

ATTACHMENT SIX-A

The Prudential

June 21, 1993

The Honorable Steven T. Foster  
Commissioner of Insurance  
Commonwealth of Virginia  
Richmond, Virginia 23209

Re: Recommendation from the Insurance Industry Committee On Life Insurance Disclosure

Dear Commissioner Foster:

The members of the former Advisory Committee to the NAIC Life Disclosure Working Group have continued to meet in furtherance of the goals of improving life insurance policy disclosure. At the March 8, 1993, meeting of the Working Group we presented our views concerning the recommendations made by the American Academy of Actuaries concerning illustration practices. In the discussion of the Working Group which followed our presentation and the presentations by the representatives of the Academy and National Association of Life Underwriters (NALU), we were struck by a common theme. That theme was that life insurance policy illustrations were too complicated and that too many consumers misunderstood what they were buying. Indeed, there was comment that some policyholders didn't even realize that it was life insurance they were purchasing.

Those of us who have been in the business of life insurance or in the business of regulation of life insurance for any period of time know that these are complex financial instruments. However, even complex financial instruments can be explained in such a way as to make their key elements understandable to most consumers. While we can't wave a magic wand and un-complicate complicated policies, we can work to make them more understandable.

With that in mind, we approached the subject of policy illustration from a new direction. We decided that we could help un-complicate the mysteries of sophisticated life insurance policies by improving the disclosures accompanying policy illustrations. Our idea was to require illustration cover pages which would include certain essential information about the policy being illustrated and the illustration itself. This information would have to be clear and it would have to be concise. Otherwise, we fear that it would not be read.

The model advertising regulation would establish the requirements. Companies could use their own language as long as it conveyed the required information. Certain essential life insurance policy information would be common to all illustration cover pages whether they related to plain vanilla whole life policies or very sophisticated modular policies. The more sophisticated policies would require additional disclosures.

Our preliminary recommendations for Working Group consideration are included as Exhibit A. These recommendations are preliminary and would have to be further refined and reduced to model life insurance advertising act format. However, we believe the exhibit will give you a good idea as to the direction in which we have been going.

Our committee is hopeful that you will carefully review our recommendations. We are prepared to address any questions that you may have today or at any time in the future. Because this issue is so important to us, our committee intends to stay together to see this process through to a successful conclusion. We believe that improved regulation in this area will be of real benefit to insurance consumers and to the life insurance industry as well.

Sincerely,  
George Coleman

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## EXHIBIT A

REQUIREMENTS FOR ILLUSTRATION COVER PAGES  
June 21, 1993

Each life insurance policy illustration shall include a cover page containing the following information:

Policy Description

- A heading for the face page which would include a statement that the policy being illustrated is a life insurance or an annuity contract (as applicable). If additional benefits are provided they can be described in the body of the face page information.
- The generic name of the policy being illustrated. The generic name is a short title that is descriptive of the premium and benefit patterns of the policy.

Premium Requirements

- A statement as to the length of time that premiums are required to be paid under the terms of the contract.
- If the policy is universal life, a statement as to when coverage will lapse using the illustrated premium and assuming a worst case scenario, i.e.,: guaranteed interest crediting rate, guaranteed mortality and guaranteed expense charges, and what additional premium is required to guarantee coverage for life.

Benefits Payable

- A statement describing when or under what circumstances death benefits or annuity benefits are payable.

Variance of Actual Benefits and Values From Illustrated Benefits and Values

- If non-guaranteed benefits are illustrated, a statement to the effect that the illustration is based on certain assumptions which are not guaranteed and actual results may be less or more favorable.
- A statement recommending that the policyholder periodically check the status of policy values.

Policy Features or Options Affecting Actual Benefits or Values

The coverage page shall also include a more specific brief description of policy features or options, either guaranteed or non-guaranteed, that have or will have a material impact on the values, benefits or costs of the policy and what impact they will have. Examples of such features and required disclosures with respect to them, are as follows:

- Scheduled changes in premium levels or benefits.
- Persistency bonuses affecting cash values.
- The details of any modular premium structure, including the significance of the proportion of whole life and term, and a statement that the non-guaranteed elements are subject to change.
- Multiple benefit streams arising from policies variously described as two-tier, multiple benefit or the like, including those with life and annuity components. With such policies the varying availability of benefits must be disclosed.
- Changes in cash value upon the first death for a second-to-die or multiple life policy. If values do change, the insurer would describe when the first death is illustrated to occur and why this assumption was made.
- Where premiums are illustrated on an abbreviated (vanishing) payment schedule a statement must be included that out-of-pocket premium payments will not cease as illustrated if actual experience is less favorable than that assumed in the illustration. The statement must advise that in such a case additional premiums may need to be paid out-of-pocket in order to maintain policy values and to keep the policy in-force. Further, it must be disclosed that reaching a point where out-of-pocket premiums are no longer required under an abbreviated payment schedule does not mean that the policy is paid-up.
- At the very end, a statement to the effect that the illustration is intended to assist the applicant (policyowner) in understanding how the policy works; that illustrations are not to be used by themselves to compare different policies; and that for comparison purposes other factors are important, such as the insurer's financial condition, historic performance record, the services that policyholders expect to receive and the individual policy features themselves.

## RESOURCE COMMITTEE ON LIFE INSURANCE DISCLOSURE

William N. Albus, The National Association of Life Underwriters	Linda Lanam, Life Insurance Company of Virginia
Bruce E. Booker, F.S.A., Life of Virginia	Barbara J. Lautzenheiser, Lautzenheiser & Associates
<u>Chair</u> , George T. Coleman, The Prudential Insurance Company of America	Suzanne Logan, Confederation Life
Jim Ellis, General American Life Insurance Co.	Diana M. Marchesi, Transamerica Occidental Life
Judy A. Faucett, Coopers & Lybrand	Bartley L. Munson, Coopers & Lybrand
Mark Feldman, Mark Feldman Associates	Thomas B. Phillips, American General Life Insurance Co.
William B. Fisher, Mass Mutual Life Insurance Co.	Cosette R. Simon, Lincoln National Corporation
Anne Flanagan, Teachers Ins. And Annuity Assoc. College Retirement Equities Fund	Stephen W. Still, Torchmark Corporation
Edwin F. Jackson, Mitchell, Williams, Selig, Gates & Woodyard	Paul J. Tidwell, CIGNA
William C. Koenig, Northwestern Mutual Life Insurance Co.	Galen F. Ullstrom, Mutual of Omaha Insurance Company

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ATTACHMENT SIX-B

California Discussion Draft

## Requirements for Ledger Illustrations Used in the Sale of Life Insurance and Annuity Policies

## Section 1. 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 illustrations 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.

## Section 2. Application of Article

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

## Section 3. 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.

## Section 4. 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. Non-contributory 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.

## Section 5. Requirements for the Preparation of Ledger Illustrations

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

*Life Insurance Committee*