ATTACHMENT FOUR-C

Statement of the National Association of Life Underwriters (NALU)
to the NAIC Life Disclosure Working Group
of the Life Insurance (A) Committee
on Life Insurance Illustrations
January 31, 1994

THE NATIONAL ASSOCIATION OF LIFE UNDERWRITERS IS TOTALLY COMMITTED TO ILLUSTRATION REFORM. The insurance industry and the insurance regulators have learned much during recent years about the effect on our products of wide swings in interest rates. Additionally, there have been major technological advances in the industry's ability to illustrate, communicate and design insurance products. It is now time to apply this knowledge and insight to bring clarity to the purchase of life insurance to help the consumer make an *informed decision.*

STATEMENT

Everyone benefits from a satisfied customer! The life insurance industry is no exception. Life insurance purchased for the right reasons, understood by the consumer at the time of purchase and throughout the term of the contract, is fundamental for creating and keeping a satisfied customer in our business.

As agents we strongly believe that the sales illustration is a useful tool to demonstrate how a policy works and to aid the consumer in making an informed decision at the time of purchase. We have long pleaded our case that illustrations need reform—well thought-out reform!

As we are in the final days of that process, we hope to show how rational reform can transform the sales illustration into the user-friendly aid that we all desire it to be. We will show that a reformed sales illustration can, by itself, add to the consumer's understanding of the policy and, in fact, make an informed decision more likely.

The following are our major recommendations that we are positive will eliminate, or minimize, whatever lack of understanding exists in the marketplace today. NALU is prepared to actively support the adoption of legislation and/or regulations containing these provisions in each of the 50 states and the District of Columbia.

RECOMMENDATIONS

1. Consumers must receive illustrations of values that insurers, at the time of presentation, reasonably expect to support, in accordance with and for the limited time span covered by Schedule M and Exhibit 8 of their annual statements. If the company is unable to provide such an illustration, then a statement must be prominently displayed on the illustration to the effect that it does not meet this requirement. This will answer the NAIC Life Insurance Disclosure Working Group's concern about supportability as expressed in its August 1993 Position Paper on Life Insurance Illustrations.

2. Consumers should sign a disclosure statement whereby they acknowledge that they have read the illustration, and understand that non-guaranteed elements and dividends are not guaranteed. The agent must also sign the disclosure statement verifying that he or she has explained the guaranteed and non-guaranteed policy elements. Such a requirement would satisfy the accountability problem mentioned by the NAIC. *Exhibit 1*

3. Consumers must be made aware that current illustrative results are not a prediction of future values, but rather a snapshot of how the policy would work if current scale were to remain unchanged. Sensitivity to change can be accomplished by showing three columns of values: guaranteed, current and current minus 1% (100 basis points). If the policy is particularly sensitive to changes in non-guaranteed elements other than interest, (i.e., mortality), this fact should also be disclosed. The illustrated values will demonstrate the impact of change and additional narrative clarifications can be described on the "Cover" or "Explanation" Page proposed by the Technical Resource Group in its June 21, 1993, letter to the NAIC Working Group. The Cover Page is intended to incorporate information of this type. This approach will address the concerns over changes in underlying assumptions that the NAIC stated in its Position Paper. *Exhibit 2*

4. Sales illustrations should not be used by themselves to compare policies. The following paragraphs describe why illustrations should not be used by themselves for comparison purposes and the substance of these remarks should be incorporated into the Technical Resource Group's proposed Cover or Explanation Page.

> Sales illustrations should not be used by themselves to compare policies. Life insurance policies are complex financial instruments, which generally contain both guaranteed and non-guaranteed elements. A sales illustration may be helpful in understanding how a particular policy performs under specified circumstances. It is not feasible, however, to use sales illustrations alone to determine whether one policy is a better buy than another.
>
> Today's illustrations are not adequate for comparison purposes because it is generally impossible to obtain illustrations from different companies, or even for different policies of the same company, that are based on sufficiently similar factors to be comparable.

This results from the fact that there are considerable differences among companies in the bases they use for various non-guaranteed elements and dividends and other pricing elements underlying their sales illustrations. At present, there is relatively little dissemination of information regarding these bases.

Questions involved in selecting an insurance company require knowledge and analysis of assumptions; consideration of financial circumstances of the company; the quality and availability of service of the company and agent, and the individual policy provisions under consideration.

This will aid consumer understanding and prevent misuse of illustrations, a concern noted by the NAIC.

5. Consumers must receive descriptions of all policy types and all riders integral to the product being illustrated, as is being recommended by the Technical Resource Group. These Cover Page explanations will enhance consumer comprehension of policy provisions and minimize misunderstanding.

