Mineral Springs Park
Colfax, Iowa

THE TERM REPORT

Vol. I No. 1
February 22, 1999

***THE* New Source of Information About Term Insurance**

Welcome to the First Edition

Your Publication

The purpose of this newsletter is to become ***THE*** source of current information on product development in the term insurance market. This will become extremely important as life insurance companies respond to new market demands due to the adoption of XXX.

In future months, this newsletter will focus on all aspects of term insurance. The following will be regular features of future publications:

1. **Rate survey.** Summary of current rates in the market.
2. **Product changes.** Overview of product changes since the previous month.
3. **VET Index.** The Van Elsen Term Index will give a quick look at which direction term rates are going. This index is based on a survey of rates for the largest writers of term insurance. Higher values will be reflected in the index for premiums not guaranteed for the initial period. The index for February 1999 is 1,000.
4. **Product reviews.** Starting next month, we will review an important product in the market. Special attention will be given to unusual product features and premium structures.
5. **Guest articles.** Periodically we will feature articles on topics pertinent to the term insurance market. These might address topics such as reserves or underwriting classifications.
6. **XXX scorecard.** ***The Term Report*** will be ***THE*** source of current reliable information on the adoption of XXX.
7. **XXX Q&A.** Answers to your questions about XXX.

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XXX Timeline

"A" Committee Adopted .	12/98
WI Delays 1995 XXX . . .	12/98
Executive to Adopt	3/99
Plenary to Adopt	3/99
WI Adopts	3/99
Other States Adopt	1999
Effective	1/1/2000

Rate Survey

A regular feature of ***The Term Report*** will be the monthly survey of current term rates. Each month we will publish a summary of rates for 10-, 20-, and 30-year term for issue ages 25,45, and 65. Both non-smoker and preferred rates will be shown for $100,000 and $1,000,000 issue amounts. The first of these surveys is on page 2.

In future months, we will look at other plans, issue ages, underwriting classifications and face amounts. These will be selected based on feedback from readers.

In the survey, you will find per $1,000 rates for the lowest rate, the highest rate, and the quartiles (1st Q, median, and 3rd Q). You will also find the number of products included in the survey and the mean rate.

Care must be taken in using the results of the survey. Not all companies sell all 3 products. That is why you occasionally see a larger highest rate for 20-year term than for 30-year term. The preferred classification has all preferred rates, including the most aggressive preferred classifications. In future surveys, we will dig deeper into some of the preferred classifications.

The Term Report

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Term Insurance Survey

	Non-Smoker $100,000			Non-Smoker $1,000,000			Preferred $100,000			Preferred $1,000,000		
	10	20	30	10	20	30	10	20	30	10	20	30
Age 25												
#	136	99	41	163	120	50	172	145	67	215	178	85
Lowest	1.08	1.28	1.70	0.63	0.82	1.01	0.78	1.02	1.23	0.34	0.54	0.69
1st Q	1.47	1.74	1.96	0.85	1.10	1.35	1.18	1.33	1.53	0.54	0.70	0.96
Median	1.60	1.88	2.17	0.95	1.24	1.51	1.31	1.50	1.66	0.64	0.84	1.02
3rd Q	1.77	2.14	2.24	1.10	1.41	1.68	1.44	1.68	1.80	0.74	0.98	1.18
Highest	2.46	3.60	3.32	1.76	3.06	2.60	2.04	3.11	2.84	1.38	2.54	2.12
Mean	1.62	1.96	2.18	0.98	1.30	1.54	1.30	1.53	1.69	0.66	0.87	1.09
Age 45												
#	143	106	40	163	120	49	174	150	67	216	179	84
Lowest	1.99	2.68	3.88	1.34	2.09	2.89	1.32	1.87	2.60	0.81	1.31	1.95
1st Q	2.67	3.63	4.34	1.95	2.77	3.51	1.86	2.44	3.11	1.18	1.70	2.40
Median	3.00	4.06	4.81	2.21	3.17	4.11	2.15	2.82	3.47	1.38	2.05	2.69
3rd Q	3.45	4.70	5.35	2.58	3.70	4.42	2.42	3.27	3.74	1.65	2.40	3.02
Highest	6.17	9.57	7.64	5.95	9.03	7.57	3.61	7.68	6.20	3.16	7.14	5.48
Mean	3.09	4.27	5.12	2.33	3.41	4.32	2.17	2.97	3.57	1.45	2.17	2.85
Age 65												
#	131	39	5	149	42	6	174	44	7	207	48	8
Lowest	8.46	14.15	28.08	7.55	13.48	27.44	6.32	11.72	16.21	5.26	10.98	16.21
1st Q	13.08	18.08	28.16	11.79	17.40	28.27	8.57	13.57	20.19	7.42	12.32	20.37
Median	14.38	22.60	30.48	13.04	21.01	30.46	9.71	15.98	21.56	8.57	15.16	21.36
3rd Q	16.82	25.51	31.16	14.66	24.47	31.52	11.22	18.75	22.82	9.84	18.80	23.53
Highest	25.94	33.36	32.40	25.72	32.82	34.76	15.89	25.32	25.16	15.16	24.78	28.89
Mean	14.82	22.43	30.06	13.42	21.55	30.42	9.95	16.79	21.28	8.81	15.92	21.91

XXX Update

In the map below, darkened states (such as New York) are those that have adopted the 1995 version of XXX without the 51% provision. The hashed states (such as Illinois) are those that have adopted the 1995 version of XXX with the 51% provision.

Watch *The Term Report* for progress on XXX during 1999. In the March edition, we will have the first indication of which states plan to adopt XXX during 1999. We will also be able to report whether XXX was adopted at the NAIC meeting in Washington.

