- (d). A list of investments in the separate account as of a date not earlier than the end of the last year for which an annual statement has been filed with the Commissioner of the state of domicile.
- (e). Summary financial statements of the insurance company and such separate account based upon the last annual statement filed with such Commissioner, except that for a period of four months after the filing of any annual statement the summary required hereby may be based upon the annual statement, immediately preceding such last annual statement, filed with such Commissioner.

The insurance company may include such additional information as it deems appropriate.

A copy of the statement containing the foregoing information shall be filed with such Commissioner prior to any use thereof and shall be subject to disapproval if found to be inaccurate or misleading.

* Proposed new matter.

EXHIBIT A

COMMISSIONER'S
REPORT OF EXAMINATION NO. _____

STATE OF _____

DEPARTMENT OF INSURANCE

APPROVAL OF LICENSE AS A VARIABLE CONTRACT AGENT

Name of Applicant

When validated by the Department of Insurance, this will be your notice of approval of your qualification for a Variable Contract agent's license.

Address

LICENSE APPROVED
Date _____

Enter Name and Address of broker or dealer and of the company to which approval of Application for Variable Contract agent's license should be directed.

(Commissioner - Superintendent -
Director)

TEST SCORE: - NAIC EXAMINATION

Broker-Dealer

Securities Part I _____

Variable Contracts Part II _____

Address

(If Test Waived, Indicate Variable Contract Regulation Section Conferring Exemption)

Company

If NAIC examination not taken, the name of General Securities examination acceptable to the SEC.

Address

TEST SCORE

LUTHERAN BROTHERHOOD

Life and Health Insurance for Lutherans

701 Second Avenue So., Minneapolis, Minn. 55402 • Phone 339-4801

May 1, 1970

LLOYD J. OSTLUND
Vice President - Law

TO: All Members of the Industry Advisory Committee
NAIC Variable Annuity (E6) Subcommittee

You may recall at our meeting of the full Committee March 26 in Washington, that I suggested some slight changes in the Model Law and Model Regulations in order to enable certain Fraternal Beneficiary Associations and Societies to issue variable benefit contracts. I had in mind specifically those fraternal life insurance organizations which operate on a legal reserve basis.

At that time it was the consensus of those present that I should draft those changes in the Model Law and Regulations which I deemed necessary to accomplish this purpose, and to send copies of the same to each of the Committee members prior to the May 14 meeting in Chicago.

I would like to suggest therefore that the following changes be made:

A. Model Variable Contract Law

Re-write the first paragraph of Section 1 to read as follows: A domestic

life insurance company, *including for the purposes of this Act all domestic fraternal beneficiary associations, societies or companies which operate on a legal reserve basis*, may establish one of more separate accounts, and may allocate thereto amounts (including without limitations proceeds applied under optional modes of settlement or under dividend options) to provide for life insurance or annuities (and benefits incidental thereto), payable in fixed or variable amounts or both, subject to the following:

B. *Model Variable Contract Regulation*

Change Article I as follows: Pursuant to authority given by Section _____ of the Insurance Laws of _____, the Insurance _____, after due notice and publication and after affording interested persons opportunity to present written data, views and arguments, does hereby make and promulgate the following rules and regulations to be applicable to insurance companies, *including for the purposes of these Regulations, fraternal beneficiary associations, societies or companies which operate on a legal reserve basis*, delivering or issuing for delivery in this State variable contracts as defined in paragraph I of Article II pursuant to Section _____ of the Insurance Laws of this State. These regulations shall become effective _____.

(The language italicized above is, in my opinion, necessary to empower fraternal beneficiary associations or societies to engage in variable contract business, if they so desire)

Your favorable consideration of this proposal to supplement the existing Model Regulations and Law is solicited.

Sincerely,

Lloyd J. Ostlund

rs

To Study Benefits and Coordination of Accident and Health Insurance
(E7) Subcommittee

(Mtg. 15)

The meeting of the (E7) Subcommittee to Study Benefits and Coordination of Accident and Health Insurance Policies convened at 9 A.M., Tuesday, June 16, 1970, in the Cleveland Room of the Sheraton-Cleveland Hotel. A quorum was present. Chairman Mastos remarked that this was a continuation of the previous meeting held at Las Vegas, Nevada, of the Industry Task Force and members of the Subcommittee and at this time he would call upon Richard A. Edwards, Chairman of Task Force to review their report.

Mr. Edwards reviewed the changes made in the first draft subsequent to the Las Vegas meeting and upon completion thereof Chairman Mastos called for any remarks or suggestions from those present. There being none forthcoming, he then declared an Executive Session of the Subcommittee.

In the Executive Session there was further discussion in relation to suggestions or questions from the floor and from members of the Subcommittee which will be taken into consideration at a future meeting of the Industry Task Force in Chicago.