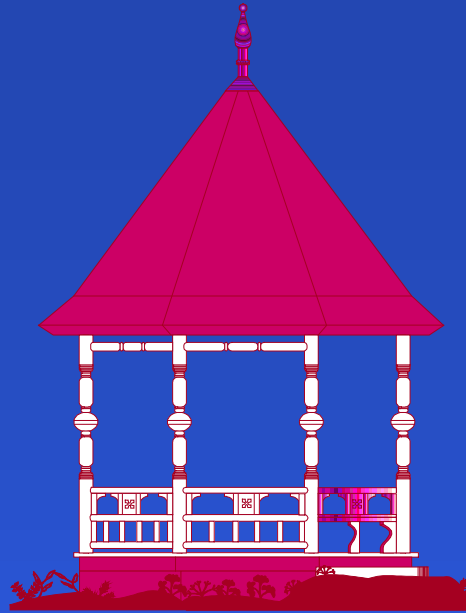


Life Insurance Sales Illustrations --What Next?

Marco Island

Friday, May 31, 1996



Small Company Issues

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Presentation Outline

- When to Begin Work
- Experience Assumptions
- Documentation
- Other Comments

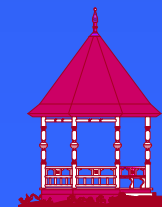
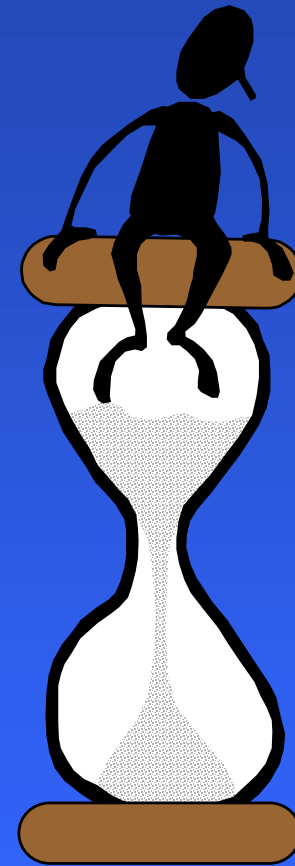


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Reasons for Later

- States May Not Adopt
- GRET Not Approved
- Much Expense
- Not Certain of Market
- State Variations



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Reasons for Now

- Cost of Being Late
- Much Effort Needed
- May Require Refiling
- Programming Time
- State & Consultant Time Will Be Scarce Near the End of Year



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Experience Assumptions

- Mortality
- Expenses
 - Expense Study
 - GRET
- Persistency



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Mortality

- Ideal: Recent Credible Mortality Study, Adjusted for Risk Classifications
- Alternative: Appropriate Industry Study Adjusted for Underwriting Practices



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Other Support of Mortality

- Document Reasons for Selection of Industry Study
- Document Differences Between Company and Industry Underwriting
- Test Assumption Using Aggregate Expected/Actual Studies



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Expense Study

- Ideal: Functional Expense Study
- Alternative: Exhibit 5 & 6 Study Using Policy Exhibit
- Requirement: Must be a *SOUND* Method of Allocation



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Other Expense Comments

- Assumptions Should Reasonably Reproduce the Most Recent Year
- Average Size Assumptions Are Critical--Must Be Reviewed for Reasonableness
- Fully Allocated Expenses May Always Be Used
- Must Calculate Marginal Expenses if GRET is Used

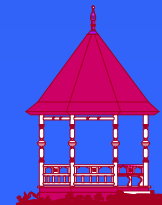


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GRET

- May be Used if $GRET > \text{Marginal Expenses}$
- May Always Use Fully Allocated Expenses
- Must Provide Agents With Method Used
- Must Use Same Method for All Products



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Proposed GRET

	Branch Office	Direct Marketing	Home Service	All Other
<u>Acquisition</u>				
Per Policy	\$ 63.44	\$ 79.93	\$ 45.51	\$ 67.44
Per Unit	\$ 1.13	\$ 1.42	\$ 0.81	\$ 1.20
% of Premium	70.25 %	44.06 %	25.08 %	37.18 %
<u>Maintenance</u>				
Per Policy	\$ 31.75	\$ 39.99	\$ 22.77	\$ 33.75

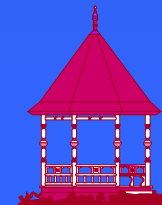


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Not Included in GRET

- Direct Sales Costs
- Federal Income Tax
- State Premium & Income Tax



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Current Status

- SOA POG to Submit to NAIC Life Disclosure WG on June 4, 1996
- NAIC “A” Committee May Adopt on June 5, 1996
- NAIC Executive & Plenary May Adopt in October or December 1996
- If Not Adopted, Must Use Fully Allocated



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Persistency

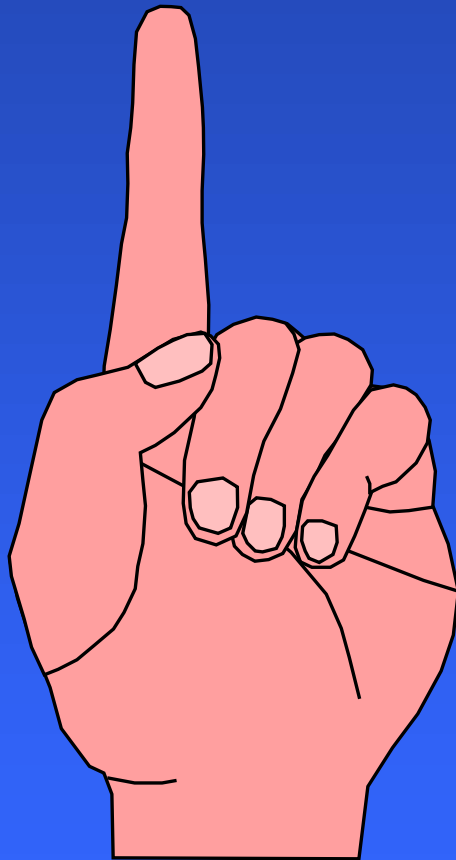
- Study Period: Life Practice Notes Recommend 3 Years
- Adjustments Should Be Made to Anticipate Product Specific Events
- May Need to Adjust Based on Assumed Policyholder Choices



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Most Important Things to Remember



- Document
- Document
- Document

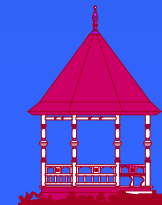


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Documentation Tips

- Follow Requirements of SOP
- Document Rationale for the Determination of ALL Assumptions
- Where Actual Experience Cannot Be Used, Try to Support With Ancillary Evidence
- Document Passing Self-Support & Lapse-Support Tests



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Other Comments

- Pay Attention to State Adoptions & Variations
- Pay Attention to Releases from the NAIC & the SOA
 - NAIC Life Illustration Working Group
 - SOA Practice Notes
 - Actuaries Online
 - SOA Newsletters



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Final Comment

- In general, this regulation represents a reasonable compromise between the conflicting interests of industry, regulators & consumers. Its effectiveness, however, is still very dependent on the professionalism & ethics of agents, actuaries & other company officers.



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