- 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 then 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 commonalty 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 polices 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.

2. Supportability - The Iowa and National Association of Life Underwriters (NALU) proposals advocate that the actuary certify that the scale of nonguaranteed elements is "supportable" for two years. The rest of the industry opposes this concept out of concern that "supportable" will be equated to "guaranteed" in the minds of consumers. Even if the actuary can certify that the scale is supportable for two years, the company's Board of Directors may still decide to change it for any number of legitimate reasons.

If the interest grading approach suggested in 1 above were utilized, there would be much less need, if any, to be concerned with "supportability."

3. Improvements in Experience Factors - This was one of the major types of abuse identified by the Society of Actuaries Task Force on Life Insurance Illustrations. All of the industry proposals except Phoenix Home's call for a ban on the projection of improvements in interest, mortality and expenses. Phoenix Home has indicated that they do not oppose such a ban.

4. Sensitivity Testing - All industry proposals call for sensitivity testing or some other means of highlighting the fact that nonguaranteed elements are subject to change. The most common method is to show results assuming an interest rate one percentage point lower than the disciplined current scale rate. The John Hancock proposal suggests showing dividends or nonguaranteed elements half-way between the current rate and the guaranteed rate. The Phoenix Home has proposed showing results at one percentage point below and above the current interest rate—a range approach. Most companies feel that, since interest is the most volatile and most easily understood of the nonguaranteed elements, showing change in it alone is sufficient.

5. Historical Experience - The NAIC proposal is alone in calling for historical experience. The industry opposes this on two grounds. First, it is meaningless to show how a modern policy would have performed assuming the experience factors of the past 10, 20, 50 or 100 years. Such a display does not answer the consumer's legitimate question as to how the company is doing today. Second, it is impossible to go back and reconstruct past experience for every age, duration, sex, underwriting class and plan of insurance being issued today. Non-participating companies do not have such experience prior to the introduction of universal life and interest sensitive polices. Only the oldest mutual companies could go back far enough to illustrate all durations to age 100 on a policy being issued to a newborn insured. The actuaries of even those companies, however, would be forced to make many, many judgment calls in order to reconstruct this past experience.

6. Guarantees Only - The Consumers Union and Merrill Lynch proposals call for illustrating guarantees only. This requirement would effectively end the sales of universal life, economatic type polices or any other policy that provides significant benefits via policy dividends or other nonguaranteed elements. Companies could not demonstrate how such polices work if they cannot illustrate nonguaranteed elements. Such a requirement would put an end to the life insurance industry as it operates today and force all companies to offer only non-participating policies similar to those offered prior to the rise in interest rates experienced in the 1970s. These policies have proven to be vastly inferior in value to both traditional participating policies and the more modern interest sensitive policies of today.

7. Lapse Supported Pricing - The Guardian proposal suggests banning lapse supported pricing. It is the only proposal that does so, but this idea has a good deal of support among other companies. Support is by no means universal, however.

Analysis of Illustration Proposals
Technical Resource Committee
September 1, 1994

| Illustration Criteria | TRC | NAIC | John Hancock | Iowa | Phoenix Home |
|---|---|---|---|---|---|
| 1. Is discipline imposed on nonguaranteed elements (NGEs)? | Yes - based on Disciplined Current Scale (DCS) | Actual historical experience or guarantees | Yes - based on Disciplined Current Scale (DCS) | Yes - current scale graded to new money interest rate | Yes - current scale graded to new money rate |
| 2. Is Actuarial Standards Board called on to set standards re NGEs? | Yes | Yes - regarding measurement of past performance | Yes | No | No |
| 3. Can companies show how a policy works? | Yes, based on DCS | Yes - to extent history exists | Yes, based on DCS | Yes | Yes |
| 4. Is illustration clearly not a forecast? | Yes - required statement | Yes | Yes - required statement | Yes - required statement | Yes - required statement |
| 5. Are projected improvements in NGEs banned? | Yes | Yes - past performance only | Yes | Yes | No |
| 6. Are alternative scenarios for NGEs mandated? | Yes - all NGEs average of DCS and guarantees | No | Yes - all NGEs average of DCS and guarantees | yes - int. rate 1% lower | Yes - int. rates up or down |
| 7. Can companies show consumers how they are doing today? | Yes, based on DCS | No | Yes - based on DCS | Yes - based on current scale | Yes |
| 8. Is method workable for all companies? | Yes | No - newer cos. have no history | Yes | Yes | Yes |
| 9. Is disclosure regarding uses and misuses of illustrations required? | Yes - on cover page | Yes, but not in "Rules" - only sample illus. | No - but they do not oppose | Yes | No |
| 10. Are minimum format standards required? | Yes - including a cover page | Yes | Yes | Yes | Yes |
| 11. Is an adequate policy description required? | Yes | Yes | Yes | Yes | Yes |
| 12. Must policyholders be notified of adverse changes in NGEs? | Yes | No | Yes | Yes | No |
| 13. Is certification by an actuary required | Yes | Yes | Yes | Yes | No |
| 14. Is lapse supported pricing banned? | No | No | No | No | No |

