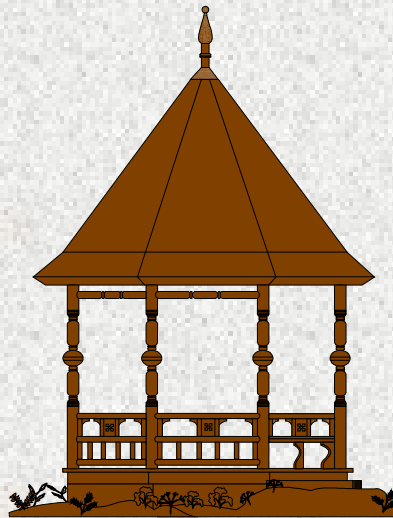


**NATIONAL  
FRATERNAL  
CONGRESS  
OF AMERICA**



**JOINING HANDS  
TO TOUCH LIVES**



**NATIONAL  
FRATERNAL  
CONGRESS  
OF AMERICA**



**JOINING HANDS  
TO TOUCH LIVES**

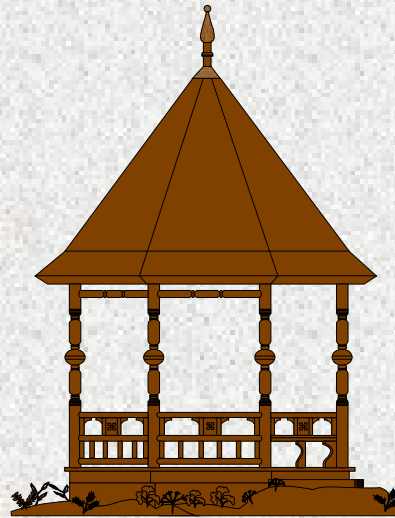
# National Fraternal Congress of America

The XXX-Files

September 17, 1999

Arlington, VA

**NATIONAL FRATERNAL CONGRESS OF AMERICA**  
THE TRADE ASSOCIATION FOR FRATERNAL BENEFIT SOCIETIES SINCE 1886

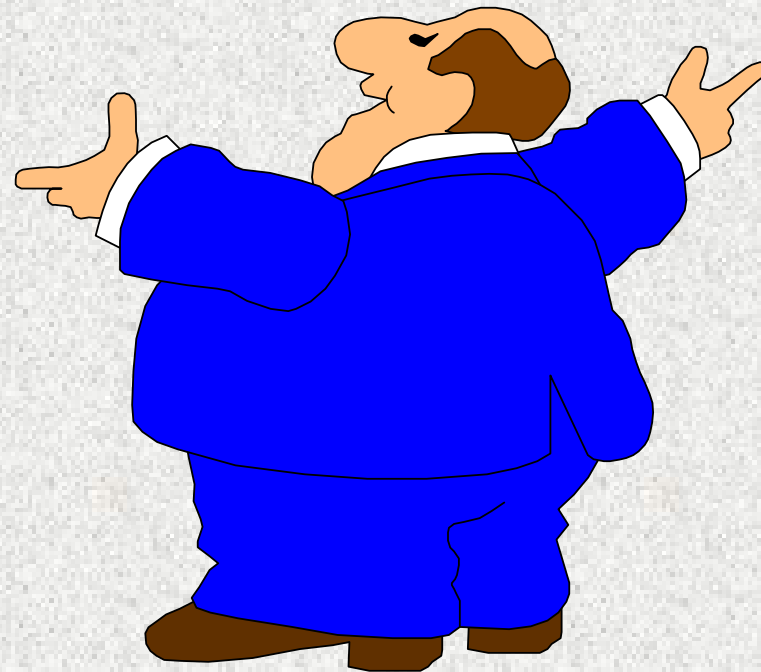


James N. Van Elsen

Consulting Actuary  
Van Elsen Consulting  
Colfax, Iowa

# Presentation Outline

- ◆ Update on XXX
- ◆ **Quick** Overview of XXX
- ◆ Product Development Choices
- ◆ Opportunities