6. Consumers should receive illustrations that show year-by-year values for the first 20 years, plus years when significant policy changes may occur, such as premium reappearance. In addition, they should receive illustrated values for ten-year-period increments to maturity. The figures should be rounded down after year 10 from inception of the policy to the lower hundred dollars. The years illustrated are important to demonstrate to consumers when major changes to policy values might take place and the rounding down lessens the impression of precision. *Exhibit 3*

7. Consumers considering illustrations that demonstrate vanishing premiums should receive adequate disclosure of the vanishing concept. The illustration will show guaranteed and non-guaranteed elements and dividend values based on a specific premium pattern and the premiums necessary to maintain the original death benefit to maturity for all years under guaranteed assumptions, subject to the maximum premium allowed under Internal Revenue Code §7702. These factors will also be explained in a narrative on the Cover Page. This will alleviate the problems associated with "vanishing premium" policies. *Exhibit 4*

8. If consumers are considering illustrations that demonstrate second-to-die policies, they should receive information on the Cover Page as to whether the policy values change at the first death and, if so, how they change.

9. If consumers are considering illustrations that demonstrate "blended" or "modular" policy/rider combinations they should receive clear disclosure of the modular structure in the illustration.

10. In order for consumers to understand changes that have taken place which affect their policies, and how to use their policies through changing times to achieve desired results, policyholders or their agents should be able to receive in-force policy illustrations upon request. This would help resolve the NAIC's concerns with explaining the significance of changes in current scales to policyowners. *Exhibit 5*

11. If an agent provides the buyer with a self-prepared or third-party vendor software illustration it must be accompanied by a company-prepared or endorsed illustration, if available, or the agent's assurance that the third party vendor's illustration accurately reflects the policy's guaranteed and non-guaranteed values based on current scale. This will ease the NAIC's fear that agents will manipulate the values in the company illustration.

12. NALU has referred to the Actuarial Standards Board a request for actuarial standards encompassing more precise definitions and more detailed methodology governing the terms "supportability" and "current experience." This will address the concern the NAIC has expressed regarding the application of these terms to current scales.

13. The Cover Page for any illustration should contain the annual premium necessary to maintain the policy to maturity based solely upon the guarantees in the policy. This will assist the policyowner in understanding the differences between guaranteed and non-guaranteed policy features.

CONCLUSIONS

These recommendations are the result of the NALU Task Force's experiences in the field and its contact with consumers and their reaction to illustrations used in sales situations.

It is also the culmination of the year-long review by NALU and our reassessment of the problems after dialogue with the NAIC. We have diligently reviewed our position and redefined our firmest beliefs. We have the utmost confidence in the benefits of a strong "Cover Page" as is being developed by the Technical Resource Group. We firmly believe that a reformed sales illustration along with a descriptive cover page and the requirement of a signature page is a responsible way to meet the need for change.

The marketplace will never be perfect but an informed consumer is the next best thing in a free market society.

NALU looks forward to the opportunity of working with state insurance departments in making certain consumers have the benefit of these improvements in how policy features are described.

Exhibit 1

CASE DESIGN ASSUMPTIONS

Your policy is illustrated on a current policy value basis.
It is assumed there is no change in the risk classification after issue.

You should carefully review the full proposal including the section entitled "Important Information About This Proposal."

I have received and reviewed all 7 pages of this proposal, including the section entitled "Important Information About this Proposal."

*

Policyowner (For Trust: this should be signed by the Trustee)

Date

Presented by: ROBERT WELSON, CLU Date

Agent

JANUARY 05, 1994

* To assure that the policyowner does understand the difference between guarantees and non-guarantees, the following language may be inserted:

> "I have had explained to me the guaranteed values in this policy and I recognize the difference between the guaranteed and non-guaranteed values contained in the illustration."

Exhibit 2

Mr. John Doe

Male Non-smoker
Age 45

Universal Life Insurance Illustration

			GUARANTEED			NON-GUARANTEED (CURRENT)		
YR	Age	Premium Paid	Loans, Withdrawals, Dividends Received	Net Surrender Value	Net Death Benefit	Loans, Withdrawals, Dividends Received	Net Surrender Value	Net Death Benefit
1	45	1,085	0	0	100,000	0	0	100,000
2	46	1,085	0	0	100,000	0	0	100,000
3	47	1,085	0	0	100,000	0	472	100,000
4	48	1,085	0	590	100,000	0	1,494	100,000
5	49	1,085	0	1,343	100,000	0	2,568	100,000
6	50	1,085	0	2,094	100,000	0	3,697	100,000
7	51	1,085	0	2,836	100,000	0	4,888	100,000
8	52	1,085	0	3,563	100,000	0	6,148	100,000
9	53	1,085	0	4,267	100,000	0	7,479	100,000
10	54	1,085	0	4,939	100,000	0	8,878	100,000
11	55	1,085	0	5,400	100,000	0	10,200	100,000
12	56	1,085	0	5,900	100,000	0	11,600	100,000
13	57	1,085	0	6,300	100,000	0	13,000	100,000
14	58	1,085	0	6,600	100,000	0	14,500	100,000
15	59	1,085	0	6,900	100,000	0	16,000	100,000
16	60	1,085	0	7,000	100,000	0	17,600	100,000
17	61	1,085	0	7,100	100,000	0	19,200	100,000
18	62	1,085	0	7,000	100,000	0	20,900	100,000
19	63	1,085	0	6,800	100,000	0	22,600	100,000
20	64	1,085	0	6,300	100,000	0	24,400	100,000
27	71	1,085	0	###	###	0	39,200	100,000
30	74	1,085				0	44,000	100,000
40	84	1,085				0	65,100	100,000
41	85	1,085				0	67,600	100,000
50	94	1,085				0	100,800	101,800

