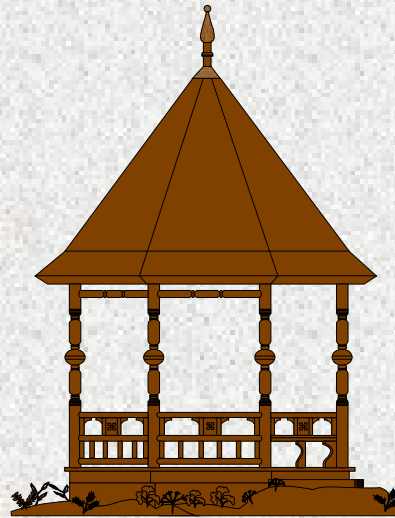


1999 Pricing Seminar

Overview of Regulation XXX

July 22, 1999

Fort Wayne, IN

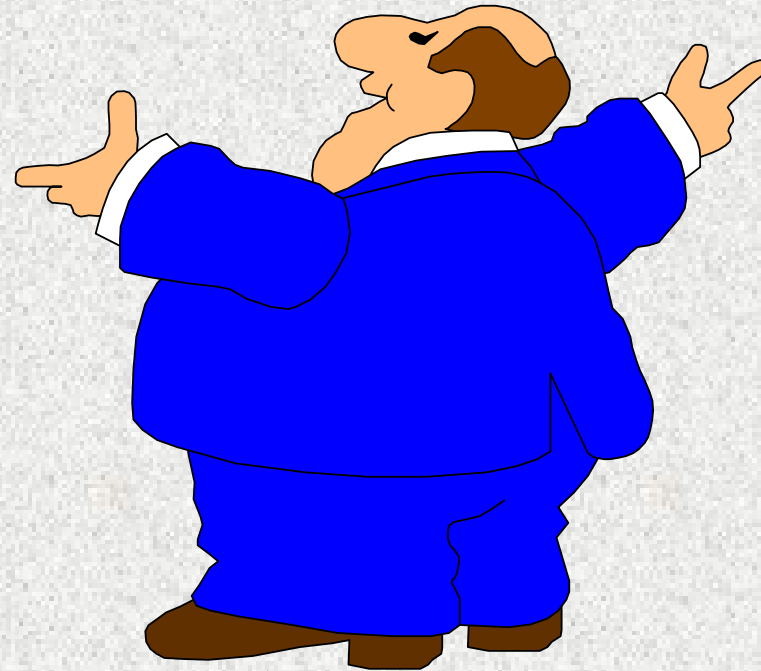


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Consulting Actuary
Van Elsen Consulting
Colfax, Iowa

Presentation Outline

- ◆ Current Status
- ◆ Impact of Non-Uniform Adoption
- ◆ Quick Overview



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Current Status

■ Moving Toward 1/1/2000 Adoption (24)

- AL, AK, AZ, AR, CA, CO, IL, IA, KS, ME, MN, MS, MT, NE, NV, NM, NC, ND, OH, PA, RI, UT, VA, WI

■ Under Active Review (13)

- CT, DE, KY, LA, MD, MO, NH, NJ, NY, OR, SC, TX, VT, WV

■ Potentially Adverse Position (2)

