



LHATF Meeting in Kansas City

AOMR Compromise Exposed

New Alternative

The Life & Health Actuarial (Technical) Task Force (LHATF), exposed the latest draft of a new Actuarial Opinion & Memorandum Regulation (AOMR) for comment. This draft reflects a new alternative option for companies filing Section 8 opinions (with asset adequacy analysis).

One of the primary reasons for considering a new AOMR has been the difficulty appointed actuaries have

had with complying with state of filing requirements. The current regulation requires appointed actuaries to base their opinion on the laws and regulations of the state where the annual statement is filed. For companies in many states, it has sometimes been difficult to keep up with the minor variations between state laws.

The new compromise identifies three possible methods an insurance commissioner can use to satisfy the requirement that reserves comply with state laws in the aggregate. These are:

- c. Reserves held.
- d. Codification reserves.
- e. Codification standard.

The determination of which alternative to permit, if any, would be made by the commissioner. In addition, the commissioner may require any company to prepare an opinion based on the laws & regulations of the state where filed.

While this compromise is viewed by many as a large step forward, there are still a few issues which remain:

1. **§7 Companies.** The new alternative approaches are only available to companies which file actuarial opinions based on asset adequacy analysis (§8). This would potentially put smaller companies at an additional competitive disadvantage in those states which permit their competitors to hold different reserve standards.

1. **Domicile state.** The commissioner may establish standards & conditions for foreign insurers. If these are met, the foreign insurer may file an opinion based on the reserves of the state of domicile.

2. **Individual consideration.** Foreign insurers could be required to request individual consideration for acceptance of the state of domicile opinion.

3. **Exception reporting.** This alternative requires the commissioner to annually identify products for additional disclosure. The company would base reserves on the state of domicile requirements. The additional disclosure would provide the following information about products identified by the commissioner:

- a. Product type.
- b. Death benefit or account value.

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The Van Elsen Report

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2. **Codification.** The 3rd alternative requires a company to report reserves based on a standard which may not be recognized by state law. The National Alliance of Life Companies (NALC) continues to argue that such a requirement is inappropriate.
3. **State variations.** Unfortunately, this proposal does little to promote uniform reserve requirements by state. If adopted, companies will have to keep track of which of the options each state has adopted. There would obviously be a push to have states adopt the first alternative. Even here, however, states will likely adopt different standards & conditions for qualifying for state of domicile opinions.

Comments regarding the new draft of the regulation should be sent to Mark Peavy at the National Association of Insurance Commissioners (NAIC).

MS AOMR

The state of Mississippi recently adopted an amendment to the AOMR (Regulation 96-104). The purpose of the amendment was to remove conflicts between the annual statement instructions and this regulation. It also intended to clarify the commissioner's authority to review reserving practices of life insurance companies.

The end result, however, was somewhat different. It added a new dimension to actuarial opinions, that of the state where written. Many companies will have difficulty complying with parts of the amended regulation. The following changes were made to §8 (opinion based on asset adequacy analysis):

1. **Revised wording.** "Meet the requirements of the insurance

laws and/or regulations of the state of domicile unless required otherwise by the state where the particular policy was written.

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2. **New language.** "However, the actuary for the filing insurance company is responsible for ensuring that the business is

reserved pursuant to the state where the specific policy of insurance is written. The Mississippi Insurance Department or its representative shall have the ability and authority to review the reserving processes of all insurance companies selling life, accident and health insurance in Mississippi to verify that the particular insurance company is reserving its Mississippi business pursuant to the laws and regulations of this state."

"Furthermore, in situations where the annual statement instructions have provisions that conflict with the requirements of Regulation 96-104, then the provisions of Regulation 96-104 shall govern unless otherwise allowed by the Mississippi Department of Insurance."

3. **New language.** "Aggregate the results of asset adequacy analysis of one or more products or lines of business, the reserves for which prove through analysis to be redundant, with the results of one or more products or lines of business, the reserves for which prove through analysis to be deficient. The appointed actuary must be satisfied that the asset adequacy results for the various products or lines of business for which the results are so aggregated."

In spite of a last-minute appeal by Lauren Bloom of the American Academy of Actuaries (AAA), the regulation became effective thirty days after May 17, 1999. Anyone wishing to comment on the amendment should contact the Commissioner of Insurance and refer to Cause #: 99-3703.

UVS Update

Leadership has changed in the AAA working group on the Unified Valuation System (UVS). Bob Wilcox, former Utah Insurance Commissioner, has elected to reduce his involvement in this and other projects. Dave Sandberg of LifeUSA will succeed Bob Wilcox as chair of the group.

