



NAIC Meeting in Washington, D.C.

NAIC Adopts XXX

Focus Now on States

With very little discussion, the NAIC adopted the revised XXX regulation. Proponents of the new regulation will now shift their focus to adoption by the various states. A survey conducted by Van Elsen Consulting shows that 17 states currently view the regulation favorably. It remains to be seen, however, how many of these states can adopt the regulation in time for the January 1, 2000 effective date. See page 6 for a summary of our survey.

VAGLB Update

Steve Preston and Tom Campbell, representing the American Academy of Actuaries (AAA), presented an update report on Variable Annuities with Guaranteed Living Benefits (VAGLB). The following are highlights of the report:

1. The AAA working group is developing a reserve recommendation based on the integrated CARVM reserve structure outlined in Actuarial Guideline #34. The goal is to develop a "simplified method" to reflect VAGLB costs in CARVM.
2. The working group is working on a recommendation about whether a standardized fund performance should be required of all companies in evaluating the reserves for VAGLB's.
3. The working group is working with the AAA Life RBC working group to propose an interim C3 factor for use at the end of 1999.

Much work is still needed to be completed before the AAA can make a final report. Copies of the interim report may be obtained from the AAA.

NFZZZ Update

This proposed actuarial guideline discusses nonforfeiture requirements for Equity-Indexed Annuities. Many objections were raised against the draft released in December. The AAA has set up a working group which will be reviewing the draft and making recommendations to L&HATF.

Downgrade Waivers

This issue was brought to the task force by Herb Wolf, a consultant for the Arizona Insurance Department. This pertains to Guaranteed Investment Contracts (GIC's) which have a provision which waives surrender charges if a rating agency lowers a company's rating below a prescribed level. Herb's question was about whether a GIC with this provision should be classified as a type A, B, or C annuity. The task force responded by recommending to the "A" Committee that letters be sent to all states recommending that states disapprove policy forms with such provisions. A subgroup with Jack Gies (Connecticut) and Herb Wolf will make a recommendation about reserving for inforce contracts.

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The Van Elsen Report

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UL Guarantees

An issue was raised by Frank Dino (Florida), about nonforfeiture values for universal life contracts with long secondary guarantees. For example, should contracts with 30-year secondary guarantees be required to have at least 30-year term nonforfeiture values. An additional issue is whether the minimum premium should be tested for deficiency reserves. The reserving issue is addressed in XXX for policies issued on or after January 1, 2000. Frank will be developing a proposed actuarial guideline on these two issues to be presented at the June meeting.

Med Sup Issue Paper

L&HATF is working on a "white paper" addressing issues relating to Medicare Supplement Insurance. The motivation for the paper is a concern of some regulators about the increasing premium rates for these products. As currently drafted, the report has the following conclusions:

1. Outpatient costs. Recommends that the NAIC go on record as supporting the revisions required by the Balanced Budget Act of 1997 concerning payment of outpatient services and that they be implemented when feasible.
2. Benchmark loss ratios for the refund calculation. Recommends that the NAIC propose revised loss ratios to the federal government.
 - a. Have 4 separate benchmark loss ratio requirements. Would add two subgroups to the current categories of group and individual. One would be for issue age policies. The other subcategory would be for attained age and community-rated policies.

- b. Extend the time for issue age policies to meet the loss ratio minimums of 65% or 75% to 10 years.
3. Actions needed.
 - a. Develop revised benchmark loss ratios.
 - b. Recommend revised benchmark loss ratios to the federal government.
 - c. Modify the Social Security Act as it references the 1991 NAIC Medicare Supplement Model Regulation.
 - d. Revise benchmark loss ratios in the NAIC Medicare Supplement Model Regulation.
 - e. Revise the NAIC Medicare Supplement Model Regulation so that policies inforce for less than 3 years shall meet the loss ratio minimums over the entire period for which rates are computed.

This paper is still being developed.

Compliance Manual

L&HATF is in process of updating a compliance manual for Medicare Supplement Insurance. More activity on this manual can be expected in the coming months.