Exhibit 2

Mr. John Doe

Male Non-smoker
Age 45

Universal Life Insurance Illustration

NON-GUARANTEED (ALTERNATIVE)

YR	Age	Premium Paid	Loans, Withdrawals, Dividends Received	Net Surrender Value	Net Death Benefit
1	45	1,085	0	0	100,000
2	46	1,085	0	0	100,000
3	47	1,085	0	438	100,000
4	48	1,085	0	1,435	100,000
5	49	1,085	0	2,473	100,000
6	50	1,085	0	3,556	100,000
7	51	1,085	0	4,686	100,000
8	52	1,085	0	5,871	100,000
9	53	1,085	0	7,110	100,000
10	54	1,085	0	8,398	100,000
11	55	1,085	0	9,600	100,000
12	56	1,085	0	10,800	100,000
13	57	1,085	0	12,100	100,000
14	58	1,085	0	13,300	100,000
15	59	1,085	0	14,600	100,000
16	60	1,085	0	15,900	100,000
17	61	1,085	0	17,200	100,000
18	62	1,085	0	18,500	100,000
19	63	1,085	0	19,900	100,000
20	64	1,085	0	21,200	100,000
27	71	1,085	0	33,500	100,000
30	74	1,085	0	31,000	100,000
40	84	1,085	0	4,500	100,000
41	85	1,085	0	###	###
50	94	1,085			

Additional premiums necessary to continue coverage

Exhibit 3

Mr. John Doe

Male Non-smoker
Age 45

Universal Life Insurance Illustration

			GUARANTEED			NON-GUARANTEED (CURRENT)		
YR	Age	Premium Paid	Loans, Withdrawals, Dividends Received	Net Surrender Value	Net Death Benefit	Loans, Withdrawals, Dividends Received	Net Surrender Value	Net Death Benefit
1	45	1,085	0	0	100,000	0	0	100,000
2	46	1,085	0	0	100,000	0	0	100,000
3	47	1,085	0	0	100,000	0	472	100,000
4	48	1,085	0	590	100,000	0	1,494	100,000
5	49	1,085	0	1,343	100,000	0	2,568	100,000
6	50	1,085	0	2,094	100,000	0	3,697	100,000
7	51	1,085	0	2,836	100,000	0	4,888	100,000
8	52	1,085	0	3,563	100,000	0	6,148	100,000
9	53	1,085	0	4,267	100,000	0	7,479	100,000
10	54	1,085	0	4,939	100,000	0	8,878	100,000
11	55	1,085	0	5,400	100,000	0	10,200	100,000
12	56	1,085	0	5,900	100,000	0	11,600	100,000
13	57	1,085	0	6,300	100,000	0	13,000	100,000
14	58	1,085	0	6,600	100,000	0	14,500	100,000
15	59	1,085	0	6,900	100,000	0	16,000	100,000
16	60	1,085	0	7,000	100,000	0	17,600	100,000
17	61	1,085	0	7,100	100,000	0	19,200	100,000
18	62	1,085	0	7,000	100,000	0	20,900	100,000
19	63	1,085	0	6,800	100,000	0	22,600	100,000
20	64	1,085	0	6,300	100,000	0	24,400	100,000
27	71	1,085	0	###	###	0	39,200	100,000
30	74	1,085				0	44,000	100,000
40	84	1,085				0	65,100	100,000
41	85	1,085				0	67,600	100,000
50	94	1,085				0	100,800	101,800

Exhibit 3

Mr. John Doe

Male Non-smoker
Age 45

Universal Life Insurance Illustration

NON-GUARANTEED (ALTERNATIVE)