LHATF has reaffirmed its commitment to this project. Monthly meetings are being held with regulators devoting significant resources to completing this effort.

UVS has the potential of significantly changing the financial reporting for life insurance companies. For various reasons, many companies have chosen to only observe the project, not getting involved. Some of this has been due to the belief that it was impossible for this project to be completed. Given the potential impact of this new valuation system, it is imperative that more become involved in its development.

There are many concerns that have been expressed about this project. Those expressing these concerns need to be involved if their point-of-view is to be considered. The regulators already believe that some of these issues have been resolved.

The following are some of the issues that we are aware of:

1. **Tax reserves.** The adoption of this new reserve system could potentially eliminate the current method for calculating tax reserves. It might be necessary, therefore, to redefine taxable income for life insurance companies. Many companies object to this discussion being opened.
2. **Actuarial modeling.** The new system will rely much more on actuarial judgment and modeling. New standards will need to be developed. It will also be necessary to carefully define the nature of the reserves that will be established under the new system. It is possible that the concept of risk-based capital will be rolled into the new valuation system.
3. **New accounting basis.** The changes contemplated have the potential for redefining the theories of statutory accounting. This will need to be considered carefully by regulators, actuaries, accountants, senior management, rating agencies, and investors.
4. **Viability report.** The current discussion provides for a viability report that must be provided to management. Many issues surround this report. Who determines the standards for the report? Is it made available to regulators? What information can be kept confidential? Isn't this really Dynamic Financial Condition Analysis (DFCA) in a new dress? In the past, the industry has resisted attempts to mandate DFCA.
5. **Multiple efforts.** The Financial Reporting Working Group is working on improvements to financial reporting requirements. At some point, the efforts of this working group may need to be coordinated with the UVS project.
6. **Dual standards.** Many are beginning to express the concern that UVS will not replace current statutory requirements. They anticipate that this may require additional reporting without any loss of current work. The costs of this additional reporting could be significant.
7. **Small companies.** Will small companies be subject to the same reporting requirements? Are there areas where they could be exempted if they meet certain requirements? Do the regulators, policyowners, and owners of smaller companies benefit from this additional reporting? Does this benefit exceed the tremendous potential cost of the new system?
8. **Reviewing actuary.** In keeping with the policy of keeping actuaries fully employed, a new actuarial position is being discussed for the UVS. The reviewing actuary will be responsible to the insurance commissioner, although hired from an approved list by the company. The reviewing actuary will be responsible for annually reviewing the work of the appointed actuary.

This has not been an attempt to identify all the issues related to UVS. It is hoped, however, that enough have been identified to encourage more companies to become involved. Please contact us if you would like more information on how to get involved in this important project.

Muni GIC Waivers

At the last meeting, the issue arose regarding a provision common in many municipal guaranteed investment contracts (GIC's). This provision permits GIC's to be surrendered without market value or surrender charges in the event of a credit downgrade of the insurer. Depending on the GIC, this option may be at the discretion of the insurer and/or the contract holder. The provision first came to LHATF as

a question as to whether contracts with such provisions are Type A, B, or C annuities for reserving purposes. There was also discussion as to how to treat the provision for Guideline 33 purposes. The current discussion is to remove the provision from the marketplace, as being contrary to public policy.

A draft of a "Fact Sheet" has been exposed by LHATF. After discussion with the "A" Committee, it is LHATF's intent to distribute this "Fact Sheet" to all state insurance departments. The following were among the "facts" cited in the document:

1. "These provisions are objectionable to some members of the NAIC Life and Health Actuarial Task Force..."

2. "The event covered is not an insurable event..."

3. "The benefit cannot be priced..."

Initially, LHATF intended to expose this document for two weeks prior to its release. The "A" Committee requested that the exposure period be extended to thirty days, which would mean until July 18. LHATF and the "A" Committee will have a joint conference call on August 17 to decide what to do with the "Fact Sheet." Comments should be sent to Mark Peavy at the NAIC.

VAGLB Update

Work continues by the AAA Variable Annuities with Guaranteed Living Benefits (VAGLB's) Work Group. The AAA had been asked by LHATF to perform the following tasks:

1. Develop stochastically determined benchmark VAGLB reserves for various guaranteed minimum income benefit and guaranteed minimum accumulation benefit designs.
2. Examine potential simplified VAGLB reserve approaches

which are consistent with CARVM, relative to the stochastically determined benchmark VAGLB reserves determined in (1) above.