ZZZZ Update

This proposed actuarial guideline proposes reserving requirements of Equity-Indexed Life Insurance. The exposure period for the guideline has been extended to May 15.

LTC Model Reg

L&HATF is working on an update to the Long-Term Care Insurance Model Regulation. The primary change is to the requirements for premium increases. The proposed regulation defines a "planned increase" as an increase expected in the future disclosed at the time of issue. An "unplanned increase" is an increase that does not qualify as a planned increase. As proposed, "unplanned increases" will have a higher loss reserve standard (85%) than that for "planned increases" (75%). These are both higher than the standard for initial rates (60%). A company which files more than one "unplanned increase" may also be subject to additional requirements (i.e., require a company to replace coverage for existing insureds with other coverage offered by the company without evidence of insurability), or prohibitions (i.e., prohibit the company from filing and marketing for up to 5 years). Work continues on the model regulation.

New DI Tables

The Society of Actuaries (SOA) is working on new disability tables for individual and group disability. This work comes out of a concern of some regulators that the current valuation tables may be inadequate. In an interim report at the L&HATF meeting, the SOA reports that the individual disability table is likely inadequate for disabled life reserves, but possibly adequate for active life reserves. The group table appears to have termination rates which are too low. This results in higher than necessary claim reserves. Recommendations for new individual and group disability tables are expected to be made by the SOA at the June meeting.

UVS Update

The Unified Valuation System (UVS) is an AAA project which has been headed by Bob Wilcox. If implemented, it could significantly change the financial reporting for life insurance companies. Changes would affect all lines of business, except property & casualty lines. The new methodology would be much more dependent on actuarial judgment, both for reserves and RBC. A new "viability" report would go to company management. It will address all financial obligations of the company. This report would also consider the impact of future new business. A new actuarial position is contemplated, that of a "reviewing actuary." The valuation actuary would be selected by the commissioner to annually review the work of the valuation actuary. Much work remains on this project. It is unclear how rapidly it will be progressing within the L&HATF. To date, the regulators have not been very involved in the project.

New CSO Table

The SOA has begun work on a new CSO mortality table for individual life insurance. There are many issues that need to be considered in the development of this series of tables. The 1980 CSO table is used for statutory valuation, tax valuation, nonforfeiture values, universal life maximum charges, and the tax definition of life insurance. All these uses will need to be considered. In addition, issues relating to underwriting classifications, AIDS, and jumbo policies need to be considered. It is possible that the new tables may borrow the concept of the X-factor from the XXX regulation. This could

reduce the need for trying to define necessary underwriting standards for preferred classifications. The new tables may also include provision for mortality improvement factors. Work has just begun. No timeline for completion has been established yet.

New NF Law

It has died several times, but keeps coming back. Frank Dino (Florida) is developing a new proposal for life and annuity nonforfeiture. His concept is that a company would state guarantees in the contract (minimum credits and maximum charges) and then would have a plan to determine how non-guaranteed elements would be determined. Work on this law may become more critical as progress is made on the new CSO table. Frank will write up the initial proposal for the June meeting.

XXXX Update

New York has prepared a proposal (XXXX?) to address XXX issues for variable life insurance contracts. These contracts are exempt from the recently adopted XXX Model Regulation. The proposal essentially recommends that companies with Variable Universal Life policies be required to carry the greater of the reserves required by the Model Universal Life Regulation or those required by XXX for any secondary guarantee period. For traditional variable products, the company would apply the principles of XXX to the Variable Life Insurance Model Regulation. This project is on a fast timeline because of the perceived competitive advantage that variable products may have if something isn't adopted by the time XXX becomes effective.

AOMR Update

Work continues on updating Model Actuarial Opinion & Memorandum Regulation (AOMR). The regulators still believe there should not be a small company exemption from Asset Adequacy Analysis. The project almost died due to a disagreement among the regulators about reporting requirements necessary to support a "domicile state" actuarial opinion instead of the current "this state" requirement.

The NALC's Actuarial Committee will be considering whether it should develop an NALC proposal for updating the model regulation. Please contact Jim Van Elsen if you want to be involved in this project.

