



NAIC Meeting in Anchorage

Model Investment Laws Progress

First Model Adopted

The Plenary Session of the NAIC voted to adopt the Investments of Insurers Model Act (Defined Limits). This "Pigeon-Hole" model was adopted in spite of efforts taken by some states to defer the vote to the December meeting.

The Investments of Insurers Model Act (Defined Standards) also made progress in Anchorage. It moved forward to the Financial Condition (EX4) Subcommittee. Rather than adopt the model, however, the subcommittee voted to defer action until December so that

commissioners will have additional time to study it.

This "Prudent Person" model will be discussed in a public meeting of the EX4 Subcommittee in December prior to the Plenary Session. At that time, the subcommittee could adopt it in time for it to be considered for adoption by the Executive Committee and Plenary Session.

illustration regulation. Several questions were deleted, including those discussing the level of detail required in the contract for non-guaranteed elements. In each of these instances, the working group felt that the model regulation sufficiently addressed the question or that the interpretation should be left to the individual companies.

It is important to remember that these questions & answers are intended only to give some insight into the intent of the original drafters. They are not intended to expand the model regulation.

Life Insurance Buyer's Guide

The final draft of the Buyer's Guide was approved by the "A" Committee and will be considered by the NAIC for adoption in December.

Judith & Deon

We welcome Judith K. Karcher to our firm. She is available for our clients to provide assistance in their life & annuity compliance. Please call us if your company is having filing or other compliance problems.

Deon Mitchell is a Drake University student from Jamaica. He will be with us until December as an intern.

Illustration Reg

Replacement Issues

The working group is finalizing a survey which will be sent to companies regarding their new business practices. As currently drafted, this 66-question survey asks for considerable detail on new business and agent activity for the last 10 - 15 years. A conference call will be held in late October to consider final changes to the survey.

Questions & Answers

Work continues on the large list of questions that have been submitted to the working group about the new

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Annuity Disclosure

The technical resource advisors, represented by Barbara Lautzenheiser, presented a draft Annuity Disclosure Document Standard. This standard would provide the working group with guidance to develop a new disclosure regulation for annuities.

This standard focuses on the minimum amount of information that must be provided to an applicant during a sale.

features, if any.
8. Explanation of federal income tax treatment.

The technical resource advisors and the working group will be continuing work on annuity disclosures.

Annuity Reserves**"GGG"**

The American Academy of Actuaries (AAA) presented an initial report to the

testing).

The reserve would be calculated by determining the greatest value of elective benefits at each point that is tested. The cost of this benefit is then discounted back to the valuation date using the decrements appropriate for the non-elective benefits. A separate reserve is then calculated for the non-elective benefits and added to the reserve for the elective benefits. The

It's October, Where are Your Illustrations?

The life illustration regulation will become effective in several states on January 1, 1997. We have included a summary of the status of the regulation in each of the states and the District of Columbia starting on page 6. Alaska, California, Colorado, Iowa, Louisiana, Nebraska, New York, North Carolina, North Dakota, Pennsylvania, South Carolina, Texas, Utah, and Wisconsin all anticipate 1997 effective dates. Others may be added to this list.

Is your company ready for the new regulation? Will you have any products to sell in 1997? Do you have last minute questions about the regulation?

Van Elsen Consulting is ready to help companies with their last minute problems. We are prepared to assist with illustration actuarial opinions, illustrations programming, or filing difficulties. Time is short, however, and we will only be able to help a few companies.

If you anticipate needing any assistance, please call soon so that we may schedule time. We have been involved in this regulation from the very beginning representing smaller companies. We are well positioned to help you make this important deadline.

This statement may be in lieu of, or in addition to, an illustration. The disclosure document would include the following:

1. Description of the product as:
 - a. An annuity.
 - b. A long-term contract.
 - c. A product which has periodic income available.
2. The company's name & address.
3. The guaranteed interest rates and their durations, an explanation of the current crediting rates and an explanation of how future interest rates will apply.
4. Surrender charges, their durations and how they work.
5. Any other fees or charges, their durations and how they work.
6. How benefits can be assessed.
7. Description of death benefit

Life & Health Actuarial (Technical) Task Force (L&HATF) on clarifications to Actuarial Guideline XXXIII ("GGG"). This actuarial guideline has been subject to significantly different interpretations since its adoption by the NAIC.