Analysis of Illustration Proposals
Technical Resource Committee
(Continued)

| Guardian | NALU | FIPSCO | InsMark | Consumers Union | ACLI |
|---|---|---|---|---|---|
| 1. Yes - restrictions on current scale | Supportable current experience | Supportable illustrations required | Current scale, range set by NAIC, testing by Beacon Co. | Only guaranteed values allowed | Yes, based on Disciplined Current Scale (DCS) |
| 2. Yes | Yes - for definition of supportable | Yes | No | No | Yes |
| 3. Yes - based on current scale | Yes - based on current scale | Yes - based on current scale | Yes | No | Yes - based on DCS |
| 4. Yes - required statement | Yes | Yes - in buyer's guide | Yes - required statement | Only guarantees allowed | Yes - statement on cover page |
| 5. Yes | Supportability would control | Left to ASB | No | Only guarantees allowed | Yes |
| 6. Yes - based on standard conservative assumptions | Yes - 1% below current rate | Yes - all NGEs average of current and guaranteed | Yes - 4 bases varying interest and mortality | No | Yes - 1% lower than DCS interest rate |
| 7. Yes - based on current scale | Yes - based on current scale | Yes - based on current scale | Yes - based on current scale | No | Yes - based on DCS |
| 8. Yes | Yes | Yes | Yes | No | Yes |
| 9. No | Yes | Yes - in buyer's guide. | No | No | Yes - in sample illus. but not in regulation |
| 10. Yes | Yes | Yes | Yes | Yes | Yes |
| 11. Yes | Yes | Yes - in buyer's guide | No | Yes | Yes |
| 12. Yes - requires in-force illus. each anniversary | No | Yes - requires annual statement | No | No | Yes |
| 13. Yes - Qualified Illustration Actuary | No | No | No | No | Yes |
| 14. Yes | No | No | No | No - but can't be illustrated | No |

Analysis of Illustration Proposals
Technical Resource Committee
(Continued)

| NALC/Manufacturers/LifeUSA | Merrill Lynch |
|---|---|
| 1. Yes - based on currently applied scale | Only guaranteed values allowed |
| 2. No | No |
| 3. Yes - based on current scale | No |
| 4. Yes - in consumer notice | Only guarantees allowed |
| 5. Yes | Only guarantees allowed |
| 6. Yes - all NGEs average of current and guarantees | No |
| 7. Yes | No |
| 8. Yes | No |
| 9. Yes - in consumer notice | No |
| 10. Yes | Yes |
| 11. Yes | Yes |
| 12. Yes | Yes |
| 13. Yes | No |
| 14. No | No, but can't be illustrated |

Technical Resource Committee Discussion Draft - 8/31/94

1. How is discipline of nonguaranteed elements (NGEs) to be imposed?

NGEs must be in accordance with Disciplined Current Scale which is based on the company's recent historical experience. (Sec.4, Sec.6A.)

2. Does the proposal rely on standards to be set by the Actuarial Standards Board?

Yes. (Sec.10)

3. Are companies able to demonstrate how a policy works, including the role and effect of NGEs?

Yes - based on Disciplined Current Scale or less favorable scenarios.

