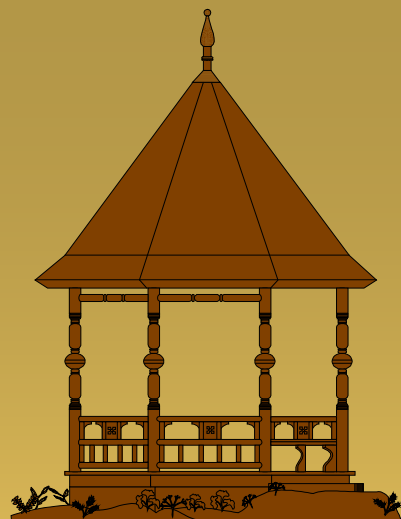


Des Moines Actuaries' Club

XXX Update

April 9, 1999

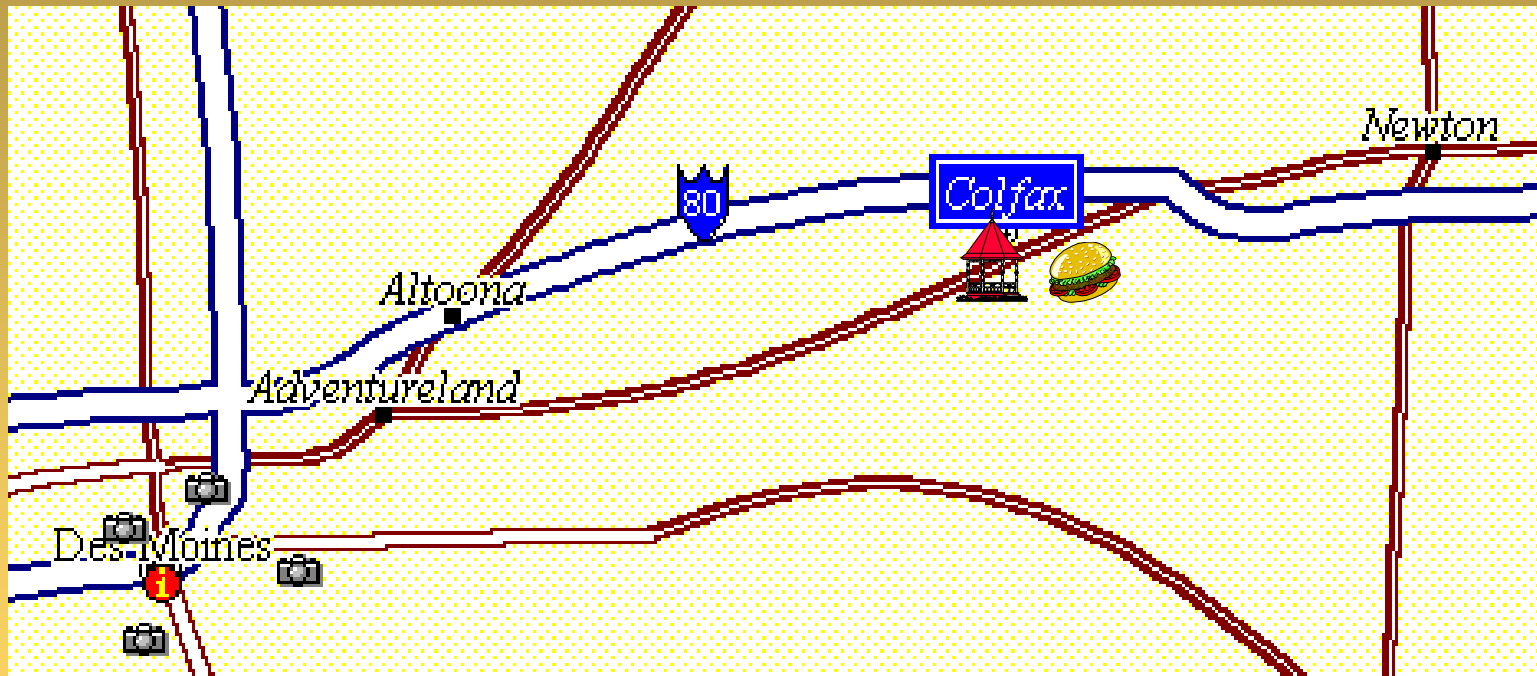
Des Moines, Iowa



James N. Van Elsen

Consulting Actuary
Van Elsen Consulting
Colfax, Iowa

Where is Colfax, Iowa?