YR	Age	Premium Paid	Loans, Withdrawals, Dividends Received	Net Surrender Value	Net Death Benefit
1	45	1,085	0	0	100,000
2	46	1,085	0	0	100,000
3	47	1,085	0	438	100,000
4	48	1,085	0	1,435	100,000
5	49	1,085	0	2,473	100,000
6	50	1,085	0	3,556	100,000
7	51	1,085	0	4,686	100,000
8	52	1,085	0	5,871	100,000
9	53	1,085	0	7,110	100,000
10	54	1,085	0	8,398	100,000
11	55	1,085	0	9,600	100,000
12	56	1,085	0	10,800	100,000
13	57	1,085	0	12,100	100,000
14	58	1,085	0	13,300	100,000
15	59	1,085	0	14,600	100,000
16	60	1,085	0	15,900	100,000
17	61	1,085	0	17,200	100,000
18	62	1,085	0	18,500	100,000
19	63	1,085	0	19,900	100,000
20	64	1,085	0	21,200	100,000
27	71	1,085	0	33,500	100,000
30	74	1,085	0	31,000	100,000
40	84	1,085	0	4,500	100,000
41	85	1,085	0	###	###
50	94	1,085			

Additional premiums necessary to continue coverage

Exhibit 4

Mr. John Doe

Male Non-smoker
Age 45

Universal Life Insurance Illustration

			GUARANTEED			NON-GUARANTEED (CURRENT)		
YR	Age	Premium Paid	Loans, Withdrawals, Dividends Received	Net Surrender Value	Net Death Benefit	Loans, Withdrawals, Dividends Received	Net Surrender Value	Net Death Benefit
1	45	1,855	0	0	100,000	0	170	100,000
2	46	1,855	0	1,071	100,000	0	1,509	100,000
3	47	1,855	0	2,273	100,000	0	2,992	100,000
4	48	1,855	0	3,923	100,000	0	4,986	100,000
5	49	1,855	0	5,623	100,000	0	7,109	100,000
6	50	1,855	0	7,347	100,000	0	9,375	100,000
7	51	1,855	0	9,174	100,000	0	11,796	100,000
8	52	1,855	0	11,021	100,000	0	14,387	100,000
9	53	1,855	0	12,913	100,000	0	17,159	100,000
10	54	1,855	0	14,848	100,000	0	20,120	100,000
11	55	0	0	14,800	100,000	0	21,200	100,000
12	56	0	0	14,700	100,000	0	22,500	100,000
13	57	0	0	14,600	100,000	0	23,700	100,000
14	58	0	0	14,400	100,000	0	25,100	100,000
15	59	0	0	14,000	100,000	0	26,400	100,000
16	60	0	0	13,600	100,000	0	27,800	100,000
17	61	0	0	13,000	100,000	0	29,200	100,000
18	62	0	0	12,200	100,000	0	30,700	100,000
19	63	0	0	11,200	100,000	0	32,200	100,000
20	64	0	0	9,900	100,000	0	33,800	100,000
23	67	0	0	###	###	0	39,700	100,000
30	74	0				0	51,000	100,000
34	78	0				0	58,100	100,000
40	84	0				0	69,100	100,000
50	94	0				0	100,300	101,300

Exhibit 4

Mr. John Doe

Male Non-smoker
Age 45

Universal Life Insurance Illustration

NON-GUARANTEED (ALTERNATIVE)

YR	Age	Premium Paid	Loans, Withdrawals, Dividends Received	Net Surrender Value	Net Death Benefit
1	45	1,855	0	157	100,000
2	46	1,855	0	1,468	100,000
3	47	1,855	0	2,909	100,000
4	48	1,855	0	4,842	100,000
5	49	1,855	0	6,883	100,000
6	50	1,855	0	9,040	100,000
7	51	1,855	0	11,322	100,000
8	52	1,855	0	13,741	100,000
9	53	1,855	0	16,305	100,000
10	54	1,855	0	19,015	100,000
11	55	0	0	19,900	100,000
12	56	0	0	20,800	100,000
13	57	0	0	21,700	100,000
14	58	0	0	22,600	100,000
15	59	0	0	23,600	100,000
16	60	0	0	24,400	100,000
17	61	0	0	25,300	100,000
18	62	0	0	26,200	100,000
19	63	0	0	27,000	100,000
20	64	0	0	27,900	100,000
23	67	0	0	31,600	100,000
30	74	0	0	30,100	100,000
34	78	0	0	###	###
40	84	0			
50	94	0			

