

i) If yes, what is the aggregate reduction in surplus of a unilateral cancellation by the reinsurer as of the date of this statement, for those agreements in which cancellation results in a net obligation of the company to the reinsurer, and for which such obligation is not presently accrued? \$ _____

ii) What is the total amount of reinsurance credits taken, whether as an asset or as a reduction of liability, for these agreements in this statement? \$ _____

B. Does the company have any reinsurance agreements in effect under which the amount of losses paid or accrued through the statement date may result in a payment to the reinsurer of amounts which in aggregate and allowing for offset of mutual credits from other reinsurance agreements with the same reinsurer, exceed the total direct premium collected under the reinsured policies? Yes () No () If yes, give full details.

C. Does the company have any reinsurance agreements in effect, excluding facultative, yearly renewable term, stop-loss or catastrophic coverages, under which the amount of losses paid or accrued through the statement date may result in a payment to the reinsurer of amounts which in aggregate and allowing for offset of mutual credits from other reinsurance agreements with the same reinsurer, exceed the total direct premium collected under the reinsured policies. Yes () No () If yes, give full details.

Section 3 Ceded Reinsurance Report - Part B

A. What is the aggregate reduction in surplus for agreements not reflected in Section 2 above, of termination of all reinsurance agreements, by either party, as of the date of this statement? \$ _____

B. Have any new agreements been executed or existing agreements amended, since January 1 of the year of this statement, to include policies or contracts which were in-force or which had existing reserves established by the company as of the effective date of the agreement? Yes () No () If yes, what is the amount of reinsurance credits, whether an asset or a reduction of liability, taken for such new agreements or amendments? \$ _____

ATTACHMENT ONE-H

ARTICLE 9. REQUIREMENTS FOR LEDGER ILLUSTRATIONS USED IN THE SALE OF LIFE INSURANCE AN ANNUITY POLICIES DRAFT COPY FOR DISCUSSION ONLY

SS 10509.10 Purpose

The purpose of this article is the following:

- (a) To regulate the preparation and use of ledger illustrations in sale of permanent life insurance and deferred annuities.
- (b) To establish standards to be used in preparation of ledger illustration used in the sale of permanent life insurance and deferred annuities.
- (c) To help educate the purchaser as to the understanding of and proper use of a ledger illustration.

SS 10509.11 Application of article

This article is applicable to all life insurance and annuity sales where a ledger illustration is used in the solicitation.

SS 10509.12 Definitions

- (a) "Ledger illustration" means a year by year extension into the future of values and benefits on a guaranteed (G) and non-guaranteed or illustrated basis (NG), the latter (NG) on the assumption that current experience factors such as interest, mortality and expense, will continue unchanged into the future. (Note the statute imposes a maximum interest rate after 10 years.)
- (b) "Current scale" means the current dividend scale for participating insurance or the current set of interest, mortality and expense factors used in the illustration of non-guaranteed charges or benefits.

SS 10509.13 Insurance and annuities excluded from article

Unless otherwise specifically included, this article does not apply to the following:

- (a) Credit life insurance.
- (b) Term insurance.
- (c) Noncontributory group life insurance where a ledger illustration is not used in the solicitation of the business.
- (d) Reinsurance.
- (e) A solicitation where a ledger illustration is not used.

S 105109.14 Requirements for the preparation of ledger illustrations

Every ledger illustration prepared for delivery in this state shall meet the following requirements:

- (a) The ledger illustration must be based on factors not more favorable than what the company is paying under the insurer's current scale.
- (b) Each ledger illustration must state that it is neither a guarantee nor an estimate of future results, that it is based on current pricing factors which can change and that as these factors change the scale will change and that is a virtual certainty that actual results will differ from what was illustrated.

- (c) Current dividends shall be illustrated with the use of experience factors consistent with current experience. Non-guaranteed charges and benefit factors shall be illustrated with the use of experience factors consistent with currently anticipated experience.
- (d) Within 120 days from the date it is determined that the currently illustrated scale cannot be supported by current experience or currently anticipated experience, the illustrated scale shall be reduced to that which can be supported.
- (e) The development of current scales and ledger illustrations shall be consistent with the principles and standards of performance as promulgated by the Actuarial Standards Board of the American Academy of Actuaries.
- (f) Ledger illustrations may not assume ongoing changes that would increase the scale (e.g., improving mortality). Ongoing changes that would reduce the scale are permitted (e.g., increasing unit expenses or decreasing interest rates).
- (g) Projection of experience trends is not permitted beyond one year. Consistency between current scales and ledger illustrations is required. Ledger illustrations shall be related to scales actually being paid on in-force plans in an equitable and justifiable manner.
- (h) Ledger illustrations shall appropriately reflect the current financial results of the company.
- (i) Each company shall have a written current policy on file at its home office (available to the commissioner on request) for determination and redetermination of dividends and non-guaranteed charges and benefits currently being paid and illustrated.
- (j) In the redetermination of non-guaranteed charges and benefits for current payment or illustration past losses are not permitted to be used. Past gains may be used for the determination of current payout but not for illustration.
- (k) The projected interest rate of return for non-guaranteed benefits for durations beyond 10 years shall not exceed the rate of return on 30-year treasury bills rounded to the lower .25%, or the guaranteed rate, if higher. For the current calendar year the rate on October 1st of the previous calendar year shall be used. Where an interest margin is used to cover expenses, such 30-year treasury rate shall be reduced by such margin.
- (l) Where an interest margin is used to amortize initial expenses, the interest rate credited may increase after the expenses are fully amortized. However, such increase may not be illustrated.
- (m) A ledger illustration based on the current scale shall accompany each form filing.
- (n) The ledger illustration shall show with equal or greater prominence the guaranteed values and benefits along with those not guaranteed. Each column must be designated G-guaranteed, or NG-not guaranteed.

