

LIFE INSURANCE (C3) SUBCOMMITTEE

Reference:

1972 Proc. Vol. II p. 477

1973 Proc. Vol. I p. 277

Hon. Dick L. Rottman, Chairman -- Nevada

Hon. Stanley C. DuRose, Vice-Chairman -- Wisconsin

AGENDA

1. Report of Task Force on Life Insurance Cost Comparison.
2. Final report of the Policy Loan Interest Rate Task Force.
3. Report on California investigation into deposit term life insurance.
4. Report of the Split Life Task Force.
5. Report on proposal to launch major investigation of life insurance industry.
6. Review outline of the possible problems of life insurance advertising -- Iowa Department.
7. Any other matters brought before the Subcommittee.

The Life Insurance (C3) Subcommittee convened on Wednesday, June 6, 1973, at 1:30 p.m. in the West International Room at the Washington Hilton Hotel, Washington, D.C. A quorum was present.

The final report of the Policy Loan Interest Rate Task Force received at the Atlanta meeting in December was adopted by the (C3) Subcommittee and the Task Force was discharged.

Commissioner Stanley C. DuRose gave a brief report as chairman of the Task Force on Life Insurance Cost Comparison. He suggested that the Task Force report be adopted by the (C3) Subcommittee with the understanding that those states that so desire should modify the proposed model regulation on the life insurance interest-adjusted cost comparison index so as to provide that the cost comparison index be provided to the sales prospect in all cases either at or prior to delivery of the policy. Similarly, he suggested that the Subcommittee understand that the model regulation on deceptive practices may not be completely valid when applied to contracts such as variable life insurance. Another Subcommittee of the NAIC is working on the drafting of model regulations for variable contracts and, in due course, some modification may be necessary in the language of the deceptive practices regulation. The report of the Task Force with its two model regulations was adopted and the Subcommittee adopted the following alternate language for the first sentence of Section 5 of the cost comparison model regulation (material underlined to be added; material in brackets to be deleted):

Section 5. DISCLOSURE REQUIREMENTS. In connection with the selling of life insurance to which this rule applies, the agent or insurer shall furnish [, upon request of a] the sales prospect at or prior to delivery of the policy the Life Insurance Interest Adjusted Cost Comparison Index calculated for both a 10-year and a 20-year period.

Brief reports by the California Department on its investigation into Split Life Insurance and Deposit Term Life Insurance were presented by Miss Angele Khachadour. She stated that California had presently appointed a Task Force to study deposit term insurance giving consideration to two points: (a) the policy guarantee of a 10% return on the deposit; and (b) the representations of tax-free income. It was suggested that California include in its study possible sales marketing abuses in deposit term and the susceptibility of the coverage to misrepresentation. The California Department reported that it has appointed an actuarial Task Force to study Split Life Insurance coverage; and it is expected that there will be recommendations from this Task Force by the end of July. The initial study of the California Task Force will be the consideration of deficiency reserves. It was suggested that they also study sales abuses in connection with this type of coverage. The (C3) Subcommittee Task Force on Split Life Insurance will work in conjunction with the California Department Task Force.

Commissioner DuRose spoke briefly on the proposal to launch a major study of the life insurance industry. A summary of a preliminary survey for a major study of the life insurance industry was presented by Commissioner Dick L. Rottman. The summary indicated that 100% of those responding felt that some type of major investigation was needed at this time. Responses further indicated topics that attracted heavy interest from those surveyed included: (a) surplus accumulation and distribution; (b) insurance company examination process; (c) corporate ownership and/or control relationships with other organizations; and (d) reinsurance activities. Commissioner J. Richard Barnes suggested that the questionnaire be submitted to all the commissioners; and the chairman agreed to do this as an extension of the first survey. A brief discussion ensued with limited industry response by Manuel M. Gorman of the ALIA. It was decided that a Task Force of three (C3) Subcommittee members would be appointed to meet with industry and other interested parties and draw up a proposal for an in-depth study of the life industry. The three members appointed to this committee were Commissioners William H. Huff III of Iowa, Stanley C. DuRose of Wisconsin, and Samuel H. Weese of West Virginia. The preliminary study will be presented to the Executive Committee for its approval when it is concluded.

A proposal for an amendment to the NAIC model regulation on premium financing was presented by the American Life Insurance Association. The proposal was not received or adopted by the Subcommittee at the executive session. The review of possible problems of life insurance advertising was discussed briefly by Dan Anderson of the Iowa Department. It was decided that it would not be necessary to appoint a Task Force in this specific area since it is anticipated that this topic will be included with the work of the accident and sickness advertising committee (B8).

The NAIC Standard Valuation Law and the NAIC Standard Nonforfeiture Law were both amended for the fourth time by this Subcommittee at the Atlanta (December, 1972) meeting.

For information purposes, the current texts -- as amended -- of these two model bills are reprinted here.

There being no further business, the (C3) Subcommittee meeting adjourned at 3:40 p.m.

Hon. Dick L. Rottman, Chairman, Nevada; Hon. Stanley C. DuRose, Vice-Chairman, Wisconsin; Hon. John G. Bookout, Alabama; Hon. Gleeson L. Payne, California; Hon. J. Richard Barnes, Colorado; Hon. Robert A. Short, Delaware; Hon. Fred A. Mauck, Illinois; Hon. William H. Huff III, Iowa; Hon. Edward G. Farmer, Jr., Missouri; Hon. Lester L. Rawls, Oregon; Hon. Samuel H. Weese, West Virginia.

LIFE INSURANCE COST COMPARISONS (C3) TASK FORCE

The Life Insurance Cost Comparisons (C3) Task Force met on June 4, 1973, at the Washington Hilton Hotel in the West International Room in Washington, D.C. A quorum was present.

The Task Force met on April 26 and 27, 1973, at the Marriott Motel at the Airport, St. Louis, Missouri, with the Subcommittee on Life Insurance Costs of the Legislative Committee, American Life Insurance Association, representatives of the ad hoc committee of the Society of Actuaries, the Institute of Life Insurance, the National Association of Life Underwriters, and special consultants to the Task Force -- Mr. Joseph Belth, Mr. William Scheel, and Mr. E. J. Moorhead. Several insurance commissioners and staff members not on the Task Force were also in attendance. The principal purpose of that meeting was to discuss the plan of price disclosure in life insurance proposed by Mr. Joseph M. Belth in an article in the Wisconsin Law Review, Volume 1972, No. 4.

The chairman explained that the work draft of a proposed task force report was prepared and mailed to all interested persons under date of May 11, 1973. A meeting of the Task Force with representatives of various committees was held May 30, 1973.

The revised proposed draft was printed and distributed on Sunday evening, June 3, 1973, and was available through the day prior to the meeting time.

Upon the invitation of the chairman, the following persons spoke on the work of the Task Force and the text of the proposed model regulations:

Mr. Albert Pike, American Life Association

Mr. Bartley Munson, Chairman of the ad hoc committee on Truth in Life Insurance of the Society of Actuaries

Mr. E. J. Moorhead, Consultant to the NAIC and to the Subcommittee on Anti-Trust and Monopoly of the Judiciary Committee of the United States Senate

Mr. Robert Seiler, Allstate Life Insurance Co.

Mr. Joe Mintz, insurance agent of Dallas, Texas

Mr. William Albus, National Association of Life Underwriters

Mr. Robert Younger, Prudential Insurance Co. of America

Mr. Harold G. Ingraham, Jr., New England Mutual Life Insurance Co.

The Chairman also noted that NAIC president Russell E. Van Hooser had received a telegram from the President of the United States, Mr. Richard Nixon, complimenting the NAIC in its work in insurance regulations with respect to its work in life insurance cost comparison. A copy of this telegram is attached to the task force report.

As a result of these several meetings and discussions, the Task Force in executive session adopted and proposes that the NAIC adopt the following report, model regulations, and statement of position. The Task Force emphasizes that there are five major areas of endeavor, each with its own spectrum of problems and issues.

I. COST COMPARISON

The Task Force reiterates the statement of its predecessor Task Force at the June, 1972 NAIC meeting (Proceedings of the NAIC, 1972, Vol. II, p. 480) that the Traditional Net Cost Method is inappropriate for cost comparison purposes due primarily to its lack of recognition of the timing of payments of money. The Traditional Net Cost Method consists of adding together the premiums for a period of years -- usually 20 -- and subtracting the cash value at the end of the period and the sum of all policy dividends illustrated for the period. The result of this arithmetic, positive or negative, is then often divided by the number of years in the period being analyzed and by the number of thousands of amount of insurance to obtain a measure described by a name, such as "Average Annual Surrendered Net Cost per Thousand". Therefore, the Task Force recommends that the use of any system of cost comparison that does not recognize the time value of money or that merely uses a similar arithmetic average be prohibited for any cost comparison of life insurance.

Although the interest-adjusted price index is not the most technically refined cost comparison tool now available, it is relatively simple; and the Task Force believes that it is a substantial improvement over the traditional method.

The Task Force recommends that on an interim basis and pending the results of the research projects discussed in item V below the NAIC adopt, as a matter of policy, the interest-adjusted price index for cost comparison purposes.

A copy of the model regulation suggested by the Task Force for adoption by the several states is Exhibit A to this report.

The Task Force recognizes that the classes of policies that are exempted from the regulation present specialized price index problems which require further study in order to develop a price index system appropriate for each particular class of policy.