The AAA report recommends dividing an annuity's benefits into elective and non-elective benefits. Examples of elective benefits would be full surrenders and partial surrenders. Examples of non-elective benefits would be death and disability benefits.

The report preserves the CARVM concept of the greatest present value of future benefits. It better defines, however, how the benefits are determined at each anniversary (some states would require continuous

final reserve would be the reserve for the point in time which results in the greatest overall reserve.

The report also recommends that the actuary must test any combination of elective benefits which may result in higher reserves. For example, you must test all combinations of partial surrenders followed by full surrender. Valuation interest rates would be the appropriate rate for the type of benefit being studied. If more than one elective benefit is provided in a benefit stream, then more than one valuation rate may be needed.

The AAA committee is soliciting comments on its proposal. It will be preparing a final report as well as recommending language changes to the actuarial guideline.

"MMM"

Another AAA committee has submitted a recommendation to the Separate Accounts Working Group for a new actuarial guideline on minimum guaranteed death benefits for variable annuities. This recommendation is expected to be reviewed by L&HATF in December.

Annuity 2000 Mortality Table

A new mortality table for valuing individual annuities has been approved by the L&HATF and the "A" Committee. It will be considered for adoption by the NAIC in December. This mortality table would be effective as early as January 1, 1998.

Other Annuity Issues

Definition of Annuity

Jerry Fickes (NM) and his Annuities Working Group have given up their efforts to define an annuity. The latest attempt inadvertently excluded some annuities. It also included other products, such as disability income, which were not intended to be defined as annuities.

The working group will now turn its efforts to developing a glossary of types of annuities and annuity terms.

Senior Annuities

The Annuities Working Group had a lengthy discussion about the issues surrounding the sale of annuities to seniors. In the coming months, this group will be considering whether additional requirements should be placed on sales to senior citizens. In December, they will be reviewing "suitability" concerns that have been raised by members of the working group.

Equity-Indexed Annuities

Several regulators continue to have significant concerns about this new product. The following have been identified as key concerns:

1. Does the consumer understand what is being sold?
2. Is the fact that these products are being sold by non-NASD licensed agents a concern?
3. Are reserves adequate?
4. Is the accounting appropriate?
5. Are nonforfeiture benefits appropriate?
6. How is the company supporting

Section 7 Opinion Saved!

After extensive discussion, the L&HATF voted to request that the AAA work on modifications to the requirements for Section 7 opinions. The Section 7 opinion is used by valuation actuaries of smaller companies. The AAA task force had recommended in May that the Section 7 opinion be eliminated and that all companies be required to prepare annual asset adequacy analysis.

Several people, including Jim Van Elsen representing the National Alliance of Life Companies, spoke against the AAA recommendation. Jim maintained that the elimination of the Section 7 opinion would be a hardship for smaller companies without benefit to companies or regulators.

The AAA task force is expected to recommend expansion of the eligibility tests to exclude companies with material higher risk assets or certain interest-sensitive products.

Central Depository

Shirley Shao, representing the AAA, gave a report recommending the establishment of a central depository system for the filing

of summaries of the various states' valuation laws. The NAIC would administer the depository but would not be responsible for the reliability of the information provided by the states. The L&HATF voted to have the AAA task force continue with the development of this system.

"XXX" Update

The saga of "XXX" continues. To the best of our knowledge, only New York will have a "XXX" regulation effective on January 1, 1997. Illinois did adopt

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ORIENT, 2x1½	\$7.94	So. Ill. Com.	\$7.30
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ORIENT, Airflow	\$7.44	Centerville	\$7.00
Stoker	\$7.44	Northern ILL. 8x4	\$7.30
ORIENT, Chestnut	\$7.44		

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the obligations?

The L&HATF is expected to be charged in 1997 to review the reserving and nonforfeiture issues. The Life Disclosure Working Group is already considering the disclosure issues. The NAIC is expected to assign the other issues. If this product is important to your company, we would strongly suggest that you become involved with helping the regulators better understand this product.