Father's Corner

Taekwondo has been keeping Sarah busy this winter. At the Des Moines Championships she took 1st place in forms, 2nd in creative forms, and received a medal for "Kid's Kicking." She placed out of the medals for sparring, losing two very close matches to older boys. At the Central Nebraska Championships, she took 2nd in sparring, but placed out of the medals in forms.

Bowling has also become a major interest for Sarah. In past years, she has participated in the Iowa Games in swimming and Taekwondo. This year, she will be trying bowling. This last weekend she won the local championships in individual and doubles competition. She will now go to district competition in Des Moines.

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.
- How did your consulting firm advise you to prepare for the potential 1999 term crisis?
Van Elsen Consulting advised its clients to be ready with products on January 1, 1999 priced for **XXX**. To do otherwise is to risk being out of the term market completely in 1999.
- What did your consulting firm advise you to do if **XXX** is effective on January 1, 1999?
Van Elsen Consulting advised its clients to reduce its guarantees to 5 years. Clients were specifically advised not to ignore the effect of Wisconsin. It is not sufficient to not market products in Wisconsin. To do so would be to risk the long-term solvency of the company.

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.

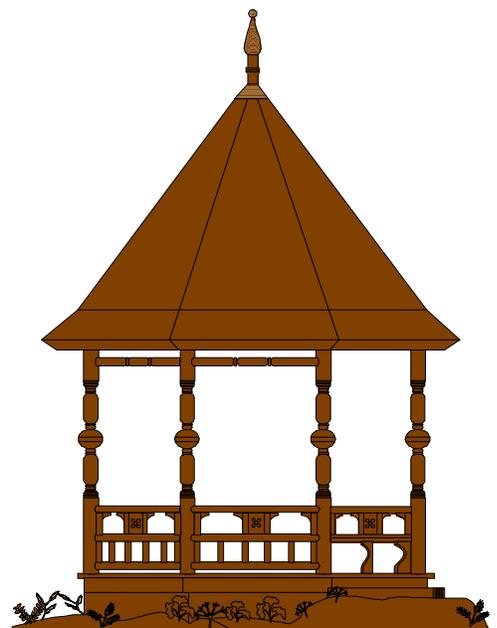
Call Van Elsen Consulting!!!

James N. Van Elsen, FSA, MAAA

Lois Mast

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 anticipated to be effective on July 1, 1999 or earlier. Maryland is included in this list since they do not regulate annuity valuation tables. The **bricked** states (such as **Colorado**) have taken some action to adopt the regulation. The remaining states are on hold or in review status. **The Van Elsen Report** will continue to monitor the adoption of this table during 1999.

Annuity 2000 Scorecard

States Expected to Have July 1, 1999 or Earlier Effective Date (20 States)

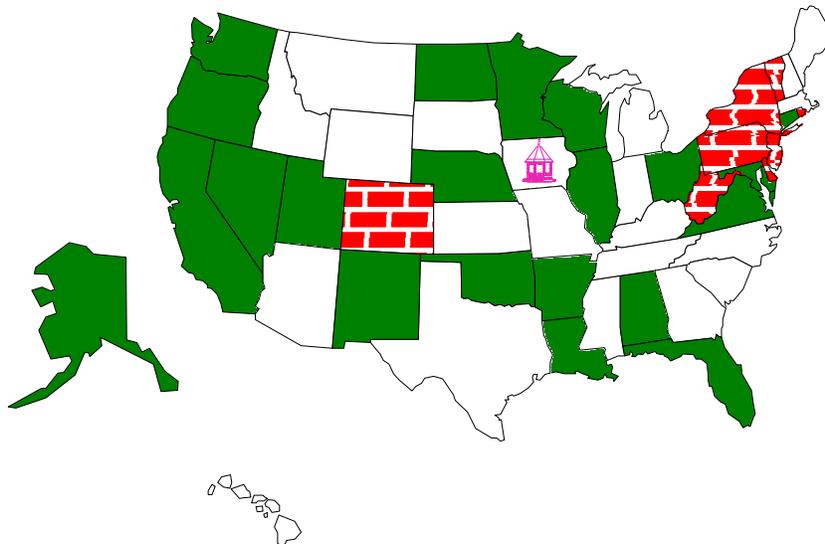
Alabama Alaska Arkansas California Connecticut Florida Illinois Louisiana Minnesota Nebraska Nevada New Mexico North Dakota (5/1/99) Ohio Oklahoma Oregon Utah (hope 7/1/99) Virginia Washington Wisconsin