**Van Elsen  
Consulting**

---

James N. Van Elsen, FSA, MAAA  
Consulting Actuary



# Current Status

- Moving Toward 1/1/2000 Adoption (25)
  - AZ, AR, CA, CO, IL, IN, IA, KS, ME, MN, MT, NE, NV, NM, NY, NC, ND, OH, OK, PA, TX, UT, VT, VA, WI
- Under Active Review (12)
  - AL, CT, DE, LA, MD, MI, MS, MO, NJ, OR, RI, WV
- Adverse Position (1)
  - WA

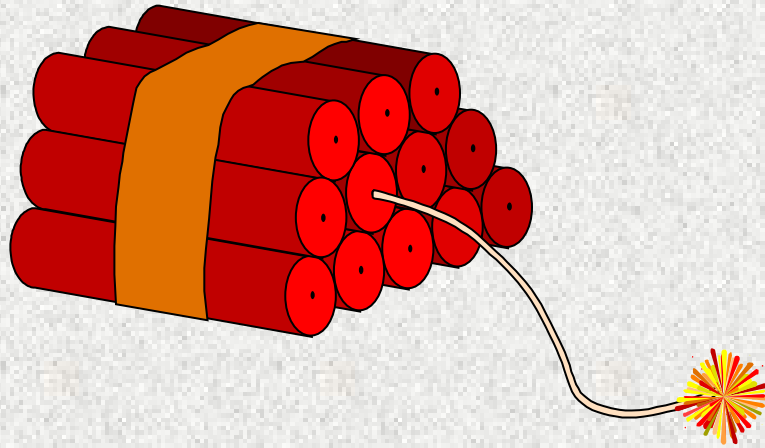


**Van Elsen**  
**Consulting**

---

James N. Van Elsen, FSA, MAAA  
Consulting Actuary

# Potential Regulatory Problems



- ◆ State Variations
- ◆ 51% States & Texas
- ◆ States That Don't Adopt XXX
  - Keeping the “Tail”
  - Potentially Unlevel Playing Field

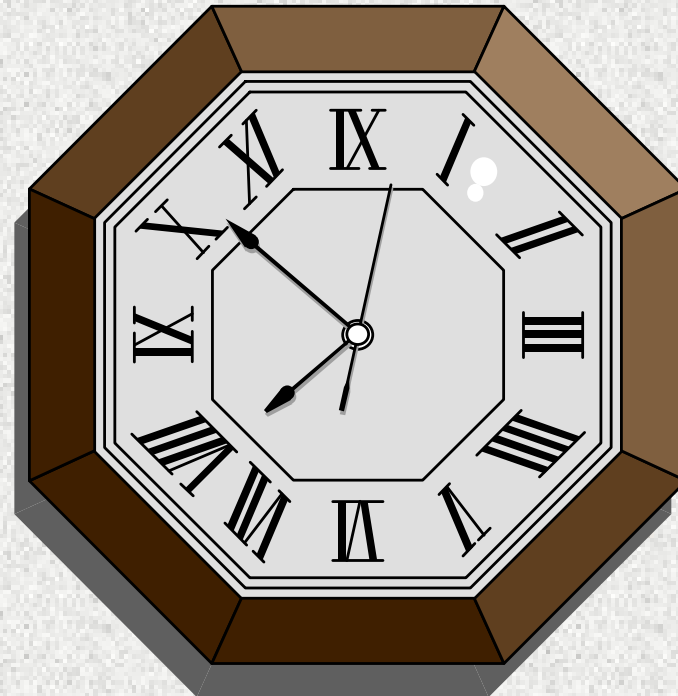


**Van Elsen  
Consulting**

James N. Van Elsen, FSA, MAAA  
Consulting Actuary

# Quick Overview of XXX

- ◆ Segmented Reserves
- ◆ Compare to Unitary
- ◆ New 20-Year Factors
- ◆ New X Factor for Deficiency Reserves
- ◆ UL Secondary Guarantees
- ◆ Many Exceptions

