Mineral Springs Park
Colfax, Iowa

THE VAN ELSEN REPORT

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December 27, 1999

NAIC Meeting in San Francisco

Dear Commissioner:

{The following is an open letter to all state Insurance Commissioners from James N. Van Elsen. Copies of this newsletter are being sent to all state Insurance Commissioners.}

As you are aware, the life insurance industry continues to collapse. Every year, there are fewer independent companies as smaller companies are acquired by or merged with larger companies. This is a trend that is being seen throughout the financial services industry. The causes are many. Some companies have lost their market niche. Some have not been able to keep their expense levels competitive. For some companies, the current owner no longer has an interest in the insurance business. Still, others have been the victims of hostile takeovers. Every time one of these smaller companies closes its doors the public has lost a valuable resource. As Insurance Commissioner, you have a significant influence on whether smaller companies will continue to disappear. It is time for all Insurance Commissioners to consider how they might reverse this trend.

Smaller companies have been a major part of the life insurance industry for decades. Many of the products common in the market today were pioneered by smaller companies. Universal life insurance was first introduced by smaller companies. Most of the companies offering it today are smaller companies. The proliferation of more underwriting classifications for term insurance has been driven by smaller companies. In fact, the first non-smoker policies were pioneered by smaller companies. It is a smaller company that recently began offering life insurance coverage to individuals infected with HIV. Many more examples of this product innovation can be listed. Smaller companies tend to be more innovative because they are closer to their markets and they are more able to change administrative systems to accommodate new product designs.

Smaller companies also service market niches too small for the large companies. The pre-need market is a good example of a market niche that is totally dominated by smaller companies. Smaller companies are a significant influence in the small group market. The traditional forms of life insurance, whole life and endowment products, continue to be offered by many smaller companies.

Consider all the people that lose when a company ceases to be an independent entity. First there are the existing policyholders. Later in this newsletter is my account of how my family's policies are being dealt with by Allied Life. The company was recently bought by Nationwide

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The Van Elsen Report

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and resold to Swiss Reinsurance Group. The accounts you see from me are very similar to complaints that I am sure you have received when other life insurance companies have been bought or merged.

The public-at-large also loses. When they next consider their options for purchasing life insurance, there is one less option available. As the number of companies declines, the available choices also decline. Many times, specialty products which meet particular needs of a small market are no longer available. A good example of this is a group life insurance product that was sold by Farmland Life. This product was tailored specifically to the needs of the members of the cooperatives of Farmland Industries. A significant death benefit is incurred by these cooperatives when a member dies. When Farmland Life was sold to Nationwide, the product was eliminated. No other company chose to develop a product to meet these needs. The cooperatives must now rely on borrowing from the bank or cash flow to meet this obligation.

Next are the employees of the company. Quite typically, all the employees of Allied Life were let go shortly after being acquired by Swiss Reinsurance Group. One of the greatest lies spoken when companies are bought is that there will not be any jobs lost. The usual situation is that all well-paid employees will be terminated. They will comply with the total employee count commitment to the Insurance Commissioner by hiring much lower-paid customer service personnel. When possible, functions will be consolidated with other subsidiaries and even more employees will lose their jobs.

The stockholders benefit, of course, from the large increase in value at the time of the acquisition. Usually, this large increase is justifiable from reduced expenses after purchase. Of course, this comes from fewer employees, and, in some cases, reduced service to policyholders. Oftentimes, many of the stockholders are the very employees whose jobs are being eliminated.

Officers of the company also benefit. Many times, their benefit is very disproportionate to their contribution to the value of the company. Matured stock options and "golden parachutes" can make the pain of losing a job very tolerable for many executives. In many instances, the officer is able to find new employment in the new company. In most cases, the individuals receiving these large payments are very influential in deciding whether to accept an offer from an outside company.

Do not misunderstand me. I am not suggesting that there is anything illegal about the mergers and acquisitions in the life insurance industry. In most cases, the transactions are very legal. There are usually armies of attorneys who make sure of that. What I am saying is that today's environment has many elements which encourage these consolidations. Some of these elements cannot be changed. Mergers and acquisitions will continue to occur. Other elements, however, are brought upon by today's regulatory environment. These should be changed.