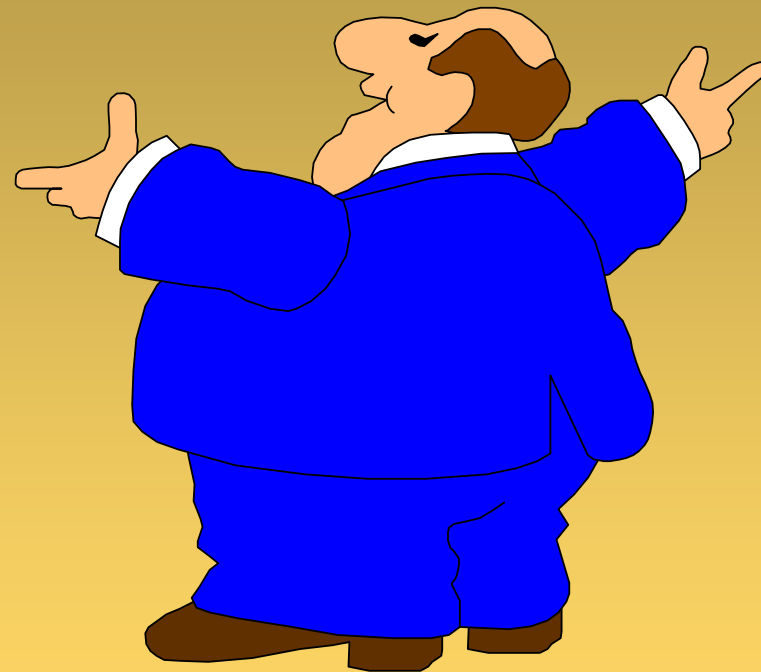


**Van Elsen
Consulting**

James N. Van Elsen, FSA, MAAA
Consulting Actuary

Presentation Outline

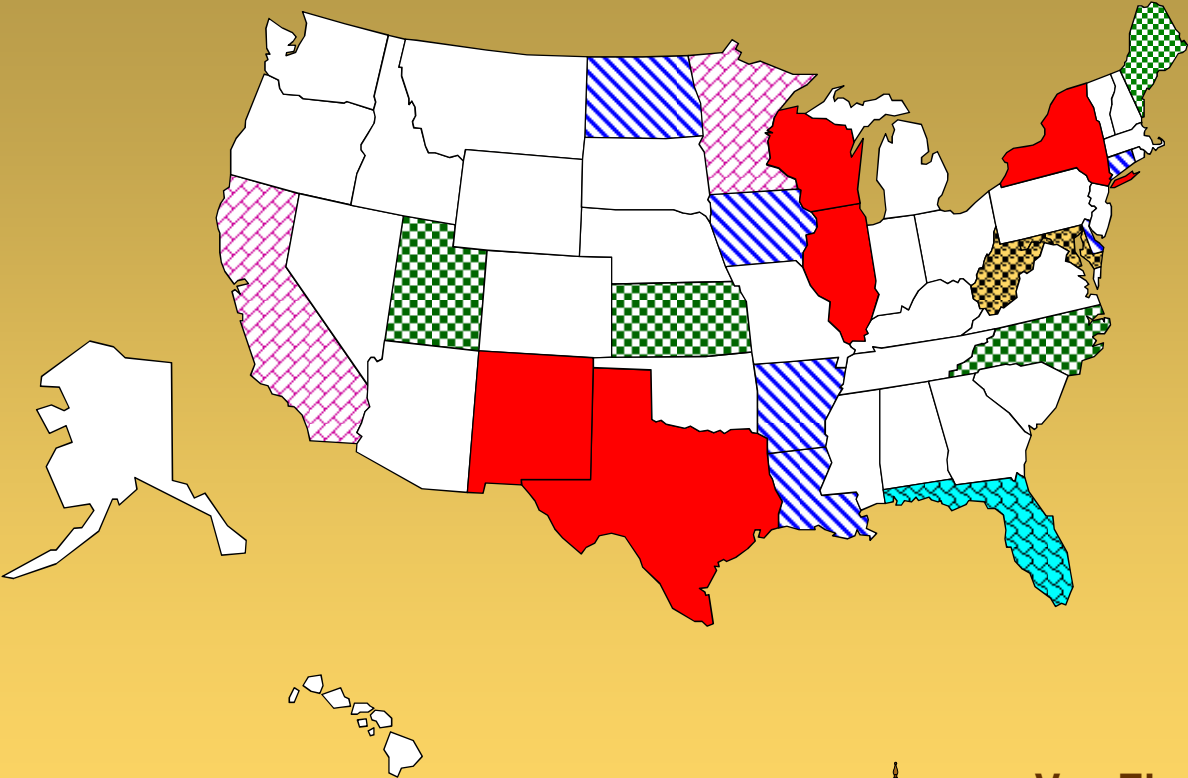
- ◆ Current Status
- ◆ Brief Overview
- ◆ Special Problems
- ◆ Possible Opportunities