II. PRICE DISCLOSURE

After extensive discussion of the system of price disclosure suggested by Professor Belth, the Task Force recommends as a first step that each of the several states require that life insurers disclose at or prior to the delivery of the life insurance policy information for each of the first 20 years of the policy as to annual premium, total amount of death benefit, cash surrender value, and illustrated dividend. This information should be disclosed in tabular form to the extent that any of the amounts are unlevel or vary from year to year.

The Task Force is concerned about minimum adequate disclosure of current policy values annually on or with the premium notice for the policy. The Task Force intends to develop standards for practicable and appropriate disclosure of pertinent information not readily ascertainable from the policy.

The Task Force recognizes that there are many complex facets to the matter of adequate and appropriate disclosure of policy prices and benefits. Analysis of the results of the research projects identified in item V should greatly enhance the knowledge and understanding of this subject and should permit the Task Force to formulate further specific recommendations at that time.

III. DECEPTIVE MATERIAL AND PRACTICES

The Task Force recommends the adoption of the model regulation on deceptive practices in the life insurance business which is Exhibit B attached to this report. The Task Force believes that each insurance commissioner should evaluate his procedure for the review of all sales materials and sales kits used by insurance agents and also that which is used in connection with direct response selling for the purpose of removing from the marketplace objectionable literature and improper sales practices. Further, it is suggested that life insurer management review and strengthen programs wherein those persons in charge of sales and merchandising within a company home office have in-depth discussions with legal and actuarial personnel of the company to the end that merchandising and sales efforts are strictly in conformance with current standards.

The Task Force anticipates that further specific deceptive practices may be identified following completion and analysis of the research projects mentioned in item V.

IV. REGULATION OF POLICY FORMS

Discussion of the Belth system has served to point up the fact that many policy forms approved for use by insurance regulatory officials contain highly undesirable underlying premium, cash surrender value, and dividend structures. Careful analysis of some policy forms reveal that the values of the policy form may reflect tontine or semi-tontine features or involve excessive forfeiture. In some cases when these values are plotted on a graph, the resulting curve dramatically illustrates the non-uniform progression of the values. One member of the Task Force suggests that this is best described as a "kinky curve". Such non-uniform progression would constitute an unfair discrimination and would tend to reduce the validity of most cost comparison systems.

In studying the disclosure system and the "price of protection" figures suggested by Professor Belth, it became apparent that one of the possible uses of a table showing the annual price of protection per \$1,000 of death benefit was to the insurance regulator in the review of policy forms. Exhibit C attached provides a suggested uniform definition of the procedure for calculating the annual price of protection.

Another procedure for experimentation and possible use by regulatory officials is the median and quartile analysis suggested by Mr. E. J. Moorhead in a memorandum to the Task Force under date of November 9, 1972. This is attached as Exhibit D.

A third possible procedure is an analysis of first and second differences of the year-by-year guaranteed cash surrender values.

The Task Force believes that effective regulation of policy forms in the initial instance may be an effective substitute for detailed disclosure that might otherwise be deemed necessary at the time of delivery of the policy.

It is anticipated that analysis of the results of the research projects in item V will assist the Task Force in formulating specific guidelines for the review and approval of life insurance policy forms.

V. RESEARCH PROJECTS

The report of the Task Force at the December, 1972 meeting contained a suggested list of research projects proposed by Mr. E. J. Moorhead, then chairman of the Joint Special Committee of the life insurance industry. Before the Task Force could proceed with the development of a plan of action to undertake the projects identified, U.S. Senator Philip A. Hart announced public hearings in Washington and caused a detailed questionnaire to be forwarded to a large group of representative United States life insurers. The data bank to be produced from the responses to the questionnaire will be made available to the NAIC Task Force working in conjunction with a special ad hoc committee of the Society of Actuaries, the Subcommittee on Life Insurance Costs of the American Life Insurance Association, and Mr. E. J. Moorhead, who is also a consultant to Senator Hart. Industry organizations and persons are being invited to undertake the following specific research projects in the manner indicated. The Task Force intends to closely monitor the methodology and the progress of each of the research projects. It is also recognized that the results and conclusions suggested from these research projects may suggest a second generation of studies and responses.

1. Policy data will be requested from a representative sample of life insurance companies for both participating and non-participating ordinary life insurance policies. Each company will be asked to give details of all the essentially whole life continuous premiums policies in its 1972 portfolio explaining the purpose of each; the amount limits; the number of policies and the amount of insurance sold in 1972; the premiums, cash surrender values, and illustrated dividends at several representative ages; any available mortality experience if the policy is labeled as preferred risk; and any other information considered relevant for appraisal. It is anticipated that the bulk of this information can be obtained from the data bank assembled by U.S. Senator Hart as chairman of the Subcommittee on Antitrust and Monopoly of the Committee on the Judiciary of the United States Senate. It is to be noted that the number of companies in the sample of the U.S. Senate Subcommittee and the number of policies and type and kind of information contained in that sample should be enlarged through a supplementary call. Mr. E. J. Moorhead would have the responsibility for coordinating this study with the Senate Subcommittee.
2. The data bank assembled under research project number 1 will be used to test the results that would be produced by different comparison methods, including the traditional net cost; interest-adjusted; Belth's retention; Linton yield; and any other method deemed worthy of exploration. The research will consider why such systems produce similar or different results.

The Society of Actuaries will be asked to assume the responsibility for this study and for preparation of a treatise for presentation to the Task Force. The target date for completion of this project is October 15, 1973.

3. A research report is to be prepared for the Task Force setting forth the relative advantages and disadvantages of what have been called the "snapshot" and "average" approaches to policy cost comparisons. The report should attempt to demonstrate whether the "snapshot" and the "average" approaches produce different or similar results. This statistical information should flow from the study being coordinated with the Subcommittee on Antitrust and Monopoly by Mr. E. J. Moorhead. Mr. Moorhead will be requested to prepare this report.
4. A research report should also be prepared to consider the relative advantages and disadvantages of the "snapshot" and "average" approaches to policy cost comparison from the point of view or needs of the insurance buyer and whether the buyer is better served by either of the two methods. The Life Insurance Agency Management Association has been requested to undertake this research project. The target date for completion is October 15, 1973.
5. A research project will be undertaken for the purpose of preparation of a report on the extent to which the range of values within each of the four cost comparison methods identified in research project number 2 above and any other methods vary because of:
 - a. the different markets served by different companies;
 - b. policy features not reflected in the index;
 - c. other identifiable causes.

The American Life Insurance Association will be asked to undertake this project with a target date for completion of November 1, 1973.

6. A study will be made of participating life insurance policies in respect to dividend scales illustrated or published 10 and 20 years ago as compared with the dividends actually paid. The report would provide a commentary on the usefulness of dividend illustrations to the life insurance buyer. The American Life Insurance Association will be asked to undertake this research project. The target date for completion is November 1, 1973.
7. For a representative group of participating life insurance policies, each company would be asked to describe its philosophy in the computation and dissemination of dividend illustrations. The Society of Actuaries will be asked to undertake this project. A paper summarizing the results of the study and the conclusions indicated will be prepared. The target date for completion is October 15, 1973.
8. The preparation of a paper proposing a course of action for minimizing the possibility that any comparison system will be presented in a manner that creates misunderstanding rather than enlightenment. The paper will include consideration of participating and non-participating policies. The American Life Insurance Association will be asked to undertake to produce such a paper. Target date for submission will be October 15, 1973.
9. The Society of Actuaries will be asked to undertake the preparation of a paper on the question of whether a single interest rate is practical or whether comparative information should be promulgated at more than one interest rate for alternate use by buyers in materially differing circumstances in those cases where an interest rate assumption is necessary for comparison purposes. Consideration will also be given to matters of mortality and persistency. Target date for submission will be October 15, 1973.
10. A research paper will be prepared dealing with the nature of the whole life contract, taking into consideration the assumption that it may be separated into protection and savings elements. The objective of this paper is to provide the consumer with an accurate understanding of what he is purchasing. The Institute of Life Insurance will be requested to prepare such a paper with a target date for submission of October 15, 1973.
11. A market research project should be undertaken on the issues:
 - a. the present state of consumer knowledge of life insurance; what the consumer expects of life insurance; how consumer buying decisions are made regarding life insurance; and

- b. an exploration of the types and level of information that would be viewed by the consumer as helpful or needed in the buying decision process. The Task Force will request that the Institute of Life Insurance carry out this project. The target date for its completion is May 15, 1973.
- 12. Mr. E. J. Moorhead will be asked to prepare the mathematical analysis of prevailing cost and value patterns of representative life insurance policies to determine if standards may be evolved to be used to curb "manipulation" of policy values as discussed in Exhibit D. He will also be asked to furnish examples illustrating judgment situations that arise under current conditions as also mentioned in Exhibit D.

Hon. Stanley C. DuRose, Chairman, Wisconsin; Hon. William H. Huff III, Iowa; Hon. Dick L. Rottman, Nevada; Hon. Clay Cotten, Texas; Hon. Samuel H. Weese, West Virginia.

THE WHITE HOUSE
Washington, D.C.

Straight Wire -- June 2, 1973
(Hold for Arrival)

Mr. Russell E. Van Hooser, President
National Association of Insurance Commissioners
c/o Washington Hilton Hotel
Washington, D.C.

It is a pleasure to welcome to the nation's capitol the members of the National Association of Insurance Commissioners, who have such a key role in guaranteeing the proper functioning of the nation's insurance system.