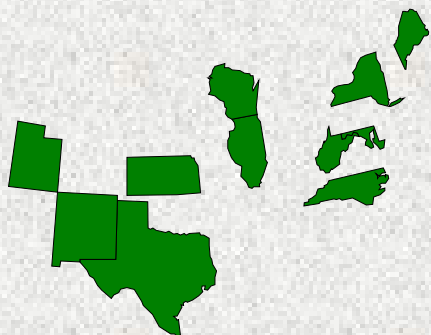
- FL, WA



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What Could Have Been



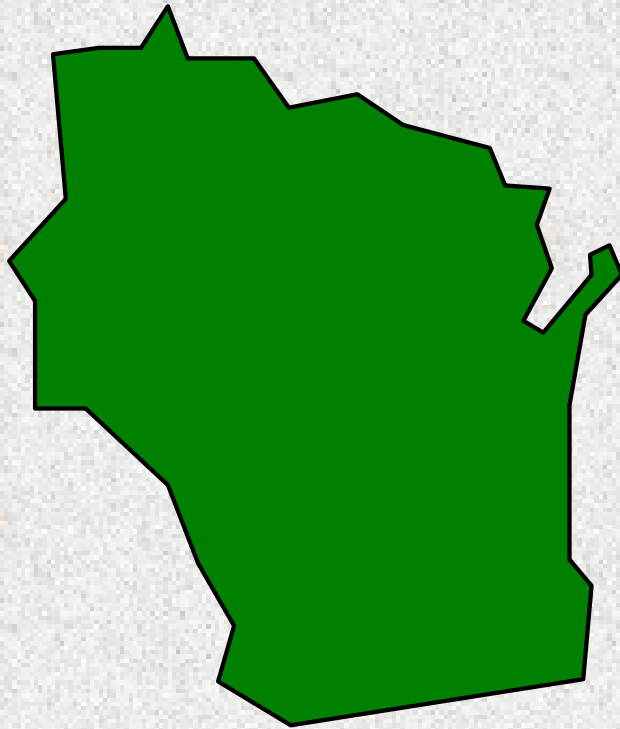
- ◆ Limited Adoptions
- ◆ 5-Year Guarantees
- ◆ More Conservative Mortality Standard
- ◆ Chaos in Term Market in 1999



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Wisconsin



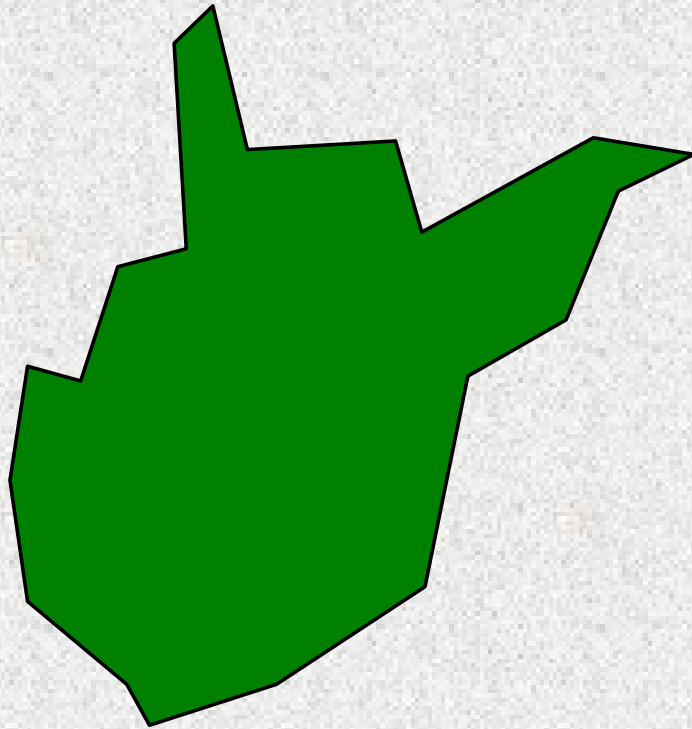
- ◆ Adopted 1995 XXX Effective 1/1/1999
- ◆ Deferred to 7/1/1999
- ◆ 1999 XXX Will Replace
- ◆ Technically Period Where 1995 XXX Is In Effect



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West Virginia



- ◆ Adopted 1995 XXX
Effective 1/1/98
- ◆ Rule Delaying Issued in
1998
- ◆ Legislature Repealed in
1999
- ◆ Working on 1999 XXX
- ◆ Not in Hurry