3. Examine cost and reserve implications of variable annuities with both guaranteed living benefits and minimum guaranteed death benefits.
4. Complete further analysis of the Actuarial Guideline 34 historical fund performance database, and make a recommendation as to whether or not standardized fund performance should be required of all companies.
5. Work with AAA's Life Risk-Based Capital Task Force to develop a recommended interim risk-based capital C-3 component for VAGLB's.
6. Discuss possible property & casualty catastrophic type reserving methodologies as an alternative to the integrated CARVM approach.
7. Continue to update the current market profile, as necessary.

In this interim report, the work group updated the market profile. It was observed that the number of VAGLB offerings have only increased slightly, but that the interest in these by applicants has increased steadily. The profile also indicated that there has been significant product innovation in the last six months. Finally, the profile highlights that reinsurance companies remain cautious about the market.

The work group reported on an integrated CARVM reserve structure that is being developed for VAGLB's. One approach being considered is the "Keel" method. This method produces a standardized, simplified, single scenario "stress-test."

The work group also reported progress on VAGLB reserve model development, examination of p&c

catastrophic-type reserving methodologies, and the development of an interim RBC component recommendation.

The work group will continue to update LHATF quarterly on its progress.

XXXX Update

The AAA has formed a work group on a new Variable Life Reserving Guideline (XXXX). This is in response to LHATF concerns about the potential competitive advantage that variable life products may enjoy due to being excluded from the scope of XXX. The following recommendations were made in a report prepared by the work group:

1. A new actuarial guideline should be developed outlining reserve requirements for guaranteed minimum death benefits (GMDB's).
2. The basic reserves required in the new actuarial guideline should be consistent with the Standard Valuation Law and in accordance with actuarial procedures that recognize the variable nature of the benefits provided and any mortality guarantees. Reserve methods described in the Variable Life Model Regulation, Universal Life Model Regulation, and the Valuation of Life Insurance Policies Model Regulation (XXX) may be considered.
3. Additional reserves for GMDB's should be equal to the greater of:
 - a. "The aggregate total of the term costs," which covers a period of no more than one year following a **a** drop in the account value.
 - b. "The attained age level" reserve, which covers the entire period of the guarantee, but requires no immediate drop in account value.

The work group will now focus on drafting the new actuarial guideline.

XYZ Update

Frank Dino of the Florida Insurance Department has proposed a new actuarial guideline (XYZ) addressing nonforfeiture values for universal life policies with secondary guarantees. This proposal can be thought of as the nonforfeiture counterpart to XXX.

Where possible, Frank has agreed to use terminology similar to that used in XXX. As currently drafted, the guideline would apply to policies issued on or after December 1, 1999. We have submitted a counter proposal that recommends an effective date of January 1, 2000.

The new guideline should not have significant impact in the marketplace. The majority of the products affected by the guideline have been seriously impacted by XXX. It is unlikely that this guideline would affect them further.

SNFL Update

Almost twenty years in the making, work on a new Standard Nonforfeiture Law (SNFL) begins again. This time, Frank Dino of the Florida Insurance Department will be heading up the effort. Frank has developed a new proposal. He recommends that the law not require any formula minimums, that the contract would spell out the minimum interest rates and maximum contract charges. Disclosure will be a key feature of this approach.

Additional work can be expected on this project shortly. There will be increased pressure to finalize a new SNFL due to the possibility of a new CSO mortality table. Past efforts have failed due to the complexity of the details.

New CSO Table

The Society of Actuaries (SOA) has formed a new task force to develop a new CSO mortality table. There has been some difficulty in recruiting actuaries for the task force, particularly for the chair. Preliminary work has already begun with committee work to begin shortly. The first phase of the project will be done when the experience have been completed.

There are many challenges for the development of this new mortality table. The following are some of the more significant ones:

1. **Statutory reserves.** The new CSO table must be an appropriate basis for a broad spectrum of individual life business.
2. **Underwriting classifications.** Since the development of the 1980 CSO tables, there has been a proliferation of new preferred underwriting classifications. The exact definitions of these classes varies significantly between companies. One alternative being considered is the use of an X factor as contained in XXX.
3. **Tax reserves.** It is anticipated that the new mortality table may become the basis for tax reserves. The IRS will have some influence on what is acceptable for this purpose.
4. **§7702.** The 1980 CSO table is used as the basis for definition of life insurance. It is possible that a new reasonable mortality table could have a major detrimental impact on the eligibility of products as life insurance. It is likely that there will need to be negotiations with the IRS (and possibly Congress) before the new CSO table could be adopted.

5. **Nonforfeiture.** The new table will likely be the basis for nonforfeiture. This will probably require a change in the current SNFL.