4. Is it made clear that the illustration is not a forecast of future results?

A statement is required that it is based on nonguaranteed assumptions and that actual results may be more or less favorable. (Sec.6D.)

5. Are projected improvements (including projections of trends) of experience assumptions into the future forbidden?

Yes - specifically prohibited in definition of Disciplined Current Scale. (Sec.4)

6. Is sensitivity testing mandated - how?

Yes, if NGEs are shown - assume dividends are 50% of current scale or NGEs are average of current scale and guaranteed. In addition to the 50% level of NGEs, any other basis between guarantees and disciplined current scale may be shown. (Sec.5C.)

7. Are companies able to provide legitimate consumer information based on how the company is doing today?

Yes - cash values or monthly incomes relating to those values at future ages may be supplied if based on Disciplined Current Scale or a less favorable scale.

8. Is it a method that is workable for all companies (e.g., new/old, stock/mutual, small/large, etc.)?

Yes, assuming the ASB promulgates standards such that all companies can produce a Disciplined Current Scale.

9. Is disclosure regarding the uses and misuses of illustrations required?

Yes. The cover page must contain such disclosure.

10. Are minimum standards in format required, including a clear display of what is and is not guaranteed, both for values and for premiums?

Yes. (Sec.6)

11. Is an adequate policy description required?

Yes. (Sec.5C)

12. Is notice to policyholders of adverse changes in NGEs required?

Yes. (Sec.9)

13. Is certification by a qualified actuary required?

Yes. (Sec.10)

NAIC Rules Governing The Use Of Illustrations - 6/3/94

1. How is discipline of NGEs to be imposed?

NGEs limited to actual past performance. (Sec.7B)

2. Does the proposal rely on standards to be set by the Actuarial Standards Board?

Yes - standards regarding measurement of past performance. If ASB doesn't act, commissioner may promulgate standards. (Sec.11)

3. Are companies able to demonstrate how a policy works, including the role and effect of NGEs?

Yes, but only to the extent that historical NGEs are available for a significant number of years.

4. Is it made clear that the illustration is not a forecast of future results?

A statement is required that illustration is of past performance and that future results may be better or worse than shown. (Sec.7B)

5. Are projected improvements (including projection of trends) of assumptions into the future forbidden?

Yes - NGEs limited to actual past performance. (Sec.7B)

6. Is sensitivity testing mandated - how?

No. There is no provision for deviating from actual historical NGEs.

7. Are companies able to provide legitimate consumer information based on how the company is doing today?

No. Companies could not provide information based on their current scales of NGEs, such as cash value at age 65 or monthly income based on such value. Thus they could not tell consumers how they are doing today. (Sec.9)

8. Is it a method that is workable for all companies (e.g., new/old, stock/mutual, small/large, etc.)?

No. New companies or companies that do not have long histories of paying NGEs could not illustrate enough durations to show how a policy works.

9. Is disclosure regarding the uses and misuses of illustrations required?

Yes. Although not found in the Rules, the sample illustration cover page attached to the rules contains disclosure.

10. Are minimum standards in format required, including a clear display of what is and is not guaranteed, both for values and for premiums?

Yes. The rules contain definitions in Sec.4. A format is provided in the sample illustration.

11. Is an adequate policy description required?

Yes. (Sec.5B)

12. Is notice to policyholders of adverse changes in NGEs required?

No, but it does require an annual notice that insured may request a report comparing the sales illustration with actual results since the last report was obtained. (Sec.10)

13. Is certification by a qualified actuary required?

Yes - that standards regarding measurement of past performance have been met. (Sec.11) Certification by the company is also required. (Sec.6)

John Hancock Draft Rules - 7/20/94

1. How is discipline of NGEs to be imposed?

NGEs must be in accordance with Disciplined Current Scale which is based on the company's recent historical experience.

2. Does the proposal rely on standards to be set by the Actuarial Standards Board?

Yes. ASB must promulgate standards regarding Disciplined Current Scale (Sec. 4).

3. Are companies able to demonstrate how a policy works, including the role and effect of NGEs?

Yes - assuming continuation of the Disciplined Current Scale or a less favorable scale. Concept illustrations are also allowed.