States Where Not Regulated (1 State)

Maryland

Other States (9 States)

Colorado	Moving forward.
Delaware	Anticipate April hearing.
District of Columbia	Under review.
New Hampshire	Under review.
New Jersey	Under review.
New York	Not exposed for comment yet.
Pennsylvania	Drafting.
Rhode Island	Under study.
West Virginia	In legislature. Hope to be adopted in 1999.



XXX Update

In the map on the next page, **darkened** states (such as **Illinois**) are those that have adopted the 1995 version of **XXX** that appear likely to adopt the 1999 version of **XXX** in time to be effective on January 1, 2000. **Checked** states (such as **Kansas**) are those that have adopted the 1995 version of **XXX**, but have not yet determined when they will adopt the 1999, although they seem positive about the regulation. The danger with these states is that enough states may adopt the regulation such that the 1995 version of the regulation becomes effective. The **bricked** states (such as **Maryland**) are those that have adopted the 1995 version of **XXX**, but do not appear to be planning to adopt the 1999 version. West Virginia will be repealing the 1995 **XXX**. Maryland, however, may allow the 1995 version to become effective.

Sideways bricked states (such as **California**) did not adopt the 1995 **XXX**, but appear likely to adopt the 1999 **XXX** in time to be effective on January 1, 2000. The **plaid** states (such as **Arkansas**) did not adopt the 1995 **XXX**, but seem favorable to adopting the 1999 **XXX**. It appears that **Florida** will not adopt either version of **XXX**.

The rest of the states are still evaluating their position. Even the states listed below may change, as all states are just beginning to consider the new regulation. With strong industry support, it is likely that the number of states finally adopting **XXX** with a January 1, 2000 effective date may be greater than those suggested by this table.

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

XXX Scorecard

States Adopting 1995 XXX Likely for January 1, 2000 (5 States)

Illinois	Intend to adopt as soon as possible. Currently on hold, due to Governor hold on all new regulations.
New Mexico	Plan to adopt.
New York	On very tight time schedule. Working hard for January 1, 2000 effective date. As the only state to have the 1995 XXX become effective, they need to modify the current regulation to address business issued before and after January 1, 2000. Possible that companies may be able to file for 1999 XXX treatment of earlier business. Not clear whether this will be for basic and deficiency reserves or just deficiency reserves.
Texas	Has currently adopted 1995 XXX with a January 1, 2000 effective date. Working hard with industry to resolve questions about 1999 XXX . Hope to implement with January 1, 2000 effective date.
Wisconsin	Initial hearing held with little objection. Currently proceeding according to statutory time lines. Hope to have adopted before effective date of 1995 XXX (July 1999). This would repeal the previously adopted regulation.

States Adopting 1995 XXX Positive About 1999 XXX (4 States)

Kansas Maine North Carolina Utah

States Adopting 1995 XXX Negative About 1999 XXX (2 States)

Maryland	No current plans to adopt 1999 XXX .
West Virginia	Currently working with legislature to repeal 1995 XXX . After that is accomplished, will probably not revisit 1999 XXX for some time.

Other States Likely for January 1, 2000 (2 States)

California	Currently permits 1995 XXX by bulletin. Likely to adopt bulletin making 1999 XXX effective.
Minnesota	Will adopt.