The technical aspects of developing the new table will probably be resolved fairly quickly. The political aspects will probably take much longer.

NFZZZ Update

The AAA Equity Indexed Products Nonforfeiture Work Group gave a report regarding the proposed Actuarial Guideline NF-ZZZ. The primary issue is the nonforfeiture treatment of excess interest declared on equity indexed annuities.

If treated as dividends on deposit, it would seem that surrender charges would not be permitted on these excess amounts credited. If treated as part of the maturity value, the minimum is 90% of the considerations accumulated at 3%. The AAA report leans toward treating the excess interest as part of the maturity value. Further work is expected on this, with the final product expected to be a new actuarial guideline.

ZZZZ Update

Actuarial Guideline ZZZZ was adopted by LHATF. It reflected a few minor changes from the exposed version. It is anticipated that the new actuarial guideline will be in effect by the end of 1999.

Actuarial Guideline ZZZZ addresses reserving requirements for equity indexed universal life products. The methods used are similar to those required by Actuarial Guideline 35 (ZZZ). This actuarial guideline, which addresses reserves for equity indexed annuities, became effective at the end of 1998.

Med Sup

The AAA Medicare Supplement Study Group gave the first status report on examining claims trends of Medicare Supplement business. They hope to have a preliminary presentation of the report in September, with a final report in October.

A new draft of the NAIC Medicare Supplement Insurance Model Regulations Compliance Manual was also released at the meeting. It is hoped that the manual can be finalized shortly so that it can be presented at the fall meeting.

New DI Tables

Reports of the SOA Task Force to Recommend Statutory Standards for Individual & Group Disability Benefits

were presented at the meeting. The final report for the individual subcommittee and the interim report for the group subcommittee were presented.

The individual subcommittee report had the following recommendations:

1. **Long term.** A new disability study should be undertaken to develop a completely new valuation standard.
2. **Interim.** A new standard for claim reserves should be adopted based on tables developed by the subcommittee. The table should be required for all claims after adoption and should be available for all open claims, at the company's option.
3. **CIDB table.** Should no longer be available for use.

4. **Active life reserves.** No change.
5. **Own experience.** Companies should be permitted to use their own experience during the first two years of disability.

The group subcommittee report concluded that the termination rates in the 1987 CGDT table are low. This is especially true in early claim durations. As such, the current valuation standard produces extremely conservative reserves. The subcommittee hopes to expose a new valuation table by the end of 1999.

Finally, an industry group has produced a recommendation for a new table to be used for credit disability. This report will be reviewed by the SOA for appropriateness as a valuation standard.

Just the Facts...

LHATF is in the process of developing a "Fact Sheet" on municipal GIC's. This "Fact Sheet" is intended to alert insurance departments about the potential problems related to downgrade provisions included in some contracts (see "Muni GIC Waivers" on page 3). LHATF has recently received legal advice that it is within their authority to issue such "Fact Sheets." Such "Fact Sheets", however, can actually be very subjective. The selection of which facts to include is how debaters construct arguments. The "Fact Sheet" being developed by LHATF should be subject to the same due process that is required of other guidelines, regulations, and laws developed by LHATF. In most cases, this means approval by Plenary. The current draft of the "Fact Sheet" presents only one side of the problem. Much as an insurance agent would only point out the negative "facts" about the competition, LHATF only points out the negative aspects of these provisions. The "Fact Sheet" is also guilty of treating all such provisions the same. A reader of the "Fact Sheet" could not know that some downgrade provisions are only exercisable by the insurer. Such provisions may actually reduce an insurer's risk in the event of a downgrade. Are these to be treated the same as provisions which are exercisable by the contract holder?

The facts that are included in the "Fact Sheet" are often thinly disguised opinions. Note the comment: "These provisions are objectionable to some members of the NAIC Life and Health Actuarial Task Force..."

LHATF, by issuing this "Fact Sheet," is determining NAIC policy with regard to these contract provisions. While it is clear that LHATF should advise the NAIC on how to deal with these provisions, the ultimate policy decision should be made by our duly elected and appointed insurance commissioners. And only then after adequate exposure so that all aspects of the matter can be considered. They would be expected to consider such public policy issues as state vs. federal regulation. If these provisions are effectively banned, then only banks will write them. Do the insurance commissioners intend to totally delegate the regulation of municipal GIC's to the federal regulators? What is the next line of business that LHATF will decide that the states are unable to regulate?

