

LIFE INSURANCE (C3) SUBCOMMITTEE

Reference:

1970 Proc. Vol. IIB p. 1179

1971 Proc. Vol. I p. 499

J. Richard Barnes, Chairman

Walter D. Davis, Vice Chairman

AGENDA

1. Consideration of interest rates on policy loans.
2. Receive report of Task Force on Guidelines for Premium Financing.
3. Status of Survivor's Income Rider Benefits on Group Term Life (re applicability to Group Maximum Statutes).
4. Any other matters submitted for consideration.

The Life Insurance Subcommittee (C3) convened at 1:30 p.m. in the Imperial A Ballroom of the Americana Hotel in New York City on June 15, 1971. A quorum was present. Attached is a copy of the minutes of the subcommittee meeting in April.

Manuel M. Gorman, Vice President and General Counsel of the Life Insurance Association of America, presented a brief statement on behalf of LIAA and ALC on the subject of interest rates on policy loans. A copy of his statement is attached and made a part of this report. It is further indicated that the Industry Committee would meet this fall and that after their final report was prepared a joint meeting should be held with members of the NAIC Life Insurance Committee.

Superintendent McCaskill re-emphasized the need for guidelines on premium financing. His task force has completed a comprehensive study of various state laws and guidelines. Attached is a letter from Supt. McCaskill on this problem and a report of the task force. They are currently drafting a set of model guidelines, hopefully to be completed by the Zone IV meeting in September.

Representative of Florida indicated their concern with filing of Survivor Income Rider Benefits on Group Term Life. Mr. Wallach, Actuary for the District of Columbia indicated that they have resolved the problem by requiring the filings to be made under the Group Reversionary Annuity law. Al Pike, speaking on behalf of LIAA and ALC indicated that they felt the Group Reversionary Annuity route was not the proper solution to the problem. They further have prepared a legal brief indicating wherein they

feel that these benefits do not exceed the statutory limits in states which have such relating to group term life. He offered copies of the brief to any states desiring it. He was instructed by the Chairman to prepare a summary of the brief to be provided to each member of the Committee.

The Chairman reported on an inquiry from Ed Laux of Clifton, New Jersey regarding narcotics users and applicants for either life insurance or employment by life insurance companies. Since he was not present to present his problem no further discussion was held.

In executive session it was decided to recommend to the successor committee chairman that a task force of this committee be appointed to meet with the joint industry committee and discuss their report on policy loan interest rates after it is published.

Superintendent McCaskill assured the Committee that they would have a definitive report on guidelines for premium financing by the December meeting.

No action or recommendation was taken on the Survivor Income Rider Benefits of Group Term Life.

The meeting was adjourned at 2:25 p.m.

Hon. J. Richard Barnes, Chairman, Colorado; Hon. Walter D. Davis, Vice Chairman, Mississippi; Hon. John G. Bookout, Alabama; Hon. Robert A. Short, Delaware; Hon. Thomas D. O'Malley, Florida; Hon. Oscar H. Ritz, Indiana; Hon. William Y. McCaskill, Missouri; Hon. Cornelius C. Bateson, Oregon; Hon. Karl V. Herrmann, Washington.

C-3 SUBCOMMITTEE — LIFE INSURANCE

A special meeting of the C-3, Life Insurance Subcommittee was held Monday, April 26, 1971 in Santa Fe, New Mexico. Subjects as follows were discussed.

1. Interest Rates on Policy Loans. The Chairman reported on telephone conversations with Francis E. Ferguson, President Northwestern Mutual Life Insurance Company and Abram T. Collier, President, New England Mutual Life Insurance Company, indicating that there is still concern about this subject. Their feeling is that it should be kept on our agenda with a possibility of proposing model legislation on the subject. It was pointed out that Mr. Collier is Chairman of a joint ALC-LIAA Committee concerning the subject. That Committee will be meeting May 6, 1971. Mr. Collier has promised to provide us with a report of the

results of that meeting.

It was decided that pending the results of such meeting, no further action will be taken to appoint a special task force of industry people to study the problem and report to the C-3 Committee.

2. Superintendent McCaskill reported on his task force's activity to date regarding the guidelines for premium financing. A copy of a letter from Superintendent McCaskill to members of his task force is attached. George McDonald of Florida indicated that the Florida guidelines have been adopted by approximately 12 states and he encouraged their adoption by others. Several members of industry expressed the same desire to see them adopted uniformly.