Your duties are essential both to the vitality of our economy and to the well-being of the individual consumer. You have the overall responsibility of protecting the consumer against insufficient insurance reserves, guarding him against fraud and deception in the preservation of life insurance and of supplying him with adequate information upon which to make an informed decision.

I have long advocated the provision of full and accurate information to assist each consumer in buying wisely. My Consumer Advisor, Mrs. Virginia Knauer, has undertaken many efforts to accomplish this objective.

Today, your Association is engaged in important deliberations to help shape the future course of life insurance. I am told that these include the subject of life insurance cost comparisons. This is a significant step forward in meeting this Administration's priority goal of adequate information. I want to congratulate you on the close attention, direction, and initiative you bring to this important consumer issue. I have the utmost confidence that you will continue your exemplary performance as you return to your positions of leadership in state government.

Richard M. Nixon

EXHIBIT A

NAIC MODEL REGULATION AS AMENDED AND ADOPTED 6/6/73 LIFE INSURANCE INTEREST-ADJUSTED COST COMPARISON INDEX

Section 1. Authority. This rule is adopted and promulgated by (title of supervisory authority) pursuant to Sections ____ of the insurance code.

Section 2. Purpose. It is in the interests of prospective purchasers of life insurance that there should be available to such persons a cost comparison index prepared on a uniform basis for comparison of the relative cost of similar plans of

insurance. It is in the public interest to make such an index available so that price competition in the life insurance market is encouraged and stimulated.

Section 3. Scope.

- (a) Except as provided in paragraph (b), this rule shall apply to any solicitation, negotiation, or procurement of life insurance occurring within this state.
- (b) This rule shall not apply to:
 - 1. Annuities.
 - 2. Credit life insurance.
 - 3. Franchise life insurance.
 - 4. Group life insurance.
 - 5. Term life insurance.
 - 6. Plans of life insurance with benefits which vary by policy duration, including but not limited to such plans as retirement income and variable life insurance.
 - 7. Benefits which are supplemental to basic life insurance benefits such as accidental death and dismemberment; waiver of premium; or guaranteed insurability benefits. (If the cost of any of these benefits is included in the price of the basic life insurance without separate identifiable charge, then in calculating the life insurance interest-adjusted cost comparison index, a reasonable adjustment in the annual premium payable on a per \$1,000 basis may be made.)
 - 8. Benefits purchased by a special option applicable to dividends.
 - 9. Life insurance policies wherein the face amount of insurance is \$5,000 or less.
 - 10. Life insurance on substandard risks.
 - 11. Life insurance policies issued in connection with split funded pension trust plans.

Section 4. Interest-Adjusted Cost Comparison Index Defined.

- (a) The interest-adjusted cost comparison index for level premium plans of insurance shall be calculated by applying the following steps:
 - 1. Select the 10-year or 20-year period over which the analysis is to be made.
 - 2. Determine the cash value (and terminal dividend, if any) available at the end of the period selected.
 - 3. For participating policies, accumulate the annual dividends at 4% interest compounded annually to the end of the period selected and add this accumulation to the result of Step 2.
 - 4. Divide the result of Step 3 (Step 2 for non-participating policies) by an interest factor that converts it into a level annual accruing over the period selected in Step 1. If the period is 10 years, this factor is 12.486 and if the period is 20 years, the factor is 30.969.
 - 5. Subtract the result of Step 4 from the annual premium payable.
 - 6. Divide the result of Step 5 by the number of thousands of the amount of insurance to arrive at the Life Insurance Interest-Adjusted Cost Comparison Index.

- (b) The life insurance interest-adjusted cost comparison index for plans of insurance with premiums which are not level shall be calculated as follows:
1. Select the 10-year or 20-year period over which the analysis is to be made.
 2. Determine the cash value (and terminal dividend, if any) available at the end of the period selected.
 3. For participating policies, accumulate the annual dividends at 4% interest compounded annually to the end of the period selected and add this accumulation to the result of Step 2.
 4. Divide the result of Step 3 (Step 2 for non-participating policies) by an interest factor that converts it into a level annual amount accruing over the period selected in Step 1. If the period is 10 years, this factor is 12.486 and if the period is 20 years, the factor is 30.969.
 5. Subtract the result of Step 4 from the equivalent level premium determined by accumulating the annual premium payable at 4% interest compounded annually to the end of the period in Step 1 and dividing the result by the factor stated in Step 4.
 6. Divide the result of Step 5 by the number of thousands of the amount of insurance to arrive at the Life Insurance Interest-Adjusted Cost Comparison Index.

Section 5. Disclosure Requirements. In connection with the selling of life insurance to which this rule applies, the agent or insurer shall furnish the sales prospect at or prior to delivery of the policy the Life Insurance Interest-Adjusted Cost Comparison Index calculated for both a 10-year and a 20-year period. The index need not be provided for a period which extends beyond the end of the premium payment period for the plan. The index must be accompanied by an explanation substantially to the effect that the life insurance interest-adjusted cost comparison index is a measure of the relative cost of protection of similar plans of insurance and other services rendered by the insurer and that a low index number represents a better value than a higher one.

Section 6. Limitations. The life insurance interest-adjusted cost comparison index must be used with caution and should not be emphasized to the point that actual premiums and policy benefits are overshadowed. Only similar plans of insurance should be compared. Any dividend used in calculating the Life Insurance Interest-Adjusted Cost Comparison Index shall be based on the current dividend scale in actual use by the insurer. In respect to participating policies, care must be taken to accurately describe the policy dividend as a refund or return of part of the premium paid, which is not guaranteed and which is dependent on the investment earnings, mortality experience, and expense experience of the insurer.

Section 7. Effective Date. This rule shall become effective ____.

Section 8. Penalty. Violations of this rule shall subject the insurer or agent to the penalties provided in ____.

Explanatory Note: The life insurance interest-adjusted cost comparison index can be viewed as a measure of the relative cost of protection and other services rendered by the insurer and is useful for comparison of similar policies. More technically, the interest-adjusted cost comparison index is the average annual premium minus any average annual dividend and average yearly cash value increase for the period, all adjusted for interest. In respect to the annual dividend, the effect of the interest adjustment is that the illustrated annual dividends are converted into equivalent level annual dividends so calculated that when accumulated with interest for the specified period, they have the same accumulated value at the end of the period as the actual non-level dividends. If premiums are not level, a similar calculation process is used to determine the average yearly premium adjusted for interest. An average yearly cash value increase calculated as the annual amount which accumulated with interest for the specified period will have the same accumulated value at the end of the period as the cash surrender value at that time.

Since the life insurance interest-adjusted cost comparison index is a measure of the amount paid for the protection and other services rendered by the insurer, a low figure represents a better value than a higher one.

EXHIBIT B

NAIC MODEL REGULATION AS ADOPTED 6/6/73
DECEPTIVE PRACTICES IN LIFE INSURANCE

Section 1. Authority. This rule is adopted and promulgated by (title of supervisory authority) pursuant to Sections _____ of the insurance code.

Section 2. Purpose. The interests of prospective purchasers of life insurance must be safeguarded by providing such persons with clear and unambiguous statements, explanations, and written proposals concerning the life insurance contracts offered to them. This purpose can best be achieved by requiring disclosure of certain basic information and defining those acts and practices which are deceptive or misleading or misrepresent the terms of the contract.

Section 3. Scope. This rule shall apply to any solicitation, negotiation, or procurement of life insurance occurring within this state. This rule shall apply to any authorized issuer of life insurance contracts. This rule shall not apply to solicitations that constitute an invitation to inquire about an insurance product, which solicitations are not in themselves a solicitation of insurance. Subsection(4)(c) of the rule shall not apply to credit life insurance nor to group life insurance.

Section 4. Basic Requirements. In connection with the selling of life insurance, an agent or insurer shall in every case to which this rule applies:

- a. inform the prospective purchaser that he is acting as an insurance agent;
- b. inform the prospective purchaser of the full name of the insurance company for which he is a licensed agent;
- c. provide to the prospective purchaser prior to or with the delivery of a contract a dated written proposal describing the elements of the contract, including but not limited to:
 1. the name and signature of the insurance agent or the name of the employee of the insurer if no agent is involved who assumes responsibility for the proposal;
 2. the full name of the company in which the life insurance is to be written;
 3. the name of the policy or contract and any supplemental riders;
 4. disclosure of any provision in the policy which will reduce the death benefit while the policy is being maintained in force on a premium-paying basis, other than a reduction as the result of a suicide provision or a reduction for a policy loan;
 5. except for such combinations as are authorized by statute or regulation the premiums for the life insurance shown separately from the premiums for each additional supplemental benefit provided in the contract;
 6. the face amount of the life insurance shown separately from the amounts of coverage shown for any additional or supplemental benefit provided in the contract;
 7. all matters pertaining to life insurance set forth separately from any matter not pertaining to life insurance.

Section 5. Deceptive Practices Defined. The following are defined to be prohibited unfair practices and deceptive acts in the selling of the insurance subject to this rule:

- (a) the making of any misrepresentation or false, deceptive, or misleading statement;
- (b) the use of terms such as "financial planner," "investment adviser," "financial consultant," or "financial counseling" to imply that the insurance agent is generally engaged in an advisory business in which compensation is unrelated to sales unless such is actually the case;
- (c) the use of comparisons or analogies or the manipulation of amounts and numbers in such a way as to mislead the prospective purchaser concerning:

1. the cost of the insurance protection to be provided by the insurance contract; or
 2. any other significant aspect of the contract;
- (d) the use of any system or presentation for comparing cost of life insurance that does not recognize the time value of money;
- (e) the reference to an insurance premium as a "deposit," an "investment," a "savings," or the use of other phrases of similar import when referring to an insurance premium;*
- (f) in respect to participating policies, a description of the policy dividend as other than a refund or return of part of the premium paid which is not guaranteed and which is dependent on the investment earnings, mortality experience, and expense experience of the company;
- (f) recommending to a prospective purchaser the purchase or replacement of any life insurance policy or annuity contract without reasonable grounds to believe that the recommendation is not unsuitable for the applicant on the basis of information furnished by such person after reasonable inquiry as may be necessary under the circumstances concerning the prospective buyer's insurance and annuity needs and means.