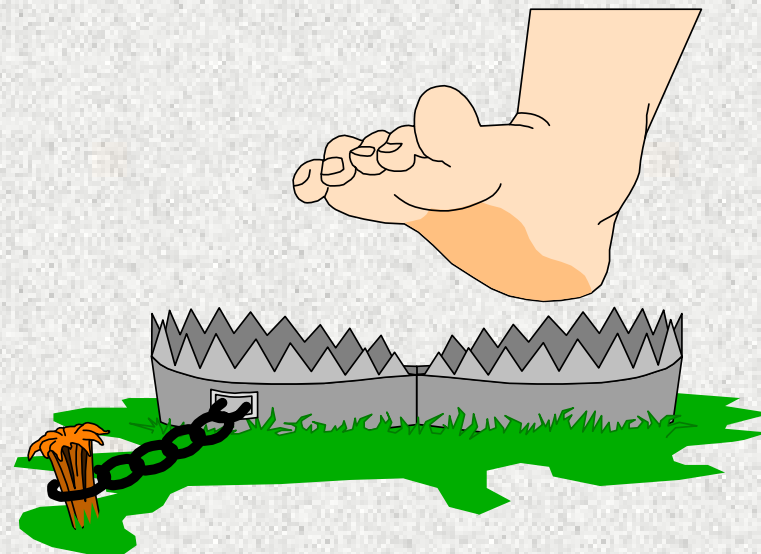


**Van Elsen  
Consulting**

James N. Van Elsen, FSA, MAAA  
Consulting Actuary

# Potential Problems

- ◆ Ultimate Premiums No Longer “Subsidize”
- ◆ Long Guarantee Periods
- ◆ X Factor
- ◆ UL Secondary Guarantees
- ◆ Multiple Guarantees



**Van Elsen  
Consulting**

James N. Van Elsen, FSA, MAAA  
Consulting Actuary



# Product Development Choices

- ◆ Reduce Guarantee Periods
- ◆ Increase Premiums
- ◆ Reduce Guaranteed Benefits
- ◆ Reinsurance
- ◆ “Non-Guaranteed” Guarantees
- ◆ Do Nothing?



**Van Elsen  
Consulting**

James N. Van Elsen, FSA, MAAA  
Consulting Actuary

# Reduce Guarantees

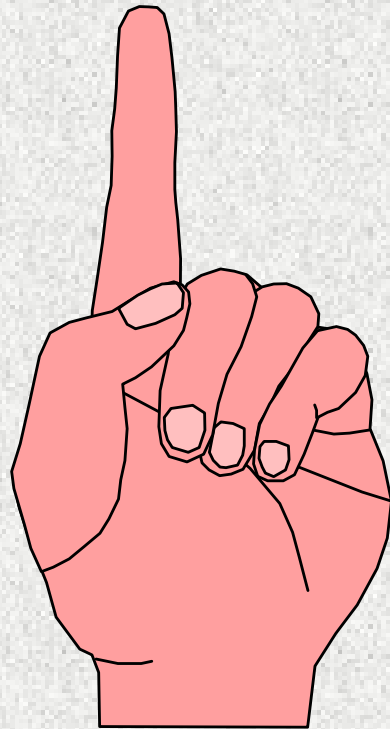
- ◆ Basic Reserves Extremely High for 20 - 30 Year Guaranteed Products
- ◆ Deficiencies May Be a Factor on Preferred Classifications
- ◆ No 5-Year “Safe Harbor”
- ◆ May Require Illustration



**Van Elsen  
Consulting**

James N. Van Elsen, FSA, MAAA  
Consulting Actuary

# Increase Premiums



- ◆ May Be Market for Full Guarantees
  - Internet
  - No Illustration Required
- ◆ Product of Choice in NY
- ◆ Market Will Be Intense



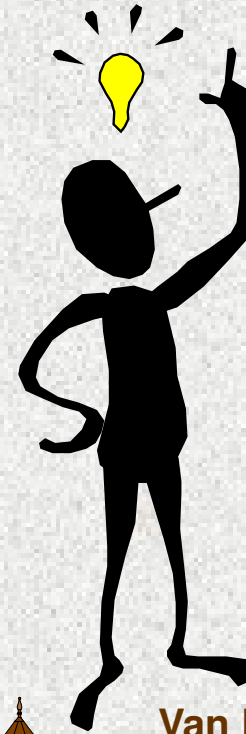
**Van Elsen  
Consulting**

---

James N. Van Elsen, FSA, MAAA  
Consulting Actuary

# Reduce Guaranteed Benefits

- ◆ Revert to Decreasing Term After Guarantee Period
- ◆ Use Non-Guaranteed Death Benefits to Maintain Level Benefit
- ◆ May Work Best for Par
- ◆ Untested Market



**Van Elsen  
Consulting**

James N. Van Elsen, FSA, MAAA  
Consulting Actuary

# Reinsurance

- ◆ Coinsure Away Reserves
- ◆ May Be Limited Capacity
- ◆ Potential Regulatory & Rating Problems
- ◆ Not Without Cost
- ◆ May Be Partial Solution
- ◆ Help With X Factor?