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Texas



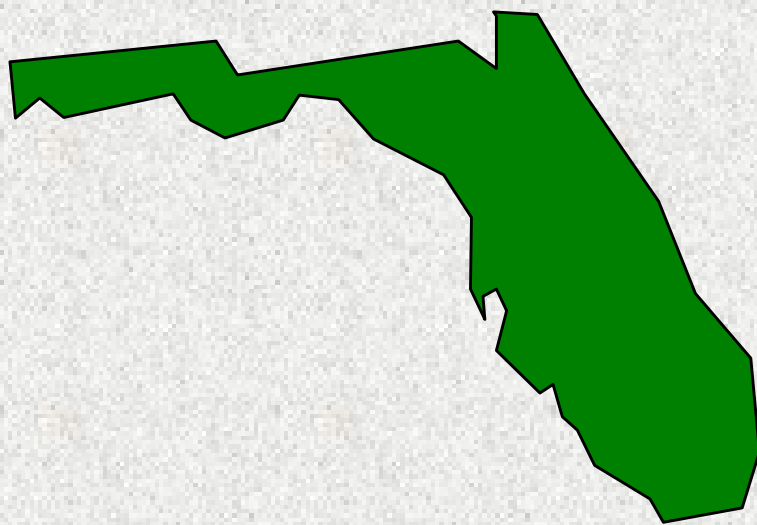
- ◆ 1995 XXX Effective 1/1/2000
- ◆ Staff Concerned About Authority for Distinct Mortality Tables
- ◆ Staff Recommending Adoption 1/1/2000
- ◆ Modifications?



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Florida



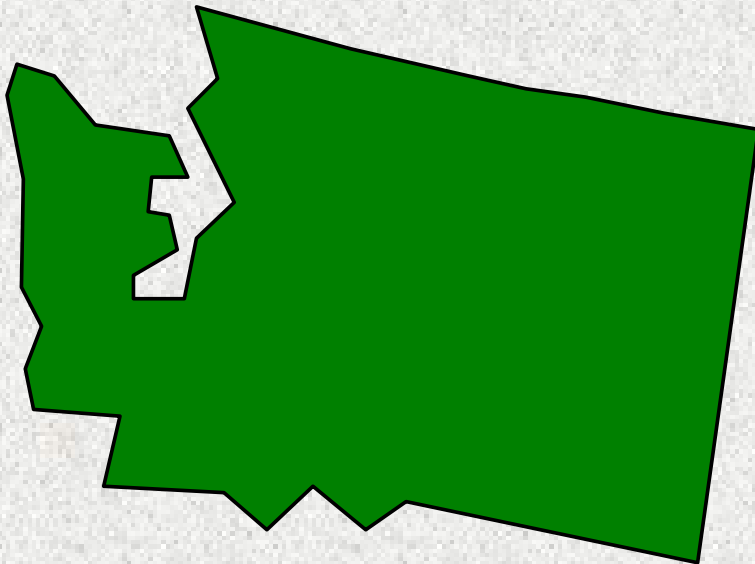
- ◆ ACLI Bill to Authorize Commissioner to Adopt XXX Failed
- ◆ Authority Not Needed
- ◆ Now Feel They Can't Proceed
- ◆ Current Renewable Term Law In Effect



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Washington



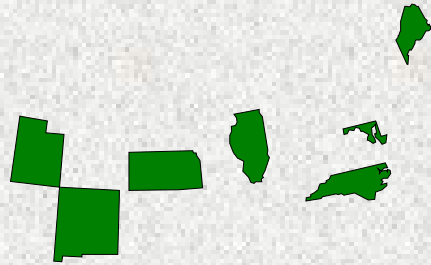
- ◆ Staff Has Recommended Adoption
- ◆ Recommends Not Allowing X Factor
- ◆ Currently Soliciting Comments
- ◆ Could Move Quickly



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51% States



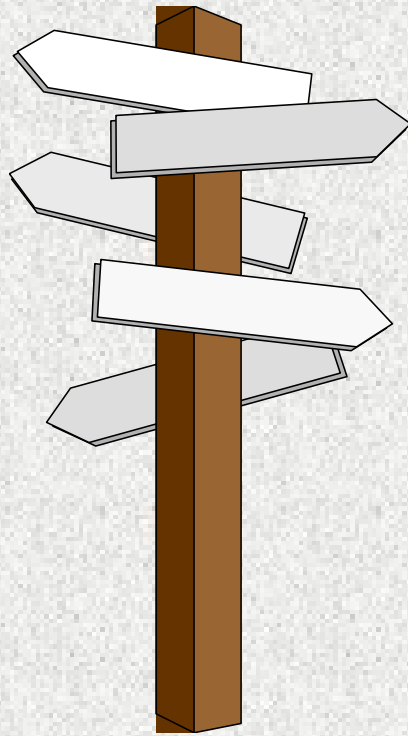
- ◆ Adopted 1995 XXX with “Illinois Provision”
- ◆ Will Adoption of 1999 XXX Affect Provision?
- ◆ Illinois Says No
- ◆ Other States
- ◆ All On Track to Adopt