To the extent permissible, Insurance Commissioners must examine the cost of these purchases on other parties. Stronger commitments must be obtained from companies to take care of existing policyholders. This should be more than assuring that a policy's guaranteed benefits will be honored. Policyholders will often find that their policies diminish greatly in value after a purchase compared to what was sold to them. If the company is no longer selling insurance, there is no longer any market pressure to keep a company from reducing benefits and service to policyholders.

Insurance Commissioners must insist on better analysis from the NAIC when new regulations are being proposed. Many new regulations offer very little protection to the public, but continue the assault on the smaller company's ability to stay in business. A good example of this is the new Model Actuarial Opinion & Memorandum Regulation being considered by the NAIC's Life & Health Actuarial (Technical) Task Force (L&HATF). Much of the impetus for this change in regulation came from larger companies. The larger companies are trying to reduce their costs of complying with the state valuation regulations in all their many jurisdictions. I have no problem with that. In order to achieve this change, however, there has been repeated attempts to subject all smaller companies to actuarial opinions based on asset adequacy analysis (Section 8 opinion). The latest draft is only a slight improvement, requiring gross premium valuations rather than asset adequacy analysis. It is my

New E-Mail Alert Service!!!

Effective January 1, 2000, Van Elsen Consulting, Inc. will begin offering alerts by e-mail to its clients. This service will be provided free to all subscribers of *The Van Elsen Report* who receive their edition by e-mail.

The first alert is anticipated in mid-January, announcing our results of our XXX survey of states that made the January 1, 2000 deadline.

If you do not currently receive this newsletter by e-mail, please call us for information on how to change your subscription. Call us at 515-674-4046, or send us e-mail at Van.Elsen.Consulting@att.net.

opinion that this additional requirement will create only additional expense for many smaller companies. There is very little additional value that will be received by the Insurance Commissioner or the public for this additional expense. In fact, to the extent that it forces a company toward being purchased, it actually costs the public.

There are many unanswered questions about this proposed change in regulation. How much will it cost companies? How many companies are affected? What are the benefits of the analysis? Isn't the need for this testing lessened with the risk-based capital requirements, AVR and IMR? Are there actuarial resources available for preparing these additional analyses? With all this additional testing, won't the cost of asset adequacy analysis increase as actuarial resources become more scarce? Is this the best use of our scarce actuarial resources? Have there been a lot of smaller company insolvencies, warranting such testing? Or has it been the larger companies that have been having difficulties lately? The major proponents of this regulation are also its major benefactors. Large companies will benefit from reduced competition. Large consulting firms will gain even more work.

This plea for smaller companies may be coming too late. Every day more smaller companies cease to exist. It is my hope, however, that enough Insurance Commissioners will review these comments to cause some change. Maybe the interests of policyholders will be taken into account more carefully. Maybe a new regulation will be modified slightly so that it is not so punitive to smaller companies. If this happens, the public will benefit from the longer survival of the smaller life insurance companies. Thank you for considering these comments.

Dear Allied Life:

{The following is an open letter to Allied Life from James N. Van Elsen. Copies of this newsletter are being sent to all state Insurance Commissioners.}

I have been a policy owner of your company for almost 10 years. All of my purchases occurred while I was employed by Allied Life as its Vice President & Chief Actuary. I was disturbed, but not surprised, when I heard that Allied had been purchased by Nationwide. I was even more disturbed, but not surprised, to hear that Nationwide sold the life company to Life Reassurance Corporation of America, a subsidiary of Swiss Reinsurance Group. I notice that your billings are coming from Jacksonville, IL. I assume that means that the actual administration of the business has been turned over to the third-party administrator that is located there.

I recently received a letter from Robert L. Beisenherz, president of your company. He was encouraging me not to move my policies to another company. In this letter he states: "By using misinformation, they may advise you to move your policy from this company to another company. They may not tell you that you might be subject to surrender penalties, that new penalty periods may exist with the new policy, that you will begin a new period of contestability, and that you will be subject to rates for your current attained age, rather than the issue age at which your current policy was purchased. They also may not tell you that they will receive a first year commission again if you allow them to place the policy with a new company." Apparently, Mr. Beisenherz assumes that agents will violate replacement laws by twisting policies.

In this letter, Mr. Beisenherz also states: "The terms of the policy or policies that you hold have not changed at all. The financial security of the company, and of your policies has not changed at all. We value you as a client and a policyholder. We take seriously the responsibility that we have to you and to your beneficiaries." This statement has a hollow ring to it. I have the following observations about Allied since the sale to Life Re.

