

Life Insurance (C3) Subcommittee (Mtg. 15)

Reference: 1970 Proc. Vol. IIB p. 1179

The Life Insurance (C3) Subcommittee convened at 1:30 p.m. in the State Ballroom of the Palmer House in Chicago on December 15, 1970. A quorum was present. In open session, a brief discussion was held on the applicability of the model replacement regulations to variable annuities. (See *NAIC Proc.* 1970 Vol. I p. 345. See also report of the (C4) Subcommittee in this volume.)

In regard to the guidelines for college premium financing, Mr. John J. Nietman, speaking on behalf of LIAA and ALC, reported that a joint ALC-LIAA committee met in November on this subject. They encouraged support of a set of guidelines similar to those in Florida with some modifications. They feel that there should not be a requirement for pre-filing of advertising materials, there should not be a copy of documents included in the policy, and there should be no register number on the documents involved.

Sam Cantor of Mutual of New York also spoke, encouraging regulations or guidelines which would avoid the need for the filing of advertising material.

R. Hubbard Hardy of Fidelity Union Life Insurance Company spoke, endorsing the Florida guidelines. He indicated that his company, in applying those guidelines to their activities in all states, has avoided problems and complications.

George McDonald of the Florida Insurance Department gave a brief report on the background of the Florida guidelines and the success they have found in implementing them.

In executive session, it was voted to table the suggestion made by Maurice Engleman at the June meeting. It was also agreed that this Subcommittee encourage the (C4) Subcommittee to retain the applicability of the model replacement regulations to variable annuities so that the basic concept would apply even though a different form may have to be used. George McDonald was asked to express that feeling to the (C4) Subcommittee.

The task force regarding guidelines for premium financing was instructed to conduct a survey of all states to determine the extent of problems and degree of interest in a NAIC model guideline.

With regard to policy loan interest rates, the Chairman was directed to appoint an industry task force to come up with recommendations on the subject and at the same time to appoint a task force from within this

Subcommittee to work with the industry's task force and convey their report to this Subcommittee.

Hon. J. Richard Barnes, Chairman, Colorado; Hon. Walter D. Davis, V. Chm., Mississippi; Hon. Robert F. Claffey, Connecticut; Hon. Robert A. Short, Delaware; Hon. Broward Williams, Florida; Hon. Oscar H. Ritz, Indiana; Hon. Alfred O. Anderson, Minnesota; Hon. William Y. McCaskell, Missouri; Hon. Cornelius Bateson, Oregon; Hon. George F. Reed, Pennsylvania; Hon. Karl V. Herrmann, Washington.

Variable Annuities and Other Contracts

(C4) Subcommittee (Mtg. 24)

Reference: 1970 Proc. Vol. IIB p. 1183

The Variable Annuities and Other Contracts (C4) Subcommittee met in the State Ballroom of the Palmer House Hotel at 9:00 a.m., on December 16, 1970. A quorum was present.

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

1. Recommended that the Subcommittee adopt a clean draft of the Model Variable Contract Law and the Model Variable Contract Regulation.
2. Recommended that the Subcommittee expand the Model Contract Law and Regulation to include fraternal insurance organizations.
3. Recommended that Section 4 of the Model Replacement Regulation be amended to exclude a Comparison Statement on transactions involving Variable Annuities. (See *NAIC Proc.* 1970 Vol. I p. 345.)

Mr. Lloyd Ostlund, representing a fraternal life and health insurance society, presented a report asking the Subcommittee to consider adding an alternative first paragraph to the Model Variable Contract Law and Regulation to allow fraternal life insurance societies to issue Variable Annuities if a State wished to select the proposed option.

Mr. Robert Ninneman, an Industry Advisory Committee member, submitted his personal views and those of his company, Northwestern Mutual Life, on changing the title of the "Comparison" Statement to "Disclosure" Statement. He also recommended that on replacements involving variable annuities that the Comparison Form be footnoted to the effect that the prospectus will speak for the Variable Annuity and the Comparison Form list only the name of the company and the broker dealer involved.

