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S. HRG. 102-829

CONSUMER DISCLOSURE OF INSURANCE

HEARING

BEFORE THE

SUBCOMMITTEE ON ANTITRUST, MONOPOLIES AND BUSINESS RIGHTS

OF THE

COMMITTEE ON THE JUDICIARY UNITED STATES SENATE

ONE HUNDRED SECOND CONGRESS

SECOND SESSION

ON

CONCERNS RELATING TO THE ADEQUACY OF FINANCIAL DISCLOSURES MADE IN CONNECTION WITH THE PURCHASE OF WHOLE LIFE INSURANCE POLICIES

JUNE 23, 1992

Serial No. J-102-70

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CONTENTS

STATEMENTS OF COMMITTEE MEMBERS

	Page
Metzenbaum, Hon. Howard M	1
Thurmond, Hon. Strom	5

CHRONOLOGICAL LIST OF WITNESSES

Panel consisting of: T.J. Butler, Houston, TX; Rick K. Nelson, independent insurance agent, R.K. Nelson & Associates, Northbrook, IL; and Harold G. Mercer, Mercer & Jenkins, Ltd.; Alexandria, VA	7
Panel consisting of: James H. Hunt, director, National Insurance Consumers Organization, Alexandria, VA; Judy Faucett, Coopers & Lybrand, on behalf of the American Academy of Actuaries, Washington, DC; and Geoff Rips, public information director, Texas Office of Public Insurance Counsel, Austin, TX	67
DePalo, Armand, chief actuary, Guardian Life Insurance Co. of America	282

ALPHABETICAL LIST AND SUBMITTED MATERIAL

Butler, T.J.:	
Testimony	7
Prepared statement	10
DePalo, Armand:	
Testimony	282
Faucett, Judy:	
Testimony	103
Prepared statement	106
Report	110
Appendix	157
Hunt, James H.:	
Testimony	67
Prepared statement	70, 78, 87
Mercer, Harold G.:	
Testimony	33
Prepared statement	36
Nelson, Rick K.:	
Testimony	20
Prepared statement	23
Rips, Geoff:	
Testimony	249
Prepared statement	251

APPENDIX

"What Consumers Aren't Told," essential information not disclosed in policy sales illustrations	289
Letter to Senator Metzenbaum correcting testimony of the New York Life Insurance Company	317

CONSUMER DISCLOSURE OF INSURANCE

TUESDAY, JUNE 23, 1992

U.S. SENATE,
SUBCOMMITTEE ON ANTITRUST, MONOPOLIES
AND BUSINESS RIGHTS,
COMMITTEE ON THE JUDICIARY,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:38 a.m., in room SD-226, Dirksen Senate Office Building, Hon. Howard Metzenbaum (chairman of the subcommittee) presiding.

Present: Senators Metzenbaum and Specter.

OPENING STATEMENT OF SENATOR METZENBAUM

Senator METZENBAUM. The hearing will come to order. Today's hearing is about how life insurance companies and their agents intentionally mislead consumers about how much their life insurance policies will cost and what those policies will be worth when they need them most.

I think we can all agree that buying life insurance is confusing and frustrating, but I am convinced that it doesn't have to be that way. Too many companies in this industry would rather confuse consumers than educate them. Maybe that is because a confused consumer won't ask so many tough questions, like are there any policy cancellation charges and how much are they.

Today, life insurance shell games are quite sophisticated. Companies and their agents disguise the true cost and true value of a policy by using slick, computer-generated illustrations of how much a policy will cost and how much it will be worth. They also use these illustrations to hide exorbitant administrative fees and policy surrender charges.

But that is not all. These same companies design and market so-called "new and improved" life insurance policies to lure consumers into replacing their current policies. What consumers don't know and are never told is that the real purpose of the new policies is to generate higher fees for the companies and new commissions for their agents. These life insurance shell games produce one result: consumers get a raw deal.

It is difficult to believe that this could happen with respect to an industry as well recognized and generally well-respected as the life insurance industry. But it is abundantly clear to me that the life insurance industry designs policy illustrations to be confusing—or worse, unintelligible.

To the average consumer, the five illustration charts directly to the side of me are just a jumble of numbers, and that is what they

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would be to any average person. What little meaningful information they contain is hidden in the disclaimers in the small print at the bottom. The truth is that these policy illustrations disclose almost nothing that a consumer really needs to know to make an informed choice about which life insurance policy to buy.

These policy illustrations were created by five different companies as a tool for selling the same 45-year-old man $300,000 worth of life insurance to protect his family financially when he dies. But the only thing that these five illustrations have in common is that none of them disclose enough information.

For example, Alexander Hamilton's illustration doesn't make it clear that there is no guaranteed death benefit after 12 years. How absurd can it be? That means that at age 57, this 45-year-old man will quite possibly have to pay a lot more to get new life insurance, if he can get it at all. Frankly, no 45-year-old man can make an informed choice about which policy to buy on the basis of any of these illustrations.

The most abusive policy illustrations are those that seem to promise consumers that their policy will be paid for in a set number of years. This is known as a vanishing premium because no premium payments show up on the chart after 5, or sometimes 10 years. Naturally, consumers believe that their policy will be paid for when their premium payments vanish from the page. Nothing could be further from the truth.

What the companies hide in the fine print is the fact that these vanishing premiums are not guaranteed and depend entirely on the rate of return the company earns on the consumer's premium dollars. So if the company doesn't meet its own earning projections, premium payments don't vanish. Instead, the unsuspecting policyholder is stuck paying thousands of dollars more in premiums to keep from forfeiting his or her life insurance.

That is exactly what happened to one of our witnesses today. Mr. Butler's father sold his business in order to buy a life insurance policy to protect his family after he and his wife died. A broker sold him a policy that the computer illustration showed would be paid for in just 5 years. As far as the senior Mr. Butler knew, his policy was paid up long ago. Then just 7 weeks ago, he called the company to check on his insurance. He was horrified to hear that he would have to make hundreds of thousands of dollars of additional premium payments to keep up his life insurance. To make matters worse, Mr. Butler is seriously ill and can't qualify for new coverage. So, now, instead of having a paid-up policy, Mr. Butler is faced with the prospect of paying a deceitful insurance company even more money for insurance that he thought he had paid for long ago.

Many of these misleading policy illustrations are just short of fraudulent because the companies actually know that they cannot earn the rate of return that they show on their projections. As one of our witnesses will testify, it is not uncommon for a company to be peddling an illustration showing a high rate of return at the same time it is filing a State disclosure form admitting that it can't possibly meet that projection.

For example, in its 1990 annual schedule M to State insurance departments, Mutual of Omaha—certainly, one of the Nation's most respected insurance companies—admitted that it could not meet the rate of return that its illustration projected for even the first 2 years of the policy.

Companies also use computer-generated illustrations to hide ridiculously high administrative and surrender charges. That is why most policyholders don't realize that their agent is making a commission of between 55 and 105 percent on their premium payments in the first couple of years. Some companies and agents will go to almost any lengths to hide the fact that all they really care about is how much they can make in commission. As one of Pacific Mutual's agent training films put it: "We start with the client's premium * * * $10,000. What we are interested in now is how much commission we can get on that $10,000."

Surrender charges are another cost that the companies try to hide. Surrender charges are what the company makes a consumer pay when the policyholder cashes in his policy during its early years. These charges are usually so high that most policies have absolutely no value until a consumer has paid premiums for at least 3 years, but most consumers don't realize that until it is too late to get their money back.

Many insurance companies even have a way to get a consumer's money without the consumer ever knowing about it. Most policies have a clause that allows the company, without telling the policyholder, to dip into the savings component of their life insurance policy. This can happen, for instance, when a consumer stops paying on a policy because he or she believes that the policy is paid up. Then, without even telling the policyholder, the company can raid the savings to pay itself more premium.

We will hear testimony today about a family in Texas which paid premiums on a life insurance policy for their son for 20 years and thought it was paid up. When their son asked the company about it years later, he learned that the policy had a cash value of only $56.10 because the company, on its own, had decided to use the rest to pay itself more premiums.

Frankly, everything some life insurance company do is designed to make it virtually impossible for consumers to tell whether their premium dollars are going to build up the policy's cash value or line the pockets of the company and its agents.

As if they don't get enough money by taking expense charges out of premiums for 6 or 7 or even 12 years, life insurance companies are constantly designing new policies to sell to their old customers. When the unsuspecting customer buys the improved product, so-called, he or she has to start all over paying new and higher commissions and other administrative charges. As one of our witnesses will tell us, only a third of buyers keep their policies long enough to break even.

The purpose of our hearing today is to determine what this committee can do to put a stop to this shell game that life insurance companies are playing with consumers. Our investigation showed that many companies offer misleading illustrations, including the five companies whose illustrations you see here today.

While these companies cooperated with the subcommittee by providing materials, none of them wanted to present testimony here today. We invited the American Council of Life Insurance to testify, but they also did not want to come. They said it was "inappropriate" for them to be "further involved in these matters."

I think the absence of the companies and the ACLI at the witness table says a lot about the industry's commitment to providing consumers with clear and comprehensive information about life insurance policies. I am now convinced that the ACLI and the life insurance companies think that they can keep a sufficient hold on legislation in this area that they don't need to move. Well, maybe the glare of publicity about their reprehensible practices will make them realize that it is not the legislation that this body may or may not pass alone, but this body's ability to show the American consumer some of the pretty close to fraudulent practices that the companies are engaging in.

This is an industry that has tremendous respect in this country, and they have used that respect that they have had to take advantage of consumers in this country. They have used the position to pretty much control the State regulators, and they have used the position to pretty much have their will in the halls of Congress. I think it is high time that the people of this country become aware of some of the practices, too many of the practices, that just about all of the life insurance companies are using today to rip off the American consumer.

Before I call the first panel, I wish to place an opening statement by Senator Thurmond into the record.

[The statement follows:]

STATEMENT BY SENATOR STROM THURMOND (R-S.C.) BEFORE THE SUBCOMMITTEE ON ANTITRUST, MONOPOLIES AND BUSINESS RIGHTS, SENATE JUDICIARY COMMITTEE, REFERENCE HEARING ON CONSUMER DISCLOSURE OF INSURANCE, 226 DIRKSEN SENATE OFFICE BUILDING. TUESDAY, JUNE 23, 1992, 9:30 A.M.

MR. CHAIRMAN:

The hearing this morning will address concerns relating to the adequacy of financial disclosures made in connection with the purchase of whole life insurance policies. These policies are purchased not only for their insurance benefits, but for their investment value as well. The issue of adequate disclosure has been the subject of several articles which have recently appeared in the Wall Street Journal and Forbes magazine.

Mr. Chairman, although you and I differ on some issues relating to the insurance industry -- for example, the wisdom of substituting federal regulation for state regulation -- I do not believe we differ on the issue of fairness to the consumer. The articles in the Wall Street Journal and Forbes magazine raise questions about whether purchasers of whole life insurance are being treated fairly in terms of the information they receive about their policies. I believe this issue deserves exploration.

It is not clear whether deliberate misrepresentations are made in the sale of these policies, or whether consumers need to be better educated about the product they are purchasing. In any event, the hearing this morning will serve to educate us about these issues, and to raise public awareness so that consumers themselves will be more knowledgeable.

The insurance industry is an essential part of our economy, Mr. Chairman. Many individuals, and almost every business, depend on the financial protection afforded by insurance. Obviously, there is no justification for the industry to engage in questionable, or perhaps illegal activities, which, at a minimum, erode the very consumer confidence that is the key to a healthy industry.

Mr. Chairman, I look forward to the testimony of the witnesses this morning, and thank them for their time and effort in appearing before the Subcommittee.

-END-

Senator METZENBAUM. Our first panel today will consist of Mr. T.J. Butler, speaking for Garrett Butler, of Houston, TX; Mr. Rick K. Nelson, an independent insurance agent with R.K. Nelson & Associates, Northbrook, IL; and Harold G. Mercer, of Mercer & Jenkins, Ltd., insurance consultants of Alexandria, VA.

Would the witnesses be good enough to come to the table, please? Would you please be good enough to stand? We swear in our witnesses.

Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. BUTLER. I do.

Mr. NELSON. I do.

Mr. MERCER. I do.

Senator METZENBAUM. Mr. Butler, we will be pleased to hear from you first.

TESTIMONY OF A PANEL CONSISTING OF T.J. BUTLER, HOUSTON, TX; RICK K. NELSON, INDEPENDENT INSURANCE AGENT, R.K. NELSON & ASSOCIATES, NORTHBROOK, IL; AND HAROLD G. MERCER, MERCER & JENKINS, LTD.; ALEXANDRIA, VA

Mr. BUTLER. Yes, sir. Can you hear me well?

Senator METZENBAUM. Yes.

Mr. BUTLER. Thanks for your hospitality and thanks for inviting me to testify. My name is T.J. Butler. I am 43 years old and I live with my family in Houston, TX. I make my living primarily through working in a family business. I make about one-third of my income in photography.

My parents are Garrett Butler and Ellen Butler, who also reside in the Houston area. My dad, Garrett Butler, is 73 years old and has bone marrow cancer. He was diagnosed in 1990 and, since then, has been receiving periodic chemotherapy treatments at M.D. Anderson Hospital in Houston. As a result of the progression of his disease and the debilitating effects of the chemotherapy, my dad's health has deteriorated slowly since 1990. Today, he is unable to get around without a wheelchair. His doctors give him 1 or 2 more years to live, at the most, and he has bravely resigned to the fact that he may go at any time. My mother, Ellen, is 68 years old and is the picture of health. She still exercises vigorously by walking and playing golf on a daily basis. We have every expectation that she will live well into the next century.

Prior to his retirement in 1982, my dad made a fair amount of money operating a mortgage banking business in Houston. In 1983, my dad had enough of an estate to worry about estate taxes that would have to be paid either by mother or by me and my two brothers, John and Steve. At that time, he consulted the financial planning firm of Linscomb & Williams in Houston for estate planning services. This firm suggested to my father that, among other things, he set up a life insurance trust for our benefit and for the benefit of our children.

It was proposed that the life insurance trust be funded with a $3 million face value second-to-die whole life policy insuring jointly the lives of my mother and father. Because the estate taxes were our concern, my brothers and I became involved with the life insurance purchase and we eventually were made cotrustees of the Butler Family Life Insurance Trust.

My brothers, my dad, and I were presented with the recommendation that we purchase, as cotrustees of the life insurance trust, the $3 million life insurance policy I have previously described from Crown Life Insurance Co. of Canada. We were told that policy could be issued so that the policy paid for itself after a certain number of rather high annual premium payments were made. We were told that the premiums would be $70,140 per year, and that after paying that amount for 6 years we would have $3 million worth of paid-up insurance on the joint lives of my parents.

This plan was compared with another life insurance option in which we would purchase regular-term insurance policies with face amounts totaling $3 million. Although the premiums under that plan would have been considerably less each year, we were told that those premiums would have to be paid annually until both of my parents died.

By comparing the results, if my parents lived 10 more years, from 1984, were shown that the Crown Life policy would result in a premium savings to us of over $189,000. Needless to say, we believed the purchase of the Crown Life policy was in everyone's best interests.

The Linscomb & Williams people we were working with had a license to sell life insurance in Texas and told us that they could act as a life insurance agent for Crown Life Insurance Co. We dealt only with them in the purchase of this policy. After hearing the recommendations of the Linscomb & Williams firm and after reviewing the written materials which were provided to us, we decided to go ahead with purchase of the Crown Life policy on my parents. We formed the Butler Family Insurance Trust and, as cotrustees, my brothers and I made the annual payments on the policy to Crown Life, as we had been told to do.

In exchange, we received Crown Life's $3 million joint wholelife policy with the expectation that it would be paid up within 6 years and would always have a face value of at least $3 million. At no time either before or after we purchased this policy were we told that the performance of the policy, as represented, was in any way contingent upon a continued high dividend rate, the earnings of the life insurance company, the availability of policy loans at a certain rate of interest, or anything of the sort. We were led to believe, and believed wholeheartedly, that this was a closed-end arrangement.

In March of this year, we became aware for the first time that the insurance we had bought was not what we thought it was. When my father made an unrelated inquiry to the Linscomb & Williams firm about a story he had read describing the downrating of Crown Life's financial stability, Linscomb & Williams advised him that the current projections for this policy showed that the insurance policy was in danger of lapsing unless a significant amount of new money was injected into the policy by my brothers and me.

At that time, we were given two scenarios. In the first scenario, it was assumed that no additional premiums were paid into the policy. Under that scenario, the $3 million policy which we thought we had would continually lose value in the death benefit payable at the rate of about $80,000 per year, so that after 10 years the policy's net death benefit would be less than $2,400,000. If no additional premiums were paid after the 10th year, the policy would lapse.

Under the second scenario, we were given the option of paying additional premiums to Crown Life on the policy in order to keep the death benefit payable level at around $3 million. In order to do that, the new projection was that we would have to pay over $92,000 each year for the next 4 years. After that, an annual payment of over $22,000 would be necessary each year until both my father and mother were no longer living.

Needless to say, this has come as quite a shock to our entire family. We paid rather substantial annual premiums through 1987 with the understanding that this insurance would be paid up as represented and would be in force and effect for at least $3 million until my parents died.

If we are to keep this policy as it is now, we face the choice of either, No. 1, having the policy reduced in value every year and then lapse after 10 years; or No. 2, prepare to pay annual premiums totaling hundreds of thousands of dollars each year until my parents pass away.

Because my father has become essentially uninsurable, we are unable to go out on the open market and purchase other insurance. Furthermore, because my mother has every expectation of living for at least 10 more years, letting the policy decline in value and then lapse after 10 years would be tantamount to flushing our significant premium payments down the toilet.

My brothers, my parents, and I believe that we have been seriously misled with respect to the purchase of this insurance policy. We have recently sought legal counsel to advise us as to what rights and remedies we might have against the parties responsible. We have been advised that our situation is not an isolated incident either with respect to this insurance company or this type of insurance sales technique.

Because litigation over our situation is a significant possibility, I have been advised by my attorneys to respectfully refrain from answering any questions you may have. Even so, I hope that you have found my statement informative on a situation which may be facing a number of Americans today. I appreciate very much having the opportunity to bring this story before you for your consideration.

Thank you.

[The prepared statement of Mr. Butler follows:]

DRAFT

STATEMENT OF T. J. BUTLER

My name is T. J. Butler. I am [41] years old and live with my [family] in Houston, Texas. I make my living [expound on business pursuits].

My parents are Garrett Butler and Ellen Butler who also reside in the Houston area. My dad, Garrett Butler, is 71 years old and has [cancer]. He was diagnosed in [year], and since then has been receiving periodic chemotherapy treatments at M. D. Anderson Hospital in Houston. As a result of the progression of his disease and the debilitating effects of the chemotherapy, my dad's health has deteriorated slowly since [year]. Today, he is unable to get around without a wheelchair. His doctors give him one or two more years to live at the most, and he has bravely resigned to the fact that he may go at any time.

My mother, Ellen, is [65] years old and is the picture of health. She still exercises vigorously by [jogging and riding a bicycle] on a daily basis. We have every expectation that she will live well into the next century.

Prior to his retirement in [year], my dad made a fair amount of money [operating a mortgage lending business] in Houston. [Expound on business pursuits as necessary.]

By 1983, my dad had enough of an estate to worry about estate taxes that would have to be paid either by my mother or by me and my two brothers, John and Steve. At that time, he consulted the financial planning firm of Linscomb & Williams in Houston for estate planning services. This firm suggested to my father that,

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among other things, he set up a life insurance trust for our benefit and for the benefit of our children. It was proposed that the life insurance trust be funded with a $3,000,000 face value second-to-die whole life policy insuring jointly the lives of my mother and father. Because the estate taxes were our concern, my brothers and I became involved with the life insurance purchase and we eventually were made co-trustees of the Butler Family Life Insurance Trust.

My brothers, my dad and I were presented with the recommendation that we purchase, as co-trustees of the life insurance trust, the $3,000,000 life insurance policy I have previously described from Crown Life Insurance Company of Canada. We were told that policy could be issued so that the policy paid for itself after a certain number of rather high annual premium payments were made. We were told that the premiums would be $70,140 per year and that, after paying that amount for six years, we would have $3,000,000 worth of paid up insurance on the joint lives of my parents.

This plan was compared with another life insurance option in which we would purchase regular term insurance policies with face amounts totalling $3,000,000. Although the premiums under that plan would have been considerably less each year, we were told that those premiums would have to be paid annually until both of my parents died. By comparing the results if my parents lived ten more years (from 1984), we were shown that the Crown Life policy would result in premium savings to us of over $189,000. Needless to say, we believed the purchase of the Crown Life policy was in everyone's best interests.

The Linscomb & Williams people we were working with had a license to sell life insurance in Texas and told us that they could act as a life insurance agent for Crown Life Insurance Company. We dealt only with them in the purchase of this policy.

After hearing the recommendations of the Linscomb & Williams firm, and after reviewing the written materials which were provided to us, we decided to go ahead with purchase of the Crown Life policy on my parents. We formed the Butler Family Insurance Trust and, as co-trustees, my brothers and I made the annual payments on the policy to Crown Life as we had been told to do. In exchange, we received Crown Life's $3,000,000 joint whole life policy with the expectation that it would be paid up within six years and would always have a face value of at least $3,000,000.

At no time either before or after we purchased this policy were we told that the performance of the policy as represented was in any way contingent upon a continued high dividend rate, the earnings of the life insurance company, the availability of policy loans at a certain rate of interest, or anything of the sort. We were led to believe, and believed wholeheartedly that this was a "closed end" arrangement.

In March of this year, we became aware, for the first time, that the insurance we had bought was not what we thought it was. When my father made an unrelated inquiry to the Linscomb & Williams firm about a story he had read describing the down rating of Crown Life's financial stability, Linscomb & Williams advised him that the current "projections" for this policy showed that the insurance policy was in danger of lapsing unless a significant amount of new money was injected into the policy by my brothers and me.

At that time, we were given two scenarios. In the first scenario, it was assumed that no additional premiums were paid into the policy. Under that scenario, the "$3,000,000" policy which we thought we had would continually lose value in the death benefit payable at the rate of about $80,000 per year so that, after ten years, the policy's net death benefit would be less than $2,400,000. If no additional premiums were paid after the tenth year, the policy would lapse.

Under the second scenario, we were given the option of paying additional premiums to Crown Life on the policy in order to keep the death benefit payable level at around three million dollars. In order to do that, the new "projection" was that we would have to pay over $92,000 each year for the next four years. After that, an annual payment of over $22,000 would be necessary each year until both my father and mother were no longer living.

Needless to say, this has come as quite a shock to our entire family. We paid rather substantial annual premiums through 1987 with the understanding that this insurance would be paid up as represented and would be in force and in effect for at least $3,000,000 until my parents died. If we are to keep this policy as it is now, we face the choice of either (1) having the policy reduced in value every year and then lapse after ten years or (2) prepare to pay annual premiums totaling hundreds of thousands of dollars each year until my parents pass away. Because my father has become essentially uninsurable, we are unable to go out on the open market and purchase other insurance. Furthermore, because my mother has every expectation of living for at least ten more years, letting the policy decline in value and then lapse after ten years would be tantamount to flushing our significant premium payments down the toilet.

My brothers, my parents and I believe that we have been seriously misled with respect to the purchase of this insurance policy. We have recently sought legal counsel to advise us as to what rights and remedies we might have against the parties responsible. We have been advised that our situation is not an isolated incident, either with respect to this insurance company or this type of insurance sales technique.

Because litigation over our situation is a significant possibility, I have been advised by my attorneys to respectfully refrain from answering any questions you might have. Even so, I hope that you have found my statement informative on a situation which may be facing a number of Americans today. I appreciate very much having the opportunity to bring this story before you for your consideration.

P.7/12

COMPARISON

	PRESENT PLAN			ALTERNATIVE PLAN(1)			
YEAR	ANNUAL OUTLAY	CASH VALUE	DEATH BENEFIT	ANNUAL OUTLAY	CASH VALUE	DEATH BENEFIT	ADDITIONAL OUTLAY (NEW PLAN)
1985	$67,500	$ 115,453	$4,019,453	$119,275	$ 146,510	$4,081,280	$51,775
1986	72,657	203,616	4,035,616	101,375	226,036	4,128,536	28,718
1987	81,487	305,930	4,062,930	108,388	341,429	4,195,419	26,902
1988	87,747	414,680	4,099,680	31,235	401,174	4,207,484	(56,512)
1989	92,756	539,092	4,049,092	40,542	476,261	4,230,771	(52,214)
1990	92,632	668,156	4,203,156	27,351	551,412	4,350,962	(65,281)
1991	25,085	729,144	4,186,144	-0-	603,271	4,262,601	(25,088)
1992	28,660	793,211	4,172,211	-0-	656,187	4,278,967	(28,660)
1993	32,465	854,322	4,158,322	-0-	716,606	4,305,757	(32,465)
1994	36,695	918,554	4,144,554	-0-	782,697	4,344,737	(36,695)
1999	65,011	1,246,236	4,103,236	-0-	1,218,771	4,717,641	(65,011)

(1)Alternative Plan Assumes:

- Sec. Conn. term policies are replaced by ordinary life policies of $500,000 each with Crown.
- The existing second to die policy ($3 million) is exchanged for the new higher premium dividend series which would pay up in three more years.

JUN 22 '92 16:25 NAMAN HOWELL

JUN 22 '92 16:26 NAMAN HOWELL LEE-HOUSTON 281 TEL NO:713 P.8/12

CROWN LIFE INSURANCE COMPANY
WHOLE LIFE
CUSTOM LEDGER STATEMENT
CONSERVER

1

PREPARED FOR: BARRETT BUTLER
MALE NONSMOKER AGE 64
Dividends Buy Paid-Up Additions

FACE AMOUNT: $ 3,000,000
ANNUAL POLICY PREMIUM: $ 70,140.00
LOAN INTEREST RATE: 9.500%

YEAR	AGE	ANNUAL OUTLAY	TOTAL ANNUAL DIVIDEND	GUAR CASH VALUE	BOY PAID UP ADDITIONS	CV OF PAID UP ADDITIONS	ANNUAL LOAN	INTEREST AT 9.500%	TOTAL LOAN	NET EQUITY	EQUITY AT SURRENDER	BOY NET DEATH BENEFIT
(9/91) 9	73	0	22,410	507,000	295,477	157,566	92,148	22,008	323,805	363,171	332,410	2,971,672
10	74	0	24,840	576,000	352,231	192,241	100,901	30,761	424,706	368,375	328,028	2,927,345
11	75	0	27,270	648,000	414,864	231,610	110,487	40,347	535,193	371,687	320,843	2,879,671
12	76	0	29,640	720,000	483,607	276,042	120,983	50,843	656,177	369,925	307,188	2,827,430
13	77	0	32,040	792,000	559,787	326,002	132,477	62,337	788,654	361,388	286,466	2,770,133
14	78	0	34,470	864,000	640,726	381,833	145,062	74,922	933,716	344,607	257,904	2,707,010
15	79	0	37,110	936,000	729,762	444,060	158,843	88,703	1,092,559	324,611	220,818	2,637,203
16	80	0	39,630	1,008,000	826,250	513,088	173,933	103,793	1,266,492	294,223	173,907	2,559,738
17	81	0	42,180	1,080,000	930,363	589,409	190,487	120,317	1,456,948	254,611	116,200	2,473,613
18	82	0	44,520	1,152,000	1,043,091	673,334	208,550	138,410	1,665,499	204,335	46,333	2,377,892
19	83	76,527	47,640	1,224,000	1,164,246	765,981	151,836	158,222	1,817,334	220,207	47,640	2,346,912
20	84	87,268	50,160	1,293,000	1,294,458	867,274	155,519	172,647	1,972,853	237,381	50,160	2,321,605
21	85	93,476	52,620	1,362,000	1,436,161	977,925	164,065	187,421	2,136,918	255,627	52,620	2,297,263
22	86	102,782	54,990	1,428,000	1,583,890	1,098,475	170,365	203,007	2,307,283	274,182	54,990	2,276,607
23	87	111,355	57,330	1,494,000	1,741,085	1,227,360	177,977	219,192	2,485,260	293,430	57,330	2,255,825
24	88	121,093	59,640	1,557,000	1,909,139	1,367,094	185,147	236,100	2,670,407	313,329	59,640	2,238,732
25	89	128,166	62,010	1,620,000	2,088,596	1,518,347	195,663	253,489	2,866,070	334,287	62,010	2,222,526
26	90	140,336	64,230	1,680,000	2,277,026	1,679,605	202,060	272,277	3,068,131	355,702	64,230	2,208,895
27	91	145,063	66,450	1,743,000	2,477,877	1,853,725	216,550	291,472	3,284,680	378,495	66,450	2,193,197
28	92	155,839	68,670	1,803,000	2,691,771	2,041,374	226,346	312,043	3,511,026	402,218	68,670	2,180,745
29	93	163,425	70,800	1,866,000	2,916,360	2,241,660	240,261	333,348	3,751,288	427,172	70,800	2,165,072
30	94	173,146	72,990	1,926,000	3,155,178	2,456,906	251,366	356,372	4,002,654	453,242	72,990	2,152,324
31	95	183,897	75,060	1,989,000	3,405,937	2,683,718	266,495	380,252	4,269,149	480,629	75,060	2,136,788

This is an inforce illustration of policy 2331332.
PLAN: Variable Outlay
PREPARED ON: 9/13/1991 - VERSION 7.3M E + OE
An Inforce Illustration is based on an estimate only of policy values.

PREPARED BY : CROWN LIFE (MB)
Page 1

CROWN LIFE INSURANCE COMPANY
WHOLE LIFE
SUPPLEMENTAL FOOTNOTE PAGE
CONSERVER

PREPARED FOR : GARRETT BUTLER
MALE NONSMOKER AGE 64
Dividends Buy Paid-Up Additions

FACE AMOUNT: $ 3,000,000
ANNUAL POLICY PREMIUM: $ 70,149.00
LOAN INTEREST RATE: 9.500%

This illustration assumes a policy loan interest rate of 9.500%.

The loan interest rate is based on current market conditions. Actual loan interest rates may differ in accordance with the adjustable loan rate provision in your policy.

This illustration, and the figures and statements in this illustration, are based on investment earnings, mortality and expenses attributable to policies issued since 1983. It is not an estimate or promise of future results and is not guaranteed.

Dividends, and illustrated values based on dividends, are based on the current scale. They are neither guarantees nor estimates of the future dividends. Any dividend payable at the end of the first year is contingent upon the payment of the second premium.

The cost of this policy over a period of years cannot be determined without taking into account the interest that would have been earned on the premiums if they had been invested rather than paid to the Company.

This illustration may not reflect your individual tax consequences. Crown Life Insurance Company and its representatives cannot give legal, tax or accounting advice. If you need such advice, you should consult your lawyer, accountant or personal tax advisor.

This is an inforce illustration of policy 2331352.
PLAN: Variable Outlay
PREPARED ON : 9/13/1991 - VERSION 7.3H E + OE
An inforce illustration is based on an estimate only of policy values.

PREPARED BY : CROWN LIFE (HO)
Page 2

(2)

CROWN LIFE INSURANCE COMPANY
WHOLE LIFE
CUSTOM LEDGER STATEMENT
CONSERVER

PREPARED FOR : GARRETT BUTLER
MALE NONSMOKER AGE 64
Dividends Buy Paid-Up Additions

FACE AMOUNT: $ 3,000,000
ANNUAL POLICY PREMIUM: $ 70,140.00
LOAN INTEREST RATE: 9.500%

YEAR	AGE	ANNUAL OUTLAY	TOTAL ANNUAL DIVIDEND	GUAR CASH VALUE	BOY PAID UP ADDITIONS	CV OF PAID UP ADDITIONS	PAID-UP ADDITIONS SURR.	INTEREST AT 9.500%	TOTAL LOAN	NET EQUITY	EQUITY AT SURRENDER	BOY NET DEATH BENEFIT
(7/91) 9	73	92,148	22,410	507,000	295,477	157,568	0	22,008	231,657	453,319	433,311	3,063,820
10	74	92,147	34,840	576,000	352,251	192,241	0	22,007	231,657	561,424	539,416	3,120,594
11	75	92,147	27,270	648,000	414,864	231,610	0	22,007	231,657	678,223	653,215	3,183,207
12	76	92,147	29,640	720,000	483,607	276,062	0	22,007	231,657	794,045	772,037	3,231,950
13	77	22,007	32,040	792,000	435,915	254,317	70,140	22,007	231,657	846,700	824,692	3,204,258
14	78	22,007	34,470	864,000	391,487	233,315	70,140	22,007	231,657	900,128	878,120	3,159,830
15	79	22,007	37,110	936,000	350,371	213,201	70,140	22,007	231,657	954,654	932,646	3,118,714
16	80	22,007	39,650	1,008,000	312,623	194,133	70,140	22,007	231,657	1,010,106	988,098	3,080,366
17	81	22,007	42,150	1,080,000	278,304	176,275	70,140	22,007	231,657	1,066,768	1,044,760	3,046,687
18	82	22,007	44,520	1,152,000	247,482	159,702	70,140	22,007	231,657	1,124,665	1,102,657	3,015,825
19	83	22,007	47,440	1,224,000	220,231	144,894	70,140	22,007	231,657	1,184,877	1,162,869	2,988,374
20	84	22,007	50,160	1,293,000	196,634	131,745	70,140	22,007	231,657	1,243,246	1,221,238	2,964,777
21	85	22,007	52,620	1,362,000	176,778	120,340	70,140	22,007	231,657	1,303,503	1,281,495	2,945,121
22	86	22,007	54,990	1,428,000	160,753	111,487	70,140	22,007	231,657	1,362,820	1,340,812	2,929,076
23	87	22,007	57,330	1,494,000	145,656	102,677	70,140	22,007	231,657	1,422,352	1,400,344	2,913,999
24	88	22,007	59,640	1,557,000	134,441	96,271	70,140	22,007	231,657	1,481,254	1,459,246	2,902,784
25	89	22,007	62,010	1,620,000	127,213	92,480	70,140	22,007	231,657	1,542,833	1,520,825	2,895,556
26	90	22,007	64,230	1,680,000	121,091	89,320	70,140	22,007	231,657	1,601,893	1,579,885	2,889,434
27	91	22,007	66,450	1,743,000	119,058	89,068	70,140	22,007	231,657	1,666,861	1,644,853	2,887,401
28	92	22,007	68,670	1,803,000	121,255	91,966	70,140	22,007	231,657	1,731,979	1,709,971	2,889,598
29	93	22,007	70,800	1,866,000	124,840	95,958	70,140	22,007	231,657	1,801,101	1,779,093	2,893,183
30	94	22,007	72,990	1,926,000	132,831	103,434	70,140	22,007	231,657	1,870,767	1,848,759	2,901,174
31	95	22,007	75,060	1,989,000	142,399	112,287	70,140	22,007	231,657	1,944,690	1,922,682	2,910,742

This is an inforce illustration of policy 2331352.
PLAN: Ledger - Limited Payment
PREPARED ON : 9/16/1991 - VERSION 7.3H E + OE
An Inforce Illustration is based on an estimate only of policy values.

PREPARED BY : CROWN LIFE (MB)
Page 1

JUN 22 '92 16:27 NAMAN HOWELL LEE-HOUSTON 261 TEL NO:7139750017 #638 P03 P.11/12

CROWN LIFE INSURANCE COMPANY
WHOLE LIFE
SUPPLEMENTAL FOOTNOTE PAGE
CONSERVER

PARED FOR : GARRETT BUTLER
MALE NONSMOKER AGE 64
Dividends Buy Paid-Up Additions

FACE AMOUNT: $ 3,000,000
ANNUAL POLICY PREMIUM: $ 70,146.00
LOAN INTEREST RATE: 9.500%

This illustration assumes a policy loan interest rate of 9.500%.

The loan interest rate is based on current market conditions. Actual loan interest rates may differ in accordance with the adjustable loan rate provision in your policy.

This illustration, and the figures and statements in this illustration, are based on investment earnings, mortality and expenses attributable to policies issued since 1983. It is not an estimate or promise of future results and is not guaranteed.

Dividends, and illustrated values based on dividends, are based on the current scale. They are neither guarantees nor estimates of the future dividends. Any dividend payable at the end of the first year is contingent upon the payment of the second premium.

The cost of this policy over a period of years cannot be determined without taking into account the interest that would have been earned on the premiums if they had been invested rather than paid to the Company.

This illustration may not reflect your individual tax consequences. Crown Life Insurance Company and its representatives cannot give legal, tax or accounting advice. If you need such advice, you should consult your lawyer, accountant or personal tax advisor.

This is an inforce illustration of policy 2331332.

Ledger - Limited Payment
PREPARED ON : 9/16/1991 - VERSION 7.3H E + OE
An Inforce Illustration is based on an estimate only of policy values.

PREPARED BY : CROWN LIFE (HB)
Page 2

Senator METZENBAUM. Thank you very much, Mr. Butler, and we will respect your counsel's advice to you and not ask you any questions.

Mr. Rick K. Nelson, independent insurance agent, of Northbrook, IL. Mr. Nelson, we are happy to have you with us.

TESTIMONY OF RICK K. NELSON

Mr. NELSON. Mr. Chairman, I appreciate the opportunity to appear before this committee and share my experiences of over 16 years as a life insurance agent.

No one questions the importance of life insurance as a financial tool to protect against the risk of premature death, but someone with authority must question the methods that insurance companies currently use to convince consumers to buy their life insurance policies. Insurance companies say that consumers should trust them, but the companies' sales illustrations, used to convince them to buy, disclose that cost is based on the interest rate of 7.25%£, which really means 9 percent, if you read the fine print on page 3, or assume that 7.5 percent, which really means 8.75 percent if you read the additional interest paragraph on another page.

The insurance companies have relied on a thinly veiled disclaimer of "based on current assumptions" to absolve them of any liability should a consumer actually rely on a sales illustration to purchase their life insurance. Insurance companies claim that their cash-value life insurance products are a long-term solution to a long-term problem, but in actuality they promote planned obsolescence of their own policies, replacement of their business, and any other company's. The systematic churning of the entire life insurance premium base every 7 or 8 years is a financial scandal and would never be tolerated in any other financial business.

Insurance companies say they want long-term relationships, but they use lapse-supported pricing assumptions when developing their products. This pricing trick allows the insurance company to profit more when consumers terminate the policies in the early years rather than holding the policies to maturity.

Insurance companies say they already supply adequate cost disclosure. I question the validity of these claims when, on a recent visit to the Illinois Insurance Department, I reviewed the annual reports of 20 of the largest life insurance companies selected at random from the files. My focus was on the Schedule M and what is referred to as interrogatories. Interrogatories ask the question whether the insurance company believes they can meet the projected dividend and projected interest rate assumptions for at least the next 2 years. In my limited, unscientific sampling, 80 percent of the companies said they could not meet the projections for the next 2 years.

Confusing jargon, deceptive sales illustration, and pricing the policy to profit at its failure are widespread and commonplace, but the public's outrage and indignation at these abuses will pale in comparison to their anger when they become aware that the life insurance business has developed a dual pricing arrangement based on the most regressive principle of economic discrimination.

Most of the leading life insurance companies now offer two or more prices for the same amount and type of life insurance. The agent is given a menu of A and B policies from each company. The A's have a full price and the agent receives a full commission. Or the agent can offer the company's B policy with a cost savings of 20 percent or more to the consumer. The method of obtaining the lower-cost quotes varies from company to company.

Pacific Mutual allows the agent to design the price of his or her policy by sitting at the computer terminal and inputting the percentage of premium that pays as commission. Guardian gives the agent a choice between a full-price, full-commission policy or designing a lower-cost policy by blending or mixing premiums with noncommissionable portion. The ratio of the mix determines the premiums that the consumer pays. Hartford recently informed me that they are developing a new life insurance product with 10 different prices for the same amount of coverage, depending on the level of commission.

I mention these companies by name because they are financially strong companies using the various dual-pricing techniques common to most of the leading life insurance companies. These companies have never threatened me with termination of my contract or attempted to coerce my silence—that is, until today, Mr. Chairman. We will see what happens tomorrow.

The ability to offer consumers life insurance at a lower cost presented me with the illusion of a marketing opportunity, and I developed a business plan in 1989 to take advantage of it. Adhering to the old marketing adage, be first, be best, be different, I started to take out advertisements announcing that I was a discount life insurance broker and would quote the B policies of each company, saving the consumer money. I never mentioned the name of any insurance company.

The plan was successful in helping me sell millions of dollars of life insurance from top-rated companies and saving the consumers significant amounts of money. Instead of receiving the customary sales achievement plaque, I got letters from Metropolitan, Prudential, and Transamerica Occidental, all canceling my sales agreements. The companies also used their agents to pose as consumers and request insurance quotes from my business. The avalanche of these bogus consumer inquiries was designed to interfere with my business and prevent me from competing in the marketplace.

Throughout the numerous meetings with representatives of the three insurance companies, I was told that they objected to the fact that I was disseminating information about the existence of their lower-cost insurance available for purchase by the average consumer. During one conversation, I pointed out to the insurance company official that they had filed the policies for purchase in the lower amounts of $100,000 or $250,000. The company official told me my problem was that I knew my business too well and I would not have had any problems if I had just kept the lower-cost quotes in my vest pocket only to be used when in competition on the big sales.

In a recent Wall Street Journal editorial, George McGovern, the 1972 Democratic presidential candidate, said, "It is only competition or antitrust that tempers price increases." My own experiences have taught me that competition is unwelcome in the insurance business and the insurance business already enjoys the broadest exemption from antitrust regulation of any business in the Nation. What is left to temper this out-of-control financial behemoth?

Thank you for the opportunity of addressing the committee and I welcome any questions.

[The prepared statement of Mr. Nelson follows:]

PREPARED TESTIMONY OF

RICK K. NELSON

INDEPENDENT INSURANCE AGENT

BEFORE THE

UNITED STATES SENATE

COMMITTEE ON THE JUDICIARY

JUNE 23, 1992

Mr. Chairman and Distinguished Members of the Senate Committee on the Judiciary, I appreciate the opportunity to appear before this committee and share my experiences of over 16 years as a life insurance agent. I believe these hearings are important in exposing several industry wide sales practices that are not only deceptive and costly to consumers, but threaten the very fundamental principles of life insurance.

No one questions the importance of life insurance as a financial tool to protect against the risk of premature death. Consumers recognize the value of life insurance by purchasing more than 13 MILLION new individual life insurance policies last year with first year annual premiums exceeding $ 10 BILLION. Congress has also acknowledged the importance of this type of insurance by affording the product special tax treatment that is advantageous and enjoyed by no other financial vehicle under the U.S. Tax Code.

But someone, with authority, must question the methods that insurance companies currently use to convince consumers to buy their life insurance policies.

- Insurance companies say that consumers should trust them, but the company sales illustrations used to convince them to buy disclose that the cost is based on a rate of 7.5% #, which really means 9% if you read the fine print on page 3. Or assumed @ 7.5% which really means 8.75% if you read the additional interest paragraph on another page. The insurance companies have relied on a thinly veiled disclaimer of "based on current assumptions" to absolve them of any liability should a consumer actually rely on a sales illustration to purchase their life insurance.

- Insurance companies claim that their cash value life insurance products are a long term solution to a long term problem, but in actuality they promote planned obsolescence of their own policies and replacement of their own business and any other companies. The systematic churning of the entire life insurance premium base every 7 or 8 years is a financial scandal and would never be tolerated in any other financial business. Planned policy obsolescence is the only way to account for the fact that total first year premium outlays for new individual policies purchased from 1984 - 1990 totaled $ 76.2 BILLION. While the total annual renewal premiums in 1990 for all individual life policies ever sold is less than $ 52 BILLION (source: 1991 Life Insurance Fact Book by the American Council of Life Insurance).

- Insurance companies say they want long term relationships, but they use lapse supported pricing assumptions when developing their products. This pricing trick allows the insurance company to profit more when consumers terminate the policies during the early years, rather than holding the policies to maturity.

- Insurance companies say they already supply adequate cost disclosure and there is no need for any further burdensome requirements. I question the validity of these claims when on a recent visit to the Illinois Insurance Department I reviewed the annual reports of 20 of the largest life insurance companies selected at random from the files. These were companies that I was familiar with since I had received life insurance quotes or sales literature from them. My focus was on the schedule M and what is referred to as the interrogatories. The interrogatories ask whether the insurance company believes there is a substantial probability that the projected dividend scales and projected interest rate assumptions can be supported for at least 2 years.

Answering this question is where the company's chief actuary really lays it on the line. In my limited, unscientific sampling, 80% of the companies said they could not meet the projections for 2 years. If the companies do not want to disclose their cost assumptions, they should at least include their answer to these schedule M questions as part of every sales illustration.

Confusing jargon, deceptive sales illustrations and pricing the policy to profit at its failure are widespread and commonplace. But the public's outrage at these abuses will pale in comparison to their anger and indignation when they become aware that the life insurance business has developed a dual pricing arrangement based on the most regressive principle of economic discrimination. The very wealthy and executives of FORTUNE 500 companies are courted with the offer of lower cost life insurance while the average consumer pays 20% or more for the same coverage from the same insurance companies.

Most of the leading life insurance companies now offer two or more prices for the same amount and type of life insurance. The agent is given a menu of A & B policies from each company. The A's have a full price and the agent receives a full commission or the agent can offer the company's B policy with a cost savings of 20% or more to the consumer and the agent receives a lower commission. The method of obtaining the lower cost quotes varies from company to company. Pacific Mutual allows the agent to design the price of the policy on his or her computer screen with an input window for the percentage of premium that pays the agent a commission. Guardian gives the agent a choice between a full price, full commission policy or designing a lower cost policy by blending or mixing premiums that pay a full commission with premiums that pay little or no commission. The ratio of the mix determines the price to the consumer. Hartford recently informed me that they are developing

1992 GOV Consumer Disclosure of Insurance 323p bonknote.pdf

a new life insurance product with 10 different prices for the same type of life insurance varying by the level of commission.

I mention these companies by name because they are financially strong companies using the various dual pricing techniques common to most of the leading life insurance companies. These companies know that I offer their lower cost policies to all consumers, regardless of their net worth. These companies have never threatened me with termination of my contract or attempted to coerce my silence.

The act of creating a dual pricing structure for its products was a conscious act by the life insurance companies since they had to file the policies for approval with the various state Insurance Departments and disseminate the rates and product information to the agents. Appearances are maintained that all consumers can purchase the lower cost life insurance policies since most insurance companies have filed them for purchases of $ 100,000 or $ 250,000. However, that is just window dressing and from my own experiences my attempts to sell the policies to all consumers, not just the very wealthy, met immediate resistance from the insurance companies that dominate the business.

The ability to offer consumers life insurance at a lower cost presented the illusion of a marketing opportunity to me and I developed a business plan in 1989, to take advantage of it. Adhering to the old marketing adage of Be First, Be Best, Be Different, I started to take out advertisements announcing that I was a discount life insurance broker and would quote the "B" policies of each company, saving the consumer money. I would replace the incremental commission reduction on each sale with a substantial increase in volume, following the lead of other successful discounters like Sam Walton and Charles Schwab.

The advertisements never mentioned the name of any insurance company. Rather the ads told the consumers that we would comparison shop from among the leading life insurance companies, offer the policies with lower costs, and supply information on the financial ratings of the insurance companies. Comparison shopping and the sales of the lower cost policies could save consumers several $ BILLION annually on their life insurance.

The plan was successful in helping me sell millions of dollars of life insurance from top rated life insurance companies with significant cost savings for the consumer.

Instead of receiving the customary sales achievement plaque, I got letters from Metropolitan, Prudential, and Transamerica Occidental all cancelling my sales agreements (copies of letters included). The companies also used their agents to pose as consumers and request insurance quotes from my business. The avalanche of these bogus consumer inquiries were designed to interfere with my business and prevent me from competing in the marketplace. Throughout the numerous conversations and meetings with representatives of the three insurance companies I was told that they objected to the fact that I was disseminating information about the existence of their lower cost insurance policies available for purchase by the average consumer. During one conversation I pointed out that the company in question had filed the lower cost life insurance policies for sale in smaller amounts of $ 100,000 and $ 250,000. The company official told me my problem was that I knew my business too well and I would not have had any problems if I had just kept the lower cost insurance quotes in my vest pocket, only to be used when I was in competition on the big sales.

Insurance companies are abusing their contractual rights with agents by cancelling any agent that dares to offer their products to all consumers in a non-discriminating manner or questions the financial intergrity of some sales practices. Insurance company contracts with agents are like pie crust promises . . . easily made, more easily broken.

Recently the American Society of CLU's and ChFC's announced that it has approved a revised disclosure questionnaire on the assumptions supporting life insurance illustrations. The questionnaire was revised so that "actuaries could not blow smoke around them (the questions)", according to a spokesman for the Society. The Society is also developing an educational program to help agents understand how to use the questionnaire. The very thought that agents are supposed to be the watchdogs of the insurance companies is absurd and an indication of how far the abuses have gone.

Life insurance is an intangible product and when selling an intangible, its' perception in the marketplace becomes reality. Insurance companies cannot continue to resist adequate cost disclosure, promote deceptive sales practices, employ discriminatory pricing, and systematically churn its entire book of business.

In a recent Wall Street Journal editorial, George McGovern, the 1972 Democratic presidential candidate said "It is only competition or antitrust that tempers price increases." My own experiences have taught me that competition is unwelcome in the insurance business and it already enjoys the broadest exemption from antitrust regulation of any business in the nation. What is left to temper this out of control, financial behemoth?

Thank you for the opportunity of addressing the Committee and I welcome any questions.

ThePrudential

Thomas J. Lynam, CLU, ChFC, RHU
Director of Brokerage Services

Prudential Mid-America Brokerage
Countryside Executive Center
1250 W. Northwest Highway, Suite 400
Palatine, IL 60067
312 359-6855 1 800 621-2420 IL 1 800 447-8754 IN

July 10, 1990

Personal - Confidential

Mr. Rick Nelson
666 Dundee Road, Ste. 1801
Northbrook, Illinois 60062

Dear Mr. Nelson:

This is to notify you that your brokerage privileges with The Prudential through Prudential Select are terminated effective this date.

We are taking this action because your advertisements regarding rebating and discount insurance are contrary to the position and best interests of The Prudential.

We will complete underwriting on any applications you have submitted to date and pay any amounts due pursuant to the Broker's Compensation Schedule.

Sincerely,

Thomas J. Lynam, CLU, ChFC
Director, Brokerage

TJL/js

Pruco Securities Corporation, Newark, NJ 07101

Metropolitan Life Insurance Company
2211 York Road, Suite 504, Oak Brook, IL 60521
(708) 954-3300

Edwin J. Lewandowski
Brokerage Director

Registered Representative
LUTC Graduate
Management Leaders Conference

Metropolitan Life℠
AND AFFILIATED COMPANIES

Mr. Rick Nelson
R.K. Nelson & Associates
666 Dundee Road, Suite 1801
Northbrook, IL 60062

Dear Mr. Nelson:

Effective immediately your brokerage contract with Metropolitan is cancelled due to rebating.

Sincerely,

Edwin J. Lewandowski

Edwin J. Lewandowski, CLU
Brokerage Director

EJL:fmm

April 25, 1990

Life/Health/Annuities

TRANSAMERICA
OCCIDENTAL LIFE

Transamerica Occidental
Life Insurance Company
Transamerica Center
1150 South Olive
Los Angeles, CA 90015-2211
(213) 742-2111

Mailing Address
P.O. Box 2101
Los Angeles, CA 90051-0101

October 1, 1990

R. K. Nelson & Assoc Inc
666 Dundee Rd #1801
Northbrook, IL 60062

Dear Gentlemen:

The Transamerica Occidental Life Insurance Company hereby elects to exercise its rights to terminate the contract described below in accordance with contract provisions. This termination will become effective five days from the above date.

CONTRACT	DATE OF CONTRACT
Brokerage Agreement	March 1, 1988

Your authority to represent Transamerica Occidental will end on the date your contract terminates.

If you have not already turned in your supplies, including your Transamerica Occidental license, to the Agency through which you have been submitting your business, will you do so at the earliest opportunity.

Sincerely,

Michael Brice

Michael Brice
Section Manager
Agency Secretary Department

Senator METZENBAUM. Thank you very much, Mr. Nelson. I will have questions, but I think we will first hear from Mr. Mercer. But I will say to you that should you hear from any insurance company with respect to discrimination or in any way lessening your opportunity to perform your activities as an insurance agent, this committee would want to know about it promptly.

Mr. NELSON. I appreciate that.

Senator METZENBAUM. Mr. Mercer, of Mercer & Jenkins, Ltd., insurance consultants of Alexandria, VA. I might say to all of you it certainly takes a lot of courage for you to be here and this committee is very grateful to you for your participation.

Please proceed, Mr. Mercer.

TESTIMONY OF HAROLD G. MERCER

Mr. MERCER. Thank you, sir. Thank you for providing me the opportunity of presenting my views on life insurance today. My career of over 16 years has allowed me to represent numerous carriers. In many instances, those companies have provided the death, cash value, and annuity benefits that they promised to families and businesses. That is because they were based on sound and realistic assumptions and illustrations.

In my qualified opinion, many of the life insurance illustrations promoted by the marketing sector of the life insurance industry today are irresponsible. In several instances, carriers' own actuaries have told me that their illustrations are not based on valid data.

To begin with many illustrations depicting blended or combinations of life insurance policies or projecting rates of returns of 14 percent to the policyholder, in virtually every instance these projected yields are as much as 7 to 8 percent in excess of the company's current net yield on investments.

Based on data provided by a client's accountant, a recent Prudential illustration depicted a 13.4-percent rate of return on the premiums paid relative to the projected death benefit at a life expectancy. The current net yield on Prudential's investments for 1990 was only 8.8 percent.

My assessment is that there is one or a combination of four factors that will adversely impact these illustrations. Insurance companies' projected rates of return on investments must be consistent with reasonable risk. Otherwise, there will be abuses of investment selection, as occurred with Executive Life. High risk is not what the purchasers of insurance products are seeking.

Second, illustrations should not be presented in such open-ended fashion that the company is actually transferring much of the risk to the policyholder. My sales and consulting experience indicates that the majority of illustrations in the marketplace today are unnecessarily complicated and therefore do not clearly communicate that transfer of risk to the consumer.

A recent Northwestern Mutual illustration combined a $10,000 whole life base product with a $990,000 term amount. The client was told the product was a $1 million permanent program. However, the term insurance benefit was guaranteed for only 9 years. One statement on the illustration left the door wide open for premium increases and extension of the premium payment period. Results "may be larger or smaller than those illustrated." A 99-percent term element translates into substantial potential cost for the consumer.

Of course, the insurance carrier may be paying 14 percent to some consumers and only 2 percent to others. In this manner, they may be averaging their net yield to consumers at 8 percent in this example. However, I would not want to be the consumer who is shown 14 percent, only to get 8 percent. This is a highly unlikely scenario based on what I have seen in the marketplace.

Last, the life insurance industry should not be allowed to subject consumers to something akin to the time-worn Ponzi scheme, with lapse-supporting products that are nothing more than an elaborate tontine. What I mean is that illustrations are based on the premise that a certain number of insureds must surrender their policies in order for the projections to be realistic. In many cases, these surrender charges are excessive. Thus, only the last person to survive gets any reasonable return on their investment.

Today, responsible insurance agents, together with consumers, are at the mercy of the life insurance industry. This industry is not simply deregulated. I would submit that it is unregulated. Most, if not all the illustrations that proliferate in the marketplace today have been approved by the State regulatory agencies. The Prudential and Northwestern examples referenced are but two of many.

Another problem is that hidden costs abound in many illustrations. Universal life policies are indicative of the industry's shortcomings. When the term administrative and loading costs are deducted, the consumer receives an interest credited on the amount of cash remaining.

An evaluation of a First Penn-Pacific policy for a client recently reflected a 0.25-percent rate of return on cash value projected to be available at his age 84. The projected rate of return on death proceeds was an abysmal 4.36 percent. At age 89, the product collapsed even if the consumer continued to pay the scheduled premium payment of $600 per year.

Universal life, as well as other interest-sensitive products, can confuse the consumer, as well as many agents, with the difference between gross and net yields. The following example clarifies this. Let us assume that a client purchases two universal life products and contributes $1,000 to each as the annual premium. On one product, the agent promotes a 12-percent rate. After subtracting $600 in charges, the client is credited with 12 percent earned on $400, or $48 gained. The net rate of return in this example is 4.8 percent, not 12 percent.

In the second product, the agent specifies an 8-percent crediting rate. However, this carrier only charges $300, such that $700 remains on which to earn interest. Thus, $56 is obtained. Again, the net rate is different than gross, 5.6 percent versus 8 percent. Which would you rather purchase, the 12-percent product earning $48 or the 8-percent product that produces $56?

In thousands of sales made each day, consumers are provided with little discernible information to make a clear choice. Another problem with illustrations is that in many States illustrations need only depict the first 20 years and/or values up to age 65. We typically advise attorneys, accountants, and clients themselves to obtain inforce illustrations depicting values to age 85.

In many cases, such illustrations reflect the policy exhausting itself when clients are in their seventies or eighties. Conversely, if the client wants to retain such coverage, the policy may require substantially greater premiums and/or a longer premium payment period than was originally projected. Consumers, as well as agents, do not like surprises. Today's illustrations are full of them for the unsuspecting purchaser of life insurance.

Will Rogers once stated that he was more interested in a return of his money than on his money. In these days, I think all consumers of life insurance would agree with Mr. Rogers.

[The prepared statement of Mr. Mercer follows:]

Statement Prepared by Harold G. Mercer, CLU, ChFC

for the

Senate Judiciary Committee

Introduction

I am a life insurance agent with over sixteen(16) years experience. Like many agents, I have been afforded the opportunity of seeing the service provided by sound life insurance products based on realistic assumptions. I have delivered several million dollars in death benefits. A number of my clients are enjoying secure retirements as a result of cash growth over a period of years. Others have guaranteed income for life provided by solvent companies.