1. Policy service. So far this has been awful. Instead of experienced personnel that are familiar with our policies, we have personnel that do not understand our policies and are somewhat insensitive to our needs. When they have been unable to answer questions, we have been transferred to other departments, only to receive a recording. This recording asks for our name, phone number, and policy number so they can call us back. They never do. One frustrated representative told us: "If I were you, I would get these policies as far away from this company as possible. Get them out of Allied into a more secure insurance company."
2. Billing. All our policies were on a special joint billing from Allied's property & casualty company. This was a very convenient way for us to pay all of our Allied bills once a month. When the business was transferred, this billing form was immediately cancelled. All of our policies were changed, without notice to us, to the annual premium mode. Since August we have been attempting to effect the change back to monthly billing. We have been told it will be done. We have been told not to worry, our policies will stay inforce. Premiums from our September payment were applied to only two of our four policies. The rest of the money still can't be found. I worry. My wife worries.

3. Pricing concession. When sold to me, these policies had a built-in concession which reflected the billing form that was selected. For the universal life policies, this was in the form of a lower policy fee. The term policies had a lower mode factor. These concessions were intended to reflect the lower billing costs of this selected method. It was also, quite frankly, intended to help cross-sell life insurance to existing clients of the property & casualty company. I assume that although this billing form is no longer available, that the pricing concessions would continue. After all, this was the basis on which the sale was made, and this change was initiated by the company.

4. Conversion. One of the policies that we have is a 10-year renewable and convertible term. It has about four years before the end of the first period. After that the premium increases significantly. The intent was to convert the policy at the end of the period to a competitive universal life (or other permanent product) offered by Allied. What will be offered by Allied when it is time to convert? Will it be a competitive product, or just one that complies with the guarantees of the policy? One of the advantages of buying from a company still marketing is that conversion benefits are actually valuable. Since purchasing this policy, my health has deteriorated. It would be extremely difficult for me to replace this coverage.

5. Non-guaranteed elements. All of my policies have some form of non-guaranteed elements. The universal life has cost of insurance charges and currently credited interest. The renewal rates on the term policies are not guaranteed. The current interest on the annuity policies is not guaranteed. In the past, we could rely on the market to keep the company from taking advantage of us on any of these items. Significant degradation of any of these items could result in a huge backlash from the agents and prospective policyholders. What is protecting us now? What is to prevent the company from reducing all non-guaranteed elements to guaranteed values? In time, given the service policyholders are receiving, it is likely that these much higher charges could be justified by the experience of the remaining policyholders.

6. Lapses. In normal circumstances, companies will attempt to keep policies inforce to preserve future earnings. These are not, however, normal circumstances. Allied has significant blocks of “lapse-supported” policies on the books. This includes universal life policies with significant bonuses beginning in the 20th policy year. It includes universal life policies with significant additional projected interest for policies with more than $10,000 of accumulation value. It includes term policies with deteriorating mortality on renewal. To make matters worse, the Iowa Insurance Department forced the company to set up additional redundant reserves on a large portion of the universal life policies. All of this only serves to increase the financial incentive for Allied to now encourage the lapsation of these policies. In the past, this would not occur because of the cost in the marketplace. What is protecting us now?

Due to my health, I have no choice but to keep my policies with your company. I assume that there may be many other individuals in my same situation. We all purchased policies from Allied in good faith, as a significant part of the financial protection for our families. All we ask in return is that you live up to the expectations we were given when sold the policies. I assume that the policy service and billing problems will work themselves out as your staff becomes more familiar with these policies. I am hopeful that the problems outlined in the other items never come to pass. I will be watching.

Dear Smaller Company President:

Where do you look for your company to be five years from now? Acquired or merged? Independent? What is your preference? If it is that your company remains independent, what are you doing to insure this? Have you been following the new laws and regulations being considered by the NAIC? The new Actuarial Opinion & Memorandum Regulation? The new Unified Valuation System? The new C-3 component of risk-based capital? Codification? XXX? The new CSO mortality table? New nonforfeiture laws? If you have been following these developments, how do they affect your company? Have you told anyone? Your Insurance Commissioner? The NAIC? The ACLI? The NALC? The Fraternal Congress? Your board of directors?

