

## VI. Actuarial Standards.

- A. It is preferable to have the Actuarial Standards Board develop the necessary standards.
- B. The Actuarial Standards Board must work in close cooperation with the NAIC to assure that the standards drafted in response to the model meet the expectations of the NAIC with regard to specific requirements and minimal actuarial creativity.
- C. In the event that the Actuarial Standards Board fails to meet the expectations of the NAIC, a regulatory standard prepared by the NAIC will be utilized.

## VII. Responsibility.

- A. The company shall be responsible for the accuracy and propriety of the illustration as evidenced by the signed and dated certification by a company officer.
- B. The company's appointed actuary shall be responsible for the accuracy of both guaranteed and non-guaranteed portions of the illustration and shall certify that the illustration is accurate and prepared in accordance with the appropriate actuarial standards as evidenced by the signed and dated certification by the appointed actuary.
- C. The producer shall be responsible to provide the appropriate illustration and to assure that no inappropriate illustration is provided to the applicant.

## VIII. Annual Reports.

- A. The insurer shall annually on the policy anniversary provide a report to each policyowner.
- B. The report that is provided shall:
1. Be in a format similar to that provided at the time of sale;
  2. Illustrate actual values as of the date of the report;
  3. Illustrate future non-guaranteed values using then current assumptions; and
  4. Explain changes in assumptions since the last report.

## IX. Penalties.

- A. A violation of the act or regulation would be subject to civil penalties.
- B. If the insurer provided illustrations that the insurer knew or should have known were not prepared in accordance with these requirements or illustrated benefits that were not supportable based on the prescribed standards, the insurer may be subject to administrative penalties including a requirement to pay benefits based on the illustration.

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ATTACHMENT FOUR-B

Technical Resource Committee's Draft Suggestions Concerning  
the Life Insurance Illustrations Model Regulation

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August 31, 1994

On behalf of the Industry Technical Resource Committee (TRC) to the Life Disclosure Working Group I am enclosing our revised proposal for the Life Insurance Illustrations Model Regulation. This revised proposal reflects a great deal of work by TRC members. During the summer we reviewed and evaluated, on your behalf, in two days of meetings, many other proposals for illustration reform. We reviewed and revised our own proposal in light of our evaluations of these other proposals. Our revised proposal is also intended to be responsive to the concerns of the Life Disclosure Working Group as reflected in our excellent meeting with you Aug. 22, 1994. Given our short deadline for crafting our revised proposal we undoubtedly left loose ends and unintended inconsistencies. We will address these as best we can between now and the September meeting of the Working Group.

Our revised proposal follows, to the extent possible, the format of your own draft proposal. We have added elements from our earlier proposals and incorporated ideas from the American Council of Life Insurance (ACLI), other insurers, organizations and the Working Group. We have presented alternatives and questions to the Working Group in drafting notes, recognizing that there is always room for clarification and improvement.

Our proposal now includes a section entitled "Prohibitions" that details some specifically prohibited practices. However, it is important to understand that our proposal, in specifically requiring certain illustration practices, also prohibits practices that don't meet the standards. We have highlighted these prohibited practices in an attachment to this letter.

Our definition of "Disciplined Current Scale" is meant to assure that insurers do not illustrate a scale that exceeds one that is logically and reasonably based on actual recent historical experience. A Disciplined Current Scale may reflect actions that already have been taken or events that have already occurred, but may not include any projected trends of improvements in experience or any assumed improvements in experience based on events that have not yet occurred or actions that have not yet been taken. Under the proposed regulation, insurers could not use a scale in illustrations that exceeded a scale produced by the application of standards for Disciplined Current Scale established by the Actuarial Standards Board (ASB) and certified as being within the standards by a company actuary.

Included with this letter is an expanded drafting note covering the major factors that we believe should be considered in the Actuarial Standards Board's development of standards for Disciplined Current Scale. The ASB has expressed its willingness to assist the NAIC in developing these standards. The factors to be considered include interest rates, mortality rates, expense assumptions, lapse rates and profit targets. We envision the NAIC using the drafting note as its charge to the ASB to develop these standards.