# Non-Guaranteed Guarantees?

- ◆ Restrict Ability to Increase Rates
- ◆ Provide Options if Rates are Increased
- ◆ Potential Gimmicks?

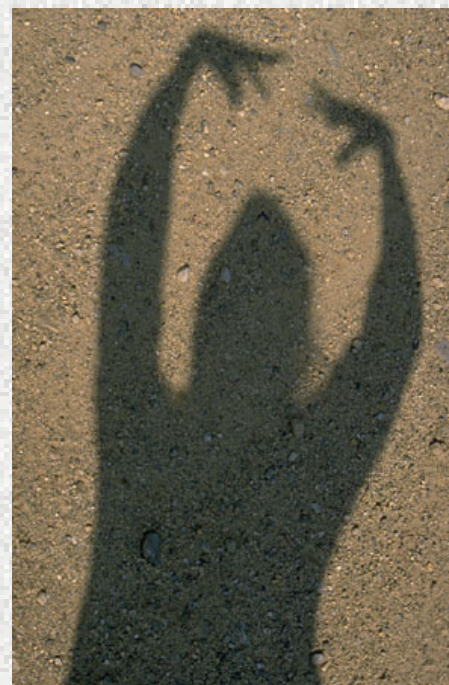


**Van Elsen  
Consulting**

James N. Van Elsen, FSA, MAAA  
Consulting Actuary

# Shadow Accounts

- ◆ UL with 2<sup>nd</sup> Account  
Mirroring Transactions
- ◆ Policyowner Cannot  
Access Shadow Account
- ◆ If Positive, Policy  
Remains Inforce
- ◆ What Reserves?



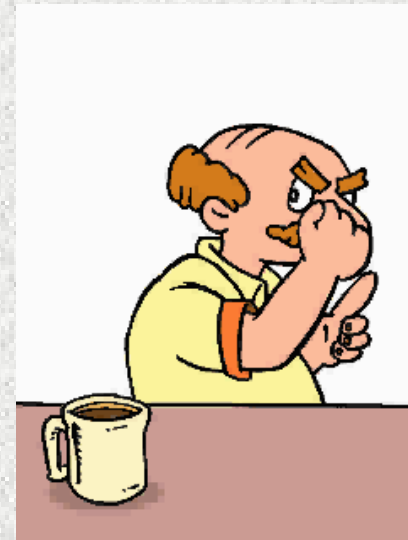
**Van Elsen  
Consulting**

---

James N. Van Elsen, FSA, MAAA  
Consulting Actuary

# Be Careful!!!

- ◆ Pay Attention to Intent of Regulation
- ◆ If It Smells Like a Guarantee, It Probably Is
- ◆ Retroactive Decision Could Be Disastrous



**Van Elsen  
Consulting**

James N. Van Elsen, FSA, MAAA  
Consulting Actuary



# Example

Product: 20-Year Level Term

- 1 Full Guarantee
- 2 5-Year Guarantee, Followed by ART
- 3 Full Guarantee With Increased Premiums
- 4 Original Premiums, Reduced Death Benefits