In Executive Session, the Subcommittee received the reports attached to the minutes from the Industry Advisory Committee of Mr. Lloyd Ostlund and Mr. Robert Ninneman. It was agreed that the following be recommended to the Life, Accident and Health (C) Committee:

1. A clean draft of the Model Variable Contract Law (1970 *Proc.* Vol. I p. 367) and Regulation (1970 *Proc.* Vol. IIB p. 1185), be recognized and are a part of the *NAIC Proceedings* and are therefore available to the States in a clean draft form.

2. The Subcommittee does not recommend changing the Model Variable Contract Law or Regulation to allow fraternal insurance societies to issue variable contracts. However, it was agreed that the amendments be included in the *Proceedings* of the NAIC so that if a State individually decided to include them, suggested language would be available.

It was also agreed in Executive Session that the Industry Advisory Committee be charged with the responsibility of studying and making recommendations on the two specific items presented by Mr. Ninneman involving the Model Replacement Regulation. It was suggested that they develop, where necessary, additions to the Model Regulation to provide full disclosure when comparisons, as now required by Exhibit A, cannot feasibly be made.

There being no further business the meeting was adjourned.

Hon. James Baylor, Chm., Illinois; Hon. John W. Lindsay, V. Chm., South Carolina; Hon. Edward P. Lombard, Dist. of Columbia; Hon. Broward Williams, Florida; Hon. James Bentley, Georgia; Hon. Lorne R. Worthington, Iowa; Hon. Frank Hogerty, Maine; Hon. Benjamin C. Neff, Nebraska; Hon. John A. Durkin, New Hampshire; Hon. Richard E. Stewart, New York; Hon. Durwood Manford, Texas.

PARTICIPATING ANNUITY LIFE INSURANCE COMPANY

EXECUTIVE OFFICE

7777 Leesburg Pike

Falls Church, Virginia 22043

Larry D. Gilbertson
Senior Vice President
and General Counsel

Home Office:
Little Rock, Arkansas

December 1, 1970

REPORT OF THE C-4 INDUSTRY ADVISORY COMMITTEE ON VARIABLE CONTRACTS TO THE DECEMBER MEETING OF THE NAIC

In accordance with the minutes of The Variable Annuities and Other Contracts (E6) Subcommittee held at the Sheraton Cleveland Hotel (North Ballroom) at 1:30 p.m. on June 15, 1970, Mr. Larry D. Gilbertson presented a four-point report as follows:

1. Suggested certain numerical and "house-keeping" changes in the Model Varia-

ble Contract Law and the Model Variable Contract Regulation for consideration by the Subcommittee before the next regular meeting of the NAIC.

COMMENTS: It is recommended that these "house-keeping" changes be adopted.

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."

COMMENTS: No further recommendations or suggestions were made since this meeting. We therefore recommend that the resolution of the Industry Advisory Committee be accepted as its position on this subject.

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."

At the September meeting of the Industry Advisory Committee language was suggested which could serve to empower fraternal insurance organizations to engage in variable contract business.

COMMENTS: It is my understanding that Mr. Lloyd Ostlund, a member of the Advisory Committee, will speak on this subject on behalf of his company and other fraternal organizations.

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

COMMENTS: When the Model Replacement Regulations were adopted at the December 1969 meeting of the NAIC, the question of the applicability of these regulations to the Variable Annuity was a subject of some controversy.

Subsequent to that meeting it was recommended that our Committee come up with a recommendation as to the applicability of replacement regulations to variable annuities. As a result, this Committee spent considerable time on an analysis of this problem. It was the consensus of the Industry Advisory Committee that the comparison statement now contained in the Model Regulations on replacement as adopted, cannot and should not be used in cases where Variable Annuities are involved. In light of this, it is our recommendation that a new un-numbered paragraph be added under Section 4 of the Regulations, captioned "Exemptions" as follows:

"All of the requirements of this regulation shall apply in any replacement transaction which involves variable annuities except those provisions which require the completion and furnishing of a Comparison Statement."