It has been argued that this provision is so dangerous, that quick action must be taken. These provisions have actually been around for several years, and are only written by very large, highly-rated insurance companies. The GIC's are typically short-term liabilities, and are not subject to large market fluctuations. There is no "burning house" that needs drastic attention. Even so, the NAIC is capable of quickly considering such issues, and dealing with them at the appropriate level. That work should begin immediately, and the "Fact Sheet" should be discarded.

Welcome Back Terry

Van Elsen Consulting is proud to welcome back **Terry Hilker** to our firm. **Terry** left us to join the actuarial programming staff of Wellmark Blue Cross Blue Shield of Iowa. He returned to our firm this May.

Terry's new responsibilities with **Van Elsen Consulting** include writing and editing **The Term Report**. He will be assisting with the many term product development projects that have come our way in the last few months. **Terry** also promises us that we will not have any Y2K problems at the end of this year or early next year.

Terry has twin daughters, Erin & Megan. They will be in the 6th grade this fall. Watch out for these two. They are currently bright stars in the local softball and basketball leagues.

I've known **Terry's** wife, Lori, for many years. She was one of my sister's friends when we were in school.

Welcome Jacob

Jacob Flattery is our newest high school intern at **Van Elsen Consulting**. Jacob will be a senior at Colfax-Mingo High School this fall. He is extremely active in sports, participating in football, basketball, track, and baseball. He hopes to have a career in medicine.

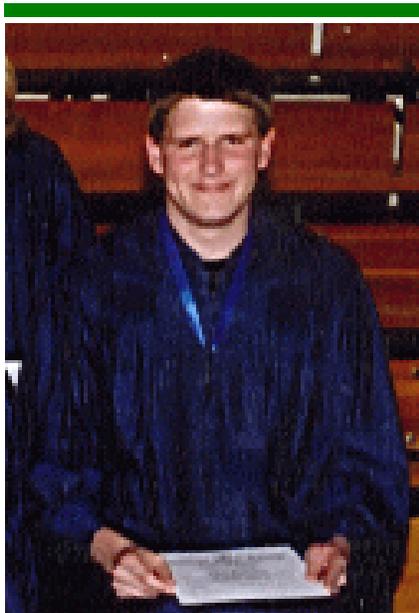
You may be hearing about several Flattery's in the coming years. **Jacob** is the oldest of four brothers. Paul is the next oldest. John currently believes that he wants to become an actuary. The youngest, Jim, is in **Sarah's** class. He's one of a half dozen boys who always seem to be hanging around.

We have known the Flattery family for a long time. **Jacob's** father, Ed, was in my class in school. His mother, Mary Dell, has been one of **Beth's** (my wife) closest friends for over forty years.

Father's Corner

School's out, and summer events are back on **Sarah's** schedule. First up was the annual dance recital. It was at this recital that I realized how tall **Sarah** was getting. Not just tall, but tall and graceful.

Bowling has taken center stage for **Sarah**. She is competing in the Iowa Games in bowling. She won the local competition for both singles and



Jacob Inducted Into National Honor Society

doubles. In singles, she just missed making it to the state tournament. In doubles, she and a 13-year old boy won the regional competition, and will advance to the state finals in July.

Swimming is also back. She competes with a local swim team against teams from Des Moines. So far, she is doing well in the medley relay, the individual

medley, the breast stroke, and the butterfly. The conference meet will also be in July.

Taekwondo has suffered a setback. She changed clubs in May and is now learning the new forms taught by the new club. This will delay her advancing to her 2nd degree black belt. She also will not be competing at the Nationals or Junior Olympics that she qualified for in March.

Health Reserving Guidance Manual

A joint AAA/NAIC work group has released a draft of a new Health Reserving Guidance Manual. This manual will be a guide for how actuaries should reserve for health coverages. Eventually the manual will address all health coverages including medical, dental, disability and long-term care. The current draft only addresses major medical policies.

A subgroup is being established to look into IBNR definitions for date of service vs. date of claim. Work will continue on the manual.

LHATF Week

Everyone is invited to Kansas City the week of August 23 for LHATF week. The A&H Working Group will be meeting on August 23 & 24. The full task force will meet on August 25 & 26. It is anticipated that significant progress will be made on many projects for the task force during these meetings.

The Van Elsen Report will publish a special edition shortly after LHATF week reporting on the proceedings.

Van Elsen Consulting

Van Elsen Consulting 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.