A further report will be made by Superintendent McCaskill's task force at the June Meeting in New York.

3. Replacement Regulation. No report or comments were submitted by anyone present.
4. No new matters were brought before the Committee.

The Honorable J. Richard Barnes, C.L.U.
Chairman
Colorado

POLICY LOAN INTEREST RATE

Statement to NAIC Life Insurance (C3) Subcommittee

I am Manuel M. Gorman, Vice President and General Counsel of the Life Insurance Association of America. I am speaking also for the American Life Convention.

At the Zone V meeting in Santa Fe in April, I stated to you that the Joint ALC-LIAA Policy Loan Study Committee,* chaired by Abram T. Collier, President of New England Mutual Life

*The other members of the committee are:

G. DANIEL BROOKS, Chairman of the Board, The National Life and Accident Insurance Company,
Nashville, Tennessee

Insurance Company, hoped to finish its studies and report in time to give the report to your subcommittee at this June meeting of the NAIC. The Joint Committee has completed its studies, but its report is still in the drafting process. Chairman Collier has informed us, however, that he hopes to have the report completed within the next few weeks. It is his intention to furnish a copy or copies of the report to the Chairman of this Subcommittee in the hope that it can serve as a basis for discussion in the early fall between members of this Subcommittee and members of the ALC-LIAA Committee.

The report will summarize the research which has been conducted by the Joint Policy Loan Study Committee over the past year on the subject of the whole policy loan interest problem. In rough outline, the general conclusions of the Committee may be stated as follows:

1. The issue of policy loan interest rates is still exceedingly important to the life insurance business. Even though in the early part of this year there has been a slightly easier money flow and some lowering of interest rates, there are again signs of rising interest rates, and it is essential that there be prompt action to achieve a reasonable and practicable solution to the policy loan drain problem.
2. A flexible rate on policy loans is preferable to a fixed rate.
3. Companies should, however, be given an option to use either a flexible or a fixed rate in their policies.
4. Determination of what a policy loan rate should be, within certain limits, is a decision which should be left with the individual company.
5. The NAIC should consider the preparation and adoption of a model bill which will meet these criteria, for recommendation to all the states.

It is these conclusions and the last-mentioned recommendation which Chairman Collier hopes can be the subject of discussions with your Subcommittee in the fall.

STATE OF MISSOURI
DIVISION OF INSURANCE
Department of Business and Administration
Jefferson City, Missouri

April 12, 1971

TO: Commissioner Oscar H. Ritz
Indiana Insurance Department

Commissioner Cornelius C. Bateson
Oregon Insurance Division

RE: Task Force -- Premium Financing

As you will recall, we decided in Chicago that I would make a survey to determine the interest of the various states insofar as a model regulation or guidelines applicable to the financing of premiums for life insurance by college students (and perhaps other life insurance premium financing). The Task Force appointment came about, I believe, as the result of a petition or request to the Florida Department signed by some 37 companies.

I have now completed the survey and have replies from 45 states. The states not replying are not likely to since two requests have now gone out, the first on February 2, 1971, and the second on March 10, 1971. I am enclosing for your review copies of the survey form from the states replying. Note that 43 states indicate they would prefer a model regulation, and one state indicated preference of guidelines instead. It appears there is a significant majority who prefer a model regulation. A very few appear undecided due to not experiencing the problem. However, in most every case interest is shown in the outcome of our study.

As I requested, a number of states attached copies of their regulation, bulletin, or guidelines for our perusal. I discussed our next step with Ossie Ritz, and it was our conclusion it was not practical from the standpoint of time and expense for the Task Force to meet prior to the New York meeting. Accordingly, I have requested from Jon Hanson that we be given time on the program for the industry to present their comments concerning a model regulation or guidelines. It would be my personal opinion that we will need to hold a drafting session in New York, or shortly thereafter, to take the "best" from the various regulations submitted and attempt to establish uniformity. I wish we would have been able to do this prior to the New York meeting, but above all we should not let this drag on indefinitely. I will attempt to have one of our attorneys do some preliminary work to help us along before the June meeting.