A copy of the Industry Replacement Subcommittee's report to our Committee is attached for your information.

As you will note, our comments are restricted to variable annuities. In light of the fact that the regulatory status of variable contracts such as variable life insurance has not been finally resolved by the SEC, it is not deemed appropriate to comment on the applicability of these regulations to variable life insurance. Our Committee will be happy to submit further recommendations when this regulatory pattern is finalized.

Sincerely,

Larry D. Gilbertson
Chairman
C-4 Advisory Committee

Fraternal Insurance Amendment to Model Variable Contract Law and
Regulation Which May Be Used By States Which Wish to Permit
Fraternal Insurance Societies to Issue Variable Contracts

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 or 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

MEMO TO: (C4) Subcommittee of the NAIC
December, 1970

ATTENTION: Honorable Edward H. Freeman
Deputy Director
Department of Insurance
State Capitol Building
Room #106
Springfield, Illinois 62706

My name is Lloyd J. Ostlund, Vice President—Law of Lutheran Brotherhood, a Minnesota domiciled fraternal life and health insurance Society with home offices in Minneapolis. Your Chairman has requested that this memorandum be prepared and submitted for your consideration in support of our contention that fraternal insurance societies should be permitted to issue variable annuity and variable life insurance contracts.

As a *footnote* at this juncture, the term "variable life insurance," as used in this paper, refers only to those contracts where the benefits may vary in reflection of the investment experience of a separate account maintained by the life insurer. It is contemplated however in the usual case that the variable life contract would be issued for a minimum guaranteed amount of death benefit. The premium, although it conceivably could be structured on a variable basis, would more likely be set up on a fixed basis, under the form of variable life insurance presently anticipated by the industry. Subject to the minimum death benefit guaranteed feature, the benefits payable under such policies will be related to the investment experience on an actuarially sound basis. Of course, the variable benefit feature will not relieve the life insurer of any of the mortality and expense risks which it normally undertakes under a life insurance contract:—in other words, the benefits under the variable contract will not be adversely affected by mortality and expense experience.

I have been privileged to participate as a member of the NAIC (E6) Industry Advisory Committee on Variable annuities and Variable life insurance contracts since its initial organization, (now known as the (C4) Advisory Committee). The formation of this Advisory Committee was instituted by the NAIC for the purpose of formulating suggestions for Model Laws and Regulations governing the subject of variable annuities. Some time thereafter our Committee's work was broadened in scope to include the subject of variable life insurance contracts. At the NAIC meeting in New Orleans in December of 1969, a Model Variable Contract Law and Model Variable Contract Regulations were adopted and approved by the NAIC as submitted for consideration by our Advisory Committee. Subsequently, the Model Law and Regulations were promulgated by the NAIC to the various State insurance departments

as recommended vehicles which could be considered by the various State legislatures and insurance departments as a pattern for individual State variable contract laws and regulations.

The NAIC (E6) Subcommittee at the Cleveland meeting received the Industry Advisory Committee's Report and indicated that the recommendations mentioned therein should be given final consideration by the NAIC Subcommittee at the Chicago meeting in December of 1970. This fact is reflected in the published minutes of the (E6) NAIC Subcommittee,—the predecessor to your (C4) Committee.

The Advisory Committee Chairman, Mr. Larry Gilbertson, submitted his report on September 30, 1970, to your Subcommittee stating, in addition to other items not now pertinent to this discussion, that it was not intended by the Industry Committee when it originally put together the recommended Model Law and Regulation, to exclude the participation and involvement of qualified fraternal insurance organizations in the variable contract area. His report indicated that the necessary changes in the Model Variable Contract Law and Model Variable Contract Regulations could easily be made which would authorize and empower qualified fraternal insurance organizations to engage in the variable contract business. The language changes which that report suggested are identical to those contained in the supplement to the Model Law and Regulations which I submitted to your Subcommittee in Cleveland. This supplement was attached to the published minutes of the NAIC (E6) Subcommittee Cleveland meeting.