Section 6. Effective Date. This rule shall apply to all solicitations of life insurance on or after ____.

Section 7. Penalty. The violations of this rule shall subject the insurance company or agent to the penalties provided in

*The Variable Contracts (C4) Subcommittee, in its Washington, D.C. report adopted by the NAIC, called attention to the fact that such reference may be necessary to accommodate the application of federal securities laws to variable life insurance.

EXHIBIT C

ANNUAL PRICE PER \$1,000 OF PROTECTION

The annual price per \$1,000 of protection is calculated by accumulating the sum of the cash value at the end of the policy year preceding the policy year being analyzed and the annual premium for the policy year being analyzed at the assumed rate of interest, and subtracting from that accumulated amount the cash value at the end of the policy year and the dividend (if any) for that year. This result is designated as the annual price of protection. To determine the annual price per \$1,000 of protection, the amount of protection for the year being analyzed is considered to be the face amount of the policy in that year less the cash value at the end of that year. The annual price of protection determined above is then divided by the amount of protection in thousands to determine the annual price per \$1,000 of protection.

In symbols the calculation is:

$$YPT_t = \frac{(P_t + V_{t-1})(1+i) - V_t - D_t}{(F_t - V_t)(.001)}$$

where

YPT_t = annual price per \$1,000 of protection in policy year t

P_t = annual premium for policy year t

V_t = cash value for policy year t

D_t = dividend for policy year t

(cont)

F_t = face amount for policy year t

i = assumed rate of return on savings element, expressed as a decimal

This information is taken from Appendix G, page 234 of Life Insurance: A Consumer's Handbook, by Joseph M. Belth (published by Indiana University Press, Bloomington, Indiana); from pages 1064 and 1065, Wisconsin Law Review, Vol. 1972, No. 4; and from personal conversation with Professor Belth.

EXHIBIT D

MANIPULATION

1. At Denver and at Sioux Falls, suggestions were made that to curb manipulation of the kinds that defeat efforts to compare similar policies of different companies, it might be desirable either (a) to reject simple price comparison procedures in favor of elaborate ones; or (b) to place new limits on freedom of policy design. It is submitted that such problems can be avoided without taking either of these steps.

2. The alternative suggested for your consideration is in three steps as follows:

Step 1. By median-and-quartile analysis over a range of representative policies, establish the facts about prevailing cost and value patterns for at least the first 20 policy years.

Step 2. Settle upon the following description of manipulation:

- a. If in the judgment of the commissioners a particular company's policy is at least as beneficial to the policyholder as the prevailing pattern, it should not be regarded as manipulated even if at particular points its results are superior to the prevailing patterns.
- b. If a particular policy either is superior to or fails to meet the prevailing pattern at substantially all points, it should not be regarded as manipulated.
- c. If a particular policy markedly fails to meet the prevailing pattern at certain points but is markedly superior at other points, the question of whether manipulation has occurred should be considered a matter for investigation.

Step 3. The actuary responsible for a policy that is in category (c) above should be required to justify that pattern of cost and value to the commissioners of the states in which that policy is to be issued. Such justification must be in terms of the buyers' rather than the company's interests.

3. If the Task Force is interested in this suggestion, I will be happy to undertake the mathematical analysis and to furnish examples illustrating judgment situations that arise under observed current conditions.

E. J. Moorhead

NAIC STANDARD VALUATION LAW

1. This Act shall be known as the Standard Valuation Law.
2. The commissioner shall annually value, or cause to be valued, the reserve liabilities (hereinafter called reserves) for all outstanding life insurance policies and annuity and pure endowment contracts of every life insurance company doing business in this state, and may certify the amount of any such reserves, specifying the mortality table or tables, rate or rates of interest, and methods (net level premium method or other) used in the calculation of such reserves. In calculating such reserves, he may use group methods and approximate averages for fractions of a year or otherwise. In lieu of the valuation of the reserves herein required of any foreign or alien company, he may accept

any valuation made, or caused to be made, by the insurance supervisory official of any state or other jurisdiction when such valuation complies with the minimum standard herein provided and if the official of such state or jurisdiction accepts as sufficient and valid for all legal purposes the certificate of valuation of the commissioner when such certificate states the valuation to have been made in a specified manner according to which the aggregate reserves would be at least as large as if they had been computed in the manner prescribed by the law of that state or jurisdiction.

3. Except as otherwise provided in Section 3-a, the minimum standard for the valuation of all such policies and contracts issued prior to the effective date of this Act shall be that provided by the laws in effect immediately prior to such date. Except as otherwise provided in Section 3-a, the minimum standard for the valuation of all such policies and contracts issued on and after the effective date of this Act shall be the commissioner's reserve valuation method defined in Section 4, $3\frac{1}{2}\%$ interest; or, in the case of policies and contracts other than annuity and pure endowment contracts issued on or after the effective date of this amendatory Act of 197 and prior to January 1, 1986, 4% interest, and the following tables:
 - (a) All Ordinary policies of life insurance issued on the standard basis, excluding any disability and accidental death benefits in such policies – the Commissioners 1941 Standard Ordinary Mortality Table for such policies issued prior to the operative date of Section 3-a of the Standard Nonforfeiture Law as amended; and the Commissioners 1958 Standard Ordinary Mortality Table for such policies issued on or after such operative date, provided that for any category of such policies issued on female risks, all modified net premiums and present values not referred to in this Act may be calculated according to an age not more than three years younger than the actual age of the insured.
 - (b) All Industrial life insurance policies issued on the standard basis, excluding any disability and accidental death benefits in such policies – the 1941 Standard Industrial Mortality Table for such policies issued prior to the operative date of Section 5(b) of the Standard Nonforfeiture Law as amended; and the Commissioners 1961 Standard Industrial Mortality Table for such policies issued on or after such operative date.
 - (c) Individual Annuity and Pure Endowment contracts, excluding any disability and accidental death benefits in such policies – the 1937 Standard Annuity Mortality Table or, at the option of the company, the Annuity Mortality Table for 1949; Ultimate; or any modification of either of these tables approved by the commissioner.
 - (d) Group Annuity and Pure Endowment contracts, excluding any disability and accidental death benefits in such policies – the Group Annuity Mortality Table for 1951; any modification of such table approved by the commissioner; or, at the option of the company, any of the tables or modifications of tables specified for Individual Annuity and Pure Endowment contracts.
 - (e) Total and Permanent Disability Benefits in or supplementary to Ordinary policies or contracts – for policies or contracts issued on or after January 1, 1966, the tables of Period 2 disablement rates and the 1930 to 1950 termination rates of the 1952 Disability Study of the Society of Actuaries, with due regard to the type of benefit; for policies or contracts issued on or after January 1, 1961 and prior to January 1, 1966, either such tables or, at the option of the company, the Class (3) Disability Table (1926); and for policies issued prior to January 1, 1961, the Class (3) Disability Table (1926). Any such table shall, for active lives, be combined with a mortality table permitted for calculating the reserves for life insurance policies.
 - (f) Accidental Death benefits in or supplementary to policies – for policies issued on or after January 1, 1966, the 1959 Accidental Death Benefits Table; for policies issued on or after January 1, 1961 and prior to January 1, 1966, either such table or, at the option of the company, the Inter-Company Double Indemnity Mortality Table; and for policies issued prior to January 1, 1961, the Inter-Company Double Indemnity Mortality Table. Either table shall be combined with a mortality table permitted for calculating the reserves for life insurance policies.
 - (g) Group Life insurance, life insurance issued on the substandard basis, and other special benefits – such tables as may be approved by the commissioner.

3-a. The minimum standard for the valuation of all individual annuity and pure endowment contracts issued on or after the operative date of this Section 3-a, as defined herein, and for all annuities and pure endowments purchased on or after such operative date under group annuity and pure endowment contracts, shall be the commissioners reserve valuation method defined in Section 4 and the following tables and interest rates:

- (a) Individual Annuity and Pure Endowment contracts issued prior to January 1, 1986, excluding any disability and accidental death benefits in such contracts - the 1971 Individual Annuity Mortality Table or any modification of this table approved by the commissioner; and 6% interest for single premium immediate annuity contracts and 4% interest for all other individual annuity and pure endowment contracts.
- (b) Individual Annuity and Pure Endowment contracts issued on or after January 1, 1986, excluding any disability and accidental death benefits in such contracts - the 1971 Individual Annuity Mortality Table or any modification of this table approved by the commissioner, and 3½% interest.
- (c) All annuities and pure endowments purchased prior to January 1, 1986 under group annuity and pure endowment contracts, excluding any disability and accidental death benefits purchased under such contracts - the 1971 Group Annuity Mortality Table or any modification of this table approved by the commissioner, and 6% interest.
- (d) All annuities and pure endowments purchased on or after January 1, 1986 under group annuity and pure endowment contracts, excluding any disability and accidental death benefits purchased under such contracts - the 1971 Group Annuity Mortality Table or any modification of this table approved by the commissioner, and 3½% interest.

