



L&HATF Meeting in Chicago

WHAT'S GOING ON?

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Overview

Insanity seems to be the rule in the insurance industry. Regulators are adding requirements in areas with few problems, while ignoring others with significant problems. Companies are more aggressive in interpreting regulations, often to the disadvantage of the average consumer. Companies are also squeezing expenses harder to improve bottom lines, often resulting in poor service.

The cycles created by these activities are vicious. Regulators respond to aggressive company activities with new regulations, often missing their targets and affecting products that they did not intend. Some companies respond by getting even more aggressive.

Alert Service!!!

Van Elsen Consulting, Inc. now offers alerts by e-mail to its clients. This service is free to all subscribers of **The Van Elsen Report** who receive their edition by e-mail.

The first alert went out in mid-January, with the results of our **XXX Update**.

If you do not currently receive this newsletter by e-mail, please call us for information on how to change your subscription. Call us at 515-674-4046, or send us e-mail at

Van.Elsen.Consulting@att.net

Also, if you become aware of news that should be sent out in an alert, please let us know.

All of this adversely affects bottom lines, resulting in more pressure to reduce expenses. If service suffers, experience deteriorates.

The first 7 pages of this newsletter highlights **Jim Van Elsen's** observations on this cycle. Every care has been taken to insure the accuracy of these articles. This newsletter will, however, print letters we receive from those who disagree with our reporting.

Part I - AOMR

The discussion continues on how to update the Actuarial Opinion & Memorandum Regulation. All the parties have come to the discussion with different objectives in mind.

Large companies. The primary objective is to replace the current "State Where Filed" standard with a "State of Domicile" standard. The current standard is difficult to comply with and subjects the valuation actuary to significant potential liability with regard

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to knowing and understanding the implications of all the various valuation laws, regulations, and interpretations. Some large companies also have as an objective the leveling of the playing field with smaller companies that file Section 7 (no asset adequacy analysis) actuarial opinions.

Small companies. The primary objective is the maintenance of the current exemption. These companies view the additional requirements of asset adequacy analysis as merely another cost of doing business without any compensating benefit. These companies do not object to the "State of Domicile" actuarial opinions, but are not willing to sacrifice the Section 7 actuarial opinions for their adoption.

Regulators (L&HATF). The overall objective has to be decreasing the incidence of insolvency among all companies. The method to this objective appears to be to put an actuary "on the hook" for the adequacy of reserves. Many of the regulators are not satisfied that a Section 7 actuarial opinion adequately attains this objective. Most regulators seem willing to adopt some form of "State of Domicile" actuarial opinion, but prefer that be supplemented with some identification of the major differences with their own state requirements.

American Academy of Actuaries (AAA). A primary objective is to reduce, as much as possible, the potential risk that a valuation actuary takes by signing an actuarial memorandum. As such, they are pushing very hard for the "State of Domicile" actuarial opinion. They are also concerned about maintaining appropriate professional standards when an actuary signs any opinion. An additional objective appears to be the expansion of practice for actuaries. This is evidenced by the strong position the academy has taken against the Section 7 actuarial opinions.

National Alliance of Life Companies (NALC). Primarily composed of small companies, the **NALC** has been strongly against the elimination of the Section 7 actuarial opinion. They have expressed a willingness to expand the requirements for eligibility for a Section 7 actuarial opinion. They are not opposed to the "State of Domicile" actuarial opinion, but not at the expense of the Section 7 actuarial opinion.

American Council of Life Insurers (ACLI). Although dominated by large insurers, the **ACLI** still has a large membership of small companies. At the **L&HATF** meeting, the **ACLI** announced that they had conducted a

In Memoriam

It is with great sadness that we report the passing of two of our dedicated colleagues. They will be missed by all who had the privilege of knowing and working with them. We extend our sympathies to the families of:

Paul DeAngelo (New Jersey Department of Insurance)

John Montgomery (California Department of Insurance)

survey of their small company members. Over 90% of those companies preparing Section 7 actuarial opinions opposed the recommended changes to the AOMR. The **ACLI** is strongly in favor of the "State of Domicile" actuarial opinion and appears to be against the elimination of the Section 7 actuarial opinion.

National Fraternal Congress of America (NFCA). The **NFCA** is composed of primarily small companies, although there are a few large companies that have significant influence. The **NFCA** has largely been quiet during the discussions about

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AOMR, although they seem to be opposed to the elimination of Section 7. The present path for AOMR is doomed for failure. The following objections have been leveled against the current proposal:

- 1. Cost.** Small companies object to the additional cost of an actuarial opinion with asset adequacy analysis. Other companies are also concerned that their costs of actuarial opinions will increase as resources are committed to completing these small company opinions.
- 2. Benefit.** Small companies argue that there is very little benefit to the asset adequacy analysis for their companies. They don't believe that the additional work will give them better information to manage their companies. They also don't believe that the analysis will provide regulators with any additional comfort about the adequacy of their reserves. Given the small size of these companies, it is unclear how meaningful these analyses could be. Most assumptions would have to be based on industry experience.
- 3. Resources.** It is not known how many more companies will have to do asset adequacy analysis because of these proposed changes. The **ACLI** survey of Section 7 companies included 120 companies. It is likely that there are several hundred additional companies which would be subject to these requirements. Are there adequate actuarial resources to take on this additional task? Is this the best use of this valuable industry resource? What about regulatory resources? Will the states have the resources to review these statements if they are prepared? At the very least, this will likely increase the cost of

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actuarial opinions for all companies.