SS 10509.25 Regulations

The commissioner may issue regulations to support this article. Such regulations shall cover items such as smoothness tests, forward pricing, lapse supported ledger illustration, supportability, enhancements and other related topics.

SS 10509.16 Additional Requirements

- (a) A ledger illustration shall be provided that is consistent with the policy actually issued (the amount of coverage, premium, mortality class, etc.).
- (b) The applicant shall sign a statement that he or she has reviewed the ledger illustration and that he or she understands its limitations. This acknowledgment along with a copy of the illustration shall be retained with the original application by the insurer.
- (c) The insurer shall notify the policy owner each time there is a decrease in scale below what was originally illustrated. Upon request the insurer shall provide new illustrated values based on the current scale.
- (d) The following Guide to Understanding of Ledger Illustrations shall be presented with each ledger illustration.

see attached sheet

SS 10509.17 Administration penalties

Same as SS 10509.9

SS 10509.18 Effective date

This article shall become effective January 1, 1994.

GUIDE TO UNDERSTANDING OF LEDGER ILLUSTRATIONS

This guide is being provided to you so that you can better understand what a ledger illustration is and is not. This is required by law.

What is a ledger illustration?

It is an extension into the indefinite future of current experience factors affecting interest, mortality and expense. These factors reflect current experience. As experience with the factors that affect the performance of a product change, the numbers and results that are non-guaranteed also will change. The ledger illustration also shows with equal prominence values that are guaranteed. The company cannot pay less than these. (Note: the statute imposes a maximum interest rate after 10 years.)

What are the chances that a company will pay exactly what is illustrated?

Nil or zero. If nothing changes in all the experience factors the company will be able to pay exactly what is illustrated. However, we know that these factors will change as experience changes. Interest rates go up and down. Mortality experience changes: it is helped by medical breakthroughs and hurt by things similar to AIDS. Unit expenses change: helped by increased productivity and hurt by inflation.

What are the chances that the company will be able to pay more than illustrated?

It depends on how likely experience factors will be better in the future. For example, if the interest rates increase and are greater than those in effect at the time of purchase, chances are very good that the company will pay more.

What are the chances that the company will have to pay less than illustrated?

It depends on how likely experience factors will be poorer in the future. For example, if interest rates decrease and are lower than those in effect at the time of purchase it is very likely the company will pay less.

Should I rely on the numbers in the illustration?

"Yes" for the guaranteed numbers. For the non-guaranteed numbers—"not at all": these are to show you how the plan would work and help you understand the plan based on an extension into the future of current experience factors which will change as experience unfolds.

What is a ledger illustration not?

The non-guaranteed portion of a ledger illustration is:

- (a) Not a guarantee to pay what is illustrated.
- (b) Not a promise to pay what is illustrated.
- (c) Not a most likely scenario of what will be paid. It might be the least likely.

Remember: The purpose of a ledger illustration is to help you understand how the product works. The better you understand the product the better you'll be able to compare similar products of other companies.

ATTACHMENT TWO

Report of the Life and Health Actuarial (Technical) Task Force
to the Accident & Health Insurance (B) Committee
Chicago, Illinois
June 23, 1993

The Life and Health Actuarial (Technical) Task Force has had two meetings and one conference call since the March 1993 meeting in Nashville, Tenn. The first meeting was at Glendale, Calif., on April 26, 27 and 28, 1993, and the second at Chicago on June 17, 18 and 19, 1993. The conference call was on May 28, 1993. This report is in three sections as listed below.

The report sections are:

- A. List of Projects
- B. Synopsis of Projects
- C. Recommendations

All projects listed are reported to the Accident and Health Insurance (B) Committee.

An Accident and Health Working Group was created in December 1990 and presently consists of five members of the actuarial task force. The Nonforfeiture Law Working Group, presently consisting of five members of the actuarial task force, has also been appointed to work on revision of the Standard Nonforfeiture Laws but the immediate work assignments do not include any accident and health insurance aspects.

There are two attachments to this report:

1. Attachment Two-A—A draft of a proposed new "Model Regulation for Rating and Filing of Individual and Group Health Insurance Contracts."
2. Attachment Two-B—A cover memorandum, dated June 14, 1993, which accompanied a previous draft of the proposed model regulation described above, along with an overview document containing additional information about that draft regulation.

A. LIST OF PROJECTS - ACCIDENT & HEALTH INSURANCE (B) COMMITTEE

<u>Project</u>	<u>Identification</u>	<u>Group</u>	<u>Year Auth.</u>	<u>Year Comp.</u>	<u>Staff Contact</u>	<u>Priority*</u>
2	<u>Premium Rating Principles</u>					
2a	Rate-Filing Guidelines	AHWG	82	93	JOM, RB, LMG, RD, JF	1
2b	Minimum Loss Ratios	AHWG	93	93	JOM, RB, LMG, RD, JF	1
2c	Closed Blocks of Individual Health Insurance	AHWG	93	93	JOM, RB, LMG, RD, JF	1
2d	Medical Care Indices Relating to Rate Increase Requests	AHWG	93	93	JOM, RB, LMG, RD, JF	1