After the effective date of this amendatory Act of 197_, any company may file with the commissioner a written notice of its election to comply with the provisions of this section after a specified date before January first, nineteen hundred and seventy-nine, which shall be the operative date of this section for such company, provided that a company may elect a different operative date for individual annuity and pure endowment contracts from that elected for group annuity and pure endowment contracts. If a company makes no such election, the operative date of this section for such company shall be January first, nineteen hundred and seventy-nine.

4. Reserves according to the commissioners reserve valuation method for the life insurance and endowment benefits of policies providing for a uniform amount of insurance and requiring the payment of uniform premiums shall be the excess, if any, of the present value at the date of valuation of such future guaranteed benefits provided for such policies over the then present value of any future modified net premiums therefor. The modified net premiums for any such policy shall be such uniform percentage of the respective contract premiums for such benefits that the present value, at the date of issue of the policy, of all such modified net premiums shall be equal to the sum of the then present value of such benefits provided for by the policy and the excess of (a) over (b), as follows:

- (a) A net level annual premium equal to the present value at the date of issue of such benefits provided for after the first policy year, divided by the present value at the date of issue of an annuity of one per annum payable on the first and each subsequent anniversary of such policy on which a premium falls due; provided, however, that such net level annual premium shall not exceed the net level annual premium on the 19-year premium whole life plan for insurance of the same amount at an age one year higher than the age at issue of such policy.
- (b) A net one-year term premium for such benefits provided for in the first policy year.

Reserves according to the commissioners reserve valuation method for: (1) life insurance policies providing for a varying amount of insurance or requiring the payment of varying premiums; (2) annuity and pure endowment contracts; (3) disability and accidental death benefits in all policies and contracts; and (4) all other benefits, except life insurance and endowment benefits in life insurance policies, shall be calculated by a method consistent with the principles of the preceding paragraph.

5. In no event shall a company's aggregate reserves for all life insurance policies, excluding disability and accidental death benefits, issued on or after the effective date of this Act be less than the aggregate reserves calculated in accordance with the method set forth in Section 4 and the mortality table or tables and rate or rates of interest used in calculating non-forfeiture benefits for such policies.

6. Reserves for all policies and contracts issued prior to the effective date of this Act may be calculated, at the option of the company, according to any standards which produce greater aggregate reserves for all such policies and contracts than the minimum reserves required by the laws in effect immediately prior to such date.

Reserves for any category of policies, contracts or benefits as established by the commissioner, issued on or after the effective date of this Act may be calculated, at the option of the company and according to any standards which produce greater aggregate reserves for such category than those calculated according to the minimum standard herein provided; but the rate or rates of interest used shall not be higher than the corresponding rate or rates of interest used in calculating any nonforfeiture benefits provided for therein. This is provided, however, that reserves for participating life insurance policies issued on or after the effective date of this Act may, with the consent of the commissioner, be calculated according to a rate of interest lower than the rate of interest used in calculating the nonforfeiture benefits in such policies, with the further proviso that if such lower rate differs from the rate used in the calculation of the nonforfeiture benefits by more than $\frac{1}{4}\%$, the company issuing such policies shall file with the commissioner a plan providing for such equitable increases, if any, in the cash surrender values and nonforfeiture benefits in such policies as the commissioner shall approve.

Any such company which at any time shall have adopted any standard of valuation producing greater aggregate reserves than those calculated according to the minimum standard herein provided may, with the approval of the commissioner, adopt any lower standard of valuation, but not lower than the minimum herein provided.

7. If the gross premium charged by any life insurance company on any policy or contract is less than the net premium for the policy or contract according to the mortality table, rate of interest, and method used in calculating the reserve thereon, there shall be maintained on such policy or contract a deficiency reserve in addition to all other reserves required by law. For each such policy or contract, the deficiency reserve shall be the present value, according to such standard, of an annuity of the difference between such net premium and the premium charged for such policy or contract running for the remainder of the premium-paying period.
8. All acts and parts of acts inconsistent with the provisions of this Act are hereby repealed as of the effective date of this Act. This Act shall take effect January first, nineteen hundred and seventy-four.

NAIC STANDARD NONFORFEITURE LAW

1. This Act shall be known as the Standard Nonforfeiture Law.
2. In the case of policies issued on and after the operative date of this Act as defined in Section 8, no policy of life insurance, except as stated in Section 7, shall be issued or delivered in this state unless it shall contain in substance the following provisions or corresponding provisions which in the opinion of the commissioner are at least as favorable to the defaulting or surrendering policyholder:
 - (a) That, in the event of default in any premium payment, the company will grant, upon proper request not later than 60 days after the due date of the premium in default, a paid-up nonforfeiture benefit on a plan stipulated in the policy effective as of such due date of such value as may be hereinafter specified.
 - (b) That, upon surrender of the policy within 60 days after the due date of any premium payment in default after premiums have been paid for at least three full years in the case of ordinary insurance or five full years in the case of industrial insurance, the company will pay, in lieu of any paid-up nonforfeiture benefit, a cash surrender value of such amount as may be hereinafter specified.
 - (c) That a specified paid-up nonforfeiture benefit shall become effective as specified in the policy unless the person entitled to make such election elects another available option not later than 60 days after the due date of the premium in default.
 - (d) That, if the policy shall have become paid up by completion of all premium payments or if it is continued under any paid-up nonforfeiture benefit which became effective on or after the third policy anniversary in

the case of Ordinary insurance or the fifth policy anniversary in the case of Industrial insurance, the company will pay, upon surrender of the policy within 30 days after any policy anniversary, a cash surrender value of such amount as may be hereinafter specified.

- (e) A statement of the mortality table and interest rate used in calculating the cash surrender values and the paid-up nonforfeiture benefits available under the policy, together with a table showing the cash surrender value, if any, and paid-up nonforfeiture benefit, if any, available under the policy on each policy anniversary either during the first 20 policy years or during the term of the policy, whichever is shorter, such values and benefits to be calculated upon the assumption that there are no dividends or paid-up additions credited to the policy and that there is no indebtedness to the company on the policy.
- (f) A statement that the cash surrender values and the paid-up nonforfeiture benefits available under the policy are not less than the minimum values and benefits required by or pursuant to the insurance law of the state in which the policy is delivered; an explanation of the manner in which the cash surrender values and the paid-up nonforfeiture benefits are altered by the existence of any paid-up additions credited to the policy or any indebtedness to the company on the policy; if a detailed statement of the method of computation of the values and benefits shown in the policy is not stated therein, a statement that such method of computation has been filed with the insurance supervisory official of the state in which the policy is delivered; and a statement of the method to be used in calculating the cash surrender value and paid-up nonforfeiture benefit available under the policy on any policy anniversary beyond the last anniversary for which such values and benefits are consecutively shown in the policy.

Any of the foregoing provisions or portions thereof not applicable by reason of the plan of insurance may, to the extent inapplicable, be omitted from the policy.

The company shall reserve the right to defer the payment of any cash surrender value for a period of six months after demand therefor with surrender of the policy.

3. Any cash surrender value available under the policy in the event of default in a premium payment due on any policy anniversary, whether or not required by Section 2, shall be an amount not less than the excess, if any, of the present value, on such anniversary, of the future guaranteed benefits which would have been provided for by the policy, including any existing paid-up additions, if there had been no default, over the sum of: (a) the then present value of the adjusted premiums as defined in Sections 5, 5-a. and 5-b, corresponding to premiums which would have fallen due on and after such anniversary; and (b) the amount of any indebtedness to the company on the policy. Any cash surrender value available within 30 days after any policy anniversary under any policy paid up by completion of all premium payments or any policy continued under any paid-up nonforfeiture benefit, whether or not required by Section 2, shall be an amount not less than the present value, on such anniversary, of the future guaranteed benefits provided for by the policy, including any existing paid-up additions, decreased by any indebtedness to the company on the policy.
4. Any paid-up nonforfeiture benefit available under the policy in the event of default in a premium payment due on any policy anniversary shall be such that its present value as of such anniversary shall be at least equal to the cash surrender value then provided for by the policy or, if none is provided for, that cash surrender value which would have been required by this Act in the absence of the condition that premiums shall have been paid for at least a specified period.
5. Except as provided in the third paragraph of this section, the adjusted premiums for any policy shall be calculated on an annual basis and shall be such uniform percentage of the respective premiums specified in the policy for each policy year, excluding amounts stated in the policy as extra premiums to cover impairments or special hazards, that the present value, at the date of issue of the policy, of all such adjusted premiums shall be equal to the sum of: (i) the then present value of the future guaranteed benefits provided for by the policy; (ii) 2% of the amount of insurance, if the insurance is uniform in amount or of the equivalent uniform amount as hereinafter defined if the amount of insurance varies with duration of the policy; (iii) 40% of the adjusted premium for the first policy year; (iv) 25% of either the adjusted premium for the first policy year or the adjusted premium for a whole life policy of the same uniform or equivalent uniform amount with uniform premiums for the whole of life issued at the same age for the same amount of insurance, whichever is less; provided, however, that in applying the percentages specified in (iii) and (iv) above, no adjusted premium shall be deemed to exceed 4% of the amount of insurance or level amount equivalent thereto. The date of issue of a policy for the purpose of this section shall be the date as of which the rated age of the insured is determined.