4. **Where's the fire?** There hasn't been a recent increase in insolvencies of companies filing Section 7 actuarial opinions. Those that have occurred have been easy to deal with because of the small size of the companies involved. Is this really the best use of our valuable actuarial resources?
5. **Unattainable objective.** The goal of passing the AOMR in all states with a requirement that all companies complete asset adequacy analysis is unattainable. Three major trade organizations (**NALC**, **ACLI**, & **NFCA**) have indicated opposition to the requirement. The small companies by themselves possess significant political influence. The other benefits in the proposed AOMR will not gain broad passage if this requirement is kept.
6. **Level playing field.** Some large companies have maintained that the current situation provides small companies with a competitive edge. Small companies preparing Section 7 actuarial opinions do not have to bear the costs of asset adequacy analysis like the large companies. Small companies would counter that the cost of such analysis is much greater for small companies on a per policy basis. This additional burden will only further impair their ability to compete with the large companies. They would also point to the large blocks of business within the large companies that are not subject to asset adequacy analysis. These blocks are often many times larger than their own companies. These blocks are not analyzed because the valuation actuary has determined that they do not have

the risk characteristics which would require such analysis.

7. **Other solutions.** Whatever risk the companies utilizing Section 7 actuarial opinions pose can be mitigated through other means. The simplest approach would be to further limit the eligibility requirements for filing the Section 7 actuarial opinion. Companies which have risky assets or products could be forced to do the asset adequacy analysis. As a last resort, an insurance commissioner may require any company licensed in his/her state to prepare an asset adequacy analysis at any time.

Best Wishes!!!

We wish to extend our best wishes to Ted Becker, who recently retired from the Texas Department of Insurance. Ted has been an active member of **L&HATF** since it was first formed many years ago.

It has been a pleasure working with Ted all of these years and we wish him the best in his retirement. If you are ever in central Iowa, Ted, please stop in for an ice cream cone.

The **Actuarial Standards Board (ASB)** is currently working on a revision of the Actuarial Standards of Practice (ASOP) for the new AOMR. As proposed, the new ASOP would provide the valuation actuary with more flexibility in determining the amount of analysis performed in completing the asset adequacy analysis. In many cases, a gross premium valuation would be sufficient for meeting the requirements. Advocates for the new AOMR point to the new ASOP as a way for small companies to economically comply with the revised regulation.

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Smaller companies maintain that without a specific exemption, consulting actuaries will tend to move to the more rigorous testing. They believe that this will occur because of the actuaries' fear of lawsuits. The small companies also believe that their ability to shop for actuaries who would do less testing will be limited, due to the significantly increased demand for valuation actuaries.

The quickest solution for adopting an improved AOMR appears to require the restoration of the Section 7 actuarial opinion. This, combined with more restrictive requirements for Section 7 companies, has a good chance for quick adoption by many states.

We will continue to monitor progress on this debate.

Part II - XYZ

The **L&HATF** has been working for some time on Actuarial Guideline XYZ. This actuarial guideline is intended to address nonforfeiture issues with universal life contracts that have secondary guarantees. This would be similar to the universal life section of XXX that dealt with reserves.

As currently drafted, this actuarial guideline would require significant additional nonforfeiture values for many currently-marketed universal life contracts. The contracts that are the most adversely affected are minimum premium contracts sold to individuals over age 50.

The result in the marketplace could be dramatic. It is anticipated that many lower cost universal life policies offered to seniors would no longer be available. The nonforfeiture values required by this regulation are much more significant than the additional reserves that were required by XXX.

Seniors looking for longer guaranteed life insurance protection are effectively being told that they **must** buy products that have cash value elements. They

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would not be given the choice of opting for lower priced coverage that does not offer cash values.

The fate of this actuarial guideline is uncertain. Florida has recently withdrawn its bulletin requiring XYZ-like values for universal life, pending the outcome at the NAIC. It appears likely that there will be a challenge to the authority of the NAIC to issue an actuarial guideline which is in conflict with the Model Universal Life Regulation. There is also a concern that universal life products should not be singled out when there are traditional term products that look very similar.

Compromises that are being considered include additional disclosure requirements and limiting the requirements to only the very longest contracts. For example, one proposal offered that it would only affect contracts with secondary guarantees expiring after attained age 90. The difficulty with this proposal is making it fit within the current regulatory framework.

The discussion on this actuarial guideline will continue at the next L&HATF meeting in Orlando.

Part III - Annuities

According to the NAIC's Model Regulation Service, the Standard Nonforfeiture Law for Individual Deferred Annuities was adopted by the NAIC in 1977. All states except Florida, Mississippi, Missouri, and Oklahoma have adopted some form of this law. While state variations do exist, most follow very closely the model law as adopted by the NAIC.

The model law has two basic requirements for minimum nonforfeiture requirements for deferred annuities:

- 1. Retrospective test.** Net premiums must be accumulated at a rate of interest of at least 3%. For single premium contracts, the

net premium is defined as 90% of the premium less \$75. Flexible premium and scheduled premium annuities permit higher loads.

- 2. Prospective test.** This test requires that the cash value must be at least as great as the present value of the value of benefits at maturity. The interest rate for calculating the present value cannot be greater than 1% higher than the accumulation rate. Maturity is defined to be the later of the anniversary following the annuitant's 70th birthday or the 10th anniversary of the contract.

Why So Late???

We apologize for the tardiness of this issue of *The Van Elsen Report*. Under normal circumstances, this report should have been delivered by late March or early April.

Health problems for **Jim Van Elsen** in 1999 had forced yearend work to take precedence in March. This was exacerbated more in April due to surgery which put him on the sidelines for about 3 weeks.

Jim is on the mend and nearly back to his old self. **Terry Hilker** will be assuming the responsibilities for the June edition of the newsletter.

Very few products have difficulty complying with the retrospective test. Most annuities sold today do not have front end loads. Most also guarantee a current interest rate of at least 3%.