**Van Elsen
Consulting**

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

Current Status

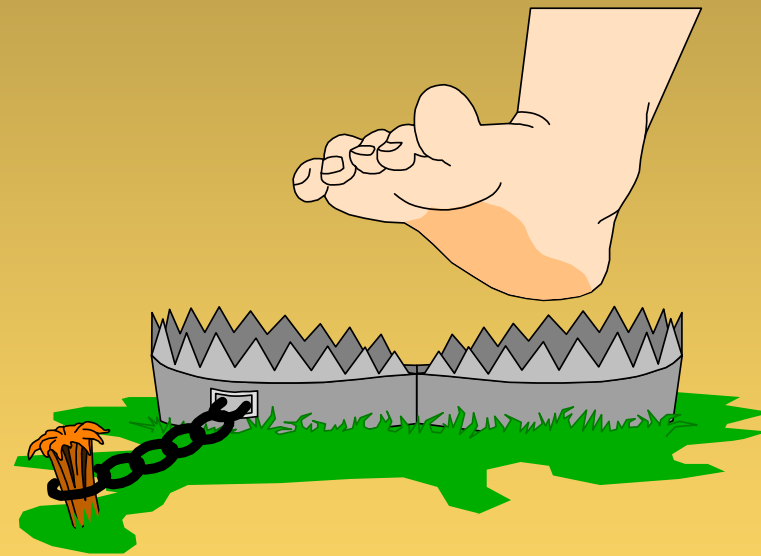


**Van Elsen
Consulting**

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

Potential Approval Problems

- ◆ 51% States
- ◆ Texas
- ◆ West Virginia
- ◆ State Variations
- ◆ Domestic State Approval

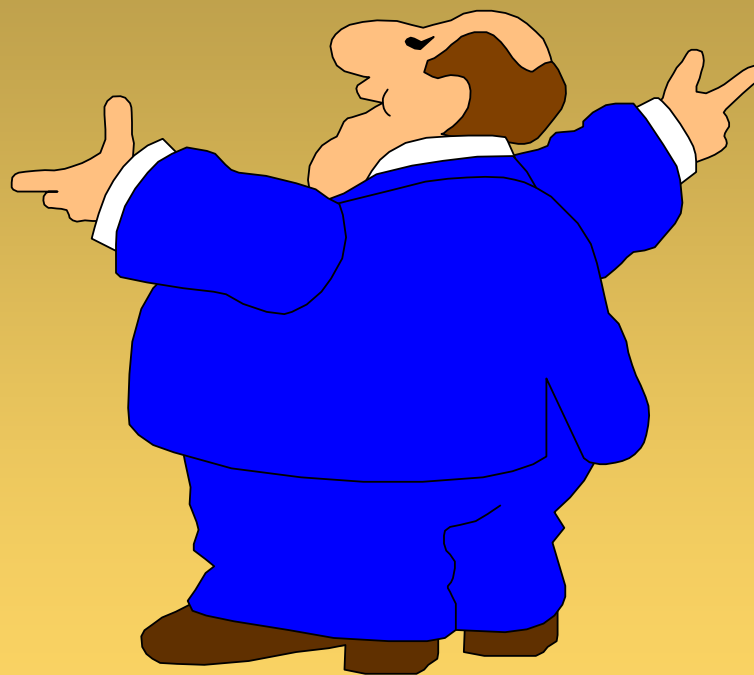


**Van Elsen
Consulting**

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

Brief Overview

- ◆ What is “XXX”?
- ◆ Define Segments
- ◆ Basic Methodology
- ◆ Deficiency Methodology
- ◆ Mortality Basis



**Van Elsen
Consulting**

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

What is “XXX”?

