

might give a wrong impression. For example, calling it "super preferred" might make the individual think he was getting a good buy, when in reality this was the classification of 95% of the people. Mr. Cipinko expressed the opinion that providing the rate classification might insult the prospect.

Mr. Coleman said that he thought this section needed some fleshing out to provide more information. He said that the cover page prepared by the technical resource advisors was a good way to provide a greater amount of information. Mr. Wright said he would agree, but the illustration cover sheet, which is Appendix A, was already pretty full.

d. Section 6—Certification by the Company; Disclosure

Mr. Corbett expressed concern about Section 6A(3). He said he was concerned that the actuary was being asked to certify to the entire illustration rather than to the numbers that were on the illustration. He suggested that the language be "prepared in a manner consistent with the standards" rather than "in compliance with the standards." He said the ASB would be developing standards for the numbers in the illustrations, rather than the illustrations themselves. John Montgomery (Calif.) agreed that this was an important distinction.

e. Section 7—Standards for Illustration

Mr. Wright asked if there were any comments on Section 7. The only comment received was that the provision in Section 7B(1)(a), referring to all policy forms was too broad. Mr. Minck suggested deleting (ii) and (iii) at the very end of Section 7. He said that these items did not take into account the insurance protection offered and thus were misleading.

f. Section 11—Actuarial Standards

Mr. Corbett said the illustration standards for past performance would be much different than those for current scale, and cautioned the working group not to assume too great a similarity between them.

Mr. Wright said the drafts which had been prepared by the working group would be circulated, but not exposed formally at this meeting. He asked interested parties to comment to Ms. Johnson by July 20. He said the working group would consider the comments and decide whether it was necessary to have an interim meeting before the fall National Meeting so that the draft would be ready for exposure.

Having no further business, the Life Disclosure Working Group adjourned at 12:10 p.m.

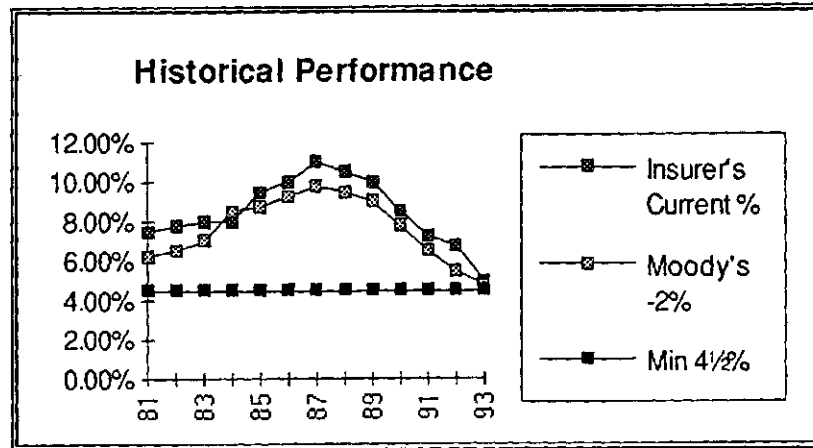
ATTACHMENT ONE-A

From: J. Robert Hunter, Commissioner of Insurance, Texas Department of Insurance
Re: Life Insurance Illustrations of Future Values

With all the discussion about misleading sales practices in the marketing of life insurance, we as regulators must take a position that does justice to the buying public. Ironically, all the columns, figures, pages, disclaimers, and disclosures do not tell consumers what they really want to know—*What does the insurance cost?* Below are my suggestions for what an illustration should tell a consumer. When their policy out-performs the illustration, policyholders will feel they got a good deal instead of feeling ripped-off!!!

- Illustrations of future values must reflect only policy guarantees.
- Any illustration of past performance must include an economic point of reference.*
- All expenses, costs, fees, mortality charges, profits, commissions and the amounts allocated to interest accrual should be itemized by year.
- Annual guaranteed cash values should be illustrated net of all surrender charges.
- An updated illustration should be provided to the policyholder annually.
- Any "enhancement" of figures through the use of persistency, mortality, expense, lapse and other improvements must be prohibited.
- Include a column with net interest realized on premiums paid.
- The total number of pages in a complete illustration should be indicated on each page, *e.g.*, page 2 of 3.
- A standardized format with standardized definitions must be adopted.
- An illustration should include a readable description of the policy.
- An illustration must be printed in at least 10 point type.
- Any policy lapse must be explained and shown in bold print.
- The insurer and/or the agent must be held accountable for any sales illustration.

*A reasonable benchmark must be used as a comparison ("T" bills, S&P). Moody's Corporate Bond Yield Average may be considered. It is used to determine the obligation of the Texas Life, Accident, Health and Hospital Service Insurance Guaranty Association for excess interest payable on policies subject to their coverage, as set out in Article 21.28-D. Sec. 3. Texas Insurance Code.



ATTACHMENT ONE-B

LIFE INSURANCE ILLUSTRATIONS MODEL ACT

Draft: 5/18/94

Table of Contents

Section 1.	Applicability and Purpose
Section 2.	Prohibited Practices
Section 3.	Authority to Promulgate Regulations
Section 4.	Penalties
Section 5.	Separability
Section 6.	Effective Date

Section 1. Applicability and Purpose

This Act shall apply to all life insurance companies and fraternal benefit societies licensed to do business in this state and to all [producers, agents and brokers] licensed to sell life insurance or annuities. The purpose of the Act is to authorize standards which shall be followed in the illustration of life insurance products.

Drafting Note: Insert the appropriate terminology consistent with state licensing laws.

Drafting Note: This section refers to both life insurance policies and annuity contracts. A separate regulation will be required for each.

Section 2. Prohibited Practices

No person engaged in the business of insurance shall misrepresent the benefits, advantages, conditions or terms of any life insurance policy or annuity contract.

Section 3. Authority to Promulgate Regulations

The commissioner shall promulgate regulations that establish standards to assure that illustrations of future benefits use only guaranteed assumptions.

Drafting Note: Insert the title of the chief insurance regulatory official wherever the term "commissioner" appears.

Drafting Note: In a state where the commissioner already has this authority, adoption of the model act may not be necessary in order to promulgate the model regulation.

Section 4. Penalties

A violation of this Act by any person shall be subject to the penalties found in Section [insert penalty section of unfair trade practices law].