As you consider your product development needs in the future, consider the following:

- What did your consulting firm do to help solve the impending disaster in the 1999 term market?
Van Elsen Consulting was the only consulting firm actively working to solve the XXX crisis.
- What did your consulting firm do to help companies respond to the urgent needs for calculating XXX reserves?
Van Elsen Consulting produced an Excel spreadsheet to calculate XXX reserves and provided it to all companies at a very reasonable cost. Many of the industry's top term insurance companies are using this spreadsheet to prepare for the 2000 implementation of XXX.
- When did your consulting firm learn how to work with XXX?
Van Elsen Consulting has been involved with XXX since 1991. **James N. Van Elsen** was one of the primary brokers of the compromise that allowed the 1999 version of XXX to be adopted by the NAIC. Without this compromise, the industry was faced with uneven adoption of the 1995 version of XXX.

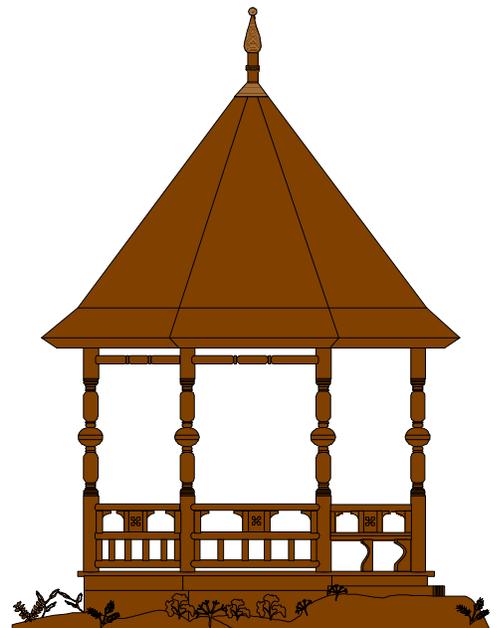
As you consider your valuation actuary needs in the future, consider the following:

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

Call Van Elsen Consulting!!!

James N. Van Elsen, FSA, MAAA
Lois Mast
Terry Hilker
Jacob Flattery
Beth Ann Van Elsen
Sarah Ann Van Elsen



Annuity 2000 Update

The Annuity 2000 table has been adopted by the NAIC as a new valuation standard for individual annuities. States that have progressed on adopting the table are shown in the following Annuity 2000 Scorecard and the map at the bottom of this page. **Darkened** states (such as **Alabama**) are those that have adopted the table with an effective date of 1999 or earlier. **Maryland (slashed)** does not regulate annuity valuation tables. The **checkerboard** states (such as **Colorado**) are expected to adopt the regulation by the end of 1999. The **plaid** states (such as **Arizona**) have taken some action to adopt the regulation, but are uncertain as to when it will become effective. The remaining states are on hold or in review status.

It appears that the Annuity 2000 table may be effective in at least 26 states by the end of 1999. At that time, it may be used for tax valuation purposes.

The Van Elsen Report will continue to monitor the adoption of this table during 1999.

Annuity 2000 Scorecard

States That Have Adopted with 1999 or Earlier Effective Date (19 States)



Alabama Alaska Arkansas California Connecticut Florida Illinois Louisiana Minnesota Nebraska Nevada New Mexico North Dakota Ohio Oklahoma Oregon Virginia Washington Wisconsin

States Where Not Regulated (1 State)



Maryland

States Expected to Adopt with 1999 or Earlier Effective Date (11 States)

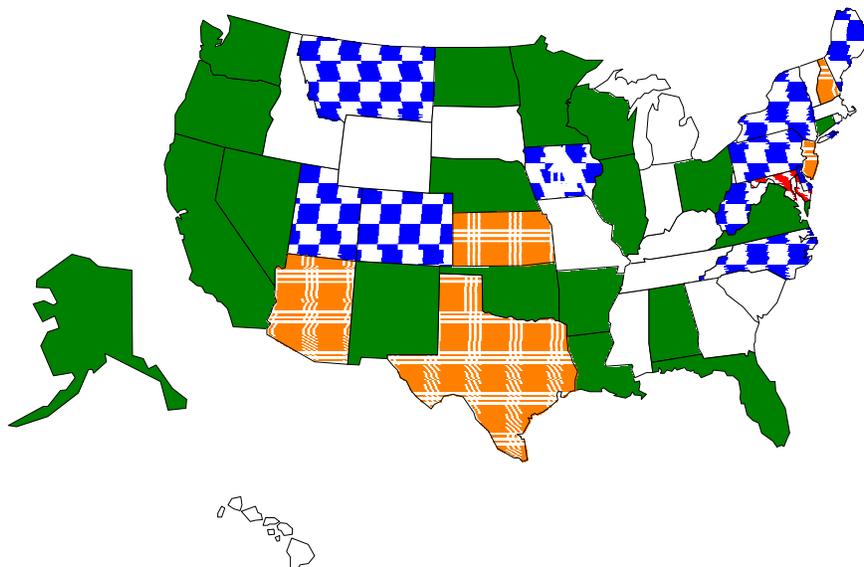


Colorado Delaware Iowa Maine Montana New York North Carolina Pennsylvania Rhode Island Utah West Virginia

Other States (5 States & DC)



Arizona	Developed but not adopted. No other action at this time.
District of Columbia	Under review.
Kansas	Under advisement.
New Hampshire	Under review.
New Jersey	Under review.
Texas	Reviewing internally.