Additional premiums necessary to continue coverage

Exhibit 5

Mr. John Doe

Policy Number 6745330

Universal Life Insurance Inforce Illustration

			GUARANTEED			NON-GUARANTEED (CURRENT)		
YR	Age	Premium Paid	Loans, Withdrawals, Dividends Received	Net Surrender Value	Net Death Benefit	Loans, Withdrawals, Dividends Received	Net Surrender Value	Net Death Benefit
4	48	1,855	0	4,681	100,000	0	4,986	100,000
5	49	1,855	0	6,622	100,000	0	7,109	100,000
6	50	1,855	0	8,217	100,000	0	9,375	100,000
7	51	1,855	0	10,064	100,000	0	11,796	100,000
8	52	1,855	0	11,961	100,000	0	14,387	100,000
9	53	1,855	0	13,907	100,000	0	17,159	100,000
10	54	1,855	0	15,899	100,000	0	20,120	100,000
11	55	0	0	15,900	100,000	0	21,200	100,000
12	56	0	0	15,900	100,000	0	22,500	100,000
13	57	0	0	15,900	100,000	0	23,700	100,000
14	58	0	0	15,700	100,000	0	25,100	100,000
15	59	0	0	15,400	100,000	0	26,400	100,000
16	60	0	0	15,100	100,000	0	27,800	100,000
17	61	0	0	14,600	100,000	0	29,200	100,000
18	62	0	0	13,900	100,000	0	30,700	100,000
19	63	0	0	13,000	100,000	0	32,300	100,000
20	64	0	0	11,900	100,000	0	33,800	100,000
24	73	0	0	###	###	0	41,100	100,000
30	74	0				0	51,000	100,000
34	78	0				0	58,100	100,000
40	84	0				0	69,100	100,000
50	94	0				0	100,300	101,300

Exhibit 5

Mr. John Doe Policy Number 6745330

Universal Life Insurance Inforce Illustration

NON-GUARANTEED (ALTERNATIVE)

YR	Age	Premium Paid	Loans, Withdrawals, Dividends Received	Net Surrender Value	Net Death Benefit
4	48	1,855	0	4,928	100,000
5	49	1,855	0	6,975	100,000
6	50	1,855	0	9,138	100,000
7	51	1,855	0	11,427	100,000
8	52	1,855	0	13,854	100,000
9	53	1,855	0	16,426	100,000
10	54	1,855	0	19,145	100,000
11	55	0	0	20,000	100,000
12	56	0	0	20,900	100,000
13	57	0	0	21,900	100,000
14	58	0	0	22,800	100,000
15	59	0	0	23,700	100,000
16	60	0	0	24,600	100,000
17	61	0	0	25,500	100,000
18	62	0	0	26,400	100,000
19	63	0	0	27,300	100,000
20	64	0	0	28,100	100,000
24	73	0	0	32,000	100,000
30	74	0		30,300	100,000
34	78	0		###	###
40	84	0			
50	94	0			

Additional premiums necessary to continue coverage

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ATTACHMENT FOUR-D

Key Featuares of Universal Life Policy

Consumers Union
1666 Connecticut Ave., Suite 310
Washington, D.C. 20009-1039
January 31, 1994

Mr. Robert Wright
Virginia Insurance Department
1300 East Main Street
Richmond, VA 23219

Dear Bob:

We are writing to you in your capacity as chair of the Life Insurance Disclosure Working Group.

Key Features Document

As promised, attached please find a draft document entitled "Key Features." For this draft, we chose to exemplify a universal life insurance policy. We hope that a standard Key Features document will be developed for each type of life insurance to show to potential purchasers prior to the time of sale. Please note that this is a "working draft" and we hope to add numbers to exemplify the policy listed. We wanted to use an actual policy so the numbers accurately reflect what is on the market.

As the working group has stated, it is important that standard definitions and formats be developed to avoid some of the problems with deceptive and misleading sales presentations. We hope such work can be combined with the "Key Features" document. We would like to be able to comment on any proposals the industry group submits to you.

Private Cause of Action

It was noted in the minutes from the Hawaii meeting that the working group deleted the section of the draft model that creates a private cause of action for aggrieved parties. Since we believe a private cause of action is a useful tool for consumers, we are concerned about the group's decision. The minutes indicated that this action was based partly on an industry representative's assertion that such a remedy is already available for consumers. That was a surprise as the understanding was such relief was not available and hence the controversy surrounding this provision. We would request that NAIC clear up this matter through an analysis of what recourse is typically available to an aggrieved consumer. We would appreciate it if the NAIC legal department could render an opinion as to how a private cause of action already exists for a party aggrieved by unsupportable or otherwise "illegal" assumptions or presentation in the illustrations.

Use of Future Projections should be Banned

We continue to have concerns about the use of illustrations. As the cases of Metropolitan Life and Prudential suggest, no amount of oversight or self-policing will protect consumers from unethical or illegal company and agent practices. The structure of the market needs to change. Toward that end, we continue to believe that future projections, beyond the guarantees, should be prohibited. We understand the level of industry pressure in this area but we hope that you will continue along the path of your stated preference of prohibiting future projections.

"Underlying Assumptions" Problem with Illustrations

As stated previously, agent practices in the sales of life insurance is only part of the problem. The structure of the market and these products fuel these practices. In a document submitted to your group by Jim Hunt, he outlines some very disturbing problems with illustrations. He notes Lilfe Insurance Marketing and Research Association's (LIMRA's) data on lapses for life insurance policies. These lapse rates—60% in the first 10 years—are very troubling, particularly in light of the fact that surrender charges in the first 10 years eat away at the net surrender value of the policy.