Much is changing in the life insurance industry. Some of this is coming from outside the industry, with all the changes in the nation’s financial services. Some is coming from regulations unique to the life insurance industry. As you prepare your company for the future, what are you doing to look at your regulatory risks? If the items mentioned above adversely effect your company, it is time that you spoke up. Talk to your Insurance Commissioner. Talk to your Governor. If the public benefits from your company, it is time that they understood what could be lost if some of these changes are allowed to happen. Help us reverse the fate of smaller companies in this tough financial environment.

What About Those Shadow Accounts?

There has been much discussion about the treatment, under the new XXX Regulation, of "shadow accounts." "Shadow accounts" are a recent innovation for universal life products. They appear to be an attempt of some companies to avoid the impact on XXX on longer level premium contracts. These accounts were discussed extensively at the fall L&HATF meeting in Atlanta. At that meeting, Jim Van Elsen made a presentation outlining his interpretation of the regulation as it pertains to these accounts. At the request of several regulatory and industry actuaries, the following is a summarization of that presentation.

First, what are "shadow accounts." They are a pseudo-fund in the universal life contract. Premiums are credited to this account in the same manner as the account value. Interest is credited to the fund, although it may not be the same rate as for the account value. In some cases, the guaranteed interest rate may be much greater than the account value. Cost of insurance charges are usually a constant percentage of the valuation mortality rates. Expenses may be considerably less than the account value. An illustrative "shadow account" might guarantee to credit 6%, have cost of insurance rates equal to 50% of 1980 CSO with 20-year selection factors, and have no expenses. The "shadow account" is not available to the policyholder. Its only purpose is to test whether the policy remains inforce. As long as the "shadow account" has a positive value, the policy remains inforce, regardless of the amount remaining in the account value. Companies with these shadow accounts intend to illustrate level premiums that are fully guaranteed under the guarantees of the "shadow account."

What about reserves under XXX? The proponents of this subterfuge would maintain that the minimum premium for secondary guarantees is derived per §7A(4) of the model regulation. This section states: "the minimum premium for any policy year is the premium that, when paid into a policy with a zero account value at the beginning of the policy year, produces a zero account value at the end of the policy year." As such, these companies would maintain that the minimum premium is a YRT-type scale that is a constant percentage of the valuation mortality rates. With the YRT schedule, zero terminal reserves would develop. The constant percentage results in a very long initial segment, allowing the X factor to eliminate the deficiency reserves. The end result is reserves equal to ½ c_x, the same as before XXX.

There are some fallacies in this argument, however. The first issue is the definition of "account value." The proponents of "shadow accounts" have taken the liberty to use account value to be the same as "shadow account." A more reasonable definition is one that defines account values as the basis of accumulating policyholder surrender values. Traditionally, the cash surrender value has been equal to the account value less the surrender charge, if any. To use "account value" as meaning "shadow account" and not the amount used for determining policyholder values is indefensible.

If you can't use §7A(4) to define minimum premiums, what do you use? You must go to §7A(2). Here you find: "When a policy contains more than one secondary guarantee, the minimum reserve shall be the greatest of the respective minimum reserves at that valuation date of each unexpired secondary guarantee, ignoring all other secondary guarantees."

Multiple guarantees? You won't find them listed in the policy, but it is an easy exercise to derive the premium that would guarantee coverage for one year. Similarly, a premium can be derived for two years of coverage, three years, four years, and so on. Reserves, therefore, would be based on the greatest of the reserves under all the possible premium guarantees under the terms of the "shadow account."

This attempt to avoid the reach of the XXX Regulation is disappointing. The intent of the regulation is very clear. If you are guaranteeing level premiums, humpback reserves are expected. Anything else is contrary to the intent, if not the letter, of the regulation. This regulation was written by industry personnel, including actuaries from those companies attempting this ruse. How are we to be trusted in the future if we take regulations to the regulators knowing that there is an undisclosed "loophole" that we will take advantage of when the regulation is adopted? I hope that regulators will take an aggressive position in policing compliance with XXX. The companies that are following the intent of the regulation are counting on it.

WG to End

Tom Foley (Kansas), Chair of L&HATF, recommended that the NAIC should dissolve the Innovative Products Working Group of L&HATF. The four hours set aside on Friday mornings would be used to hold more productive sessions on one of the L&HATF charges. All members would be expected to be prepared to discuss the single topic for the session.