- ◆ Valuation Regulation
- ◆ Affects All Individual Life Insurance
- ◆ Eliminates “Unitary” Methodology
- ◆ Affects Primarily Longer Guarantee Products

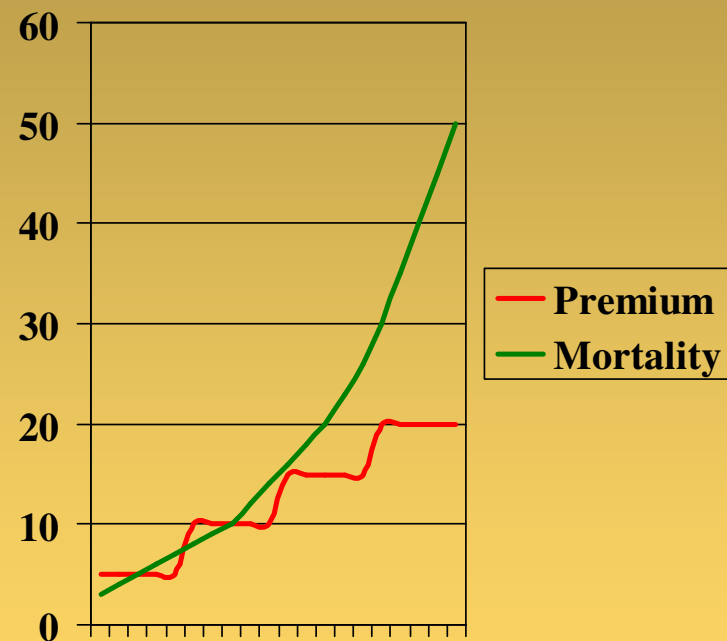


**Van Elsen
Consulting**

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

Define Segments

- ◆ New Segment When Premium Increases Faster Than Mortality
- ◆ Most Segments Can Be Identified Intuitively
- ◆ Part of Product Design is to Determine Segments

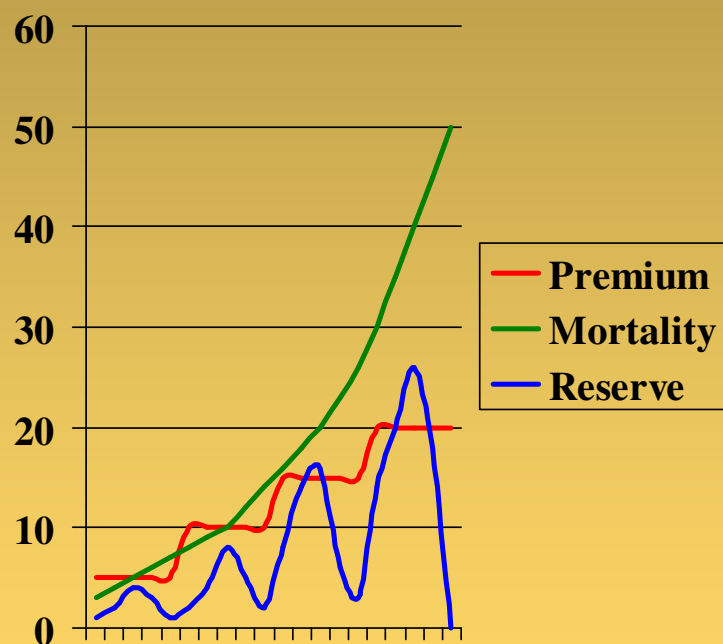


**Van Elsen
Consulting**

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

Basic Methodology

- ◆ Traditional Term Reserve for Each Segment
- ◆ “Humpback” Reserves
- ◆ Unusual Cash Values May Affect
- ◆ Must Compare to Unitary Reserves

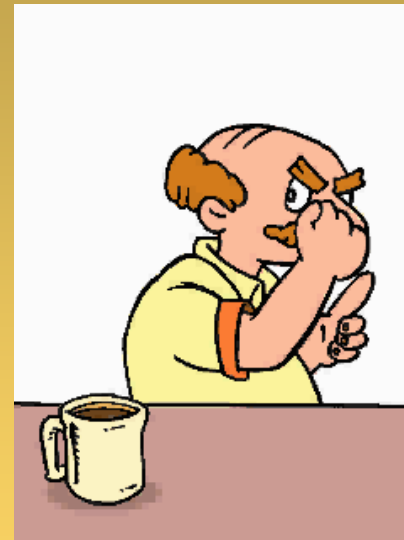


**Van Elsen
Consulting**

James N. Van Elsen, FSA, MAAA
Consulting Actuary

Deficiency Methodology

- ◆ Same Segments as for Basic Reserves
- ◆ Minimum Reserve Calculation



**Van Elsen
Consulting**

James N. Van Elsen, FSA, MAAA
Consulting Actuary

Mortality Basis

- ◆ Basic Reserves
 - 1980 CSO
 - 10-Year Select Factors
 - New 20-Year Factors
- ◆ Deficiency Reserves
 - 1980 CSO
 - 10-Year Select Factors
 - New 20-Year Factors
 - “X”