Other States Positive About 1999 XXX (6 States)

Arkansas Connecticut Delaware Iowa Louisiana North Dakota

Other States Negative About 1999 XXX (1 State)

Florida

XXX Update Map

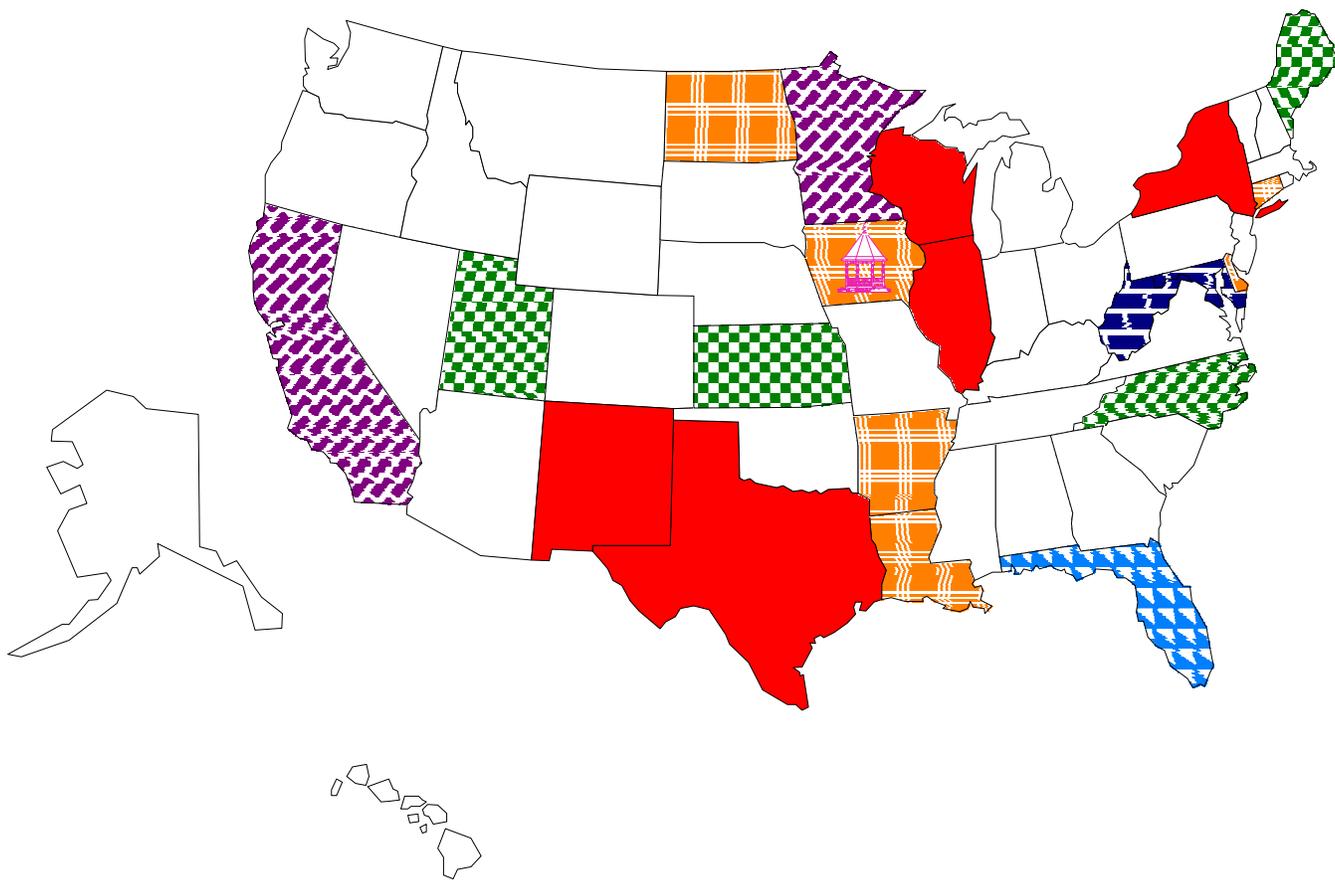


Illustration Regulation Update

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 **bricked** states (such as **Georgia**) do not intend to adopt the regulation.

The following summary was updated March 22. 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 (7/1/99) 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	Not going to adopt.
Hawaii	Review status.
Idaho	No action at this time.
Indiana	Will published soon.
Kentucky	No action at this time.
Maine	Draft awaiting governor's approval to move to rule-making process.
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	No action at this time.