4. Is it made clear that the illustration is not a forecast of future results?

Requires statement that NGEs are not guaranteed and that actual results may be more or less favorable. (Sec. 6C)

5. Are projected improvements (including project of trends) of experience assumptions into the future forbidden?

Yes. (Sec. 9A(2))

6. Is sensitivity testing mandated - how?

Yes, if NGEs are shown - assume dividends are 50% of current scale or NGEs are average of current scale and guaranteed. In addition to the 50% level of NGEs, any other basis between guarantees and disciplined current scale may be shown. (Sec. 6C)

7. Are companies able to provide legitimate consumer information based on how the company is doing today?

Yes, based on Disciplined Current Scale.

8. Is it a method that is workable for all companies (e.g., new/old, stock/mutual, small/large, etc.)?

Yes, assuming the ASB promulgates standards such that all companies can produce a Disciplined Current Scale. The sample illustration includes graphs, but these are optional pages.

9. Is disclosure regarding the use and misuses of illustrations required?

No, but they are willing to add language that illustrations are not to be used by themselves to compare companies.

10. Are minimum standards in formats required, including a clear display of what is and is not guaranteed, both for values and for premiums?

Yes. (Sec. 4)

11. Is an adequate policy description required?

Yes. (Sec. 5B)

12. Is notice to policyholders of adverse changes in NGEs required?

Yes. Also, in-force ledgers are available on request. (Sec. 8)

13. Is certification by a qualified actuary required?

Yes, for actuarial standards compliance - also requires certification by (but not signature of) company officer for non-actuarial aspects. (Sec. 9)

Iowa Life & Health Insurance Association Draft Regulation - 6/1/94

1. How is discipline of NGEs to be imposed?

Limits NGEs to those in accordance with Currently Illustrated Scale. Grade current interest rate to the company's new money rate.

2. Does the proposal rely on standards to be set by the Actuarial Standards Board?

No.

3. Are companies able to demonstrate how a policy works, including the role and effect of NGEs?

Yes - based on Currently Illustrated Scale or less favorable scenarios.

4. Is it made clear that the illustration is not a forecast of future results?

A statement is required that it is based on not guaranteed assumptions and that actual results may be more or less favorable. (Sec. 6D)

5. Are projected improvements (including projection of trends) of experience assumptions into the future forbidden?

Yes. (Sec. 4)

6. Is sensitivity testing mandated - how?

Yes - cover page requires sensitivity testing at an interest rate 1% below rate in current scale.(Sec. 6E)

7. Are companies able to provide legitimate consumer information based on how the company is doing today?

Yes - cash values or monthly incomes relating to those values at future ages may be supplied if based on Currently Illustrated Scale or a less favorable scale.

8. Is it a method that is workable for all companies (e.g., new/old, stock/mutual, small/large, etc.)?

Yes. All companies should be able to construct a Currently Illustrated Scale.

9. Is disclosure regarding the uses and misuses of illustrations required?

Yes. The cover page must contain such disclosure. (Sec. 6D)

10. Are minimum standards in formats required, including a clear display of what is and is not guaranteed, both for values and for premiums?

Yes. (Secs. 4 and 5)

11. Is an adequate policy description required?

Yes. (Sec. 7)

12. Is notice to policyholders of adverse changes in NGEs required?

Yes. (Sec. 7)

13. Is certification by a qualified actuary required?

Yes. (Sec. 9)

Phoenix Home Life's "Beyond the Numbers" - 3/94

1. How is discipline of NGEs to be imposed?

The illustration uses current scale. However, they suggest that the current interest rate must be supportable assuming that current experience continues unchanged. For portfolio companies, this means the current rate must grade into the current new money rate.

2. Does the proposal rely on standards to be set by the Actuarial Standards Board?

No.

3. Are companies able to demonstrate how a policy works, including the role and effect of NGEs?

Yes.

4. Is it made clear that the illustration is not a forecast of future results?

Statements are made that current dividend scale is not guaranteed and that values may increase or decrease in the future.

5. Are projected improvements (including projection of trends) of experience assumptions into the future forbidden?

No.