These results came about through a previously sound and well-managed industry. I would submit that today, however, the industry is fragmenting. Its infrastructure is collapsing. My contention is that this direction, in large part, is the direct result of unbridled greed on the part of many officers and managers coupled with virtually no regulation or oversight.

Currently companies in the insurance industry hold agents' careers, livelihoods, and, in some instances, their families' welfare, hostage. Agents may report consumer fraud by companies and other agents at the risk of having their contracts rescinded.

While my comments are critical of officers and managers, they incorporate the members of these carriers' Boards of Directors, who share in the responsibility for the decline in my industry.

It should be pointed out and emphasized that there are, indeed, thousands of agents, company employees, managers, officers and Board members who are honest, hard-working individuals.

Unfortunately those who are honest are being undermined by unscrupulous individuals who are, more often than not, gaining positions of control in the industry.

The current system lends itself to one result--GREED. In many instances I have seen individuals who are in leadership positions place their interests far ahead of their policyholders. The net result is the transfer of millions of dollars from the rightful owners to company executives without disclosure to consumers.

There is little in the way of required disclosure to consumers in the insurance industry, which has become a breeding ground for the worst kind of unmitigated consumer abuse.

Although my experience is limited to those companies that I have represented, there is every indication that the practices I am describing are rampant in the insurance industry.

I have previously maintained an agent's contract with both New York Life(NYL) and Connecticut Mutual(CML). I have had the opportunity to gain an insider's view. Those carriers' officers have totally forgotten the underlying meaning of a mutual company.

A mutual insurance company is one that is promoted as being owned by the policyholders. A stock insurance company is owned by the stockholders. In my experience, nothing could be further from the truth with respect to a "mutual" company.

My views are the outgrowth of seeing executives plan the transfer of policyholder funds for personal use.

The insurance industry is the only financial services industry that has no scrutiny at the federal level. State regulation as directed by the National Association of Insurance Commissioners (NAIC) and agents' "at will" contracts, have created a feudal system with agents as economic slaves. Responsible agents have little chance of being heard. When agents take a position that is not industry sanctioned, those agents are either shouted down or dismissed from companies.

In the life insurance industry consumers have lost and will continue to lose billions of dollars due to a gross lack of relevant disclosure. From a consumer's vantage point, buying life insurance causes total confusion. This confusion is borne of scant state regulation, deceptive illustrations, and fradulent sales practices.

Of one thing you can be sure-----there is profit in confusion!-----

BUT NOT FOR THE BUYER!

Aggressive Marketing/Lack of Illustration Integrity

Aggressive marketing by most companies has resulted in illustrations with little integrity or chance of performing as depicted. Unfortunately, the policyholder has little knowledge on which to base a decision. For example:

Hidden Product Costs

Illustrations depicting permanent equity building products from five(5) different carriers promoted five(5) different descriptions of similar cash value: net cash value; value while living; cash value; cash surrender value; and total cash value. None showed what everybody needs to know: bottom line value.

Hidden costs in numerous products contradict not only the industry's but companies' own statistics. A company may decrease the cost of its term insurance products in order to make them more attractive. At the same time the company may increase the term (mortality) cost in Universal Life products in order to make up for losses or increase profits. Consumers have no means of making themselves aware of these contractions.

Hidden costs abound in many illustrations. Increases in cost and consumer exposure as a result of aggressive assumptions and risks are seldom disclosed. Policyholders who purchased such products are now told that the premium periods will be longer than originally projected, and of far greater annual costs than first illustrated.

Currently the guaranteed levels in many products provide outlandish hedges for profitability. If a requirement existed to provide illustrations performing fully when using these "guarantees", the abysmal underlying performance would surface. Consumers could then make valid decisions based on a more level playing field.

Companies should be mandated to provide prospective purchasers comparable illustrations depicting reduced dividend and interest rate assumptions.

Unfortunately many companies either do not have the ability or will not illustrate such comparisons, and there is certianly no regulatory requirement for agents to do so.

Of course, there are a multitude of disclaimers that accompany any illustration. NYL illustrations, for example, now have five(5) such pages. They by no means instill confidence in the consumer. They do, however, insulate the company from consumer litigation.

Although not of the common variety of hidden costs, a more insidious approach is now used by Connecticut Mutual. While the company touts: "a strong tradition of reliable dividend performance--and we intend to keep it that way", a far different message was communicated deep in a company memo. "However, to keep up with inflation and the cost of administering policies, we have begun subtracting a policy maintenance fee from policy dividends. This does not reflect the strength of the policy; it is merely a 'service charge' for administering it."

If each of 1,000,000 policyholders is charged $50 unknowingly through reduced dividends, $50,000,000 can be obtained in short order. I believe consumers in mutual companies will see only more of similar activity.

It should also be noted that perhaps one of the last vestiges of consumer interests is shown by benevolent associations such as Navy Mutual Aid. By dealing directly with Navy personnel large acquisition costs are avoided. Their UL product is the only one I have seen to date in which there is no surrender charge in the first year.

Other companies that deal direct with the public generally have better long term rates of return on UL products. However, pitfalls still exist at or slightly past projected life expectancy.

Two such companies are USAA and Ameritas. In a USAA policy provided by a client, the crediting rate was 8.05%. However, while using the scheduled premium payment as provided by USAA, the product exhausted itself at age 89. The consumer's objective is not to have the policy expire before the policyholder expires.

While the Ameritas policy for myself at age 45 exhausted itself at the guaranteed rate of 4.5% between 65 and 75, it was in-force at my age 95 when using the projected gross crediting rate of 7.8%. The rate of return on death proceeds at age 85 was 5.65% and at age 95, 4.3%.

Both rates are absurdly low, providing substantial margins for profitably to the company.

Illustrations--Gross vs. Net

The persistent interchange of the terms "gross" and "net" in both dividend scales and interest sensitive products leads to confusion amongst both consumers as well as agents.

The crediting rate purported on the interest sensitive (Universal and interest sensitive Whole Life) products may be the biggest hoax ever successfully promoted to the American consumer! The gross rate is credited to what remains after cost of insurance (mortality cost), loading and administrative charges are subtracted.

Let us assume that a client purchases two(2) Universal life products and contributes $1,000 to each as the annual premium.

On one product the agent promotes a 12% rate of return. After subtracting $600 in charges the client is credited with 12% earned on $400, or $48 gained.

In the second product the agent specifies an 8% crediting rate. However, this carrier only charges $300 for loading, mortality and administration costs. Thus, $700 remains on which to earn interest. As the end result, $56 is obtained.

Ironically, many of the financially strong carriers credit reasonable rates coupled with reasonable charges. However, most second tier carriers that are weak financially tout excessive rates and/or usually excessive charges that leave little in the long run for the consumer.

The consequence is that consumers are finding out that their purchases are imploding or becoming exhausted unless they make additional payments. In thousands of sales made daily high attractive rates win out over intrinsic value as these carriers "buy business".

A recent analysis of a First-Penn Pacific product for a referred client yielded the following results while the product illustrated a 7.65% crediting rate:

(1) An internal rate of return (IRR) review netted 4.36% on death proceeds at age 84 and 0.25% on cash value available at age 84. By this I mean that if 4.36% were credited to the premium outlay as projected in the illustration, the amount received would equal that of the death proceeds as also projected in the illustration at age 84.

(2) At age 89 the product collapsed even with the continued scheduled payment of uninterrupted premium. The policyholder would have to pay far greater premiums if he desired to have the policy remain in-force. At this point the cost of insurance (pure death risk cost or term element) exceeded the proposed premium payment. No funds remained on which to receive interest crediting. The client had never been shown the long term results nor is there any requirement in Virginia to do so.

Deceptive Practices--Illustrations and Industry

In many states a life insurance illustration is required to depict only twenty(20) years and possibly a year point such as at age 65. The illustration may look very attractive as illustrated. However, when many of these illustrations are run to age 85 or 90, they collapse unless additional premiums are paid. In many cases after age 65, the out-of-pocket cost will not only reappear, but increase significantly to the unsuspecting consumer.

Under potential threat of Federal Trade Commission regulation in the 1980's, the NAIC responded with required surrender cost and net payment cost indices such as at 10 and 20 years. In actuality these numbers on an illustration are worthless for comparison.

Many companies have simply responded with unrealistic assumptions used at these year points. Other companies have persistency bonuses or "spiked" gains to artificially make these figures look more attractive. In using persistency bonuses the illustrated increases in both death benefits and equity (cash value) are supposedly awarded to those policyholders who remain in the contract.

This is representative of a tontine, benefits awarded to those who remain. What it points out is simply unsound underwriting. What happens if those that remain are only the unhealthy risks that cannot obtain coverage elsewhere? What happens if more people remain than anticipated?--the projections fail since there is not enough to go around.

The final absurdity is what good does the 10 year payment index do for the consumer if the policy implodes or exhausts itself in year 25.

Computerization has only exacerbated deceptive and fradulent practices. Today, illustrations may be produced with so many variables as to create utter confusion. Many illustrations are not straightforward, and the use of "spreadsheet" presentations is on the increase.

One noted authority on insurance is Joseph M. Belth, a professor at Indiana University. He has stated "If somebody hands you an illustration, you should tear it up and throw it into the waste basket." In the vast majority of illustrations that I see, I am in total agreement.

In reviewing some clients' current policies, I have seen many cases where the policy issued does not correspond with the original sales presentation. Some companies now require that the policy owner sign an illustration that corresponds to the issued policy when it is delivered. This practice gives the consumer an opportunity to review the actual purchase.

In a number of cases referred clients have stated that previous agents informed them that policies would be "paid up" when illustrations depicted zero(0) out-of-pocket outlays in columns labeled "net premium payment, net outlay, annual premium payments", etc. Statements of this nature could not be further from the truth, although many companies do little to dispel that myth when "training" their agents.

Recently I looked at a Northwestern Mutual illustration. Although it had been promoted to the client as a $1,000,000 permanent program, on dissection it was nothing more than a $10,000 Whole Life product "blended" with a $990,000 term product having an increasing premium. The <u>non-guaranteed</u> increase in premium that constituted <u>99%</u> of the product was effectively buried by illustrating a "single deposit" in excess of $50,000 together with annual premiums of $10,000 for the next eight(8) years.

When large amounts of cash are placed in a product early on, a number of policyholder risks can be hidden.

"Blended" products are computer generated illustrations that generally combine a permanent equity building program in one of two(2) methods:

(1) A term element having increases in premium. These increases are in most cases not guaranteed. The payment of the term cost is illustrated as being paid or supported by <u>projected</u> dividends or interest assumptions. Annual costs may increase together with the projected premium payment period being extended.

(2) A cash enhancement or purchase of additional insurance rider. Purchases using this approach gain the benefit of generally having to pay commissions of 2 1/2-4% on these funds. The exposure in this "blend" is a longer premium payment period than originally projected should dividends or interest rates not be credited as illustrated.

In many product scenarios involving those "blended" products, particularly when having a term element, the premiums may well increase to three(3) or four(4) times the original premium as illustrated.

Consumers are, for the most part, totally unaware of the risk they are assuming. The travesty is that these substantial increases in premium may well occur only after the individual has retired, when such costs can least be afforded.

Few carriers will provide a pro-rata refund of unearned premium when a product is surrendered at a date other than the policy anniversary date. If an annual premium has been paid, for example, the consumer should be able to recover the pro-rata premium for the period when coverage will not be in place.

Many illustrations during the last few years have depicted rates of return at life expectancy far in excess of a company's net yield on investments. When mortality risks are set aside, insurance companies, like banks, must pay the policyholder less than is obtained on investment returns in order to remain profitable. When underwriting of risks is poor, the profit margins need to be greater, thus leading to high risk investments.

Time and again illustrations make no allowance for profit margin. This is particularly true of some "blended" or combinations of product using unrealisticly low projected term costs.

How can an insurance company in today's interest rate environment project 14% rates of return at life expectancy when it may be reporting less than 9% net yield on its own investments?

In order for these projections to come true, my assessment is such that one or a combination of four factors must occur:

(1) Insurance companies must obtain rates of return on investments inconsistent with reasonable risk.

(2) Companies are actually transferring much of the risk in a deceptive manner to the policyholder.

(3) The life insurance industry to some large extent is subjecting the consumer to a derivative of the time-worn Ponzi scheme---an investment strategy in which some early investors are paid off with money placed by later investors in order to encourage more and bigger risk.

(4) Or, companies pay low returns to consumers on some products so they can presumably pay higher rates to others.

In the settlement of death claims, many companies are promoting that the beneficiaries leave the proceeds in a bank account from which they may draw checks. In settling a recent claim with Connecticut Mutual, Home Office personnel conveyed to me that these accounts are insured by FDIC for each beneficiary. As that did not sound appropriate, I investigated further. The result was only to find that the funds were being held by CML and were subject only to the guarantees provided by CML's remaining a solvent carrier. The client decided to remove the funds to several banks.

In many contracts today the guaranteed premium actually increases at some point in the future; i.e., 3 years, 16 years, etc. By providing the consumer illustrations using future projected dividend or interest values to "curtail or vanish the out-of-pocket premium", the actual increases in premium that will occur are often buried in the illustration.

Such was the case in a recent sales situation. A stockbroker who was also licensed to sell life insurance represented Prudential. The product presentation was plagued with confusion and misrepresentation. The man's health resulted in a rating or additional cost. However, the name of the product is SELECT PREFERRED. Despite the fact that the policy was issued with a "class" rating, the policyholder was told the coverage was indeed PREFERRED.

Based on the projected premium outlay and death benefit values as conveyed to me by the gentleman's accountant, an internal rate of return analysis showed that the death benefit at the man's projected life expectancy was 13.4%. Unless Prudential begins to earn 15% net yield on its investment portfolio, there will most assuredly be some cash calls for the unsuspecting policyholder.

Having been around the construction industry most of my adult life, I am fully aware of the profitability to be obtained in "change orders". Unsuspecting policyholders are buying into "forced change orders" that in many cases will leave them no alternative.

In this particular case the policy was a "blended" product having an internal term element that is to be paid in the future based on projected dividends. The term costs can increase together with the dividend values decreasing. This possible squeeze may force additional as well as increased premiums.

A final point should be made. The guaranteed premium will increase according to the schedule in year sixteen(16). The stockbroker/agent apparently either was not aware of this or did not convey it. The dividend projections, however, buried this fact by illustrating a zero(0) outlay in that and subsequent years.

The moral of this story is a basic one. As long as consumers continue to fall for such "slick" presentations depicting totally unrealistic values, those illustrations depicting true value will lose ground. I am seeing marketing departments, illustrations, and agents from traditionally conservative companies succumb to the power of this activity. On many occasions when intrinsic value loses to hype, consumers lose both ways--from the single transaction in addition to the influence exerted on the entire market.

Competitive pressures being what they are, I see little change in the industry's headlong and continued course of consumer abuse.

Not only are consumers duped, but agents may be just as totally unaware of a product's pitfalls. My assessment is that regulation should require that a corresponding illustration be presented depicting the full ledger or schedule of premium payments throughout. Only then will consumers be able to ascertain what will actually take place as to guaranteed premium requirements. Many consumers will be shocked.

Hidden Costs to Taxpayers

The proliferation of tax-leveraged or tax-supported products is again on the rise. Policies are being promoted as having triple tax free benefits: (1) income tax deferred growth; (2) income tax free death benefits; and (3) tax free withdrawal of funds for such purposes as education and retirement.

In order for these promises to come true as projected:

(1)The product must perform as illustrated.

(2)Current tax laws affecting such products must remain unchanged.

Furthermore the "wash loan" component of these products may create phantom income and a considerable income tax bill. If the product does not perform as illustrated, it may exhaust itself or require substantial premiums in later years. If the product is allowed to collapse, the consumer will then receive an income tax bill for all the funds "borrowed" (withdrawn tax-exempt) in excess of premiums paid.

I have not yet seen this potential "surprise" noted on a single sales illustration.

For example, Lincoln Benefit Life currently markets this product as "One of the Industry's Hottest U.L. (Universal Life) Products". Accompanying literature received at a recent continuing education seminar sanctioned by the Maryland Insurance Commissioner promoted this company as offering "Integrity, Safety and Security". No information whatsoever disseminated the product's potential problems, tax or otherwise.

One agent asked the speaker what would happen if the policy collapsed. No response was forthcoming.

In the rare event the product survives, the U.S tax-payer subsidizes its gains, that of the insured making income tax free withdrawals in the form of interest free or "wash" loans. For those in our society who cannot or will not purchase such abusive products, they must still bear the brunt of subsidizing such programs if these products are allowed to persist.

Cash Flow Underwriting

UL products are indicative of what some in the industry are calling cash flow underwriting. This is the practice of "buying business". By promoting high gross interest rates with products that are attractively packaged while keeping future costs well hidden, companies are seeking to increase sales dramatically. Little thought is being given to the long term commitments being projected in these illustrations.

Insurance companies are essentially nothing more than banks with mortality risk (life expectancy) given some some consideration. Agents are basically bankers attempting to obtain capital contributions (premiums) for insurance companies to reinvest. When greater cash flows can be generated, as noted above, the gains in the point spread are anticipated to offset the expected underwriting losses.

However, the marketing departments of life insurance companies forgot human nature when aggressively marketing UL products in the 1980's. Inherent in those products was the flexibility for the consumer to forego premiums for perhaps a year or more if there was sufficient cash in the "side fund".

Most people that I deal with would like to defer such items as taxes and insurance premiums. When that trait was coupled with a decline in interest rates and a recession, it left and is still leaving companies with little cash to offset the losses that are occurring.

While the flexibility of paying/deferring premiums was an enticement for the consumer, it has proven disastrous for companies. Those anticipated gains in cash flow and point spreads have evaporated, leaving companies with poorly underwritten risks.

It was quite appropriate that First Capital Life, the outgrowth of E. F. Hutton Life Insurance Life Co. which introduced UL products in 1979, was among the first to fail. The UL segment of the life insurance industry is in the initial throes of death. Ironically, one of the only items that could save it would be increasing interest rates that could again create some gains for the company and consumer.

As cash flows have subsided and losses mount, the consumer is only faced with even less value. One carrier after another has yielded to temptation and increased the "hidden" costs in order to remain solvent and preserve their ratings. Losses are just passed through to the consumer.

Is the life insurance industry going to be another S & L crisis?--I would predict at this point not only absolutely--but worse. Only much needed federal oversight will serve to dampen the worst case scenario.

As more consumers become aware of these subterfuges, more will bail out of those contracts having little in the way of substance or integrity. The mockery is that due to the excessive surrender charges in some products, the actual losses these carriers experience initially will be reduced for a period of time.

In the long run though, the better risks having good health will bailout, leaving these "sinking ships". This has already begun in many companies. As it proceeds the worsening situation becomes magnified. This is due to the fact that many impaired risks, or people whose health is such that future underwriting is highly improbable, will remain "on the books". This unfolding situation will only exacerbate the industry's solvency problems.

Planned Obsolescence

I am convinced that many products are actually designed with planned obsolescence in mind. To an extent lapse supported products are in this category. This approach is nothing more than a tontine, a financial arrangement in which the participants usually contribute equally to a prize that is awarded only to those participants who survive all the others.

<u>Summary</u>

<u>If we assume that the unrealistic illustrations that proliferate in the marketplace today have been understood and licensed by the state regulatory authorities, then I would by no means want to see the ones that have failed their tests.</u>

Consumers, together with responsible agents, do not like surprises. However, today's illustrations as well as many in the '80's are loaded with shock value for the unsuspecting purchaser of life insurance.

Aside from providing temporary coverage or cash in particular situations (education, emergency, etc.), <u>the only good permanent</u> (cash value building) <u>policy that ever has been, is, or will be is the one that is in force at a person's death.</u> All monies that are paid to any other program, other than for providing short <u>term</u> peace of mind, are a waste of a consumer's money.

A very valid argument can be made that: (1)temporary needs require a temporary solution (term insurance); (2)intermediate needs or those requiring flexibility require a "universal" solution; and (3)permanent needs require a permanent solution. Life insurance discussions should be that simple to understand.

Only when agents begin to apply common sense to sales and return to selling based on needs, will the consumer benefit.

All too often I have found young families, for example, that were overloaded on exorbitant premiums because agents have been "doing their job". When they need cash, the policies are dropped (lapsed), and all or most funds are lost. Of course, agents and management walk away with their commissions and overrides.

In many instances consumers may be far better off to purchase term insurance to cover their death benefit needs until the industry rights itself. Purchasing a lottery ticket may provide better actuarial odds of receiving a living cash benefit as opposed to many illustrations and companies in the life insurance industry today.

This only serves to highlight the case for rebating, or negotiating commissions. I strongly favor this as it allows the market to seek its own level. Agents who are content to receive less money up front with vested renewal income spread out over more years have far more incentive to work with their policyholders to keep the business in place.

Only when rebating is legal throughout the country will consumers have some measure of protection. Currently only Florida and California authorize this. Until this is fully understood and supported by consumers, agents who are nothing more than "replacement artists" will continue to reap high levels of commission from sales this year to a client, only to replace the product every few years. Some agents have made this a way of life.

The life insurance industry is destined to continue its decline and continued lack of consumer confidence as long as rebating is prohibited and replacement of policies is allowed without a standardized analysis.

With no antitrust statutes life insurance companies are free to form monopolies. My contention is that this is indeed taking place with companies such as New York Life. When Mutual Benefit failed, NYL agents were solicited to go out and recruit their agents. Surely their clients' policies will eventually be moved to NYL through replacement once Mutual Benefit comes out of receivorship.

There is certainly nothing in place to stop this activity if a carrier is revived. The clients' confidence is shaken, and companies that appear to be strong will obtain the business at the expense of the consumer in most cases. There will be more of this activity as more companies fail. Replacement will be the only benefit to be obtained by the consumer. When the policyholder is left with that as the only viable means of retaining coverage, it only further points out the shortcomings of state regulation that is the source of these problems.

Replacement

Replacement is one of the most abusive practices in the industry. Many agents have grown rich from such activity. One company has probably taken the all time lead in this category, Primerica or as it was previously known, the A.L. Williams Organization. By some estimates almost 50% of its business had resulted from replacement.

In the states in which I am currently licensed the requirements are scant that would otherwise protect the consumer. No analysis of products whatsoever is required prior to replacement.

The agent replacing the product simply has the consumer sign a form. This is then supposed to be submitted with the consumer's application for insurance. The carrier to which application for coverage is being made is then supposed to forward the notification form to the company whose coverage is being replaced. In this manner the company being replaced should be notified.

However, in many cases this either does not take place or the notice is received after the fact.

The introduction of Universal Life(UL) products in the early 1980's brought about the replacement of many permanent or traditional whole life products. These were promoted on the basis of "high" gross interest rates and flexibility.

My NYL general manager at the time solicited on several occasions that all policies be replaced with UL. Needless to say the companies were able to rid themselves of many products that had been growing for consumers based on reasonable rates of return. This practice within a company is referred to as internal replacement.

Now many agents are replacing their failing UL products with high-flying term based "blended" products. The agent, manager and company all win while the consumer again loses. Joseph Belth states "Be wary if someone suggests abandoning one company for another." I am in total agreement as each sale generates new acquisition costs, commissions and overrides.

Enigmas, on the other hand do exist. How can companies continue to create new and better products while not taking some steps to benefit the existing policyholder? In some specific instances new "blended" products using cash enhancement riders as opposed to term riders are solidly performing products based on what I feel are realistic assumptions.

Commissions on the bulk of premiums paid in a "blended" program may range from 2 1/2% to 4%, as opposed to 50%-55% in traditional products. The reduced loading and commissions simply increase consumers' rates of return. These products were, in part, introduced in the corporate marketplace to give agents a competitive edge. By adjusting the mix of base policy and cash rider, commissions as well as rates of return may be adjusted.

Hence, the product is nothing more than legalized rebating although the industry refuses to accept rebating. In some instances such products for existing consumers in a given company, when given non-smoking status, volume discounts, preferred risks, etc. may be beneficial. However, NYL among other companies penalize the agent for working with existing policyholders in this area.

The same company will promote any and all replacement activity from other carriers but will not support reasonable treatment or programs to benefit existing policyholders. Such action heads a company in the direction of becoming a monopoly.

Even more onerous to consumers and perhaps little known, agents place themselves in a threatened position of liability as a carrier faces receivorship or a company ceases to provide certain services.

On December 4, 1991 I received a letter from Diversified, a subsidiary of CML, noting that it "will no longer provide brokerage services". The letter also spelled out the agent's "obligations regarding persistency and replacement".

Under stated threat of litigation and contract termination, agents were warned that any "replacement of contracts of insurance" will "warrant injunctive relief and other relief". So as an agent in a non-regulated industry you can be sued by the company even if you attempt to serve your policyholders' long-term interest.

Weak carriers are thus propped up with no one sounding any alarm bells.

My comments should not be interpreted as supporting replacement. Careful analysis of IRR's, funds previously paid, acquisition costs and potential gains vs. risks should be weighed. On the other hand companies should seek to reward existing policyholders with well thought-out programs, not penalize them for seeking to increase returns within their own carrier.

Executive Compensation

The compensation of insurance company officers and Board members has seldom, if ever been disclosed to the consumer. In September, 1988, I was approached by my (now former) business associate David F. Oyster and indirectly by Donald K. Ross, then Chairman of the Board of New York Life and Harry Hohn, then general counsel and currently Chairman. The request was that I produce illustrations for a proposed plan of executive compensation for New York Life officers.

Census data (age, sex, annual compensation, etc.) was provided by Ross' office on at least seventy-three(73) potential participants. I spent several weeks dedicated solely to work on this program. During that time frame I was told of my being "allowed to join an elite group of several past Council Presidents" (former leading NYL producers) who had previously written insurance on the company's officers.

The ensuing discussions subsequent to my producing illustrations included the following: (1) how to best circumvent New York State statute relating to officers' compensation and (2) the possibility of Oyster's and my writing such a plan on CML officers while selected CML agents would write a plan on NYL officers. Oyster and I maintained both NYL and CML agents' contracts known to both companies' chief executives.

In October, 1988, I rejected further participation in this plan. The "NYL COLI (Corporate Owned Life Insurance) program" in its design at my departure was to place $50,000,000 of permanent insurance on these officers. This was to provide them tens of millions in retirement benefits. The officers were to contribute nominally to the premiums due so as to experience annual compounded rates of return easily in excess of 20%.

That the officers would participate in such a plan in my qualified opinion was tantamount to stealing from the policyholders. Amounts in excess of $100 million were discussed but it was stated that "more can be added later as there are no regulations" relating to this.

Based on statements of a number of company officers and management personnel such a program was implemented in 1989-91 with at least one agent receiving in excess of $1.1 million in initial commissions. Overrides to selected managers may have extended into the hundreds of thousands of dollars. Several million dollars were to have been paid over the course of a few years to those agents particpating.

Indicative of these comments were those of Jules Del Vecchio, a corporate vice president. In an October, 1989, meeting involving other agents while on a visit to the Home Office, he stated that "Oyster and [J. Peter] Lyons shared (in commissions on) the New York Life COLI case". He subsequently made reference that the "Regans at MCG (William V. Regan, Sr. and William V. Regan, III, representing Management Compensation Group) had previously written coverage on New York Life executives.

William E. Babcock, General Manager of the local New York Life office, has made similar statements on numerous occasions.

In the NYL officers' minds, many simply view the pool of five(5) million policyholders as being a great source on which to draw funds. In my work on the "NYL COLI case" it became readily apparent that they felt they had the unrestricted ability to the use of policyholder cash. If $200 is taken from each of the 5,000,000 policyholders, then the officers come into one(1) billion dollars!

The feeling that predominated was that "no one will get hurt".

During that time frame policyholders' dividends have been reduced, some employees' salaries have been frozen and most agents' compensation has been reduced.

Needless to say, the additional risk of insuring NYL officers is assumed by the policyholders without either disclosure or consent. I found the underwriting of this business to be questionable as to its being an arm's length transaction. Which underwriter was going to tell a Senior VP that his coverage was heavily rated due to (hypothetically) alcohol abuse?

The top officers, however, thought it a wonderful idea to have NYL write NYL policies placed on them and paid primarily by NYL policyholders. It was to put them as one party stated "a little closer to our brethren in the stock companies" relative to compensation.

At the very least the policyholders in such a plan would be conveying an interest free loan to the executives for their personal gain. I am sure many policyholders would enjoy having NYL front them $1,000,000 free of charge so as to earn interest on it.

I viewed this as being done solely at the policyholders' expense. Although such a plan may be legal, it does not make it right. I believe most of my NYL policyholders, had they been made aware of such a program, would have vehemently opposed it.

The use of policyholder premium dollars to pay for New York Life policies on NYL officers is an abuse of the policyholders' trust and I personally feel a breach of fiduciary duties by officers of a mutual company. Such a program lends new meaning to the terms insider trading and self-dealing.

While executives are enjoying innovative perks many consumers will experience performance in products that may be called "cliff policies". Policyholders will believe they have valuable coverage on which their families, businesses and retirements may be dependent, only to reach a cliff and fall off, having little or nothing.

The true meaning of "golden parachutes", stock options and other executive perks will only then become apparent. As consumers are falling, they will see many an insurance company executive floating down on a cushion of millions of dollars. These monies should have been received by policyholders of Executive Life, Mutual Benefit, Equitable, New York Life... This is by no means a pretty picture but accurately depicts a wanton, irresponsible case of consumer rape.

These programs can be considered by executives only as a direct result of inept state regulation and a total lack of federal oversight.

Conclusion

Unless the present course of the life insurance industry is arrested by federal regulation and an Insurance Regulatory Commission, the industry will indeed become another S&L crisis, only worse.

If we have antitrust statutes to protect consumers from foreign markets, we should certainly have antitrust statutes in the insurance industry. Why should a company like New York Life be allowed to build a monopoly as it attempts to thrawt brokerage business.

One noted spokesman who favors the status quo, Don Barnes, says "there was a time, not far in the past, when insurance departments were understaffed, underpaid and sometimes securely in the pockets of companies that did a lot of business in their states." The only problem is that Barnes has obvious difficulty in distinguishing the past from the present and what is sure to be the future if Congress does not act.

It is becoming increasingly difficult to find solvent carriers providing illustrations and products having integrity. The responsible carriers are being beaten by illustrations based on unrealistic assumptions. As these companies consistently lose market share, the consumer in turn loses.

I would contend that most, if not all the industry's organizations, NALU, ACLI, MDRT, AALU, etc., are in the hip pocket of the companies as they continue their unrelenting support of state regulations. Agents unfortunately are inevitably leading to their own demise in supporting their associations' lobbying efforts.

Responsible agents should address these issues headfirst. If they do not, eventually they will have no viable illustrations with which to present their clients in which they can take pride. These agents' future is at stake. Out of respect for the clients who made them successful, agents must take the initiative to no longer represent only their companies, but their policyholders. Only in this manner will there be policy contracts worth selling in the future.

Those agents who support the status quo will be left to hype evermore aggressive assumptions with deteriorating values.

Billions are being spent on health care and research so people may reach old age and enjoy it. That being the case, Congress should take steps to protect those funds saved in the insurance industry in life products, pension plans and annuities so people may enjoy retirement.

All too many officers and managers have forgotten their responsibilities as caretakers of policyholder funds. They are supposedly beholden to the owners of mutual companies but a total lack of regulation allows them to abuse their positions of responsibility.

Those other carriers that are already weak are grasping for cash so that they may honor their previous poorly underwritten commitments.

Indicative of the insurance companies' hold has been the response of several managers and officers to a report I submitted to the Department of Treasury in 1990. In that, as well as in speaking engagements, I have been harshly criticized by those officers and managers for my position on supporting federal oversight and regulation.

Sadly the life insurance business today is far removed from that which I joined over sixteen(16) years ago. The moral plane on which it exists today is pitiful.

Unfortunately I believe you will find few agents that are in a position to provide your committee responsible and accurate answers to questions that you may ask. Basically they have no means of arbitration or seeking restitution from the companies they represent, aside from lengthy and costly civil litigation. In essence they are hostages.

At the very heart of the industry's problems is an all-encompassing lack of disclosure to consumers, and in many cases to licensed agents. The activity that thrives in the insurance industry today is in dire need of correction. It is an embarrassment to all in the industry, be they employees, managers, officers, or agents, who attempt to lead honorable and productive lives.

Recommendations

(1) Consider buying term insurance to cover the need until the industry becomes regulated. If everyone did so, the industry would come around a lot sooner.

Insurance companies are like banks. They will usually accept more money as long as the risk does not increase. Most all companies will, therefore, guarantee the right to convert term coverage to a permanent program for a period of time.

(2) Obtain a "full ledger" illustration showing all guaranteed premium requirements. This should readily depict any increase in the amount of premium in later years.

(3) Obtain an illustration with reduced assumptions in dividend scales or interest rates.

(4) Review an illustration that shows both projected and guaranteed values, both cash and death benefit, to at least age 85 or 90.

(5) When looking at permanent (cash value/equity) coverage obtain an internal rate of return analysis at least to age 85.

(a) If the IRR is above the company's net yield on investments, there are surprises in store for you--greater premium payments and/or a longer payment period.

What looks to good to be true, generally is!

(b) If the IRR is absurdly low, then you most likely can do considerably better.

Note: When reviewing an IRR at life expectancy you might consider using the company's annuity mortality tables. These tables depict a greater life expectancy due to greater "peace of mind" and financial independence. If your life insurance program works as it should, you will have that "peace of mind". Some companies depict a relatively low life expectancy in order to make the IRR appear more attractive.

(6) Review surrender charges. It is far easier to get into anything than out of it.

(7) Get clear answers on gross and net rates and charges.

(8) Review company provided data skeptically. Truth in advertising is not an industry strength.

(9) Look closely before you leap. A solid life insurance program is hopefully a long term committment.

(10) Find out all the variables in a policy: dividends; interest rates; mortality charges; administrative costs;...

(11) Have the agent sign the illustration when the policy is delivered noting: "This corresponds with policy __________ issued on (date)."

(12) If replacing a policy, get the agent to prepare an analysis that takes into account the money already spent--and have this analysis signed.

With signed illustrations and analyses, you stand a far better chance of dealing successfully with either the company or insurance commissioner should the need to file a complaint arise at a later date.

(13) The history of products projecting tax abuse teaches a basic lesson. The purchaser gets abused. Tax laws change and will continue to do so.

(14) Last but not least--Obtain your agent's opinion on rebating, repeal of the McCarran-Ferguson Act and initiating an Insurance Regulatory Commission.

Food for Thought:
Permanent or equity building insurance is analogous to the purchase of a deeply discounted or zero coupon TAX-EXEMPT bond purchased on an installment basis. When a policy is purchased to solve a permanent problem--need for cash regardless of when you die--a person should be more than satisfied to realize that the beneficiaries should receive 6-8% income tax-exempt as death proceeds. This is particularly the case when you stop and think that if you pass away prematurely (all deaths are premature) your beneficiaries will receive a much greater rate of return.

When insurance companies assess risks prudently, then the average life expectancy for their insureds should equal or exceed that projected in valid illustrations. In this manner the carrier will have a longer period to invest premiums paid. When investments are both diversified and are not exposed to excessive risks, gains should be realized---both for the company and policyholders.

If the industry persists in touting products as having high rates of return associated with high risks, then the products will have all the characteristics of an investment. That being the case coupled with longstanding abuse of consumers' trust, the inevitable will occur--taxation of the inside buildup of cash value. If it walks, talks and acts like an investment, it will be taxed like an investment. Only the companies will have themselves to blame.

Senator METZENBAUM. Thank you very much, Mr. Mercer, for an excellent statement. We will have some questions.

Let me proceed first with Mr. Nelson, and I will not make any inquiry of you, Mr. Butler, as requested by your lawyer.

Mr. Nelson, have you ever sold policies for any of the five companies that have illustrations appearing on these charts?

Mr. NELSON. Yes, all except New York Life.

Senator METZENBAUM. Given your professional experience with the companies' products, I would like you to explain the policy illustrations displayed in the charts. Copies of the charts have already been handed out to you and those present at the hearing today. Anyone who doesn't have a copy can refer to the charts behind me, or the staff can make available a copy.

Mr. NELSON. The sales illustration is what the consumer relies on to make a purchase of life insurance. Since there is no real benchmark of what life insurance should cost, and the cost varies widely—at least in my studies, a 200-percent difference in cost from company to company—the consumer is led to rely on what the insurance company projects to charge it for insurance.

The problem with the policy ledgers is that, as you can see, the rates vary from around $2,300 to $6,800 for the same 45-year-old male for $300,000 of insurance. So the consumers are in a situation that, if they have seen all five of these, they tend to be confused. They would wonder why five reputable, strongly rated, highly competitive companies come up with such a huge difference in cost, and what are they paying for if they pay the $6,800 or $6,000 in premium, or what are they giving up if they pay only $2,300 or $2,400, and that is where they rely on these computer-generated illustrations.

I spend more of my time trying to point out to the consumer what is missing from the sales illustrations because I am working with someone that is interested in buying life insurance, and if they rely on these, they are going to be sadly disappointed.

As an example, the interest rates are extremely important. That is what permanent life insurance is composed of, money at work. So if a consumer thinks, in the Alexander Hamilton ledger, that the insurance company is projecting the cost at 7.5 percent, that might seem reasonable; it might, assuming the insurance company is earning at least a percent or a percent-and-a-half more. That information is not given, what the insurance company is actually earning.

And the next thing is that is not projected at 7.5 percent; it is projected at 7.5%£. So when you add in the pound sign, which most consumers don't understand, it means another 1½ percent. It is projected at earning 9 percent. Now, that is probably unrealistic, unless most of the consumers cash the policy in during the early years, and the only one that controls the mechanism to encourage the consumer to keep the policy, or discourages, is the insurance company.

So if the insurance company in 3 years comes out with a new super-duper improved version——

Senator METZENBAUM. And the insurance company never explains to the policyholder what is going on? They just advise them, these are the changes being made, and they give them some glib language as to the fact that by reason of this or that, there is such a change. But there is never that community of relationship that would exist in most other businesses?

Mr. NELSON. No. In my experience, the agents are the conduits of information, and when the agents attempt—just recently, the American Society of CLU's—this represents over 25,000 professional insurance agents—they had to go back and do a new study to try to get insurance companies to answer questions about the price of life insurance.

I am sort of paraphrasing or taking the quote, but one of their own representatives said they had to redo the study so that the company actuaries couldn't blow smoke around the questions. The professional society representing insurance agents, the conduits of information, cannot even get the information out of the insurance companies.

Senator METZENBAUM. Would you say there is kind of an arrogance that the companies have both in dealing with their agents as well as with the public?

Mr. NELSON. In my conversations with the companies when I ran into the problems of them resisting my publicly disseminating the information, the constant disagreement was what are the rights of the agents and consumers to know what they are buying, and the attitude was your job is to sell it; that is it.

But, remember, consumers are spending tremendous amounts of money. They are spending over $50 billion a year on these individual life insurance policies, and informed consumers today want to know what it costs.

Senator METZENBAUM. Would you say the insurance industry today is arrogant, cocky, smug, indifferent to the concerns of their agents or their policyholders, in contradistinction to almost any other business in this country?

Mr. NELSON. From my experience, if they had to compete as other financial services, these practices would not go on. It has just been hidden for so long, and attempts to make it public—that is why I appreciate your work, Mr. Chairman, in this committee because it is high time that it comes out to the public what is going on.

Senator METZENBAUM. Mr. Nelson, in the policies illustrated, a consumer will pay 60 percent of his or her first year's premium in commissions for the Alexander Hamilton policy and 90 to 100 percent of his or her first year's premium in commissions for the other policies. Is it possible for the average consumer, or maybe even the well-informed consumer, to determine this information from the illustration, and if not, why is this information important to the consumer when purchasing a policy?

Mr. NELSON. Commission expenses are not disclosed. They are not required to be disclosed to the average consumer, and it does make a big difference because all of these insurance companies have dual pricing. You could go back to the same insurance company and buy the same $300,000 of life insurance for a 45-year-old male nonsmoker and pay less and get the same amount of cash value. They have A and B policies.

Senator METZENBAUM. Is it not the fact that, generally speaking, the agent receives somewhere between 90 and 100 percent of the first year's premium as a commission?

Mr. NELSON. Yes. That is why, if you look at the illustrations, there is little or no cash value in most of them even until the third year. It is all gone. There are goose eggs that went somewhere, and it goes to the agents and the distribution force at the insurance companies.

Senator METZENBAUM. In the Alexander Hamilton and Guardian illustrations, the information regarding the cost of the insurance, the death benefit, is not disclosed. Isn't this another important fact that companies should disclose on their illustrations?

Mr. NELSON. It is very important. Someone is trying to decide what a financial product costs. There are no formulas, there is no breakdown of what is going toward the pure risk of death and what is left over to earn interest. There is no disclosure of that net amount. There is no disclosure of what the actual rate of return is on the investment or savings portion. None of that is disclosed.

Senator METZENBAUM. Let me ask you a question. You are an insurance agent and you are going to sell a policy and the commission is going to be $30,000. Now, you are very anxious to prevail upon the consumer to buy the policy, so you say, look, I am going to make $30,000 on this policy and I will kick back $15,000 of it to you. What happens to you, Mr. Nelson?

Mr. NELSON. That would be illegal in almost every State.

Senator METZENBAUM. That is correct, and that is because a combination of the insurance agents lobby and the companies have seen to it that those laws are passed. It has not been a consumer kind of effort; it has been a part of the industry protecting themselves and seeing to it that the consumer can't get a break in buying the policy. Is that correct?

Mr. NELSON. Unless you are very, very wealthy, because then they will sit down and design a policy specifically for you, if you are very, very wealthy or the executive of a Fortune 500 company. For the average consumer——

Senator METZENBAUM. He could not?

Mr. NELSON. No breaks, and if the agent tries to give them the breaks, they are squashed.

Senator METZENBAUM. I have looked at the Pacific Mutual and New York Life illustrations and I can't determine what the actual cash value will be in either policy. Is it true that the consumer cannot determine what the actual cash value of their policies will be from the illustration?

Mr. NELSON. All the illustrations do is give them a piece of paper and it just makes up a number, and in the fine print you will realize back on page 7 or page 8 that the insurance company is saying "based on current assumptions," four powerful words that affect the consumer. It means this is just a piece of paper and it has nothing to do with what your cash value is or what your insurance is going to cost.

So the consumer looks at this and is relying on this to make a purchase, but then when they get their contract or actual policy, it has nothing to do with these sales illustrations.

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Senator METZENBAUM. I am looking at the Alexander Hamilton and Hartford illustrations. It is not clear how much of my premium payments will be deducted to pay policy-related expenses. Can I figure out the policy-related expenses from looking at the illustration, and if not, is that information really important for me to know when buying a policy?

Mr. NELSON. The information is important because you are trying to understand what you are paying for the risk of premature death and what is left over that is earning interest. But it is not possible from these sales illustrations to determine those breakdowns; they are not disclosed.

Senator METZENBAUM. In the same Hartford illustration, it is not disclosed how much I would pay if I surrendered the policy. Is this information actually listed, and if not, why would a policyholder need to know how much he or she would pay if he or she surrendered the policy?

Mr. NELSON. The surrender value is your equity, and most of these policies are sold to people as a savings or an investment tool. So the cash value when they surrender it is extremely important. That is what they are buying. The only thing that is given is what is based on the guarantees. The rest of it is clouded in the "based on current assumptions" and is irrelevant.

Senator METZENBAUM. Well, let me get this straight. In the five illustrations that we have looked at, we have not been able to determine commissions, the cost of the death benefit, the cash value which will build up on the policy, expenses, and the surrender costs. That is five separate things we can't find out. It seems to me that this is the type of information that any prospective policyholder would want if he or she was about to buy a policy. I don't see how anyone can be expected to compare life insurance policies and comparison-shop if they can't even determine the actual costs of the death benefit in a single policy.

Now, this is an industry that claims to be above reproach. This is an industry that is always taking a tremendous amount of advertising to show their integrity, to show how strong they are, that they are the rock of Gibraltar, and the all the other efforts that they make to tell you how strong they are.

I don't understand. Doesn't somebody have that sense of integrity, that sense of propriety in the American business community with respect to the American ethic to make available all the information, and say here it is, we will lay it out for you, we want to make a profit and these are all the facts you may know? Doesn't one company in the whole industry make available the information?

Mr. NELSON. Not under current practices. Again, attempts by agents or agent organizations, some limited attempts, have been foiled by the companies. The companies make the rules, and their rules are that there are no rules based on current assumptions. These are pieces of paper that people spend billions of dollars buying, but when they get their contracts they have nothing to do with what they are buying. They are just pieces of paper.

Senator METZENBAUM. And then you have the additional factor that has to be cranked in that mutual companies are totally nonresponsible to anyone. I remember when—I think his name was

Mr. Sen, who was head of the Metropolitan Life Insurance Co. came up before my committee some years ago, and I said to him, well, to whom do you have a sense of responsibility if you are a member of the board of a mutual insurance company, because the policyholders have no chance to change the directors? There is a figment presented there, but it is literally impossible to change or to get a member on the board.

That hearing had to do with an individual who tried to get a name on the board and he was told he had to get 12,000 other policyholders in order to just get nominated. And then when he wanted to see the list of the policyholders of the company in order that he might solicit the 12,000, he was told that was private information and he couldn't have it.

So it seems to me that what we have here is the most powerful industry in all of America. Automobile companies don't have the same kind of power, steel companies don't have the same kind of power, computer companies don't have the same kind of power. But insurance companies have unbelievable power because, in addition to their failure to be responsive to their policyholders' demands, they, in their portfolios, control much of American industry. They have large blocks of stock in some of the major corporations in this country.

As a consequence, what we are talking about here today is an industry unregulated, except by the fiction of State regulation, which is totally a fiction except in a few rare instances; unresponsive to the concerns of the policyholders; unresponsible, mutual companies, to the shareholders, because the policyholders are the shareholders. What you have is the most powerful economic interest in the country totally, totally independent of any supervision or regulation, and also having available to it some very special tax breaks by the Congress of the United States. Would you agree?

Mr. NELSON. I agree with that, Mr. Chairman.

Senator METZENBAUM. The fact is some companies know that they can't pay at the interest rate that is specified in the policy. As a matter of fact, our investigation has discovered that companies—and you have told us about other companies—use an interest rate in their illustrations, but then tell the State insurance department in an official filing that they cannot pay interest at the illustrated rate.

Do our State insurance departments allow companies to so blatantly deceive consumers?

Mr. NELSON. Mr. Chairman, the first problem is those reports that are turned over to the insurance departments are only available to the consumer if they happen to live in the State capitol to go down to that room and then be able to understand how to read insurance company reports.

Senator METZENBAUM. You can't write in and get it?

Mr. NELSON. It is extremely difficult even for agents to get what are called convention blank reports from insurance companies that have these.

Senator METZENBAUM. And even more difficult to understand?

Mr. NELSON. Almost impossible to understand. It is hidden. As far as the insurance departments, I have been investigated by numerous State insurance departments because of my comments about companies and sales practices, and in meetings with the department officials about these types of contracts and practices I have been told that they wished I would just go away.

Senator METZENBAUM. So much for State regulation.

All of these policies provide the same $300,000 death benefit for a 45-year-old nonsmoking male. The premiums that are charged, though, range from $2,334 to $6,800 annually. Perhaps that 300-percent difference is due to the particular features of these policies, but as we have discussed, consumers can't understand those features and determine what is best for them by looking at the illustrations.

It seems to me this problem will not be solved until we mandate the disclosure of this type of information. Would you agree with that, Mr. Nelson?

Mr. NELSON. Yes, I would agree with that, Mr. Chairman.

Senator METZENBAUM. Thank you very much. Let me proceed to some questions for Mr. Mercer. Mr. Mercer, we very much appreciate your testimony, which certainly was very clear and succinct.

There are basically two different types of life insurance available to consumers. No. 1 is term, which pays a death benefit when the policyholder dies; and, No. 2, permanent, which has a death benefit and a savings component much like a bank's savings account or an IRA.

In your written statement, you say that you have seen companies use different life expectancy tables for the same person, depending on whether they were buying term or permanent insurance. If I were buying a term life policy, a company would predict that I would live to one age, but if I bought permanent insurance, the same company would predict a different life expectancy.

Now, Mr. Mercer, I have got to say that that just doesn't make any sense. I mean, it is absurd. You don't have a different life expectancy if you buy a different kind of policy. You might have a different life expectancy if you change your diet or if you have a different way of conducting your life, whether you exercise or whatever the case may be, or maybe even with respect to your type of employment. But it sure in the devil doesn't make any difference whether you buy one kind of policy or the other.

Are you sure of what you are saying, and if you are sure, why do companies do that?

Mr. MERCER. Well, there are a couple of sets of statistics. One that was, I believe, produced by the American Banking Association about 15 years ago stated that less than one-half of 1 percent of all term insurance products sold by volume in the United States ever came to be paid as death proceeds. A more recent statistic that I have seen in the Wall Street Journal related to less than 3 percent of all term products being paid in the form of death proceeds.

Realistically, term insurance costs become prohibitive at later ages, so the insurance companies, to an extent, price them so that they will not be in force at a person's death. On the other hand, permanent insurance or any form of insurance having a cash value or equity base is more than likely to be in force at a person's death, with the caveat that that was much more so the case 10 or 15 years ago than it is today. There are very distinctly two different yardsticks for the different products.

Senator METZENBAUM. There are different yardsticks, but it doesn't explain using different life expectancy tables, does it?

Mr. MERCER. Well, it doesn't explain it, but the life insurance industry is certainly doing it. I don't mean to be argumentative by any means.

Senator METZENBAUM. No, you are not being argumentative to me.

Mr. MERCER. But it is a tremendous disappointment to agents such as myself, Mr. Nelson, and I know a bevy of other people who feel that the consumer public is being duped by such tactics.

Senator METZENBAUM. You and Mr. Nelson both appear to be responsible businessmen making a living for your families, proper men in your communities; I assume, active in various and sundry ways. Do you ever have a sense of embarrassment that you are involved with this kind of game-playing with the people to whom you are selling policies?

Mr. MERCER. Well, I think your question goes to the very heart of why Mr. Nelson and I are appearing before you and the committee today, sir. I am ashamed of the industry. Personally, I am not ashamed of any product analysis that I have provided for a client, but I am certainly ashamed of the performance that many companies, which are totally out of my control, are passing through me as a conduit to the consumer. I think perhaps to footnote that out of respect to Mr. Butler's family situation, his product could be more better labeled vanishing value rather than vanishing premium.

Senator METZENBAUM. Have you ever sold policies for any of the five companies that have illustrations appearing on these charts?

Mr. MERCER. Yes, sir. I have represented the Guardian, ITT Hartford, and New York Life.

Senator METZENBAUM. These sales illustrations seem to be customized to show how the company's insurance policy will meet the consumer's individual needs. The policy illustration is an agent's primary sales tool, in that the agent uses it to give the buyer basic information about the policy and to gain the buyer's confidence in the company and its insurance products.

Yet, you stated that major portions of each buyer's customized illustration are dishonest, misleading, or omit essential facts the buyer must have to make an informed decision. This is a little like a surgeon operating in the dark when he knows how to turn on the light, but that is as far as it goes.

Why do honest agents like yourself use these kinds of charts, or is it just something you have to do in order to stay in the game?

Mr. MERCER. I personally believe that the bulk of the industry is made up by responsible agents that are trying to provide meaningful existences for themselves and their families. I believe there are also responsible managers and responsible officers, as well as members of the board of directors in the industry.

However, at the heart of the problem is the fact that the industry enjoys antitrust exemption, albeit to a particular extent, and I believe the industry is such that no single company or personnel such as that are at the table today are in a position by and large to break ranks with the industry.

The illustrations that you see before you are really in the interests of companies going out and buying business. Unfortunately, the outgrowth of computerization has resulted in whatever best figures can be thrown on paper to obtain cash flow for the insurance carrier.

Senator METZENBAUM. One last question. If you must use illustrations because other agents do so, why don't you insist on showing your customers illustrations that only contain guaranteed interest rate projections that they can count on?

Mr. MERCER. I think for the knowledgeable agent, he or she can certainly discern what is and is not guaranteed and what is and is not projected. Again, there are certainly agents out there that, when sitting with a consumer, try to make that distinction in a responsible manner.

Just one more comment on your previous question, however. Those agents are having to deal with only what the market sector in the industry provides them and work within those constraints. There is very little agent input into the companies.

Senator METZENBAUM. Well, Mr. Mercer and Mr. Nelson, I want to tell you how much I appreciate your testimony. I think it takes a lot of courage to come before a Senate committee and criticize the companies with which you have to do business on a regular basis. It would not totally surprise me if the insurance companies with which you do business might see fit to discriminate against you in some way, put some pressure on you. If that were to occur, I would ask that you let me or my staff know promptly, and I would then take the matter up with the Department of Justice. I hope that does not become necessary.

Mr. Butler, I am very grateful to you for your testimony, sir. I fully understand the thought of your attorney in not wishing you to submit to any questions. I wish you well, sir, and I hope that your dad is as well as can possibly be hoped for.

Mr. BUTLER. Thank you.

Senator METZENBAUM. Thank you very much, gentlemen.

This subcommittee will now take a 5-minute recess.

[Recess.]

Senator METZENBAUM. The subcommittee will come to order.

Our next panel consists of James H. Hunt, director, National Insurance Consumers Organization of Alexandria, VA, Judy A. Faucett, FSA, MAAA, Coopers & Lybrand, speaking for the American Academy of Actuaries, of Washington, DC, and Geoff Rips, director of public information, Office of Public Insurance Counsel, of Austin, TX.

Now, I am advised that I indicated that the insurance industry wasn't here and that representatives of the insurance industry have said, well, we are here. Well, being here, to me, means being here to testify and to make yourself available to questions. I am very grateful to have you, and pleased that you are here in the audience, but, to me, I must say candidly and without reservation that my relationship with the American Council of Life Insurance is cordial and friendly and warm, but beyond that friendly relationship, I have seen no evidence of their willingness to cooperate.

The testimony this morning indicates there is a problem in this country. The testimony indicates that the insurance industry is not that very highly ethical, proper group of companies that we have all considered them to be. Therefore, I believe that it indicates to me—I have invited them to come in time and time again. I repeat that invitation.

I think there is a problem. I think we ought to try to do something about it. If my solution in my legislative proposal isn't the proper one, I am willing to discuss it. I also would be willing to have representatives of the insurance industry come before this committee, whether today or I will set up another hearing for them, if they don't wish to offer testimony, just for the purpose of answering questions. But at this moment, I haven't been able to get anything more than a cordial relationship, without any meaningful dialog, from the insurance industry. My doors remain open.

Having said that, I will ask the witnesses to stand in order that I may swear them.

Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. HUNT. Yes.

Ms. FAUCETT. I do.

Mr. RIPS. I do.

Senator METZENBAUM. Our first witness is James H. Hunt, director of the National Insurance Consumers Organization. Mr. Hunt, please proceed.

TESTIMONY OF A PANEL CONSISTING OF JAMES H. HUNT, DIRECTOR, NATIONAL INSURANCE CONSUMERS ORGANIZATION, ALEXANDRIA, VA; JUDY FAUCETT, COOPERS & LYBRAND, ON BEHALF OF THE AMERICAN ACADEMY OF ACTUARIES, WASHINGTON, DC; AND GEOFF RIPS, PUBLIC INFORMATION DIRECTOR, TEXAS OFFICE OF PUBLIC INSURANCE COUNSEL, AUSTIN, TX

Mr. HUNT. Thank you, Senator. I might say I am from Concord, NH, not Alexandria. The organization I represent is in Alexandria.

Senator METZENBAUM. Would you be good enough to bring the mike a little closer?

Mr. HUNT. I am a life insurance actuary, a fellow of the Society of Actuaries, and I have some 30 years' experience in the business. For a time, I was the insurance commissioner of Vermont.

Over the last 10 years, I have spoken with many life insurance buyers in connection with a rate of return service that I operate for NICO. In this service, I evaluate existing and proposed policies by estimating from the types of sheets you see up there the internal investment returns. It is what the Federal Trade Commission in its 1979 report recommended be used to help life insurance consumers.

I don't know how many times I have heard our clients say that life insurance is more confusing than anything else they deal with in everyday life. I think it is fair to say that life insurance buyers rely on agents and brokers to look out for their best interests. In other words, they tend to trust them. Based on what I see, this trust is not deserved.

State insurance commissioners have never come to grips with the issue of how best to help consumers, No. 1, decide how to choose between cash value policies and term life insurance; No. 2, compare the relative merits of cash value policies; and, No. 3, decide whether an existing policy should be kept in force.

In 1984, I testified before this committee's counterpart in the House. The subject was relative cost disclosure in life insurance. There, in some detail, I made the following points. The net payment and surrender cost indexes, part of the NAIC model regulation that is used in all States, are useless to consumers. Second, the indexes are actuarily flawed when used with cash value policies. Third, the indexes fail to help consumers decide whether to replace older cash value policies. By definition, they may not be used this way. Fourth, consumers would benefit from rate of return disclosure. In some ways, much has changed since 1984, but in my opinion, these points are still valid 8 years later.

Now, I want to refer to what I have called the great replacement plague. The life insurance business sailed through the 1980's with hardly anyone outside the industry noticing the churning of existing cash value life insurance policies.

In 1985, half the sales of new cash value policies were replacements of old at incalculable losses to consumers. Everyone has heard about Executive Life's disaster, but the consumer losses in it pale in comparison to the money lost on improper replacements. I doubt 1 in 10 of the replacements was in the financial interests of the policyholders. It should be considered, as Mr. Nelson also mentioned, one of the scandals of the 1980's, but perhaps it was competing with too many others.

At its height, barely 50 percent of cash value policies lasted 5 years, a period of time guaranteed to result in serious loss to buyers. While there has been some lessening of the rate of replacements, as far as I can tell it is still far above historical norms, perhaps almost double them. While the NAIC and some States responded with replacement regulations, these were utterly useless to consumers and indeed became how-to-do-it kits for replacement artists.

States ought to adopt suitability requirements for replacing life insurers, which would place a legal duty on them to justify, when challenged in a court of law, the reasonableness of replacements.