Many products, however, have difficulty with the prospective tests. In most cases, it requires a surrender charge schedule of no more than 10% grading to 0% in 10 years to meet this test. Longer surrender charges are permitted, but that usually results in an issue age restriction. For example, a

15-year schedule would normally be limited to issue ages of 55 or younger. Older issue ages would have to comply with the test in less than 15 years (the later of age 70 or 10 years).

Surrender charges of greater than 10% are permitted, but it usually requires 1 year of discounting per 1% of maximum surrender charge. For example, a 20% maximum surrender charge would normally require 20 years to pass the test. As such, a 20% surrender charge schedule would be restricted to issue ages 50 or younger. How is it, then, that so many companies offer products with long surrender charge periods (as long as to age 95) and high maximum surrender charges (as high as 20%)?

We recently reviewed the publicly-filed actuarial memorandums for many products with these high surrender charges. A summary of these products is shown in the table on page 5. All of these memorandums contained demonstrations of compliance with the Standard Nonforfeiture Law for Individual Deferred Annuities.

There were several ways that these demonstrations showed compliance with the regulation:

- 1. Low issue ages.** Many of the demonstrations were made for younger issue ages. For example, a demonstration for issue age 45 would use 25 years of discounting. No mention is made in the memorandums of an issue age restriction. In fact, for many of these companies, advertising materials show issue ages as high as 90.
- 2. Longer discounting periods.** Some of the demonstrations used longer discounting periods than those permitted in the law. For example, one demonstration discounted from a maturity date of

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age 95. The law clearly requires a maturity date of no later than the earlier of age 70 or 10 years.

- 3. Mathematical error.** One of the demonstrations had a convenient mathematical error which permitted the policy to pass the test.

This whole issue arose recently due to product development work we were doing for a client. When we told the

- 1. Junior actuary.** The memos were not typically signed by the chief actuary for the company. Usually, some less experienced actuary was drafted to sign the work.

- 2. No opinion.** The biggest problem, however, is that none of the memorandums reviewed express an opinion. Most commonly, there is just a signature line at the end of the

charges are used to enable higher commissions on deferred annuities sold to seniors. These products are being sold absent competition from many companies who would choose not to violate the law.

Regulators should review their files for conflicts of these products with their nonforfeiture laws. The companies should be forced to comply in the following ways:

Annuities with High SC's

Company	Form #	Max SC %	Year SC = 0%
American Equity Investment Life Insurance Company	C-FPDA-4	12%	12
	FPDA-5	12%	11
	G-FPDA-4	12%	12
	Index-2000	12%	11
	Index-4	12½%	Age 95
	Index-6	20%	16
	Index-7	12½%	Age 95
	Index-8	15%	13
Conseco Annuity Assurance Company	CAAC-4003C	20%	16
Equitable Life Insurance Company of Iowa	1853	12%	11
	1859	15%	13
	1860	20%	16
	1865	12%	11
Standard Life Insurance Company of Indiana	FAS298EA	12%	11
	FAX399	15%	14
Transamerica Life Insurance and Annuity Company	4-526 11-198	12%	11
	TCG-318-198 (TSA)	12%	13
USG Annuity and Life Company	1859	15%	13
	1860	20%	16
	1865	12%	11

company that the surrender charge schedule they wanted to use wouldn't comply, the question from the young actuary was: "Why doesn't someone turn these actuaries in?"

An ethical challenge. A review of the memorandums, however, makes it clear that such a challenge could be hopeless. The following is typical of the memorandums:

memorandum. These actuaries do not opine that the work was done in compliance with the law or in compliance with actuarial standards of practice. They do not even acknowledge that they are responsible for the work above the signature.

This flagrant disregard of the Standard Nonforfeiture Law is disturbing. In most cases, the higher surrender

- 1. Refunds.** Refunds should be made to any policyholder who was charged a surrender charge in excess of that permitted by the Standard Nonforfeiture Law.

- 2. Future surrenders.** The surrender charges on future surrenders should be reduced to that permitted by the Standard Nonforfeiture Law.

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3. **Notice.** Existing policyholders should be notified of their reduced surrender charges so that they can adjust their surrender intentions accordingly.
4. **Sales.** Further sales of these products should be discontinued immediately.
5. **Reserves.** Appropriate reserves should be established to reflect the lower surrender charges.

For most companies, the cost of #1 and #2 will not be significant. #3 and #4 could be costly in the marketplace. The additional reserves required by #5, however, could be extremely large.

We have attempted to be accurate in our reporting of this situation. As mentioned earlier in this newsletter, if anyone disagrees with our reporting of the situation, we will be glad to print their side of the story.

Part IV - U of Omaha

As XXX goes into effect across the country, companies are developing creative ways of maintaining their competitive edge. One of the more aggressive methods has been utilized by **United of Omaha**. In 1999, **United of Omaha** filed endorsements (forms 3173L-0300, 3174L-0300, and 3175L-0300) to 3 of its term insurance products. These endorsements guarantee that **United of Omaha** will not increase premiums after 5 years unless the 5-year Treasury Constant Maturity Monthly Average falls below 3%. Premiums for the first 5 years are fully guaranteed.

United of Omaha is testing that gray area of "non-guaranteed" guarantees. Although **United of Omaha** is not guaranteeing the premiums fully after 5 years, have they extended a guarantee which essentially does the same thing? It is very reasonable to assume that almost all of the contracts issued with these endorsements will expire long before such an event takes place.

Should **United of Omaha** be forced to reserve for this endorsement as if they have fully guaranteed the premiums? Nothing with the filing of this endorsement addresses how **United of Omaha** intends to reserve for this endorsement. Certainly there is nothing objectionable to the guarantee being offered by the company. What is objectionable, is if the company is effectively guaranteeing the premiums in the marketplace, but treating them as non-guaranteed for reserves.

X Factor Help

Having trouble justifying your X factors for 2000? **Van Elsen Consulting** has developed a mortality study program that will analyze a company's data and produce reports that can be used to justify X factors.