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Impact of Non-Uniform Adoption



- ◆ Situation #1
 - Domestic Yes, Foreign Yes
- ◆ Situation #2
 - Domestic Yes, Foreign No
- ◆ Situation #3
 - Domestic No, Any Foreign Yes
- ◆ Situation #4
 - Domestic No, All Foreign No



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Domestic Yes, Foreign Yes

- ◆ Company Subject to XXX
- ◆ Competition Generally Subject to XXX
- ◆ May be Foreign Companies in Either State Ignoring XXX

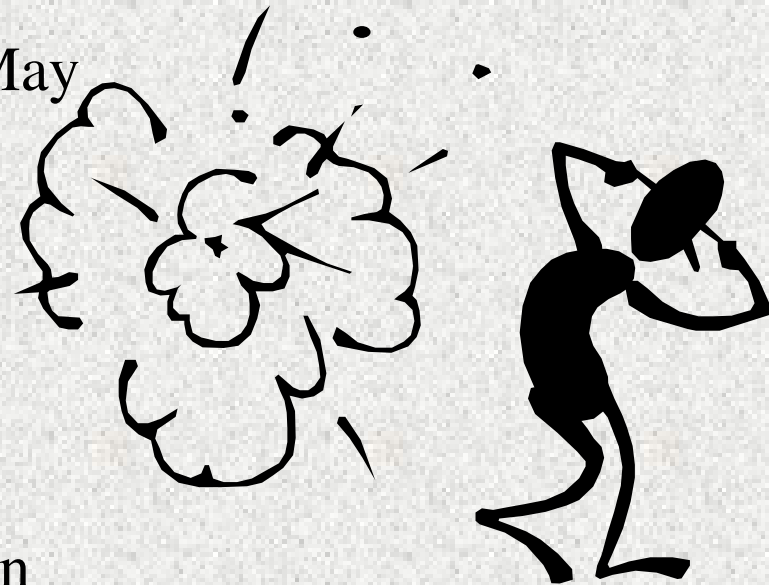


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Domestic Yes, Foreign No

- ◆ Company Subject to XXX
- ◆ Competitors in Foreign State May Not be Subject to XXX
- ◆ Subject to Unitary in Foreign State
- ◆ May be Foreign Companies in Either State Ignoring XXX
- ◆ May be Domestic Companies in Foreign State Ignoring XXX



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Domestic No, Any Foreign Yes

- ◆ Domestic Statement Not Subject to XXX
- ◆ Foreign Statement May Not Be Subject to XXX
- ◆ Ignore XXX?
- ◆ Subject to Unitary in Domestic State
- ◆ May be Foreign Companies in Either State Ignoring XXX
- ◆ May be Domestic Companies in Domestic State Ignoring XXX