**Van Elsen
Consulting**

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

The “X” Factor

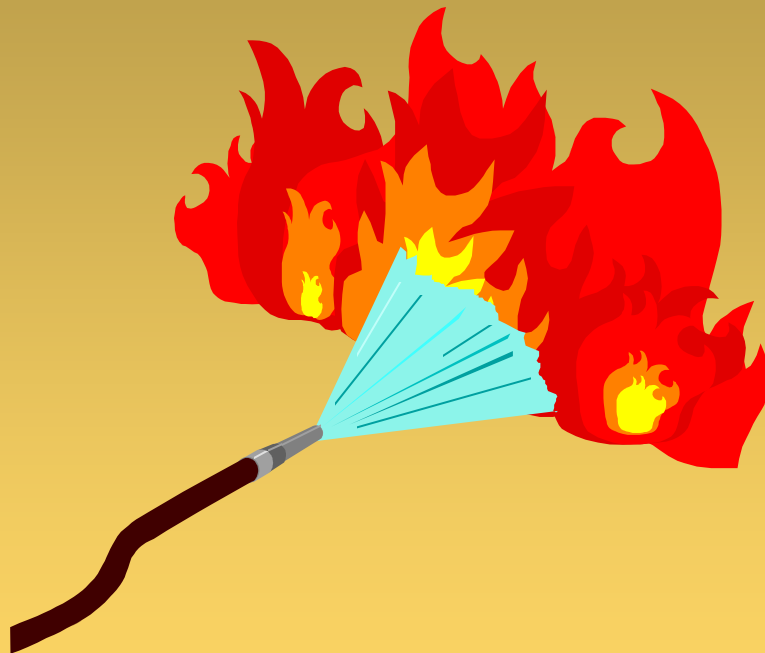
- ◆ Will be Permitted to Adjust Valuation Mortality for Deficiencies by “X”
- ◆ If “X” < 100%
 - Section 8 Opinion (Asset Adequacy Analysis)
 - Mortality Opinion
 - Must use for ALL Business Subject to Regulation



**Van Elsen
Consulting**

James N. Van Elsen, FSA, MAAA
Consulting Actuary

Special Problems - “XXX”



- ◆ “X” Factor
- ◆ Universal Life Secondary Guarantees
- ◆ Reduced Guarantee Periods
- ◆ Uneven Adoption

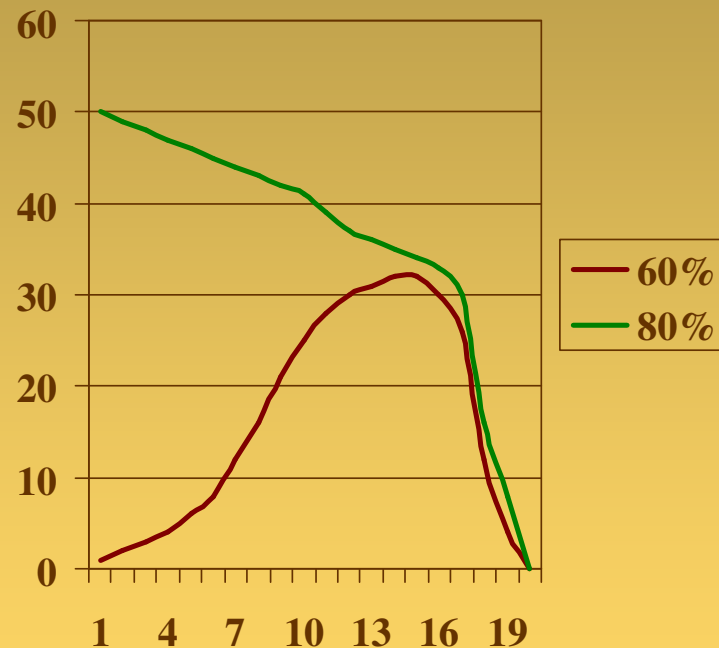


**Van Elsen
Consulting**

James N. Van Elsen, FSA, MAAA
Consulting Actuary

X Factor

- ◆ Justifying X with No Experience
- ◆ Annual Justification of X
- ◆ What if X has to Increase?
- ◆ How to Protect Against Future Changes