The program can be tailored to individual company requirements, and can be delivered such that a company can run its own mortality and persistency studies.

Call us at 515-674-4046 or e-mail us at Van.Elsen.Consulting@att.net for additional information.

If **United of Omaha** is successful in marketing this gimmick, and if they are permitted to avoid the extra reserves, additional variations can be expected from other companies in the term market. We believe that the guarantees offered by **United of Omaha** are such that the reserves should treat the premiums as fully guaranteed. We hope that the regulators are taking steps to insure that this is taking place. We also hope that regulators will challenge future variations to this guarantee as to the intended reserving practices.

Part V - Allied

In the December 1999 edition of **The Van Elsen Report** we described several service problems that we were having with the transfer of **Allied Life Insurance Company's** transfer of business to **Swiss Re**. Shortly after the newsletter was published, we received a call from an officer of the company. Much to their credit, many of the service issues that were identified were immediately corrected. I am also aware that the company is taking other steps to significantly improve the quality of service to the former **Allied Life** policyholders. Hopefully this will mean that my statements will soon have our full name on them (**Jim Van Elsen** instead of **Jim Van**) and that my next policy annual statement will be earlier than 6 months late.

We recently received notice that **Allied Life** was merged into **Reassure America Life Insurance Company**. It's disheartening to learn that a company you helped build ceases to exist.

Although many of the service issues are being addressed, we still are bothered by the transfer of the Allied Life business to a "consolidator." We believe that this transfer has been generally detrimental to the **Allied Life** policyholders. There will be further discussion of the cost of transferring business to "consolidators" in future issues of this newsletter. We also hope to be able to print **Allied Life's** response to the Iowa Insurance Commissioner about our December article.

Part VI - Principal

Let's begin this by stating that we have been insured by **Principal's** health insurance plans for almost 20 years. During that period of time, we have had almost no billing or claims

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problems. Recently, however, it seems that problems are happening daily.

The first situation arose last summer when we changed plans to try to better control our costs. Familiar story. My agent may have explained it to me, but I sure didn't understand it. What I received wasn't what I thought I bought. I signed the change document without carefully reviewing it. Why should I suspect it wasn't what I had reviewed earlier? There was no evil intent on the part of the agent, just general lack of communication. **Principal** was able to change us to the correct plan later in the summer.

The second situation arose due to an emergency I had while traveling with my family near Buffalo, NY this summer. I had allowed my sugar to get out of control (I am diabetic) and had passed out in the hotel. Needless to say, an ambulance was called.

We are insured through the consulting firm in a PPO plan. The hospital was not a preferred provider. This was, however, an emergency. The plan provides that emergencies will be paid on an 80-20 basis. Every bill that came through, however, was initially paid on a 60-40 basis, after a significant non-PPO deductible. **Beth** was diligent, however, and she saw that all of these were corrected. How often are these mistakes made with people who don't challenge the payments?

The next incident occurred at the beginning of this year. Our pharmacist had mistakenly given me the wrong syringes when filling a prescription. When the error was found, the earlier order was cancelled and a new order was processed.

In the meantime, however, **Principal** had already reimbursed us for the first set of syringes. When they received the cancellation notice, they immediately sent us a letter **demanding** their money back. **Beth** called **Principal** and explained the situation. **Principal** agreed

that they would just apply the payment to the new order (both syringe orders cost the same). Case closed? About a month later, we receive a nasty letter from a collection agency **demanding Principal's** money back. I almost felt sorry for the poor client services specialist that took **Beth's** call. It appears that **Principal** is now satisfied. They also sent us a nice letter apologizing for the incident.

We just received our increase letter from **Principal** notifying us of a 65%

RAGBRAI® XXVIII

Are you participating in the Des Moines Register's Annual Great Bike Ride Across Iowa (**RAGBRAI**®)? Be sure to watch for us. On July 26, over 10,000 bike riders will be passing through Colfax. The actual route passes right by our **Colfax Drive-In** and our home. It will be a real challenge getting to work that day.

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increase in premium rates. Included with the letter was a couple of other options that we could elect. One of the more interesting options offers less benefits for greater costs. There is an issue as to whether the increase complies with Iowa's small group health insurance regulations. We'll report in a future newsletter how our complaint to the insurance department works out.

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Part VII - AmerUS

How did your company fair the Y2K crisis? We believe that **AmerUS** may have suffered from a minor bite from the bug. Naturally, this had to occur on my universal life policy.

This is a policy that was purchased while an employee with **Inter-State Assurance Company**. **Inter-State Assurance Company** (which was a mutual company) merged with **Central Life Assurance Company** (a mutual company) in the mid-80's. **Central Life** later merged with **American Mutual Life Insurance Company** and recently changed its name to **AmerUS**.

Imagine our surprise earlier this year when **AmerUS** started returning our checks because the policy was "paid-up." There were only a few possible reasons for such an event:

1. Someone had mistakenly dumped a lot of money into my policy. Without it, the policy is nowhere near a paid-up status.
2. The computer looked at the 2050 paid-up date and concluded that 1950 had already passed.
3. I had taken a 50-year nap and was now 95.

We believe that #2 was the correct answer. **Beth** called the company and talked with a lady who couldn't understand **Beth's** problem. After all, her computer says the policy is paid up. Imagine this conversation:

AmerUS: How do you know your policy isn't paid up?

Beth: My husband tells me so.

AmerUS: And how does your husband know?

Beth: Because he's an actuary and he designed the product.

AmerUS: {Long pause}

To her credit, the lady agreed to research the problem and get back to us. Shortly after that, we received a letter explaining that the mistake had been found and corrected.