A major concern of the regulators is that materials are not getting out in time for proper study. After some discussion, it was decided that materials to be discussed at a meeting had to be in the hands of the NAIC staff four weeks prior to the meeting. The Chair of L&HATF may waive the rule, but only under special circumstances.

The changes are to start with the Spring meeting in Chicago.

"B" Name Change

The Accident & Health Insurance Committee (B) will be changing its name. Next year they will be known as the Health Insurance and Managed Care Committee (B).

ZZZZ Update

The Innovative Products Working Group exposed Actuarial Guideline ZZZZ (Reserving for Equity-Indexed Life Insurance) for comments. Please call us if you need additional information about this guideline.

VAGLB Update

The Interim Report of the Variable Annuities with Guaranteed Living Benefits (VAGLB) Work Group was presented. The Work Group had conducted a survey of 13 issuers to determine which methods of reserving were being used. They also looked at "Roll up" vs. "Ratchet" methods of the "Keel Method." GMAB and GMIB both work well with the "Roll up" method but not the "Ratchet" method.

NF-ZZZ Update

A presentation on NF-ZZZ (Nonforfeiture for Equity Indexed Annuities) was made by the American Academy of Actuaries (AAA) followed by discussion. One of the items discussed was whether this would better be addressed by an actuarial guideline or if it should be left to the states to regulate.

Downgrade Waivers

The Innovative Products Working Group discussed the reserving for bailouts triggered by insurer downgrades as addressed in a document dated May 11, 1999 prepared by Herb Wolf, a consultant for the Arizona Insurance Department. After some discussion the AAA was asked to turn Mr. Wolf's document into an Actuarial Guideline.

The AAA will be writing a paper on the liquidity considerations and also looking into the risk management issues involved.

XYZ Update

The Innovative Products Working Group discussed a memo from Frank Dino (Florida) on his proposed Actuarial Guideline XYZ – Minimum Nonforfeiture Values for Universal Life Product with Secondary Guarantees. One concern the working group had was if similar products are treated the same under the nonforfeiture law.

These issues will be worked on as the draft is put into a final form next year.

100+ Issues

The Innovative Products Working Group discussed how the increasing number of centenarians in the U. S. population will affect reserving and nonforfeiture values of products. In an attempt to identify these issues and how they will impact on any future products, the AAA has been asked to form a working group.

LTC Rate Adequacy

The Accident & Health Working Group announced they will be setting up a meeting the week of January 10 to work on the issues involved with long-term care rate adequacy. There was some discussion whether these issues are technical or consumer information issues. The working group will develop white paper on the issues concerning rate adequacy. They will work with the Senior Issues Working Group and the "B" Committee to decide which group should address these issues.

Compliance Manual

The Accident & Health Working Group reported they are cleaning up the language in the Medicare Supplement Compliance Manual and they plan to present a final document at the spring meeting of the L&HATF in Chicago.

Rate Filing Guideline

The Accident & Health Working Group asked the AAA to review the redline draft of the Accident & Health Rate Filing Guideline.

UVS Update

The AAA Valuation Task Force gave a report on the progress of the Unified Valuation System (UVS) to L&HATF. The UVS would force the companies to look closer at some of these issues.

- What is it important for the company to measure?
- Which risks are the company accepting?
- What type of assets are the company holding?

It is planned that viability analysis would be part of the UVS. A key question is whether viability analysis can be put into a standard set of questions.

The AAA Viability Task Force is planning to hold a seminar next fall to present a finalized recommendation.

Med Sup Issue Paper

The AAA reported they should have a report ready for the Spring NAIC meeting at Chicago in March.

AOMR Update

L&HATF discussed the proposed changes in the Actuarial Opinion & Memorandum Regulation draft that is dated November 29, 1999. This draft deletes Section 6, Section 7, and Section10 which prevent smaller companies from being able to file a Section 7 opinion. This forces all companies to include cash flow testing. However, the Actuarial Standards of Practice regarding asset adequacy are being revised. This may allow some companies to file actuarial opinions without complete yearly cash flow testing. Until this process is finalized, the industry does not know how companies will be affected. Many industry associations are not commenting on the proposed changes to the AOMR until they see the actual changes to the Actuarial Standards of Practice.