There was considerable discussion at your Aug. 22 meeting of lapse-based pricing. We discussed this issue at great length in our own meeting and conference calls in the 10 days since we last met with you. We have not, in this limited time, been able to craft an acceptable definition of lapse-based pricing, much less reach a conclusion on an appropriate regulatory response where it exists. In our drafting note incorporating the charge to be given the ASB, we have included consideration of lapse rates if there are benefits particular to the policy being priced that provide a particular incentive for persistency or lapsation. This is an area where we could benefit from additional dialogue. I suggest a meeting between your actuarial consultant and a small delegation from the TRC to explore this subject in more depth.

In addition to the expanded drafting note on Disciplined Current Scale and the drafting note dealing with Prohibited Practices we have also enclosed our summary evaluation of the other industry proposals that we reviewed. A chart accompanies the evaluations which allows a means of quick comparison of these proposals under the criteria we used. These criteria are largely the NAIC's own criteria as expressed in your white paper.

The Technical Resource Committee looks forward to discussing our revised proposal with you at the NAIC meeting in Minneapolis. If you have any questions prior to that time, please call me.

Sincerely,  
George T. Coleman  
Vice President

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Discussion Draft Amendment to the NAIC  
Life Disclosure Working Group's 6/3/94 Draft

Life Insurance Illustrations Model Regulation

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Section 1. Purpose

The purpose of this regulation is to provide rules for life insurance policy illustrations. The rules provide illustration formats, prescribe standards to be followed when illustrations are used, and require disclosures to be used in connection with illustrations. The goal of this rule is that illustrations accurately describe policies and be understandable by purchasers of life insurance.

Section 2. Authority

This regulation is issued based upon the authority granted the Commissioner under (cite appropriate enabling legislation.)

### Section 3. Applicability and Scope

A. This regulation shall apply to all group and individual life insurance policies and certificates marketed with the aid of an illustration, including variable life insurance insofar as the provisions hereof are not inconsistent with securities laws and regulations, including rules, regulations or guidelines promulgated by the National Association of Securities Dealers (NASD). With respect to variable policies, investment performance shall be illustrated in accordance with NASD rules relating to the rate of return on underlying investment portfolios, but mortality and expense elements on a guaranteed or disciplined current scale basis shall be illustrated in accordance with the provisions of this regulation.

Drafting Note: The above applicability and scope section seeks to harmonize this regulation with existing NASD regulation of variable policy illustrations. Variable life policies are different from fixed policies because generally they provide no guaranteed cash values. Under a variable policy, cash values vary based on the investment performance of the underlying investment portfolio of a separate account, whereas under a fixed policy, the investment performance is dependent on crediting or dividend rates established by the insurer subject to a guaranteed minimum. Because of this inherent difference between variable and fixed policies, certain provisions of this regulation do not apply to variable policies, especially those provisions relating to guaranteed cash values (when the policy provides no guarantees), and those elements of current disciplined scale relating to investment performance.

B. This regulation shall not apply to individual and group annuity contracts, life insurance policies issued in connection with pension and welfare plans as defined by and which are subject to the Employee Retirement Income Security Act of 1974 (ERISA), 29 U.S.C. Section 1001 et seq. as amended, and credit life insurance and life insurance policies and certificates sold without an illustration.

C. This regulation shall not be construed to require that illustrations be used to market life insurance policies. Further, this regulation shall not be construed to impose limitations upon the ability of insurers or agents to make available information in addition to an illustration provided in accordance with the provisions of this regulation, or to impose any other limitations that may interfere with a consumer's right to receive information that may be beneficial in making an informed decision.

### Section 4. Definitions

A. "Disciplined current scale" means a scale of not guaranteed elements currently being illustrated by an insurer that is logically and reasonably based on actual recent historical experience as defined in standards established by the Actuarial Standards Board and certified by a qualified actuary designated by the insurer. A disciplined current scale may reflect actions that have already been taken or events that have already occurred but shall not include any projected trends of improvements in experience or any assumed improvements in experience based on events that have not yet occurred or actions that have not yet been taken.