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Medicare Supp

The **AAA** has almost completed its work on the Medicare Supplement Compliance Manual and is expected to make a final report in June. The draft report shows that hospital outpatient charges increased by as much as 40% during the four years between 1995 through 1999.

A committee may study the reasons for rising Medicare Supplement costs. This study may result in recommendations to change the benefit structure of the standardized plans.

HR Guidance Manual

The **NAIC** Health Reserves Guidance Manual is almost completed and could be released in June. The stated purpose of the manual is to: "provide guidance regarding the calculation and documentation of health reserves for statutory financial statements..." It is intended for use by actuaries setting reserves for health insurance and by examiners who review the statutory financial statements.

The current draft has been released for comments and will be discussed during a four-hour time slot at the **L&HATF** meeting in Orlando.

DI Valuation

The **SOA** presented a report discussing new valuation standards for disability income. Problems remain with establishing new standards for group. A proposal has been released which recommends a new standard for individual policies. The new standard is a modification of the 1985 Commissioners Individual Disability Table A. Claim termination rates are multiplied by factors which begin at early durations at 36.6%, increase to 136.9% in year 3, then reduce to 100% in years 6 & later. The change to the Health Insurance Reserves Model Regulation could be adopted in June.

L&HATF is also close to adopting a new disability table for use in calculating active life reserves for single premium credit disability income policies. This could happen as early as the June meeting in Orlando.

Future Events

Watch for **Jim Van Eken** at the following future events:

May 22 - **ACLI** Forum 500 Spring Meeting, Rancho Mirage. Speaker: "Regulatory Outlook from a Small Company Perspective."

May 26 - **NALC** Spring Meeting, Chicago. Debater on AOMR with Tom Herget, moderated by Alex Zeid. Moderator on XXX & XYZ with Jim Reiskytl & Steve Smith.

June 21 - **SOA** Regulation XXX Certification Seminar, San Diego. Member of expert panel with Donna Claire, Larry Gorski & Dan Towriss.

June 23 - **SOA** Spring Meeting, San Diego. Workshop with Larry Gorski: "Regulatory Update on XXX."

LTC Model Reg

L&HATF continues to struggle with how to create more rate discipline in the long-term care market. The attempt is to separate the "Noncancellable" companies from the "Beat the market" companies. The first companies introduce policies with the intent of maintaining level premiums. The latter companies will do anything to sell and accept rate increases as a normal part of the business.

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One proposal being discussed is to eliminate the requirement for certifying loss ratios when filing products. To justify rate increases, however, a company must comply with an 85% loss ratio requirement. Presumably, this type of requirement would encourage adequate rates from the beginning.

A report is expected from the subgroup studying long-term rate adequacy at the June meeting.

XXXX Update

Revised Actuarial Guideline VL-GMDB has been exposed for comment. This guideline is titled Variable Life Insurance Reserves for Guaranteed Minimum Death Benefits. It incorporates "Option Y" from the previous draft of the actuarial guideline.

An open issue is whether to apply the requirements of Regulation XXX to variable life and variable universal life products. This will be discussed further at the June meeting.

ZZZZ Update

Actuarial Guideline ZZZZ was adopted by **L&HATF** at the Chicago meeting. This guideline is titled Application of the Commissioners Reserve Valuation Method to Equity Indexed Life Insurance Policies. This will effectively codify the acceptable methods of interpreting CRVM in compliance with the Standard Valuation Law and the Universal Life Insurance Model Regulation.

AG IX-A

There was a brief discussion at the **L&HATF** meeting regarding revising the valuation mortality table for substandard annuities. The hope is to provide some reserve relief for companies writing these products. This is expected to be discussed in more depth at future meetings.

VAGLB

A **AAA** task force continues to work on Variable Annuities with Guaranteed Living Benefits (VAGLB's, pronounced va' gla b2z). Innovative products, such as one that permits annual partial withdrawals at guaranteed rates, pose difficulties for the task force. Significant discussion of the products is expected at the June **L&HATF** meeting.

2000 CSO

Work continues by the **SOA** to update the 1980 CSO tables. A draft of the basic experience table has been completed, with the draft of the valuation table expected before the end of the year. It is hoped that the work will be completed so that the **L&HATF** can adopt the new valuation table in early 2001.

Extended DB's

Significant concern has been raised by regulators about company practices for extending death benefits on life insurance past age 100. A **AAA** task force will be researching the subject with the first step being a survey of existing practices.

Direct Recognition

Larry Gorski, actuary from the Illinois Department of Insurance, raised concerns about life and annuity "direct recognition" products. These products allow a policyholder to select between different investment strategies for cash values. These products are sold as general account products not subject to SEC regulations.

The concern expressed by Larry Gorski is that these products are indiscernible from variable products. Illinois is currently disapproving such products. **L&HATF** is expected to discuss these products further in later meetings.

NF Update

The discussion about XYZ (see page 3) was the introduction about what was wrong with the current life nonforfeiture law. Future problems include accommodating the new CSO tables and future innovative designs. A new life insurance nonforfeiture law has been discussed for nearly 15 years. Significant time will be dedicated to the meeting in June to discuss how to proceed with this project.

NFZZZ

L&HATF voted to discontinue further discussion of nonforfeiture requirements for equity-indexed annuities. It has proven impossible to gain consensus of the approach which should be used. Individual states will now have to decide their own requirements.

XXX Activity

As expected, 27 states have adopted XXX with very little modification. What has been unexpected has been the activities in California, Florida, and New York.

California was expected to adopt the regulation by bulletin to be effective on January 1, 2000. At the last minute, the department changed its position and did not adopt the regulation. At the present time, it is not clear whether California will ever adopt XXX.

This is causing chaos in the market as some companies domiciled in California are taking advantage of the unlevel playing field. These companies seem unconcerned about the impact of XXX on statements filed in other states and continue to write pre-XXX products.