Mr. Chairman, I would like to digress one moment and correct a serious error buried in my prepared testimony in one of the appendices where I said—and by preface to this, twisting is the art of improper replacement in the life insurance business. It has legal connotations. In that appendix, I said, let us face it, Chubby Checkers was only a step ahead of the twisters of today.

Well, I heard on a radio program on Saturday night, and it betrays my ignorance of that time, that it is Chubby Checker, singular, who named himself after Fats Domino, singular. So I certainly would wish to pay my respects to Mr. Checker. Furthermore, his recording of "The Twist" was the only record ever to become No. 1 twice.

Policy illustrations and nonforfeiture laws: The nonforfeiture laws govern the size of surrender charges that apply when policies are terminated. Such surrender charges can only be described as huge or even gigantic. The nonforfeiture laws permit companies to manipulate the patterns of cash values.

Furthermore, dividend-paying companies have great flexibility in manipulating the patterns of dividends, and the combination of these two things has led to the policy illustration problem. Many policy illustrations can't be believed, and many companies with credible illustrations don't bother to explain that if interest rates remain low, dividend illustrations can't be sustained.

I spent some time in my prepared testimony showing the effect of the manipulations I refer to. I urge the adoption by State insurance commissioners of limitations on the mortality projections in these illustrations because some companies are being wildly optimistic and others are being straight, and you can't tell the difference unless you are me or another actuary.

New nonforfeiture laws are needed that no longer place all of the blame for a policy termination on the terminating policyholder. Instead, following the model of the SEC in its rules about the sale of variable life, a substantial portion of surrender charges should be deferred and earned over the first 10 years of the policy.

Senator METZENBAUM. Mr. Hunt, could you take another minute or so and just wind up, please?

Mr. HUNT. Finally, I would like to say that rate of return disclosure is the way I think consumers could be benefited. The NAIC has adopted a yield index regulation. That regulation, I understand to be under development for proposal as a regulation by the State of California. This would indeed be an historic development that would help life insurance consumers.

Thank you.

[The prepared statement of Mr. Hunt follows:]

Statement of James H. Hunt, FSA
National Insurance Consumer Organization
121 North Payne Street
Alexandria, VA 22314

before the

Subcommittee on AntiTrust,
Monopolies and Business Rights
United States Senate
Washington, D.C.

June 23, 1992

on

Consumer Disclosure in Life Insurance Sales

The author of these remarks is a Fellow of the Society of Actuaries (FSA), former insurance commissioner of Vermont (1965-1969), has worked for the insurance departments of Massachusetts and New Hampshire, has served on many committees of the National Association of Insurance Commissioners (NAIC), is currently the product actuary for Massachusetts Savings Bank Life Insurance, has been a director of the National Insurance Consumer Organization (NICO) since 1980, and operates a Rate-of-Return (ROR) Service for NICO. In this last responsibility, I have over the last several years analyzed hundreds of life insurance sales proposals and in-force "ledger statements," -- projections of future premiums, death benefits and surrender values on existing policies; I have seen about everything there is to see in the life insurance business..

In 1984, I provided testimony before this Committee's counterpart in the U. S. House of Representatives. The subject was "Relative Cost Disclosure in Life Insurance." In some detail, I made these points:

1. The Net Payment and Surrender Cost Indexes, part of the NAIC Model Solicitation Regulation (Model Regulation), are useless to consumers.

2. The indexes are actuarially flawed when used with cash value policies.

3. The indexes fail to help consumers decide whether to replace older cash value policies. By definition, they may not be used this way.

4. Consumers would benefit from Rate-of-Return (ROR) disclosures.

Since 1984, much has changed, yet in terms of helping life insurance consumers shop more effectively, nothing has changed. These same points are as valid today as they were eight years ago. I would like to incorporate my testimony from 1984 in this Committee's record; it is found in Exhibit A.

The Great Replacement Plague

In 1984, sales of Universal Life (UL) policies more than doubled over the previous year; sales of UL policies peaked the following year, and have been losing market share since: 38% by premiums in 1985, 24% in 1991 according to the Life Insurance Marketing and Research Association (LIMRA). It was the advent of UL in the early 1980's, a time of high interest rates, that ushered in the Great Replacement Plague. UL is flexible premium whole life insurance, and its signal advantage to life insurers that got into it in a big way is that its premium flexibility accommodates the "rollover" of existing surrender values from other companies' policies. Unlike IRA rollovers, policyholders who were sold on the "advantages" of UL got rolled in virtually all situations except (possibly) older, fixed-premium, non-dividend-paying (non-participating) whole life policies. In 1985, very close to 50% of sales of cash value policies were replacements of older cash value policies. The Voluntary Termination Rate (lapses and surrenders) of policies in force two years or more peaked at an annual rate of 10.3%. (1991 Life Insurance Fact Book Update.) This lapse rate in the 1960's was less than 4%, and it was less than 5% as late as 1979.

The losses to consumers from this egregious replacement activity are incalculable, at least by me. Anyone who understood the business, and every actuary who worked in life insurance in those days, knew that the professed high interest rate "advantages" of UL policies were phony. This was because UL credited a "current interest rate," while whole life companies' dividend formulas were almost exclusively based on portfolio rates. (A "portfolio rate" is one based on a company's whole portfolio of investments; it is an average rate.) Because interest rates had been rising more or less uniformly since 1950, and because life insurance companies are long-term investors, the portfolio rate usually trailed slightly the current rate (on new investments). When interest rates shot up the early 1980's, replacements took off. It was predictable, however, that portfolio rates would catch up with, then exceed, current rates, and of course this happened. So, the huge numbers of policyholders who got talked into switching from dividend-paying whole life policies not only lost higher rates now being paid on such policies (in dividends) but also took on the huge sales and acquisition costs of UL policies.

It should not be assumed that only A L Williams agents replace "trash value" life insurance policies. While this company surely did more damage than any other, life insurance agents for all companies got on the bandwagon. Today, virtually every company has a means of accommodating rollovers of other companies' surrender values. While the intensity of replacements has subsided, it is still a respectable activity, in contrast to my early years in the business. As an example, here is a paragraph from a flyer of financial planners Wallace & Associates, Concord, NH, where I happen to live:

> Trade-in (sic) Your Life Insurance - Tax-Free -- Over the past several years, life insurance has become an even better value. Since 1975, its price has fallen dramatically, giving you more insurance value for the money. . . . the insurance industry has introduced leaner, interest-based products. But what if already own a life insurance policy uner the "old" rates? Are you stuck? . . . You have complete flexibility [under a Section 1035 exchange.] Check . . . for any applicable surrender charges.

The premise that new is cheaper, is false, except for term life insurance, which is not the subject of the flyer. Premiums for cash value policies may be lower because interest rates are higher, but that does not make them better values. (To its credit, Wallace & Co. warned about surrender charges, though most old whole life policies have no explicit surrender charges.)

To put my remarks about replacement in perspective, here is a table from LIMRA's 1987-1988 Long-term Ordinary Lapse Survey in the United States:

Traditional Whole Life Lapses

Policy Year	By Face Amount	By Number of Policies
1	16.7 %	17.1 %
2	11.5	10.7
3 - 5	10.5	8.6
6 - 10	11.3	9.5
11 Up	8.2	6.0
Inforce after: 5 years	52.9 %	56.5 %
10 years	34.5	41.5

In order to get a positive, but low, return on an investment in a cash value life insurance policy, it must be held about 10 years (with the exception of no-commission or very low commission policies, which probably have a market share less than 1%). Thus, at the rate of lapsation shown in the table, just over a third of buyers (by face amount, the better surrogate for premiums) keeps their policies long enough to avoid a negative return on their investments. Even if diminishing rates of lapsation have increased this percentage to 50%, the losses are still huge, especially since half of those terminating do so in the first three policy years, when cash values are either zero or very low in relation to premiums paid.

In 1987, I prepared a letter to the Massachusetts insurance commissioner commenting on a proposed regulation governing replacements of life insurance and annuities. I made these points:

1. Replacements of existing policies were close to 50% of new sales: ". . . the pockets of millions of American life insurance policyowners are being picked by unfettered replacements of older policies and nobody is doing anything effective about it. In the securities business [this is called] "churning," and [the term should be applied to] the replacement racket."

2. The effect of the proposed regulation was to place the imprimatur of the state on future replacements. It would not be help consumers fend off replacers.

3. A "suitability requirement," analogous to that which applies to sales of variable life, should be required of the replacing insurance company.

A copy of this letter is attached as Exhibit B. The remarks and the recommendation of a suitability requirement are still apt.

Policy Illustrations

Since 1984, interest rates have fallen, putting pressure on UL companies to try to match whole life policy projections, whose portfolio rates applied in dividend formulas now almost always exceed UL current rates. (It should be pointed out that one stable tradition of whole life companies is to base proposals for new business on dividend scales being paid to older policies. In the early 1980's this put whole life companies at an apparent disadvantage; today, it gives them an advantage over their UL competitors.) This has led to a whole new world of policy "enhancements," in which UL companies, by a variety of actuarial devices, souped up their projections in the long run, usually defined as a twenty-year horizon in the life insurance business. Another term for this is "lapse-supported" pricing. In fairness, lapse-supported pricing is a new name, not a new technique, though today's enhancements go beyond prior incarnations; the older name, among mutual company actuaries, was "back-ending" the dividend scale. In other words, by suppressing early dividends and cash surrender values, money can be set aside, improved over the years not only with interest but as fewer policyholders keep their policies, and paid out in larger dividends in later years. You could call all of this "actuarial manipulation."

In all of this complexity, life insurance consumers -- those who own older policies and new buyers -- have been left to fend for themselves without help from state insurance regulators, who seem content to do nothing, or at least nothing effective, when it comes to life insurance sales practices. There is a good reason for this: life insurance is not subject to rate regulation, while most other personal policies consumers buy are, so regulators have to respond to pressures as they exist. What a pity. If Rate-of-Return Disclosure had been in place for new and existing policies in the years since the Federal Trade Commission recommended it in its 1979 report, those burned by the replacement artists would have had a chance to hear the smoke alarm. At least one company, Northwestern Mutual Life (NML), did provide ROR disclosures on existing policies to its policyholders, proving that it can be worked into existing administrative procedures. NML, perhaps not coincidentally, has one of the lowest lapse rates in the business.

Earlier this month, I prepared testimony for an NAIC Nonforfeiture Law Working Group, which is formulating a revised model law that would govern minimum cash surrender values. In that testimony, attached as Exhibit C, I argued that:

1. The Standard Nonforfeiture Law (SNFL) ill-serves consumers because the philosophy behind its authorized surrender charges is that all blame for termination of a cash value policy accrues to the buyer, none to the seller, despite the well-catalogued excesses of the sales process and the replacement plague. This philosophy produces zero cash surrender values in the first two years.

2. A better model exists: federal rules that govern the sale of variable life insurance policies, which operate under the belief that some of the blame for terminations lies with sellers (of mutual funds, first, then variable life). Thus, a substantial part of sales and administrative acquisition costs must be deferred and fully earned only as the policy remains in force for a period of about ten years.

3. The SNFL allows insurers to manipulate policy designs so as to profit whether or not a policy remains in force. If life insurers had to incur out-of-pocket costs on early terminations of life insurance policies, they might take a greater interest in combatting replacements.

Exhibit C contains examples of how some companies' policies were manipulated. Perhaps I should say unduly manipulated! The examples bear close scrutiny if one is to understand the excesses of the life insurance marketplace.

Much has been written about "out-of-control" policy illustrations. As the ROR examples referred to just above demonstrate, this allegation can be true. One might also venture the question: Are actuaries out of control? To which the answer is: At least sometimes. But to blame the actuaries is perhaps asking too much of them. They serve their masters, the life insurers, and come under subtle pressures to match the worst from the "other guy." And the insurers can rightly proclaim that there's no law or regulation, at least none that are effective that I know about, to prevent manipulated cash surrender values, dividends, and the variety of enhancements. Reining in creative actuarial designs is not a job for rocket scientists; appropriate changes in the nonforfeiture laws, regulatory limitations on projected mortality rates (costs of insurance, or COI's) and bonuses, and better disclosure of the bonuses wouldn't be difficult. The difficulty lies in gaining a consensus among insurance commissioners that the time has come to remove a modicum of the freedom the life insurance business has always had to do whatever it wants to. The NAIC Nonforfeiture Law Working Group has an opportunity to make a difference, but chances are that when push comes to shove, the industry, which is politically powerful in Washington and around the country, will once again be successful in getting the commissioners to do no more than that which is acceptable to it.

Others will testify on policy illustrations. They will give you a more official view of the problems those in the industry and their consultants see. My view will certainly overlap, but here I would like to concentrate on the most subtle of deceptions in sales illustrations: use of extremely low mortality charges (COI's), often incorporating projected improvement in future levels of mortality over those now observed. I have seen at least 100 enhanced proposals, most of which use interest rate bonuses after 15 or 20 years. In general, the enhancements I've seen are reasonably well disclosed, though of course they are not highlighted. It is difficult to oppose the enhancements outright, since many venerable mutual companies have for decades paid "termination dividends," bonuses that often start at 15 years (I think Prudential starts as early as 10 years) and grade up to a maximum percentage at the 20th duration. (The theory of termination dividends is that terminating policyholders in mutual companies deserve to take with them a portion of the surplus they, as owners, have contributed to the enterprise. Some mutuals don't like termination dividends and don't pay them, feeling I suppose that they are borderline gimmicks.) In contrast to explicit enhancements, short of hiring an actuary or becoming a close student of the business there's no way a consumer can detect overly optimistic or manipulated COI's; these are of course never disclosed as such.

The prize for the most outrageous mortality projections I have seen goes to North American Company for Life and Health, which, for projection purposes, assumed that a female age 65 would have the same mortality rate or COI, from age 65 to 92. This produced a fantastic looking proposal in the long run; that the yearly rates of return ranged from 333% in year 8 and 97% in year 9 to 25% in year 20 (by my calculations) didn't bother anyone since such disclosures were of course not given. See page 6 of my testimony before the NAIC Nonforfeiture Working Group for more details. In the more subtle category are these policies from major life insurers John Hancock and Transamerica:

Year	Transamerica	John Hancock	Year	Transamerica	John Hancock
1	-100.0 %	-100.0 %	11	18.7 %	13.8 %
2	-100.0	-100.0	12	18.3	14.0
3	-100.0	- 83.5	13	13.9	14.1
4	-100.0	2.5	14	14.6	14.1
5	-100.0	23.9	15	12.2	14.1
6	14.1	16.5	16	10.6	14.4
7	36.1	14.5	17	13.4	13.8
8	25.4	13.5	18	12.0	13.2
9	21.7	13.4	19	12.3	12.8
10	19.0	13.4	20	12.4	12.4
			21	11.6	10.8

John Hancock's policy was in a preferred nonsmoker classification, which most major life insurers have added in recent years. Despite knowing this, when I saw the ROR's come out of the computer (all analyses referred to in this statement are actual cases from NICO's ROR service), I told the client that the agent must have cooked the figures by manipulating the software, something I have heard about but never seen. Later, after a bit more study, I concluded that I was wrong, that John Hancock's proposal used very low, but possibly justifiable, mortality charges and that the very high returns in years 5 - 20 were the oft-seen product of rapidly reducing, implicit surrender charges. Note that in year 21, after the effect of reducing surrender charges had worn off, the ROR is 10.8%, not ridiculously higher than the Company's interest rate in its dividend formula, which I judged to be about 9.5% in 1991.

Transamerica is another case. The ROR's were generated from a current interest rate of 8.25%, so the 21st year's ROR of 11.6% was 3.35% more than the interest rate producing the cash surrender values. Clearly, Transamerica was using extremely low mortality rates, probably incorporating mortality improvement, rates I doubt it could justify on the basis of any published experience.

Two lessons emerge. First, regulators should establish minimum mortality rates for use in projections for the main risk classes: males and females, smokers and nonsmokers, preferred and non-preferred applicants. Second, if life insurers are free to manipulate patterns of cash surrender values, as implied by the ROR patterns, consumers are entitled to know about it. The best way is to show one-year ROR's in all proposals. Exhibit D shows an example of NICO's rate-of-return (ROR) service for a proposal of Northwestern Mutual Life (NML), the best (only?) example I can give of a company that does not manipulate patterns of surrender values and dividends; note the smooth progression of one-year ROR's in Column (11). By contrast, John Hancock's policy, referred to earlier shows a completely different pattern in Exhibit E.

NAIC Yield Index Model Regulation

About 1985, an NAIC Task Force, of which I was a member, began work on a rate-of-return (ROR) model regulation that came to be known as "Optional Form Life Insurance Disclosure Model Regulation with Yield Index." The request for the regulation, I believe it is correct to say, came from John Montgomery, Chief Actuary of the California Insurance Department, who was concerned about the discrepancy between advertised "gross" interest rates on universal life (UL) policies, which were very high at the time, and "net" or "real" rates derived by assessing mortality and expense charges in excess of market term life rates against the gross rates. In 1989, the NAIC adopted this regulation, but it has not been noticed for hearing by any state, though Mr. Montgomery tells me California is "working on it."

The Yield Index regulation would require disclosure of ROR's essentially the same as those I have used in this document, but they would be "summary" ROR's based on holding periods of 5, 10, 15 and 20 years. One-year (year-by-year) ROR's would not be required, regrettably, though a state is free to do as it wishes, and it is my hope that California will add the one-year disclosures to any future proposed regulation. An example of the disclosure of yield indexes is shown in Exhibit F, though in practice the disclosures would be made upon delivery of the policy in connection with the Statement of Policy Cost and Benefit Information. (It should be noted that although I refer to ROR's as estimated investment returns that can be compared to interest rates, the industry doesn't like this notion, preferring "indexes," which the NAIC agreed to in adopting the model regulation.) While the disclosures should be available at point-of-sale, one hopes that after a Yield Index regulation has been in place customer demand for the indexes will cause companies to make sure their agents have the numbers.

Exhibit G is a letter I addressed some time ago to Mr. Montgomery that cites the advantages to California consumers of rate-of-return disclosure.

Summary

1. The life insurance business in the United States is huge: in 1990, premium income was about $60 billion, exclusive of group insurance and annuities.

2. The business is unregulated as to price and is essentially unregulated as to business practices. I cannot recall the NAIC ever adopting a regulation dealing with consumer disclosure that was not made satisfactory to the industry, except possibly the Yield Index Regulation, which lies virtually moribund.

3. The NAIC Model Solicitation Regulation is not effective in helping consumers shop for life insurance; its cost comparison indexes are a joke. The Statement of Policy Cost and Benefit Information could be useful, but consumers seem to ignore it, probably because it is delivered with the policy, usually a month or more after the sale. Rate-of-Return disclosure is the only way to help consumers: decide whether to buy term insurance or a cash value policy; understand the huge sales and administrative charges; shop intyelligently for a cash value policy; and, decide whether to keep an existing policy in force.

4. There are huge consumer losses from the combination of missold cash value policies and the pernicious replacements of existing cash value policies. States should adopt "suitability" requirements when existing cash value life insurance is replaced. The burden of proving that a replacement was in the financial interest of the policyowner would legally be with the replacing insurance company. Variable life insurance policies now have a "suitability" requirement that places a burden on the selling company to make a determination that the sale of variable life was suitable for the buyer.

5. State regulation of policy illustrations is in order; in particular, the use of undisclosed, over-optimistic mortality charges must be stopped. The ability to manipulate policy values -- so-called "lapse-supported pricing" -- needs to be dealt with, preferably as in 6.

6. The nonforfeiture laws favor persisting policyholders over those terminating early. In addition, they permit manipulation of cash surrender values. A new non-forfeiture law, along the lines of SEC requirements, would be immensely helpful in limiting the damage consumers suffer when they lapse policies. There needs to be recognition that the industry's sales practices are in large measure responsible for these large consumer losses when cash value policies are terminated. To say this another way, there is no justification for the huge surrender charges that are permitted by existing non-forfeiture laws.

7. It might be helpful within the context of existing disclosures if a column showing the accumulation of premiums at 5% were added to the Statement of Policy Cost and Benefit Information, as is the case with SEC variable life prospectuses.

8. To end on a positive note, from the industry's perspective, there exists a vigorously competitive market for term life insurance; consuumers who so desire can easily shop around for low cost protection. Since life agents don't like to sell term insurance, due to relatively low commissions, and because "life insurance is sold and not bought," consumers who shop for low cost term life insurance are a distinct minority.

Exhibit A

Statement of

James H. Hunt, FSA, MAAA
National Insurance Consumer Organization

on

RELATIVE COST DISCLOSURE IN LIFE INSURANCE

before the

Subcommittee on Antitrust and Monopoly
Committee on the Judiciary
U. S. House of Representatives

June 28, 1984

I am a Fellow in the Society of Actuaries and a member of the American Academy of Actuaries. I began in the life insurance business in 1955 with National Life of Vermont. In 1965, I was appointed Commissioner of Banking & Insurance in Vermont and served until 1969. Since that time I have worked as an actuary with the state insurance departments in New Hampshire (1972-1976) and Massachusetts (1976-1980). I served as an actuarial consultant to the Federal Trade Commission in 1980. I testified before Congress in 1967, 1969 and 1979 on consumer credit insurance; also in 1979 I was the lead-off witness in support of S. 2002, a bill that would have restricted the use of the Rule of 78 in consumer credit. I prepared the technical aspects of ex-Senator John Durkin's testimony during the life insurance hearings of 1974 when he was Commissioner of Insurance in New Hampshire. I have been a member of many committees and task forces of the National Association of Insurance Commissioners (NAIC). I have testified before insurance departments in several states, in addition to those I worked in, on life insurance cost disclosure matters. Since 1980, I have been associated with the National Insurance Consumer Organization (NICO), a non-profit consumer organization formed with the assistance of Ralph Nader; for two years, I was a half-time employee of NICO, and I continue as a director and, to a large extent, as the organization's voice on life and health insurance. Since January 1, 1983, I have been employed four days a week as an actuary with Massachusetts Savings Bank Life Insurance, an organization that sells low cost life insurance through savings banks in Massachusetts under statutory authority and limitation on amount (currently $62,000 per person).

I am the author of a consumer guide published and distributed by NICO called <u>How To Save Money On Life Insurance</u>, which has sold more than 10,000 copies. NICO provides a computerized "rate of return" service to its members that I devised and administer: we estimate the average annual interest rate implicit in the savings portion of any cash value life insurance policy (one that combines death protection and savings, as distinguished from term insurance that provides pure death protection only). We believe that rate of return disclosure is the only effective and understandable way life insurance consumers can (1) comparison shop for cash value life insurance and (2) tell whether it pays to buy cash value coverage instead of term insurance. In 1979, I completed a draft of a paper entitled <u>The Case for Rate of Return Disclosure in Life Insurance</u>, which was distributed to a number of trade association and company actuaries and others interested in the technical aspects of this subject. In 1980, I prepared a discussion of an actuarial paper, <u>An Extension of the NAIC System for Life Insurance Cost Comparisons</u> by Charles L. Trowbridge, FSA, former Chief Actuary of the Social Security System, that recommended a technical correction in the NAIC index method to make it more useful; I supported the change, though I expressed my opinion that rate of return disclosure was far more helpful to consumers. I have supplied copies of these two papers to the Subcommittee staff as a way of adding technical support to some of the comments I will make in my testimony.

Exhibit A-2

I want to discuss relative cost disclosure in life insurance. What does this mean and why is it necessary? Life insurance is a long-term, intangible purchase of considerable financial complexity; in legal terms, it is a "contract of adhesion," meaning that any contractual ambiguities are construed against the company issuing the contract, presumably because the typical buyer can't be expected to bargain for the purchase at arms length. In its financial make-up, there are at least two, and usually more, streams of benefits and payments stretching far into the future, indeed, often for a lifetime. In its simplest form, there would be, for any age at issue, sex and smoking or other classification, one level death benefit and one level premium -- a $50,000 whole life policy with a premium of $1,300, for example, that develops a certain cash value pattern, starting at zero and reaching $50,000 at age 100, usually. If the cash value pattern were standardized for all companies, shopping would be relatively simple: find the policy with the lowest premium. But in practice, for any given amount of insurance, premiums vary in a wide range, cash value patterns vary correspondingly, and many of the lowest cost companies pay dividends, whose incidence and slope vary widely, as well. Even if death benefits are level from year to year, which they need not be, consumers are faced with trying to manipulate two or three long series of differing cash flows -- premiums, cash values, and, usually, dividends -- if they are to compare different companies' policies. The obvious impossibility of doing so gave rise to the (NAIC) Model Life Insurance Solicitation Regulation.

The NAIC Model Regulation requires the disclosure of a reasonable amount of the cash flow information mentioned above. The heart of the regulation, for purposes of comparing relative costs of policies from company to company, is the index numbers -- the "Surrender Cost Index" and the "Net Payment Cost Index". Taking into account the time value of money at 5% interest, these indexes -- known as interest-adjusted cost indexes -- attempt to summarize the cash flows mathematically into average annual "costs" for ten and twenty years, periods of time most critics would agree are sufficiently representative. Armed with the disclosed index numbers, theory has it that consumers can compare them among companies and choose the company with the lowest cost index.

With this background and in full recognition that volumes have been written and spoken about life insurance cost disclosure over the last fifteen years, all to little avail, I have the following relatively brief opinions about the effectiveness of the NAIC Model Regulation in serving the needs of life insurance consumers.

The NAIC Relative Cost Indexes Are Useless To Consumers

The Surrender Cost Index (SCI) and Net Payment Cost Index (NPCI) in recent years have become subject to extreme distortions that will be identified shortly, but even if this were not so the life insurance consumer faces great difficulties in using the indexes:

1. The twin disclosures of SCI's and NPCI's leave the consumer in the position of being whipsawed by competing agents between the two indexes. The agent for a company with low NPCI's will argue that since the consumer does not intend to surrender his contract after ten or twenty years (indeed, which of these does the consumer focus on?), he or she should buy on the basis of NPCI's. Technically, the SCI is a better measure of lower long-term cost for the continuing policyholder. The twin disclosures were a compromise in the early 1970's between competing industry factions: dividend paying companies and non-dividend-paying companies, the latter often having lower NPCI's and higher SCI's. The compromise ensured that neither faction would lose market share, and it also ensured consumer confusion. It is noteworthy that the NAIC Buyer's Guide accompanying a policy advises that the SCI "is useful if . . . cash values

Exhibit A-3

[are] of primary importance to you. It helps you compare costs if . . . you were to surrender the policy . . ." In fact, the SCI is useful whether or not one surrenders his policy in ten or twenty years for two reasons: the cash value thereby taken into account is an asset of the policyholder of obvious value whether surendered or continued; and, the higher the cash value the less the future amounts at risk and, all other things equal, the lower death protection costs in subsequent years.

2. A technical deficiency of the NAIC disclosure indexes (that Trowbridge's modification would correct) is that they may not be used to compare dissimilar policies. This means, especially, that term and cash value policies may not be compared. The Buyer's Guide advises, "Your first step is to decide . . . the kind of policy you want. Then . . . [use] the life insurance cost indexes . . . Compare index numbers only for the kind of policy you intend to buy." The technical deficiency happens to produce lower cost indexes for whole life than term, other factors equal, and it would be a naive observer who did not think this fact is used by many agents to sell whole life rather than term that may be more suited to the buyer's financial security. Even if this critical weakness is overlooked, it is further the case that high premium whole life policies can appear less costly than low premium whole life policies, even though an accurate measure of cost would show them to be inferior. This can be seen in Appendix A, where State Mutual ranks ahead of Massachusetts SBLI in 20-year cost indexes -- $13 to $27, apparently a wide margin -- yet SBLI's rate of return (yield) over all periods is significantly higher. (The rate of return technique is a more accurate relative cost measure.) There are technical reasons for this distorted result connected to the difference in premiums -- $236 for SBLI and $331 (40% higher) for State Mutual. No standard definition of "similar policies" is available to aid the consumer (or financial writers and others who advise consumers) in interpreting this limitation; the NAIC Buyer's Guide says, "The closer policies are to being identical, the more reliable the cost comparison will be." Anyone who knows anything about the life insurance business knows that there are virtually limitless combinations of protection and savings in cash value policies; it is only an accident that two policies are nearly "identical."

Combine these barriers to consumer understanding with the fact that sales of life insurance almost always take place in an environment that makes comparison shopping difficult: the buyer eyeing a $4.36 SCI has no means of knowing whether the number means the policy is high or low in cost. Even if he calls in another agent and is lucky to see a similar policy, he only knows which of these two companies is likely to be cheaper; in fact, he may be dealing with two high-priced companies. In other words, the index numbers have no intrinsic meaning. (This weakness has led several to suggest the need for a "yardstick" to accompany the disclosure of the indexes, so that the indexes would have context for consumers, but it is highly unlikely that any salesperson in America will ever have to tell his prospect where his product ranks on a scale of 10.) On the other hand, one who is advised that his rate-of-return over twenty years is 4% is likely to spot a poor consumer value; conversely, a 9% return would convey the notion of good value, particularly if the agent explained the tax advantages of life insurance.

It is NICO's opinion that the NAIC Model Regulation is useless to consumers -- any narrow advantages in comparing nearly identical policies are offset by the potential for use of the indexes to manipulate consumers into buying high-priced cash value policies instead of low cost term or high premium whole life policies instead of low premium whole life policies.

(The NAIC indexes are more useful in comparing term insurance prices, where the technical deficiency is irrelevent. One could make a good case for using the NAIC

Exhibit A-4

indexes on term insurance and a rate- of-return technique on cash value policies.)

Rising Interest Rates Have Distorted The Indexes

During the 1960's, industry critics began to complain that comparisons of life insurance policies were being made improperly because the time value of money was not taken into account under the "net cost" method of comparing policies. The net cost method for ten or twenty years was simply to add up premiums, subtract the total of dividends, if any, and subtract the last year's cash value; the method assigned the same weight to $1 due in, say, twenty years as to $1 due immediately. The consequence was that lower net costs could be achieved by raising premiums (due immediately) and holding back portions of early dividends -- which could be improved over the years not only with interest but as a result of not paying such portions to those who dropped their policies or died in the intervening years -- for later payment in larger amounts. The notion of interest-adjusted indexes -- later the NAIC NPCI's and SCI's -- arose during this time, and the proposal of an industry group was for an interest rate of 4%. About 1976, this interest rate was increased to 5%, where it remains today. In 1968, Moody's Composite Average of Yields on Corporate Bonds was 6.5%; in 1976, it was 9.0%; today, it is in the range of 13%-14%. In both 1968 and 1976, the use of 4% and 5% was reasonably related both to after-tax company investment returns and to savings yields available to average investors. That is no longer true. Many companies are now crediting upwards of 10% or 11% to new policies (and sometimes older, non-borrowed policies). The spread of more than 5 percentage points between earnings rates and the 5% interest-adjusted rate is more than the difference between the old net cost method that 1960's critics complained of, which technically was an "interest-adjusted" calculation at 0%, and the 4% originally used by companies in the early 1970's.

Why does the failure of the industry to change the 5% interest rate in the interest-adjusted calculation matter? One reason is that it narrows considerably the range of policies that can be considered "similar," since a whole life policy with high premiums per $1,000 gets a rapidly widening advantage as interest rates increase. A second reason is that SCI's become negative numbers, often quite large negative numbers, causing further confusion to non-mathematicians trying to understand the NAIC system. Sellers of universal life policies, advertising rates of interest of as much as 12%, put out index numbers for the sake of complying with the NAIC regulation that have no meaning to either the companies selling the policies nor their customers; in many cases, they don't even bother to compute the indexes using the current interest rate, since the result is ridiculous. The president of a prominent universal life company, one of the first companies to have such a product, told me the NAIC indexes were completely irrelevant to his operations.

Why, then, do the companies continue to go through the motions of producing the index numbers? Since their systems are in place, the cost of doing so slight and the presence of even a flawed relative cost disclosure system helps diffuse industry critics: few, if any, authorities complained to bother to take time to understand why the indexes are not working.

The NAIC System Fails To Help Consumers Decide Whether
To Replace Old Policies

In recent years, the replacement of older cash value policies with new ones has become endemic. Most consumers who have been persuaded to cash in their old policies have acted against their own interests. The process resembles "churning" in the securities business, where brokers trade in old securities for new ones to generate commissions. The analysis of whether or not to give up an old policy for a new is exceedingly complicated, and such systems as are in place in some states to aid consumers are either not helpful or, worse, give the state's imprimatur to the replacement.

It is technically feasible to prepare interest-adjusted index numbers on old policies

Exhibit A-5

so that they may be compared with new ones -- Mr. Trowbridge's method is suited to this goal. But the NAIC disclosure system cannot be used to compare old and new policies because they are, by definition, dissimilar. A few years ago, a report of the Virginia Insurance Department suggested that a new replacement regulation in that State could in the future include index numbers suitable to aid consumers in evaluating replacements, but nothing ever came of this.

When an agent recommends replacement, he or she is tinkering with someone's personal property and should be held to the highest standards of ethical and professional behaviour. In life insurance, there are no such standards; suggestions by me in several forums that there be a suitability requirement for replacements have been dismissed by the industry. The failure of the industry and its regulators to make any effort to change the system of cost disclosure to apply to existing policies is consistent with the notion that the public's life insurance assets are fair game for churning.

Implications of Universal Life for Cost Disclosure

In 1981, universal life policies constituted 2% of the market; in 1984, it is estimated that sales of such policies will capture 25% of the market. The advent of such policies, which are a form of cash value life insurance featuring the disclosure of the interest rate credited to policy cash values, is somewhat ironic. Those of us who have been calling for rate of return disclosure -- such as the Federal Trade Commission in its 1979 report -- found that market forces supplied what we were unsuccessful in urging. At the least, the unprecedented success of universal life proves we were not wrong in arguing that the public would respond positively to such disclosure. But, of course, universal life has its own set of misleading and confusing disclosures. Two companies can advertise the same interest rate, but wide differences in the array of sales, administrative and death protection charges can make them completely different consumer values.

In its May 1984 issue, Best's Review, a popular industry trade publication, compared the universal policies of 200 companies. The specifications were, to a large extent, standardized: a $2,000 annual premium for a male non-smoker age 45 with a death benefit of $100,000 plus the policy cash value. Cash values were shown after 1, 5, 10, 15 and 20 years at an assumed interest rate of 10%. This standardized analysis allowed one to see just what differences the assortment of sales, administrative and death protection charges could make in the cash values. The table below summarizes the best and worst companies:

Years Held	Cash Surrender Values Best Company	Worst Company	Difference
1	$ 1,760	$ 0	$ 1,760
20	94,081	66,304	27,777

Note: One company showed better figures than USAA Life, the "Best Company", but its figures appeared to be wrong. The study's design does not allow accurate comparisons for 5, 10 and 15 years.

The differences noted are, of course, astonishing. The present worth at 10% interest of $27,777 due at the end of 20 years is $4,128, so we could say the consumer shopping for a policy is faced with making more than a $4,000 wrong choice in his purchase decision (considerably more than $4,000 if years beyond 20 are taken into account). And we have not factored in the lower benefits on death into this $4,000 number.

Another way of looking at the differences between the two policies illustrated is to assume that the best policy really does return 10% interest over 20 years (a reasonable assumption, though NICO's rate of return service would show 9.6%). By

Exhibit A-6

actuarial analysis, we can work out that "Worst Company's" real yield is not 10% but about 7.8%. For a ten year period, the USAA policy returns about 9.0%, while "Worst Company" returns about 4.8%. Perhaps it is not analogous, but the Truth-in-Lending Act requires Annual Percentage Rates to be accurate to an eighth of one percent.

The relatively high premium used by Best's -- $2,000 -- tends somewhat to obscure differentials in sales, administrative and death protection charges when advertised current rates of return in universal life policies are compared with derived rates of return by the method NICO uses -- known as a "Linton Yield" to actuaries. A Life of Virginia agent recently presented one of Massachusetts SBLI's customers a proposal for that company's universal policy, which on the date of the proposal was advertised as yielding 11%; SBLI currently credits 9.44% to cash values in its dividend formula. By the use of a particular combination of whole life and term riders, SBLI was able to show that for the same annual premium its policy had slightly higher death benefits throughout a twenty year comparison period and, at the end of 20 years, had higher a cash value -- $15,222 to $9,340. When subjected to NICO's rate of return analysis over twenty years, SBLI yielded 9.2% and Life of Virginia only 5.4%, more than five percentage points lower than it was advertising. Appendix B shows this comparison in more detail.

In short, there is no NAIC system for letting consumers know that 11% in one company means something entirely different from 11% in another company. It doesn't take a lot of imagination to see that life insurance agents all over the country are having a field day with universal life. It is bad enough that consumers are fooled into buying what appear to be high-yield policies; what is worse is that many are enticed into giving up older policies whose prospective rates of return are higher than those implicit in universal life policies.

Consumers Would Benefit From Rate of Return Disclosure

When consumers buy a non-standardized package of death benefits and savings, whose mix can vary almost infinitely, they cannot by any stretch of the imagination discern whether the package represents good or bad value without some help. The purchase of a cash value life insurance policy is analogous to the purchase of a bag of papayas and guavas; unless someone tells you how many of each are in the bag and unless you're well informed about the fair price for each, there's no way to know how much to pay for the bag. Even if life insurance buyers were told the mix of savings and protection, they don't know how much the protection should cost so that they can work out the price of (return on) the savings; the calculation is too difficult, anyway. But the industry knows what fair value is for protection, and can easily provide standardized rates of return to consumers; the calculation is made with the same data as that for the interest-adjusted calculation.

Such rate of return disclosures would aid consumer purchases immensely. One can even speculate that increased consumer confidence would follow; surely life insurance companies have not kept pace in recent decades in maintaining their share of personal savings, and the reason may be the mystery and deception that accompany most sales. Cash value life insurance should be a good investment, considering the tax advantages and the abilities of insurance companies to get excellent returns on their investments. Those, like NICO, who advise consumers shouldn't have to warn them away from cash value life insurance because its purchase is so hazardous to one's financial health. Increased consumer understanding of relative values in life insurance will put pressure on the industry to become more efficient; in turn, better consumer values will result.

Exhibit 6

NATIONAL INSURANCE
CONSUMER ORGANIZATION

May 21, 1987

Peter Hiam
Commissioner of Insurance
Commonwealth of Massachusetts
Boston 02202

Re: Proposed Regulation 211 CMR 34.00: Regulation Governing the Replacement Life Insurance and Annuities

Dear Commissioner:

This is a potentially important regulation. Unrestricted, unsupervised and unsuitable replacements of existing cash value life insurance policies constitute an unreported scandal of substantial dimensions in the United States. According to Walter H. Zulkowski, a vice-president of the Life Insurance Research Management Association (LIMRA), 43% of life insurance sales in 1986 resulted from replacements of existing policies, and that figure was <u>down</u> from "almost half" in 1985. (National Underwriter, Life & Health/Financial Services Edition, March 16, 1987, page 1.) These are shocking data! And by no means were most of these replacements done by agents of the A. L. Williams organization, who have systematically engaged in "indiscriminate replacements," to quote Professor Belth of Indiana University; agents of all companies have joined the parade, as is obvious from the LIMRA data. And in my considered opinion as a life insurance actuary with 30 years experience, the majority, if not the large majority, of these replacements have not been in the interests of the affected, or shall I say "afflicted", policyowners; instead, by generating high first year commissions, replacements serve the financial interests of the agents who work this market. As the operator of a rate of return service for the National Insurance Consumer Organization (NICO), I have evaluated proposals for more than 500 NICO customers in recent years, and in many of these I have seen the ill effects of replacements.

To put the matter simply and directly: the pockets of millions of American life insurance policyowners are being picked by unfettered replacements of older policies, and nobody is doing anything effective about it. In the securities business, the word for this type of activity is "churning," and in my opinion this is not too strong a term to apply to the replacement racket.

Replacements -- the term in my comments will always apply to replacements of cash value policies, as opposed to term life policies -- take many forms. Two particular types bear mention.

(1) <u>More Coverage for the Same Annual Premium</u> -- Since death benefit costs in cash value policies are usually a very small fraction of the premium

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Exhibit B-2

payment, it is relatively easy to divert money currently flowing into the cash values or dividend values of an existing policy to buy greater face amounts at the expense of future values. It is all but impossible for even a reasonably alert policyholder to detect the unfavorable trade-off that usually accompanies such transformations; the policyholder is seldom, if ever, shown that he or she would be better served by continuing the present policy and purchasing new coverage for the excess amount. Universal Life is well suited to this scheme because of its flexibility to accomodate transfers of existing policy values at time of sale with subsequent premiums set equal to those currently being paid.

(2) Promises of Greater Investment Returns -- As almost everyone knows by now, Universal Life (UL) is sold by quoting the (usually) attractive current interest rate paid on policy values, that is, on amounts left over after deductions of expenses and mortality charges. Often citing relatively low investment returns ascribed to whole life products by the famous press releases that accompanied the 1979 Federal Trade Commission report on life insurance, which were misleading and were out of date as soon as they appeared, agents persuade policyholders to switch to UL, or other "interest-sensitive" products, when in fact these policies usually have worse returns in the short run -- say, 5 to 10 years -- and are likely to have worse returns in the long run.

The life insurance policyholder needs more help from regulatory bodies than is found in the proposed regulation. Consider the source of the regulation: political pressure by the Massachusetts Association of Life Underwriters, backed by the domestic companies in Massachusetts. Why are they anxious for the regulation to be adopted in its present form? In my opinion, a major unstated reason is that it will place the imprimatur of the Commonwealth on all future replacements that follow the rules, regardless of the suitability of those replacements for the policyholders affected, and thereby eliminate the danger of private actions for damages.

There is a response to this initiative that the Massachusetts Division of Insurance can undertake and that would afford substantial protection to targets of "replacement artists," to quote Professor Belth again: include in the regulation a suitability requirement analogous to that which applies to the sale of variable life insurance policies, which are securities. This would shift the legal burden to defend unsuitable replacements to the replacing agent's company, which would have to measure the legal risk in permitting its agents (or brokers) unfettered freedom to replace at will. This could be done by adding this paragraph to section 34.06 (and a similar paragraph to 34.07):

> (e) in the case of relacing insurer, determine that the replacement is suitable for the policyowner of the existing policy.

Insurers have the technical resources to analyze the likely effects of replacements on policyowners; policyowners do not, nor would they get any help from the proposed replacement. Neither in-force interest-adjusted indices nor in-force rates of returns are required by the regulation, despite the technical feasibility of either approach.

Exhibit B-3

In support of this last statement, and as background to some of the opinions voiced in this statement, I am submitting a copy of testimony that I supplied to a subcommittee of the U. S. House of Representatives in 1984; though now somewhat dated, I believe its message remains relevant.

Sincerely,

James H. Hunt

James H. Hunt
Fellow, Society
of Actuaries

Exhibit C

Statement of James H. Hunt, FSA
National Insurance Consumer Organization
121 North Payne Street
Alexandria, VA 22314

before the

National Association of Insurance Commissioners
Life and Health Actuarial (Technical) Task Force
Nonforfeiture Law Working Group

June 4, 1992

These remarks constitute a one-day effort to communicate concerns that I have long felt about the Standard Nonforfeiture Law (SNFL). It was my hope in attending the Seattle meeting of the Nonforfeiture Law Working Group (Group) to prepare a more comprehensive statement than what follows, but there was too much else to do and this is a formidable topic. I have not kept up very well with the Group's deliberations, and it is possible that some of my remarks may raise questions the Group has already dealt with in a way that would be satisfactory to me; if so, I apologize.

The author is a former insurance commissioner of Vermont, has worked for the insurance departments of Massachusetts and New Hampshire, has served on many NAIC committees, is currently the product actuary for Massachusetts Savings Bank Life Insurance, has been a director of NICO since 1980, and operates a Rate-of-Return (ROR) Service for NICO. In this last connection, I have analyzed hundreds of life insurance proposals and in-force projections over the last several years, and I have seen about everything there is to see by way of the egregious manipulations of the SNFL. Despite this background, I have never been asked by the industry-dominated life insurance committees of the American Academy of Actuaries to serve on those committees, which purport to give a disinterested actuarial response to current regulatory issues. I urge the NAIC Task Force to guard against undue influence by the industry and its consultants in striking a balance between industry and consumers. My impression is that the Group is heading in that direction.

I hope here to demonstrate, at least in a preliminary way, that life insurance consumers are ill-served by the SNFL. The philosophy of the SNFL, it seems to me, is: All blame to those who terminate their policies. Perhaps this was appropriate to an earlier age, but in a day of rampant replacements of existing policies, it is highly inappropriate. In the mid-1980's, 50% of sales of cash value policies were replacement sales. From the latest data I have, the LIMRA 1987-1988 Long-term Ordinary Lapse Survey in the United States, we have:

Exhibit C-2

Traditional Whole Life Lapses

Policy Year	By Face Amount	By Number of Policies
1	16.7 %	17.1 %
2	11.5	10.7
3 - 5	10.5	8.6
6 - 10	11.3	9.5
11 Up	8.2	6.0
Inforce after: 5 years	52.9 %	56.5 %
10 years	34.5	41.5

These lapse rates far exceed historical norms, probably by a factor of 2. Policyholder losses have been huge, thanks to SNFL's workings. Although it is likely lapse rates have moderated in years since 1987-1988, I would be astonished to learn they have returned to historical norms. There is, as far as I can tell, virtually no discipline exerted by companies on their agents not to replace older policies, as there was when I first entered the business in the late 1950's, and every company has a replacement vehicle. One of my last five ROR analyses was of a proposed replacement by Northwestern Mutual's agent of a Union Central policy, so replacements abound in the best of company, not just among the inheritors of the A L Williams tradition. (In defense of NML, it has the least manipulated cash value patterns of any company I can think of.)

In today's cash value life insurance market, characterized by high replacements, "enhanced" policy proposals and lack of meaningful disclosure to consumers of the effects of these forces, it is no longer appropriate to write a SNFL that allows the excesses of the past to continue. (The Group may also wish to take notice of a slowly growing trend toward "low-load" life insurance and "restructured" whole life policies, the latter involving Yearly Renewable Term/Paid-up Additions riders that have the effect of producing much higher early cash surrender values.) Draft C11 of a "Second Standard Nonforfeiture Law (SSNFL)" says in Section 1. that the "rigorous method for determining the equitable treatment of different classes of policyholders . . . is by a comparison of cash surrender values . . . to asset shares on a retrospective basis." This is of course an actuarial formulation, not a public policy one. As such, it assesses 100% of the blame for lapse to the lapsers, but is not some of the blame (onus, burden, cost allocation, whatever) reasonably assessable to the life insurers and their agents and brokers for over-zealous sales techniques, failure to disclose in a meaningful way (year-by-year ROR's, for example, as later shown), and inappropriate replacements in a market that has no means of assisting consumers to measure the pros and cons of replacement. Let's face it: Chubby Checkers was only a step ahead of the twisters of today.

There is another approach to reasonable cash surrender values that has been around for 15 years or so and that should serve as a model for the Group: the laws and regulations governing variable life insurance (VLI). I am no expert on VLI (though I was an NAIC variable life committee member when state regulations were being devised), but is it not the case that in this segment of the business there are "up-front" expense allowances and there are "deferred" sales and acquisition expenses? It is my understanding that the basis for these deferred surrender charges is exactly the point I have been making about

Exhibit C-3

assessing "blame." That is, under SEC theory, not all costs of early lapsers are to be borne by the lapsers; the sales process is assessed some costs. The following sales and administrative expense deductions are taken from a Prudential VLI prospectus: $2 per premium payment; "sales loads" of 30% of the first year's "scheduled" premium, 10% for years 2-5, and 5% thereafter (of which the excess over 5% is deferred and collectible only on surrender, which produces deferred sales surrender charges of 25%, 30%, 35%, 40%, 45%, 45% in the first six years, declining to 0% at year 11); premium tax of 2.5%; $2.50/month administration; $5/$1,000 deferred administrative surrender charge for five years, phased out over the next five years; and .60% asset charge for mortality and expense guarantees. (There is a $.01/month/$1,000 for the guarantee of minimum death benefit if market values collapse that I have not used below.) Finally, Cost of Insurance (COI) charges may be deducted up to 1980 CSO maximums. I applied this schedule of charges to a Metropolitan whole life policy I recently analyzed. This is my estimate of cash surrender values (CSV's) in the first two years for the MET policy (a) as illustrated and (b) using the charges in the PRU prospectus, which may or may not be SEC maximums:

$500,000 Male Preferred Nonsmoker Age 39

	As Whole Life	As Variable Life
1. Premium	$ 6,545	$ 6,545
2. CSV, Policy Year 1	0	1,825
3. CSV, Policy Year 2	1,295	7,500

Since this was a preferred issue, I used COI charges for the second column equal to relatively low YRT rates; subtract about $500 in year 1 and $1,000 in year 2 if maximum charges are used. Interest at 8% was credited to Column 2. Since I am comparing to a MET policy that includes a dividend of $795 in year 2, it seems appropriate to use 8% interest and normal COI charges.

Whether this illustration is typical is hard to say; I doubt MET tried to get all it could out of SNFL. But if these numbers are not precise, they are likely illustrative of the differences between assessing all the blame to lapsers and assessing just some of it. If somebody's asset share finds that MET would lose money on a lapse at the end of year 1 or year 2 using CSV's in Column 2, I'd like to know how MET could put a $500,000 YRT policy on the books for $500 a year and not lose money. I would suspect that MET would lose money only if the asset share calculation allocated expenses on a per $1,000 basis that had no relationship to actual expenses on a $250,000 minimum size policy.

This last paragraph leads me to this point: minimum CSV's <u>should</u> be arranged so life insurers <u>actually</u> lose money on an <u>out-of-pocket</u> basis during the first two or three policy years. Not only is this consistent with the notion of not assessing 100% of the blame to lapsers, but it could have a salutary effect on the assiduousness with which life insurers defend replacements of their own policies. Many life insurers, in my opinion, arrange CSV's so that they make money whether or not the policy lapses. Indeed they may make more money if the policy lapses than if it doesn't. The MET policy above surely makes money on a

Exhibit C-4

lapse in the first three years, though this is not to say MET would encourage lapses. There are worse examples than MET's. What evidence is there for this statement in the absence of knowledge of MET's pricing assumptions? The policy in question was analyzed by me using a Linton Yield technique, and the computer print-out of what I sent the client is attached as Exhibit A. Here are the one-year ROR's for the first several years:

Policy Year	Rate of Return
1	-100.0 %
2	- 78.4
3	1.4
4	18.6
5	15.9
6	13.1
7 - 20	10% - 11%
21 (not in Exh A.)	9.7 %

ROR's drop to just under 10% in year 21 as the implicit surrender charge wears off. (These ROR's may be very slightly overstated by use of YRT assumptions slightly too high for the preferred nonsmoker class at $500,000.) Since MET can't earn more than 9.7% (forgetting that it can't earn 9.7% at the moment), it seems clear to me that a policy lapse after the second or third year would be as profitable to MET as it is a disaster for the policyowner.

The ROR's shown, which may be compared to interest rates, raise this question: Shouldn't the policyowner have this information in his or her possession so that intelligent choices can be made about retention of inforce policies? Perhaps I should put this question another way: Would any of the Group's professional members purport to advise a client about retention of such a policy without information like this?

For me, the lesson is this: Either nonforfeiture values should be arranged to avoid patterns of ROR's (or whatever other measure) such as shown above (and this is a modest example), or we should supply the ROR's at time of policy issue. Of course, I would argue that true consumer justice would be secured by doing both.

Hark back to the lapse rates presented earlier. Is it not possible that there is a connection between maximized surrender charges and these lapse rates? If insurers profit from early lapses, what incentive is there to train agents not to replace? An economist might say that the market is working: insurers are following market practices to maximize profits by engaging in and/or tolerating replacements of old policies that in so many cases would be profitable retained by the policyowners. (Anticipating a response to the effect that the industry isn't all that profitable -- which I don't necessarily accept -- is the problem of perceived low profitabilty a case of the agents/brokers draining off too much money from both companies and consumers for selling policies only 50% of which persist more than six or seven years?)

Exhibit C-5

In what follows, I want to leave the Group with the results of some ROR calculations for other companies that I have done in the last year or two.

One-year Rates of Return

Pol Yr	Company A	B	C	D	E	F	G	H
1	-100.0%	- 98.7%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%
2	- 87.9	- 97.2	- 77.7	-100.0	- 59.2	-100.0	-100.0	-100.0
3	3.4	12.0	24.7	- 84.0	- 12.0	-100.0	- 83.5	-100.0
4	6.6	9.4	26.0	- 11.9	- 4.3	-100.0	2.5	-100.0
5	7.7	7.6	20.4	13.7	0.1	-100.0	23.9	- 83.3
6	8.3	6.8	5.5	14.7	8.8	14.1	16.5	54.6
7	10.1	7.1	8.9	14.7	9.7	36.1	14.5	24.6
8	10.1	7.2	8.7	15.8	9.3	25.4	13.4	17.6
9	10.0	7.3	8.6	15.1	9.2	21.7	13.4	29.9
10	9.9	7.5	8.6	14.7	9.1	19.0	13.4	53.1*
15	9.6	7.9	9.9	10.4	8.4	12.2	14.1	19.7*
20	9.5	8.9	9.8	9.1	9.5	12.7	12.4	19.5*
21			Not Calculated			11.6	10.8	6.7

* ROR's for interim years range from 5.5% to 6.2%

A is Northwestern Mutual and B is Mass Mutual; the former is essentially free of any manipulation, if I may use that term, while the latter is virtually so. Policyowners would not be severely damaged by terminating a policy in any particular year. C is Mutual of New York; surrender after a year or two is obviously ill-considered. D is a "Mod 5" from Prudential; knowledge of the pattern of ROR's would be exceedingly helpful to a policyowner. E is PRU's Variable Appreciable Life projected at 12% gross; the ROR's are low because the policy is only $100,000 at age 28, and the VLI charges are disproportionately large, but the policy is free of manipulation. F is "TransMax" from Transamerica, in my experience one of the worst offenders under the SNFL; it is a Universal Life policy projected at 8.25% with extremely low projected mortality charges. Either I don't understand this policy, or the public is being fooled into buying it. G is a John Hancock "Modified Life" policy. H is a Volunteer State (Chubb LifeAmerica) $1.5 million policy sold to a 41-year male nonsmoker; the pattern of ROR's would have been more dramatic had I entered ROR's for policy years 11-14 and 16-19. In my naivete, I though deferred dividend policies had been outlawed!

It may be that the foregoing table presents a picture some of the Group members haven't seen before in just this form. I hope that one of the goals of the group will be to narrow significantly, if not eliminate, those patterns above that are simply egregious.

Exhibit C-6

In the "You've Got To See It To Believe It!" category is this 1990 proposal from North American Company for Life and Health. It was for $2.5 million on a female age 65 with premiums of $26,400 folowed by $34,200.

Year	ROR	Year	ROR	Year	ROR	Year	ROR
1	-100.0%	6	-100.0%	11	52.6%	16	26.2%
2	"	7	- 33.4	12	43.8	17	26.1
3	"	8	333.6 !	13	38.5	18	25.9
4	"	9	97.0	14	34.9	19	25.6
5	"	10	64.8	15	36.3	20	25.3

When first these ROR's came out of my computer I assumed I had misread the proposal. Then, I extracted the current mortality charges (COI's) from the before-surrender-charge "policy values," and it appeared that COI charges from age 65 to 92 were the same. The company not only confirmed that they were the same, but noted that the scheme had the blessing of one of the two largest actuarial firms that consult with life insurers. I have never taken the time to learn how this scheme met the letter of the SNFL; I think it obvious it didn't meet the spirit.

There is one more pattern of ROR's that may interest the Group: second-to-die policies. I show one below for Manulife, and I'm sure I've seen a similar pattern from Transamerica, but I can't locate it. The pattern shown appears to involve manipulation of surrender charges, implicit or explicit, through a 30-year period. The pattern is atypical among the perhaps two dozen second-to-die policies I have analyzed.

Policy Year	Rates of Return
1	- 49.2
5	- 7.4
10	- 4.3
15	3.2
20	37.7
25	22.6
30	14.3

Because this policy was proposed to husband and wife, each 39, the mortality charges through 30 years are very low. The "cash on cash" return -- Linton Yield assuming zero COI -- is very close to the ROR's shown.

Finally, to show an unusual pattern of surrender vales in the first few years, here is a $350,000 policy purchased by a Massachusetts resident at age 60 from

Exhibit C-7

Alexander Hamilton Life. The "Current Basis" proposal is based on 8.1%:

Policy Year	Annual Premium*	"Accumulation" Value	Surrender Value	Death Benefit
1	$12,200	$ 9,269	$ 1,277	$350,000
2	8,400	15,164	0	350,000
3	8,400	21,322	2,522	350,000
4	8,400	27,752	9,997	350,000
5	8,400	34,467	17,756	350,000

* $5,000 at inception plus $700/month.

The first point here is that the first year surrender value disappears in year 2 despite payments that far exceed any imaginable set of COI's. (The policy was issued in a preferred classification.) The second point is that the surrender charge is $20,000 on a policy of only $350,000 that has planned monthly premiums totalling $8,400 per year. Such a relationship is presumably justified by AHL (and other companies) on the basis that such a surrender charge is permitted on a whole life contract of the same face amount. And AHL would further point out that the surrender charges were disclosed in the policy sent to the insured. True. But this is not the same as saying that the policyholder received an understanding of what was happening to him. A $20,000 surrender charge is all out of proportion to the prposed annual payment. (The $20,000 would still apply if $5,000 was not paid at inception.)

The Second Standard Nonforfeiture Law Working Group has an opportunity to provide a much fairer balance between company needs and consumer expectations. If the "sins" that I have tried to catalog in a non-actuarial way have been addressed by the Group, then I apologize for not finding the time to understand better the direction in which it is going.