In the case of a policy providing an amount of insurance varying with duration of the policy, the equivalent level amount thereof for the purpose of this section shall be deemed to be the level amount of insurance provided by an otherwise similar policy, containing the same endowment benefit or benefits, if any, issued at the same age and for the same term, the amount of which does not vary with duration and the benefits under which have the same present value at the inception of the insurance as the benefits under the policy.

The adjusted premiums for any policy providing term insurance benefits by rider or supplemental policy provision shall be equal to: (a) the adjusted premiums for an otherwise similar policy issued at the same age without such term insurance benefits, increased, during the period for which premiums for such term insurance benefits are payable, age without such term insurance benefits, increased, during the period for which premiums for such term insurance benefits are payable; by (b) the adjusted premiums for such term insurance, the foregoing items (a) and (b) being calculated separately and as specified in the first two paragraphs of this section except that, for the purposes of (ii), (iii), and (iv) of the first such paragraph, the amount of insurance or equivalent uniform amount of insurance used in the calculation of the adjusted premiums referred to in (b) shall be equal to the excess of the corresponding amount determined for the entire policy over the amount used in the calculation of the adjusted premiums in (a).

Except as otherwise provided in Sections 5-a and 5-b, all adjusted premiums and present values referred to in this Act shall for all policies of Ordinary insurance be calculated on the basis of the Commissioners 1941 Standard Ordinary Mortality Table, provided that for any category of Ordinary insurance issued on female risks, adjusted premiums and present values may be calculated according to an age not more than three years younger than the actual age of the insured and such calculations for all policies of industrial insurance shall be made on the basis of the 1941 Standard Industrial Mortality Table. All calculations shall be made on the basis of the rate of interest, not exceeding $3\frac{1}{2}\%$ per annum, specified in the policy for calculating cash surrender values and paid-up nonforfeiture benefits; provided, however, that in calculating the present value of any paid-up term insurance with accompanying pure endowment, if any, offered as a nonforfeiture benefit, the rates of mortality assumed may be not more than 130% of the rates of mortality according to such applicable table. Provided, further, that for insurance issued on a substandard basis, the calculation of any such adjusted premiums and present values may be based on such other table of mortality as may be specified by the company and approved by the commissioner.

- 5-a. In the case of Ordinary policies issued on or after the operative date of this Section 5-a as defined herein, all adjusted premiums and present values referred to in this Act shall be calculated on the basis of the Commissioners 1958 Standard Ordinary Mortality Table and the rate of interest specified in the policy for calculating cash surrender values and paid-up nonforfeiture benefits provided that such rate of interest shall not exceed $3\frac{1}{2}\%$ per annum, except that a rate of interest not exceeding 4% per annum may be used for policies issued on or after the effective date of this amendatory Act of 197 and prior to January 1, 1986, and provided that for any category of Ordinary insurance issued on female risks, adjusted premiums and present values may be calculated according to an age not more than three years younger than the actual age of the insured; provided, however, that in calculating the present value of any paid-up term insurance with accompanying pure endowment, if any, offered as a nonforfeiture benefit, the rates of mortality assumed may be not more than those shown in the Commissioners 1958 Extended Term Insurance Table. Provided, further, that for insurance issued on a substandard basis, the calculation of any such adjusted premiums and present values may be based on such other table of mortality as may be specified by the company and approved by the commissioner.

After the effective date of this Section 5-a, any company may file with the commissioner a written notice of its election to comply with the provisions of this section after a specified date before January first, nineteen hundred and sixty-six. After the filing of such notice, then upon such specified date (which shall be the operative date of this section for such company), this section shall become operative with respect to the Ordinary policies thereafter issued by such company. If a company makes no such election, the operative date of this section for such company shall be January first, nineteen hundred and sixty-six.

- 5-b. In the case of Industrial policies issued on or after the operative date of this Section 5-b as defined herein, all adjusted premiums and present values referred to in this Act shall be calculated on the basis of the Commissioners 1961 Standard Industrial Mortality Table and the rate of interest specified in the policy for calculating cash surrender values and paid-up nonforfeiture benefits, provided that such rate of interest shall not exceed $3\frac{1}{2}\%$ per annum, except that a rate of interest not exceeding 4% per annum may be used for policies issued on or after the effective date of this amendatory Act of 197 and prior to January 1, 1986; provided, however, that in calculating the present value of any paid-up term insurance with accompanying pure endowment, if any, offered as a

nonforfeiture benefit, the rates of mortality assumed may not be more than those shown in the Commissioners 1961 Industrial Extended Term Insurance Table. It is provided further that for insurance issued on a substandard basis, the calculations of any such adjusted premiums and present values may be based on such other table of mortality as may be specified by the company and approved by the commissioner.

After the effective date of this Section 5-b, any company may file with the commissioner a written notice of its election to comply with the provisions of this section after a specified date before January first, nineteen hundred and sixty-eight. After the filing of such notice, then upon such specified date (which shall be the operative date of this section for such company), this section shall become operative with respect to the Industrial policies thereafter issued by such company. If a company makes no such election, the operative date of this section for such company shall be January first, nineteen hundred and sixty-eight.

6. Any cash surrender value and any paid-up nonforfeiture benefit available under the policy in the event of default in a premium payment due at any time other than on the policy anniversary shall be calculated with allowance for the lapse of time and the payment of fractional premiums beyond the last preceding policy anniversary. All values referred to in Sections 3, 4, 5, 5-a, and 5-b may be calculated upon the assumption that any death benefit is payable at the end of the policy year of death. The net value of any paid-up additions, other than paid-up term additions, shall be not less than the dividends used to provide such additions. Notwithstanding the provisions of Section 3, additional benefits payable (a) in the event of death or dismemberment by accident or accidental means; (b) in the event of total and permanent disability; (c) as reversionary annuity or deferred reversionary annuity benefits; (d) as decreasing term insurance benefits provided by a rider or supplemental policy provision to which, if issued as a separate policy, this Act would not apply; (e) as term insurance on the life of a child or on the lives of children provided in a policy on the life of a parent of the child, if such term insurance expires before the child's age is twenty-six, is uniform in amount after the child's age is one, and has not become paid-up by reason of the death of a parent of the child; and (f) as other policy benefits additional to life insurance and endowment benefits and premiums for all such additional benefits shall be disregarded in ascertaining cash surrender values and nonforfeiture benefits required by this Act; and no such additional benefits shall be required to be included in any paid-up nonforfeiture benefits.
 7. This Act shall not apply to any reinsurance, group insurance, pure endowment, annuity, or reversionary annuity contract, nor to any term policy of uniform amount or renewal thereof, of 15 years or less expiring before age 66, for which uniform premiums are payable during the entire term of the policy, nor to any term policy of decreasing amount on which each adjusted premium, calculated as specified in Sections 5, 5-a, and 5-b is less than the adjusted premium so calculated, on such 15-year term policy issued at the same age and for the same initial amount of insurance, nor to any policy which shall be delivered outside this state through an agent or other representative of the company issuing the policy.
 8. After the effective date of this Act, any company may file with the commissioner a written notice of its election to comply with the provisions of this Act after a specified date before January first, nineteen hundred and forty-eight. After the filing of such notice, then upon such specified date (which shall be the operative date for such company), this Act shall become operative with respect to the policies thereafter issued by such company. If a company makes no such election, the operative date of this Act for such company shall be January first, nineteen hundred and forty-eight.
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VARIABLE ANNUITIES AND OTHER CONTRACTS (C4) SUBCOMMITTEE

Reference:

1972 Proc. Vol. II p. 481

1973 Proc. Vol. I p. 300

Hon. Paul B. Altermatt, Chairman - Connecticut

Hon. Gleeson L. Payne, Vice-Chairman - California

AGENDA

1. NAIC Model Variable Contract Law.
2. NAIC Model Variable Contract Regulation.
3. Variable Life Contracts.
4. Any other matters brought before the Subcommittee.

The Variable Annuities and Other Contracts (C4) Subcommittee met on June 5, 1973, in the Washington Hilton Hotel, Washington, D.C. at 2 p.m. A quorum was present.

The chairman of the Subcommittee gave a brief description of the work performed by the Subcommittee in the last 60 days.

In open session, industry representatives commented on the letter dated May 25, 1973, sent to the members of the Subcommittee by the American Life Insurance Association. This letter was received by the Subcommittee (attached).

In executive session, the following action was taken:

1. The minutes of the Subcommittee meeting held in Milwaukee, Wisconsin, on April 23 and 24, 1973 were adopted (attached).
2. The minutes of the meeting of the Subcommittee held in Hartford, Connecticut, on May 16 and 17, 1973, were adopted (attached).
3. Recognition was taken of the working session held on June 5, 1973, at 9 a.m. in the Washington Hilton Hotel which adopted refinements of resolutions approved at the Hartford meeting.
4. The following resolutions were adopted:
 - a. The (C4) Subcommittee recommends to the NAIC that if the agents and brokers bill is adopted by the NAIC, Section 4a(2)(a)2 be deleted and the license for life insurance and annuity contracts be made to include all variable contracts.
 - b. The (C4) Subcommittee requests that the Life Insurance Cost Comparison (C3) Task Force address itself at the earliest possible date to methods of cost comparison of variable life insurance policies.

- c. The (C4) Subcommittee calls to the attention of the Life Insurance Cost Comparison (C3) Task Force Section 5 of the model regulation on deceptive practices in life insurance and specifically to Paragraph (e) which would prohibit reference to investments or savings when referring to insurance premiums. Such reference may be necessary to accommodate the application of federal securities laws to variable life insurance.
5. It was voted that the next meeting of the Subcommittee will be held in Hartford, Connecticut, at 9 a.m. on July 11 and 12, 1973.