Mention should be made at this point of the fact that, although I am a member of the Industry Advisory Committee, I am presenting this paper in support of the involvement of qualified fraternal insurance organizations in the variable contract area as a representative of my Society and the National Fraternal Congress in General.

The fraternal insurance Society which I represent, Lutheran Brotherhood, is a member of the National Fraternal Congress of America, which in turn is comprised of more than 200 fraternal benefit insurance societies in the United States and Canada. As of December 31, 1969, these societies insured the lives of over 9,584,000 members for a total amount of life insurance in force of over \$22.9 billion. The total assets of these societies are in excess of \$4.7 billion, which are invested in nearly all areas of American life—to assist in the building of homes, furtherance of business and agriculture, and maintaining our government activities. Fraternal insurance written in 1969 totaled more than \$3.5 billion in force on nearly 600 thousand member lives, with total benefits paid to members and beneficiaries in 1969 of nearly \$350 million. The total amount paid to members and beneficiaries by all of these fraternal societies since their organization amounts to \$7.6 billion. Of these amounts, the fraternal Society which I represent accounts for approximately \$3.6 billion of insurance in force on the lives of over 708,000 members. Our Surplus, or Unassigned Funds, as it is sometimes designated, is in excess of \$46 million. (The above figures are from the 1970 Edition of "Statistics Of Fraternal Benefit Societies," published by the *Fraternal Monitor*.)

It is evident from the above statistics that fraternal societies are a growing and dynamic force in our society and are providing ever-increasing life insurance protection as well as fraternal benefits for a constantly and expanding number of people and activities. Incidentally, there appears in the above-mentioned publication of the *Fraternal Monitor* an article describing the fraternal benefit system in the United States and the typical activities of the fraternal societies. A copy of this article is attached hereto, with the thought that it might be of information and value to the commissioners, directors, and superintendents of the various state insurance departments and their staff members,—particularly those who may not be entirely familiar with the nature and scope of the activities of fraternal benefit societies.

Your Chairman, Mr. Freeman, has suggested that I submit this report to your Committee, citing the reasons why fraternal insurance societies should be permitted to issue and sell variable benefit contracts to their members and under what conditions and circumstances. These reasons can be summarized as follows:

I.

Although conventional fixed-benefit contracts will probably continue to be the predominant part of the life insurance business, many feel that a variable benefit contract will become an invaluable supplement and will meet an essential need of the insurance buying public,—including fraternal insurance society members. We respectfully submit therefore, that the millions of members of the various fraternal insurance organizations are also entitled to have the opportunity to acquire from their own fraternal insurance organization, variable insurance and annuity contracts as an important part of their personal financial and estate planning to the same extent as will be available to customers and policyholders of

non-fraternal life insurance companies. Many of these members would likely desire to purchase their variable contracts from their own fraternal society for some of the same reasons that they selected their fraternal insurance society to carry their fixed-benefit contracts, i.e., to assist in the accomplishment of the fraternal objectives of their respective societies and at the same time help attain their own financial planning objectives by utilizing the variable contract medium to counteract the inflation era we presently find ourselves involved in.

II.