Changes to AOM Reg

"XXX," but it is not effective until states representing 1/2 of the population of the US also adopt the regulation.

Other states, including California, Florida, and Texas, are enforcing other reserving requirements for term insurance. "XXX" will continue to be a closely watched item in 1997.

New N-F Law

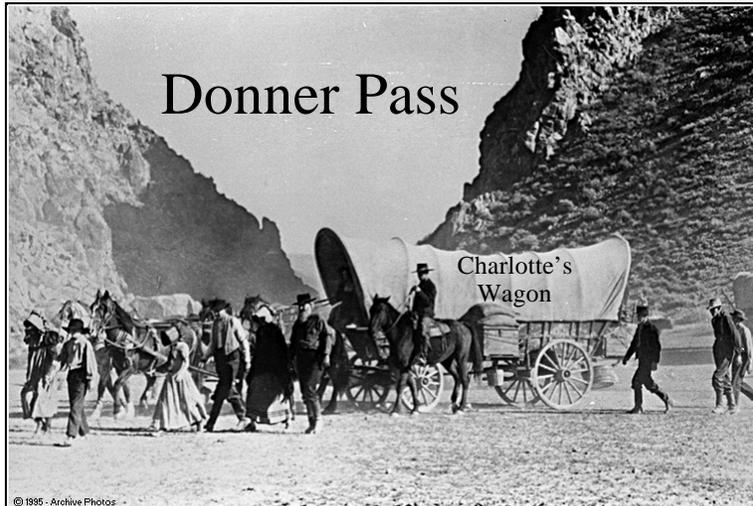
Discussions on the new nonforfeiture law continued in Alaska. As currently proposed, it would apply to all life and health insurance policies except reinsurance. The L&HATF outlined the following concepts which will be used in further development of the law:

1. Fixed minimum nonforfeiture benefits would not be required. Redetermination based on experience would be permitted.
2. Cash surrender values would not be required.
3. Minimum nonforfeiture benefits would be expressed as a company commitment for the determination of these benefits. That commitment would be in the form of a Nonforfeiture Plan.
4. A fair nonforfeiture benefit will be one that is a "deal" struck at issue (Nonforfeiture Plan), with meaningful disclosure to the customer, and the actual conformance of the insurer with

- the provisions of the "deal."
5. The Nonforfeiture Plan will be subject to compliance with regulatory standards. This will be augmented by attestation by the company and its actuary.

The L&HATF will hold a special meeting in conjunction with the Society of Actuaries meeting in Orlando. They have identified the following as key issues that will be discussed:

1. Should filing of the company plan be required and should it be subject to regulatory approval?
2. Who should have authority to approve changes to the plan?
3. Will the consumer be able to



understand the policy based on the plan summary?

4. What restrictions should be placed on the future benefits approach?

Life/Long-Term Care

The Senior Issues Task Force has been reviewing the applicability of various laws to LTC provided in conjunction with a life insurance policy. The following are some issues that are

5. What is the linkage between the proposed new nonforfeiture law and the recently adopted life illustration regulation?
6. Should the old nonforfeiture law be allowed to stay in force?

LTC Discussions

Kassebaum/Kennedy

There was much discussion in Anchorage about the impact of the Kassebaum/Kennedy bill. This federal legislation would make long-term care (LTC) premiums for qualified plans tax deductible. Unfortunately, many state regulations and the NAIC model regulation may be in conflict with the

definition of qualified plans. Some states may have to change their laws for their citizens to receive the tax deductions.

The bill also requires that specified consumer protection standards must be in place. This may also require changes in state laws.

A third issue centered around the large number of filings that are expected to come because of this legislation. Many

departments of insurance are anticipating that they will have difficulty in approving the forms before 1997.

Nonforfeiture Benefits

The L&HATF presented to the Senior Issues Task Force a recommendation regarding nonforfeiture benefits for LTC. The task force will be holding an interim meeting to discuss this issue.

being reviewed:

1. Policy summary. Intend to modify the model act to indicate that a basic illustration (per the new life illustration regulation) can serve as the required policy

summary.