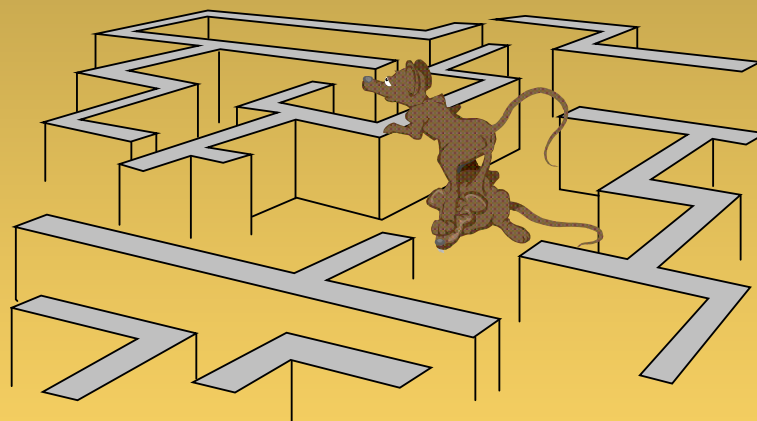


**Van Elsen
Consulting**

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

Universal Life Secondary Guarantees

- ◆ Product of Choice for Many Companies
- ◆ Exemption for Some Policies
- ◆ Subject to Same Rules As If a Term Product Within Universal Life

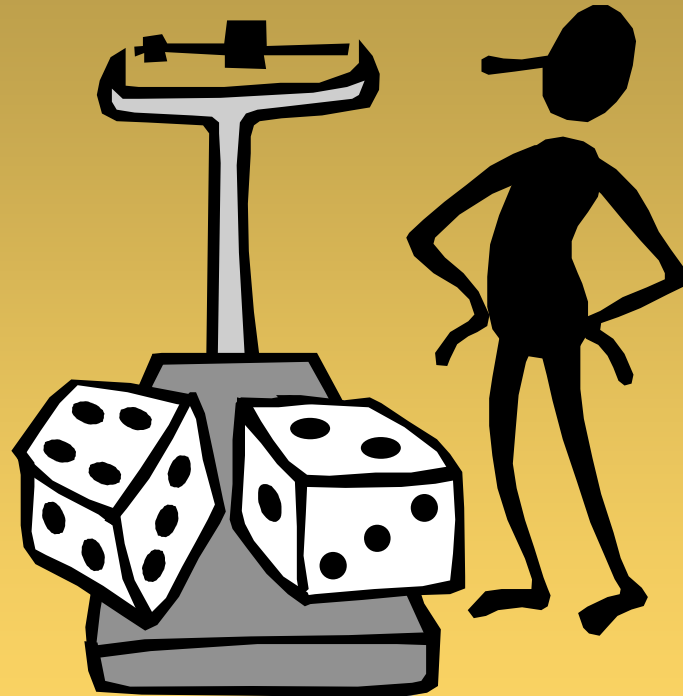


**Van Elsen
Consulting**

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

Reduced Guarantees

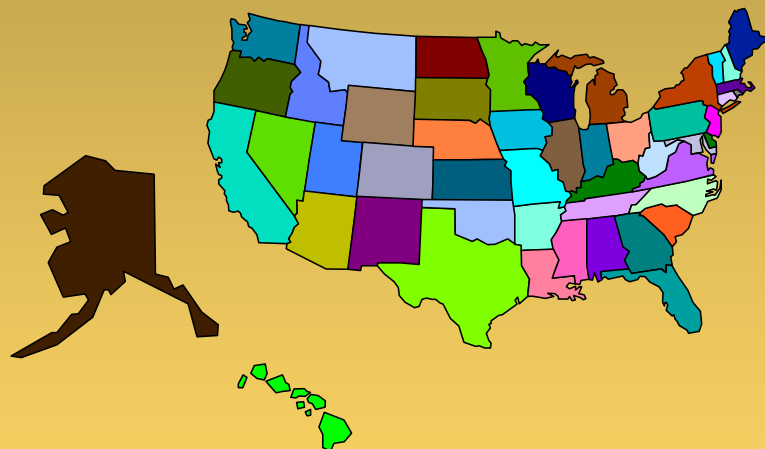
- ◆ Basic Reserves Extremely High for 20 - 30 Year Products
- ◆ Deficiencies May Be a Factor on Preferred Classifications
- ◆ No 5-Year “Safe Harbor”
- ◆ Where Will the Market Go?