In addition to the proposed changes, subsections (b) and (c) of old Section 8 were deleted. They also deleted the remaining portion of old Section 10.

L&HATF hopes to finalize the AOMR in the next 3 to 6 months and send it to the "A" Committee. See "Dear Small Company President:" on page 4.

New NF Law

L&HATF discussed Frank Dino's (Florida) proposed rewrite of the Standard Nonforfeiture Law. Some features of this draft would allow for greater flexibility in products.

- The combining of benefits from annuity, life, and some health products.
- The reduction of the required minimum interest rates.

The new law would, however, increase the required disclosure on products. The draft was exposed for comment.

XXXX Update

The AAA Variable Life (VL) Reserves Working Group presented a proposed Actuarial Guideline to L&HATF. This guideline includes a Version "X" and Version "Y" for Attained Age Level Reserves. Both versions were exposed for comment After L&HATF receives feedback the guideline will be issued in only one version.

New CSO Table

The Society of Actuaries (SOA) Task Force on the new CSO Table made a report to L&HATF. The plan is to release the '90-'95 Experience Table by March 2000, expose the draft by the Fall 2000 meeting, and have a finalized recommendation by the 1st Quarter of 2001.

Annuity 2000

Our research shows that the Annuity 2000 mortality table has been adopted in 26 states with effective dates on or before December 31, 1999. This will allow the Annuity 2000 table to be used for tax purposes in 1999. Consult your tax advisor for particulars as to how the table becomes effective for federal taxes. See the "Annuity 2000 Update" on page 8 for a list of the states that have adopted the mortality table.

Med Supp on Web

Tom Foley (Kansas) announced the Kansas Department of Insurance has created the Medicare Supplement Premium Comparisons (MSPC) application. The MSPC will allow consumers to compare premiums and companies on the web for Medicare Supplement Insurance. Although the Kansas Insurance Department spent a lot of time and money developing the MSPC they are willing to share the application with any state interested in using it. For more specific information they provide a MSPC website at www.ksinsurance.org/MSPC

2000 Charges

L&HATF reviewed the draft of the charges before the Task Force for year 2000. After discussion, 22 charges were identified for 2000.

With the reorganization of L&HATF meetings next year, it was felt each charge must have a chair to see that the charge is kept on schedule and all work is completed on time. If a chair could not be found for a charge, L&HATF would consider dropping the charge. Mark Peavy (NAIC) is working on finalizing the list.

Van Elsen Consulting

Van Elsen Consulting, Inc. is an actuarial consulting firm. James N. Van Elsen, FSA, MAAA is the firm's owner and is responsible for the work completed. We specialize in product development and in serving the needs of smaller life insurance companies.

- What is your consulting firm doing to help reduce the burden of valuation requirements for smaller companies?

  Van Elsen Consulting, Inc. is the **only** consulting firm fighting for more reasonableness in requirements for smaller companies. Many larger consulting firms have held that **all** life insurance companies should be subject to Section 8 opinions (Asset Adequacy Analysis), despite the cost or benefit to their clients.

As you consider your actuarial consulting needs in the future, consider the firm that works hard to reduce the cost of regulation for its clients.

James N. Van Elsen, FSA, MAAA
Lois Mast
Terry Hilker
Mike Staudacher
Beth Ann Van Elsen
Sarah Ann Van Elsen

Annuity 2000 Update

States Adopted With 12/31/1999 or Earlier Effective Date (26 States)

Alabama - 1/1/99
Alaska - 3/11/98
Arkansas - 1/1/99
California - 1/1/98
Connecticut - 1/1/99
Delaware - 8/1/99
Florida - 12/23/98
Illinois - 9/1/99
Iowa - 10/13/99
Louisiana - 1/1/99
Minnesota - 1/1/99
Nebraska - 1/1/99
Nevada - 11/16/98
New Mexico - 1/1/99
North Carolina - 12/1/99
North Dakota - 9/1/99
Ohio - 1/1/99
Oklahoma - 7/13/98
Oregon - 10/29/97
Pennsylvania - 6/26/99
South Dakota -10/24/99
Utah - 3/16/99
Virginia - 10/15/97
Washington - 1/1/98
West Virginia -3/10/99
Wisconsin - 1/1/99

States Expected to Have 1/1/2000 or Later Effective Date (5 States)