Most knowledgeable insurance authorities are in agreement with the proposition that variable benefit contracts are fundamentally life insurance contracts, and possess predominantly insurance characteristics. The mortality and expense guarantees which are essential to both *fixed-benefit* and *variable* annuity and *variable* insurance contracts are purely and exclusively *insurance* features. Under all the State laws which I am aware of, only a *life insurance organization* can lawfully issue contracts which provide mortality and expense factor guarantees; this would include the issuance of variable annuities and of life insurance contracts. Since fraternal organizations are now issuing life insurance contracts of the fixed-benefit type, with the consequent mortality and expense guarantees, and the variable benefit contracts are in essence insurance contracts as indicated above, we see no reason to differentiate between non-fraternals and fraternal organizations with respect to their authority and capacity to issue variable contracts. Naturally, any fraternal organization which would be applying to a Commissioner for authorization to issue such contracts would and should be subject to the same reasonable standards pertaining to qualification of the company, its financial condition, expertise of its officers and staff, and quality of domiciliary law, which are applicable to a non-fraternal insurance organization.

III.

When the Model Laws and Regulations were first developed it was recognized, that not all insurance companies would be in a position to engage directly in the variable contract business,—because of insufficient size and surplus, lack of sufficient staff and expertise, etc. However, it is quite apparent that a number of fraternal insurance organizations are of sufficient size and possess adequate financial strength and surplus, quality of staff, expertise and sophistication to be capable of handling variable contracts to the same extent as non-fraternal commercial insurance companies of comparable size and strength. I submit that those provisions of the Model Law and Regulations dealing with the qualifications of companies to issue variable contracts—i.e., Section 3 of the Model Law and Article III of the Model Regulation,—will suffice to provide the standards to be met by a fraternal organization requesting authority to engage in the business. Under the criteria contained in these Sections, a Commissioner would be able to decide whether a particular fraternal organization should be authorized and under what conditions. They should be the same as those applied to any commercial life insurance organization requesting similar authorization.

In this connection, if the studies presently being undertaken by some of the larger reinsurers into the development of techniques of reinsurance of variable research benefit contracts are successful, it should result in making it possible for smaller companies, both fraternal and non-fraternal, to become involved in the variable benefit contract business.

IV.

In addition to the need for providing the opportunity to members of fraternal insurance societies to acquire *new* variable benefit contracts from their own fraternal insurance organizations, we feel that the hundreds of thousands of present fraternal fixed-benefit policyholders, and their beneficiaries should also be afforded the opportunity within the framework of their existing policies and contracts to have some or all of the death benefits payable thereunder, and the monies payable under settlement options and endowment contracts, distributable on variable pay-out bases. In this connection I am referring to the rapidly developing concept within the life insurance industry which will make it possible for policyholders under special riders or supplements to their policies to convert or change conventional fixed-benefit pay-out provisions under their existing policies over to variable types of pay-outs. A number of commercial insurance companies have in fact received permission from the SEC to provide such options to their policyholders on a no-load or in some cases a reduced-load basis. The rationale for this concept which apparently has been accepted by both the SEC and by State insurance departments is that the conversion of fixed-benefit policy proceeds to variable pay-outs or annuities need not require additional sales load or commission inasmuch as the policyholder had already paid the full scales load when he originally acquired his existing fixed-benefit policy. The present Model

Law and Regulations, in effect, will permit a company to provide such options to their policyholders. Without the type of amendments in the Model Law and Regulations which we are advocating in behalf of fraternal, their existing policyholders will be denied the equal opportunity to make similar provision for the payment of death or other benefits on a variable pay-out basis. We cite this as an additional important reason for enlarging the Model Law and Regulations to permit fraternal organizations to become so involved.

Of course, any fraternal organization which might desire to issue variable benefit contracts, either of the variable annuity type or the variable life insurance, or both, would be governed in all respects by *all* of the provisions of the Model Regulations and Model Laws. These would include not only the company qualification standards mentioned above, but also the restrictions contained in Sections 1, 2, 3, and 5 of the Model Act. Section 5, for example, provides that all pertinent provisions of the insurance law of the particular State shall be applicable to separate accounts and contracts relating thereto. Among these are requirements for grace periods, reinstatement and non-forfeiture provisions. Also, the reserve liability for variable contracts would be established in accordance with actuarial procedures which recognize the variable nature of the benefits as well as the mortality and expense guarantees. In other words, a fraternal benefit society or organization desiring to issue variable benefit contracts would be expected to comply with all provisions of the Model Variable Laws and Regulations, to the same extent applicable to other types of life insurance organizations desiring to enter the business.