6. Is sensitivity testing mandated - how?

Yes - Allows percentage changes in dividends from current scale - both negative and positive.

7. Are companies able to provide legitimate consumer information based on how the company is doing today?

Yes

8. Is it a method that is workable for all companies (e.g., new/old, stock/mutual, small/large, etc.)?

Yes.

9. Is disclosure regarding the uses and misuses of illustrations required?

No.

10. Are minimum standards in formats required, including a clear display of what is and is not guaranteed, both for values and for premiums?

Yes.

11. Is an adequate policy description required?

Yes.

12. Is notice to policyholders of adverse changes in NGEs required?

No.

13. Is certification by a qualified actuary required?

No.

Guardian's Proposed Guidelines or Regulations - 5/13/94

1. How is discipline of NGEs to be imposed?

Restrictions are imposed on Currently Payable Scale. Proposal would also ban lapse-supported policies and attempt to disclose the significance of different interest crediting methods.

2. Does the proposal rely on standards to be set by the Actuarial Standards Board?

Yes - requires establishment of proper professional guidelines and standards or regulations.

3. Are companies able to demonstrate how a policy works, including the role and effect of NGEs?

Yes. NGEs may be illustrated using Currently Payable Scale.

4. Is it made clear that the illustration is not a forecast of future results?

A thorough statement to this effect is required.

5. Are projected improvements (including projection of trends) of experience assumptions into the future forbidden?

Yes.

6. Is sensitivity testing mandated - how?

Yes - an alternative scale based on standard, industry-wide, conservative assumptions is suggested.

7. Are companies able to provide legitimate consumer information based on how the company is doing today?

Yes - based on Currently Payable Scale.

8. Is it a method that is workable for all companies (e.g., new/old, stock/mutual, small/large, etc.)?

Yes.

9. Is disclosure regarding the uses and misuses of illustrations required?

No.

10. Are minimum standards in formats required, including a clear display of what is and is not guaranteed, both for values and for premiums?

Yes.

11. Is an adequate policy description required?

Yes - generic and marketing names of the policy must be included.

12. Is notice to policyholders of adverse changes in NGEs required?

Yes - requires an in-force illustration on every policy anniversary.

13. Is certification by a qualified actuary required?

Yes - requires companies to appoint a Qualified Illustration Actuary.

Statement of the National Association of Life Underwriters - 1/31/94

1. How is discipline of NGEs to be imposed?

Illustrations must be based on current experience that is supportable in accordance with and for the limited time span covered by Schedule M and Exhibit 8 of the annual statement, or, a statement must appear on the illustration that this supportability requirement isn't being met.

2. Does the proposal rely on standards to be set by the Actuarial Standards Board?

Yes - for the terms "supportability" and "current experience."

3. Are companies able to demonstrate how a policy works, including the role and effect of NGEs?

Yes, based on current experience.

4. Is it made clear that the illustration is not a forecast of future results?

Proposal contains general statement that consumers should be made aware of this.

5. Are projected improvements (including projection of trends) of experience assumptions into the future forbidden?

Supportability requirement would control projecting improvements.

6. Is sensitivity testing mandated - how?

Yes - values at an interest rate 100 basis points below current must be shown.

7. Are companies able to provide legitimate consumer information based on how the company is doing today?

Yes - based on current scale.

8. Is it a method that is workable for all companies (e.g., new/old, stock/mutual, small/large, etc.)?

Yes - if companies are willing to fulfill the supportability requirements.

9. Is disclosure regarding the uses and misuses of illustrations required?

Yes.

10. Are minimum standards in formats required, including a clear display of what is and is not guaranteed, both for values and for premiums?

Yes.

11. Is an adequate policy description required?

Yes .

12. Is notice to policyholders of adverse changes in NGEs required?

Availability of in-force ledgers on request is suggested, but notification of adverse changes is not mentioned.

13. Is certification by a qualified actuary required?

No.

FIPSCO Proposal - 1/27/94 & 7/15/94

1. How is discipline of NGEs to be imposed?

Illustrations must be supportable in accordance with standards to be set.