**Van Elsen
Consulting**

James N. Van Elsen, FSA, MAAA
Consulting Actuary

Uneven Adoption



- ◆ Some Companies Not Affected
- ◆ One State Can Affect the National Market
- ◆ State Variations a Major Concern
- ◆ What if Illinois Rule Becomes Effective?

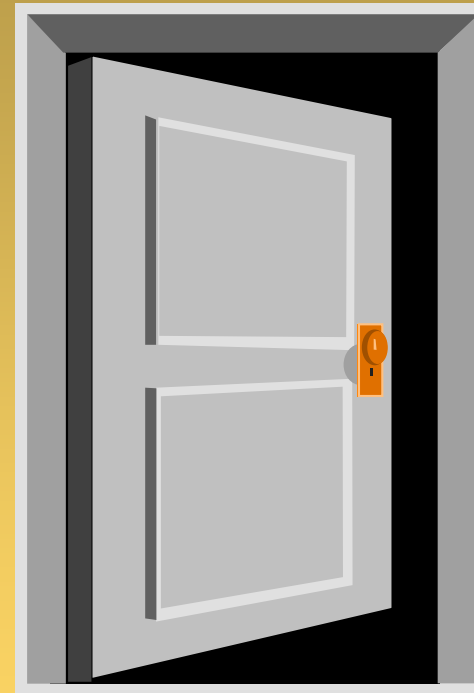


**Van Elsen
Consulting**

James N. Van Elsen, FSA, MAAA
Consulting Actuary

Possible Opportunities - “XXX”