V.

Finally, we feel that the very existence and continuance of the concept of fraternal benefit insurance societies will be threatened if these organizations are not able to provide to their hundreds of thousands of members, modern and innovative types of insurance coverage and benefits which are equivalent to those offered by non-fraternal life insurance companies. We are convinced that the variable benefit insurance contract under which benefits are a function of the underlying investment experience of a separate account in the company, — will attain great popularity and favor with the insurance buying public in the near and intermediate future. Fraternal insurance organizations which are deemed qualified, must be permitted to engage in this business in order to be in a position to furnish these modern benefit services to their members. Otherwise, we foresee a real possibility of a slow and perhaps in some cases not so slow demise of the fraternal insurance community. As we have pointed out early in this paper, and as shown on the attachment hereto, fraternal societies perform essential and unique activities and services to their members and the community at large. Fraternal benefit societies may very well be forced to restrict their extensive benefit activities because of inability to provide modern insurance benefits to their members, — in this instance, variable benefit contracts — because of unnecessarily restrictive legislation, unless the fraternal can be innovative and remain in step with modern insurance developments.

CONCLUSION

In summary, for the several reasons which are propounded above, it is our belief that based upon principles of equity and equal opportunity it should be made possible for members of fraternal benefit insurance societies to obtain from their own societies if they so desire, — variable benefit insurance contracts and riders. This privilege and opportunity can be effected only if applicable State laws and regulations are structured or amended to enable fraternal to issue the variable benefit contracts to the same extent as qualified non-fraternal commercial life insurance organizations. The initial step which we are advocating in this direction is to effect the amendments in the Model Law and Regulations which are now before your Committee for consideration. As has been indicated above, any fraternal insurance organization which might desire to obtain such authorization should be required to meet the same company, staff and operational standards applicable to other life insurance organizations similarly applying.

Your favorable consideration to our request is respectfully solicited.

Lloyd J. Ostlund
Vice President—Law
Lutheran Brotherhood
701 Second Avenue South
Minneapolis, Minnesota 55402

THE FRATERNAL BENEFIT SYSTEM . . .
DEDICATED TO SERVING HUMANITY

Brotherhood—Peace—Love—Goodwill.

These words probably best describe fraternalism as practiced today by fraternal benefit societies in the United States and Canada.

Since these societies made their appearance on the American scene in the latter half of the nineteenth century, they have promoted these important concepts along with individual, community, and national responsibility.

Picture our world today if all nations practiced fraternalism as it is done by these societies.

This is not "the impossible dream." In North America today are more than 200 fraternal benefit societies representing nearly ten million persons of all religions, races, creeds and walks of life. These societies all work for a common goal—fraternalism. If this is possible among so many organizations with such diverse backgrounds, it would seem a possible dream on an overall national and international scale.

Now, at the dawn of the "Soaring Seventies," we are awakening to the fact that our technological progress has invoked a moral law which never before threatened humanity. This law is that when technological progress attains a certain point, it must be paralleled by social progress or humanity will not survive.

Young people today instinctively recognize this necessity. This is why the objectives of fraternal benefit societies—brotherhood, peace, love, and goodwill—have become paramount in their eyes.

Unfortunately, in far too many instances, our young people have cast aside such time-tested mechanisms as fraternal societies to achieve these goals. Instead, they follow misleading short-cuts, the easy but treacherous paths of personal withdrawal, moral laxity and fantasy which lead them, lemming-like, to the sea of destruction.