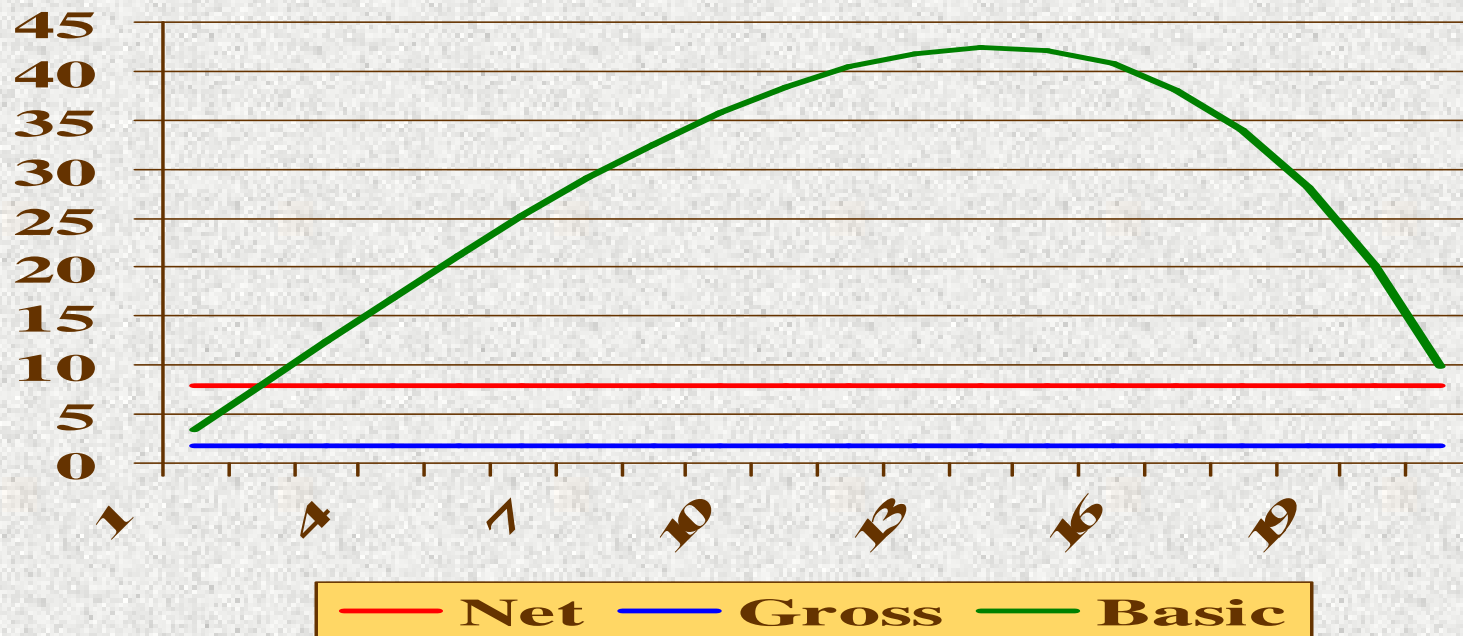


**Van Elsen  
Consulting**

---

James N. Van Elsen, FSA, MAAA  
Consulting Actuary

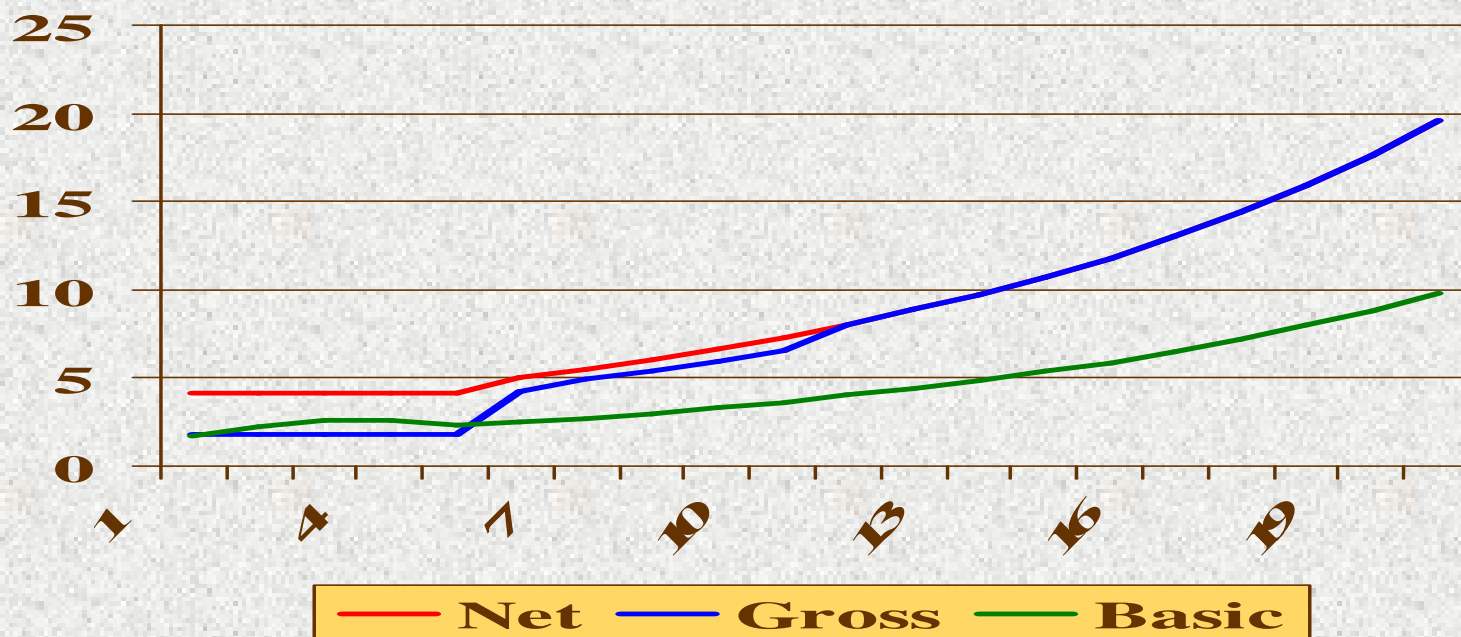
# Example #1 (No Change)