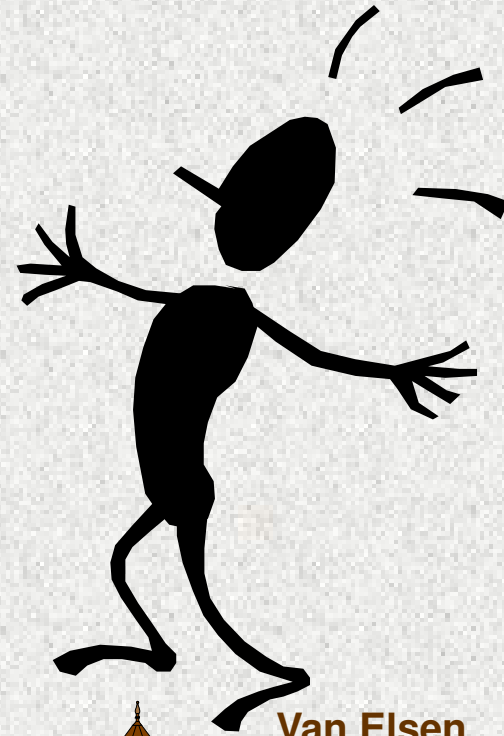


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Domestic No, All Foreign No

- ◆ Company Not Subject to XXX
- ◆ Competitors May Not Be Subject to XXX
- ◆ Ignore XXX?
- ◆ Subject to Unitary
- ◆ May be Foreign Companies in Either State Ignoring XXX
- ◆ May be Domestic Companies in Either State Ignoring XXX

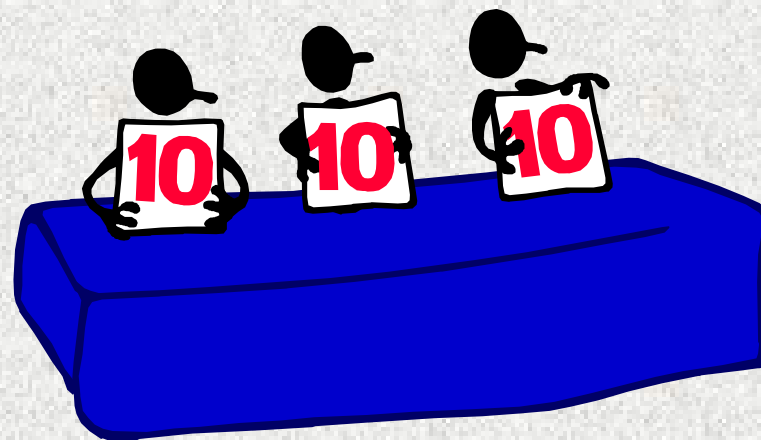


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All States Yes

- ◆ Ideal Situation
- ◆ All Companies Subject to Same Regulations
- ◆ Can Ignore the Impact of Unitary Reserves w/o 20-year Selection Factors



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What is “XXX”?

- ◆ Valuation Regulation
- ◆ Affects All Life Insurance (Unless Excluded)
- ◆ Eliminates “Unitary” Methodology
- ◆ Affects Primarily Longer Guarantee Products

