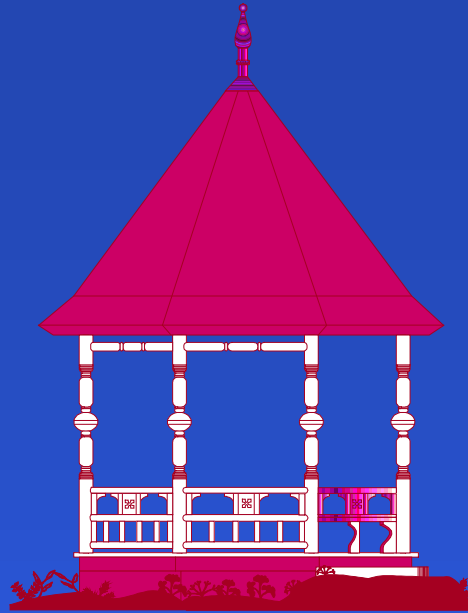


Life Illustration Regulation Update

Kansas City Actuaries Club

Overland Park, Kansas

November 19, 1996



Overview & Look into Future

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Van Elsen Consulting
Colfax, Iowa

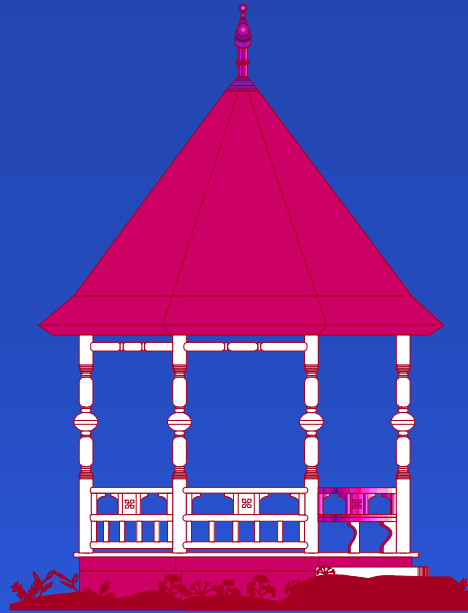
Presentation Outline

- Quick Overview of NAIC Model Regulation and Related ASOP
- Status of State Approvals
- Quick Look at Annuity Regulation
- Questions



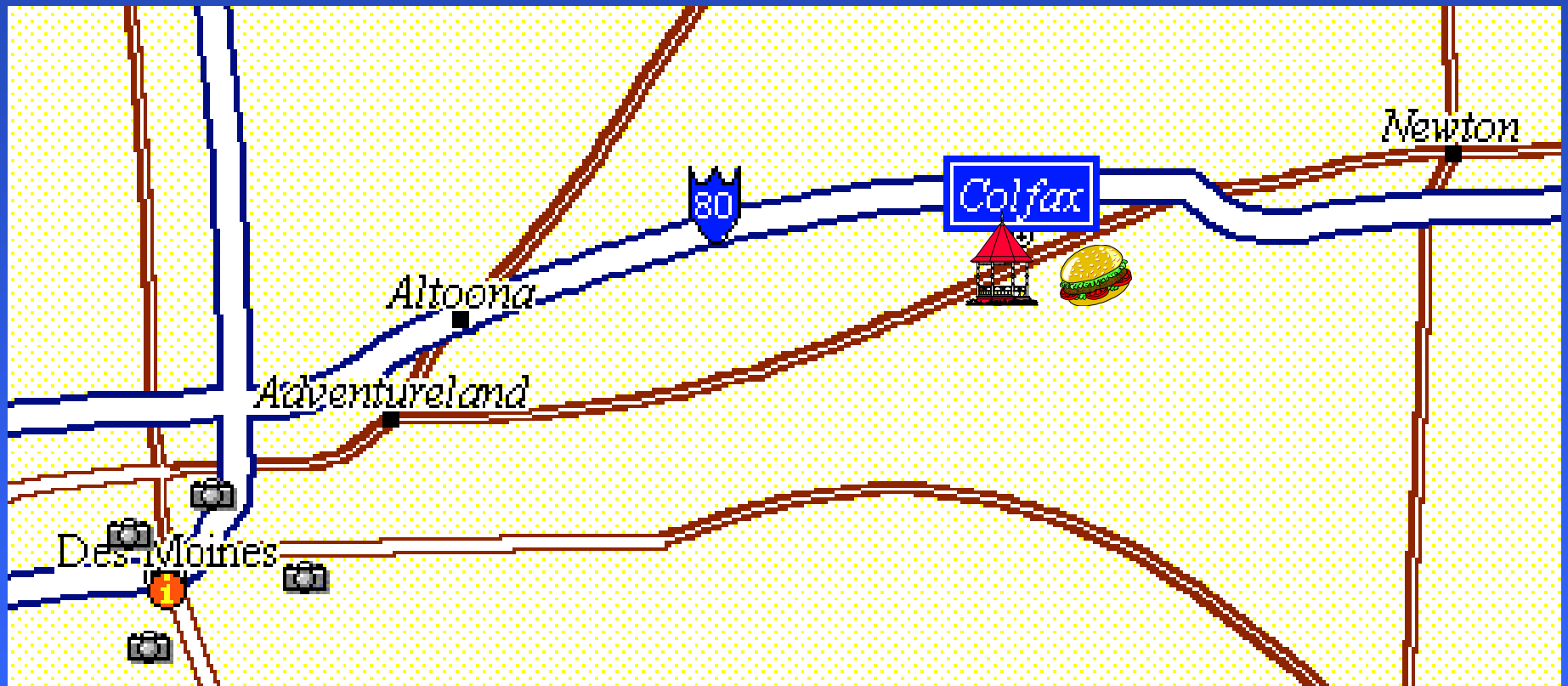
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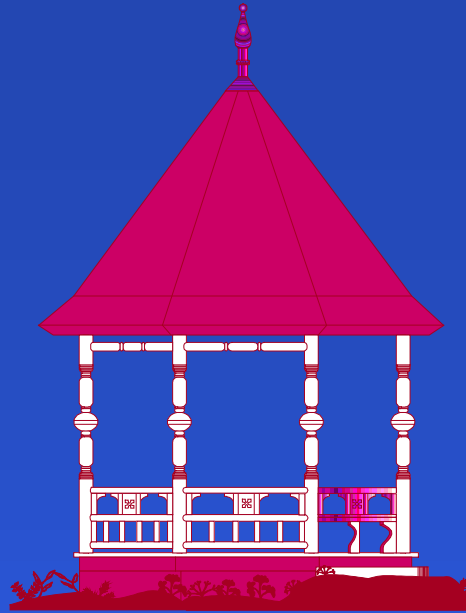
But First!!!