DRAFTING NOTE: Following is a list of the major factors that go into the determination of a scale of dividends or other not guaranteed elements of a life insurance policy. A standard developed by the Actuarial Standards Board (ASB) for the determination of a Disciplined Current Scale of not guaranteed elements should address all of these factors: interest rates, mortality rates, expense assumptions, lapse rates, and profit target.

B. "Generic name" means a short title descriptive of the premium and benefit patterns of a policy.

C. "Illustration" means a ledger or proposal used in the sale of life insurance, the primary purpose of which is to show both guaranteed and not guaranteed policy elements, including premiums, death benefits and values available upon surrender. Illustrations can be in tabular, graphic, or chart format and must show the corresponding guaranteed elements if not guaranteed elements are shown.

DRAFTING NOTE: The definition of illustration is rather broad and, therefore, may inadvertently bring within its purview items that are not intended to be affected. For instance, a solicitation letter, which is clearly only an invitation to a prospective client to inquire further, should only be regulated under applicable advertising regulations and laws. This regulation is not intended to require the inclusion of a ledger-type illustration with such solicitation letters or to impose its format and minimum standards on information provided in addition to an illustration.

D. "Guaranteed elements" means the premiums, benefits, credits or charges under a policy of life insurance that are guaranteed at issue.

E. "Not guaranteed elements" means the premiums, benefits, credits, or charges under a policy of life insurance that are not guaranteed at issue, including but not limited to dividends, credited interest rates, cost of insurance charges, and expense charges.

F. "Qualified actuary" means a member in good standing of the American Academy of Actuaries or any other individual acceptable to the Commissioner which individual certifies an understanding of and agrees to be bound by the standards of practice relating to illustrations based on disciplined current scale promulgated by the Actuarial Standards Board.

G. "Contract premium" means the amount of premium that is required to be paid under a fixed premium policy in order for guaranteed benefits to be paid as illustrated.

H. "Premium outlay" means the amount of premium assumed to be paid by the premium payer in order for the benefits, guaranteed or not guaranteed, to be paid as illustrated. In the case of a policy which does not require a fixed premium to be paid, the illustrated benefits, guaranteed and not guaranteed, are based on the indicated premium outlay.

#### Section 5. Illustration Format

Regardless of the medium used in a sales presentation, any illustration must be incorporated into a written document in the following format:

A. The illustration shall be clearly labeled "Life Insurance Illustration," and shall include the information indicated in this section and in Section 6 following.

B. Each page of an illustration, including any explanatory notes or pages, shall be numbered and show its relationship to the total number of pages in the illustration (e.g., the fourth page of a seven-page illustration shall be labeled "page 4 of 7 pages").

C. The illustration shall have a cover page, numbered as page one, containing at least the following:

- (1) Name of insurer;
- (2) Name and business address of producer or insurer's other authorized representative, if any;
- (3) Name, age and sex of proposed insured;
- (4) Underwriting or rating classification upon which the illustration is based;
- (5) Generic name of policy, company product name, if different, and form number;
- (6) Dividend option elected, if applicable;
- (7) A brief description of the policy being illustrated, including a statement that it is a life insurance policy.
- (8) A brief description of the premium outlay and contract premium, if applicable, required by the policy.

For a policy which does not require a specific premium payment, a statement as to what premium outlay must be paid to guarantee coverage for the term of the contract, subject to maximum premiums allowable to qualify as life insurance under the applicable provisions of the Internal Revenue Code.

(9) A brief description of any policy features or options, guaranteed or not guaranteed, shown in the illustration and the impact they may have on the benefits and values of the policy, including, for example, the option to suspend premiums or any modular premium structure.

**DRAFTING NOTE:** It could be useful to develop a comprehensive list of such features or options but it should be recognized that such a list would be subject to change over time and so could be confusing.