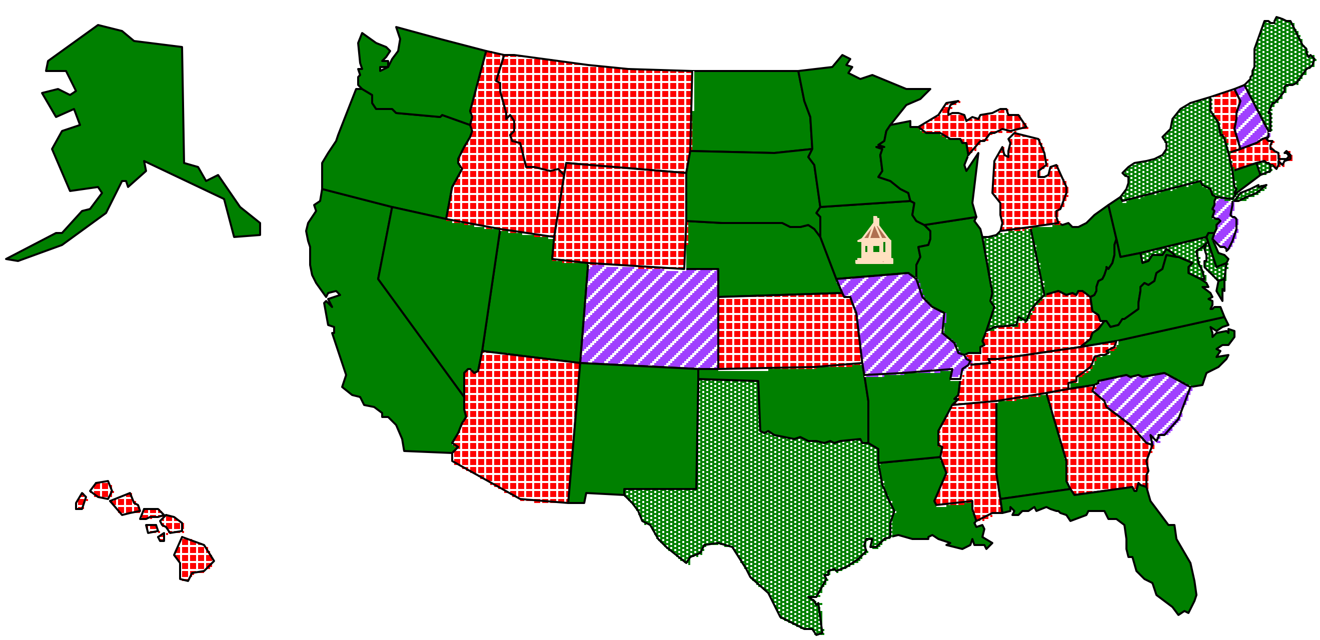
Indiana - 3/1/00
Maine - 1/1/00
New York - 1/1/00
Rhode Island - 1/1/00
Texas - 1/1/00

States Considering Adoption (6 States & DC)

Colorado
District of Columbia
Maryland
Missouri
New Hampshire
New Jersey
South Carolina

States Not Planning Action (13 States)

Arizona
Georgia
Hawaii
Idaho
Kansas
Kentucky
Massachusetts
Michigan
Mississippi
Montana
Tennessee
Vermont
Wyoming



XXX Update

States Which Have Adopted XXX Effective 1/1/2000 (10 States)

Alabama
Indiana
Kansas
Montana
New Mexico
North Carolina
North Dakota
Texas
Virginia
Wisconsin

States Planning to Adopt XXX Effective 1/1/2000 (20 States)

Arizona
California
Colorado
Idaho
Illinois
Iowa
Maine
Minnesota
Nebraska
Nevada
New Jersey
New York
Ohio
Oklahoma
Oregon
Pennsylvania
Rhode Island
Utah
Vermont
Washington

States Planning to Adopt XXX Effective Date Not Set (3 States)

Arkansas
Kentucky
New Hampshire

States Under Active Review of XXX (10 States & DC)

Connecticut
Delaware
District of Columbia
Georgia
Louisiana
Maryland
Michigan
Mississippi
Missouri
South Carolina
West Virginia

States Without a Current Position on XXX (7 States)