As a first, and much needed, step to addressing the problem, Jim suggested that the Unfair Trade Practices Act be used and that the commissioners prescribe certain maximum rates to be applied. These could be changed if new information warrants.

Consumers, and agents for that matter, have no way to second guess underlying assumptions used by company actuaries but these go to the heart of deceptive pricing patterns. Commissioners need to take action to ensure the policies are priced as accurately as possible—based on accurate assumptions that relate to actual, not "dream-like," experience. Jim has issued several warnings about these practices over the past few years. We hope that the commissioners are listening and take action that will ensure consumers the kind of protection they need.

We look forward to continuing to work with the group this year. Please call if you have any questions or need further information about the document submitted.

Sincerely,

Mary Griffin
Insurance Counsel
Washington Office

DRAFT 1-31-94

UNIVERSAL LIFE INSURANCE POLICY

Policy: Universal Life Insurance

Goals:
1. To have a death benefit that may be adjusted over time.
2. To provide for a rate of return on investment.
3. To have the option of paying varying levels of premiums and adjust the death benefit according to financial needs.

Your commitment:
1. To monitor the investment portion of the policy since it will affect how much premium you need to pay in to maintain a death benefit of a certain amount.
2. To maintain the policy over time because if you cash in early you may be penalized.
3. To monitor the policy to ensure that it is providing the amount of death benefit and cash build-up to meet your needs.

Risk Factors:
1. If assumptions change, e.g., the charges and expenses are higher than expected, investment performance may not be as good as expected and cash values may be lower than with other products.
2. If the investment does not perform as well as expected, your payments may not cover the death benefit; you may have to increase your premiums.
3. Depending on investment performance, the death benefit may be affected and you may have to pay in more premium to maintain benefit.
4. Your circumstances may change, forcing you to cash in early and subjecting you to high penalty charges.

Key differences between this policy and traditional "whole life" insurance:
1. Flexibility in premium payments.
2. Ability to adjust the death benefit.
3. Guaranteed cash surrender values are a function of illustrated premiums, not of the plan of insurance selected.

Universal Life Insurance
General Illustration—Table

Premium: Annual—Flexible/varied
Male/Female: Male
Contract term:

Option B: Varying death benefit
Age Next Birthday: 35
Smoker/Non-Smoker: Non-smoker

Year	Premium	Commission	Total Premiums	Expense Charges	Mortality Charges	Interest Credit	Net Value	Death Benefit
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								
20								
25								

Terms:
Premium: The amount paid in the particular year (premium period). This policy provides for flexible payment, which is demonstrated here in varying amounts. The net value and possibly amount of death benefit will change according to how much you pay in as premiums each year and what the rate of interest is at that time.

Commission: Your agent will receive commission based on the size and kind of policy, the contract term as well as the amount of premiums paid.

Total premiums represent the full amount paid into the policy as of that year. The expense charges are deducted each year and may be subject to change.

Mortality charges deducted each year cover the insurer's risk that you may die during the year and that the death benefit will be paid to your beneficiary.

The *interest credit* is added depending on what rate of interest the policy's investments are performing, and may be divided into guaranteed and excess.

The *Death Benefit* would be paid if you die during the year while the policy is in force.

Example 2/Table

Premium: Annual—Flexible/varied
Male/Female: Male
Contract term:

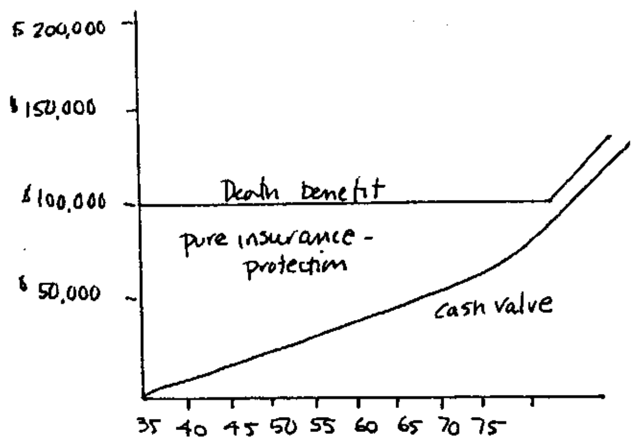
Option B: Varying death benefit
Age Next Birthday: 35
Smoker/Non-Smoker: Non-smoker

Year	Prem.	Com'n	Total Prem.	Charges	Int't Credit	Policy Value	Surr. Charge	Net SurrVal	Death Ben.
1									
2									
3									
4									
5									
6									
7									
8									
9									
10									
11									
12									
13									
14									
15									
20									
25									
30									