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

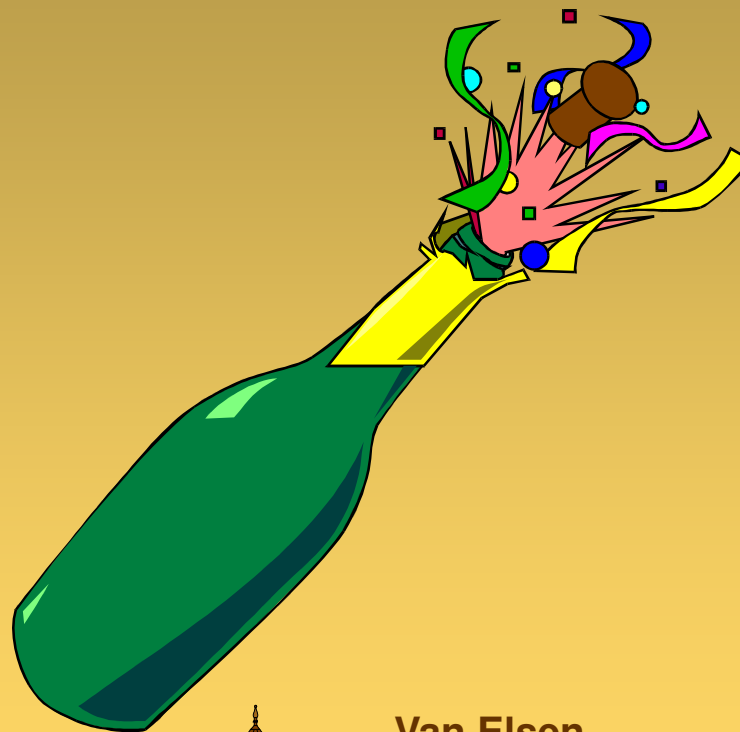


**Van Elsen
Consulting**

**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

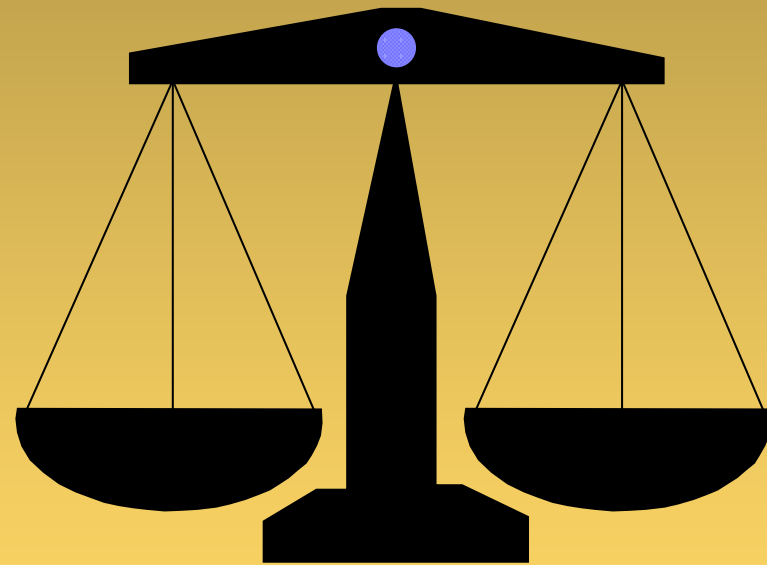
Full Guarantees vs. Low Premiums

◆ Full Guarantees

- New York Experience
- Consumer Advocates
- Higher Commissions

◆ Low Premiums

- Traditional Sale in Market
- Companies Have Not Increased Premiums
- Some Doing Well Already
- Must Illustrate
- Internet Problems



**Van Elsen
Consulting**

James N. Van Elsen, FSA, MAAA
Consulting Actuary

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**

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



**Van Elsen
Consulting**

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

Ability to Respond Quickly to Market

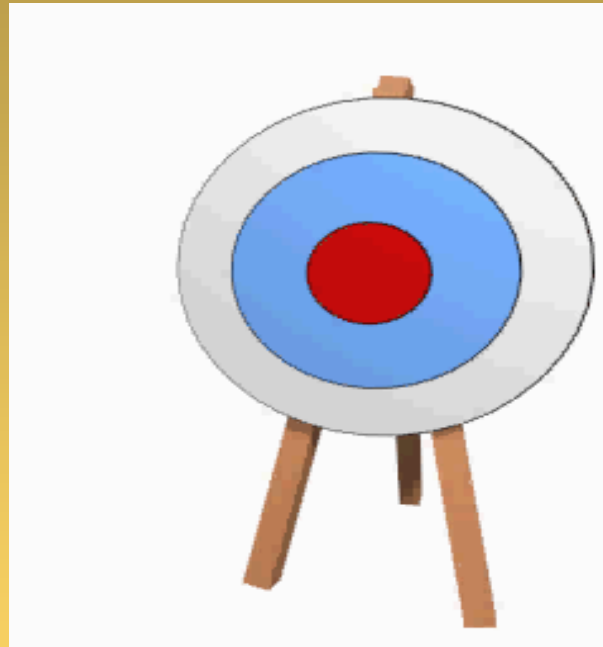
- ◆ All Companies Introducing New Products in 2000
- ◆ Those That Respond Best to Market Will Gain Market Share
- ◆ Speed Will be Critical
- ◆ Good Market Intelligence Needed



**Van Elsen
Consulting**

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

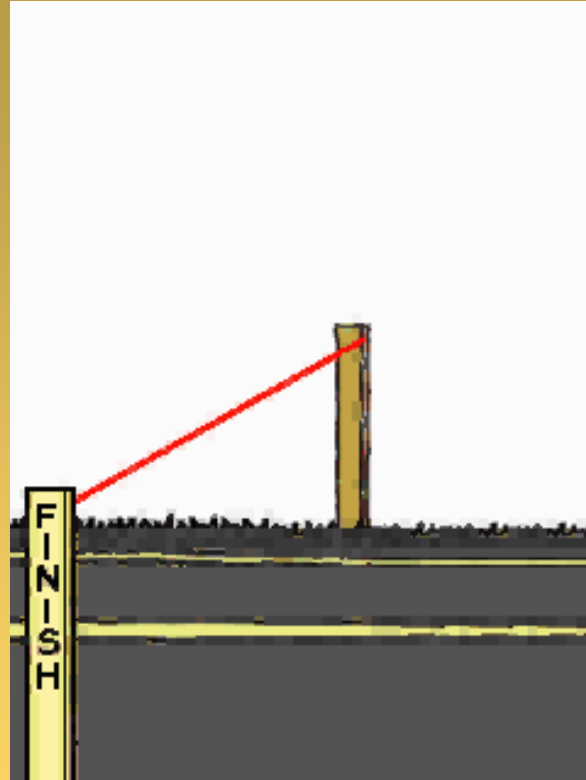
Questions & Answers



**Van Elsen
Consulting**

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

The End



**Van Elsen
Consulting**

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