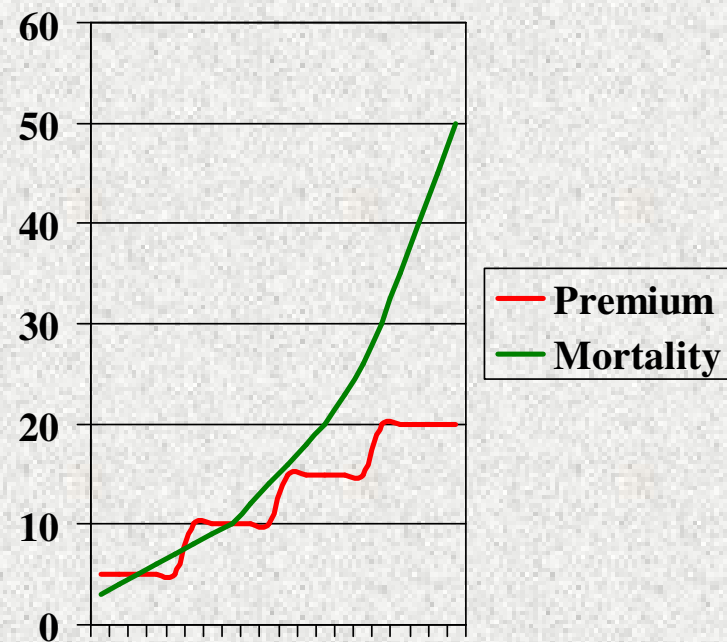


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Define Segments

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

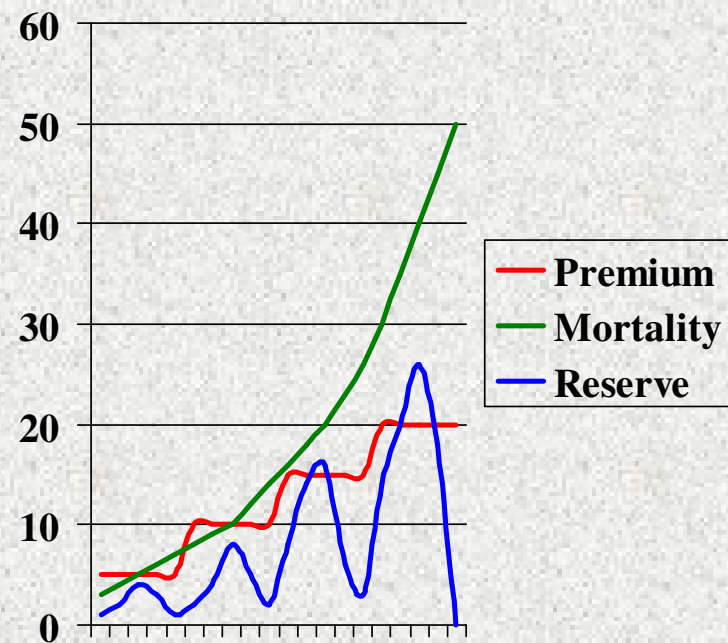


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Basic Methodology

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

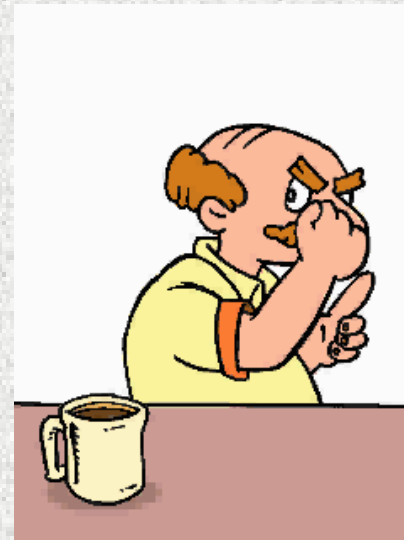


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Deficiency Methodology

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



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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”



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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