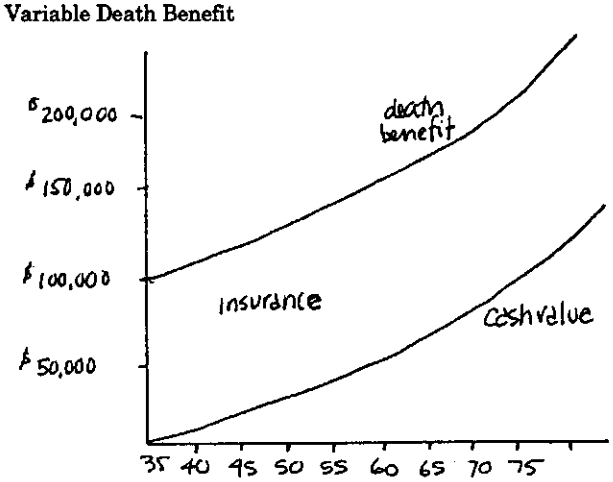
Terms: same as example 1 with some additions.

Universal Life Insurance
General Illustration—Graph

Option A: Level Death Benefit



Option B: Variable Death Benefit



NOTE: Each illustration assumes premiums continue to be paid for the period of time shown.

Universal Life Insurance
General Information
Read Carefully

What happens next—Before you can sign an application, a specific illustration will be prepared for you. This will follow the same general pattern as the general illustration table on page XX, but with the details specific to you. You may then sign the application. After the application is accepted, you still have an opportunity to change your mind.

Flexible premium—A universal life policy allows you to pay different levels of premiums subject to company maximums and minimums.

THIS KIND OF POLICY CARRIES GREATER RISKS BECAUSE THE PREMIUMS MAY NOT BE SUFFICIENT TO PAY FOR THE POLICY AND THE POLICY WILL BE TERMINATED.

BE CAREFUL—your policy may lapse (terminate) because of not enough premiums. You may opt for a "planned" or "target" premium—a predetermined amount to be paid on a regular basis to help protect you from lapsing the policy. The premium period may be monthly, yearly or at some other interval.

Adjustable death benefit—A universal life policy allows you to increase (subject to evidence of insurability) or lower the policy death benefits. Two options are provided in these policies. Option A includes a level death benefit whereas Option B provides a death benefit that varies with the cash value. If the death benefit continues to increase under Option B, the mortality charges will be higher than under Option A.

Charges—The charges and expenses used to calculate the general illustrations are based on company charges at XXX. They could vary in the future. The effect of all the charges over the life of the policy is to reduce the average growth. Therefore, the rate of return stated will not be the actual rate you receive because of these reductions. Note: Some policies will assess costs or charges by crediting a lower interest rate and not separately deduct charges. ALL POLICIES HAVE COSTS CHARGED TO YOU BY THE COMPANY.

Mortality Charges—These are deducted each payment period to cover the insurer's risk that you may die during the year and that the death benefit shown will be paid to your beneficiary. BE CAREFUL—the rate charged can increase over the life of the policy, subject to a maximum rate stated in the policy. Be sure to check the rate—this will be multiplied by the "net amount at risk" to determine the charges.

Interest credit—The company *must* credit your premiums with interest at the specified "guaranteed rate." The company *may* credit the account with a higher interest rate but that depends on several factors. As you know, interest rates can change dramatically over time. If a company paid a higher rate in the past, this does not mean it can or will continue to pay such rate in the future. DO NOT BE TEMPTED BY PROMISES ON INTEREST RATES.

Surrender Charges—If you terminate your policy early on, e.g., within the first 15 years, you will have to pay surrender charges, often expressed as either a percentage of the premium paid in the first year or a flat amount that decreases yearly after the first 5 years. BE CAREFUL because these charges mean you will probably get back less than you paid in if you stop the policy in the first 5 years.

Cancellation Rights—After your application is accepted, you will receive a notice of your right to cancel when the policy is delivered to you. You will then have XX days to cancel your policy.

Annual Report—To be sure that you know how much is in your fund and what charges are being deducted and interest credited, the company will send you an annual report with this information. Read it carefully.

Who to complain to—If you have a complaint or a question, call or write the company at XXX. You can also complain to your state insurance department. Filing a complaint does not affect your right to take legal action.

An example of cash value build-up

The way a universal life build-up of cash values works:
(Assuming a 5% guaranteed rate only)

First Period	Second Period	Third Period	Fourth Period
Initial premium paid	Cash value (Period 1)	Cash Value (Period 2)	Cash Value (Period 3)
- expense charges	+ premium paid	+ premium paid	+ premium paid
- mortality charges	- expense charges	- expense charges	- expense charges
+ interest	- mortality charges	- mortality charges	- mortality charges
= Cash Value (Period one)	+ interest	+ interest	+ interest
- Surrender Charges	= Cash Value (Period 2)	= Cash Value (Period 3)	= Cash Value (Period 4)
= Net Surrender Value	- Surrender Charges	- Surrender Charges	- Surrender Charges
	= Net Surrender Value	= Net Surrender Value	= Net Surrender Value
Assuming the following premium payments:			
	CV =	CV =	CV =
$1,500 (Initial premium)	+ $1,000	+ $750	+ $900
-	-	-	-
-	-	-	-
+	+	+	+
=	=	=	=
-	-	-	-
=	=	=	=

What if you stop paying premiums?