**Van Elsen  
Consulting**

James N. Van Elsen, FSA, MAAA  
Consulting Actuary

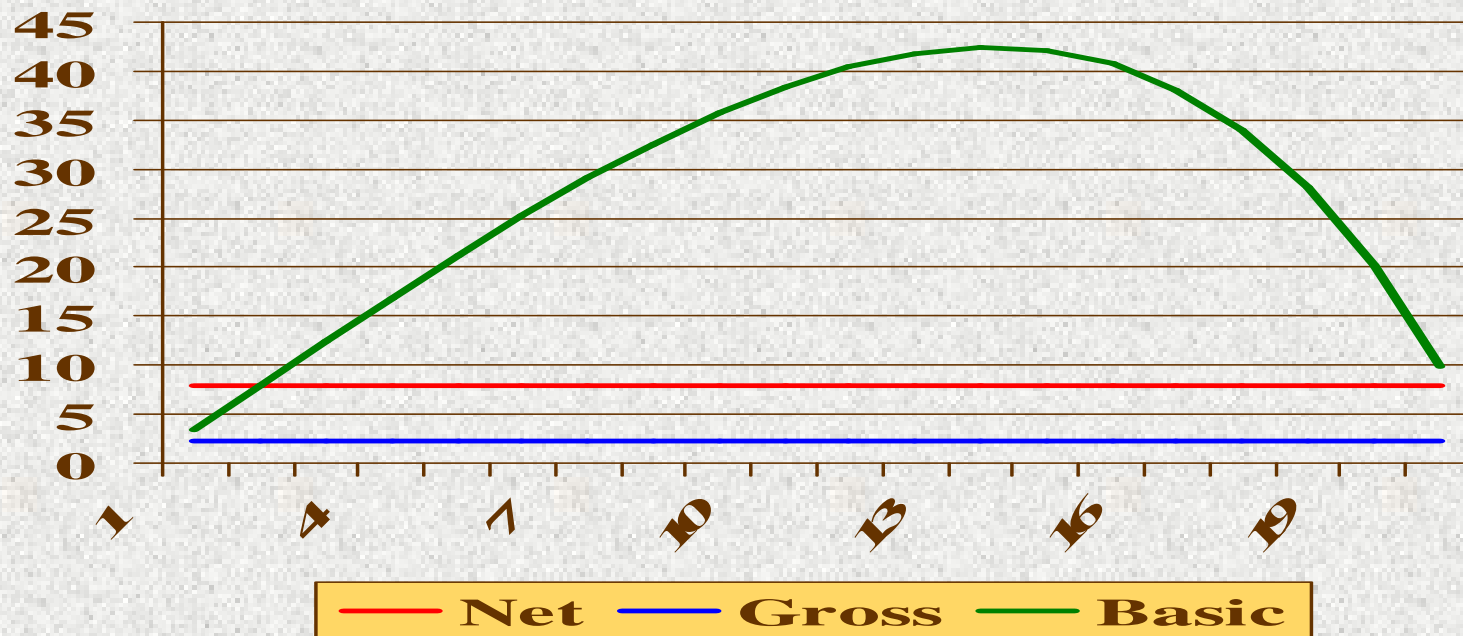
## Example #2 (5-Year)