2. Does the proposal rely on standards to be set by the Actuarial Standards Board?

The proposal mentions the Society of Actuaries, but not the ASB.

3. Are companies able to demonstrate how a policy works, including the role and effect of NGEs?

Yes

4. Is it made clear that the illustration is not a forecast of future results?

Yes - a buyer's guide would explain this.

5. Are projected improvements (including projection of trends) of experience assumptions into the future forbidden?

Society of Actuaries would determine which improvements cannot be illustrated.

6. Is sensitivity testing mandated - how?

Yes - NGEs half way between guarantees and the current scale.

7. Are companies able to provide legitimate consumer information based on how the company is doing today?

Yes - based on current scale.

8. Is it a method that is workable for all companies (e.g., new/old, stock/mutual, small/large, etc.)?

Yes.

9. Is disclosure regarding the uses and misuses of illustrations required?

Yes - buyer's guide would contain such an explanation.

10. Are minimum standards in formats required, including a clear display of what is and is not guaranteed, both for values and for premiums?

Yes - a sample illustration is included.

11. Is an adequate policy description required?

Yes - in the buyer's guide.

12. Is notice to policyholders of adverse changes in NGEs required?

Yes - annual statements are required.

13. Is certification by a qualified actuary required?

No.

Insmark Letter To NAIC - 6/3/94

1. How is discipline of NGEs to be imposed?

First choice is to show current scale. Fall back position is to suggest a range of assumptions set by the NAIC (or an agency designated by the NAIC) or testing by The Beacon Company.

2. Does the proposal rely on standards to be set by the Actuarial Standards Board?

No, but they could be. This is a debatable point.

3. Are companies able to demonstrate how a policy works, including the role and effect of NGEs?

Yes.

4. Is it made clear that the illustration is not a forecast of future results?

Statement included in the illustration.

5. Are projected improvements (including projection of trends) of experience assumptions into the future forbidden?

No.

6. Is sensitivity testing mandated - how?

Yes - shows four bases: current interest, current mortality; 1% less than current interest, current mortality; 1% less than current interest, 125% of current mortality; guaranteed interest, guaranteed mortality.

7. Are companies able to provide legitimate consumer information based on how the company is doing today?

Yes - based on current scale.

8. Is it a method that is workable for all companies (e.g., new/old, stock/mutual, small/large, etc.)?

Yes.

9. Is disclosure regarding the uses and misuses of illustrations required?

No.

10. Are minimum standards in formats required, including a clear display of what is and is not guaranteed, both for values and for premiums?

Yes - sample illustration included.

11. Is an adequate policy description required?

No.

12. Is notice to policyholders of adverse changes in NGEs required?

No.

13. Is certification by a qualified actuary required?

No.

Consumers Union Letter - 1/31/94

1. How is discipline of NGEs to be imposed?

Only guaranteed values would be allowed.

2. Does the proposal rely on standards to be set by the Actuarial Standards Board?

No.

3. Are companies able to demonstrate how a policy works, including the role and effect of NGEs?

No.

4. Is it made clear that the illustration is not a forecast of future results?

Only guaranteed values are allowed.

5. Are projected improvements (including projection of trends) of experience assumptions into the future forbidden?

Only guaranteed values are allowed.

6. Is sensitivity testing mandated - how?

No.

7. Are companies able to provide legitimate consumer information based on how the company is doing today?

No.

8. Is it a method that is workable for all companies (e.g., new/old, stock/mutual, small/large, etc.)?

Yes - if guaranteed values only is workable.

9. Is disclosure regarding the uses and misuses of illustrations required?

No.

10. Are minimum standards in formats required, including a clear display of what is and is not guaranteed, both for values and for premiums?

Yes.

11. Is an adequate policy description required?

Yes - through a "key features" page.

12. Is notice to policyholders of adverse changes in NGEs required?

No.

13. Is certification by a qualified actuary required?

No.

ACLI Discussion Draft 7/15/94

1. How is discipline of NGEs to be imposed?

NGEs must be based on Disciplined Current Scale which is defined.

2. Does the proposal rely on standards to be set by the Actuarial Standards Board?

Yes.

3. Are companies able to demonstrate how a policy works, including the role and effect of NGEs?

Yes, based on disciplined current scale.