/ Exhibit C-8

NICO'S RATE OF RETURN (ROR) SERVICE

ISURER: met | INITIAL FACE AMOUNT: $ 500000 | INSURANCE AGE: 39

POLICY: lpu @ 98 | CLASS: MALE NONSHOKER

********CASH VALUE POLICY********			************BUY TERM & INVEST DIFFERENCE AT: 8.7 %************							
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
ANNUAL PREMIUM	CASH SURRENDER VALUE	DEATH BENEFIT	ANNUAL OUTLAY: SAME AS COL (1)	AMT OF TERM INS(3) -(8)	TERM RATE PER $1000#	COST OF TERM INS	SIDEFUND BEG YR (10)* + (4)-(7)	DEATH BENEFIT BEG YR (5)+(8) (=(3))	SIDEFUND END YR COL (8) ACCUM@ 8.7 %	ANN'L ROR's 100% ART
6545.00	0	500000	6545.00	493969	0.92	514	6031	500000	6552	-100.0%
6545.00	1295	500000	6545.00	487440	0.98	538	12560	500000	13646	-78.4
6545.00	7358	503200	6545.00	483582	1.06	573	19618	503200	21315	1.4
6545.00	15746	507200	6545.00	479951	1.15	612	27249	507200	29606	10.6
6545.00	25858	512000	6545.00	476505	1.25	656	35495	512000	38565	15.9
6545.00	34927	517900	6545.06	473489	1.35	699	44411	517900	48253	13.1
6545.00	45217	525100	6545.00	471054	1.47	752	54046	525100	58721	11.1
6545.00	56500	533100	6545.00	468682	1.68	847	64418	533100	69991	11.0
6545.00	68858	542000	6545.00	466420	1.92	956	75580	542000	82118	11.0
6545.00	81864	551700	6545.00	464127	2.22	1090	87573	551700	95148	10.2
0.00	89015	562500	0.00	468607	2.55	1255	93893	562500	102016	10.5
0.00	96924	554900	0.00	454284	2.95	1400	100616	554900	109319	10.7
0.00	105166	548400	0.00	440617	3.35	1536	107783	548400	117107	10.3
0.00	113825	543300	0.00	427858	3.75	1664	115442	543300	125429	10.0
0.00	123991	539500	0.00	415815	4.05	1744	123685	539500	134384	10.7
0.00	134293	537100	0.00	404536	4.35	1820	132554	537100	144031	10.0
0.00	146351	536300	0.00	394142	4.60	1873	142158	536300	154456	10.6
0.00	159330	537200	0.00	384767	5.10	2022	152433	537200	165620	10.4
0.00	173905	539800	0.00	376386	5.70	2205	163414	539800	177550	10.7
0.00	190277	544300	0.00	369172	6.40	2423	175128	544309	190277	11.0

\# add $60 * MEANS COLUMN FOR PRIOR YEAR.

POLICY KEPT	AVERAGE ANNUAL ROR'S 100% ART	110% ART	TAX. GAIN IF SURR'D.
5 YEARS	-5.7 %	-5.4 %	0
10 YEARS	6.0	6.3	16414
15 YEARS	7.9	8.1	58541
20 YEARS	8.7	8.8	124827

MARGINAL ROR'S

POLICY YEARS	100% ART
6 THRU 10	11.1 %
11 THRU 15	10.4
16 THRU 20	10.5

PREPARED FOR: mara baror
DATE: 18-mar-92

ROR CALCULATION COMPARES THE PURCHASE OR RETENTION OF A CASH VALUE LIFE INSURANCE POLICY TO THE ALTERNATIVE OF BUYING ANNUAL ENABLE TERM (ART) AND INVESTING THE PREMIUM DIFFERENCES IN A 'SIDEFUND', PERHAPS A BANK. THE ROR IS THE INTEREST RATE THAT, ED ON ASSUMED ART RATES, KEEPS THE DEATH BENEFITS OF THE TWO PROGRAMS THE SAME AND EQUATES THE CASH VALUE AND SIDEFUND AT THE OF THE PERIOD STUDIED. TWO SETS OF ROR'S ARE SHOWN: THOSE BASED ON 100% OF THE RATES IN COL (6) AND THOSE BASED ON 110% OF (6). SHOWN ABOVE IN COLS (4)-(10) IS THE DEVELOPMENT OF THE ROR AT 100% ART FOR 20 YEARS. OTHER ROR'S COMPUTED ANALOGOUSLY. ANALYSIS IN COLS (4)-(10) IS NOT NECESSARILY A RECOMMENDATION TO BUY TERM INSURANCE: IT IS THE TECHNIQUE BY WHICH THE INTER- RETURN ON THE POLICY ILLUSTRATED IN COLS (1)-(3) IS ESTIMATED.

RIGHT 1984 NATIONAL INSURANCE CONSUMER ORGANIZATION

PREPARED BY: JAMES H. HUNT, FSA
603-224-2805 EVENINGS

One of the most attractive fully-commissioned policies on the market. Low mortality charges. Dividends projected based on an interest rate MET is unlikely to earn unless interest rise. Note you pay $6545 in policy year 1 for coverage worth $514 (Col 6) and have $0 cash value. In the long run -- 15 years - 20 years -- will be a good, conservative investment. See enclosed for alternative.

JHH

EXHIBIT D

NICO'S RATE OF RETURN (ROR) SERVICE

INSURER: NML | INITIAL FACE AMOUNT: $ 650000 | INSURANCE AGE: 34

POLICY: SELECT LIFE | CLASS: MALE NONSMOKER

	********CASH VALUE POLICY********			************BUY TERM & INVEST DIFFERENCE AT: 7.7 %************							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
POLICY YEAR	ANNUAL PREMIUM	CASH SURRENDER VALUE	DEATH BENEFIT	ANNUAL OUTLAY: SAME AS COL (1)	AMT OF TERM INS(3) -(8)	TERM RATE PER $1000#	COST OF TERM INS	SIDEFUND BEG YR (10)* + (4)-(7)	DEATH BENEFIT BEG YR (5)+(8) (=(3))	SIDEFUND END YR COL (8) ACCUM@ 7.7 %	ANN'L ROR's 100% ART
1	8285.00*	0	650000	8285.00	642257	0.75	542	7743	650000	8341	-100.0%
2	8285.00	936	650000	8285.00	633916	0.76	542	16084	650000	17325	-87.9
3	8285.00	8957	651500	8285.00	626439	0.78	549	25061	651500	26995	3.4
4	8285.00	17755	654900	8285.00	620169	0.82	569	34711	654900	37389	6.6
5	8285.00	27403	660100	8285.00	615015	0.86	589	45085	660100	48563	7.7
6	8285.00	37957	667100	8285.00	610874	0.92	622	56226	667100	60564	8.3
7	8285.00	50165	678500	8285.00	610309	0.98	658	68191	678500	73452	10.1
8	8285.00	63554	691900	8285.00	610871	1.06	708	81029	691900	87281	10.1
9	8285.00	78167	707000	8285.00	612199	1.15	764	94801	707000	102115	10.0
10	8285.00	94093	723900	8285.00	614328	1.25	828	109572	723900	118026	9.9
11	8285.00	111457	742600	8285.00	617182	1.35	893	125418	742600	135093	9.9
12	8285.00	130385	762900	8285.00	620494	1.47	972	142406	762900	153393	9.7
13	8285.00	150768	784700	8285.00	624131	1.60	1109	160569	784700	172957	9.7
14	8285.00	172981	808200	8285.00	628224	1.92	1266	179976	808200	193860	9.7
15	8285.00	197099	833300	8285.00	632619	2.22	1464	200681	833300	216163	9.6
16	8285.00	223269	860000	8285.00	637237	2.55	1685	222763	860000	239949	9.6
17	8285.00	251649	888300	8285.00	642020	2.95	1954	246280	888300	265280	9.6
18	8285.00	282415	918400	8285.00	647052	3.35	2228	271338	918400	292271	9.6
19	8285.00	315726	950100	8285.00	652049	3.75	2505	298051	950100	321045	9.6
20	8285.00	351807	983600	8285.00	656991	4.05	2721	326609	983600	351807	9.5

* ex Waiver of Prem. plan.

add $60

* MEANS COLUMN FOR PRIOR YEAR.

IF POLICY KEPT	AVERAGE ANNUAL ROR'S 100% ART	AVERAGE ANNUAL ROR'S 110% ART	TAX. GAIN IF SURR'D.
5 YEARS	-11.2 %	-11.0 %	0
10 YEARS	3.7	3.9	11243
15 YEARS	6.7	6.8	72824
20 YEARS	7.7	7.8	186107

MARGINAL ROR'S

POLICY YEARS	100% ART
6 THRU 10	9.8 %
11 THRU 15	9.7
16 THRU 20	9.6

PREPARED FOR: DR CHESEN
DATE: 24-FEB-92

AN ROR CALCULATION COMPARES THE PURCHASE OR RETENTION OF A CASH VALUE LIFE INSURANCE POLICY TO THE ALTERNATIVE OF BUYING ANNUAL RENEWABLE TERM (ART) AND INVESTING THE PREMIUM DIFFERENCES IN A 'SIDEFUND'. PERHAPS A BANK. THE ROR IS THE INTEREST RATE THAT, BASED ON ASSUMED ART RATES, KEEPS THE DEATH BENEFITS OF THE TWO PROGRAMS THE SAME AND EQUATES THE CASH VALUE AND SIDEFUND AT THE END OF THE PERIOD STUDIED. TWO SETS OF ROR'S ARE SHOWN: THOSE BASED ON 100% OF THE RATES IN COL (6) AND THOSE BASED ON 110% OF COL (6). SHOWN ABOVE IN COLS (4)-(10) IS THE DEVELOPMENT OF THE ROR AT 100% ART FOR 20 YEARS. OTHER ROR'S COMPUTED ANALOGOUSLY. THE ANALYSIS IN COLS (4)-(10) IS NOT NECESSARILY A RECOMMENDATION TO BUY TERM INSURANCE: IT IS THE TECHNIQUE BY WHICH THE INTERNAL RETURN ON THE POLICY ILLUSTRATED IN COLS (1)-(3) IS ESTIMATED.

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PREPARED BY: JAMES H. HUNT, FSA
603-224-2885 EVENINGS

NML a top-notch company; I have a policy. But heavy front end charges reduce attractiveness a great deal. NML uses 9.25% on its div'd scale; ROR's in box show effect of these charges.

If you want to do business with NML agent, there's a better way — Adjustable Life c̄ minimum 90 LiC component. Or read enclosed.

Feel free to call.

JH Hunt

EXHIBIT B

NICO'S RATE OF RETURN (ROR) SERVICE

INSURER: JOHN HANCOCK INITIAL FACE AMOUNT: $ 250000 INSURANCE AGE: 37

POLICY: MOD LIFE CLASS: MALE NONSMOKER

	******CASH VALUE POLICY******			************BUY TERM & INVEST DIFFERENCE AT: 9.7 %************							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
POL-ICY YEAR	ANNUAL PREMIUM	CASH SURRENDER VALUE	DEATH BENEFIT	ANNUAL OUTLAY: SAME AS COL (1)	AMT OF TERM INS(3) -(8)	TERM RATE PER $1000#	COST OF TERM INS	SIDEFUND BEG YR (10)* + (4)-(7)	DEATH BENEFIT BEG YR (5)+(8) (=(3))	SIDEFUND END YR COL (8) ACCUM@ 9.7 %	ANN'L ROR'S 100% ART
1	2473.00	0	250000	2473.00	247800	0.86	273	2200	250000	2414	%-100.00%
2	2473.00	0	250000	2473.00	245399	0.92	286	4601	250000	5048	%-100.00
3	2473.00	358	250000	2473.00	242777	0.98	298	7223	250000	7924	-83.50
4	2473.00	2570	250000	2473.00	239317	1.06	314	10683	250000	11062	2.45
5	2473.00	5825	250000	2473.00	236797	1.15	332	13203	250000	14485	23.91
6	3315.00	10228	251000	3315.00	233552	1.25	352	17448	251000	19143	16.53
7	3315.00	15065	255400	3315.00	233317	1.35	375	22083	255400	24227	14.51
8	3315.00	20383	260700	3315.00	233561	1.47	403	27139	260700	29775	13.47
9	759.00	23444	267000	759.00	236925	1.68	458	30075	267000	32996	13.43
10	0.00	25997	264600	0.00	232109	1.92	506	32491	264600	35646	13.43
11	0.00	28909	260300	0.00	225214	2.22	560	35086	260300	38494	13.75
12	0.00	32213	256900	0.00	219025	2.55	619	37875	256900	41554	13.96
13	0.00	35936	254700	0.00	213837	2.95	691	40863	254700	44831	14.10
14	0.00	40106	253600	0.00	209531	3.35	762	44069	253600	48349	14.12
15	0.00	44762	253500	0.00	205983	3.75	832	47517	253500	52132	14.07
16	0.00	50182	254500	0.00	203252	4.05	883	51248	254500	56226	14.44
17	0.00	56089	256900	0.00	201611	4.35	937	55289	256900	60658	13.80
18	0.00	62273	259800	0.00	200123	4.60	981	59677	259800	65473	13.21
19	0.00	68997	263300	0.00	198901	5.10	1074	64399	263300	70653	12.77
20	0.00	76211	267400	0.00	197935	5.70	1188	69465	267400	76211	12.41

add $60 * MEANS COLUMN FOR PRIOR YEAR.

IF POLICY KEPT	AVERAGE ANNUAL ROR'S 100% ART	110% ART	TAX. GAIN IF SURR'D.
5 YEARS	-19.95%	-19.50%	0
10 YEARS	4.65	4.93	2928
15 YEARS	8.41	8.65	21693
20 YEARS	9.71	9.93	53142

MARGINAL ROR'S POLICY YEARS	100% ART
6 THRU 10	14.08%
11 THRU 15	14.00
16 THRU 20	13.35

PREPARED FOR: DR MAHONEY
DATE: 12-NOV-91

AN ROR CALCULATION COMPARES THE PURCHASE OR RETENTION OF A CASH VALUE LIFE INSURANCE POLICY TO THE ALTERNATIVE OF BUYING ANNUAL RENEWABLE TERM (ART) AND INVESTING THE PREMIUM DIFFERENCES IN A 'SIDEFUND', PERHAPS A BANK. THE ROR IS THE INTEREST RATE THAT, BASED ON ASSUMED ART RATES, KEEPS THE DEATH BENEFITS OF THE TWO PROGRAMS THE SAME AND EQUATES THE CASH VALUE AND SIDEFUND AT THE END OF THE PERIOD STUDIED. TWO SETS OF ROR'S ARE SHOWN: THOSE BASED ON 100% OF THE RATES IN COL (6) AND THOSE BASED ON 110% OF COL (6). SHOWN ABOVE IN COLS (4)-(10) IS THE DEVELOPMENT OF THE ROR AT 100% ART FOR 20 YEARS. OTHER ROR'S COMPUTED ANALOGOUSLY. THE ANALYSIS IN COLS (4)-(10) IS NOT NECESSARILY A RECOMMENDATION TO BUY TERM INSURANCE; IT IS THE TECHNIQUE BY WHICH THE INTERNAL RETURN ON THE POLICY ILLUSTRATED IN COLS (1)-(3) IS ESTIMATED.

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A new JH MOD LIFE, Different age (a bit) but analyses takes that into account. This is complicated not only by pref. NS mortality assumptions but also that ~~new~~ this policy was issued during a temporary period of unisex rates in MA and "female effect" may have been stronger than I would have guessed. JH may be able to back up differences. Probably no projections of mortality improvement, just very low assumptions with no historical experience to back them up (for policy durations beyond early years)

Exhibit F

JAMES H. HUNT
CONSULTING ACTUARY
8 TAHANTO STREET
CONCORD, NEW HAMPSHIRE 03301
603-224-2805

FELLOW, SOCIETY OF ACTUARIES
MEMBER, AMERICAN ACADEMY OF ACTUARIES

$100,000 Whole Life Policy
Male Nonsmoker Age 35

Industry Cost Disclosure Method:

	10 Years	20 Years
Surrender Cost Index	1.88	-1.85
Net Payment Cost Index	10.57	7.27
Equivalent Dividend Index	2.94	6.24

Rate of Return Disclosure Method:

Years Policy Kept	Average Annual Rate of Return
5	-9.5%
10	5.0
15	7.7
20	8.6

A rate of return is an estimate of the investment return on the policy expressed as an interest rate.

12/15/88

INSURANCE REGULATORY AND CONSUMER SERVICES

SBLI COMPANY - WOBURN MA TEL No. 617 938 6574 Jun 18,92 17:33 P.23

Exhibit G

JAMES H. HUNT
CONSULTING ACTUARY
8 TAHANTO STREET
CONCORD, NEW HAMPSHIRE 03301
603-224-2805

FELLOW, SOCIETY OF ACTUARIES
MEMBER, AMERICAN ACADEMY OF ACTUARIES

February 18, 1991

John O. Montgomery, FSA
Chief Actuary
California Insurance Department
3450 Wilshire Blvd.
Los Angeles, CA 90010

Re: Yield Index Proposed Regulation

Dear Mr. Montgomery:

I have just learned that Commissioner Garamendi has proposed the NAIC Yield Index Regulation for adoption. I wish to support its adoption both personally and on behalf of the National Insurance Consumer Organization (NICO), of which I am a director. Since its inception in 1980, NICO has urged adoption of rate-of-return disclosure in life insurance. I was a member of the Task Force that devised the model regulation. In the late 1970's, as Director of the State Rating Bureau in the Massachusetts Division of Insurance, I authored a study entitled, "The Case for Rate-of-Return Disclosure in Life Insurance," which received limited circulation within the industry. For nearly ten years, I have operated a rate-of-return (ROR) service (of my design) for NICO that has served more than 1000 customers. Examples of this service, which can be used to analyze both proposals for new policies and in-force ledger statements, are attached. NICO's ROR analysis uses the Linton Yield method, which is analogous to what I have called the "Miller Yield Method," after the Chairman of the Yield Index Committee. If there is a person in the United States who has more claim than I to speak from practical experience about ROR disclosures, I would like to meet that person.

Regretfully, I feel it necessary to ask the Department to treat any testimony or report from the American Academy of Actuaries, of which I am a member, as having no more weight than that of any industry member. The Academy committee that issued a report on the Yield Index method of life insurance relative cost disclosure was dominated by actuaries employed by insurance companies and consultants to the industry. It never sought my opinion, nor as far as I know the opinions of consumer groups, nor of members of the Academy not connected to the life insurance business. The report was not the product of a disinterested, professional body.

The history of relative cost disclosure in life insurance in the United States is a relatively long one. In light of the short time available to me to prepare a statement of support for California's adoption of a Yield Index Regulation, I think it best to send a copy of Congressional testimony I prepared in 1984 on the subject of life insurance cost disclosure. While some of this may be dated a bit, it serves to outline the weaknesses (if not utter uselessness to consumers) of the NAIC Model Life Insurance Solicitation Regulation currently used in California and the advantages of a rate-of-return disclosure system. (I have not included the appendices noted in the document.) Reference is made in the testimony to Massachusetts Savings Bank Life Insurance (SBLI), an organization for whom I still work four days a week. For a period of time beginning in the late 1970's, SBLI supplied ROR's to prospective customers; this came to an end when the NAIC Solicitation Regulation was promulgated by Massachusetts. I mention this historical event not only because it was the first systematic disclosure of rates of return that I know of, but also to point out the

Exhibit G-2

technical feasibility of doing so; SBLI is a small company, yet had no difficulty in integrating the disclosures into its operations.

The years since my Congressional testimony have been characterized by two phenomena in the life insurance business: rampant, pernicious replacements of existing cash value policies and "enhancements" to life insurance computer proposals. The two are not unconnected, of course. Replacements peaked in the mid-1980's, but are still at very high levels. According to the latest LIMRA data, at the rate of lapsation from 1983-1986, less than 20% of cash value policies would remain in force 10 years, yet ROR analysis shows that one must keep a cash value in force at least 10 years, and often 15 to 20 years, to obtain a reasonable return from such an investment.

ROR disclosure could help California consumers who might otherwise replace existing policies in two ways: (1) Proposals for new coverage would typically show negative returns for five-year and low-to-modest returns for ten-year holding periods, thus reinforcing the message that cash value policies are very long-term investments; and, (2) the disclosure method, if extended to in-force policies as part of any replacement regulation, could show, often dramatically, that prospective returns far exceed returns on new policies for comparable holding periods. This last advantage could also be obtained if proposals and any Statements of Policy Costs and Benefits showed yearly ROR's. Exhibit A is an ROR analysis of a universal life policy that was sold to a high school classmate of mine. He had owned the policy three years when it occurred to him to ask me whether he should keep it. Note the one-year ROR's in Col (11): the effect of the reduction of the high surrender charge to zero at the end of the tenth year produces spectacular returns in policy years 5 through 10. I told my friend to keep the policy in force even if he no longer needed the coverage.

ROR disclosure could also help limit some of the egregious practices being used today in illustrating policy values. From a disclosure point of view, the least misleading of these are interest rate bonuses, which of course will be reflected in one-year ROR's directly but which in summary ROR's for 5, 10, 15 and 20 years will be somewhat obscured. More deceptive are projections of mortality improvements and other gimmicks that give semi-tontine effects. In my ROR work, I was able to detect one aggressive company that sells through brokers using level current costs of insurance for (in the proposal for a female age 65) attained ages 65 through 91! See the ROR's in Column (11) of Exhibit B. Such absurd ROR's led me to extract the COI's for years after the surrender charge period. Another company, one of the most respected in the business (but not Northwestern Mutual) and one whose dividend history is in the top ten in Best's annual survey, showed up with such high ROR's in the later policy years that it was clear projections of substantial improvements in mortality were being used. I have withheld the names of these last two companies, but I will supply them to the Department if requested.

By the way, the comments above suggest that it would be a good idea to require current COI's and dividend mortality rates to be disclosed in some way, preferably on proposals. Or, such disclosure could be required whenever either is less than the "term rates" that will be used to generate Yield Indexes.

There will be all kinds of technical objections to issuance of the proposed regulation. Some of these will have some merit. Not the least of the technical issues will be the question of how to handle the developing split of the nonsmoker (and, less frequently, the smoker) class into preferred and standard subsets. (I use preferred term rates for all nonsmoker illustrations on the theory that this covers 75% of the policies issued and that I have never seen a proposal from a company with a nonsmoker split that is not illustrated on the preferred basis.) It may be impossible to promulgate a perfect regulation the first time out. Once a Yield Index Regulation is promulgated, however, two evolutions will begin to take place: the Department will receive feedback from companies, agents and consumers that it can use to fine-tune the

SBLI COMPANY - WOBURN MA TEL No. 617 938 6574 Jun 18,92 17:35 P.25

-3-

Exhibit G 3

regulation; and insurers will begin to unmanipulate their illustrations because they will get sick of explaining to agents, and agents to prospects, why absurd results are being produced.

An interesting question is whether second-to-die policies should be subject to the regulation. In illustrations I have seen, twin rates of return are given, one to death at, say, 10, 20 and 30 years, the other to the cash surrender values at the same durations. There is no technical reason why Yield Indices can't be given for second-to-die policies, and I have done so for policies with no change in policy values at the first death. (I have not explored the less frequent kind in which cash values increase at the first death.) While I know of no market for second-to-die term life insurance, synthetic rates can be developed or observed from term life riders almost always added to second-to-die policies. There is some COI optimism evident in some illustrations for these policies, as well.

I am encouraged that the California Department has moved the Yield Index to the front burner. I foresee not only benefits to California consumers but the possibility that such a regulation will in time force a voluntary withdrawal by offending companies of illustration practices that it seems every industry actuary and executive has bemoaned but been unable to correct. If there is any way I can assist the Department based on my years of experience in providing ROR analyses to NICO's clients, please let me know.

Sincerely,

James H Hunt

James H. Hunt, FSA

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Exhibit A   Exhibit G-4

NICO'S RATE OF RETURN (ROR) SERVICE

INSURER: CNA   FACE AMOUNT: $ 375000   INSURANCE AGE: 55

POLICY: UNIV LIFE "9.0%"   CLASS: MALE NONSMOKER

	******CASH VALUE POLICY******			************BUY TERM & INVEST DIFFERENCE AT: 7.2 %************							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
OL-ICY YEAR	ANNUAL PREMIUM	CASH SURRENDER VALUE	DEATH BENEFIT	ANNUAL OUTLAY; SAME AS COL (1)	AMT OF TERM INS(3) -(8)	TERM RATE PER $1000#	COST OF TERM INS	SIDEFUND BEG YR (10)* + (4)-(7)	DEATH BENEFIT BEG YR (5)+(8) (=(3))	SIDEFUND END YR COL (8) ACCUM@ 7.2 %	ANN'L ROR's 100% ART
1	5000.00	0	375000	5000.00	370878	2.30	878	4122	375000	4418	-100.0%
2	5000.00	0	375000	5000.00	366770	3.17	1188	8230	375000	8821	-100.0
3	5000.00	0	375000	5000.00	362684	4.08	1505	12316	375000	13201	-100.0
4	5000.00	2903	375000	5000.00	358636	5.05	1836	16364	375000	17539	-6.3
5	5000.00	8884	375000	5000.00	354649	6.18	2188	20351	375000	21812	46.9
6	5000.00	13766	375000	5000.00	350632	6.98	2444	24368	375000	26117	28.4
7	5000.00	19430	375000	5000.00	346618	7.82	2736	28382	375000	30419	22.6
8	5000.00	25213	375000	5000.00	342642	8.86	3061	32358	375000	34681	18.5
9	5000.00	31074	375000	5000.00	338745	10.04	3426	36255	375000	38858	16.4
10	5000.00	35955	375000	5000.00	334982	11.39	3840	40818	375000	42891	15.0
11	5000.00	41131	375000	5000.00	331419	12.93	4310	43581	375000	46709	9.5
12	5000.00	45240	375000	5000.00	327956	14.15	4656	47044	375000	50421	9.3
13	5000.00	49244	375000	5000.00	324636	15.58	5057	50364	375000	53980	9.2
14	5000.00	53085	375000	5000.00	321511	17.08	5491	53489	375000	57329	9.1
15	5000.00	55609	375000	5000.00	318654	18.70	5984	56346	375000	60391	9.0
16	5000.00	59952	375000	5000.00	316147	20.68	6538	58853	375000	63078	8.9
17	5000.00	62816	375000	5000.00	314076	22.70	7155	60924	375000	65298	8.8
18	5000.00	65160	375000	5000.00	312573	25.10	7871	62427	375000	66909	8.8
19	5000.00	66865	375000	5000.00	311751	27.70	8661	63249	375000	67789	8.8
20	5000.00	67763	375000	5000.00	311776	30.60	9565	63224	375000	67763	8.8

add $25   * MEANS COLUMN FOR PRIOR YEAR.

F POLICY KEPT	AVERAGE ANNUAL ROR'S 100% ART	110% ART	TAX. GAIN IF SURR'D.
5 YEARS	-22.1 %	-20.6 %	0
10 YEARS	5.0	6.2	0
15 YEARS	6.7	7.0	0
20 YEARS	7.2	8.4	0

MARGINAL ROR'S

POLICY YEARS	100% ART
6 THRU 10	19.5 %
11 THRU 15	9.2
16 THRU 20	8.8

PREPARED FOR: DAVID MACHANIC
DATE: 12-JAN-90

N ROR CALCULATION COMPARES THE PURCHASE OR RETENTION OF A CASH VALUE LIFE INSURANCE POLICY TO THE ALTERNATIVE OF BUYING ANNUAL ENEWABLE TERM (ART) AND INVESTING THE PREMIUM DIFFERENCES IN A 'SIDEFUND', PERHAPS A BANK. THE ROR IS THE INTEREST RATE THAT, ASED ON ASSUMED ART RATES, KEEPS THE DEATH BENEFITS OF THE TWO PROGRAMS THE SAME AND EQUATES THE CASH VALUE AND SIDEFUND AT THE ND OF THE PERIOD STUDIED. TWO SETS OF ROR'S ARE SHOWN: THOSE BASED ON 100% OF THE RATES IN COL (6) AND THOSE BASED ON 110% OF OL (6). SHOWN ABOVE IN COLS (4)-(10) IS THE DEVELOPMENT OF THE ROR AT 100% ART FOR 20 YEARS. OTHER ROR'S COMPUTED ANALOGOUSLY. HE ANALYSIS IN COLS (4)-(10) IS NOT NECESSARILY A RECOMMENDATION TO BUY TERM INSURANCE; IT IS THE TECHNIQUE BY WHICH THE INTER-AL RETURN ON THE POLICY ILLUSTRATED IN COLS (1)-(3) IS ESTIMATED.

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Exhibit G-5

Exhibit B

NICO'S RATE OF RETURN (ROR) SERVICE

INSURER: WITHHELD FACE AMOUNT: $ 2500000 INSURANCE AGE: 65

POLICY: UNIV LIFE "9.50%" CLASS: FEMALE NONSMOKER

	******CASH VALUE POLICY******			************BUY TERM & INVEST DIFFERENCE AT: 13.2 %************							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
POL-ICY YEAR	ANNUAL PREMIUM	CASH SURRENDER VALUE	DEATH BENEFIT	ANNUAL OUTLAY: SAME AS COL (1)	AMT OF TERM INS(3) -(8)	TERM RATE PER $1000	COST OF TERM INS	SIDEFUND BEG YR (10)* + (4)-(7)	DEATH BENEFIT BEG YR (5)+(8) (=(3))	SIDEFUND END YR COL (8) ACCUM 13.2 %	ANN'L ROR's 100% ART
1	25400.00	0	2500000	26400.00	2481118	3.03	7518	18882	2500000	21371	-100.0%
2	34200.00	0	2500000	34200.00	2454566	4.13	10137	45434	2500000	51422	-100.0
3	34200.00	0	2500000	34200.00	2427438	5.38	13058	72562	2500000	82126	-100.0
4	34200.00	0	2500000	34200.00	2399583	6.63	15909	100417	2500000	113652	-100.0
5	34200.00	0	2500000	34200.00	2371548	8.18	19399	128452	2500000	145382	-100.0
6	34200.00	0	2500000	34200.00	2342436	9.40	22019	157564	2500000	178331	-100.0
7	34200.00	4863	2500000	34200.00	2312420	10.79	24951	187580	2500000	212303	-33.4
8	34200.00	35513	2500000	34200.00	2281769	12.39	28271	218232	2500000	246995	333.6
9	34200.00	68371	2500000	34200.00	2250766	14.20	31961	249234	2500000	282083	97.0
10	34200.00	103671	2500000	34200.00	2219834	16.27	36117	280166	2500000	317092	64.8
11	34200.00	141671	2500000	34200.00	2189654	18.70	40947	310346	2500000	351250	52.6
12	34200.00	182655	2500000	34200.00	2159026	20.60	44476	340974	2500000	385914	43.8
13	34200.00	226941	2500000	34200.00	2128196	22.70	48310	371804	2500000	420808	38.5
14	34200.00	274875	2500000	34200.00	2097427	25.00	52436	402573	2500000	455632	34.9
15	34200.00	336594	2500000	34200.00	2067223	27.60	57055	432777	2500000	489817	35.3
16	34200.00	383274	2500000	34200.00	2038147	30.50	62163	461853	2500000	522726	26.2
17	34200.00	434886	2500000	34200.00	2010839	33.70	67765	489161	2500000	553633	26.1
18	34200.00	491952	2500000	34200.00	1986048	37.20	73881	513952	2500000	581691	25.9
19	34200.00	555948	2500000	34200.00	1964660	41.00	80551	535340	2500000	605898	25.6
20	34200.00	624811	2500000	34200.00	1947949	45.20	88047	552051	2500000	624811	25.3

* MEANS COLUMN FOR PRIOR YEAR.

F POLICY KEPT	AVERAGE ANNUAL ROR'S 100% ART	110% ART	TAX. GAIN IF SURR'D.
5 YEARS	%-100.0 %	%-100.0 %	0
10 YEARS	-1.6	1.0	0
15 YEARS	10.8	12.7	0
20 YEARS	13.2	14.9	0

MARGINAL ROR'S POLICY YEARS	100% ART
6 THRU 10	44.7 %
11 THRU 15	42.3
16 THRU 20	25.9

PREPARED FOR: WITHHELD
DATE: 05-MAY-93

% ROR CALCULATION COMPARES THE PURCHASE OR RETENTION OF A CASH VALUE LIFE INSURANCE POLICY TO THE ALTERNATIVE OF BUYING ANNUAL RENEWABLE TERM (ART) AND INVESTING THE PREMIUM DIFFERENCES IN A 'SIDEFUND', PERHAPS A BANK. THE ROR IS THE INTEREST RATE THAT, BASED ON ASSUMED ART RATES, KEEPS THE DEATH BENEFITS OF THE TWO PROGRAMS THE SAME AND EQUATES THE CASH VALUE AND SIDEFUND AT THE END OF THE PERIOD STUDIED. TWO SETS OF ROR'S ARE SHOWN: THOSE BASED ON 100% OF THE RATES IN COL (6) AND THOSE BASED ON 110% OF COL (6). SHOWN ABOVE IN COLS (4)-(10) IS THE DEVELOPMENT OF THE ROR AT 100% ART FOR 20 YEARS. OTHER ROR'S COMPUTED ANALOGOUSLY. THE ANALYSIS IN COLS (4)-(10) IS NOT NECESSARILY A RECOMMENDATION TO BUY TERM INSURANCE: IT IS THE TECHNIQUE BY WHICH THE INTERNAL RETURN ON THE POLICY ILLUSTRATED IN COLS (1)-(3) IS ESTIMATED.

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Senator METZENBAUM. Thank you very much. I might say that the complete statements of all of the witnesses today will be included in the record as if given.

Senator SPECTER. Mr. Chairman, might I ask just one question of Mr. Hunt?

Senator METZENBAUM. I am sorry. I didn't see you here, Senator.

Senator SPECTER. Just one question because I can't stay too much longer.

Mr. Hunt, you emphasized the point about State action. Do you believe that there ought to be Federal regulation to deal with the issues that you have raised?

Mr. HUNT. Well, that has been the perennial question, and I guess when I was the life insurance commissioner in the State of Vermont I thought it might be a good idea, and now that I am older and wiser, maybe, I am not so sure. It is a very difficult question.

Senator SPECTER. Thank you very much.

Thank you, Mr. Chairman.

Senator METZENBAUM. Thank you.

Our next witness is Judy Faucett, and I would ask you, Ms. Faucett, to tell me what FSA and MAAA mean. I am sure it is something that you worked hard to get, but I don't know what it means.

TESTIMONY OF JUDY FAUCETT

Ms. FAUCETT. I am a fellow of the Society of Actuaries and a member of the American Academy of Actuaries.

Senator METZENBAUM. Very good. Thank you very much, and please proceed.

Ms. FAUCETT. Thank you. A life insurance illustration is a mathematical calculation of benefits and values over time under specific, simplified, and generally static assumptions. Illustrations have evolved into relatively sophisticated marketing tools. Their popularity and importance have increased with easier access to fast, powerful computers, but also as a result of heightened consumer need to understand what is being purchased and what it will cost.

The Society of Actuaries Task Force on Life Illustration Practices was formed to research illustration practices from the perspective of the consumer. The task force was concerned about the consumer's ability to understand what is being purchased and how illustrations affect their understanding.

In developing its final report, the task force surveyed life insurance company illustration practices, reviewed regulatory requirements, held open forums, and considered the methodologies applied to other financial products. The research was limited to illustrations provided or approved by the life insurance company. The task force did not investigate modifications to illustrations that insurance agents and brokers make in the field.

As part of the task force work, approximately 50 life insurance companies were surveyed, with about two-thirds indicating that there is a need to improve sales illustration practices. The companies were candid about the questions they encounter from their policyholders on policy features and sales illustrations.

According to the companies, the consumer does not always understand what is guaranteed and what is not. This is particularly true for vanishing premiums, a method of financing premiums after some point by using values built up in the policy instead of out-of-pocket payments. Many consumers believe that if a policy's premiums are illustrated to vanish in 7 years that the policy is fully paid up in 7 years. Instead, whether the premium vanishes depends on nonguaranteed investment results during the duration of the policy. The premium may not, in fact, vanish in the year specified in the illustration.

The consumer has no basis to evaluate the assumptions underlying the illustration. The assumptions are generally not disclosed, and even if they were, most consumers could not determine whether the assumptions were reasonable. Assumptions vary among companies. Yet, consumers use illustrations to compare products from different companies as if the illustrations were developed on a consistent basis.

The consumer does not always review the footnotes and other descriptive narrative. The footnotes need careful evaluation because they describe unique product features and the limits on the product's guarantees. Companies are limited in their ability to control illustrations and how illustrations are portrayed to the consumer because personal computers have given agents so much flexibility to customize the illustration. Moreover, companies cannot be present at point of sale to ensure that all product features are properly described to the consumer.

The life insurance companies contacted also provided the task force with sample illustrations. The task force found that these illustrations generally met regulatory requirements. However, it is the opinion of the task force that regulations have not kept pace with changes in insurance products and in the environment in which the life insurance industry operates. Below are a few examples.

Regulations require that companies illustrate dividends or nonguaranteed factors using current scales, such as the current interest and current mortality experience. If interest rates or other experience factors are improving, the illustrations will tend to understate the performance the consumer can expect. However, if interest rates are declining, using current interest rates will overstate how well the policy is likely to perform over the next few years.

Regulations do not specifically address new types of products or product features, or even payment methods such as vanishing premium. This leaves companies free to interpret how any regulatory requirement should apply. Most make a good-faith effort, but there is no guarantee of consistency in treatment of product features for purposes of illustration.

The regulators are looking to the actuaries for help in these areas. The academy's Committee on Life Insurance has been working with the regulators. This work will now be augmented with the addition to the academy committee of some members of the Society of Actuaries task force.

The task force also considered the ways consumers use illustrations. One use is to show how the policy will operate over time under certain assumptions. This use includes not only the current set of assumptions, but other scenarios to test sensitivity. The emphasis here is to show how the contract operates and what is happening inside the contract that gives rise to the ultimate value of the contract. The emphasis is not on what the value of the contract really is.

A second use for illustrations is to project best estimates of future value of the contract in order to compare products. To perform this second type of analysis, one must be able to evaluate future economic conditions, future company experience, and the impact of particular policy features on future experience.

In the opinion of the task force, consumers cannot use illustrations to compare products unless the underlying assumptions are consistent. Moreover, since no one can predict such future events as a particular company's investment experience, no one can make such comparisons with any degree of certainty.

The task force identified a number of alternatives to current practices that might improve illustrations for the consumer. The task force believes that educational efforts aimed at consumers, agents, and insurance company personnel should be undertaken on the use and limits of illustrations. There are disclosures, regulations, and standards of professional practice regarding policy features, nonguaranteed values, and underlying assumptions that should be considered. This is particularly true for vanishing premium illustrations. The task force also believes that illustrations of policy performance under alternative scenarios will help the consumer to understand how nonguaranteed benefit elements of the policies operate. Finally, actuaries need to continue their research to identify appropriate measures and methods to compare products and the companies that offer them.

When properly used, illustrations are a valuable tool for the consumer and for third-party advisers. Most companies are making a good-faith effort to comply with the regulatory requirements and disclose material facts on the illustrations. However, the consumer would benefit from illustrations that demonstrate or disclose the sensitivity and operation of nonguaranteed elements and employ better methods and measures to compare policies and companies.

The final report of our task force has recently become available and I have brought copies of it along with me for the record.

Thank you.

Senator METZENBAUM. Thank you very much. We would be very happy to include it in the record.

[The prepared statement of Ms. Faucett and the aforementioned task force report follow:]

ANTITRUST, MONOPOLIES, AND BUSINESS RIGHTS SUBCOMMITTEE
COMMITTEE ON JUDICIARY
U.S. SENATE
HEARINGS ON
CONSUMER DISCLOSURE ISSUES IN LIFE INSURANCE

TESTIMONY
BY THE
JUDY FAUCETT, F.S.A, M.A.A.A.
COMMITTEE ON LIFE INSURANCE
AMERICAN ACADEMY OF ACTUARIES

June 23, 1992

The American Academy of Actuaries is a national organization formed in 1965 to bring together into a single entity actuaries of all specialties within the United States. In addition to setting qualification standards and standards for actuarial practice, a major purpose of the Academy is to act as a public information organization for the profession. Academy committees regularly prepare testimony for Congress, provide information to congressional staff and senior federal policy makers, comment on proposed regulations, and work closely with state officials on issues related to insurance.

This testimony was prepared by Judy Faucett, Chairman of the Society of Actuaries' Task Force on Life Insurance Sales Illustrations. The Task Force is part of the Society's Committee for Research on Social Concerns. The Task Force was formed to investigate how sales illustration practices can add to, or detract from, consumer confidence in the life insurance industry.

The Society's Task Force has completed a final report, which has been forwarded to the American Academy of Actuaries Committee on Life Insurance for further action and implementation through the National Association of Insurance Commissioners (NAIC). The Academy's Committee on Life Insurance has been working with the NAIC over the past two years on strategies for improving insurance illustrations and better assuring their integrity.

A life insurance illustration is a mathematical calculation of benefits and values over time under specific, simplified, and generally static assumptions. Illustrations have evolved into relatively sophisticated marketing tools. Their popularity and importance have increased with easier access to fast, powerful computers, but also as the result of heightened consumer need to understand what is being purchased and what it will cost.

The Society of Actuaries' Task Force on Life Illustration Practices was formed to research illustration practices from the perspective of the consumer. The Task Force was concerned about the consumer's ability to understand what is being purchased and how illustrations affect their understanding. In developing its final report, the Task Force surveyed life insurance company illustration practices, reviewed regulatory requirements, held open forums, and considered the methodologies applied to other financial products. The research was limited to illustrations provided or approved by the life insurance company. The Task Force did not investigate modifications to illustrations that insurance agents and brokers make in the field.

As part of the Task Force's work, approximately fifty life insurance companies were surveyed with about two-thirds indicating that there is a need to improve sales illustration practices. The companies were candid about the questions they encounter from their policyholders on policy features and sales illustrations. According to the companies:

- The consumer does not always understand what is guaranteed and what is not. This is particularly true for "vanishing premiums", a method of financing premiums after some point by using values built up in the policy instead of out-of-pocket payments. Many consumers believe that if a policy's premiums are illustrated to "vanish" in seven years that the policy is fully paid up in seven years. Instead, whether the premium vanishes depends on non-guaranteed investment results during the duration of the policy. The premium may not in fact vanish in the year specified in the illustration.

- The consumer has no basis to evaluate the assumptions underlying the illustration. The assumptions are generally not disclosed, and even if they were, most consumers could not determine whether the assumptions were reasonable. Assumptions vary among companies, yet consumers use illustrations to compare products from different companies as if the illustrations were developed on a consistent basis.

- The consumer does not always review the footnotes and other descriptive narrative. The footnotes need careful evaluation because they describe unique product features and the limits on the product's guarantees.

Companies are limited in their ability to control illustrations and how illustrations are portrayed to the consumer because personal computers have given agents so much flexibility to customize illustrations. Moreover, companies cannot be present at point-of-sale to ensure that all product features are properly described to the consumer.

The life insurance companies contacted also provided the Task Force with sample illustrations. The Task Force found that these illustrations generally met regulatory requirements. However, it is the opinion of the Task Force that regulations have not kept pace with changes in insurance products and the environment in which the life insurance industry operates. Below are a few examples.

- Regulations require that companies illustrate dividends or non-guaranteed factors, using current scales such as the current interest and current mortality experience. If interest rates and other experience factors are improving, the illustrations will tend to understate the performance the consumer can expect. However, if interest rates are declining, using current interest rates will overstate how well the policy is likely to perform over the next few years.

- Regulations do not specifically address new types of products or product features - or even payment methods such as "vanishing premium". This leaves companies free to interpret how any regulatory requirements should apply. Most make a good faith effort but there's no guarantee of consistency in treatment of product features for purposes of illustration.

The regulators are looking to the actuaries for help in these areas. The Academy's Committee on Life Insurance has been working with the regulators. This work will now be augmented with the addition to the Academy Committee of some members of the Society of Actuaries Task Force.

The Task Force also considered the ways consumers use illustrations. One use is to show how the policy will operate over time under certain assumptions. This use includes not only the current set of assumptions but other scenarios to test sensitivity. The emphasis here is on how the contract operates and what is happening inside the contract that gives rise to the ultimate value of the contract. The emphasis is not on what the value of the contact actually is.

A second use for illustrations is to project best estimates of future value of the contact in order to compare products. To perform this second type of analysis, one must be able to evaluate future economic conditions, future company experience, and the impact of particular policy features on future experience. In the opinion of the Task Force, consumers cannot use illustrations to compare products unless the underlying assumptions are consistent. Moreover, since no one can predict such future events as a particular company's investment experience, no one can make such comparisons with any degree of certainty.

The Task Force identified a number of alternatives to current practices that might improve illustrations for the consumer. The Task Force believes that educational efforts aimed at consumers, agents, and insurance company personnel should be undertaken on the use and limits of illustrations. There are disclosures, regulations and standards of professional practice regarding policy features, non-guaranteed values and underlying assumptions that should also be considered. This is particularly true for vanishing premium illustrations. The Task Force also believes that illustrations of policy performance under alternative scenarios will help the consumer to understand how non-guaranteed benefit elements of the policies operate. Finally, actuaries need to continue their research to identify appropriate measures and methods to compare products and the companies that offer them.

When properly used, illustrations are a valuable tool for the consumer and for third party advisors. Most companies are making a good faith effort to comply with the regulatory requirements and disclose material facts on the illustration. However, the consumer would benefit from illustrations that demonstrate or disclose the sensitivity and operation of non-guaranteed elements and employ better methods and measures to compare policies and companies.

Final Report of the Task Force for Research on Life Insurance Sales Illustrations under the auspices of the Committee for Research on Social Concerns

Opinions expressed herein are those of the Task Force for Research on Life Insurance Sales Illustrations. This report does not purport to represent the views of the Society of Actuaries, or of its Board of Governors.

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Executive Summary

Society of Actuaries Task Force for Research on Life Insurance Sales Illustrations

PURPOSE

The Task Force for Research on Life Insurance Sales Illustrations reports to the Society's Committee for Research on Social Concerns. The Task Force was formed in recognition of the declining level of consumer confidence in the life insurance industry and, in particular, to investigate how sales illustration practices can add to, or detract from, consumer confidence.

In developing this report, the Task Force surveyed life insurance company illustration practices, reviewed available literature and regulatory requirements, held open forums at SOA and CIA meetings, and considered the methodology applied to other financial products.

SITUATION ANALYSIS

Sales illustrations have been developed to meet a variety of needs from a variety of consumers, all placing different requirements on an illustration. There are two major uses of illustrations:

Type A Usage is intended to show the consumer the mechanics of the policy being purchased and how policy values or premium payments change over time. The emphasis is a matter of *how* and *what* rather than *how much*.

Type B Usage tries to project likely or best estimates of future performance and compare cost or performance of different policies. It attempts to show *how much* on the premise that the *hows* and *whats* are comparable enough for this to be meaningful.

Illustrations handle Type A requirements well, especially if several illustrations are used to show different scenarios. Illustrations inherently do not handle Type B requirements well. How credible are any non-guaranteed numbers projected twenty years into the future, even if constructed with integrity? How does a consumer evaluate the credibility of two illustrations if they are from different companies, or even from the same company if different products with different guarantees are being considered? Most illustration problems arise because illustrations create the illusion that the insurance company knows what will happen in the future, and that knowledge has been used to create the illustration.

In many countries, Type B usage of life illustrations is prevented, in effect, through use of standardized assumptions. It is acknowledged that there are real differences in performance between companies, but such differences cannot be described through illustrations. Within North America in other financial products such as mutual funds, it is recognized that future performance cannot be illustrated. The emphasis of these illustrations is to disclose expense charges, not the performance of the underlying fund.

Life insurance policies are complex financial contracts. There is no simple measure or analysis to compare future performance of unpredictable events. This fact is well understood in the securities industry, and needs to be assimilated into the life insurance industry as well.

CONCLUSION: Illustrations are a valuable tool for the consumer and third party advisors when used properly. Most companies are making a good faith effort to comply with the regulatory requirements and disclose material facts on the illustration. However, the consumer would benefit from illustrations that demonstrate the sensitivity and operation of non-guaranteed elements and better methods/measures to compare policies and companies.

ALTERNATIVES TO CURRENT PRACTICES

The Task Force considered a number of alternatives to current practices for illustrations. Specific recommendations are contained in sections VI and VII of the report. The recommendations fall into these main categories:

> ***Educational Efforts:*** A large educational effort should be undertaken with consumers, agents and head office personnel concerning the limitations of illustrations for Type B purposes. The sales process should emphasize selling of the *product*, not the *illustration*.

> ***Standards, Disclosures and Regulations:*** The CIA and AAA should consider developing specific standards on what assumptions should be used in illustrations or on required disclosure of assumptions used. It should be required that unique product features be prominently disclosed as well.

> ***Optional Improvements:*** Companies could require a consumer signature on illustrations. Historical data could be provided separately from the illustration. Illustrations could be accompanied by graphs or quinquennial summaries to avoid the illusion of precision.

> ***Continuing Research:*** The proposed alternatives are not a complete solution to the problem of properly explaining a policy to a consumer and allowing an informed choice to be made. Research on methods to achieve this should continue.

Table of Contents

		Page
I.	Scope of the Research	1
II.	Regulatory Requirements for Life Insurance Illustrations	4
III.	Current Practices	7
IV.	Uses of Life Policy Illustrations	20
V.	Other Illustration Practices	23
VI.	Alternatives to Current Practices	27
VII.	Summary of Recommendations and Next Steps	42

Appendices

I.	Sample Survey and Summary of Responses
II.	Sample Illustrations
III.	Summary of Comments on the Preliminary Report
IV.	Bibliography

I. Scope of Research

A life insurance policy illustration is a mathematical calculation of benefits and values over time under specific, simplified, and generally static assumptions. Illustrations have evolved into relatively sophisticated marketing tools. Their popularity and importance have increased with easier access to fast, powerful computers, but also as the result of heightened consumer need to understand what is being purchased and how much it will cost.

Consumers and their advisors use illustrations to understand how a policy operates and its expected cost over time. When a consumer is comparing several products, illustrations are often used to determine relative performance or cost. While current practices may have some flaws, illustrations are an important source of information to the consumer.

The Task Force on Life Insurance Sales Illustrations was formed to research life insurance company sales illustration practices from the perspective of the consumer. Much of the motivation for this research was based on the perception that:

- Serious problems exist with respect to the use of life insurance sales illustrations in the U.S. and Canada.

- More than two decades of regulations and required disclosures have not solved the problems; if anything, the situation is getting worse.

- Actuaries are familiar with these problems and should be involved in the solutions. Our goal is to encourage an efficient market by applying principles of actuarial science. These principles include:

  - Appropriate and consistent recognition of the time value of money.
  - Use of probability to measure uncertainty or risk.

As part of this research, the Task Force undertook to investigate:

- current illustration practices, including regulatory requirements and the flexibility that companies provide agents to customize illustrations in the field
- alternatives to current illustration practices
- advantages and disadvantages of current and alternative practices
- appropriate uses for illustrations

To support these efforts, the Task Force considered:

- how consumers currently use illustrations

- how to make illustrations more intelligible to the consumer
- the appropriate disclosures to the consumer
- how to maintain credibility with the consumer in the illustration process
- what data and assumptions should be displayed on the illustration
- illustration practices in other countries
- illustration practices for other financial products

While the following items may impact the illustrations delivered to the consumer and merit study, they are beyond the scope of this research paper:

- how agents modify illustrations beyond the flexibility provided by the company
- the setting of profit standards and pricing assumptions within a company
- the appropriateness of policy provisions and their conformance with regulatory or actuarial standards
- variable life insurance

Further, we focused primarily on life insurance. Annuities and health insurance were not generally considered. While our comments are specific to sales illustrations, many of them apply equally to in-force illustrations. We did not consider variable product illustrations, except as an example of alternative illustration methodology. While we primarily focused on the situation in the U.S., we believe our research and conclusions are equally appropriate to Canada.

It may be useful to describe our research activities.

- We surveyed 87 life insurance companies regarding their current illustration practices, and sought their ideas on positive change. These companies were selected for being major writers of participating insurance policies, universal life and/or innovative life insurance policies in the U.S. and Canada. Their responses are summarized in Appendix I.

- We compiled a bibliography from actuarial literature which is shown in Appendix IV.

- We reviewed the work of other organizations and state regulations.

- We talked with actuaries from other countries to gain an understanding of their illustration practices and the associated strengths and weaknesses.

- We talked with our counterparts in other financial services to determine whether their illustration practices were adaptable to life insurance.

- We sought input from our colleagues: actuaries, legal counsel, compliance officers, agents, marketing officers, regulators and others.

The result of these efforts is this white paper. To those who contributed, we appreciate your input. The development of regulations and standards of practice is beyond the purview of the Society of Actuaries (SOA). However, we hope that this paper will provide input, and serve as a catalyst, to the organizations which can effect such changes.

II. Regulatory Requirements for Life Insurance Illustrations

The policy performance and features illustrated to the buyer have been an issue with regulators for at least a century. At the turn of the century, there was concern about the tontine dividends that companies illustrated to their customers. An outgrowth of the Armstrong Commission was the required annual distribution of dividends and the elimination of tontines based on survivorship.

During the 1930's, there was again concern about illustrations because dividend scales were decreasing due to the economic environment. Among the issues discussed were:

- The appropriate number of years for dividend illustrations (20 years was common but thought too long, given the uncertainties of the 1930's)
- Display of year-by-year dividends or 3-5 year totals
- Disclosure to the buyer of the non-guaranteed nature of dividends and the assumptions underlying the current scale

More recently, there has been concern about the impact of policy illustrations on the industry's credibility in the context of changes in interest rates, asset quality and policy features. Policies are more flexible and more complex than in the past, and place greater emphasis on non-guaranteed values.

The insurance code of each state has certain requirements which apply to illustrations. While these requirements vary by state, the following are generally applicable:

- **If dividends are illustrated, the illustration must use the insurer's current dividend scale.**
- **If non-guaranteed elements other than dividends are illustrated, the illustration must use the insurer's current interest rate, mortality charges and expense charges.**
- **If the policy provides for a separately identified interest credit, the interest rate used in the illustration must be displayed. If the interest rate is linked to an index, the index must be described. Any limitations on the crediting of interest must also be described.**
- **Any reference to dividends or non-guaranteed elements must include a statement that such elements are not guaranteed.**

- Illustrations of non-guaranteed values must display, with equal prominence, the comparable guaranteed values. If non-guaranteed and guaranteed values are shown combined as a single sum, they must also be shown separately in close proximity thereto.

- For policies providing for flexible premiums and/or death benefits, all data shall be displayed assuming the schedule of anticipated premiums and death benefits.

- Interest-adjusted cost indices must be displayed for specified durations. These indices are the net payment cost index and the net surrender cost index. If the policy is participating, the interest-adjusted equivalent level annual dividend also must be displayed.

- If the guaranteed policy cost factors or the initial policy cost factor assumptions would result in policy values becoming exhausted prior to the policy's maturity date, such fact shall be disclosed.

Additionally, for U.S. business, Exhibit 8, Question 3 of the Annual Statement requires a company to opine on its ability to support the non-guaranteed elements currently illustrated for new and existing business. This applies only to illustrations authorized by the company. Schedule M requires an attachment that describes the precise methods by which dividends are calculated. In Canada, the valuation actuary must comment on the appropriateness of the dividend scale but not any other non-guaranteed elements.

The purpose of these illustration requirements is to ensure that both the guaranteed and non-guaranteed performance of the policy are disclosed to the buyer. The cost indices are intended to help the buyer judge the relative value or cost of an insurance policy. However, the Life Insurance Buyer's Guide points out that cost comparisons should only be made between similar plans of insurance. Further, it states that other information, such as company financial strength and historical performance, will be needed on which to base the purchase decision. When the cost indices were originally developed, they were perhaps more useful than they are now. Policies had, at that time, fixed premium patterns with fairly consistent design features and profit margins. This is not the case with most permanent, cash value life insurance being sold today.

Regulations and requirements must change to remain appropriate and effective. Evolving marketplace and economic conditions necessitate periodic updating of regulations, including rescinding requirements that are no longer helpful. The regulations of the early 1980's did not anticipate the product features, payment options and anomalies of the succeeding decade. As examples:

- Illustrations of a vanishing premium for a fixed-premium product depend upon the non-guaranteed policy factors to support premium payments after the vanish year. Should the accompanying guaranteed values be based on the illustrated premium outlay by the buyer or the payment of full premiums in all years?

- Companies are required to illustrate the current dividend scale or the current scale of non-guaranteed factors as appropriate. At a time when interest rates, mortality experience and expenses may not be improving, current scale may provide an overly optimistic projection of future results. Many companies currently provide agents with the flexibility to illustrate performance under alternative dividend scales or scales of non-guaranteed factors. While such sensitivity analysis is not explicitly provided for by most states, we believe it provides valuable information to the buyer.

- There is a great deal of discretion given to companies in the development of current dividends or non-guaranteed factors. There is no regulation, or any required disclosure, of the degree of risk or contingency associated with those non-guarantees.

- When a company increases its current dividend scale to distribute accumulated surplus over a specified period of years, there is no required disclosure of the likelihood of lower dividends at the end of that period.

- There is no regulation or disclosure of policies that are lapse supported, that are not self supporting or that are based on assumptions that are inconsistent with a company's experience. Each of these items increases the performance risk to the buyer.

- The Internal Revenue Code in the U.S. contains sections which may impact the tax treatment to the buyer or beneficiary of death proceeds, policy surrenders and partial withdrawals of policy values. Most companies alert the buyer to possible tax implications through some disclosure on the illustration, although such disclosure is not required.

III. Current Practices

A. General

To better understand current illustration practices, we surveyed 87 companies; 56 responded. A sample questionnaire with responses summarized is contained in Appendix I.

The first section of the survey provided companies with an opportunity to present their perspective on life insurance sales illustration practices. Over 95% of the companies responding to our survey perceive a problem with current industry sales illustration practices in terms of successfully communicating with the potential buyer in a good-faith manner. Of these, 65% thought that the problem was serious but could be fixed.