2. Incontestability. Intend to modify the model act to clarify the effect of misrepresentation on life policies with LTC.
3. Loss ratios. The L&HATF has recommended that life policies with LTC be exempted from loss ratio requirements. This exemption would not apply to stand-alone LTC riders and policies where the life insurance is trivial.
4. Nonforfeiture. The L&HATF intends to review this issue.
5. Reserves. This is an issue that L&HATF may address in the future.

This is another topic that the Senior Issues Task Force intends to address at its interim meeting.

Reinsurance Credits

Small Reinsurers

The "E" Committee voted to change how smaller companies become accredited as reinsurers. In the past, the model law had guidelines regarding qualifications for an insurance company with less than \$20 million in surplus. This guidance was eliminated and it will now be totally the commissioner's discretion as to what smaller reinsurers may become accredited. Reserve credits for reinsurance may only be taken from accredited reinsurers.

Letters of Credit

Connecticut raised concerns during the L&HATF meeting about the current use of letters of credit by unauthorized reinsurers. A recommendation was made to limit the use of letters of credit. Only cash or acceptable NAIC securities could be used by

unauthorized reinsurers for reserve credits up to the gross statutory minimum reserves. This item was tabled for discussion in Atlanta.

Market Conduct

Unfair Discrimination Against Subjects of Abuse

The model acts for life insurance and disability income advanced in Alaska. They were approved by the working group and forwarded to the Market Conduct & Consumer Affairs (EX3) Subcommittee. After much discussion, EX3 elected to hold the acts for additional public comment. A special meeting will be held prior to Plenary in Atlanta to consider adoption. The acts could be adopted by the NAIC in December.

Some continue to express concerns that the acts are too broadly written. It is feared by some that these acts could be interpreted to restrict some unintended underwriting or claims administration practices.

Credit Reports & Underwriting

The EX3 Subcommittee is reviewing a white paper on the use of credit reports in underwriting. The subcommittee will also consider this paper at the meeting prior to Plenary in Atlanta. This is expected to move to the Executive Committee in December.

Consumer Information Reports

The NAIC approved a Model Consumer Information Report which will be used by state regulators to provide consumers with information about individual insurance companies. It includes a company biography, complaint history, financial information, guaranty fund data, and references to

rating services and other helpful information.

The EX3 Subcommittee also approved a similar report to be used for non-admitted insurance companies. This will be considered by the Executive Committee and Plenary Session in December.

New Colfax Drive-In

Effective October 1, 1996, J&J Drive-In has been renamed Colfax Drive-In. This change reflects a change in management at the drive-in. Larry Van Elsen is the new manager and co-owner of Colfax Drive-In. Larry is Jim Van Elsen's younger brother.

Father Has to Brag

Congratulations to Sarah Van Elsen for placing 2nd in the Iowa state spelling bee. Almost 100 7 and 8-year-old children, representing their individual schools, competed in the bee. Sarah was finally eliminated by the word "permanence." Sarah is the 7-year-old daughter of Jim and Beth Van Elsen.

How to Receive TVER

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As an additional service to our subscribers, *The Van Elsen Report* is also available by fax or e-mail. Just contact us and we will be glad to change how you receive your report. Also, watch for copies at different locations on the Internet.

This summary was updated October 4. This summary of state approvals of the Life Insurance Illustration Regulation is based on interviews with personnel in each of the insurance departments. The information contained in this summary is believed to be accurate at the time of printing. If you have concerns about a specific state, we encourage you to contact that state or

Van Elsen Consulting. We ask that if anyone is aware of any errors in this table, or if the status changes for a state, please contact us. We will be publishing an update with our regular December newsletter.