Where in the World is Colfax, Iowa?



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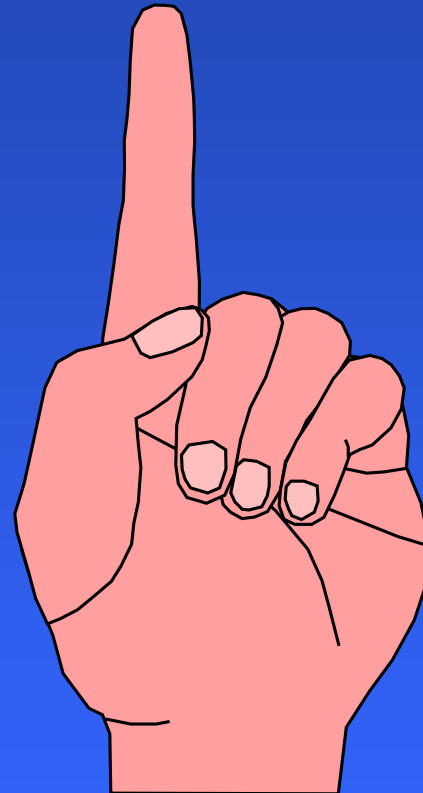
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Quick Overview of NAIC Model Regulation and Related ASOP

Purpose & Goals of Regulation

- Provide Rules that Will:
 - Protect Consumers
 - Foster Education
- Ensure that Illustrations do not Mislead
- Make Illustrations More Understandable



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Applicability

- All Group & Individual Life Insurance Policies & Certificates Except:
 - Variable Life Insurance
 - Individual & Group Annuity Contracts
 - Credit Life Insurance
 - Life Insurance Policies with No Illustrated Death Benefits on Any Individual > \$10,000



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Policies to be Illustrated

- Insurer Shall Identify Forms Marketed & Whether an Illustration Will be Used
- If Identified as No Illustration, Cannot Use Illustration Prior to First Anniversary
- If Identified as Using Illustration, Must Deliver Basic Illustration



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Illustrated Scale

- Scale of Non-Guaranteed Elements
Currently Being Illustrated That is Not
More Favorable to the P/H Than the Lessor
of:
 - The Disciplined Current Scale (DCS)
 - The Currently Payable Scale