The state senate in Florida recently adopted a bill which will permit the Florida Department of Insurance to adopt XXX. The governor has not yet signed the bill. It is not known what Florida will do once it is given authority

to adopt the regulation.

New York was also expected to adopt the regulation by January 1, 2000. It was not until March 31 that New York adopted the regulation by emergency rule. It will still need to be ratified by the normal process. This is expected to occur later this year. Parts of the regulation could become retroactive prior to January 1, 2000. This will be a liberalization of the existing XXX regulation.

Companies continue to test the boundaries of the regulation (see page 6 article on **United of Omaha**). In addition to the endorsement offered by **United of Omaha**, other companies have been experimenting with "shadow accounts" (see December edition of **The Van Elsen Report**).

Reinsurance arrangements are being used to give some companies a competitive edge. Other companies are continuing to use the pre-XXX products because they have adequate capital or they just haven't gotten around to changing their products.

Even more companies continue to write the pre-XXX products because their domestic states have not adopted the regulation. Companies in California, Massachusetts, and Michigan have been seen taking advantage of the situation.

All of this has created havoc in the term marketplace. Significant pressure is being exerted on companies that made significant adjustments to their products. Time will tell whether the regulation will be able to survive.

The **ASB** continues its work on the ASOP for the X factor, with the comment period ending on March 31. An **AAA** working group is developing Practice Notes for XXX. **Jim Van Elsen** is one of the members of this group. If you have questions that you would like to submit, you can forward them to me at **Van Elsen Consulting**.

UVS Update

Discussion continues on revising the current statutory valuation system. A concern being expressed by many companies is that new Unified Valuation System (UVS) and viability analysis requirements would be in addition to, rather than instead of, current requirements. The **ACLI** expressed its opposition to any new testing on top of the existing requirements.

In Orlando, viability analysis reports will be available. A seminar will be held later this year to expose the work that has been done thus far.

IA Admin Review

Commissioner Therese Vaughan (Iowa) recently announced that the insurance department is beginning a comprehensive review of all administrative rules within its jurisdiction. This project is part of a larger review being conducted by all Iowa agencies.

The stated goal of the review is to "identify and eliminate outdated, redundant, overbroad, ineffective, unnecessary and otherwise undesirable rules and thereby save members of the public and state government a substantial sum of money, reduce inconvenience and confusion, increase public confidence in state government, and better equip this state to deal fairly with its residents and meet the challenges of the twenty-first century."

A dedicated e-mail address (rule.review@comm6.state.ia.us) has been established to receive comments. You can also visit the website at: www.state.ia.us/ins/rulerv.htm.

Taekwondo Update

Everyone who reads this newsletter knows that **Sarah** has her black belt in Taekwondo. After a brief hiatus from the training, **Sarah** has returned and is now working toward her 2nd degree.

The real news, however, is that **Jim Van Elsen** has now started Taekwondo training. The exercise associated with Taekwondo is perfect in helping Jim regain control of his health. In late March, **Jim** received his orange belt, with no stripes. He is now working on his yellow belt.

Meanwhile, **Sarah** is expected to test for her 2nd degree this fall. She also received the gold medal in forms at the 4-state qualifiers tournament in March and qualified for the Nationals which will be held in June in New Orleans. Winners in New Orleans will be eligible to try out for the U.S. Olympic team that will compete in Sydney. She also qualified for the Junior Olympics which will be held in August in Orlando.

Dad's going to have a hard time keeping up with **Sarah**.



Father's Corner

In addition to Taekwondo, **Sarah** remains active in other activities. The last couple of months she has been completing the season for the 5 bowling leagues that she has competed in. In the largest league, which is a youth league, she received several trophies, including: highest scratch series (476), high scratch game (201), high handicap game (283), high average (128), and the coach's award (for bowling skill and sportsmanship). **Sarah** recently qualified for the state finals to be held next month in Council Bluffs. She also qualified for the Iowa Games to be held in July.

Basketball continues to be a winter interest for **Sarah**. She once again played in the Y-league in Newton. Her

team went undefeated, winning the league. The **Hilker** twins played on the other Colfax team that **Sarah's** team defeated in the last game of the season. Close game. All played very well.

This is the 3rd year that **Sarah** played her piano solo at contest. For the 3rd year in a row, she received a "Superior" rating. She received a golden cup for this feat and participated in a special concert in Des Moines to recognize the few students that achieve that honor.

In June, **Terry Hilker** will take over the Father's Corner and you can get an update on how the **Hilker** twins are doing. The report from the **Staudacher** girls will come in September.

Van Elsen Consulting

Van Elsen Consulting, Inc. 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.

What is your consulting firm doing to help reduce the burden of valuation requirements for smaller companies?

Van Elsen Consulting, Inc. 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.