Fraternal benefit societies are very much aware of this problem and they are doing something about it. They are conducting extensive youth programs under which they support and maintain youth camps, provide athletic, social, cultural and educational activities, teach patriotism, loyalty and devotion to the American ideals of freedom and justice, and provide scholarships for worthy but needy students.

Additional proof that fraternal benefit societies are *action*, not *talk* organizations, was revealed at the recent 82nd annual meeting of the National Fraternal Congress of America. There it was reported that member societies expended a total of \$21,854,907.67 on fraternal activities during the previous year. A general breakdown of these expenditures is as follows:

Charitable Contributions	\$ 827,182.53
Institutional	695,454.86
Recreation and Health	1,198,800.35
Educational	1,470,376.73
Religious	1,385,777.27
Membership	5,082,838.61
Local Unit Benevolent Expenses	3,924,012.00
Local Unit Activity Expenses	3,454,207.00
Miscellaneous Fraternal Activities	3,816,258.32

This account does not take into consideration thousands of fraternal activities conducted by local units which were not reported, nor does it put a dollar value on such fraternal projects as 33,866 blood donations. It does not express the value of 444,031 visitations to the ill or bereaved, nor the incalculable good accomplished by 555,727 hours donated to community service and 241,396 hours of assistance given to sick and disabled members.

Fraternal benefit societies in the United States and Canada maintain and support orphanages, homes for the aged, and other humanitarian institutions. They provide welfare services for the destitute and indigent. They give material and financial assistance to the stricken and homeless at times of floods, hurricanes, tornadoes and other disasters. They support in a generous manner as well as actively participate in such projects as United Fund, Red Cross, American Cancer Society and Heart Fund drives. They work with the mentally retarded, the blind and the handicapped.

In the lodge rooms and through their rituals, these societies promote the lessons of fraternalism, fellowship, service, charity, faith, hope and justice. They promote the spirit of leadership to make better citizens of their members and so contribute greatly to the progress of our communities, states and nation.

This is fraternalism in action—a tremendous force for good at its present stage of development with an unlimited potential for helping mankind in the future.

In addition to their serious side, fraternal benefit societies are fun organizations. Members enjoy many social activities such as dinners, picnics, dances, and other events, thus strengthening the ties of brotherhood.

Fraternal benefit societies accept the challenge of “The Soaring Seventies.” They accept the challenge of “the possible dream” of brotherhood—peace, love, and good will among all mankind. They are acting to make that dream come true.

LUTHERAN BROTHERHOOD

Life and Health Insurance for Lutherans

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

Lloyd J. Ostlund
Vice President - Law

September 11, 1970

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

Our Replacement Subcommittee met in Minneapolis yesterday to formulate recommendations to our parent committee concerning possible changes in the NAIC Model Replacement Regulations with respect to variable contracts. All six members of the Subcommittee were in attendance, together with Mr. Robert Ninneman of Northwestern Mutual, who had requested to be present.

After considerable discussion, the Subcommittee unanimously agreed on the recommendation that the Model Regulation be amended so as to make it inapplicable to the requirement of a “Comparison Statement” where the proposed replacement involves a variable annuity contract. In all other respects, the Model Regulation would apply to cases where a variable annuity is involved, including the requirement under Section 5(3)(b) that the Agent must furnish to the applicant the “Notice to Applicants Regarding Replacement of Life Insurance,” as embodied in Exhibit B of the Model Regulation. In effect, therefore, wherever the Regulation now imposes an obligation upon the Agent and the Insurer to prepare and handle the “Comparison Statement,”—it would be inapplicable to cases where a variable annuity contract is either replacing or being replaced.

We feel that the Comparison Statement cannot be used in its present form, or be so fashioned so as to be meaningful and applicable to the variable annuity contract cases. We feel, moreover, that the “reporting” and “notice” requirements under Section 5(3)(b) as to the Agent, and Section 6(4)(c) as to the Insurer suffice with respect to variable annuity contracts.