(10) If the illustration shows any not guaranteed benefits and values based on the insurer's disciplined current scale, the cover page shall also show the benefits, values and the premium outlay and contract premium, if applicable, on which they are based for policy years five (5), ten (10) and twenty (20) and at age 65 on the following three bases:

- (a) Policy guarantees;
- (b) Insurer's disciplined current scale;
- (c) Insurer's disciplined current scale but with the not guaranteed elements reduced as follows:
  - (i) dividends must be shown at fifty percent (50%) of the dividends contained in the disciplined current scale;
  - (ii) not guaranteed interest crediting rates must be shown at rates that are the average of the guaranteed rates and the rates contained in the disciplined current scale; and
  - (iii) all not guaranteed charges, including but not limited to cost of insurance charges, term insurance rates, and mortality and expense charges, must be shown at rates that are the average of the guaranteed rates and the rates contained in the disciplined current scale.

In addition, if coverage would cease prior to policy maturity or age 100, the year in which coverage ceases shall be identified for each of the three bases.

**DRAFTING NOTE:** The susceptibility of not guaranteed benefits and values to changes in the underlying assumptions can be demonstrated in various ways. The approach suggested here involves reducing the not guaranteed elements to a midpoint.

Alternative approaches could be used that would affect only the interest factor by (i) reducing it by a specific amount, e.g., two percentage points, (ii) reducing it by an amount that varies depending on the level of the current interest rate, i.e., by a larger amount if interest rates are high and by a smaller amount if interest rates are low, or (iii) using an interest rate that is the average between the guaranteed rate and the disciplined current scale rate.

(11) A statement to be signed and dated by the applicant at the time of policy application as follows: "I have received a copy of this illustration and understand that any not guaranteed elements illustrated are subject to change. No representations have been made to me to the contrary." If the illustration is produced by the insurer and mailed to the applicant no signature shall be required.

(12) A statement to be signed and dated by the insurance producer or other authorized representative of the insurer at the time of policy application as follows: "I certify that this illustration has been presented to the applicant and that I have explained that any not guaranteed elements illustrated are subject to change. I have made no representations that are inconsistent with the illustration." If the illustration is produced by the insurer and mailed to the applicant no signature shall be required.

**DRAFTING NOTE:** The information required to be shown on the cover page may necessitate that the cover page actually consist of more than one page. In that event, pages should be numbered accordingly. In addition it may be preferable to permit companies the flexibility to incorporate certain of the information into the body of the illustration rather than requiring it on the cover page. This option should be considered.

#### Section 6. Standards for Illustrations

A. All illustrations used in connection with the sale of life insurance policies shall comply with the following minimum standards:

- (1) The assumed dates of payment receipt and benefit pay-out within a policy year shall be clearly identified.
- (2) If the age of the proposed insured is shown as a component of the illustration, it shall be issue age plus the number of years the policy is assumed to have been in force.
- (3) The payments assumed to be paid by the premium payer, on which illustrated benefits and values, guaranteed or not guaranteed, are based shall be identified as premium outlay. If a different amount must be paid in order for guaranteed benefits and values to be paid as illustrated, it shall be identified as contract premium. For policies which do not require a specific premium payment amount, the illustrated payments shall be identified as premium outlay.
- (4) Guaranteed death benefits and values available upon surrender for the illustrated premium outlay and contract premium, if applicable, shall be shown and clearly labeled guaranteed. The guaranteed benefits and values must be shown before corresponding not guaranteed benefits and values and must be specifically referred to on any page of the illustration which shows or describes only the not guaranteed benefits and values; e.g., "See page one for guaranteed benefits and values."
- (5) Illustrations may show not guaranteed benefits and values based upon the company's disciplined current scale and on any other additional scale producing lower benefits and values. These benefits and values must be clearly labeled not guaranteed.
- (6) If the illustration shows that, at an insurer's disciplined current scale, the premium payer may have the option to suspend premium outlays and allow policy charges to be paid by using not guaranteed values, the illustration must disclose that a charge continues to be required and that depending upon actual results, the premium payer may need to continue or resume premium outlays. Similar disclosure must be made for fixed premium policies when the illustration shows a premium outlay of lesser amounts or shorter duration than the contract premium. The premium outlay display must not be left blank or show zero unless accompanied by an asterisk or similar mark to draw attention to the fact that the policy is not paid-up.
- (7) The account or accumulation value of a policy, if shown, shall be identified by the name this value is given in the policy being illustrated and shown in close proximity to the corresponding value available upon surrender.
- (8) The value available upon surrender shall be identified by the name this value is given in the policy being illustrated and shall be the amount available to the policyowner in a lump sum after deduction of any applicable surrender charges, policy loans and policy loan interest.
- (9) The illustration may show the use of policy values, guaranteed or not guaranteed, to provide personal income or to meet a business need, e.g., through partial withdrawals, partial surrenders, policy loans or a combination thereof. The illustration must clearly state that such use of policy values will affect the guaranteed and not guaranteed elements of the policy.