James N. Van Elsen, FSA, MAAA

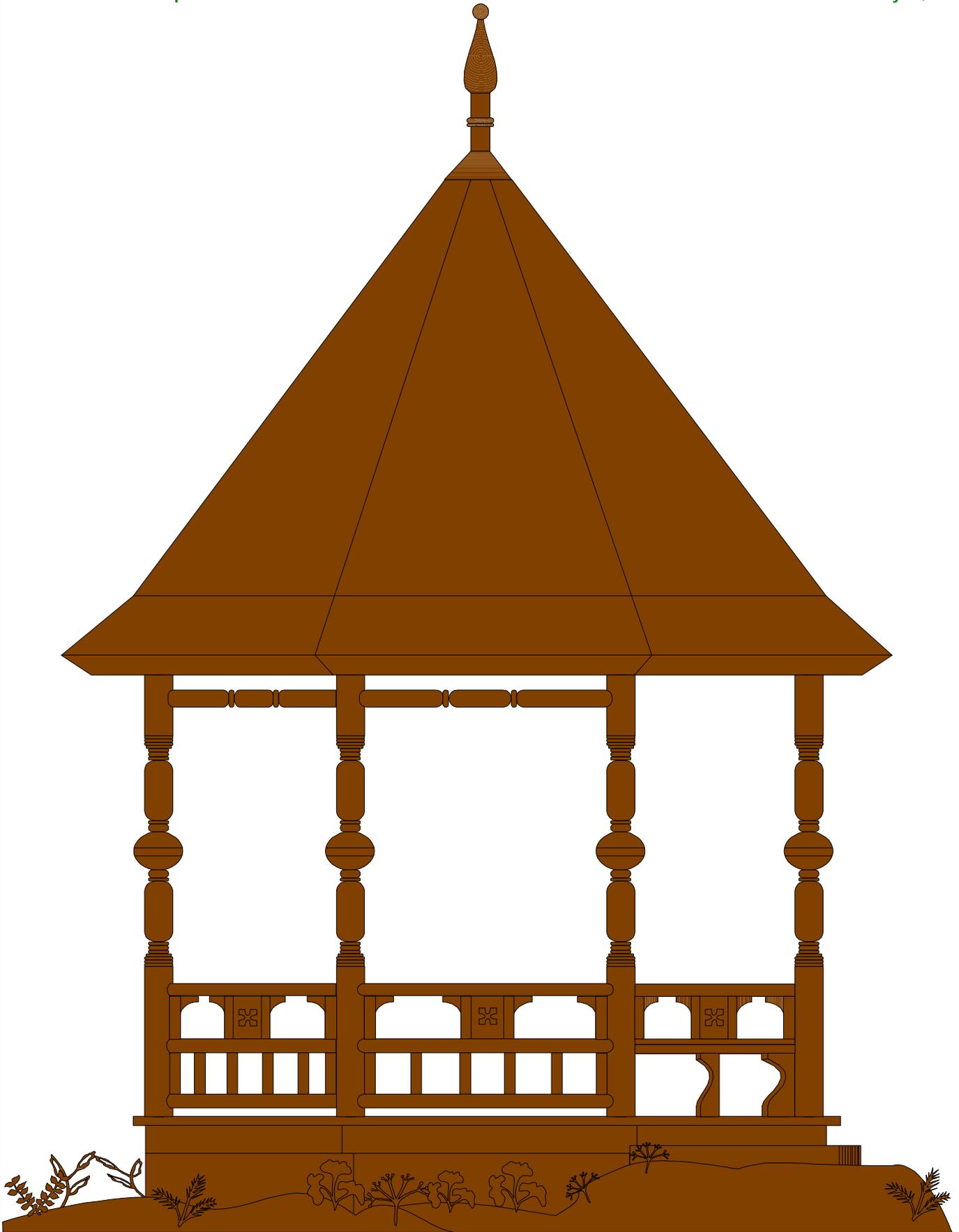
Lois Mast

Terry Hilker

Mike Staudacher

Beth Ann Van Elsen

Sarah Ann Van Elsen



Annuity 2000 Update



States Adopted (30 States)

- | | | | |
|----------------------|---------------------|--------------------------|-------------------------|
| Alabama - 1/1/99 | Indiana - 12/31/99 | North Carolina - 12/1/99 | Texas - 1/1/00 |
| Alaska - 3/11/98 | Iowa - 10/13/99 | North Dakota - 9/1/99 | Utah - 3/16/99 |
| Arkansas - 1/1/99 | Louisiana - 1/1/99 | Ohio - 1/1/99 | Virginia - 10/15/97 |
| California - 1/1/98 | Maine - 1/1/00 | Oklahoma - 7/13/98 | Washington - 1/1/98 |
| Connecticut - 1/1/99 | Minnesota - 1/1/99 | Oregon - 10/29/97 | West Virginia - 3/10/99 |
| Delaware - 8/1/99 | Nebraska - 1/1/99 | Pennsylvania - 6/26/99 | Wisconsin - 1/1/99 |
| Florida - 12/23/98 | Nevada - 11/16/98 | Rhode Island - 1/1/00 | |
| Illinois - 9/1/99 | New Mexico - 1/1/99 | South Dakota - 10/24/99 | |



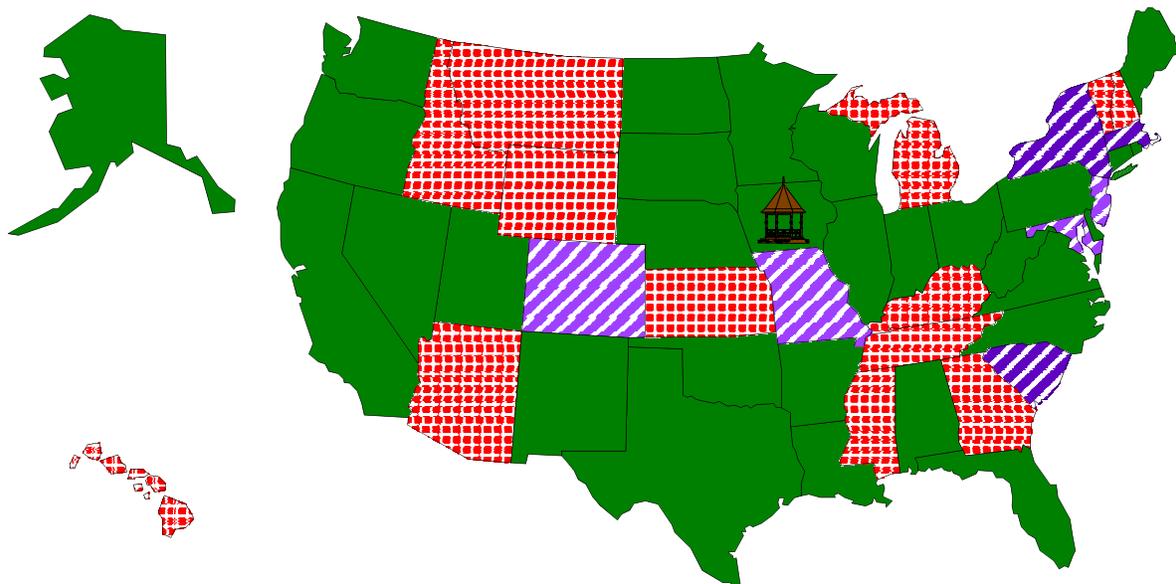
States Moving to Adopt (7 States)