Based on the comments from respondents, the perceived problems are:

- The typical consumer does not understand which values in 50-year projections are guaranteed.
- The consumer cannot determine if the underlying assumptions are realistic.
- The consumer cannot evaluate the relative conservatism of the non-guaranteed policy values illustrated by different companies.
- Footnotes and other narrative disclose assumptions and other important facts, but they are often not carefully reviewed by the consumer.
- Providing agents with the ability to run their own illustrations limits the control companies have over what the consumer is shown.
- Companies have too much discretion in illustrating non-guaranteed elements.

Some companies provide the agent with tools to customize illustrations to particular client needs, or agents can buy or develop these tools on their own. The tools that companies provide allow flexibility with respect to column selection and formats, variations on non-guaranteed elements, and different premium patterns. Many companies that allow this flexibility require that the client also be given a ledger illustration in an approved format.

Companies are generally opposed, or neutral, to such complete flexibility. Respondents are concerned about outside programming that alters policy values or eliminates required columns or footnotes. There is also concern as to whether the consumer receives the complete illustration package, including the pages of caveats and footnotes.

While information regarding company size and financial strength is important to the consumer, most companies do not provide this as part of the illustration.

Respondents believe that the best features of their illustrations are flexibility, completeness and conservatism. Completeness includes disclosure of the contract's operation and the tax consequences to the buyer. Basing non-guaranteed elements on current experience and lack of "gimmicks" were cited by several companies as examples of the conservatism built into their illustrations.

Respondents offered a number of suggestions regarding how illustrations could be improved to the benefit of the consumer.

- Simplify illustrations; there are too many numbers and too much "legalese."
- Educate the consumer that an illustration demonstrates the operation of a contract under only one scenario and that there is a range of possible outcomes as to non-guaranteed benefit levels.
- Establish standards for illustration practices; in particular, provide more specificity to the definition of current experience and require disclosure of assumptions.
- Require scenario testing with defined assumptions to be part of the illustration package.

B. Dividend Paying Policies

Of the 56 companies responding to the Task Force survey, 35 write participating policies.

When asked the question, "Which, if any, of the following dividend factors as illustrated anticipate a change from current experience, either by projecting trends or on some other basis?...Mortality, Interest, Expense," one company indicated that it used mortality projections in its current illustrations. Three companies responded positively regarding interest and two reported anticipated changes in expense.

The comments accompanying this question indicate that only one company is anticipating lower expenses in its illustrations. One company occasionally anticipates higher expenses in its illustrations. At least two of the three

1992 GOV Consumer Disclosure of Insurance 323p bonknote.pdf

companies projecting interest rates are companies that only allow agents to select a lower than current rate for illustration purposes. The company using mortality projections is assuming improved mortality in the future.

To the question, "Are such changes disclosed to the consumer?", three of these companies answered affirmatively.

Seventeen companies, or almost half of the 35 responding, answered yes to the question, "Do your agents have the flexibility to run illustrations at dividend interest rates or mortality rates higher or lower than the current scale?". All 17 companies indicated that they allow fluctuations in the dividend interest rate only. Fourteen of the companies stated that they only allow dividend interest rates to be illustrated that are lower than the current scale. Only two companies allow either higher or lower interest rates to be illustrated. Eight companies cap the maximum variance from current scale at 2%. Two of the companies allow the variance to be as much as 3%. One company allows agents to choose the average interest rate from the past 8, 12, 20 or 40 quarters.

Ten of the 35 responding companies answered yes to the question "Has your company received an increasing number of policyowner complaints about dividends paid versus dividends illustrated?". Eight companies indicated that the largest number of complaints concerned the vanishing point of premiums. Typical comments included:

> "Most misunderstandings relate to vanishing premium illustrations and dividend scale changes. Policyholders mistake a vanishing premium illustration for a promise of a paid-up policy."

> "Policyowner complaints have increased as dividend scales have decreased. [Policyowners] do not always comprehend the non-guaranteed nature of dividends."

The Task Force also asked three state insurance departments whether or not they had observed an increase in complaints regarding dividend illustrations. Two (New York and Wisconsin) indicated that very few of the complaints they received were related to life insurance and, further, that they did not keep records in sufficient detail to respond to our questions. However, both expressed great interest in our research and voiced the concern that complaints may become more significant in the future. The third (California) noted that, based on a random sample of recent complaints, illustration complaints arose from decreasing dividend scales which affected total policy values and the vanish point.

In addition to asking companies to fill in the questionnaire concerning their current practices, the Task Force also asked them to send samples of policy

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illustrations currently being used. Exhibits A-H are examples, as described below. All exhibits are in Appendix II.

Exhibit A

Exhibit A is an example of a traditional illustration for a participating whole life policy. It shows dividends, paid-up additions, guaranteed and total cash values and death benefits, increase in total cash value and guaranteed paid-up insurance for each policy year from the date of issue until age 100. It also includes the interest-adjusted surrender and payment cost indices for 10 and 20 years.

Although the sheer volume of numbers may be overwhelming, the footnotes are kept to a bare minimum. They simply mention that the first dividend is contingent upon the payment of the second year's premium, that dividends are affected by policy loans, that dividend figures are based on the current scale assuming no loans and that dividends are not guaranteed.

Exhibit B

The illustration shown in Exhibit B builds on the traditional model but gives the prospective buyer fewer numbers and a great deal more text material. The first page is a summary of the numerical results at the end of 20 years and at attained age 65. This is followed by two pages of numbers showing year-by-year values from the year of issue to attained age 98. Footnotes are again kept to a minimum, but a statement at the bottom of page 3 warns that two other forms must be enclosed with the illustration. These forms add four more pages of explanatory material.

One form is a listing of all the optional benefits that are available with the policy. The second form contains the dividend caveat, an explanation of illustrative life income figures, a brief explanation of term plans, and some information about the policy loan provision and interest-adjusted indices.

Exhibit C

Exhibit C is another fairly traditional illustration, but it is included here because of its unusually forthright dividend caveat. Page 1 is a complete illustration showing 20 years of values plus values at attained ages 65 and 75. It has a very brief dividend caveat but refers the prospect to an attached page of footnotes.

Pages 2 and 3 give the year-by-year values through age 95. Page 4 is the footnote page. The first footnote assures the client that the policy is not a modified endowment contract. The second footnote pertains to dividends. It first gives the usual statement that dividends are based on the current scale and are not guaranteed. However, it then goes on to say, "Due to new federal taxes and economic conditions including declining interest rates, dividends based on the 1992 dividend schedule are expected to be lower than those shown in the illustration." Among all the illustrations submitted to the Task Force, this one surely deserves an award for its candor! Several more footnotes follow, including a statement that the illustration does not recognize the time value of money and should not be used to compare policy costs.

Finally, there is a page 5 which shows the interest-adjusted surrender cost and net payment cost index numbers, and gives an explanation of them.

Exhibits D and E

Exhibits D and E show how two different companies handle illustrating dividend interest rates which differ from the current scale. The illustration in Exhibit D simply takes the standard illustration format and runs it at an alternate dividend interest rate. The actual rate used and the fact that it is less than the current rate is disclosed at the very top of the illustration on each page.

The illustration in Exhibit E compares the results of the current dividend scale and an alternate dividend scale in the same illustration. The first page shows values for the first 20 policy years and at attained ages 65 and 70. Page 2 is an illustration based on the alternate dividend scale showing a vanishing premium scenario. This page also includes a comparative rate of return. Page 3 gives some summary figures at the end of 20 years and shows the interest-adjusted costs and payments.

The fourth page of the illustration contains several footnotes, including a statement about the hypothetical dividend interest rates and an explanation of the comparative rate of return. The last page lists the actual hypothetical interest rates used in the illustration.

Exhibit F

Since several companies indicated that vanishing premium illustrations were their largest source of policyowner complaints, it was natural that many of these illustrations were sent in as samples. It is obvious that some companies are trying hard to find ways to educate policyowners to the fact that the vanish point depends on the dividends that will be paid in the future.

The illustration in Exhibit F is a case in point. It illustrates policy values on a vanishing premium basis but places a full-pay illustration right alongside the vanishing premium illustration for comparison purposes. The footnotes state that "the term 'vanish' does not mean that the premiums are no longer due, but that the cash premium due reflects the payment of future gross annual premiums through the use of current dividends. If future dividends are reduced from the current, results of the vanish may differ from that illustrated. Additional premium payments may be required if the current scale of dividends is reduced."

Exhibit G

The illustration in Exhibit G is another example of an attempt at complete disclosure. The first page - labeled page 1 of 4 - shows the vanishing premiums, together with the paid-up additions that need to be surrendered in years 12 through 15. Page 2 shows a guaranteed ledger assuming all premiums paid. Pages 3 and 4 contain explanations, including an explanation of vanishing premiums and a suggestion that an alternate proposal be requested on a lower dividend interest rate. Finally, the policyowner and agent must sign a statement to the effect that they have received and reviewed all four pages of the proposal, including the footnotes.

Exhibit H

Exhibit H represents an innovative approach to showing a vanishing premium plan on both the current scale and 1% less than current scale, all on the same page. From the wording at the top of the page, we can see that it is designed to be shown along with a full-pay ledger and is to be accompanied by an explanation of the vanishing premium concept.

C. Universal Life

From the beginning, a necessity for successful marketing of universal life has been the ability of the seller to illustrate the performance of a policy tailored (within policy limits) to the needs and resources of the prospective purchaser. The agent and prospect have the ability to choose almost any pattern of benefits and premiums. No longer is the sale limited to one of several fixed plans of insurance from a ratebook. Each one is different.

Any system of policy illustrations will have some limitations on this flexibility. For instance, few can illustrate off-anniversary changes. Besides such practical constraints and the policy's inherent restrictions, how should the illustrations be limited? What interest rates can be shown? What cost of insurance rates can be used?

Most observers would agree on the appropriateness of current rates of interest and cost of insurance deductions along with guaranteed rates. But what about other than current rates of interest and cost of insurance, such as lower or

1992 GOV Consumer Disclosure of Insurance 323p bonknote.pdf
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higher interest rates? Should the buyer be able to factor in his or her own conservatism, or optimism, about future economic conditions?

In our survey of insurance company practices in this area, 49 of 56 responding companies reported that they allow the agent or consumer to vary interest rates. Four of these allow higher interest rates than the current scale, usually with a footnote disclosing this fact. Others show both the current rate and another lower rate chosen by the agent. Most of the companies allowing cost of insurance variations reported offering a choice of only current or guaranteed deductions.

Since any life insurance policy is a long-term contract, its performance depends more on what happens in the future than on current credits and deductions. Some companies will pay more interest than others. Some companies will charge lower cost of insurance rates or loads than others. How can these differences be discerned and/or illustrated at the time of sale? The premiums on this policy have not been invested yet. There is no experience on the mortality and persistency of this year's sales yet. How can the company show that it is different, and how can a consumer judge differences?

From an actuarial point of view, there is guidance. In the U.S., Actuarial Standards of Practice No. 1 - "The Redetermination (or Determination) of Non-Guaranteed Charges and/or Benefits for Life Insurance and Annuity Contracts" (ASP1) sets a standard of using anticipated experience factors, that is, "those elements in the redetermination (or determination) of non-guaranteed charges and benefits that reflect expected future experience." ASP1 states that "anticipated, or projected, experience of a factor class means experience expected in the future as determined by the actuary through the application of sound professional judgement." It should be based on recent experience and expected trends, where applicable. ASP1 also explicitly recognizes that current company experience may be of limited value in projecting future experience.

ASP1 thus allows a company to use its best judgment in estimating its future experience factors to use in setting parameters for determining illustrative policy values.

Of the 56 responses to the survey, five use mortality assumptions which differ from current experience, eight use different interest rates, and two use different expenses. Since policy illustrations may go for as long as 100 years, and the oldest universal life policy is only 12 years old, some projections of future experience from current are obviously necessary.

The question remains: To what degree will the illustrated differences in policies actually occur? Currently, there are no recognized yardsticks for the consumer to use. At best, a comparison of credited interest rates with bond yields, and a comparison of actual to illustrated cost of insurance rates, may show how the company's customers have fared in the past.

Separate from the questions of the ultimate realization of illustrated interest and cost of insurance factors is that of "persistency bonuses." For this purpose, a persistency bonus is a retrospective or prospective credit structure which provides enhanced values to a long-term policyowner compared to a short-term one. If guaranteed, persistency bonuses are limited in most states by the workings of the smoothness test in the Standard Nonforfeiture Law. Simply put, this test requires that policy values grade smoothly within each successive five-year period, so that large, one-time bonuses are not allowed. Most states do not restrict the crediting of properly disclosed non-guaranteed bonuses.

Ten of the 56 survey respondents reported bonuses. The existence of a bonus in the illustrated values is disclosed in footnotes by these companies, along with disclosure of its non-guaranteed nature, if appropriate.

We are aware of at least one company which displays the current cash surrender values in a footnote; only the accumulation values are shown in the body of the illustration.

Companies responding to the survey also provided us with sample illustrations for universal life and interest-sensitive whole life products. The representative illustrations that we selected deal with policy features that are unique to these products. These are shown in Exhibits I-M.

Exhibits I - M

Exhibit I is an illustration showing values on three different bases: current, illustrative and guaranteed. The interest rates associated with each set of values are clearly displayed. A footnote at the bottom of the page indicates that the policy has a prospective interest rate bonus that is applicable after 20 years. We assume that it is not guaranteed since it is included for only the current values.

For each rate basis, account value, cash value and death benefit are shown. Footnotes describe the assumptions for each rate basis. Cost indices are shown for all three bases.

A footnote indicates that the policy terminates in year 31 based on guaranteed values. This is a year not displayed on the illustration.

Disclosure of persistency bonuses is a key feature in these illustrations. Exhibit J is an example of a guaranteed bonus. Values are shown on three bases, with both the implicit and nominal interest rates displayed. Pages 4 and 5 describe the assumptions underlying each set of values, as well as the impact of the persistency bonus at each bonus point.

Exhibit K contains several variations. The assumptions, including those for mortality and expense, for both guaranteed and current values are part of the column caption. There is a footnote with variable print on page 3 alerting the consumer to a number of tax issues, and citing the need for professional advice. Page 4 describes certain product features, including a prospective persistency bonus. The comments on the persistency bonus do not mention whether it is guaranteed.

Exhibit L is included for its use of graphics. Displaying key values graphically is certainly easier for the typical consumer to grasp than seven columns of numbers. The graphic display is based on projected values.

Exhibit M is an example of a product with an accelerated death benefit, or living benefit. The cover page describes how the living benefit works. There is no reference to the tax treatment of the living benefit although the tax treatment of death proceeds is mentioned. This is followed by one illustration page of values and two pages of explanatory notes.

This policy has two types of bonuses: interest and mortality. The consumer is referred to the policy for a complete description of factors affecting the mortality bonus.

D. Term & Term Look-Alikes

Approximately three-fourths of the companies responding to our survey sell these types of products. None of the responses to our survey questions pointed to any potentially abusive or questionable illustration practices on these kinds of products, nor did contact with state regulators turn up any. We were particularly interested in whether the conversion privilege (or lack thereof) was being adequately explained and it appears that it is.

However, a couple of problems have been observed. One is that a company will display a cost comparison of its term plan with another company's permanent plan strictly on the basis of premium. Clearly, this is inappropriate. Another problem is that illustrations of indeterminate-premium term plans do not always display the corresponding guaranteed premiums. When the term plan includes a deposit fund, guaranteed values are not always displayed.

Companies provided us with several representative illustrations which are contained in Exhibits N-O.

Exhibits N-O

These are two basic term illustrations, displaying current and guaranteed premiums. Exhibit N shows the death benefit, current premium, accumulated premium and maximum premium for an indeterminate yearly renewable term plan. Interest-adjusted cost indices are displayed. The only footnote references the non-guaranteed nature of current premiums.

Exhibit O is an illustration of a 10-year re-entry term product. Current premiums are displayed for the second 10-year period, both with and without re-entry. A footnote discloses that re-entry is subject to evidence of insurability.

E. Second-To-Die Policies

Of the 56 responding companies, 39 indicated that they sell a second-to-die product. Only six of the 39 companies offer a product that provides for a cash value increase at the first death. Of those six, only one company answered yes to the question, "Are the values shown on your illustration always based on the assumption that both lives remain alive?". Three companies mentioned that agents could choose the year of death for the first death for illustration purposes.

To the question, "Does the illustration contain an explicit statement that there is no death benefit payable on the first death?", twelve companies answered yes.

Exhibits P and Q are examples of illustrations of second-to-die policies.

Exhibits P-Q

Exhibit P is a survivor life ledger showing a traditional policy with dividends used to purchase paid-up additions. The final footnote makes it clear that no death benefit is paid until the second death. Although a term rider is mentioned in the footnote, it does not seem to be included in the illustration. Also, without further analysis, it is not readily apparent whether or not this policy provides a cash value increase on the first death.

Exhibit Q offers perhaps the ultimate in full disclosure . The first illustration - consisting of seven pages - shows a 10-year vanishing premium and both insureds alive. Note that the policy is a combination of permanent whole life and term insurance.

Pages 5 through 7 show results on an alternate dividend scale, but do not include the vanishing premium concept. Following this seven-page illustration is a three-page illustration which assumes that the male insured dies at age 64. All premiums are assumed to be paid. This is followed by another three-page illustration assuming both insureds are alive and also assuming an alternate dividend scale. Then there is another three-page illustration that assumes the male dies at age 64 and that premiums vanish in the eleventh year.

Presumably, in addition to all these alternatives, one could request still more illustrations on different alternate dividend interest rates and different years of death for the first death.

F. Two-Tier Products

A two-tier product is one that has different cash surrender and annuitization values. Typically, the annuity value cannot be commuted and surrendered; it is available only as an income stream. Only five of the 56 companies answering our survey sell two-tier products. Most of these five companies feel that their illustrations clearly indicate that the policyholder who surrenders will receive less than the amount that would be applied toward annuitization at the same point in time. In some cases this is emphasized with additional statements on the illustration.

Another area of concern is whether the annuity income figures shown on the illustration are calculated only using current annuitization rates, or on both current and guaranteed annuitization-rate bases. Again, most but not all companies are showing the results on both bases.

A nonstandard illustration practice we encountered on two-tier products was that of a company whose illustration included a footnote naming its reinsurer -- a large, well-known company -- and stating that the reinsurer approved of the product.

G. Special Issues for Corporate Buyers

Corporate buyers of insurance are concerned about the accounting and tax impact of the purchase, as well as the product's operation. Illustrations may be for individual insureds, but it is quite common for the corporation to be given illustrations that include all insureds, either on an actual or modeled basis.

Illustrations typically show all cash flows: premiums, use of dividends or other non-guaranteed elements, policy loans or withdrawals, benefits paid to employees, annual expected death proceeds paid to the corporation and the tax impact. The cash flows and asset (cash value) development are summarized to reflect the impact on the corporation's balance sheet and the profit and loss statement. The illustration might also demonstrate the

1992 GOV Consumer Disclosure of Insurance 323p bonknote.pdf

development of the benefit liability and its impact on the company's accounting statements.

There are two common ways of reflecting the impact of deaths in the illustration. One is to assume that each insured dies at a specified age, such as 75 or 80. The other method is to adjust for mortality based on an appropriate table; this is known as fractional mortality or partial mortality. Based on discussions with several companies, there is concern that corporate buyers do not appreciate that the timing of the death proceeds is not guaranteed.

Traditional interest-adjusted cost indices may be shown, but buyers focus on performance measures such as Internal Rate of Return and Net Present Value of Gain. Net present value of gain is usually calculated at the corporation's after-tax cost of capital. These measures are usually calculated on a basis consistent with the expected death proceeds.

Guaranteed values are not usually displayed prominently next to current values although companies may require an accompanying ledger illustration. There are some group experience-rated contracts used in this market that do not have guaranteed maximum mortality charges and therefore do not have guaranteed values.

As with individual illustrations, illustrations for the corporate buyer are subject to company discretion as to the timing of certain events.

Illustrated funding patterns are more aggressive or flexible in this market than for individual purchases. The most aggressive is a 7-pay contract with premiums paid by policy loan in policy years 1-3 and by the surrender of non-guaranteed values in policy years 4-7, with the only illustrated outlay from the corporation being the payment of policy loan interest. This gives the perception that insurance can be purchased without real premium outlay by the buyer.

Because the products and the benefit plans being funded are very complex, companies attempt to disclose pertinent tax issues such as the impact of TAMRA, TEFRA, etc. Many include footnotes stating that buyers should seek their own tax counsel and not rely on the illustration for any tax advice.

H. Current Practices -- Other

Other noteworthy illustration practices that we found included the following: (a) a Product Features Page which gives the answers item by item to the questions posed in the CLU Professional Practices guidelines; (b) a full page dedicated to the 7-pay test, including the company's interpretation of some of the aspects of TAMRA; (c) a place for the client to sign the illustration signifying that he or she has read and understands all the disclaimers; and (d) page-numbering schemes that inhibit removal of footnote pages (e.g., "Page 1 of 5"). We also found: (a) unclear column headings, e.g., lack of clarity as to whether benefits and values shown reflect reduction for loan and (b) vanishing-premium illustrations in which the guaranteed figures shown alongside the current figures assume premiums paid all the way to maturity.

Survey and preliminary report respondents also expressed the following concerns:

- whether products that are a blend of whole life and term insurance are in some cases being improperly portrayed as simply "whole life"

- the impropriety of Company X printing comparisons of its non-guaranteed values to Company Y's guaranteed values

- the appropriateness of calculating net outlay as the premium less the dividend payable at the end of the same policy year; that is, not recognizing the time value of money during the year.

IV. Uses of Life Policy Illustrations

An extensive body of literature already exists on this subject. However, most previous work deals with symptoms, rather than with underlying causes. For example, many articles decry aggressive assumptions, unrealistic non-guaranteed elements, lapse-supported pricing, and question the integrity of some illustrations. However, there is very little written about what caused the symptoms.

One way to get at root causes is to examine appropriate and inappropriate uses of illustrations. If an illustration is used for addressing questions it inherently cannot answer, problems will occur, even if the illustration is built with integrity.

The primary users of life insurance illustrations are:

- Consumers
- Life Insurance Agents/Brokers
- Companies (actuarial and marketing departments)
- Outside Advisers/Third Party Analysts

Each of these may have multiple needs which they hope to satisfy with an illustration. In general, these needs are of two primary types:

Type A usage tries to:

- Demonstrate how policy values change over time under specified premium payment and experience (e.g., interest rate) scenarios.

- Demonstrate how a particular financial design or concept works, such as deferred compensation or vanishing premium.

Type A usage helps the consumer understand what is being purchased. It focuses on a single contract and its contractual features and mechanisms. It shows how a particular contract responds to illustrative conditions. Multiple illustrations of a single contract demonstrate how contractual values change in response to variations in assumptions.

Type B usage tries to:

- Project likely or best estimate future performance.

- Evaluate comparative cost or performance of several policies.

Type B usage helps the consumer understand which policy is the best buy. It evaluates comparative cost or performance among competing alternatives. It also focuses on projecting most likely estimates of cost.

Type B questions are of great interest to all user groups. Therefore, an objective, credible, inexpensive and quantitative means of answering these questions is highly desirable. Illustrations are quantitative and relatively inexpensive. But are they objective and credible? What can actuaries say about the ability of illustrations accommodate Type A and B usage?

Illustrations appear well suited for Type A questions. In particular, multiple illustrations run under different premium patterns and interest rates are very helpful in explaining contractual mechanisms.

Type B usage is a different story. Today's life insurance and annuity products are complex financial instruments, whose ultimate future cost and performance depend on macroeconomic and demographic factors, individual company performance and individual consumer behavior. Type B questions necessarily involve many factors, including:

- evaluation of the likelihood of future economic events
- measurement of company-specific performance risks
- measurement of product-specific performance risks
- the individual consumer's likely response to various future events.

For today's individual life insurance products, reliable answers to Type B questions are not possible using illustrations. The footnotes, caveats and disclosures on a typical illustration are already overwhelming for most consumers. Yet this information adds little value in terms of developing a reliable estimate of future performance.

It can be seen that Type B usage is inappropriate unless the illustrations include a measure of relative risk. For example, if one illustration shows 15% lower premiums but has 60% greater risk of not achieving projected values, then lack of risk disclosure renders the comparison meaningless. Since relative risk cannot be calculated, Type B questions assume similar degrees of relative risk. Regulations try to assure "consistency" between illustrations as a way to keep relative risk equal. However, since there are really no practical means of assuring similar relative risks, Type B usage for illustrations is fundamentally inappropriate.

The incentives associated with Type B questions are considerable. However, an objective actuarial evaluation must conclude that typical life insurance products are too complex and the number of unknowable events is too great to allow for simple answers to questions of this type. Even when developed appropriately and with integrity, illustrations are structurally incapable of

1992 GOV Consumer Disclosure of Insurance 323p bonknote.pdf

handling Type B questions. Illustrations, by their nature, cannot answer these questions. Problems arise because of the illusion that they can.

Many people believe that although illustrations aren't perfect, they are the *best available indicator* of future performance. They may believe, for example, that all illustrations are somewhat optimistic, but then conclude, "Even if they're all high by 15%, I'll still do better with the one which shows the highest values on these illustrations." Actuaries should oppose this myth.

V. Other Illustration Practices

It is easy to forget that sales illustrations in the U.S. and Canada have a unique history. Life insurance products sold in other countries, and other financial products sold in North America, do not share the same illustration practices. A review of these practices is helpful before evaluating alternatives for our system.

A. Other Countries

A quick survey of illustration practices in other countries reveals the importance of a historical and cultural context. In countries where insurance products are standardized by law, there is little controversy with respect to illustrations. This is the case for much of the Far East and Europe. Where product standardization is the rule, there is little product competition as we know it, and illustrations are naturally limited to non-controversial Type A usage.

The United Kingdom and Australia have relatively competitive life insurance markets, with many similarities to the North American market. As in our market, ledger illustrations have been employed for Type B comparative cost and performance evaluation. Not surprisingly, these countries have also encountered problems with sales illustrations.

Japan:

Currently, sales illustrations in Japan are based on the "current" dividend scale. There is increasing concern that this practice may cause the consumer to believe that the current scale will remain unchanged in future years. Consequently, procedures will be revised to show the effect of a 0.1% decrease in the dividend interest rate. Disclosures will emphasize the variable nature of dividends and the fact that the illustration is based on current scale. In addition, special maturity dividends will be identified and shown separately from regular dividends.

U.K.:

Sales illustrations are heavily regulated in the U.K. Regulations were influenced by a number of perceived abuses which developed during the 1980's. Currently, illustrations are constrained in at least three major ways:

(a) Upper level performance constraint (maximum interest rate)

(b) Risk disclosure, by means of two alternative scenarios at significantly different interest rate levels. The regulators believe that two scenarios are better than either one or three at conveying the basic uncertainty of the investment performance assumption. A low and high investment rate are specified, and only change occasionally, based on underlying inflation expectations. There is a deliberate emphasis against specifying a "best estimate" rate.

(c) Standardized expense and mortality assumptions. All companies are required to use the same non-guaranteed expense and mortality assumptions. These are set by regulation based on current industry averages. While conceding that actual expense and mortality differences could influence the choice of a life carrier, the regulators felt that they should not be reflected in projections. This emphasizes their strong belief that illustrations have a limited scope, and should not be used for comparative performance measurement.

Australia:

In early 1991, the Insurance and Superannuation Commission Circular #291 promulgated completely new guidelines for Benefit Illustrations in Australia. This was the first major change since 1985 and followed growing concerns about overly optimistic assumptions and a lack of consistency in the approach to long-term benefit projections.

The Circular takes note of the situation in the U.K., where illustrations have been "ruthlessly standardized" and "serve only to create a generalized impression of the order of magnitude of benefits."

Under the Australian approach, companies have some latitude, through their Appointed Actuary, to reflect individual circumstances in their projections. There is a clear threat that this remaining privilege will disappear if these new guidelines do not work.

Australian companies are required to ensure that agents, brokers or other intermediaries representing them do not alter their benefit projections in any way.

Principal provisions of the Australian regulations are:

- A specified maximum assumption basis, with lower rates permitted if appropriate.
- Specific standards of practice to follow for all promotional material, aimed at avoiding ambiguity or false impressions.
- Two illustrations are normally required. The higher rate cannot be greater than (CB + 3) x (1 - t) where CB = the 3-year average 10-year

Treasury bond yield, and t is the maximum tax rate on the type of business in question. The lower rate is no more than 80% of the higher rate. If only one illustration is shown, it must be at the lower rate. If more than two rates are illustrated, the third and subsequent cannot exceed the higher rate.

- Projections are required to include an illustration of the effects of inflation, for the term of the projection, with an inflation rate of 60% of CB.

In summary, regulation of illustrations in both the U.K. and Australia has been structured to emphasize their suitability for Type A usage only. To enforce this, illustrations are highly standardized and provide little or no opportunity for comparative performance or cost evaluation.

B. Other Financial Products

A review of other financial products' illustration practices provides interesting comparisons to life insurance.

The securities industry has many complex financial products. The risk and uncertainty of future performance in these products is so well accepted by the public, however, that it is difficult to imagine Type B usage in ledger illustrations. For example, try to imagine a stockbroker advising a consumer on whether to buy IBM or AT&T stock, using a 30-year projection of last quarter's dividend and change in stock price!

For most securities, the consumer must use something other than illustrations to make judgments about performance. The prospectus is the primary document for this purpose. It is both highly structured and complex. It is difficult, if not impossible, for a consumer to have a quick, easy to understand, numerical basis for doing comparative performance evaluation for mutual funds or securities.

The NASD Manual on Investment Company Securities gives detailed guidance on what must be done if comparison of investment products or services is to be done.[1] The essence of this guidance is that comparisons should not be performed unless all factors which could possibly be considered relevant are disclosed.

Mutual funds may be illustrated on a "hypothetical" basis, with full disclosure of all expense charges and a statement that the illustration is based on past performance and is not indicative of future performance. The relative simplicity of a mutual fund product structure makes it feasible to use

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[1]NASD Manual -- Investment Company Securities, Para. 5286(5)

illustrations for this purpose. There are no "non-guaranteed elements" or "participating" expenses and mortality charges to muddy the waters. The prospectuses for both mutual funds and variable annuities include Fee Table Examples, so that buyers can compare expense levels among different products.

Variable life insurance illustrations are regulated by the SEC and the NASD. Investment returns must be specified as gross yields. At least one investment return assumption must be 0%, and no return can be higher than 12%. All expense charges and loads must be shown explicitly in the prospectus. It is easier to attempt Type B comparisons on variable life, particularly since one of the most important factors, investment return, is assumed constant between products. In a more fundamental sense, however, Type B analysis of variable life illustrations may have limited value, since differences in expenses and cost of insurance could be overwhelmed by differences in investment performance. Some observers see a trend toward more non-guaranteed bonuses and charges in variable life products. If this is true, it may be progressively more difficult to use sales illustrations to answer Type B questions for variable life insurance, as is true today for non-variable products.

In general, a review of relevant practices for other countries and other financial products reveals an understanding that illustrations should not be used for comparative performance measurement. This is particularly true for the more complex products containing non-guaranteed performance elements.

VI. Alternatives to Current Practices

Our Task Force presented 23 alternatives to current illustration practices in our preliminary report. During the exposure period, we received a number of comments on these alternatives, and suggestions of other alternatives that we might consider.

We categorized the alternatives that were identified during our research as follows:

- Reduce or limit numbers
- More stringent requirements for non-guaranteed elements
- Product or market specific issues
- Consistency of illustrations
- Strategic/educational efforts

Our Task Force was charged with researching illustration practices from the perspective of the consumer. Therefore, we evaluated alternatives on these criteria:

- Will it improve the consumer's understanding of the life insurance policy being considered?
- Will it improve the consumer's understanding of life insurance generally?

A. Reduce or limit numbers

The road to full disclosure has some pitfalls. In showing as many numbers on illustrations as most companies already do, a couple of phenomena occur. First, consumers who are simply not numbers oriented, and there are many such people, may tune out or be misled; they may be more interested in a careful verbal explanation of the basic concepts. On the other hand, there are consumers who will fixate on the numbers, particularly the current account value column on a typical universal life illustration or the total value column on a dividend-paying whole life illustration, which marches mesmerizingly toward a 6- or 7-figure number. Compounding this problem is the fact that the prevailing practice is to show these account values to the nearest dollar, which, perhaps unwittingly, ascribes a level of credibility to the numbers that is quite inappropriate, especially for durations in the murky future beyond the 10th or 20th year. These account values are purely illustrative figures that, at best, are based on convenient, reasonable working assumptions as to what future mortality charges and interest rates might be like. Small differences between the assumptions and actual experience will compound to a very large "error" before very many years go by. In short, our Task Force sees a need for the industry to take some definitive steps away from selling our packaging (the illustration) and toward selling products, by reducing the focus on raw numbers.

There are several possible remedies to this general problem:

1. If possible, supplement numeric information with a presentation in graph form. Technical advances now make this feasible in many instances. This approach addresses the need to emphasize concepts more and numbers less, and the problem of "extra" significant digits in the account values disappears. Safeguards against the misleading scaling of graphs may be needed, however. Graphics, if done well, can be an excellent tool for conveying information to the average person. One reason often cited for the tremendous success of the newspaper USA Today is its very popular and informative graphs.

   CONCLUSION: We would encourage actuaries to work with their colleagues in systems and sales/marketing to find new and more customer-friendly ways to present illustration information in graphic form.

2. Limit illustrations of current values to 20 years and every fifth duration thereafter. This, we think, would help to make it clear that we have a sketchier picture of the distant future than of the near future. Also, it reduces the degree to which the client is overwhelmed by numbers and leaves more room on the page for useful narrative. It is important that values be shown to maturity or lapse so that the consumer is aware of any changes in benefits over time. However, if there is a change in premium or if a policy provision first manifests itself after the 20th year, the illustration should display all durations.

   CONCLUSION: Companies should consider adopting this convention on a voluntary basis.

3. Show current values to the nearest $10 per thousand of initial face amount. This rule could apply at all durations, or perhaps just after the 5th or 10th year.

   CONCLUSION: Companies should consider adopting this convention on a voluntary basis.

B. More stringent requirements on non-guaranteed elements

The Task Force identified five alternatives that deal with non-guaranteed elements.

1. More complete definition of "current experience" or "current dividend scale"

   At present, confusion exists as to what is meant by current experience or current dividend scale. For example, a current dividend scale illustration may assume mortality improvements built into it, but those improvements are not reflected in the dividends of older duration in-force policies. Is the illustration really based on the company's "current scale"? Some may define current scale illustrations much more stringently as only those on a dividend scale having the same experience factors as are currently being paid to in-force policyholders.

   In 1978 a paper appeared in the Transactions of the Society of Actuaries, Volume XXX, entitled "Choice of Basis for Dividend Illustrations" by Russell R. Jensen. In it Jensen states, "The simplest definition of current experience would be in terms of those factors of mortality, interest, and expense used in determining dividends currently payable (current allocation). Yet at times this type of definition may not be valid or applicable. There may be no such factors that are appropriate for the illustration of dividends because anticipated mortality, lapses, or expenses of the new business are clearly different from those now experienced on any block of business in force. Or, a company may use different investment yield rates for different eras of business, and there may be a question as to the rate to be applied to current issues."

   A company entering a new market will not have any past experience to illustrate. A new product may require a different investment pattern from anything the company currently has. These and other situations would mean that showing current experience can be more misleading than using currently anticipated experience.

   CONCLUSION: We believe that further study and research into this issue would be worthwhile. Therefore, we encourage the American Academy of Actuaries (AAA) and the Canadian Institute of Actuaries (CIA) to:

   - **review existing regulations requiring the use of current experience or current dividend scales in life insurance sales illustrations;**

- **suggest revisions to those regulations which would clarify the meaning of "current," and**

- **recommend modifications to the regulations which would allow the use of both current experience and deviations from current experience, but, if the latter, only with appropriate and mandated disclosure of the assumptions used.**

2. Standards of practice for "Illustration Actuary"

As part of his response to our survey of current illustration practices, Armand de Palo, FSA, suggested that the time has come to consider the concept of an "Illustration Actuary." This individual would be responsible for informing senior management whenever illustrations with unrealistic assumptions are being used. This might be considered as part of the enhanced standards for non-guaranteed elements.

CONCLUSION: **We are not ready to endorse this concept at this time, but we agree that it is an idea worth pursuing. Therefore, we encourage the AAA and CIA to study this concept further.**

3. Furnish historical data

This alternative would require agents to furnish clients with dividend histories, and dividend history comparisons with other companies, in addition to current illustrations. These would show clients how the company performed over the last 20 years, information similar to that supplied to buyers of mutual funds.

The argument is often made that dividend histories are not subject to manipulation and, therefore, are a more reliable gauge of a company's performance than are current illustrations. Certainly for those companies included in Best's annual 20-year history study, the information is readily available, including rankings and comparisons with other companies.

Companies have reasons for arguing that historical comparisons are not pertinent. Today's products are much different from products issued 20 years ago. For example, 20-year histories of universal life policies are not yet available. A company may argue that it has changed its approach to underwriting, its investment philosophy or its expense controls. Also, the formation of new companies, mergers and acquisitions pose practical problems for presenting 20-year histories.

One danger in using histories is that often the historical results are compared with the illustration provided at the time of issue. Over the past 20 years, of course, actual results have been much better than the illustrated results of 20 years ago. This could give both buyers and agents the false impression that they could expect the same pattern of results in the future, i.e., that illustrations are always conservative and actual results will always be significantly better.

CONCLUSION: We believe there is value to illustrating historical performance and in providing buyers with a company's actual record of dividends or experience rates credited over the past 10 or 20 years. However, given the fact that many of today's products were not being issued 10 or 20 years ago, and that linking past performance of significantly different products with today's products may be misleading, we do not recommend that historical data be made a required part of illustrations.

4. Disclosure of underlying assumptions and current experience supporting illustrated performance

   Complete disclosure would include publication of interest rates, mortality charges, lapse assumptions, expenses (home office, field, investment, etc.), taxes and profit assumptions that support current values. Most companies disclose the current interest rates used in their illustrations and some disclose mortality charges. Many companies, however, would object to such full disclosure on the grounds that the information is proprietary and disclosure would be competitively damaging.

   Even the information being disclosed today is suspect in that the interest rates disclosed may be before or after investment expenses and taxes, mortality charges may or may not reflect actual experience, and expense charges may or may not cover actual expenses. Would a consumer be able to sort out all the different experience factors and assumptions used in an illustration to determine if the illustrated values are in fact reasonable or not?

   CONCLUSION: We believe that the idea of requiring more complete disclosure deserves further study. Therefore, we recommend that the AAA and the CIA pursue this topic further.

5. Identification of, or special reserving requirements for, unusual features such as lapse-supported or two-tiered products, terminal dividends, interest rate kickers, persistency bonuses

   We wholeheartedly support complete and clear disclosure of unusual policy or pricing features, particularly if they result in inconsistent

1992 GOV Consumer Disclosure of Insurance 323p bonknote.pdf

treatment of one group of policyholders relative to another group (e.g., persisters vs. early terminators).

CONCLUSION: We would encourage the AAA and CIA to work toward development of appropriate disclosure requirements for such practices and to determine whether or not special reserves should be required.

C. Specific Product Issues

Based on the illustrations available to us, we believe the following product-specific issues must be resolved.

1. Vanishing Premium Illustrations of Fixed Premium Products

There should be consistency between the premium patterns assumed for guaranteed and non-guaranteed values, particularly when they are shown next to each other. If the underlying premium pattern is not consistent, the illustration should explicitly show both premium patterns. This is not an issue for flexible premium policies since both current and guaranteed values must be based on the same premium pattern.

Many consumer complaints relate to vanishing premium illustrations. Consumers do not understand what is guaranteed or the sensitivity of illustrated performance to changes in the non-guaranteed policy factors.

CONCLUSION: The AAA and CIA should both consider and recommend improvements to these illustrations which will communicate the sensitivity and the associated guarantees. The result should be consistent with the illustration requirements for flexible premium policies.

2. Second-to-die Products

Second-to-die product illustrations should be required to disclose whether or not there is a cash value increase on the first death. If there is, the illustration should include examples of values after a first death occurs.

For second-to-die products that include a term portion - usually paid for through dividends - it is especially important to illustrate values all the way to the end of the mortality table. It is also crucial to show how these policies perform at lower than current dividend interest rates. While current scales may support the policy adequately for 20 or 30 years, the insureds could be faced with very large premiums due at very advanced ages.

CONCLUSION: We believe that important policy features must be disclosed to the consumer. Further, modular policy design may increase the sensitivity of non-guaranteed policy features. The AAA and CIA should consider appropriate disclosures and/or standards for sensitivity analysis that will help the consumer understand these features and their impact on performance.

3. Two-Tier Products

The difference between the tiers can be quite large. The tier differential could be viewed (and is viewed, by some regulators) as a surrender charge, so certainly one alternative to current practice is to format the illustration accordingly, possibly even including a column that explicitly displays this surrender charge. Another alternative is to add language to the illustration that provides the needed additional emphasis of the important point that needs to be made to the client: the cost of rolling the funds out of this product to another one is unusually high, i.e., the client needs to feel highly committed to staying with this company. Also, as life expectancies and expenses increase, annuitization rates may become less favorable, so a case could be made for using something more conservative than current annuitization rates on the illustration for someone who is not going to annuitize until several decades from now.

Another idea worthy of consideration, which comes from the California Department of Insurance, is to require that the account value column heading say "Not available in Cash."

Mandating that the tier differential be explicitly characterized as a surrender charge may be a bit severe and could unduly limit a company's freedom to illustrate its products in a reasonable way. Adequate disclosure is really the key point. Thus, for example, the idea of requiring the words "Not available in Cash" for the annuitization account value column heading seems like a good one.

Good-faith disclosure also clearly calls for showing monthly incomes on both a current and guaranteed annuitization-rate basis. As to the idea of using slightly conservative current annuitization rates for this purpose, in anticipation of future increases in life expectancy, this may be laudable but it does not seem necessary, since the juxtaposition of the corresponding guaranteed figure next to the current figure should convey the sense that things may not work out as favorably as the current figure suggests. Furthermore, this could create additional unneeded complexity and could even be latched onto as a defense of using future mortality improvements on life illustrations. Likewise, monthly incomes should be shown based on both the current and guaranteed annuitization account values.

CONCLUSION: The Task Force believes that the AAA and CIA should consider the appropriate disclosures for two-tier products and appropriate changes to the values displayed.

4. Concept Illustrations

These illustrations demonstrate a concept or a program, such as split dollar or executive benefits. The focus is typically the accounting or tax impact rather than the operation of the insurance policy. Concept illustrations usually do not meet the regulatory requirements for policy illustrations. To demonstrate both concept and policy operation in the same illustration would overwhelm the consumer with numbers.

The Task Force believes that concept illustrations are appropriate. However, these illustrations should be clearly labeled "Concept Illustration Only." Unless guaranteed values are prominently displayed next to current values, the footnotes should disclose that this is not a policy illustration. This would allow agents to demonstrate concepts while alerting the consumer that the illustration does not demonstrate the operation of the policy.

CONCLUSION: We would recommend the recognition of concept illustrations, and would encourage the AAA and CIA to develop the appropriate disclosure to differentiate concept illustrations from policy illustrations.

D. Consistency of Illustrations

A somewhat more standardized approach to illustrations could make it easier for a buyer to understand the illustration. The Task Force identified five possible areas of standardization.

1. Standard Definition of Terms

Commonly used terms should have the same meaning in all companies' illustrations. For example, the column labeled "Current Year's Death Benefit" should have data that is consistent for all companies. There should be no discretion as to whether it is the death benefit at the beginning of the year, end of the year or some interim value. Standard definitions of terms would increase the clarity of illustrations to all users, not just to consumers.

1992 GOV Consumer Disclosure of Insurance 323p bonknote.pdf

CONCLUSION: We encourage the AAA and CIA to consider pursuing this suggestion with industry trade groups, professional organizations and regulatory bodies.

2. Standardized Notes

There are probably too many notes on illustrations today, and they are not consumer friendly. Furthermore, given today's product features, regulatory requirements for notes do not keep current with the need for disclosure of how a product operates. Since the notes are at the end of the illustration, it is not clear how much attention they are given by the buyer. It would seem appropriate that important notes should be placed at the beginning of the illustration.

CONCLUSION: While the complete standardization of notes is most likely unattainable and perhaps not even desirable, we would encourage the AAA and CIA to determine what degree of standardization might be helpful to consumers.

3. Different Print Sizes

Currently, all the data and notes on an illustration are given equal prominence. To the extent that it is technologically possible, the Task Force believes there is merit to using boldface or different print sizes for emphasis. This would help to ensure that the buyer reads important notes such as the non-guaranteed nature of illustrated values.

CONCLUSION: We encourage the AAA and CIA to pursue this concept.

4. Standard Assumptions

Three possible models have been described in this paper: the illustration of Variable Life and the illustration practices in the United Kingdom and Australia. These models for standardization of assumptions help the buyer to understand that the illustrated performance varies with the underlying assumptions and is not guaranteed. The Australian requirement that effects of inflation also be demonstrated for the term of the projection has considerable appeal to the Task Force.

CONCLUSION: We encourage the AAA and CIA to consider pursuing this alternative with industry trade groups, professional organizations and regulatory bodies.

5. Range Approach/Specified Scenarios

The range approach was advanced by the American Council of Life Insurance to the National Association of Insurance Commissioners in 1988. As proposed, it would apply to both life insurance and annuity illustrations. Use of the approach would have been elective, not compulsory. It would have allowed a range of interest rates only - not of mortality or expense assumptions. Finally, it would have allowed interest rates up to 2 percentage points higher and 2 percentage points lower than the interest rates underlying the company's current scale.

The assumption behind this approach was that the agent would actually show three complete illustrations to the client. One would be on the current scale, one up to 2 percentage points higher than the current scale and the third based on an interest rate up to 2 percentage points lower than the current scale. The current scale illustration would always be required. The other two would be optional, but if an illustration based on an interest rate higher than current scale is shown, then the correspondingly lower interest rate illustration must also be shown. The NAIC did not adopt this approach.

An advantage of the range approach is that it allows clients to see how the policy performs under different interest rate assumptions. More importantly, it demonstrates powerfully that variations are likely. In his presentation to the NAIC, Mr. Anthony T. Spano, Actuary with the ACLI, said, "Use of the range approach would demonstrate to the insurance buying public that illustrations are merely examples of how a product may perform rather than benchmarks on how it will perform. An undue focus on the company's current scale, which would result if illustrations were restricted to current scale, would be a disservice to the consumer in that it may create the impression that there is something magical or permanent about a company's current scale. This could lead the consumer to feel that current scale figures are tantamount to guarantees."

Needless to say, companies were not unanimous in their support of the ACLI in advancing the range approach. The most controversial aspect of this proposal was that companies would be allowed to illustrate policies at higher than current interest rates for the first time. The counterbalance to this, of course, was the requirement to also show an illustration at a rate lower than current scale. The fear, however, was that agents would not always show the lower interest rate illustration, or even the current scale illustration, but instead would concentrate only on the higher interest rate numbers.

Another concern was that only the interest rate could be varied and not mortality or expenses, which could also be expected to change over time.

Although the NAIC did not adopt the range approach, the industry seems to have gone part way towards it on its own. Several companies are allowing agents to show illustrations at dividend interest rates lower than current scale, while very few allow illustrations at higher than current scale. Most illustrations of products with explicit interest credits allow the interest rate to vary, either up or down.

The Task Force strongly believes that consumers should be made aware of a product's sensitivity to changes in the environment. The range approach is one approach that might be considered.

CONCLUSION: We think further discussion on the range approach within the industry and within our profession is warranted. As stated in Section B. 1. above, we encourage the AAA and the CIA to:

- **review current regulations requiring the use of current experience or current dividend scales in life insurance sales illustrations;**
- **suggest revisions to those regulations which would clarify the meaning of "current," and**
- **recommend modifications to the regulations which would allow the use of both current experience and deviations from current experience, but, if the latter, only with appropriate and mandated disclosure of the assumptions used.**

E. Strategic/Educational Efforts

1. Change Use of Illustration in Sales Process: Consumer Disclosure

Consumer education efforts should focus on appropriate uses for illustrations. Usage-disclosure should be clear and simple. It should indicate that illustrations are only useful for Type A questions, as defined in this paper. Required disclosures should make clear that it is inappropriate for agents, companies or advisers to use illustrations for Type B questions, regardless of the integrity of the illustrations involved.

This is not a ban on illustrations. Over time, however, such disclosure should reduce the occurrence of abusive practices. Previous regulations and disclosures have not been effective, because it has been possible to design around a rule while still using illustrations for comparative cost purposes.

Sample usage disclosures, for display at the top of the illustration:

a. **Sales illustrations should not be used for comparative policy performance purposes.** Life insurance policies are complex financial instruments, which generally contain both guaranteed and non-guaranteed elements. A sales illustration may be helpful in understanding how a particular policy performs under specified circumstances. It is generally not feasible, however, to use sales illustrations to determine whether one policy is a better buy than another.

b. The only promises a life insurance company makes when it sells a policy are the contractual guarantees. Policy illustrations are not promises. Rather, they are hypothetical examples of what might happen if certain assumptions are met.

c. Policy illustrations should not be used for comparing the relative cost or performance of life insurance products.

d. Most life insurance policies are complex financial contracts which contain both guaranteed and non-guaranteed features which depend on unpredictable future events. Consequently, the amount of risk associated with a particular sales illustration cannot be determined.

If illustrations cannot be used as a comparative performance measure, many people will demand to know, "What can be used?". The honest answer is that *there is no simple measure or analysis* which can be done for such complex financial products. The consumer bears a degree of future performance risk, and this cannot be readily estimated, especially for competing policies. This fact is already well understood in the securities industry. It needs to be assimilated in the life insurance industry.

Of course, there are other factors to consider, including rating agency analyses and retrospective cost measures. There are also many service and quality factors. Contractual features which have value to the consumer's individual situation may be more important than generalized cost estimates. Finally, an evaluation and recommendation by the agent or broker may be of critical importance. Ultimately, although many factors may be considered, the final decision on the *best* policy must be based on individual judgment.

CONCLUSION: The AAA and CIA should encourage their respective regulatory bodies to mandate inclusion of sales illustration disclosures of the type shown above. At least one of the disclosures should be prominently displayed at the top of every page.

2. Consumer Brochure

A small, easy-reading brochure, developed by an industry or professional association could supplement the proposed disclosures and explain proper and improper uses of policy illustrations in more detail. It could also cover other due diligence questions which a consumer might want to ask before making a decision. The brochure should be offered in every situation in which an illustration is used as part of a decision to buy, lapse or replace life insurance coverage. It should be designed as a way to educate the consumer about both insurance and illustrations.

CONCLUSION: There are many associations that could sponsor or contribute to this effort, including the ACLI and the CLHIA. We believe that it is important to have active actuarial sponsorship of this publication. We recommend that the AAA and CIA take the lead in developing the text. The brochure could replace the current buyers' guides used in the U.S. and Canada.

3. Consumer Hotline

Though it would be a logistic challenge to set up, an industry-funded consumer hotline could be established, staffed by actuaries or other industry personnel interested in addressing the illustration problem on a one-on-one basis with the public. Consumers would call in (or fax) their questions.

This approach would be the most proactive of all the methods of addressing the illustration problem discussed in this paper, since it is a direct, hands-on approach rather than just another report or regulation. The concept is similar to that of the Legal Aid hotlines set up by various bar associations.

CONCLUSION: We do not recommend proceeding with this approach. In our opinion, most questions of this type are best handled by the individual company or the servicing agent.

4. Consumer Signature

There is value in having the consumer acknowledge something about the process used in deciding to buy, lapse or replace life insurance coverage. This is similar to the requirement that a consumer receive a prospectus prior to buying securities. The acknowledgement should be simple and short enough that it actually gets read before signing.

A sample might be: *I understand that my decision to buy/lapse/replace this life insurance policy should not be based on illustrations of non-guaranteed future performance or cost. If I was shown an illustration, I was given a copy of the brochure,* Life Insurance Illustrations.

CONCLUSION: Companies should implement such disclosures on a voluntary basis.

5. Illustrations as Road Maps

As technology advances, it may soon be possible to store the illustration upon which the sale was made in the home office's computer. Then each year on the anniversary, the total current value would be compared to the value originally illustrated for that anniversary and, if it is less, the policyholder would be given (a) the reason(s) why it is less, and (b) the chance to make up the difference via an additional premium payment, if feasible. Illustrations would thus be used as road maps instead of just as point-of-sale projections, credibility would be enhanced, and the workings of the policy would be clearer to the buyer on an ongoing basis.

CONCLUSION: Companies should consider providing "in-force illustrations" on a voluntary basis to help educate and inform their customers.

6. Agent and Home Office Education

A knowledgeable, well-informed agent is critical to ensuring that illustrations are used and interpreted properly. Our industry already invests a great deal of money in home office and field training of agents. With respect to illustrations, this effort is currently focused principally in two areas: (a) how to explain the "performance" of their own illustrations in a positive way; (b) how to discover and discredit "unreasonable" assumptions in competing illustrations. The sense of our Task Force is that agent education about illustrations should re-focus on proper and improper usage, as described previously in this paper.

Once the concept of Type A and Type B usage is widely understood and accepted, agents will have more time to spend on activities which truly benefit themselves and their clients. For example, they can try to understand and explain the contractual difference between two policies

(Type A), rather than trying to infer which policy will have the lowest cost over the next 40 years (Type B).

Educational efforts should not be limited to agents. Home office marketing, sales and product areas must understand and accept the concepts involved before meaningful progress can be made among agents.

CONCLUSION: The effort to re-focus agent and Home Office education should start with the industry's professional societies and trade associations, including SOA, AAA, CIA, ACLI, CLHIA, LUAC, AIAPQ and The American College. Trade publications, such as the National Underwriter and Best's Review, are important educational forums which should be used to further this effort.

VII. Summary of Recommendations and Next Steps

To summarize, the Task Force endorses the use of illustrations for Type A purposes. We do not believe they are appropriate for Type B purposes. Educating the consumer and others on the appropriate uses for illustrations is a long-term effort. In the interim, we must deal with the Type B uses, and our report makes recommendations specific to these uses. The need for some of these recommendations may diminish as consumers understand the uses for, and limitations of, illustrations.

Several persons commented that we must provide consumers with a basis on which to compare different policies and companies. Past committees of the SOA and others have grappled with this issue, and have "tolerated" the use of illustrations and interest-adjusted indices for this purpose. We would recommend that the actuarial profession renew its efforts to develop appropriate methodologies or indices on which to compare products and companies.

Our recommendations are in four areas:

- Educational Efforts
- Standards, Disclosures & Regulations
- Optional Improvements
- Continuing Research

<u>Educational Efforts</u>
Educational efforts represent a long-term strategy for the industry. These efforts will necessarily involve insurance professionals from a number of disciplines, including agents, actuaries, regulators and company management. Without management commitment, these efforts are not likely to succeed.

We would recommend that the AAA and CIA consider the educational efforts that have been identified and develop a strategic plan for development and implementation. These organizations would determine the appropriate forum for bringing in other insurance disciplines.

Among the alternatives that we believe have particular merit for further consideration are:

- Agent education and licensing
- Home office education
- Consumer brochures

<u>Standards, Disclosures & Regulations</u>
These recommendations represent the short-term approaches to deal with the problems arising from Type B uses. They also deal with the changes needed

to support and enhance Type A uses. The AAA and CIA should be charged with the development of an integrated program of standards, disclosures and regulations to improve illustrations in the near-term. This Task Force believes that the following have considerable potential:

- Standard assumptions, following the variable life or Australian model
- Disclosure of underlying assumptions
- Review of actuarial standards for establishing non-guaranteed factors
- Disclosure of unique product features
- Display of alternative scenarios or sensitivity testing

The Task Force strongly recommends the adoption of changes to vanishing premium illustrations in order to properly communicate the concept, and its non-guaranteed nature, to the consumer.

Optional Improvements
The Task Force identified several alternatives that could improve illustrations that companies could implement on an optional basis. These would include:

- Consumer signatures on illustrations
- Presentation of historical data, separate from the illustration
- Use of graphs to supplement numerical data
- Display only quinquennial durations after year 20
- Round current values to nearest $10 per 1000 of initial face amount
- Illustrations as road maps

Continuing Research
We would recommend that the SOA form a task force to research an appropriate methodology for comparison of products. The Task Force believes that in the current product environment, a measure that is not adjusted for risk is not helpful to the consumer or any reviewer of life insurance illustrations and contracts.

CONCLUSION: The illustration practices of most companies are consistent with regulatory practices and attempt to communicate in a good faith manner with the consumer. However, there is room for improvement. Life insurance policies are complex, and consumers often do not understand which benefits are guaranteed and which benefits are not.

The Task Force strongly encourages the AAA and CIA to consider our recommendations and to work with the other industry groups and regulatory bodies to improve illustration practices and to develop educational materials that will aid consumers.

APPENDIX I

SAMPLE SURVEY AND SUMMARY OF RESPONSES

I General

A To what extent does your company feel that a problem exists within the industry regarding life illustration practices today, in terms of successfully communicating with the potential buyer in a good-faith manner?

(5) We think there is a serious problem but the nature of today's products makes it unavoidable.

-Problem is that the people selling them (producers, agents, reps. etc.) often times will do and say anything to make the sale. Product differences and volatility of interest rates etc. make it difficult for the consumer to compare products and understand all the pieces.
-The trend in the industry seems to be a return to more responsible illustrations. But illustrations still create a strong visual impact. Footnote, disclaimers, and ledger have trouble competing for the buyer's attention.
-So long as agents are allowed to run their own proposals there will never be assurance that what the company intended is shown. Also differences between companies will never be able to be accurately portrayed.

(35) We think there is a serious problem which can be fixed.