**Van Elsen  
Consulting**

James N. Van Elsen, FSA, MAAA  
Consulting Actuary

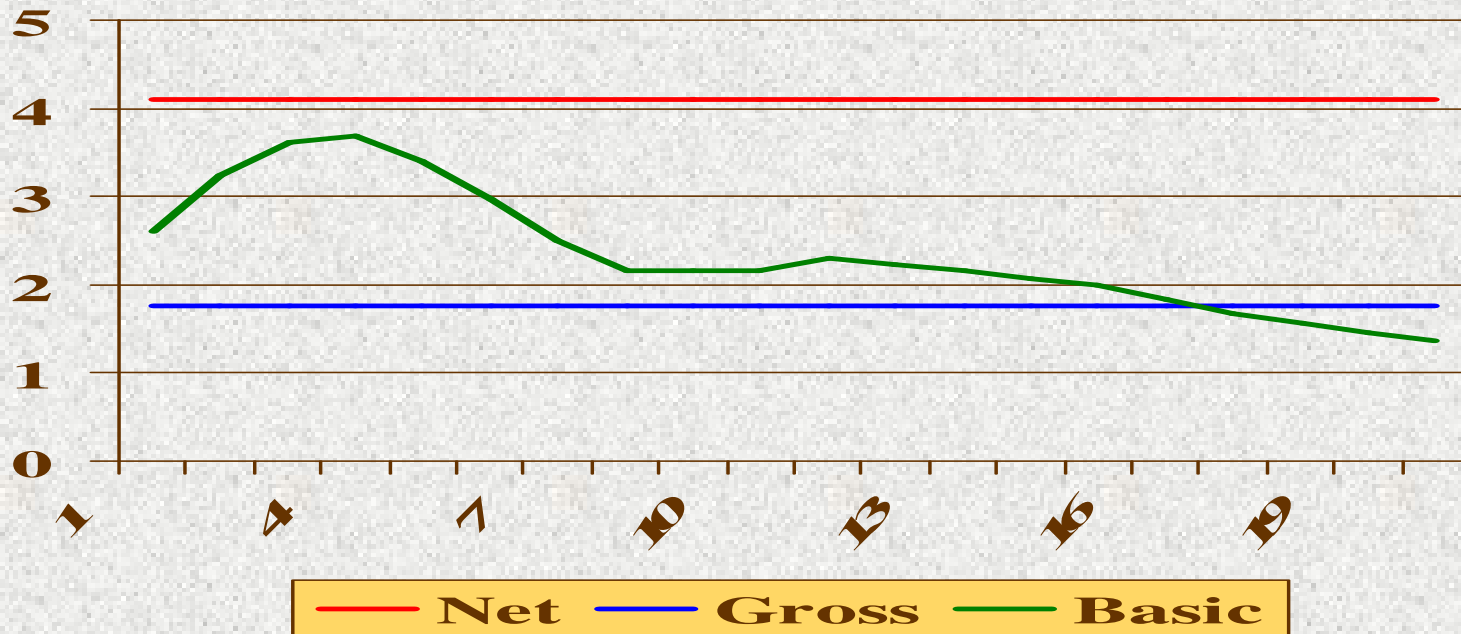
# Example #3 (Increase Premiums)