Illustration Regulation Status

State	Status	Effective Date	Comments
Alabama	On Hold	-----	
Alaska	Final Draft Stage	Hope for 1/1/97	Plan to schedule the hearing for this fall. May have effective date of 1/1/97.
Arizona	On Hold	-----	Do not plan to review until next year.
Arkansas	Review complete	30 days after hearing	No hearing date set.
California	Assembly Bill 3234 signed by both Houses and waiting for Governor's signature	7/1/97	Essentially the NAIC model. The wording of the bill deleted the Yield Index.
Colorado	Hearing in December	1/1/97	Tentative based upon final approval. The NAIC model was unchanged.
Connecticut	On Hold	-----	
Delaware	Model in "Review Status"	-----	
District of Columbia	On Hold	-----	
Florida	On Hold	-----	No action until February 1997.
Georgia	Review complete	-----	Do not plan to adopt the model.
Hawaii	Review complete	-----	No plan to adopt in the near future.
Idaho	Review complete	-----	No action until at least January 1997.
Illinois	Model in "Review Status"	-----	
Indiana	Model in "Review Status"	-----	Considered adopting.
Iowa	Scheduled to adopt in October	1/1/97	Section 3D (\$10,000 exemption) will be changed from no illustrated death benefit to initial illustrated death benefit.
Kansas	Model in "Review Status"	-----	Anticipate no changes.
Kentucky	Model in "Review Status"	-----	
Louisiana	Public Hearing Complete	1/1/97 or 7/1/97	Date is dependant on the process.
Maine	On Hold	-----	They plan to adopt next year.

Illustration Regulation Status

State	Status	Effective Date	Comments
Maryland	Model in "Review Status"	-----	
Massachusetts	On Hold	-----	No action in the near future.
Michigan	On Hold	-----	Waiting to see what other states do. Other regulation currently in effect.
Minnesota	Model in "Review Status"	-----	Some minor changes recommended. It will be next year before more action.
Mississippi	Review complete	-----	No changes, but effective date unknown. No hearing date set.
Missouri	Model in "Review Status"	-----	Review is to be completed shortly with no changes anticipated.
Montana	Model in "Review Status"	-----	
Nebraska	Review complete	7/1/97	Minor changes. Anticipate a fall hearing.
Nevada	Model in "Review Status"	-----	
New Hampshire	On Hold	-----	They will try for a 1/1/98 date.
New Jersey	Model in "Review Status"	-----	Review expected to be done this fall.
New Mexico	On Hold	-----	
New York	Model in "Review Status"	Mid 1997	Minor differences anticipated.
North Carolina	Model Passed	1/1/97	No changes.
North Dakota	Model Passed	1/1/97	Minor changes.
Ohio	Review complete	-----	No material changes. No effective date.
Oklahoma	Model in "Review Status"	-----	
Oregon	On Hold	-----	Review expected to begin this fall.
Pennsylvania	Currently being debated in legislature	60 days after adoption	NAIC model with minor changes. Also applies to annuities.
Rhode Island	Model in "Review Status"	-----	
South Carolina	Review complete	7/1/97	Minor technical changes.
South Dakota	On Hold	-----	
Tennessee	On Hold	-----	

Illustration Regulation Status

State	Status	Effective Date	Comments
Texas	Review complete	6/1/97	Many changes. Call for details.
Utah	Model Passed	1/1//97	Minor changes.
Vermont	Model in "Review Status"	-----	Frequently adopt NAIC models.
Virginia	Model in "Review Status"	-----	Hope to proceed in four months.
Washington	Model in "Review Status"	-----	They are very early in the process.
West Virginia	On Hold	-----	
Wisconsin	Model in "Review Status"	Late 1997	Adapting model to state format.
Wyoming	On Hold	-----	Waiting to see what other states do.

Van Elsen Consulting

Van Elsen Consulting is an actuarial consulting firm. James N. Van Elsen is the firm's owner and is responsible for the work performed.

Our specialty is to meet the needs of smaller life insurance companies, although we are available for other assignments. Most of our experience relates to product development for individual life (universal life, traditional life, and term insurance) and individual annuities.

In addition, this firm is an advocate for the interests of the smaller life insurance companies. We work within the regulatory environment to help reduce the burden on the smaller companies. To this end, we will be devoting significant efforts to reduce the burden of actuarial certifications on smaller companies.

As your company prepares for the upcoming changes in regulations, please consider Van Elsen Consulting. We have been representing smaller company interests in the process and are ready to help in the transition.

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Mount McKinley, North America's Tallest Mountain, Denali National Park, Alaska