There being no further business, the Subcommittee adjourned.

Hon. Paul B. Altermatt, Chairman, Connecticut; Hon. Gleeson L. Payne, Vice-Chairman, California; Hon. Robert A. Short, Delaware; Hon. Edward P. Lombard, District of Columbia; Hon. Frank M. Hogerty, Jr., Maine; Hon. James M. Jackson, Nebraska; Hon. Benjamin R. Schenck, New York; Hon. Joe B. Hunt, Oklahoma; Hon. Lester L. Rawls, Oregon; Hon. Herbert S. Denenberg, Pennsylvania; Hon. Samuel H. Weese, West Virginia.

AMERICAN LIFE INSURANCE ASSOCIATION
1701 K Street, N.W.
Washington, D.C. 20006

May 25, 1973

Commissioner Paul B. Altermatt
Department of Insurance
State Office Building, Room 425
Hartford, Connecticut 06115

Dear Commissioner Altermatt:

As discussed at the conference in Hartford on May 16 with the (C4) Subcommittee, we enclose herewith the work product of ad hoc group No. 2 of Task Force 5, Variable Life Insurance, of the Subcommittee on Variable Contracts and Separate Accounts (Legislative). This group, as we pointed out, undertook to work out suggested state regulations applicable to individual variable life insurance which would provide "material protections to purchasers substantially equivalent to the relevant protections that would be available under the Investment Company Act" as referred to in the Securities and Exchange Commission's decision of January 31, 1973. The enclosed work product has now been reviewed and approved by Task Force 5 and the Subcommittee on Variable Contracts and, as such, constitutes Association suggestions to the NAIC and state commissioners. Note that the work product includes a suggested resolution on charges which you may want to pass on to your Executive Committee.

We are hopeful that this material will prove useful to you and the (C4) Subcommittee. Naturally, we would be anxious to assist the NAIC further in any way that you may deem appropriate. As you requested, we are transmitting copies of this material to those present at the Hartford meeting.

Very truly yours,

Robert A. Routier, Associate General Counsel

Paul J. Mason, Associate General Counsel

SUGGESTED RESOLUTION FOR NAIC EXECUTIVE COMMITTEE

In view of the Securities and Exchange Commission's decision of January 31, 1973, the Variable Annuities and Other Contracts (C4) Subcommittee of the Life, Accident and Health (C) Committee is hereby directed to recommend amendments to the Model Variable Contract Law and Model Variable Contract Regulation to provide protection "against excessive management, administrative and sales charges" in connection with variable life insurance policies. The Subcommittee shall take into consideration information and recommendations of members of the industry and shall, if it deems it desirable, appoint a task force for this purpose which may include industry representatives. The Executive Secretary shall provide staff assistance and is authorized to obtain the services of outside experts if the Subcommittee so directs. The report of the study and the recommendations of the Subcommittee shall be submitted at the mid-winter meeting of the NAIC to be held in December, 1973.

SUGGESTED ARTICLE II: DEFINITIONS

(Article II of the NAIC Model Variable Contract Regulation would be amended by inserting the following section and renumbering Sections 2, 3, and 4 to 3, 4, and 5 respectively.)

2. "Affiliate" of an insurance company when used in this Regulation shall mean any person directly or indirectly controlling, controlled by, or under common control with such insurance company; any person who regularly furnishes investment advice to such insurance company with respect to its separate accounts for which a specific fee is charged; and any director, officer, partner, or employee of any such insurance company, controlling or controlled person, or person so providing investment advice, or any member of the immediate family of any such person.

SUGGESTED ARTICLE IV: SEPARATE ACCOUNT OR SEPARATE ACCOUNTS

(Article IV would be amended (1) by renumbering Section 2 to be 2(a) and inserting a new Subsection 2(b) dealing with the valuation of assets for which there is no readily available market value; and (2) by renumbering Section 7 to be 7(a) and inserting new Subsections (b), (c), and (d) dealing with restrictions against effecting transactions in assets allocated to a variable life insurance separate account.)

- 2(a). 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 (b) shall be valued in accordance with the rules otherwise applicable to the company's assets.
- 2(b). With respect to each separate account maintained for variable life insurance policies, unless otherwise approved by the Commissioner:
 - (i) the terms of the policy or the rules or other written agreement applicable to the separate account shall provide for the valuation of such assets at fair value as determined in good faith by the company, if on the date of valuation there is no readily available market value for any assets allocated to the separate account, subject to the proviso in Paragraph 2(a); and
 - (ii) the assets allocated to the separate account shall be valued as of valuation date determined in accordance with the terms of the policy. Such valuation dates:

- (1) shall be no less frequent than monthly for purposes of determining the investment experience of the separate account;
- (2) shall be as of a date within 35 days preceding or following a request for a loan against, or withdrawal of, a variable cash value under the policy for the purpose of determining such loan or withdrawal value; and
- (3) shall be as of a date no earlier than 35 days preceding the beginning of the policy year in which the death of the insured occurs for the purpose of determining a variable death benefit.

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- 7(a). 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.
- 7(b). Except upon such terms and conditions as may be approved by the insurance commissioner as hereinafter provided with respect to separate accounts used in connection with variable life insurance policies, no domestic insurance company or an affiliate thereof shall knowingly:
- (1) sell to or purchase from any such separate account established by such insurance company any securities or other property;
 - (2) purchase or allow to be purchased for any such separate account any securities of which such insurance company or an affiliate thereof is the issuer;
 - (3) borrow money or other property from any such separate account;
 - (4) accept any compensation (other than a regular salary or wages from such insurance company or affiliate thereof) for the sale, purchase, or borrowing of money, securities, or other property to or from any such separate account; or
 - (5) engage in any joint transaction, participation, or common undertaking whereby such insurance company or an affiliate thereof participates with such a separate account on a basis involving the overreaching of such separate account.
- 7(c). Nothing contained in this section shall be construed to preclude or prevent:
- (1) the investment of separate account assets in securities issued by one or more investment companies sponsored or managed by such insurance company or an affiliate thereof;
 - (2) an insurance company or an affiliate thereof from purchasing, borrowing against, withdrawing from, or surrendering variable life insurance policies relating in whole or in part to any such separate account;
 - (3) the combination of orders for the purchase or sale of securities for the insurance company, an affiliate thereof, any separate accounts, or any one or more of them, for their mutual benefit or convenience provided that any securities so purchased or the proceeds of any sale are allocated among the participants on some predetermined basis expressed in writing which is designed to insure the equitable treatment of all participants; or
 - (4) an insurance company or an affiliate thereof from acting as a broker in connection with the sale of securities to or by such separate account provided that any commission, fee, or other remuneration charged therefor shall not exceed the minimum broker's commission established for any such transaction by any national securities exchange through which such transaction could be effected or, where such charges are subject to negotiation or where no minimum charge is applicable, then such charge shall be consistent with the charges prevailing, in the ordinary course of business, in the community where such transaction is effected.

- 7(d). The commissioner may, upon the written request of an insurance company or an affiliate thereof, approve a particular transaction or series of proposed transactions which would otherwise be prohibited under Subsection (b) of this section if, in his opinion, any such transaction is not inequitable under the circumstances.

* * * * *

(Article IV would be amended by the addition of a new paragraph 8.)

8. No insurance company shall enter into a contract pursuant to which any person undertakes, for a specific fee, to regularly furnish investment advice to such insurance company with respect to its separate accounts maintained for individual variable life insurance policies unless:
- a. the person providing such advice is registered as an investment adviser under the Federal Investment Advisers Act of 1940; or
 - b. such company had filed with the commissioner the following information and statements concerning the proposed adviser, which must be refiled annually:
 - (i) the name and form or organization, state of organization, and its principal place of business;
 - (ii) the names and addresses of its partners, officers, directors, and persons performing similar functions or, if such an investment adviser by an individual, of such individual;
 - (iii) a statement provided by the proposed adviser as to whether the adviser or any person associated therewith:
 - (1) has been convicted within ten years of any felony or misdemeanor (a) arising out of such person's conduct as an employee, salesman, officer, or director of an insurance company, a bank, an insurance or securities broker or an investment adviser; (b) involving embezzlement, fraudulent conversion, or misappropriation of funds or securities; or (c) involving the violation of Section 1341, 1342, or 1343 of Title 18, United States Code; or
 - (2) has been permanently or temporarily enjoined by order, judgment, or decree of any court of competent jurisdiction from acting as an investment adviser, underwriter, broker, or dealer, or as an affiliated person or as an employee of any investment company, bank, or insurance company, or from engaging in or continuing any conduct or practice in connection with any such activity; or
 - (3) has been found by federal or state regulatory authorities to have wilfully violated any provision of federal or state securities laws or state insurance laws or of any rule or regulation under any such laws; or
 - (4) has been censured, denied an investment adviser registration, had a registration as an investment adviser revoked or suspended or been barred or suspended from being associated with an investment adviser by an order of federal or state regulatory authorities; and
 - c. such investment advisory contract provides that it may be terminated by the insurance company upon no more than 60 days' written notice to the investment adviser.

The Commissioner may, after notice and opportunity for hearing, by order require such investment advisory contract to be terminated if he deems continued operation thereunder to be hazardous to the public or the insurance company's policyholders.