-We do not, however, believe that policies with adjustable elements will ever be completely understood by the buying public.
-Many agents sell on the basis of a 40-50 year projection of policy values as if these had a reasonable probability of materializing. Furthermore, they frequently misunderstand some of the fundamentals (i.e. they often compare UL policies at a fixed rate of interest for several products even though companies take margins differently and may actually be paying very different rates at the time the illustration was prepared).
-We feel that some companies are misleading their customers by showing unrealistic illustrations, for example, a rate of interest which the agent knows will never be attained. This raises the issue of integrity because the individual agent and company are left to decide how to illustrate nonguaranteed elements, so long as the guaranteed elements are shown. The industry should develop, and the state regulators should adopt, a standard by which all companies must conform when illustrating nonguaranteed elements. This would eliminate the practice of companies and agents competing by way of misleading sales illustrations which give the customer unrealistic expectations.
-It is important to disclose what is being illustrated rather than restrict or complicate the illustration.
-Many aggressive companies do not want to fix this problem and choose to illustrate values that are not likely to be paid, or will be paid only to a very few policyowners. These companies, in general, cannot be competitive on actual performance. However, there are still a few quality companies doing the right thing, although they are considered old fashioned since they believe in giving good value to the policyholder and in paying out real value, rather than illusions.
-The lowering of dividend scales has helped agents finally understand that dividends really are not guaranteed!
-Many companies show unrealistic interest rates and have great flexibility in

58–720 – 92 – 6

making products look better. Disclosure statements and footnotes should be required to improve situation.
-The fix will require a realignment of some companies' fiber of integrity and a decision to include guidelines in full disclosure.
-Our company position is that the insurance industry must take steps to begin monitoring the practices of its representatives and initiate consistent regulation of the industry throughout the country.
-We have been working on consumer education pieces to supplement illustrations which provide additional information on the nature of illustrations.
-Illustrations of unrealistic projection of mortality and bonuses.

(13) We think there is a problem, but it's not serious.

-In Canada, some UL illustrations may use unrealistic interest rates. Major complaints arise from *'s unbelievable Par illustrations.
-Most agents and companies are ok, the bad cases get a lot of attention.
-Some illustrations need improvement in both stock and mutual companies, however most companies do an adequate job.
-As the marketplace becomes more sophisticated, so must products sold in these markets. Illustrating complex products in a simple fashion causes unavoidable problems for the consumer.
-Overall practices are acceptable. Very few problem areas. TAMRA should be handled better. Handful of copies allow illus @ much higher interest rates than current credited rates & some companies do utilize projected improvements in future mortality rates.
-I don't see how to enable the prospective policyowner to judge the relative value of non-guaranteed policies from different companies.
-Any attempt to fix may make the cost of doing business too high.

(2) We think current practices are acceptable.

B Software packages are available that enable an agent to take the numerical output from a Company-produced illustration program and "re-cast" the results into a format individually tailored by the agent. Examples include the ability to rearrange, add or delete columns, and to change headings and footnotes. Also, some agents have sufficient programming skills to accomplish this on their own. What is your company's position on this?

(9) We promote it (e.g., we make such software available).

-However, we strongly discourage any alterations and/or deletions of info.
-We don't like it but competition has forced us to make it available.

(4) We condone it.

-Some flexibility is necessary to meet the needs of sophisticated markets.

(10) We are neutral.
(19) Officially we're opposed but there's little enforcement.

An asterisk (*) appears in place of a company or product name.

-Difficult to enforce in brokerage environment. Can control branch offices easier, but it still happens.
-We do everything we can to ensure that this doesn't happen but you can never have 100% control of software running on a PC.

(6) <u>We oppose these practices and vigorously enforce this</u>.

-But it is difficult to catch individuals that doctor illustrations. We fire any that are caught.
-Officially we're opposed...however, we do encourage agents to have Head Office review proposals.
-Our software is designed to prevent these practices.

(8) <u>Other</u>.

-It is available but we don't promote it--those that find it are capable and we work with them.
-We allow agents to add additional information by adding columns to the standard illustration.
-Allow specified adjustments.
-Currently we make available a software package which translates our company-produced illustration into a different format. The format is chosen by the agent from a menu of formats and so the individual agent cannot modify or otherwise rearrange the output to suit his/her needs. The software company, however, has the ability to add or modify formats, and we have basically trusted them not to abuse or misrepresent our products. Only one area of disagreement has arisen to date: the software's treatment of a MEC is different from ours, and our solution is to not pass the data over from our company's system if the policy turns out to be a MEC. Hopefully, solutions for all disagreements can be accomplished as easily.
-We promote use of * but our illustration is required.
-Different marketing channels follow different approaches. The largest one opposes. Other channels encourage or attempt to limit to company approved programs. In any case it is very difficult to control agents who are computer literate and can design their own spreadsheets.
-We have asked our field to show us their special charts for review. While we do not receive many, we do review all that come in and we have requested changes where appropriate.
-Agents have the ability to customize columns but not numerical values. We condone customization of this type and oppose agent programming that allows altering values in any manner.

<u>Please indicate the illustration flexibility, if any, that your company provides to your agents, or explicitly allows them to use.</u>

-Graphics interfaces.
-We provide ability to download data and reformat it using commercial graphics packages. This facility is used by relatively few agents. Minimum disclosure requirements for such presentations are being developed.
-An agent may edit a print file created from the illustration. However we feel that this is a better option than allowing an agent the flexibility of typing his own error-prone illustration.
-Customize column selection from a predetermined list, output to an ASCII file, limited interest rate flexibility, input Universal Life inforce information.
-Cannot alter form or format of proposal. May only change the current credited

rate and this should be done only when company declares a change in rate.
-We allow the agent to use a lower interest rate than the current rate.
-We use a company called *. We require all agents to show the company produced illustration; it is automatically printed, but the agent can always throw it away (i.e., enforce may be impossible).
-Illustrations can not be modified. Agents can incorporate them in their sales package but they must include "all" pages generated by our proposal system.
-We offer the * system.
-We allow agents to use a software package that re-formats columns and re-words headings and footnotes in whatever manner the agent desires, so as to produce a snazzier-looking illustration. However, company policy is that this second illustration is to be provided to the client in addition to (not instead of) the regular company-approved illustration.
-Choice of interest rate for some products, no choice on others.
-Headings and footnotes cannot be changed. A variety of pre-set and user-defined illustrations may be selected from a menu.
-Ability to illustrate with their own interest rate assumptions as well as the current rate. Some flexibility as to what output is produced--optional graphs, additional notes, etc.
-Our illustrations can be converted to *. Agts then can produce whichever numbers they choose. Footnotes are not converted, however.
-Our software allows agents to rearrange or delete columns, or add columns from a group of columns that are available through the software. VUL is an exception, however, as no alterations may take place.
-Our software allows column add/deletion only - no footnote or header editing.
-Company provided software with fixed formats; other formats require our ledger to be attached.
-We allow customization of illustration output, however we strictly maintain footnotes that require a standard illustration that provides all guaranteed values.
-A limited range is ± ½ of 1% on interest rate assumptions.
-We support an interface to Advanced Underwriting Software but do not provide such software.
-An agent can always retype any illustration, even without a PC. We take strong action if we find erroneous numbers or an outrageous illustration that is not company produced. All software has flexibility and the market demands this flexibility, but we always require a ledger and footnote to precede any summary. However, no one is with the agent to ensure that he gives it to the customer. All pages are numbered as "x" of "y" pages, i.e. page 1 of 4, etc. Company illustration system has over 200 available columns of information that can be displayed, but standard formats exist. The results of the PC version can be captured by agent owned software that we have little control over. Outside independent vendors, who we cannot control, have our rate files.
-None for company-provided computer system. If outside PC software is used, we have no control.
-Minimal flexibility is provided.
-Lower dividend interest rate, first death scenarios for survivorship, optional columns to show, for example, face amount of PUA's, cost of 5th div rider.
-*, cash needs analysis; advanced needs analysis, split dollar.
-We require agents get pre-approval on any special format illustrations.
-Planners have only the ability have only the ability to select the pages that are included in the sales presentation. They must always include the ledger (numerical) illustration.
-We have little or no flexibility.
-Ability to add, delete and customize columns; however we require a "compliance"

page which shows GTD values. Portfolio rates may be illustrated with lower assumptions--not higher.
-Difficult to summarize briefly. Column selection is available to some agents and brokerage offices. Changing headings and footnote is generally not condoned.
-For our universal life product, we allow agents to select an interest rate for illustration from 4-14% inclusive. Current rates are, however, disclosed.
-We allow download into prearranged packages.
-We support *.
-None - except for illustrative rate flexibility.
-Ability to vary interest rates, and specify premiums (within policy limits).
-Some column selection and report writing capabilities; * download conversion.
-All life products (including UL) are participating and only current dividend scale can be shown. Agents have flexibility to show various interest rates for annuity illustrated.
-Agent can enter interest rate but not change format.
-Flexibility about what pages to produce; what columns to output.
-Any illustrated rate between 4½% and 14% can be shown but whatever is illustrated is disclosed. Mortality and expenses are only shown at current levels with no option to vary. Of course the premium and face amounts in a UL illustration may also vary.
-Column customization, funding flexibility, optional report selections.
-The agent can illustrate changing premium patterns, death benefits and interest rates, but footnotes, column headings, guarantees cannot be altered.
-Agent can download for graphics. Once downloaded, however, the possibility of rearrangement exists.

C Do your illustrations routinely contain text about:

(5) Your company's ratings from the various rating agencies.
(5) Company size.
(4) Company financial strength.

-Yes. Yes. Yes. Marketing page that is available.
-Yes. Yes. Yes, but do not explicitly state our surplus.
-This information can be produced as an OPTION on the software.
-Yes. Yes. Yes. But agent has to request.
-No. No. No. Separate sales publications are used for above.
-(1) Optional on some products.
-This is an area we are exploring.

D What do you consider to be the best feature of your illustrations?

-Electronic data transfer to */graphics.
-Illustrated values are generally based upon reasonable assumptions. Volatility disclosed by way of mandatory conservative rate illustration.
-The fact that it is maintained "in-house" and has a large degree of flexibility.
-Flexibility to customize to consumer's own situation.
-Strong vendor who produces the software, comprehensive system that is state-of-the-art and accurate.
-The menu of options on our flexible UL allows agents to be very flexible in illustrating deposit and withdrawal scenarios. Proposals may almost appear custom tailored.
-Checks for DEFRA, TAMRA, etc.; can vary premium, death benefit, etc.
-We have no gimmicks (COI give backs, retroactive interest rate bonuses, etc.).
-Our alternative illustration demonstrates the impact of IIT, AIDS, etc. No

other Canadian company illustrates lower dividend rates even when the IIT was introduced and everyone knew it would decrease dividends by 50-75 bps on the investment return.
-Consistency.
-User-friendliness of input screens; speed of calculations, especially on solve-for-the-premium requests.
-Our sales illustrations are developed to comply with state laws and regulations. While the expiration date of the policy is not required by law, it is an important feature because it lets the customer know how long the policy will remain in-force, based on guaranteed factors and planned premiums.
-Meaningful disclosure of contract guarantees and current values.
-Illustrate specific products well. Flexible enough to assist an agent in selling with different marketing strategies (U-Life).
-We feel that our illustrations present a fair, conservative picture. We do not overstate values, and these values are based on our current experience.
-The column add/delete feature allows the agent to adjust the complexity of the illustration to suit his client.
-Honest, straightforward, no gimmicks.
-Readability and easy to understand.
-Our illustration systems are very flexible.
-The completeness.
-User friendly input.
-They are clear, concise, and complete.
-Flexibility.
-A decoupled dividend interest scale can be run showing dividend interest lower than currently payable. The allowable range is between current and guaranteed. Also complete and extensive footnotes exist. Note: This is very unusual. Most companies cannot do this.
-Accurate/complete including benefits.
-Integrity through promotion of conservatism in assumptions and well-documented disclosure of assumptions and guarantees.
-Pertinent and accurate information and dividends are based on current experience.
-Simple to understand.
-Flexibility in showing premium payment options (borrow or surrender PUA's only in certain years, use pd-up add riders to achieve quick pay in targeted years), and in showing cash distributions from policies.
-Integration of products on one software piece.
-Can illustrate flexibility of the products (e.g. future changes); footnotes regarding compliance with tax laws.
-Simplicity of basic input; marketing support including graphics and concepts display.
-The fact that it can be easily read and understood by our prospects as well as our field force.
-Simplicity of use.
-User friendly system with no "trick" illustrations or assumptions.
-Flexibility; accuracy compared with admin system (ties in very well).
-The large number of available page formats, and the flexibility to tailor new formats to a specific need.
-Alternate interest rate scenarios. On vanishing premium illustrations, a "low side" illustration is now produced automatically by our major systems.
-They are short and easy to read.
-Flexibility, user friendliness.
-Flexibility of sales presentations.
-Ease of use, flexibility, supplement pages with text explaining product and

marketing concept.
-TAMRA and TEFRA premium checks.
-Interest-sensitive products show intermediate values from use and an illustrative interest rate. In addition to current and guaranteed.
-Ease of use for agent.
-The disclosure regarding the non guaranteed elements.
-Variability of interest/premiums to match prospects' outlook and needs.
-Simplicity, user friendliness, speed.
-Ease of use to agent, easy to read.
-Their flexibility.
-User friendly.
-Flexibility relative to formats and supporting reports.
-Completeness and correctness. We check for TEFRA & TAMRA.
-Uniformity of presentation on all products - straightforward presentation.
-Straightforward, easy to use software, which does not project improvement in any factors except possibly interest with disclosure. There are also a lot of options to allow the agent to solve for solutions to the client needs.

E <u>How, if at all, would you change illustrations to improve them from the consumer's standpoint?</u>

-Show the consumer how his needs are being solved, ask for signature.
-Reduce the amount of data presented which tends to suggest more accuracy and higher probability of realization than is warranted. More emphasis should be placed on the volatility of future results.
-Try to make them more efficient from a time perspective (i.e. make them faster). Greater disclosure with respect to variable products.
-Better disclosure about proper use--should not be used as a prospective cost measure.
-Standardize footnotes for all companies so consumer can make a fair comparison.
-Use graphics.
-No illustration of "gimmicks" unless guaranteed and reserved for. Greater clarity and explanation of the fluctuation of interest (particularly the down side). Include a couple of interest rate indices such a 5 yr treasuries and Moody's AAA bonds with explanation of the companies interest rate margins and the risks of crediting too high a rate.
-1. Simplify them. The total volume of numbers intimidates many clients. 2. De-emphasize the importance of illustrations to the sale. In many cases the agent uses the 40th year CSV as the key selling point as if it were a given.
-Use the illustrations to explain the product rather than just show numbers.
-Only show first 10 years of values, and quinquennial thereafter. More disclosure. In short, fewer numbers and more words, as it <u>should</u> be for a "concept" sale.
-Companies should not be allowed to show illustrated values which are greater than those currently being credited. As the rates change, the customer should be notified accordingly.
-Require disclosure if illustration does not reflect current assumptions.
-Require disclosure of improved lapse mortality and/or expense assumptions shown in the illustration, and require an alternative illustration showing results if the improvements are not realized.
-More explanation aimed at the "average man," not just legalese. Perhaps also cut down on the level of technical detail that is presented in our standard illustrations.
-As it happens, we are undertaking some research to establish the answer to that

very question.
-Should explain unusual features. Remove the requirement to show guarantees on the same page. (Still must show them.) Space could be used to make numbers easier to follow.
-Consumers need education about products to understand them before illustration changes will help--anyway, an interest cap will help.
-From the consumer's standpoint, all of our illustrations are very well caveated.
-In the same way a valuation actuary needs to sign off on reserves, require an actuary to sign off on illustration procedures.
-Similar terminology; more graphic illustrations.
-Make them more clear, concise and complete.
-Better caveats and explanations, more control over "current experience" requirements, better agent education.
-Require a standard ledger be run with all of the other possible variations.
-No change.
-We attempt to stay current with enhancements and modifications which improve the usefulness of our illustrations; no improvements are outstanding at this time.
-Ideally, limit illustrations to 10 or 20 years.
-Disclose all important information in an easy and understandable format.
-Illustrate true performance of product; use of graphics; require financial ratings of at least 2 rating agencies; indicate investment quality.
-More accurate depiction of expenses and mortality, especially in later years. Showing the impact on policy values, when expense and mortality assumptions are kept at current.
-The illustrations are easy to read and understand in the format they are currently in. I wouldn't change them at all.
-Require a standardized format for traditional, UL, interest sensitive products. Use would be in addition to customized format.
-Accuracy of midyear projections; too much verbiage.
-Require more disclosure of the assumptions behind each illus. Give the consumer the necessary info to properly evaluate the risks involved. (e.g. #1, possible consequences of future tax law changes; e.g. #2, current mortality charges assume future improvements in underlying mortality; e.g. #3, current interest rate would be X% if company could earn Y% after investment expenses.)
-This subject is under constant discussion within our marketing and Actuarial organizations. We would like to simplify illustration outputs so that people are not confused by masses of numbers and multiple pages of footnotes. At the same time, we would like the customer to being thinking about a range of possible outcomes. Our new vanishing premium ("abbreviated payment plan") may help us meet this goal. Another idea which is under discussion and has not been implemented is to round non-guaranteed cash values and death benefits to the lower multiple of say, $100 or $1000. Numbers with six or eight significant digits have an aura of precision which can't be overcome by footnotes or other disclaimers.
-More restrictions regarding disclosure.
-Clear explanation of product features.
-Decrease amt of footnotes on each page by putting clearer notes on a required extra page.
-Provide a page of comparison values: i.e., assuming current interest and current mortality project the premium and values, the same assuming guaranteed mortality and guaranteed interest, current interest and guaranteed mortality, etc.
-1. Bar retroactive mortality or interest credits. 2. Mandate illustrative rate showing results at lower than current interest.
-1. Require a historical angle to the output. 2. Regulate what is being used in the assumptions or disclose what's used currently (<u>fully</u> disclose).

-Highlight or emphasize (large print) that illustration is nothing more than a sample of how the contract MAY work.
-Include brief definitions of terminology used on illustrations. Include graphics.
-Use graphics rather than tables of numbers to show results.
-Wouldn't.
-Yes I would include company ratings and financial strength.
-Limit number of yrs that could be illustrated.
-Automatically include variations of CSV & DB development, less numbers, more verbiage.
-We would prefer to provide easy-to-understand supplemental brochures describing important issues since footnotes on illustrations are not effective.

F (7) Does your company have an illustration that you regard as a positive innovation in terms of format, content, or concept, from a consumer standpoint?

-We produce a policy illustration and include it in the policy. Differences between this independently produced projection and the one originally provided by the agent can and has identified misunderstandings right at the outset when they can most easily be corrected.
-Edit screen on U.L.
-We're the only Canadian company to illustrate an alternative (lower only) dividend scale but this is common in the U.S. (I believe) so it's not really a great innovation.
-Signature page; various columns for IRR calculations; 3 scenario pages.
-Screen graphics are available--easier to visualize.
-We examine our illustrations regularly to see what improvements we can make. While they may not be "innovative" we believe that they do an excellent job of fairly presenting the product.
-No. But we do allow interest rate modeling and we have an extensive re-illustration (in-force ledger) system.
-Question is not clear--we have a typical big company type of system, except for our decoupled illustration, and an inforce system.
-The ability to illustrate dividends less than the current scale.
-This is a vanishing premium illustration that automatically produces a low dividend interest rate scenario. Also, the zero premium has been replaced by a special character that references a footnote.
-It isn't so much an illustration, rather that we have adjusted our products to include investment income tax (as stated in the footnotes).

II Dividend-Paying Products

A (35) Does your company sell this type of product? (If no, skip to III).

B Which, if any, of the following dividend factors as illustrated anticipate a change from current experience, either by projecting trends or on some other basis? Please explain the general nature of such changes.

(1) Mortality.
(3) Interest.
(2) Expense.

-Mortality. Projected improvements.

-Company does not illustrate dividends higher than our current scale.
-We are aggressively attacking the expense issue.
-Performance of our par fund is more than enough to support dividends this year and our projections suggest we'll be fine in 1992. However, a continued deterioration in the economy could accelerate that occurrence. A few years ago when the AIDS issue was heating up and the IIT was about to be implemented, we specifically showed a reduction to reflect the potential impact. Currently, we simply show a ½% reduction in interest rate to illustrate the effect of a drop in yields. Our field force hates our doing this at all.
-Use current dividend assumptions. For projections - don't try to anticipate change.
-The standard illustrated scale is the actual payable scale with no projection. The agent has the option to run any lower dividend interest assumption his client wants to see.
-Illustrations reflect current experience.
-(this was a response to II. B. and C.) Unless otherwise requested, the dividend factors which produce the illustrated dividends will be based on the following: a) The Mortality and Expense factors will reflect the current dividend scale assumptions. b) The Interest factor will reflect the current dividend scale assumptions unless it has been determined that the scale which applies to the policy will in fact contain a lower interest rate assumption. If this is the case, this lower rate will be used. If the reverse is true, however, and it is anticipated that the actual interest rate will be higher than the current value, we do NOT reflect this higher rate but instead remain at the current level.Lower only. We do not allow dividends to be illustrated in excess of the current scale. Agents have the flexibility to run illustrations where the interest component can range from zero to a maximum which assumes the default rate as defined in b) above. The mortality and expense components currently cannot be adjusted. However, an upcoming enhancement will provide the flexibility to completely zero out the dividends. Our illustrations contain a supplementary page which illustrates all non-guaranteed elements otherwise buried within the illustration.
-Current scale is projected to continue--no changes in experience are anticipated.
-In aggregate the current experience reflects actual; by blocks they don't. DAC has not been reflected.
-Currently illustrated refunds are calculated using expense factors which have become out of date. This will be corrected on next change.
-We illustrate current scale only; in 1988, when tax laws were changing we temporarily illustrated a lower than current scale.

(3) Are such changes disclosed to the consumer?

-Dividends are not guaranteed on the illustration. Values illustrated may vary depending upon actual experience.
-Yes, though the change is not imminent so it is shown as an alternative scenario.
-Advise consumer that these factors affect dividends and changes may occur.
-Not specifically, but reproposals are available as requested.

C (17) Do your agents have the flexibility to run illustrations at dividend interest rates or mortality rates higher or lower than the current scale?

If yes, please indicate the degree of flexibility they have.

-Select interest rate to be assumed within a range rate assumed disclosed on illustration along with actual recent experience.
-Interest only. Higher or lower. Illustration will say "hypothetical."
-Lower, but not higher.
-Only lower.
- -1%, -2% and -3%.
-Illustrations can be run up to 200 basis points below the current gross crediting rate. Our conservative illustration practices do not allow us to show an increase in dividends.
-We allow up to a 200 basis point reduction. We do not allow illustrations of a dividend increase.
-Current scale, reduce interest factor 1% or 2%.
-Interest rate <u>less</u> than current scale only.
-Lower dividend interest rates only may be run.
-At lower rate only. May decrease div interest rate by up to 200 basis pts.
-Yes--lower only; 200 basis points lower than current.
-Agents can illustrate dividend interest rates lower than the current rate. (As low as 3 percentage points below current.) Mortality rates cannot be varied.
-Up to 2% lower than current scale, average of 8, 12, 20 or 40 prior quarter interest rates.
-Can show results of lower interest factor (higher not sanctioned by Company).
-Lower interest only. 2% interest drop, no change in mortality.
-Limited to illustrating increased or decreased dividend interest rate assumption. Maximum differential is 2%.

D (10) <u>Has your company received an increasing number of policyowner complaints about dividends paid versus dividends illustrated</u>?

(1) <u>Have these complaints indicated any common misunderstandings of illustrations furnished at the time of sale</u>? <u>Please explain</u>.

-No. Consumers thought of dividends as guaranteed.
-No. These plans are relatively new. Track record thus far has been pretty good--dividends have generally exceeded expectations.
-Same. Only in terms of the "vanish" if dividends are decreased and have more premiums will need to be paid prior to "vanish."
-The problem has not been dividends paid vs. divs. illustrated, but how the changes in the dividend scale affect the vanish point of the contract. That is, the way they see it, if you had a 1% reduction in your div. scale, total cash to vanish should only increase by 1%!
-Policyowner complaints have increased as dividend scales have decreased. They do not always comprehend the "nonguaranteed" nature of dividends.
-The non-guaranteed nature of dividends was not well understood nor presented well.
-Normal level. Most complaints are minor. The majority of the questions concern vanishing outlay or values less than originally projected. However, once the policyowner understands that he/she is still being credited a competitive return versus available options, then the policyowner in general is satisfied.
-Yes, but relatively few so far. Impression, belief, or hope that dividends only increase.
-Many complaints deal with misunderstandings that quick pay years were guaranteed, or at least highly unlikely to change.
-Most misunderstandings relate to vanishing premium illustrations and dividend scale changes. Policyholders mistake a vanishing premium illustration for a promise of a paid-up policy.

-Policyholders believed dividends would cover premiums by a certain date, and due to a decrease in the dividend scale this is not so.
-People seem to think insurance dividends should be unaffected by expense changes and interest swings. They remember the 15-16% interest rates of 10 yrs ago.
-We had some complaints immediately following scale drops in 87 and 88, but fewer than expected.
-The consumer did not understand the relationship of investment yield to product performance.
-"Vanish" illustrations are frequently misunderstood regardless of the agent's explanation at the time of sale.
-Most complaints pertain vanish year increasing due to reduction in div scale.

III Universal Life and Interest Sensitive Life Products

A (52) Does your company sell these types of product? (If no, skip to IV).

B Which, if any, of the following experience factors as illustrated anticipate a change from current levels, either by projecting trends or on some other basis? Please explain the general nature of such changes.

(5) Mortality.
(8) Interest.
(2) Expense.

-Mortality--can illustrate based upon current or guaranteed maximum scale. Interest--select rate from a allowable range. Mandatory lower rate projection also produced. Expense--admin. fees subject to fixed inflation factor.
-An input assumption.
-All current values are based on company experience.
-Mortality on juvenile issues. Illustrations for juveniles assume conversion to nonsmoker product at minimum allowable attained age.
-Mortality-no, have priced for AIDS. Interest-no, based on current interest rate. Expense-no, have priced for IIT, AST, etc.
-Bonus interest.
-Negative anticipated changes are not considered when the illustrations are developed. We see this as part of the integrity problem because, while there is no legal obligation to forewarn customers of anticipated negative changes, the company and/or agent may be aware of such changes. For example, a decrease in interest rates may be imminent, but until it's effective, the agents continue to illustrate the higher rate as if that rate will remain in effect for 20 years. Although agents should not be required to provide predictions, they should be honest with the customer if it appears that a change is about to occur.
-All factors reflect current assumptions.
-Projections may be done using an interest table based on anticipated future changes.
-We don't anticipate changes.
-We are opposed to future enhancements in these factors.
-Current level projected to continue--can lower interest assumptions over time.
-Alternate interest rate projections are available.
-Illustration values are based on (1) current assumed interest and mortality and (2) guaranteed rates.
-Mortality - OK in aggregate; in process of repricing. Interest - too high on new prem; managed down over time. Expense - doesn't reflect DAC, otherwise OK.
-Expense factors are out of date and need to be updated.

-We expect mortality to continue to improve as it has in almost every period in the past.
-Rates are adjusted for the guaranteed added interest credits at the end of years 10, 15, 17, 18, 19 and 20.
-Use of a higher credited rate (i.e., lower spread) after 5 years.

(9) Are such changes disclosed to the consumer?

-Mortality and interest.
-Footnotes/guar. values illustrated.
-Before the full level of the IIT was known, we advised new clients of the potential range of the impact.
-Not on illustration - in Exh. interrogatories.

C Which, if any, of the following experience factors can the agent vary from current levels in your illustrations?

(49) Interest.
(6) Cost of insurance.
(2) Minimum Premium.
( ) Policy Loads.

-Interest. Cost of Insurance--guaranteed and current, only.
-Interest. Cost of Insurance--choice is current rate or guaranteed maximum scale only.
-None. Our branch offices only can go 3% above current interest rate and this is footnoted.
-Interest in a separate section of proposal labelled "projected values."
-Interest-but must show current rates and a minimum rate illustration. The current rate is the upper limit he can use in the projection.
-Interest. Agents are permitted to vary interest rates up or down (up to a maximum of 14%). Due to good training and (to some extent) a fear of litigation, more of our agents vary the interest rate downward than upward.
-Interest, from 4% to 10%. Cost of Insurance, illustration can be run with guaranteed mortality charges.
-Interest, but never more than current rate.
-Interest - additional page only.
-Interest--This is done so we don't have to provide new software when interest rates change.
-Interest--Our illustrations show Universal Life values on a current basis allowing for an alternate interest rate either higher (subject to a maximum) or lower if desired. In addition, values are illustrated on a guaranteed basis which are based on the guaranteed minimum interest rate and the guaranteed maximum cost of insurance charges.
-Interest--this is an agency input item.
-Interest--but only a lower rate then current, only available on some illustrations systems.
-Interest--However, the current illustration is automatically printed in addition to the assumed-rate illustration.
-Cost of insurance - gtd only.
-Cost of insurance - show current and/or guaranteed.
-Interest - range of values. Cost of Insurance - choice: guaranteed or non-guaranteed cost. Minimum Premium - compensation is not based on the premium chosen but on the cost of insurance and policy fees.

D (10) Does your policy include any contingent credits or persistency bonuses? If yes, how are they disclosed?

-Some policies guarantee a higher credited rate from year 11+ on. Footnote explains.
-Bonus interest credited once policy reaches a certain duration. This feature is fully disclosed and is contractually guaranteed.
-Footnote. Illustration of credit is optional--agent may decide not to show it.
-Contractually guaranteed bonus interest is disclosed in a footnote.
-No. We believe most of these "gimmicks" will be taken away from the consumer unless persistency is lousy. Most "gimmicks" are designed to encourage persistency.
-The bonuses are guaranteed, so they are reflected in both the current and guaranteed values shown on the illustration. In some cases there is further explanation in footnotes also.
-Within the footnotes.
-As a company practice in a footnote.
-They are disclosed in footnotes on the illustration.
-A paragraph describing the requirements to receive the benefit, the amount, and any other restrictions is included.
-A footnote provides the method of calculation and notes that the bonuses are "non-guaranteed."
-They are illustrated only if they apply in situation illustrated. Caveats explain requirements to get credits.
-On the summary page of the illustration.
-By footnote at bottom of illustration.
-Payroll deduction UL discloses higher interest beginning years 11 and 21 if premiums are paid pro-rata thru 10 years.
-They are disclosed in a footnote in the summary page.
-In the page of notes following the illustration.
-In footnotes.
-Reduced COI after specified cumulative amount of insurance purchased; asterisk on ledger once lower COI's are being charged.
-Bonus interest - described in footnote at bottom of sales proposal, cost disclosure.
-No. We will, however, soon introduce a UL product that includes an interest rate bonus of 1.25% after 10 yrs provided cumulative target premiums have been paid. This will be fully disclosed in the explanatory notes section of illustration.
-Interest rate bonus is listed in ledger and in the footnotes.

IV Term and Term-like (e.g., Graded Premium Whole Life) Products

A (41) Do you sell this type of product? (If no, skip to V).

B (13) Can your agents illustrate conversion to universal life, participating life or interest-sensitive life plans on a term or GPWL proposal?

(12) If yes, does the conversion illustration show both current and guaranteed values?

C (8) Do you sell non-convertible term?

(10) Or term with a very short conversion period?

(9) If yes, does the illustration prominently disclose that the product is non-convertible or very limited in its conversion rights?

-No illustration.
-Very short - 1st 3 years only on a 20 year decreasing term plan.
-We do not provide illustrations for our NCT product.
-No, but the illustration is entitled ".....Non-convertible Term."
-Covered in brochure and contract. The term illustration shows rates on a guaranteed and current basis with and without re-entry.

V Second-to-die Products

-These are the wrong questions to ask on this product. You need to consider both the base policy and the term riders.

A (41) Do you sell this type of product? (If no, skip to VI).

-No. We offer a beneficiary insurance rider. It gives the insured's a guaranteed right to purchase an additional amount of insurance at the first death.

B (6) Does your product provide for a cash value increase on the first death?

(1) If yes, are the values shown on your illustration always based on the assumption that both lives remain alive?

-Yes. Yes. Agts can illustrate a death and illustration does prominently disclose the death scenario.
-Yes. No. Agent can choose both alive or first death in any duration.
-Yes. No--can be run to choose year of death of either life.

( ) If yes, is this assumption prominently disclosed on the illustration?

C (14) Does the illustration contain an explicit statement that there is no death benefit payable on the first death?

-Company has death benefit payable on 1st death Rider approach. Two separate policies are issued.
-No, but the illustration is entitled ".....Second-to-Die."
-No--but it shows that cash value increases.
-N/A. We offer a guaranteed insurability option that, upon the first death, allows for the use of the death benefit as premium for a Universal Life policy payable upon the death of the second life.

VI Two-tier products

A (6) Do you sell this type of product? (If no, skip to VII).

B (5) Does the illustration clearly indicate the amount payable if the policyholder surrenders rather than annuitizing?

-Additional verbiage also emphasizes this fact.

C ( ) <u>Are the illustrated monthly incomes (upon annuitization) shown using both current and guaranteed annuitization factors</u>?

VII Other

A (20) <u>Are there other specialty products on the market for which you feel illustration practices should be researched</u>? <u>If so, please indicate which products</u>:

-First-to-Die, Variable Universal.
-Registered Life. Variable Life.
-Variable Life products.
-Disability Income.
-Living benefits.
-Term-to-100 (basically low premium whole life with no non-forfeiture values and is sold in Canada only). Often assume very high lapses in pricing and illustrations.
-Annuities; lapse-supported illustrations.
-Yes, UL and VUL products.
-Annuities.
-Accelerated benefits.
-Renewable health product with low initial rates may be worth considering.
-Two-tier Universal Life, 10 year indeterminate level premium which becomes 1 year term thereafter, and deferred annuities where interest rate for the initial period and renewal period are different.
-Realism of second to die product pricing/illustration; use of projections of improving experience in combination WL/term illustrations.
-Products that are stated to be whole life but are actually blends of base and term.
-No, except * shows their projections against others' guarantees.
-Annuities.
-Universal life products with equity side funds, in relation to credited interest rates and tax status.
-Universal life maturing as an annuity.
-Interest-sensitive whole life.
-Group UL especially for executive purchases.

B (35) <u>Are there specific illustration practices that you believe should be researched</u>? <u>If so, please indicate which practices</u>:

-On traditional WL illustrations, "guaranteed" values should <u>never</u> include any dividends.
-1. Use of nominal interest rates. 2. Disclosure of only the gross fund value before surrender charge for UL products. 3. Ability to illustrate temporary coverage (say to life expectancy) without adequate disclosure.
-Producers creating their own illustrations via *, etc. Telling consumer wrong information about guarantees.
-Are graphs easier to understand than columns of numbers for the consumer.
-Projecting continual improvement in mortality for UL policies.
-I believe agents put too much emphasis on illustrations during the sale process and some companies go too far in selecting optimistic assumptions to make long term values look good.
-Lapse-supported illustrations; increasing interest rates, mortality improvement. As somewhat already addressed in this survey, the issue of an agent's ability to

1992 GOV Consumer Disclosure of Insurance 323p bonknote.pdf

manipulate figures in the illustration is of importance because of the potential to mislead customers by illustrating unrealistic interest rates. Further research is needed to ascertain how often such practices occur. Also of importance, is compliance with state disclosure regulations. This issue should be research and the insurance departments made aware of any wide-spread noncompliance so that appropriate action can be taken at a state level to enforce the laws and regulations that govern disclosure.

-Necessity of illustrating at a low interest rate even for asset products like the RRIF.

-Failure to disclose guaranteed chgs/costs (mortality expenses, etc.) and illustrating improved lapse, mortality experience, etc.

-Any illustrations that show the extent to which funds may be attached to and accumulate tax-free within an insurance policy. There is a propensity to liberally interpret the Canadian Income Tax Act.

-Refunding cost of insurance and other bonuses.

-Any illustration practices which have incomplete disclosure, are ambiguous or are confusing, should be examined. Though theses concepts are difficult to formalize, some guidance should be codified.

-Failure to illustrate to age 100, or to such duration where coverage may decrease under current assumptions.

-Persistency or lapse supported illustrations should be made illegal.We should urge the adoption of a IRR approach, a modified Linton type yield with cost of mortality. There should also be a standardization of decoupled formats. Some companies blend lower new money rates into their portfolio that will not reach a 200 basis point cut for 10-20 years. However, these companies claim they are using the lower rate.

-Concern that some companies are not reflecting current costs (e.g. expenses, IIT) in their illustrations.

-Practices which do not adequately disclose non-guaranteed assumptions and values.

-Premium offset.

-Projected improvements in mortality.

-Placing disclosure statements within the illustration, not on a separate sheet that can be discarded.

-List assumed improvements in experience, and bonuses and how they impact the illustration.

-Practice of illustrating improving expenses or mortality assumptions.

-Interest rate kickers, terminal dividends and persistency bonuses, interest rate improvements, assumed mortality improvements, unlabeled columns, i.e., BOY/EOY death ben. Unidentified rider blends.

-Illustrations should not anticipate mortality improvement. In the past guaranteed minimum value used guaranteed interest but current mortality for some companies.

-Mortality improvement in pricing or in illustrations. Declared interest rates that cannot be supported. Vanish on a current basis by surrendering PUA's and put these columns next to guaranteed columns (based on a full pay) with the result that the guaranteed values look like they are based on the vanishing premium. Agents compare illustrations at a common declared interest rate--it is not obvious to them or the consumer why this is not a fair comparison.

-Non-guaranteed persistency bonuses for which no reserve is held. Also, illustrating mortality improvement. What disclosure is needed if better than current mortality is assumed in a traditional product, or better than current mortality changes is a U L product?

-More explicit disclosure of non-guarantees.

-Current interest rates and validation.

1992 GOV Consumer Disclosure of Insurance 323p bonknote.pdf

-1. Tontine credits. 2. Interest far in excess of earnings.
-Abuse in the super select illustrations. Misuse of annual vs monthly premiums.
-Lapse supported bonus arrangements - disclosure.
-Reduction in future mortality charges (guaranteed and non-guaranteed). Dividends on universal life, lump sum and accumulated mortality charge persistency bonuses.
-Projected improvement in mortality.
-Non-guaranteed terminal dividends and bonuses, particularly those that are retro-active.
-Illustration of long term values when product is not expected to persist that many years.
-Enhanced mortality and bonus rates--especially higher interest rates than company currently earning.

C <u>Undoubtedly all companies get an occasional question or complaint about an illustration from a consumer. What is the most common kind of illustration complaint received in your Home Office?</u>

-Contract performance not as illustrated and additional premiums needed. Surrender charges not understood.
-Illustrated policy values are at policy anniversaries. Annual statements based on actual data after anniversary processing so differences occur that require explanation.
-Why can't the illustration be run faster?
-Sold on a "vanish" premium, and dividends decreased.
-Don't understand where the numbers are coming from, "Vanish" year discrepancies when dividends are changed.
-Discrepancies between proposals and "Statement of Policy Benefits & Costs" required by state regs. which is provided with the policy. These are easily explained. Usually the reason is due to monthly premiums on the proposal versus annual premiums used in the disclosure statement.
-We haven't any major complaints from our consumers.
-Illustration doesn't match contract summary pages--usually because policy was not illustrated (mode, riders) as issued.
-Interest rate illustrated vs. paid, or premium vanish illustrated vs. actual.
-Quick pay illustrations (e.g., at 11% interest in 1984) not being fulfilled as originally illustrated.
-Specific statistics regarding complaints received concerning sales illustrations are not available. However, our group that handles customer complaints has indicated that the most common kind of complaint involving sales illustrations is the misunderstanding of the surrender charges and their effect on cash values.
-Illustration differs from cost disclosure due to change in interest rates.
-No overall common complaints that I know of.
-Policyowners frequently do not understand that illustrations are projections, subject to change and they especially are unaware of the results of a dividend change.
-1. Vanish illustrated at issue differs from current vanish. 2. Want more flexibility, e.g. show what happens if divs. fall 25 bps. in each of the next 5 years, then begin to rise again.
-Vanishing premiums, but using side-funds rather than dividends. Interest rate changes cause the payment stream into the fund to be altered or some "spillover" into a taxable fund.
-Too much compliance information.
-Only that did not understand not all premium earning interest--not illustration itself.

1992 GOV Consumer Disclosure of Insurance 323p bonknote.pdf

-Dividend scale reduction.
-Premium cease date is later than initially illustrated so client needs to continue paying premiums.
-Illustration too difficult to understand and compare with other company's products/illustrations.
-We do not get complaints about proposals. We believe that this is a direct result of our philosophy of clear, complete, concise wording. My experience is that agents are usually the people that complain about illustrations.
-Actual performance falls short of illustration--e.g. premium vanish period is longer than illustrated.
-Misunderstanding of what the policyowner purchased. Our agents have a good relationship with their clients. We have few real complaints.
-Customer not fully understanding that it is an "illustration."
-Interest rates on U.L. policies less than that illustrated.
-Premium offset.
-Consumers don't understand quick pays; don't understand effect of loans on policy values.
-Consumer assumes the illustration is a "guarantee" of what their policy will look like.
-Removal of detailed illustration from back of annual report for universal life contract.
-Effect of increase or decrease in assumed interest rates especially in relation to vanish.
-We typically do not hear consumers' complaints first hand. Planners' complaints about our competitor's illustrations usually involve the fact that they are often difficult to read and understand. Many times, pages are missing from the presentation.
-Extended vanish period due to dividend/interest rate decreases.
-Regarding unfamiliarity with UL, which is labeled "Flexible Premium." Term info also shows "end of year" to be consistent with cash value products.
-Actual policy configuration or performance did not match the illustration given him by his agent.
-That the originally illustrated premium vanish point has not been realized.
-Our most common illustration question is, "What happens after age 75?"
-Illustration does not always match materials received at issue.
-Having to pay more premiums before vanishing the premium with dividends.
-Rarely receive a complaint. Most often they involve the premium illustrated which does not hold when interest falls.
-1. Failed expectations on vanishing premium when interest rates decline after issue. 2. Minimum deposit post '86 Tax Act.
-Vanishing premium.
-Lower values (dividends) than illustrated.
-Policyowner believes illustration was a guarantee.
-Don't understand why "current" projection goes to maturity but "guaranteed" stops after a few years. Guaranteed is too conservative or too costly.
-The #'s in the policy don't match the illustration. This is because the policy does not reflect any future changes to premiums or face amounts except as required by tax law, and the illustration can reflect changes that may be contemplated.
-Req'd to pay more premiums than anticipated to vanish policy (due to drop in interest rates).
-Vanish delays.
-Calculation of settlement options.
-Agent does not show footnotes.

D (21) Has the number of illustration complaints your company receives increased over the past five years?

-Yes--use and volume have significantly increased during past 5 years.
-Slightly - due to pricing assumptions used and the decline of rates from II to 7-8% which affect U.L., dividends, other interest-sensitive products.
-No - hardly ever get any from clients. Generally get them from agents who complain that our 40th year CSV is less than some other companies'. 40th year value gives the same premium and death benefit.
-No. The number of such complaints have actually decreased over the past five years. While the exact reason for the decrease in such sales illustration complaints is unknown, we believe that both the agent and customer service representatives are doing a better job of explaining the surrender charges so that the customers are more aware of the implications of surrender charges.
-Yes, due to falling interest rates as well as changing tax legislation.
-Most complaints are handled by the agencies. We have an 800 number, but the volume of complaints and questions is not that large--maybe a few thousand on an inforce of 500,000 (i.e. low percentage).
-Not significantly in relation to increase in volume.
-Not markedly.
-Yes, due to software systems that are now obsolete, product sold was interest sensitive whole life which was sold when interest rates were much higher.
-Yes, although the number of complaints from consumers continues to be small.
-This is probably more from an increase in-force business and lower interest crediting rates than from poor illustrations, or improper sales concepts.
-Only because we write a lot more business than 5 yrs. ago.
-Decreased.

E Please use this space for any comments you'd like to offer regarding life insurance illustrations from the consumer's perspective.

-Regrettably we have let the ease of production push us in the direction of providing the consumer more and more data that clouds basic understanding of the policy being purchased. With the numbers based upon assumptions that are inconsistent between companies this puts the focus on noncomparable possible values scores of years in the future. More properly illustrations would provide clearer illustration of the product's main features with as few numbers (and pages) as is reasonably possible.

-1. Producers, Home Office personnel, sales people, all need to have a clear and concise understanding of the products they are selling. Consumer needs to fully understand what he is buying. Better training and education of sales people and insurance people is necessary. 2. Illustrations contain lots of numbers, not all people are numbers people and understand what the numbers represent. 3. Insurance terminology - what does "Vanish" mean, paid-up mean. - i.e. "if I paid 10 years of premiums on my Universal Life policy, then I will be paid-up," is what people are told when they have an illustration that solved for a 10 year premium paying period to carry the policy to maturity. However, if rates decline, more premiums could be due to sustain the contract.

-We have a concern regarding illustrations of an income stream generated by policy cash values. In some cases that we have seen, the policy lapses within five years or less after the income has been paid. The assumption is that the insured will die before that (based on normal life expectancy). However, if insured lives and policy lapses, this triggers a significant taxable event. This

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(the tax implications) is not disclosed to the insured. In some cases, the insured is not informed that the policy could terminate prior to death.

-No gimmicks should be illustrated unless guaranteed and reserved for. The impact of lower interest rates needs to be more fully disclosed. The risks of crediting too high an interest rate needs to be more fully explained. Perhaps, a comparison of an industry acceptable (probably not possible) index, such as Moody's AAA bonds less an assumed interest spread (profit margin), with the current rate would tend to bring more realistic rates into the marketplace. Today, my company's ULs are crediting 8%. This is probably a little too high. Yet, we are 75-100 basis points below most of our competitors. We think we can earn about 9% in today's market, but there are products out there crediting 9%. What gives?

-The majority of consumers find illustrations confusing and have no concept as to the long term achievability of the numbers, let alone what they actually mean. Personally, I believe we need very strong guidelines regarding illustrations and what can be shown, either at the professional or legislative levels. Otherwise, consumers are likely to view them as little more than smoke and mirrors which will further damage the public's general view of the insurance industry.

-Inforce projections should be provided at anniversaries, allowing the customer to see if the policy will behave as intended, based on new non-guaranteed elements and past premium payment patterns and cash value accumulations. In many instances, the consumer's attention is drawn to the current illustrated values without mention of the guaranteed values. Although the guaranteed values are required by regulation to be included in the illustration, the agents often fail to mention the fact that there are minimum guaranteed. The consumer should be informed of the "worst case scenario" so that there are no misconceptions as to the accumulation of cash values. In other words, the agent should give equal time during the sales presentation to explaining what the minimum guarantees are and what effect they may have on the policy values.

-Illustration practices vary considerably from one company to the next, e.g. beginning or end of year cash values? Beginning or end of year death benefit? How are internal rates of return calculated? This is particularly a problem in later years, when large dividends are typically paid, since the point in time illustrated can have a substantial impact on illustrated values. This is a key concern in highly competitive markets, such as the 2nd-to-die marketplace.

-The main problem is that aggressive companies are illustrating values not likely to be paid. The illustrations of most mutual companies do not have this problem. It is mostly a problem found in the UL illustration of a stock company. There is no easy solution, but the problem is getting worse, not better. The Annual Statement disclosures of dividends and other non guaranteed elements are either not given to the consumer or the responses are not meaningful. Few companies state that their non guaranteed elements are not based on realistic assumptions. Historic performance is useful but many companies do not have good track records and new products may not be comparable. Dividend history IACs are subject to manipulation if noncomparable products are used or if very little of the "historical" product is still inforce. The only solution to the problem that I can foresee is to provide the client with an illustration using standard assumptions, in addition to the company's regular illustration. The standard assumptions used could be as follows: 1. assume no lapses and accumulate net premiums underlying cash values by: 2. crediting an interest rate equal to 10%

1992 GOV Consumer Disclosure of Insurance 323p bonknote.pdf

less actual investment expenses and priced for the spread of the product; the spread should be disclosed; 3. never charging mortality less than 100% of S/NS 75-80 S&U table; the company can disclose if current experience is better; 4. using a realistic expense assumption; 5. charging a defined profit margin. If these assumptions and accumulated premium less expense and mortality charges are used, the values are much less than the illustration. (The client should also ask more questions.)

-1. Illustrations are only one piece of a sales/disclosure process and should not be used to select companies without considering such things as actual dividend history, financial strength, etc. 2. Illustration assumptions should be modified as soon as possible after new schedules of credits or charges are authorized. Additional Comment: In general, our company does not believe in letting distributors do "what-if" illustrations which: a) assume future improvements in interest, mortality, expenses. b) "solve" for loan or other transaction patterns which cannot be supported administratively. However, some producers do use the output from our illustrations as input to spreadsheet applications, massaging the data as they see fit. Although we are uncomfortable with this practice, we recognize that it is basically beyond our control.

-We believe that life insurance sales illustrations should be easy to understand and to read. In addition, they should provide complete disclosure regarding the assumptions that are used in the generation of the numbers.

-There should be enough information available for a consumer to figure out the risks of buying life insurance based on the illustration.

-Consumers are in a very vulnerable position. They don't look at illustrations until they are ready to buy. They are too often sold a vanishing premium illustration as a "paid-up" policy without understanding that it is really a source of PUA's or other type of use of policy values to carry the premium in the future. Carriers must recognize that the people who <u>sell</u> insurance products usually do not feel comfortable asking for a <u>lifetime</u> commitment of significant premiums, so they resort to overselling the <u>possibility</u> of a reprieve (via vanish) as a <u>certainty</u>. A new "lesson in life insurance" easy to understand and to explain should be part of every sales presentation. It should be worded in such a way that agents will <u>want</u> clients to see it rather than keep it from them.

-Non-guarantees too commonly seen; consumers end up depending on these non-guarantees for long term.

-A due diligence type of approach should be used to illustrate products for the consumer. Show all possible combinations of factors subject to change, from worst-case scenario to best-case scenario and some in between.

-Illustrations should only be a part of the sales process. They should be fair and should provide the consumer with a sense of the range of values possible over the future from guaranteed to current scale. Excessive footnotes and mandated exculpatory working should be guarded against.

-The 2-tier, superman and kicker abuses are the most flagrant. We'd like to see historical data included much like Mutual Fund hypotheticals.

-Computer projections have reduced life insurance sales to a ledger sale, not a needs sale, the higher ledger numbers or lower premium gets the sale. Insurance

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sales emphasize investment performance rather than protection, tax deferral, safety and needs satisfaction or completion. Illustrations have not done our business much good in the last 5 years. All illustrations are not alike but the customer can't tell the difference. We have to level the playing field.

-In order to protect themselves, companies list numerous disclosures and disclaimers. This coupled with the ability to show almost unlimited changes during the years illustrated, causes the client/prospect to be unsure of what he/she expects of the product and will often cause the prospect to delay making a decision. Illustrations need to be used as supportive material in the sales process rather than being used to sell future projected values.

APPENDIX II

EXHIBIT A

SAMPLE ILLUSTRATIONS

LEDGER ILLUSTRATION
PREPARED FOR INSURED

MALE AGE 45 NS

$100,000 TRADITIONAL LIFE INITIAL ANNUAL PREMIUM $2,060.00

DIVIDENDS USED TO PURCHASE PAID-UP ADDITIONAL INSURANCE

YR	TOTAL DIVIDEND END YR	INC IN TOTAL CASH VALUE	GUAR CASH VALUE	PUA CASH VALUE END YR	TOTAL CASH VALUE END YR	PUA END YR	GUAR PAID-UP INSURANCE	TOTAL DEATH BENEFIT END YR
1	104	105	0	105	105	324	0	100324
2	193	796	600	301	901	904	1900	100904
3	298	2308	2600	609	3209	1770	7600	101770
4	425	2544	4700	1053	5753	2966	13300	102966
5	561	2697	6800	1650	8450	4494	18600	104494
6	755	2608	8600	2458	11058	6485	22800	106485
7	931	2915	10500	3473	13973	8859	26900	108859
8	1161	3068	12300	4741	17041	11733	30500	111733
9	1425	3477	14200	6318	20518	15150	34100	115150
10	1654	3852	16200	8170	24370	18998	37700	118998
11	1917	4083	18100	10353	28453	23317	40900	123317
12	2177	4481	20100	12834	32934	28081	44100	128081
13	2472	4865	22100	15699	37799	33330	47000	133330
14	2780	5247	24100	18946	43046	39062	49800	139062
15	3141	5787	26200	22633	48833	45356	52601	145356
16	3539	6274	28300	26807	55107	52254	55300	152254
17	3894	6725	30400	31432	61832	59643	57800	159643
18	4273	7268	32500	36600	69100	67526	60100	167526
19	4675	7820	34700	42220	76920	75934	62500	175934
20	5108	8346	36800	48466	85266	84879	64601	184879
21	5569	8858	38900	55224	94124	94399	66600	194399
22	6069	9685	41100	62709	103809	104514	68600	204514
23	6606	10169	43200	70778	113978	115272	70400	215272
24	7181	11110	45400	79688	125088	126689	72300	226689
25	7791	11664	47500	89252	136752	138805	73900	238805

5% INTEREST ADJUSTED COST INDICES FOR BASE PLAN ONLY

	10 YRS	20 YRS
SURRENDER	2.77	-1.00
PAYMENT	15.04	9.60

THE DIVIDEND PAYABLE AT THE END OF THE FIRST YEAR IS CONTINGENT UPON PAYMENT OF THE SECOND YEAR'S PREMIUM.
THE AMOUNT OF THE DIVIDEND IS AFFECTED BY ANY POLICY LOANS OUTSTANDING. THE DIVIDEND FIGURES ARE BASED ON THE CURRENT SCALE ASSUMING NO LOANS. DIVIDENDS ARE NOT GUARANTEED.

THIS POLICY IS BASED ON MALE RATES.

FRI MAY 17 1991

EXHIBIT A

LEDGER ILLUSTRATION
PREPARED FOR INSURED

MALE AGE 45 NS

$100,000 TRADITIONAL LIFE INITIAL ANNUAL PREMIUM $2,060.00

DIVIDENDS USED TO PURCHASE PAID-UP ADDITIONAL INSURANCE

YR	TOTAL DIVIDEND END YR	INC IN TOTAL CASH VALUE	GUAR CASH VALUE	PUA CASH VALUE END YR	TOTAL CASH VALUE END YR	PUA END YR	GUAR PAID-UP INSURANCE	TOTAL DEATH BENEFIT END YR
26	8452	12634	49600	99786	149386	151650	75500	251650
27	9163	13487	51800	111073	162873	165286	77200	265286
28	9939	14518	53900	123491	177391	179753	78600	279753
29	10763	15099	55900	136590	192490	195128	79900	295128
30	11647	16379	57900	150969	208869	211440	81200	311440
31	12582	17230	59800	166299	226099	228746	82400	328746
32	13561	18435	61700	182834	244534	247072	83500	347072
33	14601	19366	63500	200400	263900	266489	84500	366489
34	15710	20708	65300	219308	284608	287052	85500	387052
35	16898	22142	67100	239650	306750	308827	86500	408827
36	18162	23569	68800	261519	330319	331876	87400	431876
37	19420	24771	70500	284590	355090	356182	88300	456182
38	20754	26273	72100	309263	381363	381805	89100	481805
39	22050	27749	73600	335512	409112	408662	89800	508662
40	23376	28963	75100	362975	438075	436792	90500	536792
41	25783	31551	76500	393126	469626	467450	91100	567450
42	27428	32935	77800	424761	502561	499718	91700	599718
43	29156	34453	79100	457914	537014	533699	92300	633699
44	30925	36929	80300	493643	573943	569368	92800	669368
45	32816	38671	81600	531014	612614	606873	93400	706873
46	34765	40821	82800	570635	653435	646245	93800	746245
47	37015	44130	84100	613465	697565	687741	94400	787741
48	39162	46752	85500	658817	744317	731206	95000	831206
49	41697	51240	87000	708557	795557	776926	95500	876926
50	44756	54901	88600	761858	850458	825415	96100	925415

5% INTEREST ADJUSTED COST INDICES FOR BASE PLAN ONLY

	10 YRS	20 YRS
SURRENDER	2.77	-1.00
PAYMENT	15.04	9.60

THE DIVIDEND PAYABLE AT THE END OF THE FIRST YEAR IS CONTINGENT UPON PAYMENT OF THE SECOND YEAR'S PREMIUM.
THE AMOUNT OF THE DIVIDEND IS AFFECTED BY ANY POLICY LOANS OUTSTANDING. THE DIVIDEND FIGURES ARE BASED ON THE CURRENT SCALE ASSUMING NO LOANS. DIVIDENDS ARE NOT GUARANTEED.

THIS POLICY IS BASED ON MALE RATES.

FRI MAY 17 1991

EXHIBIT A

LEDGER ILLUSTRATION
PREPARED FOR INSURED

MALE AGE 45 NS

$100,000 TRADITIONAL LIFE INITIAL ANNUAL PREMIUM $2,060.00

DIVIDENDS USED TO PURCHASE PAID-UP ADDITIONAL INSURANCE

YR	TOTAL DIVIDEND END YR	INC IN TOTAL CASH VALUE	GUAR CASH VALUE	PUA CASH VALUE END YR	TOTAL CASH VALUE END YR	PUA END YR	GUAR PAID-UP INSURANCE	TOTAL DEATH BENEFIT END YR
51	48705	61336	90500	821294	911794	877450	96800	977450
52	54142	68526	92600	887720	980320	934442	97600	1034442
53	61299	76481	94700	962101	1056801	998030	98300	1098030
54	70944	88115	96900	1048016	1144916	1070496	99100	1170496

5% INTEREST ADJUSTED COST INDICES FOR BASE PLAN ONLY

	10 YRS	20 YRS
SURRENDER	2.77	-1.00
PAYMENT	15.04	9.60

THE DIVIDEND PAYABLE AT THE END OF THE FIRST YEAR IS CONTINGENT UPON PAYMENT OF THE SECOND YEAR'S PREMIUM.
THE AMOUNT OF THE DIVIDEND IS AFFECTED BY ANY POLICY LOANS OUTSTANDING. THE DIVIDEND FIGURES ARE BASED ON THE CURRENT SCALE ASSUMING NO LOANS. DIVIDENDS ARE NOT GUARANTEED.