4. Is it made clear that the illustration is not a forecast of future results?

Yes, cover page must include a statement signed by the applicant that it is understood that NGEs are subject to change by the insurer.

5. Are projected improvements (including projection of trends) of experience assumptions into the future forbidden?

Yes.

6. Is sensitivity testing mandated - how?

Yes. Cover page must show values at 5, 10 and 20 years at an interest rate 1% lower than disciplined current scale.

7. Are companies able to provide legitimate consumer information based on how the company is doing today?

Yes - based on disciplined current scale.

8. Is it a method that is workable for all companies (e.g., new/old, stock/mutual, small/large, etc.)?

Yes.

9. Is disclosure regarding the uses and misuses of illustrations required?

Included in the sample illustration, but not in the proposed regulation.

10. Are minimum standards in formats required, including a clear display of what is and is not guaranteed, both for values and for premiums?

Yes.

11. Is an adequate policy description required?

Yes. (Sec. 7)

12. Is notice to policyholders of adverse changes in NGEs required?

Yes. (Sec. 10)

13. Is certification by a qualified actuary required?

Yes. (Sec. 11)

NALC/Manufacturers/Life USA

1. How is discipline of NGEs to be imposed?

Limits NGEs to currently applied scale and a midpoint scale.

2. Does the proposal rely on standards to be set by the Actuarial Standards Board?

No, but they would like to use ASB standards.

3. Are companies able to demonstrate how a policy works, including the role and effect of NGEs?

Yes.

4. Is it made clear that the illustration is not a forecast of future results?

Yes, in the consumer notice and in the illustration itself.

5. Are projected improvements (including projection of trends) of experience assumptions into the future forbidden?

Yes.

6. Is sensitivity testing mandated - how?

Requires an alternate illustration using the midpoint between current scale and guarantees.

7. Are companies able to provide legitimate consumer information based on how the company is doing today?

Yes.

8. Is it a method that is workable for all companies (e.g., new/old, stock/mutual, small/large, etc.)?

Yes.

*Life Insurance Committee*

9. Is disclosure regarding the uses and misuses of illustrations required?

Yes, in the consumer notice.

10. Are minimum standards in formats required, including a clear display of what is and is not guaranteed, both for values and for premiums?

Yes.

11. Is an adequate policy description required?

Yes, in the policy feature and cash value descriptions.

12. Is notice to policyholders of adverse changes in NGEs required?

Yes, an annual statement is required.

13. Is certification by a qualified actuary required?

Yes.

Merrill Lynch

1. How is discipline of NGEs to be imposed?

Only guaranteed values would be allowed.

2. Does the proposal rely on standards to be set by the Actuarial Standards Board?

No.

3. Are companies able to demonstrate how a policy works, including the role and effect of NGEs?

No.

4. Is it made clear that the illustration is not a forecast of future results?

Only guaranteed values are allowed.

5. Are projected improvements (including projection of trends) of experience assumptions into the future forbidden?

Only guaranteed values are allowed.

6. Is sensitivity testing mandated - how?

No.

7. Are companies able to provide legitimate consumer information based on how the company is doing today?

No.

8. Is it a method that is workable for all companies (e.g., new/old, stock/mutual, small/large, etc.)?

Yes, if guaranteed values only is workable.

9. Is disclosure regarding the uses and misuses of illustrations required?

No.

10. Are minimum standards in formats required, including a clear display of what is and is not guaranteed, both for values and for premiums?

Yes.

11. Is an adequate policy description required?

Yes.

**12. Is notice to policyholders of adverse changes in NGEs required?**

**Yes.**

**13. Is certification by a qualified actuary required?**

**No.**

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**ATTACHMENT FOUR-C**

**Sample Policy Illustrations**

ABC LIFE INSURANCE COMPANY

# A Life Insurance Policy Illustration

Flexible Premium Adjustable Life

*Universal Life*

*Designed for*

Mr. Client Name
123 Main Street
Anytown, USA 12345

*Presented by*

Ms. Agent Name
999 Main Street
Anytown, USA 12345

September 17, 1994

Form 12345