SUGGESTED ARTICLE VI: CONTRACTS PROVIDING FOR VARIABLE BENEFITS

(Article VI of the NAIC Model Variable Contract Regulation would be amended by addition of a new Section 9 dealing with the investment policies of a variable life insurance separate account.)

- 9(a). A company issuing variable life insurance policies shall file with the commissioner, with respect to each separate account maintained by the company for such policies, a statement of investment policy that the company intends to follow for the investment of the assets held in such separate account. The statement shall include a description of the investment objective and orientation intended for the separate account and the principal types of investments which are intended to be made.

[Note: The statement of investment policy shall be included in any prospectus given to applicants in connection with the sale of a variable life insurance policy. A company may satisfy the requirement for filing the statement by the filing of a prospectus.]

- 9(b). Such statement of investment policy shall include a description of any restriction or limitation on the manner in which the operations of the separate account are intended to be conducted as to each of the following types of activity:

- (1) the purchase and sale of real estate;
- (2) the concentration of investments in a particular industry or group of industries;
- (3) the purchase and sale of restricted securities;
- (4) the borrowing of money;
- (5) the making of loans; and
- (6) any activity not enumerated above which the company deems to be of fundamental importance.

- 9(c). The investment policy described in the statement shall not be changed without the approval of the commissioner of the company's state of domicile. Such approval shall be deemed to be given 60 days after the date that the request for approval was filed with the commissioner, unless he notifies the company before the end of such 60-day period of his determination that the proposed change is a material change in the investment policy. In such event, the commissioner shall approve such change only if he determines, after a public hearing, that the change appears to be in the best interest of policyholders. At least 30 days before the date fixed for such public hearing, the company shall mail a notice to each policyholder and to the commissioner of each state in which the affected variable life insurance policies are being sold of its proposal to change the investment policy, with a statement of the reasons therefor, and of the date and place of the public hearing. The notice shall be in such form as approved by the commissioner and shall inform the policyholder of the procedures to be followed in commenting on such change and in the conduct of the hearing.

- 9(d). The provisions of paragraph 9(b) above shall not apply with respect to a separate account, the investment securities of which consist of the securities of an investment company registered under the Investment Company Act of 1940. The approval of the commissioner, given pursuant to paragraph 9(c), shall be required if the company seeks: (a) to substitute the securities of another such investment company as the investment medium for the assets of the separate account; or (b) to adopt a new investment policy permitting any other investment authorized by law.

- 9(e). A company that maintains a separate account for variable life insurance policies shall not, on behalf of such account, purchase or sell commodities or commodity contracts; purchase, sell, or write put and call options and combinations of such options; engage in short sales; or purchase securities on margin.

(Article VI of the NAIC Model Variable Contract Regulation
would be amended by the addition of language to present paragraph 6.)

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. Any rate of deduction or charge (excluding charges for taxes) used in determining the net rate of the investment return applied toward policy benefits shall not vary in accordance with the difference between the investment performance of the separate account and any index of securities prices or other measure of investment performance.

SUGGESTED ARTICLE VII: REQUIRED REPORTS

(Article VII of the NAIC Model Variable Contract Regulation
would be amended by deletion of the present Article and replacement with
the following sections dealing with reports to the commissioner and policyholders.)

1. Each company shall submit annually to the 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 annuity 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) a statement or statements reporting the investments allocated to the separate account; and
 - (b) in the case of an annuity contract under which payments have not yet commenced, a statement or statements reporting as of a date not more than four months previous to the date of mailing (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.
3. Any company issuing variable life insurance policies shall mail to the policyholder at least once in each policy year after the first at his last address known to the company a statement or statements with respect to such policy reporting the dollar amount of:
 - (a) the death benefit and cash value of the policy as of a date not more than four months previous to the date of mailing; and
 - (b) in the case of a participating policy:
 - (i) the policy dividend, if any, for the preceding policy year;
 - (ii) if dividends have been used to purchase additions to the policy, the amount of additions purchased by the dividend for the preceding policy year and the total amount of additions in force; and
 - (iii) if dividends have been accumulated at interest, the total amount of such accumulations.
4. Any company issuing variable life insurance policies shall mail to the policyholder annually at his last address known to the company a report or reports containing:
 - (a) financial statements of the company for the preceding fiscal year, including a balance sheet and related statements of operations, surplus, and changes in financial position;
 - (b) financial statements of the separate account for the preceding fiscal year, including a statement of assets and liabilities, statement of operations, and a schedule showing the amounts and values of investments allocated to the separate account;

- (c) certificates of independent public accountants based upon audits of the company and the separate account;
- (d) a statement for the preceding fiscal year of the aggregate amount of charges (excluding charges for taxes) made in arriving at the net rate of investment return applied toward policy benefits;
- (e) a statement of the rate of turnover during the preceding fiscal year of investments allocated to the separate account;
- (f) a statement of any change since the last report to policyholders in the investment objective and orientation of the separate account, or in any investment restriction or material quantitative or qualitative investment requirement applicable to the separate account, or in the investment adviser of the separate account;
- (g) the names and principal occupations of each principal executive officer and each director of the company;
- (h) the names of all parents of the company and the basis of control of the company, and the name of any other person who is known to own of record or beneficially 10% or more of the outstanding voting securities of the company; and
- (i) the name of each securities broker employed on behalf of the separate account in which the company or any officer or director of the company or any person controlling, controlled by, or under common control with the company has any material direct or indirect interest, and the nature of such business and the amount of brokerage fees received by each such broker from business originating with the separate account during the preceding fiscal year.

VARIABLE ANNUITIES AND OTHER CONTRACTS (C4) SUBCOMMITTEE

April 23 and 24, 1973
Milwaukee, Wisconsin

A meeting of the Variable Annuities and Other Contracts (C4) Subcommittee was held in Milwaukee, Wisconsin, on April 23 and 24, 1973, at the Central Office of the NAIC.

Represented at the meeting were the following Subcommittee member states: Hon. Paul B. Altermatt, Chairman, Connecticut; F. Joseph O'Regan, California; Donald Erway, Nebraska; Hon. F. Frank Howatt, Oregon; Gerald Dolman and Robert Lomicky, both of New York. Also present were: Frederick Martin, Florida; Joseph Krenz and Thomas Stone of Arkansas, and Bruce W. Clements, NAIC Central Office.

The meeting opened at 10 a.m. on April 23, recessed for lunch, reconvened, and adjourned at approximately 6 p.m.

The Committee reconvened at 8 a.m. the following morning and adjourned at approximately 2:30 p.m.

During the course of the meeting, various problem areas were identified and assigned to each represented state. Reports are to be mailed to all participating members prior to May 8, 1973. The reports are to be reviewed at the meeting to be held in Hartford on May 16 and 17, 1973.

Included in the problem areas for further exploration and study in the reports were: agents' licenses; policy forms; treatment of separate accounts, including valuation, annual reports, and method of reporting the status of the policy with respect to individual policyholders; regulation of management; administrative and sales charges; restriction on transactions with affiliates; and disclosure documents.

Paul B. Altermatt, Chairman
Variable Annuities and Other Contracts (C4) Subcommittee

VARIABLE ANNUITIES AND OTHER CONTRACTS (C4) SUBCOMMITTEE

May 16 and 17, 1973
Hartford, Connecticut

A meeting of the Variable Annuities and Other Contracts (C4) Subcommittee was held in Hartford on May 16 and 17, 1973, at the Connecticut Insurance Department. Commissioner Paul B. Altermatt, chairman, presided.

The meeting opened at 9 a.m. on Wednesday, May 16, and members of the insurance industry made presentations to the Subcommittee until 1:15 p.m. A court reporter was present and recorded the industry's presentation verbatim.

After lunch, the Subcommittee conferred with three representatives of the Securities and Exchange Commission who had attended the morning session.

At approximately 3 p.m., the Subcommittee went into executive session and adjourned at 4:45 p.m.

Represented at this session were the following Subcommittee member states: F. Joseph O'Regan, California; Hon. F. Frank Howatt, Oregon; Gerald Dolman and Robert Lomicky, New York; Maximilian Wallach, District of Columbia; J. Frederick Bitzer, Peter Kelly, and Martin Levenson (representing consulting actuary), all of Connecticut; and Ronald Elmshauser, Nebraska. Also present were: Frederick Martin, Florida, and Bruce W. Clements, NAIC Central Office. Members of the insurance industry present during the open session were: Richard Minck, Robert J. Routier, Paul J. Mason, Ralph Gustin (John Hancock), and Robert R. Googins (Connecticut Mutual) of the American Life Insurance Association; Jim Janke, IDS Life Company; Harry Walker, Equitable Life Assurance Society; James Baylor, NARE Life Service Company; and Larry Gilbertson, Aetna Variable Life Insurance Co. Members of the Securities & Exchange Commission present were: Anne Jones, Mary E. T. Beach, and John Ake.

The meeting reconvened on Thursday, May 17, at 8 a.m. and adjourned at 3:30 p.m.

A set of resolutions specifying ways of formulating later drafts of proposed model regulations was tentatively approved. The Subcommittee also voted to send a letter to Messrs. Harry Walker of the Equitable LIFE Assurance Society and Larry Gilbertson, (C4) chairman of the Industry Advisory Committee. The letter expresses the Subcommittee's reactions to industry (ALIA) suggested guidelines submitted to the SEC for variable life insurance registration statements.

Paul B. Altermatt, Chairman
Variable Annuities and Other Contracts (C4) Subcommittee