X

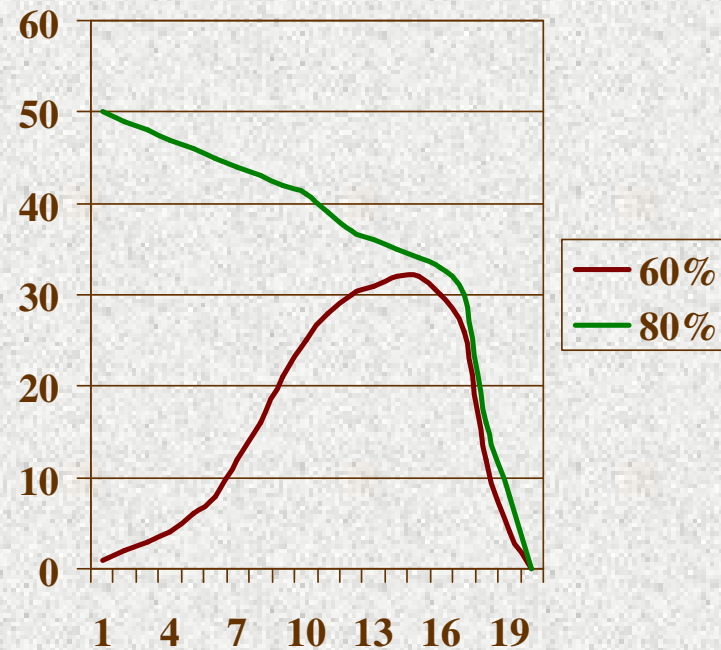


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X Factor Problems

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

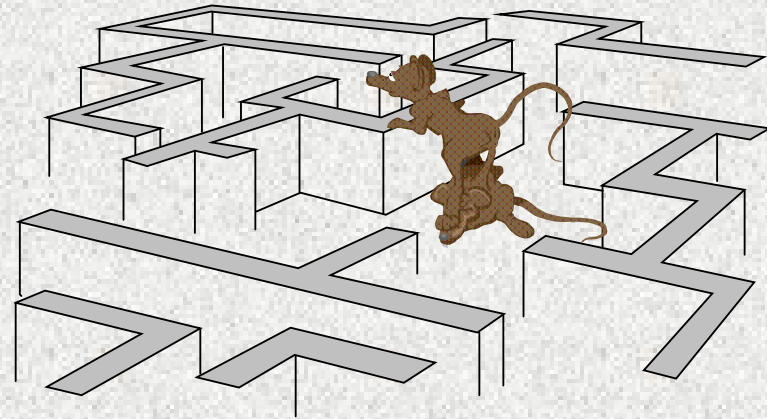


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Universal Life Secondary Guarantees

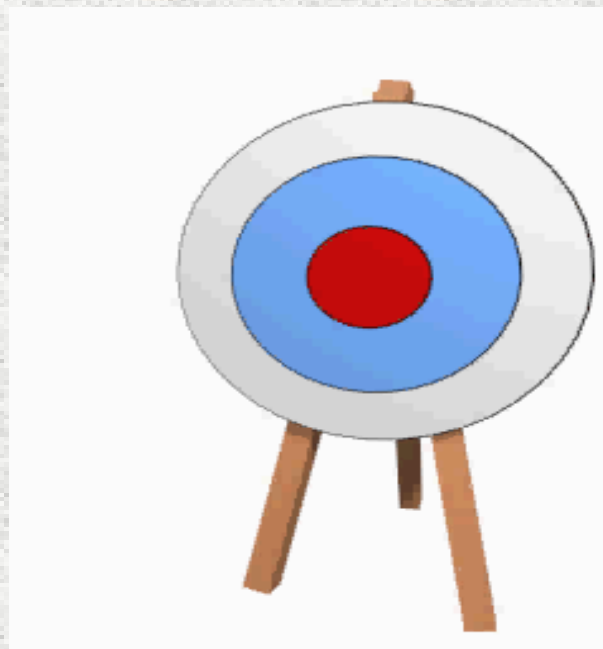
- ◆ Product of Choice for Many Companies
- ◆ Exemption for Some Policies
- ◆ Subject to Same Rules As If a Term Product Within Universal Life



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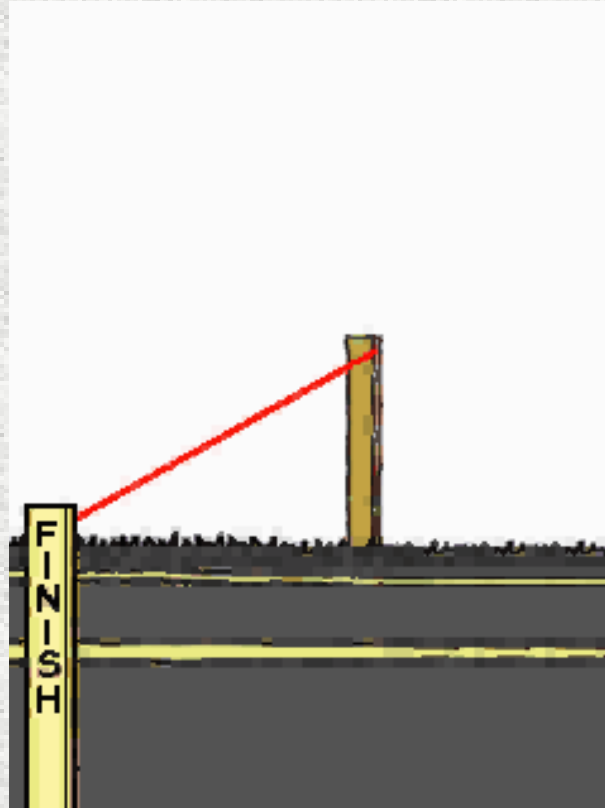
Questions & Answers



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The End



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