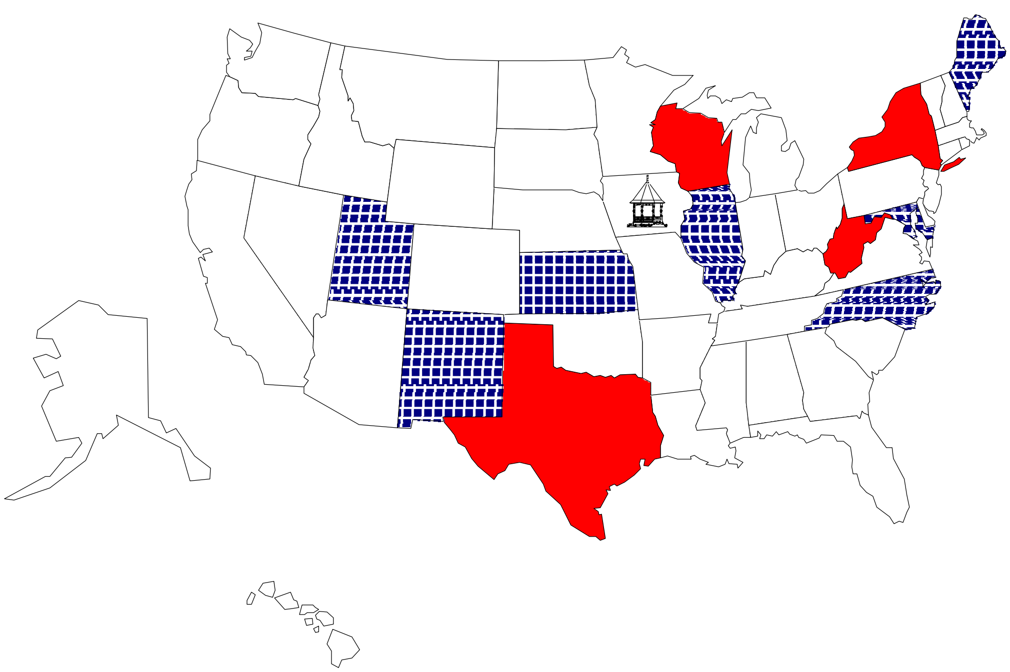
XXX Scorecard

States Adopting 1995 XXX with 51% Provision (7 States)

Illinois Kansas Maine Maryland New Mexico North Carolina Utah

States Adopting 1995 XXX without 51% Provision (4 States)

New York	Regulation 147 currently effective. Some differences from model regulation.
Texas	Effective January 1, 2000.
West Virginia	Repealed by emergency rule for 15 months. Expect the legislature to repeal.
Wisconsin	Effective July 1, 1999. Expected to adopt 1999 model when adopted by NAIC.



XXX Q & A

We are domiciled in {insert state}, if {insert another state} adopts XXX, why does this affect my products sold in other states?

We've heard this question many times, with several states used in the question. The first part of the answer is that XXX doesn't directly affect your product design. This is a valuation regulation, not a market conduct regulation. The truth is, however, that XXX can dramatically affect the statutory profitability of your product if not properly considered in product design. A currently competitive 30-year term product, with 30-year rate guarantees, would generate extremely large deficiency reserves if it were subject to XXX reserving requirements. These reserves are so large, that a company writing significant amounts of this business could become statutorily insolvent in a matter of months, if no changes were made to the product.

The heart of the question is whether the state of Illinois (for example), can force an Iowa-domiciled company (for example) to carry XXX reserves on all its products after the effective date of XXX. Many feel that this is an extra-territorial attempt at regulation that most states don't have the authority to promulgate.

The authority, however, comes from the Standard Valuation Law. This law states that: "The commissioner may accept a valuation made . . . when the valuation complies with the minimum standard provided here and . . . " Further, the law states that companies must submit an actuarial opinion as to whether "the reserves and related actuarial items held in support of the policies and contracts specified by the commissioner by regulation are computed appropriately, are based on assumptions that satisfy contractual provisions, are consistent with prior reported amounts and ***comply with applicable laws of this state***."

It is true, in the above example, if Iowa does not adopt XXX, Iowa-domiciled companies can ignore XXX for their filing in the state of Iowa. This would also be the statement that they file in other states that have not adopted XXX. If Illinois has adopted XXX, however, the valuation actuary must consider the impact of XXX before filing the statement in Illinois. If after considering all of Illinois' valuation laws, the statement has greater reserves than those required by Illinois, then the actuary may use the opinion filed in other states. If XXX causes the Illinois-required reserves to be higher, the actuary must either file an adverse opinion, or an opinion reflecting the higher reserves required by Illinois.

Bear in mind that the Illinois (or any other state) laws and regulations affect all business written by the company, not just the business written in Illinois. This is based on the premise that policyholders living in Illinois are affected by the adequacy of reserves for all the company's business.

So what!!! A company can just file a separate statement for Illinois and continue business as before. At some point, however, the company may become impaired in the state of Illinois if the company fails to adjust its products. Then it will get interesting. Undoubtedly, there will be hearings to consider the impact of the impending insolvency of the company on the Illinois policyholders. More than likely, the company will lose its license to write further business in Illinois. It is unclear how the rest of this would play out. This whole process could be extremely damaging to the company in all states. If the press picks it up, policyholders and agents will begin asking questions about the financial integrity of the company.

Bottom line, if any state that you are licensed in adopts XXX, pay attention. Consider its impact on your products and make the appropriate adjustments. This regulation may cause significant changes in product design. Companies that think they can avoid the reach of other states are risking their solvency.