B. Each illustration shall include, for each policy year for policy years one (1) to twenty (20) and for every fifth policy year thereafter ending at age one hundred (100) or policy maturity, the following:

- (1) The premium outlay and contract premium, if applicable.

(2) The guaranteed death benefit, as provided in the policy, corresponding to the amount(s) in (1).

(3) The guaranteed value available upon surrender, as provided in the policy, corresponding to the amount(s) in (1).

C. An illustration may also show amounts corresponding to the amounts specified C. above but based on the insurer's disciplined current scale.

D. Any illustration of not guaranteed benefits and values must be accompanied by a statement indicating that: (1) they are not guaranteed, (2) the assumptions on which they are based are subject to change by the insurer, and (3) actual results may be more or less favorable.

E. Not guaranteed benefits and values shall not be displayed with any greater prominence than corresponding guaranteed benefits and values.

F. Additional or supplemental information may be provided so long as: (1) it is incorporated into or accompanied by an illustration which complies with this regulation, (2) it is not inconsistent with the provisions of this regulation, and (3) any not guaranteed elements shown are not more favorable to the policyholder than the corresponding elements based on the insurer's disciplined current scale.

#### Section 7. Record Retention

A copy of the signed illustration shall be submitted to the insurer at the time of submission of a policy application. A copy should also be provided to the applicant. The insurer shall maintain a copy of the signed illustration until three (3) years after the policy, if issued, is no longer in force. A copy need not be maintained if no policy is issued.

#### Section 8. Prohibitions

The following actions by insurers or their producers or other authorized representatives are prohibited:

- A. Not representing the policy as life insurance;
- B. Utilizing or describing not guaranteed elements in a manner that is misleading or has the capacity or tendency to mislead;
- C. Stating or implying that the payment or amount of not guaranteed elements is guaranteed;
- D. Using a policy illustration which does not comply with the requirements of Sections 5 and 6 of this regulation;
- E. Using an illustration that at any policy duration depicts policy performance more favorable than that produced by the disciplined current scale of the insurer whose policy is being illustrated;
- F. Providing an applicant with an incomplete illustration;
- G. Representing in any way that premium payments will not be required for each year of the policy in order to maintain the illustrated death benefit, unless such is the fact.

#### Section 9. Notice to Policyholders; Updated Illustrations

A. In the event of a change in the insurer's disciplined current scale that adversely affects the not guaranteed elements illustrated, the insurer shall, within sixty (60) days following the policy anniversary subsequent to the change, notify the policyholder of the change and how the policyholder may obtain more information about the effects of the change on his or her policy.

B. Upon request of the policyholder, the insurer shall furnish an updated illustration based on: (1) amounts actually paid, credited, withdrawn, or charged under the policy since issue; and (2) the insurer's present disciplined current scale applicable to the policy. No signature or other acknowledgment of receipt of this illustration shall be required.

#### Section 10. Actuarial Standards

The use of disciplined current scale in illustrations shall be done in conformance with the standards of practice for the determination of disciplined current scale promulgated by the Actuarial Standards Board. Each insurer using disciplined current scale in its illustrations shall appoint a qualified actuary to certify that the scales of policy dividends or interest or other credits being paid and the mortality and expense or other charges being assessed are in conformance with the aforementioned standards of practice. This certification shall be updated at least annually.