THIS POLICY IS BASED ON MALE RATES.

FRI MAY 17 1991

EXHIBIT B

PLAN: WHOLE LIFE

	CLASSIFICATION	AGE	SEX	AMOUNT OF INSURANCE
INSURED:	PREFERRED NONSMOKER	35	MALE	$100,000

PREMIUM MODE: ANNUAL

	ANNUAL PREMIUM	YRS PAYABLE
BASIC POLICY	$1,245.00	LIFETIME

SUMMARY FOR PERIOD SHOWN	END OF 20 YEARS	AT AGE 65
TOTAL PREMIUMS	$24,900	$37,350
TOTAL ANNUAL DIVIDENDS	16,140	42,776
ADDITIONAL INSURANCE BOUGHT BY ANNUAL DIVIDENDS	58,152	166,896
ILLUSTRATIVE DEATH BENEFIT WITH ANY TERMINAL DIVIDEND	158,152	266,896
ILLUSTRATIVE PAID-UP INSURANCE AVAILABLE - SEE PAGE 2	116,052	242,697
PAID-UP IN 19 YEARS FOR $100,000		
GUARANTEED CASH VALUE OF BASIC INSURANCE	27,400	46,200
CASH VALUE OF ADDITIONAL INSURANCE	27,536	101,783
ILLUSTRATIVE CASH VALUE	54,936	147,983
GUARANTEED MONTHLY LIFE INCOME -(10 YEARS CERTAIN)		278.12
ILLUSTRATIVE MONTHLY LIFE INCOME -(10 YEARS CERTAIN)		1,206.07

INTEREST-ADJUSTED 5% INDEXES (BASIC POLICY)	10 YRS	20 YRS
LIFE INSURANCE SURRENDER COST INDEX	$1.90	-1.58
LIFE INSURANCE NET PAYMENT COST INDEX	$10.08	$6.31
EQUIVALENT LEVEL ANNUAL DIVIDEND	$2.37	$6.14

DIVIDENDS BASED ON JAN. 1991 SCALE THAT USES CURRENT INTEREST, MORTALITY AND EXPENSE RATES. ILLUSTRATIVE MONTHLY INCOME BASED ON MAY 1991 SETTLEMENT OPTION RATES. ILLUSTRATIVE FIGURES ARE NOT GUARANTEES OR ESTIMATES FOR THE FUTURE.

INITIAL PREM: ANNUAL $1,245.00; SEMIANN. $670.00; COM $112.00

PAGE 1

5/22/91

EXHIBIT B

PLAN: WHOLE LIFE

	CLASSIFICATION	AGE	SEX	AMOUNT OF INSURANCE
INSURED:	PREFERRED NONSMOKER	35	MALE	$100,000

PREMIUM MODE: ANNUAL

	ANNUAL PREMIUM	YRS PAYABLE
BASIC POLICY	$1,245.00	LIFETIME

ANNUAL DIVIDENDS USED TO BUY PAID-UP ADDITIONAL INSURANCE

END OF POLICY YEAR	ANNUAL DIVIDEND	GUARANTEED CASH VALUE	ILLUSTRATIVE CASH VALUE +	GUARANTEED PAID-UP INSURANCE #	ILLUSTRATIVE PAID-UP INSURANCE #	ILLUSTRATIVE DEATH BENEFIT &
1	NONE	NONE	NONE	NONE	NONE	100,000
2	62	100	162	400	627	100,226
3	87	1,100	1,254	3,900	4,448	100,548
4	130	2,400	2,699	8,300	9,327	101,026
5	193	3,700	4,221	12,300	14,029	101,728
6	291	5,000	5,861	16,100	18,867	102,767
7	358	6,400	7,700	20,000	24,047	104,047
8	441	7,800	9,663	23,600	29,220	105,620
9	544	9,300	11,882	27,200	34,747	107,547
10	672	10,800	14,295	30,700	40,604	109,904
11	830	12,300	16,950	33,800	46,579	112,779
12	935	13,900	19,917	37,100	53,138	116,038
13	1,043	15,400	23,016	39,900	59,598	119,697
14	1,153	17,100	26,572	43,000	66,773	123,773
15	1,267	18,700	30,310	45,600	73,886	128,286
16	1,376	20,400	34,450	48,300	81,539	133,238
17	1,502	22,100	38,933	50,800	89,485	138,685
18	1,624	23,900	43,885	53,400	98,033	144,633
19	1,751	25,600	49,141	55,600	106,713	151,112
20	1,881	27,400	54,936	57,900	116,052	158,152
21	2,015	29,200	61,210	60,100	125,882	165,781
22	2,150	31,100	68,104	62,300	136,330	174,030
23	2,290	32,900	75,465	64,200	147,134	182,933
24	2,433	34,800	83,542	66,100	158,628	192,528
25	2,581	36,700	92,290	68,000	170,855	202,855
26	2,731	38,600	101,760	69,700	183,654	213,953
27	2,883	40,500	112,009	71,300	197,166	225,865
28	3,034	42,400	123,091	72,900	211,530	238,630
29	3,186	44,300	135,062	74,400	226,694	252,293
AGE 65	3,333	46,200	147,983	75,800	242,697	266,896
31	3,476	48,100	161,916	77,200	259,684	282,483
32	3,615	50,000	176,932	78,500	277,603	299,102
33	3,749	51,900	193,105	79,700	296,505	316,805
34	3,879	53,800	210,518	80,900	316,546	335,646
35	4,010	55,700	229,254	82,100	337,793	355,692

PAGE 2

5/22/91

EXHIBIT B

ANNUAL DIVIDENDS USED TO BUY PAID-UP ADDITIONAL INSURANCE

END OF POLICY YEAR	ANNUAL DIVIDEND	GUARANTEED CASH VALUE	ILLUSTRATIVE CASH VALUE +	GUARANTEED PAID-UP INSURANCE #	ILLUSTRATIVE PAID-UP INSURANCE #	ILLUSTRATIVE DEATH BENEFIT &
36	4,144	57,600	249,397	83,200	360,220	377,019
AGE 72&&	4,279	59,500	271,027	84,400	384,104	399,703
38	4,418	61,300	294,118	85,300	409,131	423,830
39	4,560	63,000	318,747	86,100	435,592	449,492
40	4,694	64,800	345,187	87,100	463,869	476,769
41	4,822	66,400	373,241	87,900	493,652	505,751
42	4,937	68,000	403,212	88,600	525,126	536,526
43	5,039	69,600	435,230	89,400	558,584	569,183
44	5,132	71,100	469,335	90,000	593,828	603,827
45	5,220	72,600	505,781	90,600	631,171	640,571
46	5,312	74,100	544,686	91,300	670,847	679,547
47	5,411	75,500	586,085	91,900	712,800	720,900
48	5,519	76,900	630,174	92,400	757,186	764,785
49	5,630	78,200	676,953	93,000	804,362	811,361
50	5,741	79,400	726,560	93,400	854,193	860,792
51	5,847	80,600	779,267	93,900	907,146	913,245
52	5,940	81,700	835,184	94,300	963,190	968,890
53	6,028	82,800	894,677	94,700	1,022,613	1,027,913
54	6,108	83,800	957,973	95,000	1,085,509	1,090,509
55	6,182	84,900	1,025,664	95,400	1,152,285	1,156,884
56	6,188	86,000	1,098,069	95,800	1,222,990	1,227,189
57	6,196	87,100	1,175,791	96,200	1,297,860	1,301,659
58	6,221	88,300	1,259,692	96,600	1,377,160	1,380,560
59	6,171	89,600	1,350,559	97,000	1,461,070	1,464,069
60	6,015	91,100	1,449,217	97,500	1,549,846	1,552,346
61	5,777	92,700	1,556,063	98,000	1,643,588	1,645,588
62	5,663	94,400	1,671,395	98,500	1,742,728	1,744,228
63	5,726	96,100	1,794,199	99,000	1,847,779	1,848,778

+ GUARANTEED CASH VALUE, CASH VALUE OF ADDITIONAL INSURANCE AND ANY TERMINAL DIVIDEND.

PAID-UP INSURANCE AVAILABLE IF YOU STOP PAYING PREMIUMS AND REDUCED PAID-UP INSURANCE OPTION IS CHOSEN. ILLUSTRATIVE PAID-UP INSURANCE INCLUDES PAID-UP INSURANCE BOUGHT BY DIVIDENDS. ANY REMAINING OPTIONAL BENEFITS AND RIDERS END WHEN PAID-UP OPTION TAKES EFFECT.

& BENEFIT APPLICABLE TO PRINCIPAL INSURED, INCLUDES BASIC INSURANCE, ADDITIONAL INSURANCE, ANY TERMINAL DIVIDEND AND ANY RIDER INSURANCE VALUE

&& AGE AT LIFE EXPECTANCY - U.S. POPULATION LIFE TABLES.

DIVIDENDS BASED ON JAN. 1991 SCALE THAT USES CURRENT INTEREST, MORTALITY AND EXPENSE RATES. ILLUSTRATIVE FIGURES ARE NOT GUARANTEES OR ESTIMATES FOR THE FUTURE.

EXPLANATORY NOTES FORM AND FORM MUST BE ENCLOSED PAGE 3

5/22/91

EXHIBIT B

BENEFITS THAT
MAY BE AVAILABLE

Following are descriptions of benefits provided by riders that may be included with your policy. These benefits are subject to certain limitations and exclusions which are not described below. For full details, ask to see a specimen form.

DISABILITY WAIVER OF PREMIUMS BENEFIT - Provides that, if you become totally disabled as described in the rider, before your age 60 and your disability lasts for at least six months, you will not have to pay premiums while totally disabled. There is also a limited waiver benefit for total disability which occurs between the ages 60 and 65.

ACCIDENTAL DEATH BENEFIT - Provides additional insurance, usually equal to the face amount of insurance, if you die from an accident. An amount equal to twice the A.D.B. amount is paid if the accident occurred while you were a fare-paying passenger in a licensed public conveyance being operated by a common carrier for passenger service.

FAMILY INCOME BENEFIT - Provides a monthly income to your family if you die before the end of a specified period (10, 20 or 30 years). The monthly income is paid for the balance of the period and is in addition to the amount payable under the basic policy. A similar income benefit on a spouse is also available.

ONE-YEAR TERM INSURANCE BENEFIT - Provides renewable and convertible level term insurance payable if you die before the end of the specified 1 year period. This benefit is also available on a spouse.

10-YEAR LEVEL TERM INSURANCE BENEFIT - Provides renewable and convertible level term insurance payable if you die before the end of the specified 10 year period. This benefit is also available on a spouse.

GUARANTEE TO ISSUE NEW INSURANCE WITHOUT EVIDENCE OF INSURABILITY - Guarantees you the right to buy a new policy on your life without evidence of insurability for an amount of insurance up to the specified option amount. The new policies may be purchased only on an option date.

CHILDREN'S TERM INSURANCE BENEFIT - Provides term insurance on each covered child to the policy anniversary at the child's age 25, or to the policy anniversary at the insured's age 65 if earlier. An insured child may obtain a new policy without evidence of insurability.

ONE YEAR COST OF LIVING TERM INSURANCE BENEFIT - Provides one year term insurance which varies annually to match yearly fluctuations as indicated by the CPI.

PAID-UP ADDITIONS RIDER - A permanent additional insurance rider that provides supplemental growing cash values. This rider also provides the potential for enhanced premium flexibility and for advancing the year when out of pocket premium payments are no longer required under the Accelerated Premium Payment plan, or when the policy can be fully paid up or matured for its face amount.

FORM

5/22/91

EXHIBIT B

ACCELERATION OF POLICY BENEFITS FOR LONG TERM CARE RIDER - Provides for the acceleration payment of a portion of the death benefit for the long term care of the insured. Such care can be provided either in a qualified convalescent facility or at home when the insured has a qualified disability. The benefit payments are made each month and continue as long as the insured remains disabled and the maximum benefit under the rider has not been paid. The size of the monthly payments and the maximum benefit are stated in the rider (subject to state approval).

ACCELERATION OF DEATH BENEFIT RIDER - Provides for a one-time discounted payment of all or a portion of the death benefit to the policyowner once the insured has been determined to be terminally ill with twelve months or less to live. The size of the benefit payments and the maximum benefit are stated in the rider. There are no premiums or fees for this rider (subject to state approval).

FORM

5/22/91

EXHIBIT B

EXPLANATORY NOTES

DIVIDEND INFORMATION - Dividends paid by depend on future experience as to investment earnings, operating expenses, claims paid, and taxes. All of these factors vary so that dividend scales will change from time to time. The dividends shown in this proposal are an illustration of our current dividend scale and are not a guarantee or estimate of future results.

Terminal dividends may be paid on Whole Life, Life Paid Up at 95, and Life Paid Up at 98 policies. There are no terminal dividends payable on term life insurance plans.

ILLUSTRATIVE LIFE INCOME - Any illustrative life income figures shown in this proposal are based upon our life income plan rates currently in effect. These rates are not guarantees or estimates for payments starting in the future. After monthly life income payments begin, the amounts will be fixed.

TERM PLANS - Term Life insurance plans and term insurance riders provide insurance protection only. They do not provide cash or loan values.

The POLICY-LOAN provision provides for an adjustable policy loan interest rate that is charged daily at the rate we set from time to time. This rate will never be more than the maximum allowed by law and will not change more often than once a year on the policy anniversary. Loan interest is due at the end of each policy year. Interest not paid within 31 days after it is due will be added to the loan principal.

INTEREST ADJUSTED INDEXES - These indexes, if shown in this proposal, provide a means for evaluating the comparative cost of the policy under stated assumptions. They can be useful in comparing similar plans of insurance, a lower index being better than a higher one.

Indexes are approximate because they involve assumptions, including the rate of interest used, the dividends being paid in cash and the continuation of current dividend scales. Indexes apply to the basic policy only. They exclude any optional riders such as accidental death.

"Total premiums less illustrative cash value", "total premiums less total dividends", "net increase or decrease in business surplus", etc., should not be used in policy cost comparisons because they do not consider the effect interest could have on payments made at different times. They can sometimes be helpful for accounting purposes.

Any application for insurance will be subject to underwriting rules.

FORM

5/22/91

EXHIBIT B

PRELIMINARY INFORMATION--FLEXIBLE-PREMIUM LIFE POLICY

An explanation of the intended use of the interest-adjusted indexes provided in the policy illustration is included in the Life Insurance Buyer's Guide.

If you have requested a Flexible-Premium Life plan including optional coverage provided by riders, you will receive two illustrations; one for the basic policy and one for a policy including the requested riders. The interest-adjusted indexes shown in each illustration are based on the coverage being illustrated.

Please Note:
When the policy is issued, you will be given a complete Policy Summary, including cost data, that is based on the planned premium and benefits of the policy as issued. The figures shown in this preliminary Statement of Policy Cost are based on the assumption that the proposed policy is issued as applied for. Adjustments will be necessary if the policy is actually issued on some other basis. You may return any life insurance policy within 10 days of delivery and obtain a full refund of any premium(s) paid.

-U.L.

1992 GOV Consumer Disclosure of Insurance 323p bonknote.pdf

EXHIBIT C

HYPOTHETICAL POLICY ILLUSTRATION JUNE 3, 1991

PROPOSED INSURED: SOCIETY OF ACTUARIES AGE 45 MALE NONSMOKER
PLAN: WHOLE LIFE POLICY
BASIC POLICY AMOUNT: $100,000 ANNUAL PREMIUM: $1,910.00

DIVIDEND OPTION: DIVIDENDS USED TO PURCHASE PAID-UP ADDITIONS

POL YR	TOTAL PREMIUMS BEG YEAR 1	GUARANTEED CASH VALUE END YEAR 2	PAID-UP ADDITIONS CASH VALUE END YEAR 3	TOTAL CASH VALUE END YEAR 4	AMOUNT OF PAID-UP ADDITIONS END YEAR 5	TOTAL DEATH BENEFIT END YEAR 6	TOTAL PAID-UP INSURANCE END YEAR 7
1	1,910		81	81	281	100,281	
2	3,820	114	178	292	595	100,595	977
3	5,730	1,824	295	2,119	950	100,950	6,834
4	7,640	3,587	443	4,030	1,379	101,379	12,534
5	9,550	5,403	639	6,042	1,916	101,916	18,127
6	11,460	7,274	893	8,167	2,585	102,585	23,644
7	13,370	9,195	1,380	10,575	3,857	103,857	29,555
8	15,280	11,165	2,127	13,292	5,741	105,741	35,876
9	17,190	13,183	3,162	16,345	8,247	108,247	42,627
10	19,100	15,243	4,518	19,761	11,391	111,391	49,826
11	21,010	17,125	6,213	23,338	15,155	115,155	56,923
12	22,920	19,036	8,195	27,231	19,345	119,345	64,285
13	24,830	20,981	10,477	31,458	23,951	123,951	71,912
14	26,740	22,959	13,089	36,048	28,989	128,989	79,835
15	28,650	24,971	16,062	41,033	34,478	134,478	88,082
16	30,560	27,013	19,445	46,458	40,477	140,477	96,709
17	32,470	29,082	23,273	52,355	47,005	147,005	105,742
18	34,380	31,171	27,586	58,757	54,091	154,091	115,210
19	36,290	33,275	32,427	65,702	61,770	161,770	125,154
20	38,200	35,386	37,834	73,220	70,063	170,063	135,593
@65	38,200	35,386	37,834	73,220	70,063	170,063	135,593
@75	57,300	56,455	135,040	191,495	195,710	295,710	277,529

COVERAGE	AMOUNT	ANNUAL PREM	M PREM	MONTHLY INCOME AGE	AMOUNT
INSURANCE	$100,000	$1,910.00	$168.27	65	$548.00
WAIVER	$100,000	$74.00	$6.52	75	$1750.00
A. D. B.	$100,000	$98.00	$8.63		

DIVIDENDS ARE NOT GUARANTEED AND ARE SUBJECT TO SIGNIFICANT FLUCTUATIONS.
CHANGES IN DIVIDENDS WILL CHANGE ALL NON-GUARANTEED VALUES.
PRESENTED BY:

SEE ATTACHED PAGE FOR FOOTNOTES, ASSUMPTIONS AND EXPLANATIONS.

EXHIBIT C

PROPOSED INSURED: SOCIETY OF ACTUARIES AGE 45 MALE NONSMOKER
PLAN: WHOLE LIFE POLICY
BASIC POLICY AMOUNT: $100,000 ANNUAL PREMIUM: $1,910.00

DIVIDEND OPTION: DIVIDENDS USED TO PURCHASE PAID-UP ADDITIONS

POL YR	TOTAL PREMIUMS BEG YEAR 1	GUARANTEED CASH VALUE END YEAR 2	PAID-UP ADDITIONS CASH VALUE END YEAR 3	TOTAL CASH VALUE END YEAR 4	AMOUNT OF PAID-UP ADDITIONS END YEAR 5	TOTAL DEATH BENEFIT END YEAR 6	TOTAL PAID-UP INSURANCE END YEAR 7
21	40,110	37,501	43,831	81,332	78,967	178,967	146,528
22	42,020	39,621	50,497	90,118	88,568	188,568	158,060
23	43,930	41,746	57,878	99,624	98,890	198,890	170,216
24	45,840	43,878	66,030	109,908	109,965	209,965	183,040
25	47,750	46,017	75,007	121,024	121,828	221,828	196,570
26	49,660	48,155	84,883	133,038	134,541	234,541	210,867
27	51,570	50,282	95,736	146,018	148,187	248,187	226,017
28	53,480	52,385	107,652	160,037	162,858	262,858	242,106
29	55,390	54,446	120,724	175,170	178,667	278,667	259,246
30	57,300	56,455	135,040	191,495	195,710	295,710	277,529
31	59,210	58,408	150,656	209,064	214,031	314,031	297,008
32	61,120	60,306	167,642	227,948	233,677	333,677	317,737
33	63,030	62,158	186,077	248,235	254,691	354,691	339,769
34	64,940	63,974	206,031	270,005	277,098	377,098	363,139
35	66,850	65,762	227,590	293,352	300,945	400,945	387,903
36	68,760	67,518	250,860	318,378	326,318	426,318	414,145
37	70,670	69,237	275,951	345,188	353,335	453,335	441,988
38	72,580	70,902	302,999	373,901	382,169	482,169	471,597
39	74,490	72,496	332,130	404,626	412,999	512,999	503,147
40	76,400	74,010	363,445	437,455	445,961	545,961	536,774
41	78,310	75,446	397,046	472,492	481,157	581,157	572,586
42	80,220	76,811	433,029	509,840	518,653	618,653	610,653
43	82,130	78,121	471,245	549,366	558,189	658,189	650,723
44	84,040	79,395	511,839	591,234	599,828	699,828	692,871
45	85,950	80,656	555,004	635,660	643,640	743,640	737,177

DIVIDENDS ARE NOT GUARANTEED AND ARE SUBJECT TO SIGNIFICANT FLUCTUATIONS.
CHANGES IN DIVIDENDS WILL CHANGE ALL NON-GUARANTEED VALUES.
SEE ATTACHED PAGE FOR FOOTNOTES AND ASSUMPTIONS. PAGE 2

EXHIBIT C

PROPOSED INSURED: SOCIETY OF ACTUARIES AGE 45 MALE NONSMOKER
PLAN: WHOLE LIFE POLICY
BASIC POLICY AMOUNT: $100,000 ANNUAL PREMIUM: $1,910.00

DIVIDEND OPTION: DIVIDENDS USED TO PURCHASE PAID-UP ADDITIONS

POL YR	TOTAL PREMIUMS BEG YEAR 1	GUARANTEED CASH VALUE END YEAR 2	PAID-UP ADDITIONS CASH VALUE END YEAR 3	TOTAL CASH VALUE END YEAR 4	AMOUNT OF PAID-UP ADDITIONS END YEAR 5	TOTAL DEATH BENEFIT END YEAR 6	TOTAL PAID-UP INSURANCE END YEAR 7
46	87,860	81,933	600,951	682,884	689,654	789,654	783,681
47	89,770	83,261	649,945	733,206	737,878	837,878	832,404
48	91,680	84,683	702,296	786,979	788,255	888,255	883,303
49	93,590	86,251	758,418	844,669	840,706	940,706	936,316
50	95,500	88,008	818,661	906,669	895,083	995,083	991,307

DIVIDENDS ARE NOT GUARANTEED AND ARE SUBJECT TO SIGNIFICANT FLUCTUATIONS.
CHANGES IN DIVIDENDS WILL CHANGE ALL NON-GUARANTEED VALUES.
SEE ATTACHED PAGE FOR FOOTNOTES AND ASSUMPTIONS. PAGE 3

EXHIBIT C

PROPOSED INSURED: SOCIETY OF ACTUARIES AGE 45 MALE NONSMOKER
PLAN: WHOLE LIFE POLICY
BASIC POLICY AMOUNT: $100,000 ANNUAL PREMIUM: $1,910.00

DIVIDEND OPTION: DIVIDENDS USED TO PURCHASE PAID-UP ADDITIONS

FOOTNOTES:

****
* AS ILLUSTRATED, THIS POLICY WOULD NOT BECOME A MODIFIED ENDOWMENT *
* CONTRACT (MEC) UNDER THE INTERNAL REVENUE CODE. LOANS AND DISTRIBUTIONS *
* FROM A MEC ARE SUBJECT TO INCOME TAX AND MAY ALSO TRIGGER A PENALTY TAX. *
* CHANGES MADE TO THE POLICY MAY CAUSE THE POLICY TO BECOME A MEC. *
****

*THIS FOOTNOTE PERTAINS TO COLUMN(S) 3, 4, 5, 6, 7:
BASED ON THE 1991 DIVIDEND SCHEDULE. DIVIDENDS ARE NOT GUARANTEED. DUE TO NEW FEDERAL TAXES AND ECONOMIC CONDITIONS INCLUDING DECLINING INTEREST RATES, DIVIDENDS BASED ON THE 1992 DIVIDEND SCHEDULE ARE EXPECTED TO BE LOWER THAN THOSE SHOWN IN THE ILLUSTRATION. TRANSFER OF POLICY OWNERSHIP TO A QUALIFIED PENSION OR PROFIT SHARING PLAN COULD RESULT IN A DIFFERENT DIVIDEND SCHEDULE. THE FIRST YEAR DIVIDEND, ALTHOUGH INCLUDED IN THIS ILLUSTRATION, IS CONTINGENT ON PAYMENT OF THE ENTIRE SECOND YEAR PREMIUM. THE FIRST YEAR DIVIDEND IS NOT USED IN THE CALCULATION OF FIRST YEAR PAID-UP INSURANCE AND FIRST YEAR MONTHLY LIFE INCOME.
THIS POLICY IS AVAILABLE AT ISSUE WITH A POLICY LOAN RATE OF EITHER 8% OR AN ANNUALLY ADJUSTABLE RATE. THIS ILLUSTRATION ASSUMES NO POLICY LOANS. FOR THE 8% POLICY, LOANS WILL AFFECT DIVIDENDS.

*THIS FOOTNOTE PERTAINS TO COLUMN(S) 4, 6:
THE COMPONENTS OF THIS COLUMN ARE DEPICTED SEPARATELY IN THIS ILLUSTRATION.

*THIS FOOTNOTE PERTAINS TO THE MONTHLY INCOME FIGURES SHOWN:
BASED ON TOTAL CASH SURRENDER VALUE USING THE CURRENT RATE WHICH IS NOT GUARANTEED.

*THIS FOOTNOTE PERTAINS TO THE MONTHLY INCOME FIGURES SHOWN:
MONTHLY INCOME SHOWN ASSUMES THE RIGHT TO COMMUTE UNPAID PAYMENTS HAS BEEN WAIVED.

THIS ILLUSTRATION DOES NOT RECOGNIZE THE TIME VALUE OF MONEY AND SHOULD NOT BE USED TO COMPARE POLICY COSTS. SEE ATTACHED PAGE FOR POLICY COST INFORMATION.

THIS ILLUSTRATION IS FOR A CONNECTICUT POLICY AND IS VALID THROUGH THE END OF JUNE, 1991.

EXHIBIT C

LIFE INSURANCE ADJUSTED COST COMPARISON INDEX
JUNE 3, 1991

PROPOSED INSURED: SOCIETY OF ACTUARIES AGE 45 MALE NONSMOKER
PLAN: WHOLE LIFE POLICY
BASIC POLICY AMOUNT: $100,000 ANNUAL PREMIUM: $1,910.00

DIVIDEND OPTION: DIVIDENDS USED TO PURCHASE PAID-UP ADDITIONS

	POLICY YEAR 10	POLICY YEAR 20
LIFE INSURANCE SURRENDER COST INDEX	4.48	.45
LIFE INSURANCE NET PAYMENT COST INDEX	16.02	10.64

THE INTEREST ADJUSTED COST COMPARISON INDEXES PROVIDE TWO MEANS OF COMPARING THE RELATIVE COST OF SIMILAR PLANS OF INSURANCE ISSUED BY THE SAME COMPANY OR DIFFERENT COMPANIES. A LOW INDEX NUMBER REPRESENTS A LOWER COST THAN A HIGHER ONE. THESE INDEXES REFLECT THE TIME VALUE OF MONEY BY APPLYING A 5% INTEREST FACTOR TO POLICY PREMIUMS, DIVIDENDS, AND FOR THE SURRENDER COST INDEX, THE 10 AND 20 YEAR CASH VALUES. THE DIVIDENDS USED IN CALCULATING THESE INDEXES ARE BASED ON CURRENT YEAR'S SCALE AND ARE NOT GUARANTEES NOR ESTIMATES OF FUTURE DIVIDENDS.

THE INDEXES DO NOT CONSIDER: (1) THE VALUE OF THE SERVICES OF AN AGENT OR COMPANY; (2) THE RELATIVE STRENGTH AND REPUTATION OF THE COMPANY AND ITS ACTUAL DIVIDEND PERFORMANCE; OR (3) DIFFERENCES IN THE POLICY PROVISIONS.

EXHIBIT D

*** BASED ON 8.00% DIVIDEND INTEREST RATE, WHICH IS LESS THAN THE CURRENT DIVIDEND INTEREST RATE ***

$100,000 LIFE PLAN PAGE 1 OF 4

FOR AGE 35 MALE

ANNUAL PREMIUM $1,533.00

---------- DIVIDENDS USED TO PURCHASE PAID-UP ADDITIONS ----------

	1	2	3	4	5	6	7
END OF YEAR	INSURANCE*	DIVIDEND*	ANNUAL CASH OUTLAY	CASH VALUE INCREASE*	TOTAL PAYMENTS	---- CASH VALUES ---- TOTAL*	GUARANTEED
1	100,343	70	1,533	70	1,533	70	0
2	100,971	134	1,533	1,215	3,066	1,285	1,078
3	101,886	204	1,533	1,336	4,599	2,622	2,201
4	103,072	276	1,533	1,466	6,132	4,088	3,371
5	104,522	354	1,533	1,603	7,665	5,692	4,588
6	106,223	434	1,533	1,748	9,198	7,440	5,852
7	108,177	521	1,533	1,906	10,731	9,346	7,165
8	110,365	610	1,533	2,071	12,264	11,418	8,528
9	112,778	703	1,533	2,246	13,797	13,664	9,942
10	115,407	800	1,533	2,435	15,330	16,099	11,411
11	118,248	902	1,533	2,633	16,863	18,732	12,933
12	121,285	1,007	1,533	2,846	18,396	21,579	14,515
13	124,519	1,120	1,533	3,073	19,929	24,652	16,156
14	127,869	1,211	1,533	3,289	21,462	27,942	17,860
15	131,337	1,309	1,533	3,520	22,995	31,463	19,629
16	134,919	1,411	1,533	3,766	24,528	35,229	21,466
17	138,629	1,526	1,533	4,029	26,061	39,259	23,370
18	142,469	1,648	1,533	4,309	27,594	43,569	25,341
19	146,446	1,780	1,533	4,608	29,127	48,177	27,380
20	150,564	1,923	1,533	4,924	30,660	53,101	29,486

PREMIUMS	ANNUAL	MO.
INSURANCE	1533.00	133.63
WAIVER	41.00	3.57
100000 ACCIDENTAL DEATH ..	74.00	6.44
75000 ADDITIONAL PURCHASE	126.75	11.03

SUBJECT TO UNDERWRITING LIMITS

*DIVIDENDS ASSUME NO LOANS; LOANS WILL REDUCE DIVIDENDS. ILLUSTRATED DIVIDENDS (1991 SCALE) REFLECT CLAIM AND EXPENSE EXPERIENCE AND ARE NOT ESTIMATES OR GUARANTEES OF FUTURE RESULTS. THEY MAY BE LARGER OR SMALLER THAN THOSE ILLUSTRATED. THIS ILLUSTRATION DOES NOT REFLECT THAT MONEY IS PAID AND RECEIVED AT DIFFERENT TIMES. 8% LOAN PROVISION.

SELECT 5/31/91 SUBMITTED BY

*** BASED ON 8.00% DIVIDEND INTEREST RATE, WHICH IS LESS THAN THE CURRENT DIVIDEND INTEREST RATE *** EXHIBIT D

$100,000 .. LIFE PLAN PAGE 2 OF 4

FOR AGE 35 MALE

ANNUAL PREMIUM $1,533.00

DIVIDENDS USED TO PURCHASE PAID-UP ADDITIONS

	1	2	3	4	5	6	7
END OF YEAR	INSURANCE*	DIVIDEND*	ANNUAL CASH OUTLAY	CASH VALUE INCREASE*	TOTAL PAYMENTS	---- CASH VALUES ---- TOTAL*	GUARANTEED
21	156,566	2,881	1,533	5,269	32,193	58,370	31,215
22	162,932	3,139	1,533	5,632	33,726	64,003	32,963
23	169,668	3,412	1,533	6,017	35,259	70,021	34,731
24	176,788	3,702	1,533	6,428	36,792	76,450	36,519
25	184,303	4,010	1,533	6,865	38,325	83,315	38,328
26	192,241	4,344	1,533	7,329	39,858	90,644	40,153
27	200,624	4,705	1,533	7,822	41,391	98,467	41,993
28	209,486	5,097	1,533	8,347	42,924	106,814	43,843
29	218,863	5,523	1,533	8,901	44,457	115,716	45,695
30	228,783	5,982	1,533	9,486	45,990	125,202	47,545
31	239,271	6,469	1,533	10,103	47,523	135,305	49,391
32	250,340	6,981	1,533	10,749	49,056	146,055	51,233
33	261,997	7,513	1,533	11,427	50,589	157,482	53,071
34	274,247	8,064	1,533	12,132	52,122	169,615	54,907
35	287,096	8,635	1,533	12,865	53,655	182,480	56,741
36	300,570	9,239	1,533	13,625	55,188	196,105	58,567
37	314,701	9,881	1,533	14,410	56,721	210,516	60,378
38	329,536	10,571	1,533	15,217	58,254	225,733	62,162
39	345,130	11,315	1,533	16,050	59,787	241,784	63,908
40	361,519	12,099	1,533	16,897	61,320	258,681	65,607

PREMIUMS	ANNUAL	MO.
INSURANCE	1533.00	133.63
WAIVER	41.00	3.57
100000 ACCIDENTAL DEATH ..	74.00	6.44
75000 ADDITIONAL PURCHASE	126.75	11.03

SUBJECT TO UNDERWRITING LIMITS

*DIVIDENDS ASSUME NO LOANS; LOANS WILL REDUCE DIVIDENDS. ILLUSTRATED DIVIDENDS (1991 SCALE) REFLECT CLAIM AND EXPENSE EXPERIENCE AND ARE NOT ESTIMATES OR GUARANTEES OF FUTURE RESULTS. THEY MAY BE LARGER OR SMALLER THAN THOSE ILLUSTRATED. THIS ILLUSTRATION DOES NOT REFLECT THAT MONEY IS PAID AND RECEIVED AT DIFFERENT TIMES. 8% LOAN PROVISION.

SELECT 5/31/91 SUBMITTED BY

*** BASED ON 8.00% DIVIDEND INTEREST RATE, WHICH IS LESS THAN THE CURRENT DIVIDEND INTEREST RATE *** EXHIBIT D

$100,000 LIFE PLAN PAGE 3 OF 4

FOR AGE 35 MALE

ANNUAL PREMIUM $1,533.00

DIVIDENDS USED TO PURCHASE PAID-UP ADDITIONS

	1	2	3	4	5	6	7
END OF YEAR	INSURANCE*	DIVIDEND*	ANNUAL CASH OUTLAY	CASH VALUE INCREASE*	TOTAL PAYMENTS	---- CASH VALUES ---- TOTAL*	GUARANTEED
41	378,728	12,915	1,533	17,767	62,853	276,448	67,258
42	396,757	13,745	1,533	18,656	64,386	295,105	68,864
43	415,592	14,576	1,533	19,567	65,919	314,672	70,433
44	435,206	15,400	1,533	20,496	67,452	335,169	71,976
45	455,597	16,235	1,533	21,460	68,985	356,629	73,500
46	476,790	17,103	1,533	22,455	70,518	379,085	75,008
47	498,822	18,012	1,533	23,471	72,051	402,556	76,496
48	521,768	18,993	1,533	24,518	73,584	427,075	77,961
49	545,716	20,054	1,533	25,586	75,117	452,661	79,397
50	570,709	21,160	1,533	26,673	76,650	479,335	80,810
51	596,762	22,285	1,533	27,791	78,183	507,127	82,217
52	623,867	23,408	1,533	28,945	79,716	536,073	83,651
53	651,991	24,510	1,533	30,160	81,249	566,233	85,157
54	681,103	25,595	1,533	31,478	82,782	597,712	86,801
55	711,171	26,664	1,533	32,946	84,315	630,659	88,679
56	741,745	27,346	0	32,787	84,315	663,446	89,444
57	773,243	28,423	0	34,312	84,315	697,759	90,238
58	805,703	29,565	0	36,099	84,315	733,858	91,083
59	839,222	30,842	0	38,343	84,315	772,201	92,014
60	874,059	32,415	0	41,092	84,315	813,294	93,048

PREMIUMS	ANNUAL	MO.
INSURANCE	1533.00	133.63
WAIVER	41.00	3.57
100000 ACCIDENTAL DEATH ..	74.00	6.44
75000 ADDITIONAL PURCHASE	126.75	11.03

SUBJECT TO UNDERWRITING LIMITS

*DIVIDENDS ASSUME NO LOANS; LOANS WILL REDUCE DIVIDENDS. ILLUSTRATED DIVIDENDS (1991 SCALE) REFLECT CLAIM AND EXPENSE EXPERIENCE AND ARE NOT ESTIMATES OR GUARANTEES OF FUTURE RESULTS. THEY MAY BE LARGER OR SMALLER THAN THOSE ILLUSTRATED. THIS ILLUSTRATION DOES NOT REFLECT THAT MONEY IS PAID AND RECEIVED AT DIFFERENT TIMES. 8% LOAN PROVISION.

SELECT 5/31/91 SUBMITTED BY

EXHIBIT D

*** BASED ON 8.00% DIVIDEND INTEREST RATE, WHICH IS LESS THAN THE CURRENT DIVIDEND INTEREST RATE ***

$100,000 LIFE PLAN PAGE 4 OF 4

FOR AGE 35 MALE

ANNUAL PREMIUM $1,533.00

	1	2	3	4	5	6	7
	DIVIDENDS USED TO PURCHASE PAID-UP ADDITIONS						
END OF YEAR	INSURANCE*	DIVIDEND*	ANNUAL CASH OUTLAY	CASH VALUE INCREASE*	TOTAL PAYMENTS	---- CASH VALUES ---- TOTAL*	GUARANTEED
61	910,655	34,472	0	44,533	84,315	857,827	94,199
62	949,621	37,195	0	48,651	84,315	906,479	95,457
63	991,529	40,557	0	53,102	84,315	959,581	96,778
64	1,036,343	43,948	0	56,738	84,315	1,016,320	98,068
65	1,076,852	40,508	0	60,531	84,315	1,076,852	100,000

PREMIUMS	ANNUAL	MO.
INSURANCE	1533.00	133.63
WAIVER	41.00	3.57
100000 ACCIDENTAL DEATH ..	74.00	6.44
75000 ADDITIONAL PURCHASE	126.75	11.03

SUBJECT TO UNDERWRITING LIMITS

*DIVIDENDS ASSUME NO LOANS; LOANS WILL REDUCE DIVIDENDS. ILLUSTRATED DIVIDENDS (1991 SCALE) REFLECT CLAIM AND EXPENSE EXPERIENCE AND ARE NOT ESTIMATES OR GUARANTEES OF FUTURE RESULTS. THEY MAY BE LARGER OR SMALLER THAN THOSE ILLUSTRATED. THIS ILLUSTRATION DOES NOT REFLECT THAT MONEY IS PAID AND RECEIVED AT DIFFERENT TIMES. 8% LOAN PROVISION.

SELECT 5/31/91 SUBMITTED BY

EXHIBIT E

** ILLUSTRATIONS ** PAGE 1 OF 5

PREPARED ON 05/30/91

MALE AGE 45

1,000,000 WHOLE LIFE
PREFERRED NON-SMOKER 20425.75
DIVIDENDS TO PAID UP ADDS

20425.75

AGE AT START OF YR		PREMIUM	GUARANTEED TOTAL CASH VALUE	GUARANTEED TOTAL DEATH BENEFIT	CURRENT DIVIDENDS TOTAL CASH VALUE	CURRENT DIVIDENDS TOTAL DEATH BENEFIT	ALTERNATIVE DIVIDENDS TOTAL CASH VALUE	ALTERNATIVE DIVIDENDS TOTAL DEATH BENEFIT
1	45	20,426	0	1,000,000	0	1,000,000	0	1,000,000
2	46	20,426	17,670	1,000,000	18,660	1,000,990	18,430	1,000,760
3	47	20,426	35,750	1,000,000	38,439	1,004,279	37,381	1,002,867
4	48	20,426	54,230	1,000,000	59,947	1,009,888	57,303	1,005,639
5	49	20,426	73,110	1,000,000	83,467	1,018,822	77,791	1,009,310
6	50	20,426	92,400	1,000,000	109,196	1,031,417	99,022	1,013,341
7	51	20,426	112,040	1,000,000	137,324	1,047,864	121,368	1,018,348
8	52	20,426	132,030	1,000,000	168,098	1,068,401	144,903	1,024,938
9	53	20,426	152,320	1,000,000	201,753	1,093,271	169,677	1,033,164
10	54	20,426	172,870	1,000,000	238,559	1,122,749	195,753	1,043,110
11	55	20,426	193,680	1,000,000	278,816	1,157,104	227,471	1,058,641
12	56	20,426	214,730	1,000,000	322,714	1,196,465	256,460	1,077,507
13	57	20,426	236,050	1,000,000	370,608	1,240,950	279,704	1,086,267
14	58	20,426	257,640	1,000,000	422,834	1,290,790	303,540	1,087,323
15	59	20,426	279,510	1,000,000	479,771	1,346,209	327,724	1,089,358
16	60	20,426	301,620	1,000,000	541,814	1,407,526	375,021	1,111,139
17	61	20,426	323,930	1,000,000	609,392	1,475,115	422,519	1,156,354
18	62	20,426	346,410	1,000,000	683,008	1,549,409	473,703	1,200,361
19	63	20,426	368,980	1,000,000	763,189	1,630,955	528,858	1,249,027
20	64	20,426	391,600	1,000,000	850,486	1,720,324	588,268	1,302,364
21	65	20,426	412,870	1,000,000	945,364	1,819,282	652,112	1,361,869
26	70	20,426	518,390	1,000,000	1,562,922	2,466,444	1,054,443	1,748,886

THIS ILLUSTRATION COMPARES THE CASH VALUES AND DEATH BENEFITS THAT WOULD BE PROVIDED BY THE BASIC POLICY IF DIVIDENDS ARE USED TO PURCHASE PAID UP ADDITIONS IN EACH OF THE FOLLOWING FUTURE SCENARIOS:

1. NO DIVIDENDS ARE EVER PAID - GUARANTEED VALUES
2. THE CURRENT DIVIDENDS SCALE IS MAINTAINED INDEFINITELY
3. DIVIDENDS ARE PAID BASED ON THE ALTERNATE DIVIDEND SCALE DESCRIBED IN THE FOOTNOTES TO THE FOLLOWING ILLUSTRATION

THIS ILLUSTRATION IS MERELY INTENDED TO DEMONSTRATE THE EFFECT OF OUR CURRENT DIVIDEND SCALE AND VARIATIONS IN THE INTEREST RATE UNDERLYING THAT SCALE. IT IS NOT AN ILLUSTRATION OF THE COVERAGE YOU HAVE SELECTED. THIS ILLUSTRATION ASSUMES THAT NO PREMIUMS ARE PAID IN ADDITION TO THE BASE POLICY PREMIUM.

EXHIBIT E

** ILLUSTRATIONS ** PAGE 2 OF 5

PREPARED ON 05/30/91

MALE AGE 45 DIVIDENDS BASED ON ALTERNATE DIVIDEND SCALE DESCRIBED IN FOOTNOTES.

1,000,000 WHOLE LIFE
PREFERRED NON-SMOKER 20425.75
VANISHING PREMIUM

20425.75

AGE AT START OF YR		(1) ANNUAL OUTLAY	(2) CUM ANNUAL OUTLAY	(3) TOTAL DIVID	(4) GUAR CASH VALUE YR END	(5) CASH VALUE OF ADDS	(6) NET CASH VALUE YR END	(7) DEATH BENEFIT	(8) COMPAR RATE OF RETURN
1	45	20426	20426	0	0	0	0	1000008	
2	46	20426	40852	0	17670	0	18430	1000760	
3	47	20426	61277	760	35750	821	37381	1002867	
4	48	20426	81703	847	54230	1753	57303	1005639	
5	49	20426	102129	1392	73110	3271	77791	1009310	
6	50	20426	122555	1516	92400	4962	99022	1013341	
7	51	20426	142980	1800	112040	7018	121368	1018348	1.35
8	52	20426	163406	2509	132030	9883	144903	1024938	2.36
9	53	20426	183832	3273	152320	13637	169677	1033164	3.11
10	54	20426	204258	4113	172870	18383	195753	1043110	3.68
11	55	20426	224683	5034	193680	24681	227471	1058641	4.42
12	56	20426	245109	10269	214730	35770	256460	1077507	4.72
13	57	20426	265535	7012	236050	43104	279784	1086287	4.64
14	58	20426	285961	877	257640	45160	303540	1087323	4.58
15	59	0	285961	1003	279510	26298	306638	1050080	4.53
16	60	0	285961	986	301620	7352	329482	1033226	5.08
17	61	0	285961	20987	323930	8081	350841	1032893	5.44
18	62	0	285961	19286	346410	7045	373655	1032211	5.74
19	63	0	285961	20599	368980	7405	398035	1033904	6.00
20	64	0	285961	22071	391600	9367	424087	1038188	6.23
21	65	0	285961	23654	412870	13088	451788	1046365	6.42
22	66	0	285961	26579	434080	20060	481510	1058095	6.59
23	67	0	285961	28523	455230	29285	513375	1072828	6.75
24	68	0	285961	30549	476350	40892	547562	1090532	6.88
25	69	0	285961	32686	497420	55040	584230	1111282	7.01
26	70	0	285961	34963	518390	71920	623570	1135230	7.12
27	71	0	285961	37445	539150	91794	665764	1162601	7.22
28	72	0	285961	40184	559580	114971	711041	1193705	7.31
29	73	0	285961	43249	579530	141025	759615	1228897	7.41
30	74	0	285961	46658	598900	172751	811711	1268486	7.49

PLEASE SEE ATTACHED SHEETS WITH IMPORTANT FOOTNOTES

EXHIBIT E

** ILLUSTRATIONS ** PAGE 3 OF 5

PREPARED ON 05/30/91

SUMMARY AT 20 YRS

TOTAL PREMIUMS:		285960
(LESS) TOTAL CASH VALUE:		424086
(GUARANTEED)	391600	
(VALUE OF DIVIDENDS)	32486	
DIFFERENCE		-138126
AVERAGE DIFFERENCE PER YEAR		-6906
AVERAGE DEATH BENEFIT	1034086	
CRR (1)	6.22%	
5% INTEREST ADJUSTED COSTS(2):		
AT 10 YEARS	5.65	
AT 20 YEARS	4.05	
5% INTEREST ADJUSTED PAYMENTS:		
AT 10 YEARS	18.74	
AT 20 YEARS	15.33	

EXHIBIT E

** ILLUSTRATIONS ** PAGE 4 OF 5

PREPARED ON 05/30/91

GUARANTEED CASH VALUES AS SHOWN ON THIS ILLUSTRATION ARE ONLY AVAILABLE IF ALL PREMIUMS HAVE BEEN PAID. THE ANNUAL RATE OF INTEREST UNDERLYING THE COMPUTATION OF THESE GUARANTEES IS 4.00%.
ALL CASH VALUES SHOWN ARE END OF YEAR VALUES.
ALL ILLUSTRATIONS FOR INDIVIDUAL LIFE INSURANCE PRODUCTS ARE TESTED FOR THE POSSIBILITY OF CLASSIFICATION AS A MODIFIED ENDOWMENT FOR THE PURPOSES OF FEDERAL INCOME TAXATION. THIS TEST APPLIES TO POLICIES ENTERED INTO AFTER JUNE 20, 1988 AND MAY NOT BE USED FOR POLICIES IN FORCE BEFORE THAT DATE.
THE ILLUSTRATED OUTLAYS SHOWN ON THIS ILLUSTRATION WOULD NOT CAUSE IT TO BE CLASSIFIED AS A MODIFIED ENDOWMENT. THIS TEST IS NOT A GUARANTEE THAT A PARTICULAR POLICY WILL NOT BE CLASSIFIED AS A MODIFIED ENDOWMENT IN THE FUTURE.
FIGURES DEPENDING ON DIVIDENDS ARE NEITHER ESTIMATED NOR GUARANTEED, BUT ARE BASED ON A HYPOTHETICAL DIVIDEND SCALE. THIS SCALE HAS THE SAME FACTORS AS THE 1991 DIVIDEND SCALE, EXCEPT FOR THE INTEREST RETURN. THE INTEREST RETURN IS BASED ON ASSUMED RATES THAT WOULD CREDIT, WHICH MAY VARY BY POLICY YEAR. THESE RATES ARE SHOWN AT THE END OF THESE FOOTNOTES, AND DO NOT EXCEED OUR CURRENT RATE OF 10.50%.
ACTUAL FUTURE DIVIDENDS MAY BE HIGHER OR LOWER THAN THOSE ILLUSTRATED DEPENDING ON THE COMPANY'S ACTUAL FUTURE EXPERIENCE.
THE COST OF THE ABOVE POLICY OVER A PERIOD OF YEARS CANNOT BE DETERMINED WITHOUT TAKING INTO ACCOUNT THE INTEREST THAT WOULD HAVE BEEN EARNED HAD THE PREMIUMS BEEN INVESTED RATHER THAN PAID TO THE INSURER.
NET DEATH BENEFIT ON ALL PERMANENT PLANS MEANS THE FACE AMOUNT PLUS RIDERS, IF ANY, PLUS THE END OF YEAR DIVIDEND LESS POLICY LOANS. A FULL DIVIDEND IS NOT GENERALLY PAID UPON DEATH DURING THE POLICY YEAR. OTHER VARIABLES ARE POSSIBLE. YOUR AGENT WILL DEFINE THE RULES UPON REQUEST.
THE POLICY LOAN INTEREST RATE SHOWN ON YOUR ILLUSTRATION IS PAYABLE IN ADVANCE AT A DISCOUNT RATE EQUIVALENT TO AN ANNUAL RATE OF 8.00%. DIVIDENDS ARE AFFECTED BY POLICY LOANS. TO THE EXTENT THE DIVIDEND SCALE IS BASED ON AN INTEREST RATE GREATER THAN 7.00%, IN ANY GIVEN POLICY YEAR THE GREATER THE AMOUNT OF LOAN, THE SMALLER THE DIVIDEND.
(THIS DOES NOT APPLY TO ECONOMIX TERM, WHICH HAS NO LOAN VALUE.)
THE NUMBER OF YEARS OF REQUIRED CASH OUTLAYS DEPENDS UPON AGE AT ISSUE, POLICY CLASS, FACE AMOUNT, AND CONTINUATION OF CURRENT DIVIDEND SCALE, AND ASSUMES NO POLICY LOANS. THIS IS NOT AN AUTOMATIC DIVIDEND OPTION. POLICY OWNER MUST REQUEST CHANGE OF DIVIDEND OPTION AT POLICY YEAR INDICATED. HE MAY PAY THE BALANCE OF PREMIUM BY SURRENDERING A PORTION OF PAID UP INSURANCE.
THIS IS NOT A PAID-UP POLICY; PREMIUMS ARE DUE AND PAYABLE IN ALL POLICY YEARS.
(1) THE COMPARATIVE RATE OF RETURN SHOWN REPRESENTS THE RATE, NOT CONSIDERING THE EFFECT OF TAXES, WHICH THE POLICYHOLDER WOULD HAVE TO EARN ON AN ADJUSTED SERIES OF OUTLAYS TO ACCUMULATE TO THE TOTAL CASH VALUE AT THE END OF THE PERIOD. THE ADJUSTED SERIES OF OUTLAYS EQUALS THE ACTUAL OUTLAY IN EACH YEAR LESS THE COST OF INSURANCE PROTECTION FOR THAT YEAR, WHICH IS BASED ON THE 1980 CSO BASIC TABLE (K).
(2) INTEREST ADJUSTED COST INDICIES ARE BASED ON THE POLICY EXCLUDING RIDERS AND ARE USEFUL IN COMPARING POLICIES OF SIMILAR TYPES.

EXHIBIT E

** ILLUSTRATIONS ** PAGE 5 OF 5

PREPARED ON 05/30/91

ASSUMED DIVIDEND INTEREST RATE FOR NON-LOANED VALUES:

YEAR 1 THRU YEAR 1:	10.00%
YEAR 2 THRU YEAR 2:	9.43%
YEAR 3 THRU YEAR 3:	8.50%
YEAR 4 THRU YEAR 4:	8.00%
YEAR 5 THRU YEAR 5:	7.00%
YEAR 6 THRU YEAR 10:	6.55%
YEAR 11 THRU YEAR 11:	8.51%
YEAR 12 THRU YEAR 12:	6.54%
YEAR 13 THRU YEAR 15:	4.00%
YEAR 16 THRU YEAR 16:	10.50%
YEAR 17 THRU YEAR 55:	9.50%

LIFEPLAN ILLUSTRATIONS - AGENCY: I0 AGENT: PA SAVE NAME -

EXHIBIT F

VANISHING PREMIUM PLAN
PREPARED FOR

Client | MALE NONSMOKER, AGE 35

$1000000 | INITIAL ANNUAL PREMIUM $9375.00

DIVIDENDS BUY PUA'S FOR 9 YEAR(S), THEREAFTER DIVIDENDS REDUCE PREMIUMS
WITH EXCESS APPLIED TO PURCHASE PUA'S

	VANISH PREMIUM						FULL PAY			
YR	CASH PREMIUM DUE	NET OUTLAY	TOTAL CASH VALUE INCREASE	CV INCREASE LESS NET PAYMENT	TOTAL CASH VALUE	TOTAL DEATH BENEFIT	CASH PREMIUM DUE	GUARANTEED CASH VALUE INCLUDING RIDER*	TOTAL CASH VALUE	TOTAL DEATH BENEFIT
1	9375	9375	0	-9375	0	1000000	9375	0	0	1000000
2	9375	9375	0	-9375	0	1000000	9375	0	0	1000000
3	9375	9375	920	-8455	920	1000000	9375	0	920	1000000
4	9375	9375	7854	-1521	8774	1008323	9375	6340	8774	1008323
5	9375	9375	9231	-144	18005	1020890	9375	13400	18005	1020890
	46875	46875	18005	-28870			46875			
6	9375	9375	10337	962	28342	1037503	9375	20830	28342	1037503
7	9375	9375	11498	2123	39840	1058058	9375	28620	39840	1058058
8	9375	9375	12788	3413	52628	1082310	9375	36800	52628	1082310
9	9375	9375	14165	4790	66793	1110238	9375	45370	66793	1110238
10	3920	3920	9745	5825	76537	1105604	9375	54370	82477	1141682
	88295	88295	76537	-11758			93750			
11	0	0	6585	6585	83122	1080351	9375	63800	99790	1176547
12	0	0	7397	7397	90519	1059355	9375	73670	118845	1214753
13	0	0	8125	8125	98645	1042381	9375	84000	139626	1256153
14	0	0	8930	8930	107575	1028401	9375	94820	162284	1299796
15	0	0	9775	9775	117350	1017319	9375	106120	186935	1345680
	88295	88295	117350	29055			140625			
16	0	0	10723	10723	128074	1009040	9375	117950	213776	1393805
17	0	0	11689	11689	139762	1003470	9375	130280	242911	1444194
18	0	0	12724	12724	152486	1000473	9375	143110	274508	1496842
19	0	0	13805	13805	166291	1000005	9375	156430	308711	1551864
20	0	0	14956	14956	181247	1001946	9375	170230	345695	1609264
	88295	88295	181247	92952			187500			

THIS IS AN ILLUSTRATION AND NOT A CONTRACT.
DIVIDENDS ARE NOT GUARANTEED AND ARE BASED ON THE CURRENT SCALE.
CASH VALUES AND DEATH BENEFITS MAY VARY DEPENDING ON ACTUAL EXPERIENCE.
THIS ILLUSTRATION ASSUMES THAT RECOMMENDED PREMIUM DEPOSITS ARE ALWAYS MADE.

THIS ILLUSTRATION IS ONLY VALID IF ALL PAGES ARE INCLUDED

JUNE 24, 1991 VERSION 6 PAGE 1 OF 3

SUMMARY VALUES AT AGE(S) 60, 65 & 70

EXHIBIT F

	VANISH PREMIUM						FULL PAY			
YR	CASH PREMIUM DUE	NET OUTLAY	TOTAL CASH VALUE INCREASE	CV INCREASE LESS NET PAYMENT	TOTAL CASH VALUE	TOTAL DEATH BENEFIT	CASH PREMIUM DUE	GUARANTEED CASH VALUE INCLUDING RIDER*	TOTAL CASH VALUE	TOTAL DEATH BENEFIT
25	0	0	21951	21951	276105	1046308	9375	246370	579176	1935388
30	0	0	30834	30834	411967	1143782	9375	333630	911580	2330616
35	0	0	41899	41899	597991	1291060	9375	428090	1368830	2806694

COST INDEXES

	10 YRS	20 YRS
NET PAYMENT INDEX	7.45	5.41
SURRENDER COST INDEX	3.34	0.50
EQUIVALENT LEVEL DIVIDEND	1.92	3.97

THIS IS AN ILLUSTRATION AND NOT A CONTRACT.
DIVIDENDS ARE NOT GUARANTEED AND ARE BASED ON THE CURRENT SCALE.
CASH VALUES AND DEATH BENEFITS MAY VARY DEPENDING ON ACTUAL EXPERIENCE.
THIS ILLUSTRATION ASSUMES THAT RECOMMENDED PREMIUM DEPOSITS ARE ALWAYS MADE.

DOES NOT GIVE LEGAL OR TAX ADVICE.
PLEASE CONSULT YOUR PROFESSIONAL TAX ADVISOR REGARDING ANY ITEMS WHICH INVOLVE THE INTERPRETATION OF APPLICABLE TAX LAW.

BECAUSE OF LONG TERM INTEREST RATE TRENDS, ALL POLICYHOLDERS SHOULD BE AWARE THAT DIVIDEND SCALES AT AND THROUGHOUT THE INDUSTRY WILL LIKELY BE REDUCED AT SOME POINT IN THE FUTURE. BELIEVES IN PROVIDING FULL DISCLOSURE TO OUR PROSPECTIVE POLICYHOLDERS, AND WE, THEREFORE, SUGGEST YOU CONSIDER OBTAINING ADDITIONAL ILLUSTRATIONS TO DEMONSTRATE THE SENSITIVITY OF PRODUCT VALUES TO POTENTIAL REDUCTIONS IN DIVIDENDS.