BE CAREFUL, YOU COULD LOSE A LOT!!

If you stop paying on the policy, any cash values will be used to pay off premiums to maintain a death benefit. If you terminate the policy or cash in early, penalty charges are applied which could mean you don't get as much as you paid in. Do not purchase this policy unless you plan to continue paying the premiums.

At end of year	Amount paid in	What you might get back
1		
2		
3		
4		
5		

You can expect the best value on your policy if you maintain it for as long as the policy period or your needs are met. The table below shows what your return would be if your investment grew at 5% each year. These numbers take into account current charges and the company's method of valuing policies that are stopped.

At end of year	Amount paid in	What you might get back
10		
15		
20		
24		
25		

PLEASE NOTE:

The figures in both tables only serve as a guide and are not guaranteed.

Effect of Charges and Expenses

Not all the premiums you pay will be used for the insurance or the investment (cash value) portion of the policy. A certain amount goes to paying for your insurance, some of your money will go to meet the company's charges and expenses, and the remainder will be included as your "cash-value."

These expenses and charges are higher in the early years but if you held your policy, continuing to pay premiums on a planned or target premium basis*, for the full 25 years and if each year the company achieved an average investment return (to be credited to the cash value) of 5%, then on average the overall effect of the current expenses would be:

about the same as if we had deducted XX from every $1 (dollar) you paid in.

Or, to put it another way, our expenses would have the effect of reducing the investment return from 5% to X% a year:

the investment return would be reduced by X% each year.

Further information

More detailed information about this policy can be found .....

* Please note: Though Universal Life allows you to pay a flexible premium, these numbers assume you pay the same premium each year for 25 years.

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ATTACHMENT FOUR-E

Life Disclosure Working Group
of the Life Insurance (A) Committee
February 23, 1994

The Life Disclosure Working Group of the Life Insurance (A) Committee met by conference call on Feb. 23, 1994, at 2 p.m. Participating were Bob Wright (Va.), Chair; Don Koch (Alaska); John Montgomery (Calif.); Roger Strauss (Iowa); Lester Dunlap (La.); Tony Higgins (N.C.); Noel Morgan (Ohio); Robert Wilcox (Utah); and Fred Nepple (Wis.). Also participating was Carolyn Johnson (NAIC/SSO).

Bob Wright (Va.) summarized the schedule for the spring National Meeting in Denver. He reviewed the agenda for the meetings scheduled March 5 and March 7. He said his goal for the Denver meeting is to arrive at a consensus on the approach to be used for life insurance illustrations. He asked Carolyn Johnson (NAIC/SSO) to fax to the members of the working group a summary prepared in his office that would show the comments that had been received on the model act and the illustration concepts.

Mr. Wright then asked the members of the working group for their first impressions of the model illustrations they had received from the technical resource advisors. Several members of the working group shared opinions that they had garnered from members of their staff who had reviewed this material. After discussing the illustrations at length, the members of the working group decided that, after hearing the presentation of the resource group and other commentors at the March 5 meeting, it would be appropriate to decide on the approach to use in writing a model regulation. Most of the members of the working group expressed the opinion that there was some improvement over the old illustrations but there was still more refinement needed. Tony Higgins (N.C.) said the problem with an illustration was that there were so many variables to the illustration.

Commissioner Robert Wilcox (Utah) pointed out that the members of the working group were significantly more knowledgeable than the target audience of the illustration. He said if it was difficult for these regulators to understand the illustrations, think how difficult it would be for a potential buyer to understand them. Noel Morgan (Ohio) highlighted the difficulty of trying to show too many of the variables on the illustration. He said that those illustrations had so much detail that the information became overwhelming. Roger Strauss (Iowa) asked about the actuarial standards. One of the comments received had talked about some of the standards and he asked if standards for life insurance illustrations already existed. Commissioner Wilcox responded that some standards exist but that they did not provide much comfort except to another actuary. He said the standards could not be ignored, but much more was needed to define the issues in life insurance illustrations. Mr. Wright said that the actuarial standards did not begin to address the problem of clarity of the illustration.

Mr. Wright asked the members of the working group to be prepared to make a decision at the Life Disclosure Working Group meeting in Denver on the approach to take in handling illustrations.

Having no further business the Life Disclosure Working Group adjourned at 3 p.m.