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Disciplined Current Scale

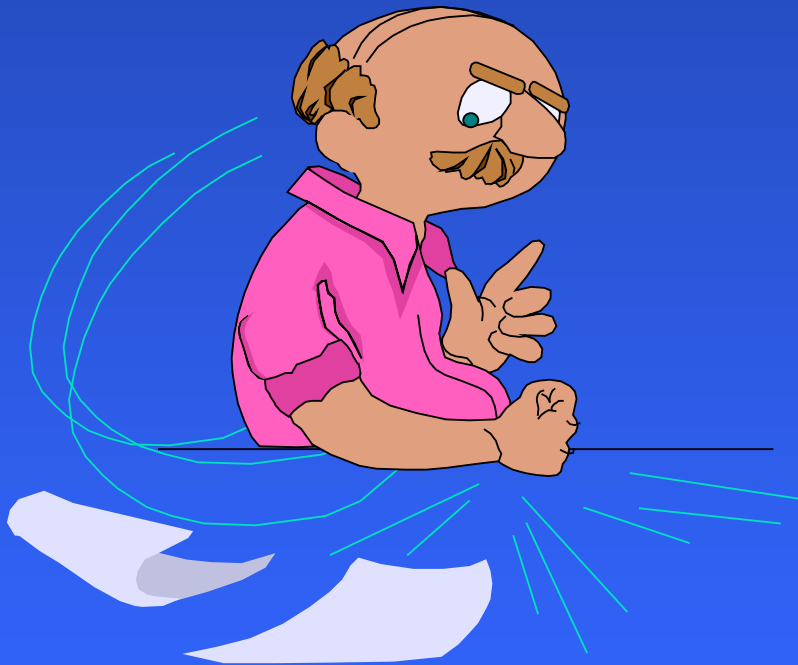
- Scale of Non-Guaranteed Elements
- Reasonably Based on Actual Historical Experience
- Certified Annually by an Illustration Actuary Designated by the Insurer
- Guidance Contained in ASOP #24



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Additional Requirements



- Illustration Must be “Self-Supporting”
- Illustration Must Not be “Lapse-Supported”



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DCS Assumptions

- Interest
- Mortality
- Expenses
 - Expense Study
 - GRET
- Taxes
- Persistency



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“Actual Experience”

- Experience & Past Trends in Experience:
 - Current
 - Determinable
 - Credible

- When Data is Lacking:
 - Similar Business in the Same Company
 - Other Companies
 - Other Sources



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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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GRET

	Branch Office	Direct Marketing	Home Service	All Other
A c q u i s i t i o n				
Per Policy	\$ 6 3 . 4 6	\$ 7 9 . 9 5	\$ 4 7 . 2 8	\$ 6 8 . 5 6
Per Unit	\$ 1 . 1 3	\$ 1 . 4 2	\$ 0 . 8 4	\$ 1 . 2 2
% of Premium	7 0 . 2 6 %	4 4 . 0 7 %	2 6 . 0 6 %	3 7 . 8 0 %
M a i n t e n a n c e				
Per Policy	\$ 3 1 . 7 5	\$ 4 0 . 0 1	\$ 2 3 . 6 6	\$ 3 4 . 3 1



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Not Included in GRET

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



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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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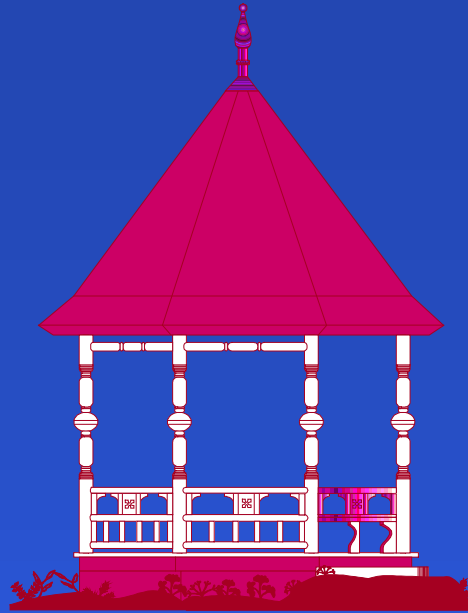
Final Comment

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.