**Van Elsen  
Consulting**

James N. Van Elsen, FSA, MAAA  
Consulting Actuary

# Example #4 (Decreasing Term)

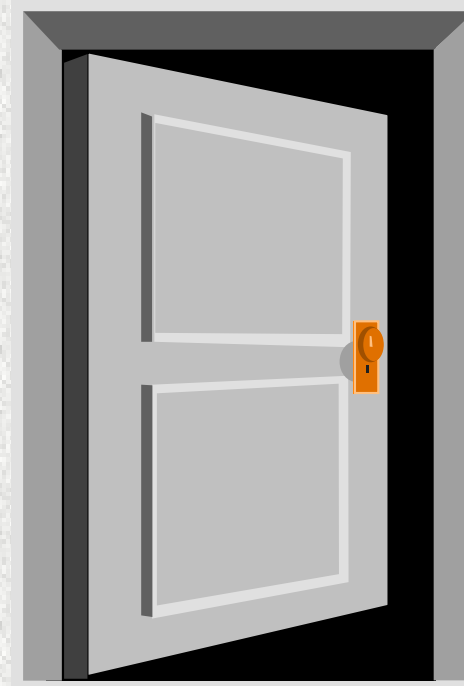


**Van Elsen  
Consulting**

James N. Van Elsen, FSA, MAAA  
Consulting Actuary

# Opportunities

- ◆ 1999
- ◆ 2000 Market Does Not Exist
- ◆ Full Guarantees vs. Low Premiums
- ◆ Product Differentiation
- ◆ Managing Segments
- ◆ Ability to Respond Quickly to Market



**Van Elsen  
Consulting**

James N. Van Elsen, FSA, MAAA  
Consulting Actuary

# 1999

- ◆ Greatest Term Sale of the Millennium?
- ◆ Preparing Distribution for Transition



**Van Elsen  
Consulting**

James N. Van Elsen, FSA, MAAA  
Consulting Actuary

# 2000 Market Does Not Exist

# Y2K

- ◆ Everyone Guessing
- ◆ Companies May Be Groping for Position in New Market
- ◆ All Companies Will Have Opportunity to Find Place in Market



**Van Elsen  
Consulting**

---

James N. Van Elsen, FSA, MAAA  
Consulting Actuary



# Product Differentiation



- ◆ New Benefits
- ◆ New Payment Plans
- ◆ Creative Options
- ◆ Higher Commissions
- ◆ More Aggressive Underwriting
- ◆ Better Service



**Van Elsen  
Consulting**

James N. Van Elsen, FSA, MAAA  
Consulting Actuary

# Managing Segments

- ◆ Shorter Segments  
Generally Have Smaller Reserves
- ◆ Offset by Loss of Select Factors & X Factor
- ◆ May Not be Marketable
- ◆ Whole life (or other permanent) may deserve a look



**Van Elsen  
Consulting**

**James N. Van Elsen, FSA, MAAA  
Consulting Actuary**

# Ability to Respond Quickly to Market

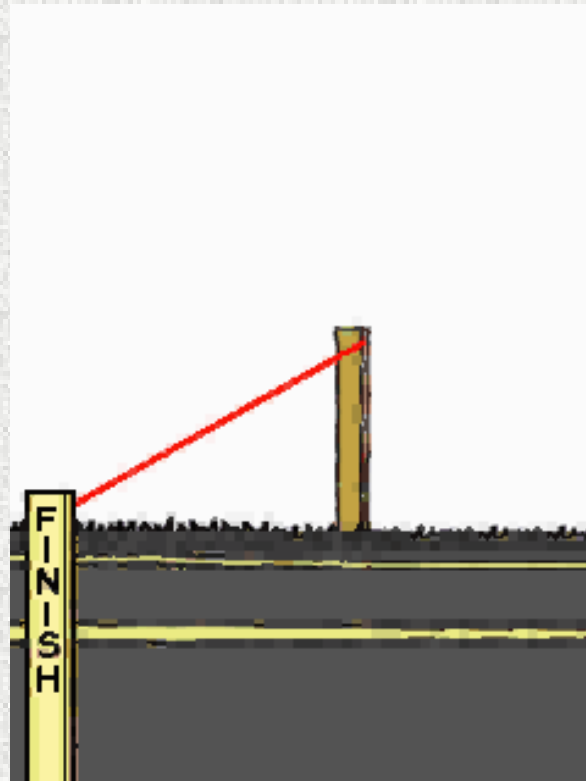
- ◆ All Companies Introducing New Products in 2000
- ◆ Those That Respond Best to Market Will Gain Market Share
- ◆ Speed Will be Critical
- ◆ Good Market Intelligence Needed



**Van Elsen  
Consulting**

James N. Van Elsen, FSA, MAAA  
Consulting Actuary

# The End



**Van Elsen  
Consulting**

**James N. Van Elsen, FSA, MAAA  
Consulting Actuary**