XXX Update

On the map on the next page, **darkened** states (such as **Arizona**) are those that are likely to adopt the 1999 version of XXX in time to be effective on January 1, 2000. **Plaid** states (such as **Connecticut**) are those that are actively reviewing the regulation, but are not yet ready to endorse the January 1, 2000 effective date. Several of these states may actually adopt XXX early enough to be effective on January 1, 2000. The remaining states (such as **Alabama**) have not begun review of the regulation or have not taken a position on its adoption.

A note of caution about effective dates. Some states may not adopt XXX until 2000 or later, but may still make it effective on January 1, 2000. Use extreme caution if you believe your company can avoid being affected by XXX.

The Van Elsen Report will continue to monitor progress on XXX during 1999.

XXX Scorecard

States Likely to Adopt XXX Effective January 1, 2000 (18 States)



Arizona	Reviewing with eye to 1/1/2000. Checking against statutes now.
Arkansas	Moving toward 1/1/2000.
California	Working with industry to adopt 1/1/2000 via a bulletin.
Colorado	Process begins in June with projected 1/1/2000 effective date.
Illinois	Will adopt when regulation ban is lifted. 1/1/2000 effective date.
Kansas	Process moving to 1/1/2000 effective date.
Maine	Adopting effective 1/1/2000.
Minnesota	Adopting effective 1/1/2000.
Mississippi	Reviewing, but will probably have by the end of the year.
Montana	Department likely to adopt the 1999 version. 1/1/2000 effective date.
Nevada	Plan to adopt before end of year. 1/1/2000 effective date.
New Mexico	Intend hearings this summer with 1/1/2000 effective date.
North Carolina	Revision to new regulation will be effective 1/1/2000.
North Dakota	Plan to adopt effective 1/1/2000.
Ohio	Drafting with hopes of 1/1/2000 effective date.
Pennsylvania	Hope to adopt effective 1/1/2000.
Utah	Have plan in place to adopt effective 1/1/2000.
Wisconsin	In process. Plan to have adopted by 8/1/99, effective 1/1/2000.

States Under Active Review of XXX (10 States)



Connecticut	Under review, positive towards XXX.
Delaware	Under review.
Iowa	Anticipate informal exposure soon. Domestic companies split on adoption.
Maryland	In commissioner's hands. (51% state).
Missouri	Currently reviewing.
New York	Department indicates that will be adopted early next year. Industry feels that 1/1/2000 effective date is possible.
Oregon	Fully intend to address in 1999.
Texas	Staff is working to propose for adoption. If not adopted, the 1995 version of the regulation would become effective on 1/1/2000.
Virginia	Drafting but unsure of effective date.
West Virginia	Waiting until a majority of states adopt. Old regulation has been repealed.

States Without a Current Position on XXX (22 States & DC)



Alabama	Still monitoring.
Alaska	No action at this time.

District of Columbia	On hold.
Florida	Bill to permit the Department of Insurance to adopt died with no floor action.
Georgia	No action at this time.
Hawaii	Have not looked at the most recent version of XXX.
Idaho	No action at this time.
Indiana	Reviewed, on hold.
Kentucky	No action at this time.
Louisiana	Wait & see what other states do.
Massachusetts	On hold.
Michigan	Under review.
Nebraska	On hold.
New Hampshire	No position.
New Jersey	Under review.
Oklahoma	No action at this time.
Rhode Island	Still tracking progress. Can move quickly to adopt, if necessary.
South Carolina	Reviewing.
South Dakota	No position.
Tennessee	No action at this time.
Vermont	Under review.
Washington	Department of Insurance staff has recommended adoption without the X factor.
Wyoming	On hold.

