

3. Report from the American Academy of Actuaries

Walter N. Miller (Prudential) presented a statement on behalf of the American Academy of Actuaries (Attachment One-D). Commissioner Weaver thanked him for the report and noted that the task force was in the process of gathering information from many sources and would consider all the information provided. Sheldon Summers (Calif.) said the Life and Health Actuarial (Technical) Task Force was monitoring the work of the Academy of Actuaries.

4. Technical Resources Report

George Coleman (Prudential) gave a report on behalf of a number of companies and trade associations that had studied the matter of policy illustrations (Attachment One-E). He said he was very pleased that the NAIC is considering this important issue. The group he represents also recognizes that there are problems that need to be addressed. They have not yet considered whether uniform enactment of NAIC model language would solve the problems.

5. Any Other Matters Brought Before the Working Group

Commissioner Weaver asked if anyone else had comments or questions. Mr. Miller asked if this group would formulate a response to the letter from Senator Metzenbaum (attached to the September 1992 minutes) in regard to disclosure. Commissioner Weaver said the NAIC had already responded with a description of what this committee was doing, and when the group's work was complete, Senator Metzenbaum would be updated.

James Hunt (National Insurance Consumer Organization) stated that in his experience most people are very confused about the coverage they have. In some cases this committee cannot ameliorate the problem because real revisions to nonforfeiture laws are needed. He agreed with the points raised by Mr. Nelson, but thought that the public would not be helped by more disclosure, since they already suffer from information overload.

Bonnie Burns (California Association of HICAPS) said she often counseled senior citizens on life insurance. She spoke in favor of simplified illustrations so people could understand them. Some do not know they have purchased a life insurance product requiring yearly premiums. There may be long-term care benefits with a different trigger than a long-term care policy.

Commissioner Weaver asked for suggestions from the working group on the best way to proceed. He said the working group has been receiving comments for the past three or four months and should now formulate a plan.

Bob Wright (Va.) suggested that now would be an appropriate time to put together the comments received and decide what was the best approach. Mr. Morgan asked if the working group would be formulating new textual rules or what approach they would take. Commissioner Weaver responded that the group would not erode what the NAIC has previously done, but would look for places the model needs strengthening.

Mr. Morgan stated that his experience was that consumers did not understand what they had purchased. It was important to make crystal clear that they had purchased a life insurance product. He said there should be an understandable way of saying that the company is guessing because there is no way to know what will happen in the future. Melodie Bankers (Wash.) agreed that many people think they have purchased an investment and do not understand they have a continuing obligation to pay premiums.

Commissioner Weaver again asked for suggestions on how best to proceed. It was decided that members of the working group would submit suggestions to the NAIC staff within 45 days. Other interested parties were also invited to submit suggestions for draft language. The working group will discuss the proposals in a conference call and work toward the goal of having a draft ready by the summer meeting in Chicago, with final adoption by December.

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

ATTACHMENT ONE-A

Summary of NAIC Activity Life Insurance Disclosure/Illustrations

I. The NAIC first adopted the Life Insurance Disclosure Model Regulation in December 1975. It briefly set forth requirements for a policy summary and some general rules for disclosure. A Buyer's Guide was added in June 1976.

II. In December 1983 the model was extensively amended to provide for various indices to assist consumers in comparing the yield of different types of policies (*Proceedings of the NAIC 1984*, vol. I page 497). The appendices which contain examples and the Buyer's Guide were inadvertently not included in the *Proceedings*. The Buyer's Guide apparently was amended to include information on universal life and other new developments, but no underlined version exists. At the time these revisions were adopted, the task force expressed concern that no index existed which could effectively measure yield. A committee was immediately appointed to come up with a rate-of-return formula. The work of this committee was completed in June 1989 when

a yield index formula was adopted. It was decided to provide an alternative to the disclosure model rather than incorporating the yield index in the existing model regulation (*NAIC Model Laws, Regulations and Guidelines* page 581-1).

III. In June of 1988 provisions were added to the model regulation to require disclosures related to preneed funeral contracts (*Proceedings of the NAIC 1988*, vol. II page 509).

IV. In June 1989 the Life Insurance (A) Committee adopted disclosure statements to assist consumers in comparison of different types of interest-sensitive insurance products. After adoption the forms were tested with consumers and revisions made in December 1989 according to the comments received (*NAIC Model Laws, Regulations and Guidelines*, page 581-25). The aim of the working group was to make the statements easy to understand and distribute them to consumers early enough in the purchase process to aid in meaningful comparison. Changes to the models were made to indicate that the disclosures should be delivered at the time of application or within 15 working days thereafter. It had been the desire of the working group to require delivery at the time of application, but small insurance companies would have a great deal of trouble complying with that requirement so the extra period was allowed by way of compromise. The group identified several abuses which they attempted to address. The disclosure forms were also added to the Universal Life Model Regulation.

V. In 1990 a working group was appointed to look at issues specifically related to senior citizens. This working group developed a form to disclose to consumers over age 60 the possibility that premiums might exceed death benefit at a certain point. In 1991 the form was revised and the free look period on limited benefit policies extended to 30 days. Changes were made to the disclosure model to require notice and delivery of the form (*Proceedings*, 1991, vol. IA, page 549). In 1992 a Guide to Buying Life Insurance After Age 60 was adopted to explain the disclosure form (*NAIC Model Laws, Regulations and Guidelines* page 580-39).

VI. In addition to the changes to the Life Insurance Disclosure Model Act and the Universal Life Model Regulation, the Life Insurance (A) Committee has also adopted two related documents. In December 1990 a Bulletin on Illustrated Interest Projections was adopted (*NAIC Model Laws, Regulations and Guidelines* page 572-1). In June of 1986 an Illustrations Guideline for Variable Life Insurance was adopted. It contains a set of suggestions for illustrations for variable life products. (*NAIC Model Laws, Regulations and Guidelines* page 271-1) The Market Conduct Surveillance (EX3) Task Force amended the Rules Governing the Advertising of Life Insurance in 1987 to provide more disclosure (*Proceedings*, 1988, vol. I, page 138).

ATTACHMENT ONE-B

NAIC State Adoption of Life Insurance Disclosure Provisions Found in NAIC Model Laws

NAIC model provisions: The original Life Insurance Disclosure Model Regulation sets forth requirements for a policy summary and general disclosure rules. A Buyer's Guide was added in 1976, along with some model enhancements. The model was substantially revised in 1983 to provide for various indices to assist in comparing yield.

The Buyer's Guide was amended in 1984 to include universal life and other newer product information.

In June 1988 provisions were added to require disclosures related to prepaid funeral contracts.

In June 1989 an alternative model was prepared which included a yield index.

Also in June 1989 illustrations were prepared to disclose information on interest sensitive products.

In 1990 the NAIC developed a form to disclose information on limited benefit life insurance plans generally marketed to people over the age of 60. An explanatory guide to the Financial Review of Policy Form was developed in 1992.