- | | | | |
|----------|---------------|---------------------|-------------------------|
| Colorado | Massachusetts | New Jersey | South Carolina - 1/1/01 |
| Maryland | Missouri | New York - 12/31/00 | |



States With No Plans to Adopt (13 States & DC)

- | | | | |
|----------------------|----------|---------------|-----------|
| Arizona | Idaho | Mississippi | Tennessee |
| District of Columbia | Kansas | Montana | Vermont |
| Georgia | Kentucky | New Hampshire | Wyoming |
| Hawaii | Michigan | | |



XXX Update



States Which Have Adopted - (27 States)

The Effective Date is 1/1/2000 Or the Date Stated.

Alabama	Maine	New Mexico	Texas
Arizona	Maryland	North Carolina	Utah (1/4/00)
Colorado	Minnesota	North Dakota	Vermont
Illinois	Montana	Ohio	Virginia
Indiana	Nebraska	Oklahoma	Wisconsin
Iowa (2/16/00)	Nevada	Oregon	Washington (4/14/00)
Kansas	New Jersey	Rhode Island	



States Adopted by Emergency Rule (3 States)

Arkansas (1/1/00)	Idaho (1/1/00)	New York (3/31/00)
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States Planning to Adopt (7 States & DC)

Alaska (Drafting)	Kentucky (7/1/00?)	Massachusetts (1/1/01)	Pennsylvania
District of Columbia	Louisiana (Drafting)	New Hampshire	South Carolina (1/1/01)



States Under Active Review (6 States)

Connecticut	Georgia	Michigan	Mississippi
Delaware	Hawaii		



States Without a Current Position (6 States)

California (Adverse)	South Dakota (Adverse)	West Virginia	Wyoming
Missouri	Tennessee		



State Trying to Pass, Fate Uncertain (1 State)

Florida - SB 1226, passed by the senate, authorizes the insurance department to adopt XXX. The governor has not yet signed the bill. It is uncertain what the insurance department will do if the bill is passed.

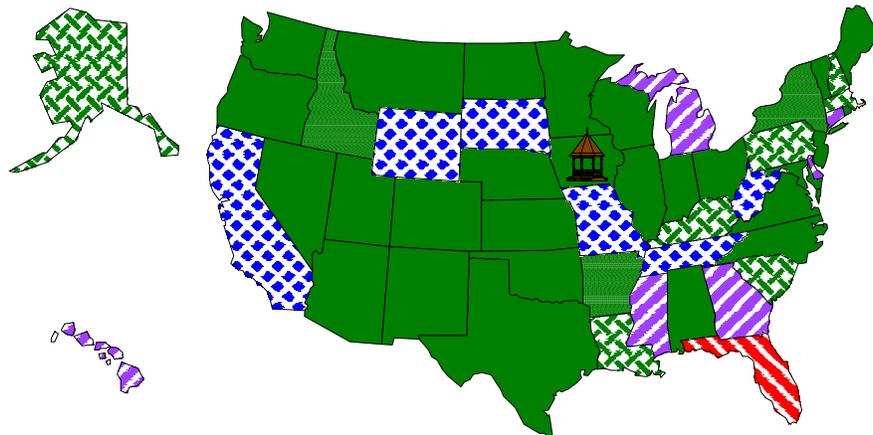


Illustration Regulation Update

States Adopted (36 States)

- | | | | |
|----------------------|----------------------|-------------------------|-------------------------|
| Alabama - 1/1/98 | Kansas - 1/1/98 | New Hampshire - 4/1/00 | Pennsylvania - 7/7/97 |
| Alaska - 9/1/98 | Louisiana - 7/7/97 | New Jersey - 1/1/99 | Rhode Island - 1/1/99 |
| California - 7/1/98 | Maine - 12/16/99 | New Mexico - 10/1/98 | South Carolina - 7/1/97 |
| Colorado - 4/1/97 | Maryland - 1/1/98 | New York - 1/1/98 | South Dakota - 7/1/97 |
| Connecticut - 9/1/99 | Michigan - 6/3/99 | North Carolina - 1/1/97 | Texas - 7/1/00 |
| Delaware - 7/1/97 | Mississippi - 7/1/99 | North Dakota - 1/1/97 | Utah - 1/1/97 |
| Illinois - 6/1/98 | Missouri - 1/1/99 | Ohio - 10/1/97 | Vermont - 1/1/99 |
| Indiana - 1/1/00 | Nebraska - 7/1/97 | Oklahoma - 7/1/97 | Washington - 1/1/98 |
| Iowa - 2/1/97 | Nevada - 1/1/98 | Oregon - 7/1/97 | Wisconsin - 1/1/98 |

States Moving to Adopt (2 States)

- | | |
|-------------------|------------------|
| Hawaii (Deferred) | Montana - 1/1/01 |
|-------------------|------------------|

States With No Plans To Adopt (12 States & DC)

- | | | | |
|----------------------|----------|---------------|---------------|
| Arizona | Georgia | Massachusetts | Virginia |
| Arkansas | Idaho | Minnesota | West Virginia |
| District of Columbia | Kentucky | Tennessee | Wyoming |
| Florida | | | |