XXX Update Map

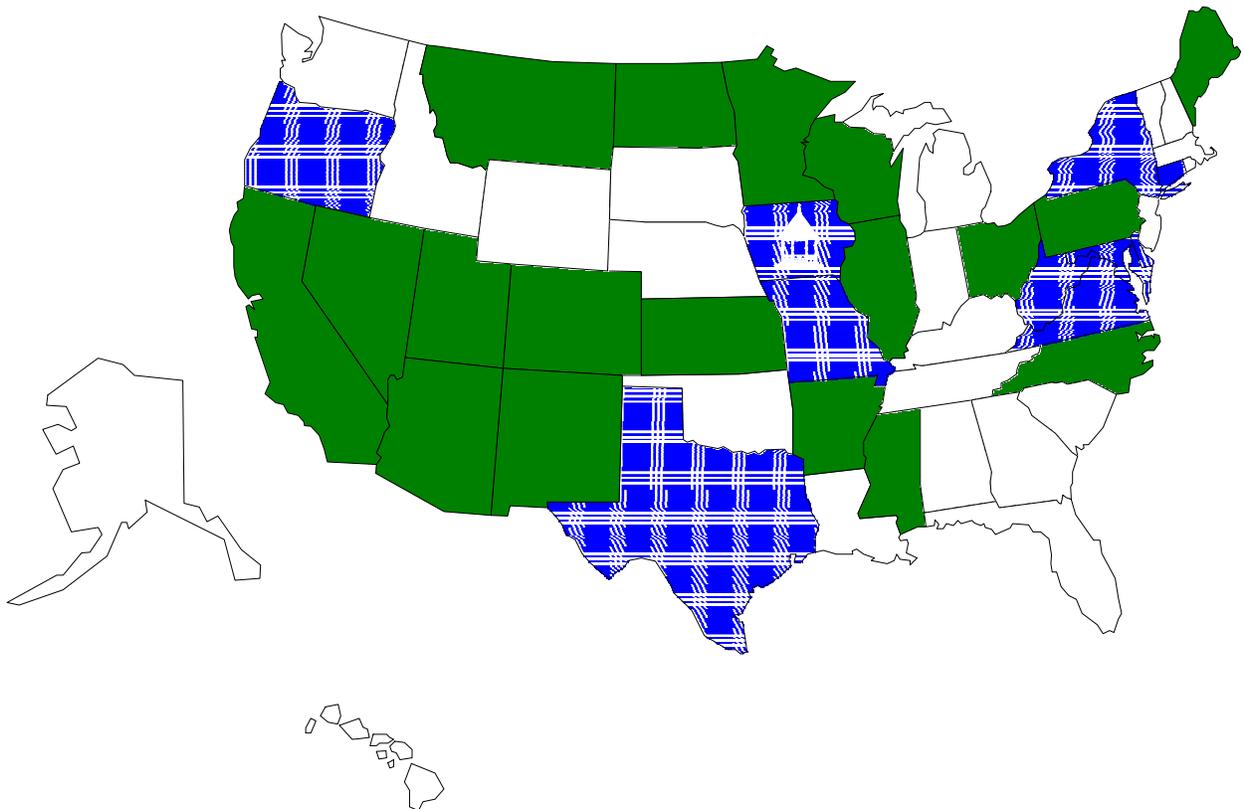


Illustration Regulation Update

The map below shows the status of the illustration regulation. **Darkened** states (such as **Alabama**) are those that are effective July 1, 1999 or earlier.

The following summary was updated June 16. It is based on interviews with insurance department personnel and other sources. We believe the information contained in this summary is accurate at the time of printing. If you have concerns or questions about a specific state's status, we encourage you to contact us. Also, please contact us if you are aware of any errors in this table. **We will be publishing an update with each of our regular newsletters in 1999.**

States Expected to be Effective on Or Before July 1, 1999 (32 States)



Alabama Alaska California Colorado Connecticut Delaware Illinois Iowa Kansas Louisiana Maryland Michigan Mississippi Missouri Nebraska Nevada New Jersey New Mexico New York North Carolina North Dakota Ohio Oklahoma Oregon Pennsylvania Rhode Island South Carolina South Dakota Utah Vermont Washington Wisconsin.

Status in Other States (18 States & DC)



Arizona	Bill failed to pass legislature.
Arkansas	Currently no plan to implement.
District of Columbia	On hold.
Florida	On hold.
Georgia	No plan to adopt.
Hawaii	Review status.
Idaho	No action at this time.
Indiana	Rule moving forward. No effective date given.
Kentucky	Reviewed & on hold.
Maine	Moving forward. Effective date not finalized but plan for 1999 effective date.
Massachusetts	On hold.
Minnesota	Review status.
Montana	Review status.
New Hampshire	Hearing set for March 22, 1999.
Tennessee	On hold.
Texas	Effective July 1, 2000.
Virginia	Reviewed & on hold.
West Virginia	Not going to adopt.
Wyoming	On hold.