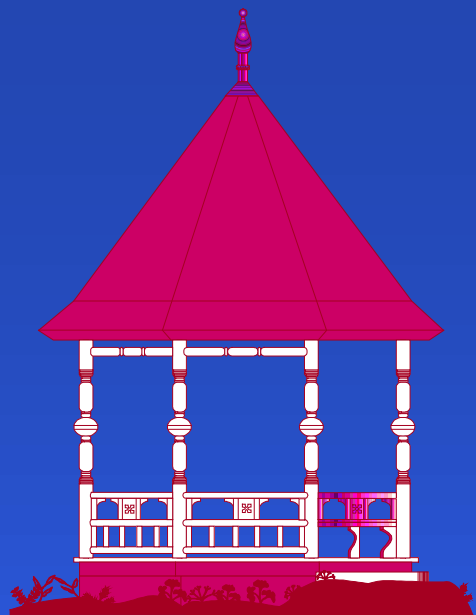


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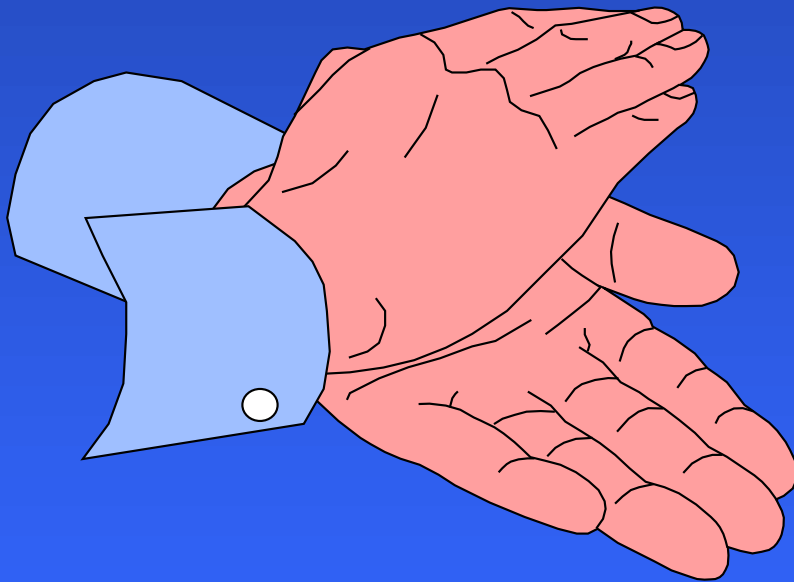


Status of State Approvals



Quick Look at Annuity Regulation

New Proposal



- Annuity Disclosure Working Group of the American Academy of Actuaries' Committee on Life Insurance
- Barbara Lautzenheiser is spokesperson
- Requires disclosure document



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Annuity Issues

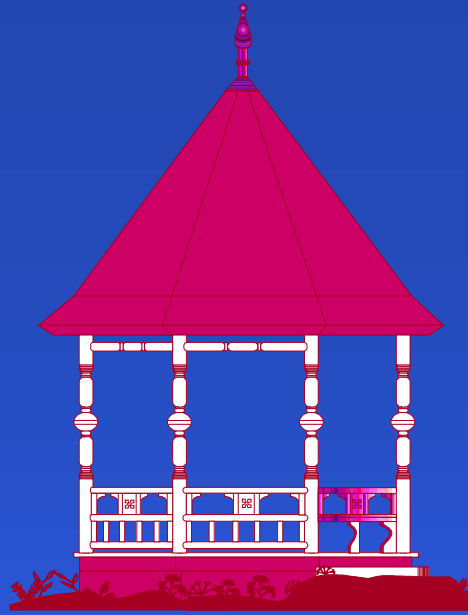
Lack of understanding that:

- ▼ The product is an annuity
- ▼ There may be different renewal interest rates
- ▼ There may be restrictions on access to benefits
- ▼ There may be surrender and other charges
- ▼ There may be federal income tax impacts
- ▼ There may be other benefits



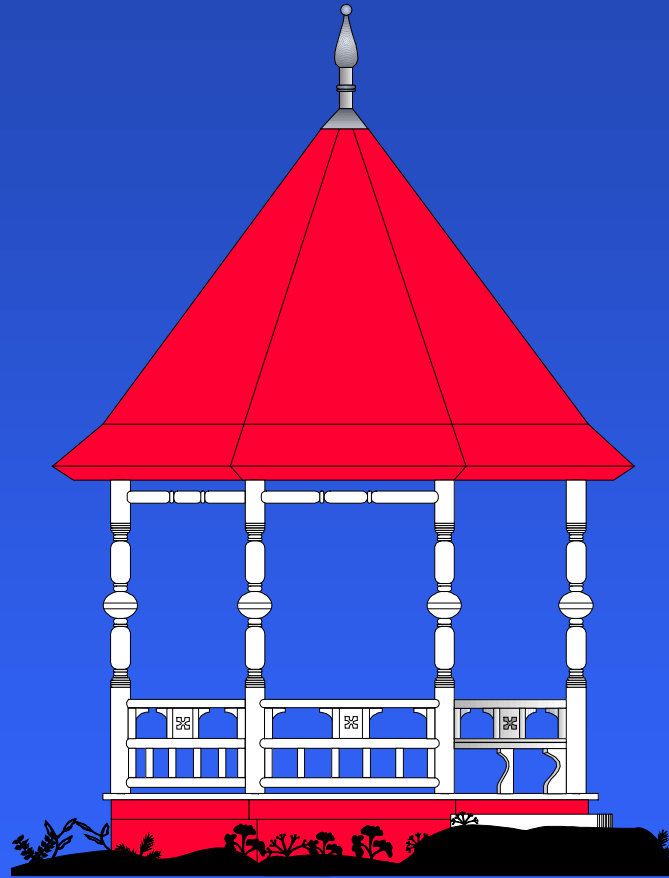
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Questions

THE END



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