#### Section 11. Separability

If any provision of this regulation or its application to any person or circumstance is for any reason held to be invalid by any court of law, the remainder of the regulation and its application to other persons or circumstances shall not be affected.

**Section 12. Effective Date**

This regulation shall become effective one year after the date of adoption and shall apply to policies sold on or after the effective date.

**Drafting Note On Disciplined Current Scale**

Following is a list of the major factors that go into the determination of a scale of dividends or other *not guaranteed elements* of a life insurance policy. A standard developed by the Actuarial Standards Board (ASB) to address the determination of a *Disciplined Current Scale* of not guaranteed elements should address all of these factors.

 **Prohibitions**

A disciplined current scale may reflect actions that have already been taken or events that have already occurred but shall not include any projected trends of improvements in experience or any assumed improvements in experience based on events that have not yet occurred or actions that have not yet been taken.

 **General Considerations**

The standard should address the ability of a company to illustrate not guaranteed elements for those durations where it is actually paying those elements.

 **Interest rates**

The earned interest rate factor used by the company in setting its scale of not guaranteed elements shall be the company's most recent experience on the assets supporting the policy block, net of investment expenses. The historical rate should be developed using the same method as is used to allocate current interest credits to policies (e.g., new money, portfolio, investment generation). The ASB should consider whether gains or losses from other lines of business should be reflected.

 **Mortality rates**

The rates used by the company in setting its scale of not guaranteed elements shall be the company's most recent mortality experience adjusted for risk class. If sufficient recent credible experience does not exist, the Society of Actuaries or other appropriate inter-company mortality experience or applicable reinsurance rates may be used. The standard should address variations in experience rates for differences in such factors as underwriting class, smoking status, and policy size.

 **Expense assumptions**

The expense factors used by the company in setting its scale of not guaranteed elements are the expenses incurred by the company and allocated to the policy, including taxes. The standard should address issues such as the proper determination of underlying expense drivers such as average policy size and sales volume, treatment of development expenses, and expense amortization. When a product has non-vested renewal commissions or service fees, the agent retention rates used shall be the company's most recent experience.

 **Lapse rates**

The persistency or lapse rates used by the company in setting its scale of not guaranteed elements are the company's most recent lapse experience. If the company hasn't sufficient credible experience, the Society of Actuaries or other inter-company mortality experience may be used. The standards should address lapse rates if there are benefits particular to the policy being priced that provide a particular incentive for persistency or lapsation.

 **Profit target**

The standard should address the form of the profit target used in the pricing of the policy. The standard should address issues such as aggregation and variance in profit target by pricing cell and distributions of accumulated surplus or prior gains to a policy block. The standard will address whether the target capital is to be included in the profit calculation for the product and, if so, on what basis.

**Prohibited Practices Contained In Rules Governing  
The Use of Illustrations in Connection With The Sale of Life Insurance**

**Prohibits:**

- Illustrations of Current Scale which do not comply with the definition of Disciplined Current Scale. Disciplined Current Scale must:
  - Be based on Recent Historical Experience.
  - Only reflect actions already taken by the company, can't show projected improvements.
  - Conform to Actuarial Standard of Practice. Actuarial Standard of Practice will address:
    - Interest Rates
    - Mortality Rates
    - Expense Assumptions
    - Lapse Rates
    - Profit Targets
- Showing any not guaranteed values and benefits on a basis other than Disciplined Current Scale or lower.
- Showing not guaranteed values and benefits without showing and referencing corresponding guaranteed values and benefits.
- Showing account or accumulation values without showing corresponding surrender values in close proximity.
- Showing value available upon surrender without reflecting surrender charges, policy loans and policy loan interest.
- Illustration which doesn't show the premium necessary in order for guaranteed benefits and values to be paid as illustrated.
- Illustration which is not clearly labeled as a "Life Insurance Policy Illustration."
- Illustration which does not include pagination, such as page 1 of total number.
- Illustration which is not signed and dated by the insurance producer or representative (unless produced by the insurer and mailed directly) stating that they have:
  - Presented the illustration to the consumer.
  - Explained the not guaranteed benefits and values.
  - Made no representation inconsistent with the illustration.
- Illustration which is not signed and dated by the consumer (unless produced by the insurer and mailed directly) stating that they:
  - Have "received a copy of" the illustration.
  - "Understand" that not guaranteed values and benefits are subject to change.
- Not having a cover page(s):
  - Clearly identifying:
    - Company
    - Agent/Producer
    - Product/Product Features
    - Premium Outlay and Contract Premium (if applicable) required by the policy.
  - Providing underwriting or rating information.
  - Including not guaranteed values and benefits based on an alternative [lower] scale to Disciplined Current Scale, as required by the regulation, if not guaranteed values and benefits are shown, to demonstrate the susceptibility of not guaranteed elements to changes in underlying assumptions.
  - Signature requirements (described above)
- Illustration which does not clearly label guaranteed values and benefits as guaranteed.
- Illustration which does not clearly label not guaranteed values and benefits as not guaranteed.