Alaska
Florida
Hawaii
Massachusetts
South Dakota
Tennessee
Wyoming

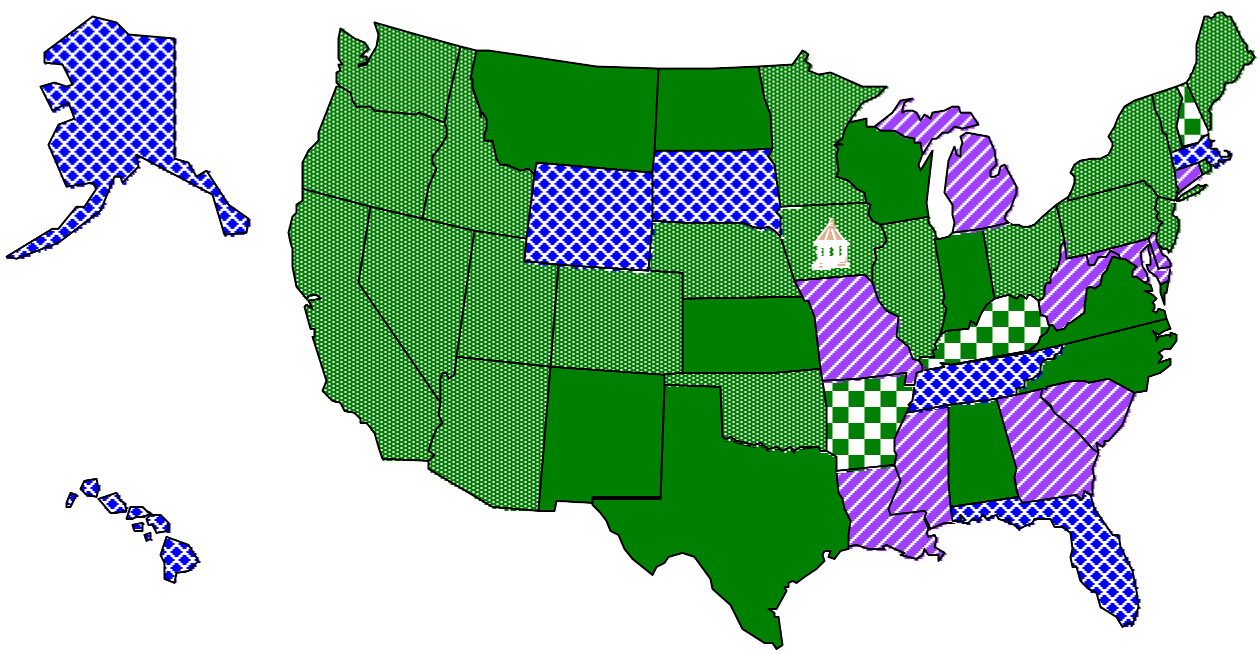


Illustration Regulation Update

States Adopted on Or Before 12/1/1999 (32 States)

Alabama - 1/1/98
Alaska - 9/1/98
California - 7/1/98
Colorado - 4/1/97
Connecticut - 9/1/99
Delaware - 7/1/97
Illinois - 6/1/98
Iowa - 2/1/97
Kansas - 1/1/98
Louisiana - 7/7/97
Maryland - 1/1/98
Michigan - 6/3/99
Mississippi - 7/1/99
Missouri - 1/1/99
Nebraska - 7/1/97
Nevada - 1/1/98
New Jersey - 1/1/99
New Mexico - 10/1/98
New York - 1/1/98
North Carolina - 1/1/97
North Dakota - 1/1/97
Ohio - 10/1/97
Oklahoma - 7/1/97
Oregon - 7/1/97
Pennsylvania - 7/7/97
Rhode Island - 1/1/99
South Carolina - 7/1/97
South Dakota - 7/1/97
Utah - 1/1/97
Vermont - 1/1/99
Washington - 1/1/98
Wisconsin - 1/1/98

States Adopted Effective After 12/1/1999 (3 States)

Indiana - 1/1/00
Maine - 12/16/99
Texas- 7/1/00

States Moving to Adopt (2 States)

Montana - 7/1/00
New Hampshire

States On Hold (8 States & DC)

District of Columbia
Florida
Hawaii
Kentucky
Massachusetts
Minnesota
Tennessee
Virginia
Wyoming

States With No Plans To Adopt (5 States)

Arizona
Arkansas
Georgia
Idaho
West Virginia