I notice that Dick Barnes has called a meeting of the C(3) Subcommittee for the Zone V meeting in Santa Fe, and has included this as one of the principle items. I will be prepared to report for us. If by chance either of you plan to attend the Zone V meeting, please let me know so that I might bring the entire file along with the idea of our doing some preliminary work while we are there.

WILLIAM Y. McCASKILL, C. L. U.
Superintendent of Insurance
Chairman, Task Force -- Premium Financing

WYM:lh

Encs.

cc: Commissioner Richard Barnes

NAIC

Task Force on Guidelines for
Premium Financing of the Life
Insurance (C3) Subcommittee

The Task Force on Premium Financing met on June 14, 1971, at the N.A.I.C. meeting in New York with Commissioners McCaskill, Bateson and Ritz.

Commissioner McCaskill reported that a survey of all departments on financed life insurance had been completed and forty-four (44) states indicated their desire that a model guideline or regulation be adopted. Each state presently having a guideline regulation or statute applicable to premium financing submitted a copy of the same with the survey, and those copies are available in assisting in the draft of a model.

The Chairman of the Task Force further reported that the Committee has now compared the Florida guideline with the applicable guideline or regulation in Alabama, Arkansas, Missouri, Montana, North Dakota, Pennsylvania, Tennessee, Washington and West Virginia. Using this material, the Task Force will meet prior to the December N.A.I.C. meeting, so that a recommended model might be available for adoption at the winter meeting.

William Y. McCaskill, Chairman

VARIABLE ANNUITIES AND OTHER
CONTRACTS (C4) SUBCOMMITTEE

Reference:

1970 Proc. Vol. II B p. 1183

1971 Proc. Vol. I p. 500

James Baylor, Chairman

John W. Lindsay, Vice Chairman

AGENDA

1. Recieve Industry Advisory Committee report.
2. Any other matters submitted for consideration.

The Variable Annuities and Other Contracts (C4) Subcommittee met in the Imperial Ballroom at 1:30 p.m. of the Americana Hotel on June 16, 1971. A quorum was present.

Mr. Larry Gilbertson, Chairman of the Industry Advisory Committee, presented a report in which he reviewed the action of the Industry Advisory Subcommittees and full Committee.

The full Committee recommended an amendment to Section 4 of the Model Replacement Regulations to read as follows: (The language underlined is the substance of the amendment)

"This Regulation should not apply when:

- 1) ...;
- 2) The new life insurance is provided under (i) ...; (ii) a policy whose cost is borne in whole or in part by the insured's employer or by an association of which the insured is a member (The cost of a policy shall not be deemed to be borne by the insured's employer to the extent the insured's salary is reduced or the insured foregoes a salary increase); (iii) ...; or (iv) ...; provided,
- 3) ...".

The Industry Advisory Committee also recommended with one dissenting vote addition of the following language to the Model Regulations:

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

The Industry Advisory Committee also concluded that there was no necessity for change in the Model Regulations because of the implementation of the Mutual Fund Bill and further reported that the Industry Advisory Committee intends to work with the Subcommittee on Uniform Agents and Brokers licensing to upgrade the basic Life Insurance examination to include new developments in the Variable Contract area.

The Executive Session of the Subcommittee agreed that the recommendations of the Industry Advisory Committee should be submitted to all Insurance Departments for further study by staff and advisory comment to the Subcommittee. Upon receipt of advisory information from Insurance Departments and staff, a decision will be reached by the (C4) Subcommittee at the winter meeting in Miami Beach.

The Subcommittee also strongly recommended by motion duly adopted to the Executive Committee that Industry Advisory Committee reports be submitted at least 30 days prior to meetings of the appropriate Subcommittee or Committee. There was a consensus of the Subcommittee that at least this much time would be required for study and consideration prior to reaching a decision.

There being no further business the meeting was adjourned.

Hon. James Baylor, Chairman, Illinois; Hon. John W. Linsay, Vice Chairman, South Carolina; Hon. Edward P. Lombard, District of Columbia; Hon. Thomas D. O'Malley, Florida; Hon. Johnnie L. Caldwell, Georgia; Hon. Lorne R. Worthington, Iowa; Hon. Frank Hogerty, Maine; Hon. Samuel Van Pelt, Nebraska; Hon. John A. Durkin, New Hampshire; Hon. Benjamin R. Schenck, New York; Hon. Durwood Manford, Texas.