- Illustration of partial withdrawals, partial surrenders, policy loans or a combination thereof, without clearly showing the effect on guaranteed and not guaranteed values and benefits.
- Illustration which fails to clearly describe:
  - The policy.
  - The premium outlay and contract premium (if applicable) required by the policy.
  - The circumstances under which the death benefit is payable.
  - Any policy features and/or options and their impact on guaranteed and not guaranteed elements.
- Illustration which fails to show policy values, premium outlay and contract premium (if applicable), and guaranteed death benefit and value available upon surrender each year from years 1 to 20 and every fifth year after that to age 100 or policy maturity.
- Illustration which fails to clearly disclose that not guaranteed benefits and values are not guaranteed, assumptions are subject to change by insurer and actual results may be more or less favorable.
- Illustration which allows not guaranteed benefits and values displayed in greater prominence than corresponding guaranteed benefits and values.
- Failure to notify policyholder if change occurs resulting in a decrease in not guaranteed elements, as illustrated, within 60 days of policy anniversary subsequent to change.
- Failure to provide additional information on policy and values to policyholder upon request.
- Utilizing or describing not guaranteed elements in a manner that is misleading or has the capacity or tendency to mislead.
- Stating or implying that the payment or amount of not guaranteed elements is guaranteed.
- Providing an applicant with an incomplete illustration.
- Representing in any way that premium payments will not be required for each year of the policy in order to maintain the illustrated death benefit, unless such is the fact according to the policy provisions.

ACTUARIAL ANALYSIS OF PROPOSED ILLUSTRATION REGULATIONS  
 Compiled by Technical Resource Advisors  
 September 1, 1994

The following analysis covers 11 proposals submitted by various companies and industry groups, including the NAIC working group's most recent proposal and the technical resource advisors' recommendation. Each is analyzed using 13 questions dealing with various attributes found in one or more of the proposals. Summary pages list short answers for quick comparison purposes. A 14th question, dealing with lapse supported pricing, has been added to the summary pages. A more detailed set of answers follows the summary page.

There is a great deal of commonality among the company and industry proposals. They agree on the need for discipline in determining current scale and the desirability of the Actuarial Standards Board imposing that discipline. They also agree on clearer disclosure of the nonguaranteed nature of dividends and other nonguaranteed elements and a statement covering the proper uses of illustrations.

The industry is united in insisting that nonguaranteed elements be allowed in illustrations so that companies are able to show prospective clients how their policies work. They are also in agreement that clients be shown how policy values may change with changes in the experience factors that make up the nonguaranteed elements.

There are some elements that are unique to certain proposals, however, and these should be pointed out:

1. Interest - There is a difference in current interest rates between companies using various interest crediting strategies (e.g., portfolio, new money, investment year, etc.) A portfolio company may be paying a current rate of 8.5% today, whereas a new money company is paying only 7%. The suggestion has been made that all companies illustrate their current rate in year one of their illustrations, but then grade into a standardized new money rate in duration 10 or 15. This would level the playing field between companies and eliminate the artificial long-term differences between their illustrations. The Guardian and Iowa proposals address this issue. The American Academy of Actuaries also suggested this approach.