In order to implement this recommendation we suggest that a new unnumbered paragraph be added to Section 4 of the Regulation, under the caption “Exemptions” as follows:

All of the requirements of this Regulation shall apply in any replacement transaction which involves a variable annuity, except those provisions which require the completion and furnishing of a “Comparison Statement.”

Considerable time was spent in discussing the pros and cons of making the Comparison Statement requirement inapplicable to those replacement transactions which involve variable *insurance* contracts. Because of the many uncertainties presently inherent with respect to variable insurance contracts, both as to form and government regulation, it is the recommendation of the Subcommittee that the area of variable insurance be closely watched by us as it develops, and that no definitive position be taken at this time concerning amendments to the Model Regulations as they might relate to variable *insurance* contracts.

Sincerely,

Lloyd J. Ostlund

THE NORTHWESTERN MUTUAL LIFE INSURANCE COMPANY
MILWAUKEE

720 East Wisconsin Avenue, Milwaukee, Wisconsin 53202

Robert W. Ninneman
Manager - Equity Products

December 16, 1970

TO: Members of Variable Annuities and Other Contracts
((C4) Subcommittee)

RE: Variable Annuities and the Model Replacement Regulation

Gentlemen:

This memorandum supplements my letter of October 12, 1970. That letter urged that completion of a "Comparison Statement" continue to be required as to existing insurance or annuity contracts being replaced by variable annuities, even though the variable annuity side of the "Comparison Statement" must be left relatively blank.

Mr. Gilbertson's (C4) Advisory Committee, of which I am a member, has reported to you that the "Comparison Statement" "cannot and should not be used in cases where variable annuities are involved." I do not think adaptation of the "Comparison Statement" to replacements involving variable annuities is as difficult as the other committee members seem to believe. This can be easily illustrated, using the **Model Life Insurance Replacement Regulation** as it appears in pages 345 through 350 of Volume I of the 1970 *Proceedings of the NAIC* for purposes of discussion:

1. Change the words "Comparison Statement" to "Disclosure Statement" throughout the regulation. This minor change puts the emphasis on *disclosure* of essential facts about both old and new contracts, rather than on a *comparison*, which may not always be meaningful. This change in words affects Section 5, Section 6, the heading on Exhibit A, the footnote on Exhibit A, the applicant's acknowledgment of receipt of Exhibit A, and the first paragraph of Exhibit B.
2. Change the heading of Section 1 of Exhibit A to read, "Policy Information" rather than "Comparative Information."
3. Add a footnote to Section 1 "Policy Information" reading as follows:
"This section must be completed as to all insurance policies and, to the extent appropriate, as to all guaranteed annuity contracts involved in the transaction. This section need not be completed as to variable annuity contracts; however, the name of the insurance company issuing the variable annuity contract and the name of the broker-dealer with whom the agent is associated must be stated."

A revision of the Model Life Insurance Replacement Regulation reflecting these suggested changes, with new material underlined and deleted material in brackets, is attached for your information.

As you know, the SEC prohibits projections based upon hypothetical investment rates in variable annuity sales literature. This is one reason why an agent, replacing an existing contract with a variable annuity, cannot complete Section 1 of the "Comparison Statement." The changes proposed above would reflect the restrictions imposed on the agent by the federal regulatory authorities.

However, there is no reason why the agent shouldn't be required to complete Section 1 as to guaranteed dollar contracts and to complete Sections 2, 3, 4 and 5 of the "Disclosure Statement." These crucial sections, which do not really involve comparisons, require the agent to disclose the advantages of continuing the existing policy, the advantages of replacing it, the reasons the existing policy cannot fulfill the policyowner's objectives, the disposition of the existing policy, and the primary reason for the proposed replacement.

We submit that honest and complete answers to these questions should help the policyowner make an informed choice. To deny him answers to these questions simply because a variable annuity is involved would not be in his best interests.

Respectfully submitted,

Robert W. Ninneman

RWN:ko
enclosure