THE TERM 'VANISH' DOES NOT MEAN THAT PREMIUMS ARE NO LONGER DUE, BUT THAT THE CASH PREMIUM DUE REFLECTS THE PAYMENT OF FUTURE GROSS ANNUAL PREMIUMS THROUGH THE USE OF CURRENT DIVIDENDS. IF FUTURE DIVIDENDS ARE REDUCED FROM THE CURRENT, RESULTS OF THE VANISH MAY DIFFER FROM THAT ILLUSTRATED.

ADDITIONAL PREMIUM PAYMENTS MAY BE REQUIRED IF THE CURRENT SCALE OF DIVIDENDS IS REDUCED.

*GUARANTEED VALUES DO NOT REFLECT ANY LOANS, SURRENDERS OR DIVIDENDS FROM THE POLICY.

CASH VALUES ARE ILLUSTRATED AT THE END OF THE YEAR.
THE ACTUAL BEGINNING OF YEAR CASH VALUE WILL BE LOWER WHEN THE DIVIDENDS ARE SURRENDERED TO PAY THE PREMIUM.

THIS ILLUSTRATION IS ONLY VALID IF ALL PAGES ARE INCLUDED

EXHIBIT F

THIS ILLUSTRATION ASSUMES THE SURRENDER OF PAID-UP VALUES; THESE MAY BE DEEMED AS TAXABLE INCOME UNDER I.R.C. SECTIONS 72(E) AND 7702 AND OTHERS. PLEASE CONSULT YOUR PROFESSIONAL TAX ADVISOR.

IF THIS POLICY, IN COMBINATION WITH ANY OTHER INSURANCE POLICIES INFORCE OR APPLIED FOR, EXCEEDS DOLLARS, SPECIAL UNDERWRITING, REINSURANCE OR COMMISSIONING MAY BE REQUIRED WHICH COULD AFFECT THE PREMIUM AND VALUES ILLUSTRATED.

THE INSURED'S TAX BRACKET IS 28%

PRESENTED BY: Sample,

JUNE 24, 1991 VERSION 6 PAGE 3 OF 3

VANISHING PREMIUM PLAN
PREPARED FOR

EXHIBIT G

A

MALE NONSMOKER, AGE 35

$500000

INITIAL ANNUAL PREMIUM $4625.00

DIVIDENDS BUY PUA'S FOR 11 YEAR(S), THEREAFTER DIVIDENDS REDUCE PREMIUMS
WITH EXCESS APPLIED TO PURCHASE PUA'S

YEAR	AGE	PREMIUM DUE	PUA'S SURR TO PAY PREMIUMS	TOTAL CASH VALUE OF PUA'S	CASH PREMIUM DUE	TOTAL CASH VALUE INCREASE	CV INCREASE LESS NET PAYMENT	TOTAL CASH VALUE	TOTAL DEATH BENEFIT BEG OF YR
1	35	4625	0	0	4625	0	-4625	0	500000
2	36	4625	0	0	4625	0	-4625	0	500000
3	37	4625	0	0	4625	3735	-890	3735	500000
4	38	4625	0	55	4625	4545	-80	8280	500336
5	39	4625	0	240	4625	4865	240	13145	501403
		23125			23125	13145	-9980		
6	40	4625	0	575	4625	5210	585	18355	503222
7	41	4625	0	1084	4625	5579	954	23934	505813
8	42	4625	0	1785	4625	5976	1351	29910	509169
9	43	4625	0	2700	4625	6395	1770	36305	513284
10	44	4625	0	3852	4625	6857	2232	43162	518153
		46250			46250	43162	-3088		
11	45	4625	0	5269	4625	7338	2713	50499	523793
12	46	3144	2583	2915	561	3796	3235	54295	512615
13	47	2013	2013	1028	0	4488	4488	58783	504263
14	48	984	984	88	0	5685	5685	64468	500350
15	49	91	91	0	0	6772	6772	71240	500001
		57108			51436	71240	19804		
16	50	0	0	650	0	7770	7770	79010	502379
17	51	0	0	1929	0	8638	8638	87649	506772
18	52	0	0	3771	0	9443	9443	97091	512711
19	53	0	0	6138	0	10207	10207	107298	519866
20	54	0	0	9025	0	10946	10946	118245	526061
		57108			51436	118245	66809		

THIS PROPOSAL IS VALID ONLY IF ALL PAGES ARE INCLUDED

MAY 31, 1991

PAGE 1 OF 4

GUARANTEED LEDGER PROPOSAL
PREPARED FOR

EXHIBIT G

A

MALE NONSMOKER, AGE 35

$500000

INITIAL ANNUAL PREMIUM $4625.00

YEAR	TOTAL PREMIUM DUE	TOTAL GUAR CASH VALUE	TOTAL GUAR DEATH BENEFIT	TOTAL GUAR PAID-UP INSURANCE
1	4625	0	500000	0
2	4625	0	500000	0
3	4625	3735	500000	23000
4	4625	8225	500000	48500
5	4625	12905	500000	72500
	23125			
6	4625	17780	500000	95500
7	4625	22850	500000	117500
8	4625	28125	500000	138500
9	4625	33605	500000	158500
10	4625	39310	500000	177500
	46250			
11	4625	45230	500000	196000
12	4625	51380	500000	213500
13	4625	57755	500000	230000
14	4625	64380	500000	246000
15	4625	71240	500000	261000
	69375			
16	4625	78360	500000	275500
17	4625	85720	500000	289000
18	4625	93320	500000	302500
19	4625	101160	500000	315000
20	4625	109220	500000	326500
	92500			

THIS PROPOSAL IS VALID ONLY IF ALL PAGES ARE INCLUDED

MAY 31, 1991

PAGE 2 OF 4

EXHIBIT G

IMPORTANT INFORMATION ABOUT THIS PROPOSAL

has a reputation for its financial integrity and for providing solid, long term value to our policyholders. In keeping with that tradition, we encourage our clients to fully examine and understand the assumptions used in a life insurance proposal. We have provided the following information to help you make an informed purchase decision.

This proposal is not a contract; we recommend that you refer to your policy for a complete explanation of your policy benefits.

GUARANTEES

ONLY THOSE PREMIUMS AND VALUES LABELLED AS 'GUARANTEED' IN THIS PROPOSAL WILL BE CONTRACTUALLY GUARANTEED IN YOUR POLICY.

DIVIDENDS

ILLUSTRATED DIVIDENDS, AND ALL VALUES DEPENDING ON ILLUSTRATED DIVIDENDS, ARE BASED ON THE JULY 1990 DIVIDEND SCALE. THEY ARE NEITHER GUARANTEES NOR ESTIMATES OF FUTURE DIVIDENDS.

The first dividend is dependent upon payment of the first premium due in the second year.

PREMIUM

Premiums due, when reduced by dividends, may vary substantially from the illustrated premiums due, depending on the actual dividends paid in future years.

VANISHING PREMIUMS

THE POLICY ILLUSTRATED REQUIRES THAT PREMIUMS BE PAID EACH YEAR WITHOUT LIMITATION. HOWEVER, IT IS POSSIBLE THAT AT SOME FUTURE DATE, DIVIDENDS, AND IF NECESSARY, THE SURRENDER OF PAID UP ADDITIONS MAY BECOME SUFFICIENT TO PAY CURRENT AND FUTURE PREMIUMS DUE. THE PROPOSAL SHOWS THIS BY INDICATING A TIME WHEN PREMIUMS 'VANISH'.

IF ACTUAL DIVIDENDS ARE LOWER THAN ILLUSTRATED, YOU WOULD HAVE TO PAY PREMIUMS BEYOND THE DATE AT WHICH THIS PROPOSAL SHOWS THAT PREMIUMS MIGHT 'VANISH'. FOR POLICIES WHERE PREMIUMS HAVE ALREADY 'VANISHED', FUTURE PREMIUMS COULD BE REQUIRED.

LOANS AND SURRENDERS

The dividends shown in this proposal reflect the loans and loan interest rates as illustrated. Actual policy dividends will vary according to actual loan interest rates and loan activity.

THIS PROPOSAL IS VALID ONLY IF ALL PAGES ARE INCLUDED

EXHIBIT G

TAXATION

This proposal may not fully reflect your actual tax or accounting situation. We suggest that you consult your professional advisors regarding the interpretation of current and proposed tax laws and accounting principles.

The Individual's illustrated tax bracket is 28%.

PROPOSAL DESIGN

Internal Rates of Return on death have been calculated assuming that death takes place: 1) at the beginning of the year; and 2) at the end of the year (prior to the payment of the dividend). The two figures which result, represent the range of returns that will be delivered by the policy (based on the current dividend scale), depending on when during the year the insured dies.

Internal Rates of Return on death are illustrated on a Traditional and Aggressive basis. While both assume that death occurs at the end of the policy year, the Aggressive basis makes the further assumption that the end of year dividend has been credited.

ALTERNATE PROPOSALS

IN LIGHT OF PAST INTEREST RATE TRENDS, YOU SHOULD BE AWARE THAT DIVIDEND SCALES AT ANY COMPANY, INCLUDING COULD BE REDUCED AT ANY POINT IN THE FUTURE. VALUES ILLUSTRATED ARE SENSITIVE TO CHANGES IN THE DIVIDEND SCALE. IF YOU WISH TO ASSESS THE SENSITIVITY OF THE VALUES ILLUSTRATED TO A DROP IN OUR CURRENT SCALE, YOU SHOULD REVIEW A SECOND PROPOSAL PREPARED USING A DIVIDEND SCALE LOWER THAN THE SCALE CURRENTLY BEING CREDITED.

I have received and reviewed 4 pages of this proposal, including footnotes. I also understand the implications of the above information on premium amounts and values illustrated.

____
Policyowner (For Trust: this should be signed by the Trustee)

____
Date

Presented by: A ________________ Date ________________

Agent

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EXHIBIT H

Page 2

The Abbreviated Payment Plan uses dividend results to limit the number of premiums paid in cash. Results are not guaranteed. See Form for details on how the Abbreviated Payment Plan works. Refer to the following "Full" Pay Ledger for a complete schedule of premium payments.

ABBREVIATED PAYMENT PLAN RESULTS

	Results Based on the Current Dividend Scale			Results Based on a Dividend Interest Rate 1% less than Current Scale		
Pol Yr	YEARLY PAYMENT	TOTAL CSV*	TOTAL DB*	YEARLY PAYMENT	TOTAL CSV*	TOTAL DB*
1	1340	0	100000	1340	0	100000
2	1340	303	100000	1340	303	100000
3	1340	1434	100543	1340	1424	100543
4	1340	2638	101188	1340	2606	101143
5	1340	3923	101934	1340	3853	101797
6	1340	5537	102788	1340	5412	102506
7	1340	7302	103886	1340	7100	103405
8	1340	9420	105268	1340	9119	104525
9	1340	11717	107116	1340	11290	106054
10	1340	14207	109241	1340	13626	107800
11	1340	16845	111638	1340	16076	109758
12	&&	18252	109968	1340	18706	111738
13	&&	19772	108590	&&	20090	109938
14	&&	21411	107472	&&	21568	108374
15	&&	23171	106604	&&	23142	107030
16	&&	25060	105955	&&	24818	105881
17	&&	27087	105528	&&	26598	104921
18	&&	29256	105313	&&	28487	104143
19	&&	31579	105305	&&	30490	103539
20	&&	34061	105496	&&	32610	103098
AGE						
65	&&	68968	127876	&&	59968	114754
75	&&	138623	186933	&&	108585	150087

****

&& Based on the dividend scale reflected, which is not guaranteed, no out-of-pocket cash outlay is required. Premiums are assumed to be paid by application of dividend credits. A reduction in the dividend scale could require you to make additional out-of-pocket cash outlays in one or more of these years.

EXHIBIT I

PAGE 1 OF 2

UNIVERSAL LIFE

PREPARED FOR: MALE CLIENT
ISSUE AGE: 35/MALE NON-SMOKER
SPECIFIED AMT: $ 100,000
DB OPTION: A/SPECIFIED AMOUNT
PREPARED BY:

PLANNED PREMIUM: $ 700.00
PREMIUM MODE: ANNUAL
ADD'L 1ST YR PREMIUM: $ 0.00
DATE PREPARED: 05-28-91

			CURRENT 8.50%			ILLUSTRATIVE 7.00%			GUARANTEED 4.00%		
YR	AGE	ANNUALIZED PREMIUM	ACCOUNT VALUE	CASH VALUE	DEATH BENEFIT	ACCOUNT VALUE	CASH VALUE	DEATH BENEFIT	ACCOUNT VALUE	CASH VALUE	DEATH BENEFIT
1	36	700	539	0	100,000	550	0	100,000	458	0	100,000
2	37	700	1,155	471	100,000	1,128	444	100,000	918	234	100,000
3	38	700	1,795	1,119	100,000	1,740	1,064	100,000	1,380	704	100,000
4	39	700	2,482	1,814	100,000	2,387	1,719	100,000	1,845	1,177	100,000
5	40	700	3,218	2,559	100,000	3,070	2,411	100,000	2,308	1,649	100,000
TOTAL		3500									
6	41	700	4,009	3,471	100,000	3,794	3,256	100,000	2,768	2,230	100,000
7	42	700	4,858	4,446	100,000	4,558	4,146	100,000	3,222	2,810	100,000
8	43	700	5,772	5,492	100,000	5,369	5,089	100,000	3,669	3,389	100,000
9	44	700	6,754	6,611	100,000	6,227	6,084	100,000	4,105	3,962	100,000
10	45	700	7,812	7,812	100,000	7,137	7,137	100,000	4,529	4,529	100,000
TOTAL		7000									
11	46	700	8,951	8,951	100,000	8,102	8,102	100,000	4,937	4,937	100,000
12	47	700	10,180	10,180	100,000	9,126	9,126	100,000	5,328	5,328	100,000
13	48	700	11,506	11,505	100,000	10,214	10,214	100,000	5,698	5,698	100,000
14	49	700	12,938	12,938	100,000	11,372	11,372	100,000	6,044	6,044	100,000
15	50	700	14,486	14,486	100,000	12,603	12,603	100,000	6,362	6,362	100,000
TOTAL		10500									
16	51	700	16,158	16,158	100,000	13,911	13,911	100,000	6,646	6,646	100,000
17	52	700	17,963	17,963	100,000	15,301	15,301	100,000	6,888	6,888	100,000
18	53	700	19,912	19,912	100,000	16,777	16,777	100,000	7,079	7,079	100,000
19	54	700	22,018	22,018	100,000	18,344	18,344	100,000	7,209	7,209	100,000
20	55	700	24,293	24,293	100,000	20,010	20,010	100,000	7,264	7,264	100,000
TOTAL		14000									
25	60	700	40,361	40,361	100,000	29,793	29,793	100,000	6,065	6,065	100,000
30	65	700	65,295	65,295	100,000	42,594	42,594	100,000	799	799	100,000
TOTAL		21000									

THE CURRENT RATE IS 8.50% FOR YEARS 1-20, AND 9.30% FOR YEARS THEREAFTER.

EXHIBIT I

PAGE 2 OF 2

UNIVERSAL LIFE

PREPARED FOR:	MALE CLIENT	PLANNED PREMIUM:	$ 700.00
ISSUE AGE:	35/MALE NON-SMOKER	PREMIUM MODE:	ANNUAL
SPECIFIED AMT:	$ 100,000	ADD'L 1ST YR PREMIUM:	$ 0.00
DB OPTION:	A/SPECIFIED AMOUNT		
PREPARED BY:		DATE PREPARED:	05-28-91

SUMMARY OF VALUES

			CURRENT 8.50%			ILLUSTRATIVE 7.00%			GUARANTEED 4.00%		
YR	AGE	TOTAL PREMIUM	ACCOUNT VALUE	CASH VALUE	DEATH BENEFIT	ACCOUNT VALUE	CASH VALUE	DEATH BENEFIT	ACCOUNT VALUE	CASH VALUE	DEATH BENEFIT
1	36	700	559	0	100,000	550	0	100,000	458	0	100,000
10	45	7,000	7,812	7,812	100,000	7,137	7,137	100,000	4,529	4,529	100,000
20	55	14,000	24,293	24,293	100,000	20,010	20,010	100,000	7,264	7,264	100,000
25	60	17,500	40,361	40,361	100,000	29,793	29,793	100,000	6,065	6,065	100,000
30	65	21,000	65,295	65,295	100,000	42,594	42,594	100,000	799	799	100,000

	5% INTEREST ADJUSTED COST INDEXES				MONTHLY INCOME
	SURRENDER COST		NET PAYMENT COST		@ 65 - 10 YRS
	10TH YR	20TH YR	10TH YR	20TH YR	CERTAIN & LIFE
GUARANTEED VALUES:	3.58	4.91	7.00	7.00	5
7.00% ILLUSTRATIVE VALUES:	1.60	1.24	7.00	7.00	381
8.50% CURRENT VALUES:	1.09	0.01	7.00	7.00	584

COST INDEXES ARE USEFUL ONLY FOR COMPARISON OF THE RELATED COSTS OF SIMILAR POLICIES. CHARGES FOR ADDITIONAL BENEFITS HAVE BEEN REMOVED FROM THESE INDEXES.

THE GUARANTEED COLUMNS REFLECT A GUARANTEED INTEREST RATE OF 4.00% AND GUARANTEED COST OF INSURANCE RATES. ILLUSTRATION FOR USE IN THE STATE OF
INITIAL GUIDELINE PREMIUMS: NET SINGLE 15,176 NET LEVEL 1,333
MAXIMUM ANNUAL PREMIUM THAT COMPLIES WITH 7-PAY TEST: 3,981

COLUMNS OTHER THAN GUARANTEED SHOW VALUES BASED ON CURRENT COST OF INSURANCE RATES AND THE INTEREST RATE INDICATED, AND THESE COLUMNS ARE NOT GUARANTEED.
CURRENT INTEREST RATE IS DETERMINED MONTHLY.
USING PLANNED PREMIUMS THIS POLICY WILL TERMINATE IN POLICY YEAR 31 BASED ON GUARANTEED VALUES.

EXHIBIT J

UNIVERSAL LIFE ACCUMULATION PROPOSAL
PREPARED FOR

MALE NONSMOKER, AGE 45

$250,000

INITIAL ANNUAL PREMIUM	$2,131.54
TOTAL DEPOSIT AT ISSUE	$2,131.54

			GUARANTEED @ 5.5%			CURRENT @ 7.80% (9.40%*)			ASSUMED @ 7.55% (9.06%**)		
YEAR	AGE	PLANNED ANNUAL PREMIUM	POLICY VALUE	CASH VALUE	DEATH BENEFIT	POLICY VALUE	CASH VALUE	DEATH BENEFIT	POLICY VALUE	CASH VALUE	DEATH BENEFIT
1	45	2132	1459	0	250000	1498	0	250000	1493	0	250000
2	46	2132	2510	0	250000	3069	454	250000	3056	441	250000
3	47	2132	3550	935	250000	4698	2083	250000	4673	2058	250000
4	48	2132	4573	1958	250000	6392	3777	250000	6349	3734	250000
5	49	2132	5569	2954	250000	8134	5519	250000	8068	5453	250000
		10658									
6	50	2132	6532	4178	250000	9928	7574	250000	9832	7479	250000
7	51	2132	7443	5351	250000	11766	9674	250000	11634	9542	250000
8	52	2132	8283	6453	250000	13669	11839	250000	13494	11663	250000
9	53	2132	9034	7465	250000	15623	14054	250000	15396	13827	250000
10	54	2132	9668	8360	250000	19748	18441	250000	19375	18068	250000
		21315									
11	55	2132	10162	9116	250000	21985	20939	250000	21529	20483	250000
12	56	2132	10487	9703	250000	24344	23559	250000	23793	23008	250000
13	57	2132	10623	10100	250000	26814	26291	250000	26154	25631	250000
14	58	2132	10538	10276	250000	29399	29137	250000	28614	28352	250000
15	59	2132	10189	10189	250000	32101	32101	250000	31175	31175	250000
		31973									
16	60	2132	9745	9745	250000	35162	35162	250000	34075	34075	250000
17	61	2132	8949	8949	250000	38345	38345	250000	37075	37075	250000
18	62	2132	7728	7728	250000	41626	41626	250000	40151	40151	250000
19	63	2132	5997	5997	250000	44942	44942	250000	43233	43233	250000
20	64	2132	3656	3656	250000	55895	55895	250000	53465	53465	250000
		42631									

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MAY 31, 1991 VERSION 2.4 PAGE 1 OF 5

EXHIBIT J

UNIVERSAL LIFE ACCUMULATION PROPOSAL
PREPARED FOR

MALE NONSMOKER, AGE 45

$250,000

INITIAL ANNUAL PREMIUM	$2,131.54
TOTAL DEPOSIT AT ISSUE	$2,131.54

			GUARANTEED @ 5.5%			CURRENT @ 7.80% (9.40%*)			ASSUMED @ 7.55% (9.06%**)		
YEAR	AGE	PLANNED ANNUAL PREMIUM	POLICY VALUE	CASH VALUE	DEATH BENEFIT	POLICY VALUE	CASH VALUE	DEATH BENEFIT	POLICY VALUE	CASH VALUE	DEATH BENEFIT
21	65	2132	598	598	250000	59873	59873	250000	57084	57084	250000
22	66	2132	0	0	0	63844	63844	250000	60648	60648	250000
23	67	2132	0	0	0	67790	67790	250000	64133	64133	250000
24	68	2132	0	0	0	71694	71694	250000	67514	67514	250000
25	69	2132	0	0	0	75525	75525	250000	70751	70751	250000
		53288									
26	70	2132	0	0	0	79394	79394	250000	73947	73947	250000
27	71	2132	0	0	0	83155	83155	250000	76941	76941	250000
28	72	2132	0	0	0	86833	86833	250000	79743	79743	250000
29	73	2132	0	0	0	90368	90366	250000	82272	82272	250000
30	74	2132	0	0	0	110948	110948	250000	100051	100051	250000
		63946									
31	75	2132	0	0	0	116275	116275	250000	103810	103810	250000
32	76	2132	0	0	0	121714	121714	250000	107429	107429	250000
33	77	2132	0	0	0	127273	127273	250000	110861	110861	250000
34	78	2132	0	0	0	132960	132960	250000	114050	114050	250000
35	79	2132	0	0	0	138815	138815	250000	116952	116952	250000
		74604									
36	80	2132	0	0	0	144981	144981	250000	119632	119632	250000
37	81	2132	0	0	0	151488	151488	250000	121985	121985	250000
38	82	2132	0	0	0	158414	158414	250000	123928	123928	250000
39	83	2132	0	0	0	165875	165875	250000	125369	125369	250000
40	84	2132	0	0	0	205766	205766	250000	151661	151661	250000
		85262									

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EXHIBIT J

UNIVERSAL LIFE ACCUMULATION PROPOSAL
PREPARED FOR

MALE NONSMOKER, AGE 45

$250,000

INITIAL ANNUAL PREMIUM	$2,131.54
TOTAL DEPOSIT AT ISSUE	$2,131.54

			GUARANTEED @ 5.5%			CURRENT @ 7.80% (9.40%*)			ASSUMED @ 7.55% (9.06%**)		
YEAR	AGE	PLANNED ANNUAL PREMIUM	POLICY VALUE	CASH VALUE	DEATH BENEFIT	POLICY VALUE	CASH VALUE	DEATH BENEFIT	POLICY VALUE	CASH VALUE	DEATH BENEFIT
41	85	2132	0	0	0	220565	220565	250000	156316	156316	250000
42	86	2132	0	0	0	237856	237856	250000	161000	161000	250000
43	87	2132	0	0	0	257169	257169	270027	165724	165724	250000
44	88	2132	0	0	0	277744	277744	291631	170525	170525	250000
45	89	2132	0	0	0	299668	299668	314651	175617	175617	250000
		95919									
46	90	2132	0	0	0	323008	323008	339159	181113	181113	250000
47	91	2132	0	0	0	348339	348339	362273	187203	187203	250000
48	92	2132	0	0	0	375921	375921	387199	194136	194136	250000
49	93	2132	0	0	0	406029	406029	414150	202045	202045	250000
50	94	2132	0	0	0	508350	508350	513433	250060	250060	252561
		106577									
51	95	2132	0	0	0	550145	550145	550145	271078	271078	271078
52	96	2132	0	0	0	595199	595199	595199	293683	293683	293683
53	97	2132	0	0	0	643768	643768	643768	317994	317994	317994
54	98	2132	0	0	0	696125	696125	696125	344141	344141	344141
		115103									

Premium Summary: GLP4076.45/GSP54557.60/MP1827.50/TCP2325.00

THIS ILLUSTRATION IS ONLY VALID IF ALL PAGES ARE INCLUDED

EXHIBIT J

IMPORTANT INFORMATION ABOUT THIS PROPOSAL

has a reputation for financial integrity and for providing solid, long term value to its policyholders. In keeping with that tradition, we encourage our clients to fully examine and understand the assumptions used in a life insurance illustration. We have provided the following information to help you make an informed purchase decision.

This proposal is not a contract; we recommend that you refer to your policy for a complete explanation of your policy benefits.

GUARANTEED COLUMN ASSUMPTIONS

ONLY THOSE VALUES LABELLED AS 'GUARANTEED' IN THIS PROPOSAL WILL BE CONTRACTUALLY GUARANTEED IN YOUR POLICY.

Guaranteed values reflect the guaranteed cost of insurance charges which are not subject to change.

Guaranteed values are illustrated using a guaranteed interest rate of 4% at any time and 5.5% over the life of the policy.

CURRENT COLUMN ASSUMPTIONS

Current values are illustrated using a current interest rate of 7.8% and are based on current cost of insurance charges, which are subject to change.

Additional interest is credited at the end of every 10th year and will be equal to 30% of the unborrowed interest credited during the previous 10 years. The additional interest feature is guaranteed.

The additional interest feature affects the current values in the following manner:

YEAR	10	20	30	40	50
AMOUNT	$2105.37	$7620.01	$17163.83	$31712.05	$69324.55

*The interest rate, credited from purchase, required to produce equivalent cash values every 10th year is 9.40%.

THIS ILLUSTRATION IS ONLY VALID IF ALL PAGES ARE INCLUDED

EXHIBIT J

ASSUMED COLUMN ASSUMPTIONS

Assumed values are illustrated at an assumed interest rate of 7.55% and are based on current cost of insurance charges, which are subject to change.

Additional interest is credited at the end of every 10th year and will be equal to 30% of the unborrowed interest credited during the previous 10 years. The additional interest feature is guaranteed.

The additional interest feature affects the assumed values in the following manner:

YEAR	10	20	30	40	50
AMOUNT	$2020.11	$7164.21	$15513.62	$25417.76	$38886.11

**The interest rate, credited from purchase, required to produce equivalent cash values every 10th year is 9.06%.

POLICY LOANS AND PARTIAL WITHDRAWALS

No policy loans or partial withdrawals of the cash surrender value are shown on this proposal.

CASE DESIGN ASSUMPTIONS

Your policy is illustrated on an assumed policy value basis.

You should carefully review the full proposal including the section entitled "Important Information About This Proposal".

I have received and reviewed all 5 pages of this proposal, including the section entitled "Important Information About This Proposal".

____
Policyowner (For Trust: this should be signed by the Trustee)

____
Date

Presented by: ______________________________ ______________________
Date

Agent

PRESENTED BY:

EXHIBIT K

UNIVERSAL LIFE LEDGER

Prepared For: Confidential | Male Age 45 Non-Smoker
Specified Amount: $2,000,000.00
Presented By: | Annual Premium: $17,760.00
Policy: (Option 1) | Additional Payment: $0.00
For Issue In:
Illustration Date: 05/27/90 | Accelerated Benefit Rider: No

END OF YEAR	AGE	PREMIUM OUTLAY FOR YEAR	LOAN OR WITHDRAWAL	Policy Values Based On: Guar Min 4.5% Interest, Guar Max Insurance Cost, Guar Max Expense Charges — CASH VALUE	SURRENDER VALUE	DEATH BENEFIT	Policy Values Based On: Assumed 8.50% Interest, Current Insurance Cost, Current Expense Charges — CASH VALUE	SURRENDER VALUE	DEATH BENEFIT
1	46	17760	0	10717	0	2000000	12668	0	2000000
2	47	17760	0	21405	0	2000000	26001	0	2000000
3	48	17760	0	32034	0	2000000	40044	4524	2000000
4	49	17760	0	42564	7044	2000000	54867	19347	2000000
5	50	17760	0	52917	17397	2000000	70504	34984	2000000
6	51	17760	0	63056	30792	2000000	86998	54734	2000000
7	52	17760	0	72836	44124	2000000	104316	75604	2000000
8	53	17760	0	82110	56950	2000000	122466	97306	2000000
9	54	17760	0	90748	69140	2000000	141458	119850	2000000
10	55	17760	0	98550	80494	2000000	161405	143349	2000000
11	56	17760	0	105348	90844	2000000	183337	168833	2000000
12	57	17760	0	110943	99991	2000000	206540	195588	2000000
13	58	17760	0	115184	107784	2000000	231141	223741	2000000
14	59	17760	0	117869	114021	2000000	257265	253417	2000000
15	60	17760	0	118686	118390	2000000	285016	284720	2000000
16	61	17760	0	117298	117298	2000000	314512	314512	2000000
17	62	17760	0	113321	113321	2000000	345893	345893	2000000
18	63	17760	0	108179	108179	2000000	379285	379285	2000000
19	64	17760	0	97497	97497	2000000	414819	414819	2000000
20	65	17760	0	82400	82400	2000000	452473	452473	2000000
21	66	17760	0	62142	62142	2000000	491371	491371	2000000
22	67	17760	0	35964	35964	2000000	532896	532896	2000000
23	68	17760	0	2940	2940	2000000	577332	577332	2000000
24	69	17760	0	0	0	0	625151	625151	2000000
25	70	17760	0				675964	675964	2000000
26	71	17760	0				729812	729812	2000000
27	72	17760	0				787592	787592	2000000
28	73	17760	0				849474	849474	2000000
29	74	17760	0				915423	915423	2000000
30	75	17760	0				985932	985932	2000000
31	76	17760	0				1061726	1061726	2000000
32	77	17760	0				1143828	1143828	2000000
33	78	17760	0				1233488	1233488	2000000
34	79	17760	0				1332277	1332277	2000000
35	80	17760	0				1442078	1442078	2000000

THIS IS AN ILLUSTRATION, NOT AN OFFER OF INSURANCE. PAGE 1 OF 4

EXHIBIT K

ILLUSTRATION PREPARED FOR: Confidential (CONTINUED)

END OF YEAR	AGE	PREMIUM OUTLAY FOR YEAR	LOAN OR WITHDRAWAL	Policy Values Based On: Guar Min 4.5% Interest, Guar Max Insurance Cost, Guar Max Expense Charges — CASH VALUE	SURRENDER VALUE	DEATH BENEFIT	Policy Values Based On: Assumed 8.50% Interest, Current Insurance Cost, Current Expense Charges — CASH VALUE	SURRENDER VALUE	DEATH BENEFIT
36	81	17760	0				1565432	1565432	2000000
37	82	17760	0				1705588	1705588	2000000
38	83	17760	0				1865937	1865937	2000000
39	84	17760	0				2047057	2047057	2149410
40	85	17760	0				2243819	2243819	2356010
41	86	17760	0				2457378	2457378	2580247
42	87	17760	0				2689068	2689068	2823521
43	88	17760	0				2940417	2940417	3087438
44	89	17760	0				3213092	3213092	3373746
45	90	17760	0				3508903	3508903	3684349
46	91	17760	0				3829808	3829808	4021299
47	92	17760	0				4181260	4181260	4348510
48	93	17760	0				4566618	4566618	4703617
49	94	17760	0				4989645	4989645	5089438
50	95	17760	0				5454605	5454605	5509151

THIS IS AN ILLUSTRATION, NOT AN OFFER OF INSURANCE.

EXHIBIT K

UNIVERSAL LIFE ILLUSTRATION SUMMARY

Prepared For: Confidential
Presented By:
Policy: (Option 1)
For Issue In:
Illustration Date: 05/27/90

Male Age 45 Non-Smoker
Specified Amount: $2,000,000.00
Annual Premium: $17,760.00
Additional Payment: $0.00
Accelerated Benefit Rider: No

				GUARANTEED BASIS (4.50%)		ASSUMED BASIS (8.50%)	
END OF YR	AGE	TOTAL PREMIUMS PAID	TOTAL LOANS/ WITH-DRAWALS	SURRENDER VALUE	DEATH BENEFIT	SURRENDER VALUE	DEATH BENEFIT
1	46	17760	0	0	2000000	0	2000000
2	47	35520	0	0	2000000	0	2000000
3	48	53280	0	0	2000000	4524	2000000
4	49	71040	0	7044	2000000	19347	2000000
5	50	88800	0	17397	2000000	34984	2000000
10	55	177600	0	80494	2000000	143349	2000000
15	60	266400	0	118390	2000000	284720	2000000
20	65	355200	0	82400	2000000	452473	2000000
50	95	888000	0			5454605	5509151

THE FIRST YEAR BASIC ANNUAL PREMIUM INCLUDING RIDERS IS: $17,760.00

WARNING! TAX NOTICE: This illustration makes no representation or guarantees as to the tax treatment of life insurance transactions. The tax rules are complex and subject to change. This illustration is intended to comply with the rules limiting the amount of premiums (DEFRA) to meet the tax definition of life insurance. Loans or withdrawals may be taxable if premiums exceed allowances set forth under the law. The DEFRA and TAMRA premium limits are stated below only for the initial insurance amount. ANY POLICY CHANGE WOULD CHANGE THESE LIMITS:

DEFRA Single Premium Limit	$418,425.53
DEFRA Annual Premium Limit	$35,638.30
TAMRA Annual Premium Limit	$91,960.00

THE INFORMATION CONTAINED IN THIS ILLUSTRATION IS NOT INTENDED TO BE LEGAL OR TAX ADVICE. ADVICE MUST BE OBTAINED FROM APPLICANT'S OWN COUNSEL.

THIS IS AN ILLUSTRATION, NOT AN OFFER OF INSURANCE. PAGE 3 OF 4

EXHIBIT K

LIFE ILLUSTRATION SUMMARY (CONTINUED)

EXPENSE DEDUCTIONS: An expense deduction is made from each premium paid on the policy. The present deduction is 3.5% on policies with attained specified face amount less than $1,000,000, and 2.5% on policies of $1,000,000 or above. These percentages may be changed by the company at any time but can never exceed 6%. IN ADDITION, a monthly expense deduction is assessed against policies with attained specified amount less than $1,000,000. This charge is $5 on policies between $25,000 and $99,999, and $3.50 on policies between $100,000 and $999,999

CASH AND SURRENDER VALUE DEFINITIONS: Cash value is the policy value before the application of surrender charges. Surrender value is the policy value less any applicable surrender charges, withdrawals and outstanding loans. It is the amount actually available upon policy surrender.

PERSISTENCY BONUS, INSURANCE COSTS, EXPENSES AND INTEREST RATES: The current and assumed interest rate accumulations include an annual one half percent persistency bonus after the 10th year. The present insurance costs, expense charges and interest rates are subject to change by the company at any time. may credit excess interest which may vary from time to time under a pattern that depends upon the date of premium payments. Variation may be caused by such factors as: investment income, expenses, mortality and withdrawal experience under this series of Universal Life policies.

GUARANTEED BASIS: The expense charges and cost of insurance are illustrated at the maximum allowed. The guaranteed minimum rate of interest on policy cash values is 4.5%.

LOAN AMOUNT IS INCREASED, EACH YEAR, BY THE INTEREST DUE ON THE LOAN. PREMIUM PAYMENT IN EXCESS OF THE BASIC PREMIUM WILL BE APPLIED TO REDUCTIONS OF ANY LOAN. THE DEATH BENEFIT SHOWN IS THE "NET" AFTER LOANS OR WITHDRAWAL AMOUNTS. INTEREST ON LOANS WILL BE CHARGED IN ADVANCE AT 8% AND WILL BE CAPITALIZED ON THE POLICY ANNIVERSARY DATE, POLICY TERMINATION OR LOAN REPAYMENT.

VALUES ILLUSTRATED ARE END OF YEAR VALUES. PREMIUM PAYMENTS, LOANS AND WITHDRAWALS ARE ASSUMED TO OCCUR AT THE BEGINNING OF THE POLICY YEAR.

INDICES	GUARANTEED		ASSUMED	
	10 YEAR	20 YEAR	10 YEAR	20 YEAR
SURRENDER COST:	5.83	7.69	3.45	2.36
NET PAYMENT:	8.88	8.88	8.88	8.88

Indices assume the time value of money to be 5%. An explanation of the cost indices is provided in the "Life Insurance Buyer's Guide".

EXHIBIT L

FOR: Your Client
ISSUE AGE: 35 MALE NONSMOKER SELECT
INITIAL ANNUAL PREMIUM: $923.00
RIDERS: NONE

INITIAL FACE AMOUNT: $100,000
INITIAL DEATH BENEFIT OPTION: A LEVEL AMOUNT

END OF YR	AGE	GROSS ANNUAL OUTLAY	------- PROJECTED 8.00% ------- ACCOUNT VALUE*	CASH SURR VALUE	DEATH BENEFIT	--- MINIMUM GUARANTEE 4.50% --- ACCOUNT VALUE*	CASH SURR VALUE	DEATH BENEFIT
1	36	$923	$48	$0	$100,000	$0	$0	$100,000
2	37	923	806	0	100,000	549	0	100,000
3	38	923	1,633	756	100,000	1,152	275	100,000
4	39	923	2,532	1,655	100,000	1,764	887	100,000
5	40	923	3,508	2,631	100,000	2,384	1,507	100,000
6	41	923	4,562	3,732	100,000	3,008	2,177	100,000
7	42	923	5,698	4,914	100,000	3,636	2,851	100,000
8	43	923	6,919	6,180	100,000	4,266	3,527	100,000
9	44	923	8,230	7,538	100,000	4,896	4,204	100,000
10	45	923	9,774	9,774	100,000	5,605	5,605	100,000
11	46	923	11,406	11,406	100,000	6,249	6,249	100,000
12	47	923	13,173	13,173	100,000	6,889	6,889	100,000
13	48	923	15,087	15,087	100,000	7,525	7,525	100,000
14	49	923	17,163	17,163	100,000	8,153	8,153	100,000
15	50	923	19,853	19,853	100,000	8,980	8,980	100,000
16	51	923	22,394	22,394	100,000	9,614	9,614	100,000
17	52	923	25,492	25,492	100,000	10,372	10,372	100,000
18	53	923	28,979	28,979	100,000	11,147	11,147	100,000
19	54	923	32,920	32,920	100,000	11,939	11,939	100,000
20	55	923	37,355	37,355	100,000	12,748	12,748	100,000
21	56	923	41,646	41,646	100,000	13,308	13,308	100,000
22	57	923	46,320	46,320	100,000	13,817	13,817	100,000
23	58	923	51,412	51,412	100,000	14,264	14,264	100,000
24	59	923	56,960	56,960	100,000	14,641	14,641	100,000
25	60	923	63,002	63,002	100,000	14,933	14,933	100,000
26	61	923	69,584	69,584	100,000	15,124	15,124	100,000
27	62	923	76,752	76,752	100,000	15,191	15,191	100,000
28	63	923	84,531	84,531	106,509	15,106	15,106	100,000
29	64	923	92,880	92,880	115,172	14,837	14,837	100,000
30	65	923	101,861	101,861	124,271	14,351	14,351	100,000
31	66	923	111,619	111,619	133,943	13,612	13,612	100,000
32	67	923	122,206	122,206	145,425	12,579	12,579	100,000
33	68	923	133,694	133,694	157,759	11,205	11,205	100,000
34	69	923	146,162	146,162	171,010	9,433	9,433	100,000
35	70	923	159,697	159,697	185,249	7,185	7,185	100,000
36	71	923	174,394	174,394	200,553	4,357	4,357	100,000
37	72	923	190,407	190,407	215,160	814	814	100,000
38	73	923	207,870	207,870	230,736	**	**	**
39	74	923	226,935	226,935	247,359			
40	75	923	247,772	247,772	265,116			

Prepared on: May 20, 1991 Prepared by:
MIP: 325.00 MSP: 16,390.49 MAP: 1,151.10 MEP: 2,807.88 CONT: 923.00

EXHIBIT L

FOR: Your Client INITIAL FACE AMOUNT: $100,000
ISSUE AGE: 35 MALE NONSMOKER SELECT INITIAL DEATH BENEFIT OPTION: A LEVEL AMOUNT
INITIAL ANNUAL PREMIUM: $923.00
RIDERS: NONE

END OF YR	AGE	GROSS ANNUAL OUTLAY	PROJECTED 8.00% ACCOUNT VALUE*	PROJECTED 8.00% CASH SURR VALUE	PROJECTED 8.00% DEATH BENEFIT	MINIMUM GUARANTEE 4.50% ACCOUNT VALUE*	MINIMUM GUARANTEE 4.50% CASH SURR VALUE	MINIMUM GUARANTEE 4.50% DEATH BENEFIT
				SUMMARY				
Yr	10	$9,230	$9,774	$9,774	$100,000	$5,605	$5,605	$100,000
Yr	15	13,845	19,853	19,853	100,000	8,980	8,980	100,000
Yr	20	18,460	37,355	37,355	100,000	12,748	12,748	100,000
At	65	27,690	101,861	101,861	124,271	14,351	14,351	100,000
At	75	36,920	247,772	247,772	265,116	**	**	**

5.00% INTEREST ADJUSTED INDEXES	SURRENDER 10 YEARS	SURRENDER 20 YEARS	NET PAYMENT 10 YEARS	NET PAYMENT 20 YEARS
PROJECTED	1.83	-1.53	9.23	9.23
GUARANTEED	4.99	5.56	9.23	9.23

The current cost of insurance depends upon the premium payment pattern and the account value amount, and may increase or decrease accordingly.
GUARANTEED VALUES: Based on guaranteed interest, expense, and cost of insurance rates. The guaranteed interest rate is 75% of the 90 day CD rate, Chemical Bank of New York, but in no event less than 4.50%.
PROJECTED VALUES: Based on the projected interest rate, current expense and cost of insurance which are subject to change. Current interest rates are declared quarterly.
Projected and Guaranteed Values include guaranteed added interest credits on unborrowed values as follows: 0.25% at the end of year 10, an additional 0.25% at the end of year 15, and 0.125% at the end of years 17, 18, 19 and 20. The interest will be credited retroactively from the date of issue and prospectively while the policy is inforce. Cash values equal to any outstanding loan balance will earn interest at 4.5%.
* Account Values subject to a graded surrender charge if policy is wholly or partially surrendered in first nine years.
** The Payments shown are not sufficient to maintain a policy in force under these assumptions.
The policy matures at age 100 on a projected basis with an Account Value of $2,093,184.
This is an illustration, not a contract. Policy Form in Texas is LS0087.
THIS ILLUSTRATION HAS BEEN CHECKED AGAINST FEDERAL TAX LAWS.
THIS ILLUSTRATION HAS BEEN CHECKED AGAINST THE 7-PAY TEST.

Prepared on: May 20, 1991 Prepared by:
MIP: 325.00 MSP: 16,390.49 MAP: 1,151.10 MEP: 2,807.88 CONT: 923.00

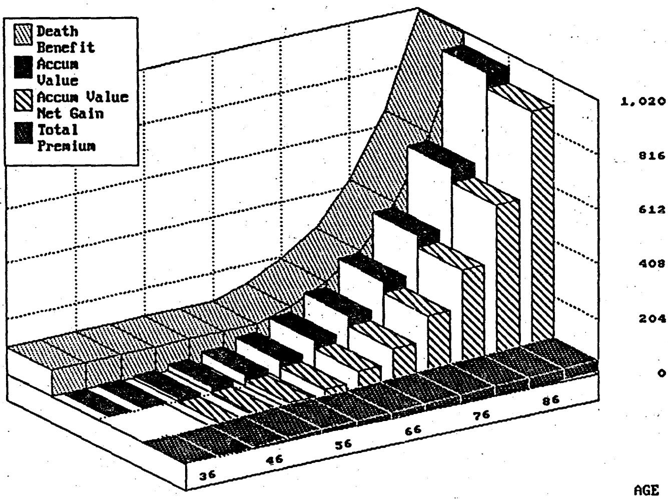
EXHIBIT L

NET GAIN ANALYSIS

Illustration for: Your Client
Provided by:

Age 35
Death Benefit: 100000
Initial Premium: 923

(shown in thousands of dollars)



*SEE ATTACHED PROPOSAL ILLUSTRATION FROM
FOR DETAILS AND GUARANTEES.

Illustrates total cash accumulation based on current interest rate. Net Gain represents cash growth in excess of cumulative payments made into the policy. Net gain at age 65, 74171. Net gain at age 75, 210852.

Prepared by:

EXHIBIT M

A Living Benefit Universal Life Plan
for
Client

LIVING BENEFIT UNIVERSAL LIFE PLAN described below, is one of the most versatile and comprehensive life insurance programs available.

Most of us realize the need to provide additional dollars for our families in the event of our premature death. However, in today's world of improved technology the main concern has changed from "What if I die prematurely," to "What if I survive a serious illness."

* "How do I pay for expenses not covered by health insurance?"
* "How do I pay for rehabilitation expenses?"
* "How do I make up for lost income?"

The solution to this new problem is LIVING BENEFIT UNIVERSAL LIFE PLAN!" With this innovative program, we will pay you a LIVING BENEFIT upon confirmed diagnosis of one of several specified conditions. You do not have to die to collect!

COVERED CONDITIONS:
* HEART ATTACK
* STROKE
* LIFE THREATENING CANCER
* RENAL FAILURE
* CORONARY HEART SURGURY

HERE IS HOW IT WORKS

You will receive $25,000 upon diagnosis of one of the specified catastrophic illnesses.

If you die after receiving this LIVING BENEFIT, your beneficiaries will receive an additional $75,000.

However, should you never experience one of these conditions, your beneficiaries will receive $100,000 TAX-FREE AND PROBATE-FREE upon your death, PLUS any additional supplemental benefits.

Thank you for considering our exciting new LIVING BENEFIT plan. We hope you will agree that this program offers the highest degree of protection and peace of mind for you and your loved ones.

EXHIBIT M

Client

Living Benefit Universal Life Illustration

P O L I C Y   S U M M A R Y

Sex: Male	Age: 35	Premium Classification:	Standard
Prepared by:		Date:	05/13/91
Total Death Benefit:	$100,000	Death Benefit Option:	1
Specified Amount:	$75,000	Planned Payment Period:	60 years
Accelerated Benefit:	$25,000	Coverage Period:	60 years
Planned Annual Premium:	$705.53	Mode of Payment:	ANNUAL
Initial Supp'l Premium:	$0.00	Total Modal Premium:	$705.53

The annual deduction for $25,000 Accelerated Death Benefit: $76.32

A G E	Total Premium to Date	Total Withdr. to Date	PROJECTED VALUES AT 8.00% INTEREST Accum. Value	Surrend. Value	Death Benefit	GUARANTEED VALUES AT 5.00% INTEREST Accum. Value	Surrend. Value	Death Benefit
36	705	0	390	26	100000	375	26	100000
37	1411	0	886	161	100000	758	60	100000
38	2116	0	1410	670	100000	1144	446	100000
39	2822	0	1963	1209	100000	1532	835	100000
40	3527	0.	2555	1783	100000	1920	1222	100000
41	4233	0	3189	2419	100000	2305	1642	100000
42	4938	0	3866	3109	100000	2684	2056	100000
43	5644	0	4580	3835	100000	3055	2462	100000
44	6349	0	5343	4608	100000	3415	2857	100000
45	7055	0	7652	6925	100000	5410	4887	100000
46	7760	0	8640	7868	100000	5827	5339	100000
47	8466	0	9694	8922	100000	6228	5775	100000
48	9171	0	10811	10038	100000	6610	6192	100000
49	9877	0	12005	11228	100000	6969	6586	100000
50	10582	0	13277	12493	100000	7300	6951	100000
51	11288	0	14632	14353	100000	7599	7320	100000
52	11994	0	16074	15865	100000	7857	7648	100000
53	12699	0	17609	17470	100000	8066	7926	100000
54	13405	0	19242	19172	100000	8215	8145	100000
55	14110	0	23404	23404	100000	11587	11587	100000
65	21165	0	55054	55054	100000	14581	14581	100000
70	24693	0	80001	80001	117802	2714	2714	100000
95	42331	0	422989	422989	452219	@@@	@@@	@@@

Interest Adjusted Cost Indices (@ 5 percent)	Current Basis 10 Year	20 Year	Guaranteed Basis 10 Year	20 Year
Net Payment Cost Index:	7.05	7.05	7.05	7.05
Surrender Cost Index:	1.81	0.31	3.35	3.71

Federally Legislated Guideline Single Premium is $20,369.44.
Federally Legislated Guideline Level Premium is $1,532.15.

EXHIBIT M

Notes to the Universal Life Illustration

Values are illustrated and based on premiums shown in the Total Premiums column of the Ledger Printout and are subject to policy provisions. Guaranteed values are calculated using the maximum cost of insurance factors that would be contained within the policy and a minimum guaranteed interest rate of 5.0%. Projected values are calculated using projected cost of insurance factors, and a current nonguaranteed interest rate of 8.00%, with an additional nonguaranteed persistency bonus of .5 % of additional interest beginning in the sixth policy year. The current interest rate and projected cost of insurance factors are not guaranteed and may be changed by the Company. Your actual values under the insurance program may change with variations in the interest rates, cost of insurance factors (mortality risk charges), and frequency, timing, and amount of your premium payments. As plan values may change in the future due to these factors, subsequent and similar illustrations may be furnished to you upon request.

Projected cost of insurance factors are based upon our current estimations of future mortality experience and ARE NOT GUARANTEED.

@@@ Based on guaranteed values, policy coverage would terminate during policy year 36 unless planned periodic premiums are increased at that point. Additional contributions that increase the death benefit of the policy may require evidence of insurability.

The amount of actual cash value available upon surrender of this coverage is subject to a Surrender Charge as described in your issued policy. During the first policy year, the amount of such charge would be $363.75 . Charges for subsequent policy years are shown on Page 1 of this proposal as the difference between Accumulation Value and Surrender Value.

In the event of a policy loan, interest at the rate of 7.4% would be due annually in advance. The current rate of interest being credited to policy values impaired by policy loans is 6.0%.

After the first policy year, withdrawals can be made against the Net Surrender Value of the policy for a $25 administrative charge, as long as the amount is at least $500. After the withdrawal is made, at least $500 must remain in the Surrender Value. Withdrawals decrease the Death Benefit of the policy by the amount withdrawn.

Premium contributions, loans, and withdrawals are illustrated as of the beginning of the year. All other amounts are shown as of the end of the year.

Death benefits are shown as being reduced by any applicable withdrawals or loans. Any increases in coverage requested by the policyholder may require evidence of insurability, and are subject to the appropriate cost of insurance deductions.

EXHIBIT M

Notes to the Universal Life Illustration
(continued)

A corridor amount of coverage, designed to comply with the current tax code, must be maintained in order for the coverage to enjoy favorable tax treatment. As such, any single premium, or other substantial additional premium tendered, or any request for a reduction in coverage that would violate the requirements of the tax code may result in the LOSS of this favorable tax treatment. The tax status of this policy as it it applies to the owner of this contract should be reviewed each year.

Every effort has been made to comply with current tax law. However, due to the complexities and frequent changes in the tax code, premium patterns illustrated may not comply with all Federal limitations. The content of this illustration should not be interpreted as assurance that premium tests have been satisfactorily met. In the event actual premiums received may adversely affect tax treatment, the policyowner will be notified. For complete information, it is recommended that a qualified tax advisor be consulted.

An explanation of the intended use of the Cost Indices is provided in the Life Insurance Buyer's Guide. Such indices are useful only for the comparison of the relative costs of two or more similar policies. These indices have been calculated using the interest adjusted method with an assumed interest rate of 5%.

At the end of the 10 th policy year $1,500.94, was returned to the Projected Accumulation Value by the UL-300+Plus.

UL-300+Plus is subject to guidelines which are numerous and complex. Please consult the policy form for complete details and information. Projected cost of insurance factors are based upon our current estimations of future mortality experience and ARE NOT GUARANTEED.

The schedule of premiums illustrated on this proposal would qualify the policy for the UL-300+Plus return of mortality bonus through the 60th year, assuming there were no loans or withdrawals which violated the UL-300+Plus guidelines. (See the policy for full details.)

This illustration includes an accelerated Benefit Rider which will pay a pre-death benefit for the conditions outlined in the policy. If the benefit is not paid sooner, it will be included as a death benefit.

EXHIBIT N

STATEMENT OF CERTIFICATE (POLICY) COST AND BENEFIT INFORMATION
YEARLY RENEWABLE TERM ILLUSTRATION
for You

Male, Age 35, Nonsmoker
$100,000

Current Premium:

Annual	$	130.00
Quarterly	$	33.90
Monthly	$	11.12

CTF YR	ATT AGE	GUARANTEED DEATH BENEFIT	TOTAL CURRENT PREMIUM*	ACCUMULATED PREMIUM*	GUARANTEED PREMIUM
1	36	100,000	130.00	130.00	228.00
2	37	100,000	138.00	268.00	239.00
3	38	100,000	146.00	414.00	254.00
4	39	100,000	174.00	588.00	276.00
5	40	100,000	202.00	790.00	297.00
6	41	100,000	230.00	1,020.00	323.00
7	42	100,000	258.00	1,278.00	352.00
8	43	100,000	266.00	1,544.00	380.00
9	44	100,000	274.00	1,818.00	410.00
10	45	100,000	282.00	2,100.00	440.00
11	46	100,000	290.00	2,390.00	472.00
12	47	100,000	314.00	2,704.00	506.00
13	48	100,000	342.00	3,046.00	541.00
14	49	100,000	366.00	3,412.00	580.00
15	50	100,000	394.00	3,806.00	624.00
20	55	100,000	608.00	6,364.00	931.00
25	60	100,000	1,010.00	10,510.00	1,410.00
27	62	100,000	1,238.00	12,870.00	1,657.00
30	65	100,000	1,694.00	17,460.00	2,221.00
35	70	100,000	2,646.00	28,885.00	3,538.00
45	80	100,000	6,372.00	70,589.00	9,032.00
55	90	100,000	16,682.00	185,221.00	21,220.00
65	100	100,000	36,619.00	452,361.00	98,090.00

*This May 30, 1991 illustration is based on the assumptions shown. Columns marked with an * are neither guarantees nor estimates. Actual experience may be different.

COST COMPARISON INDEXES -- BASED ON 5.00% INTEREST

	10 Years	20 Years
Life Insurance Surrender Cost Index	2.02	2.82
Life Insurance Net Payment Cost Index	2.02	2.82

An explanation of the intended use of these indexes is provided in the buyer's guide.

*This May 30, 1991 illustration is based on the assumptions shown. Columns marked with an * are neither guarantees nor estimates. Actual experience may be different.

EXHIBIT O

PROTECTOR ILLUSTRATION
(Policy Form
P O L I C Y   S U M M A R Y

Name:	Client	Death Benefit:	$150,000
Sex: Male	Age: 35	Prem Classification:	Non-Smoker
Date:	May 13, 1991	Annual Premium:	$219.50
Prepared By:		Annual Premium:	$219.50

** BASE POLICY INFORMATION **					** PROTECTOR RIDER **		
AGE	DEATH BENEFIT	CURRENT PREMIUM RE-ENTRY	CURRENT PREMIUM NO RE-ENTRY	GUARANTEED PREMIUM NO RE-ENTRY	AGE	DEATH BENEFIT	CURRENT PREMIUM RE-ENTRY
35	150,000	220	220	220			
36	150,000	220	220	220			
37	150,000	220	220	220			
38	150,000	220	220	220			
39	150,000	220	220	220			
40	150,000	220	220	220			
41	150,000	220	220	220			
42	150,000	220	220	220			
43	150,000	220	220	220			
44	150,000	220	220	220			
45	150,000	443	485	638			
46	150,000	443	629	832			
47	150,000	443	809	1,075			
48	150,000	443	1,052	1,403			
49	150,000	443	1,340	1,792			
50	150,000	443	1,706	2,285			
51	150,000	443	2,110	2,831			
52	150,000	443	2,578	3,463			
53	150,000	443	3,137	4,217			
54	150,000	443	3,818	5,137			

Interest Adjusted cost Indices (@ 5 percent)	Projected, Re-entry Basis 10 Year	20 Year	Guaranteed Basis 10 Year	20 Year
Net Payment cost Index:	1.47	2.03	1.47	6.42
Surrender Cost Index:	1.47	2.03	1.47	6.42

The rates shown for the first 10 years are guaranteed. The re-entry rates shown are not guaranteed and are subject to evidence of insurability. The rates shown under the re-entry columns assume that you elect to re-enter and meet the necessary qualifications.

This Proposal is for Illustration purposes only and is not a contract.

EXHIBIT P

05-17-91 PAGE: 1

ILLUSTRATION FOR: Sample output for SOA
Mrs. Sample Output for SOA

AGE: 55 MALE NONSMOKER
55 FEMALE NONSMOKER
55 JOINT EQUAL AGE

PROVIDED BY:

COVERAGE SUMMARY:	AMOUNT	TO AGE	ANNUAL PREMIUM	ANNUALIZED PREMIUM
	1,000,000	100	15,550.00	15,550.00
TOTAL			15,550.00	15,550.00

AGE	END OF YR	ANNUAL PREMIUM	TOTAL ANNUAL DIVIDEND	PUA AMOUNT	PUA CASH VALUE	GTD CASH VALUE	TOTAL CASH VALUE	TOTAL REDUCED PAID-UP	TOTAL DEATH BENEFIT
56	1	15550	0	0	0	0	0	0	1000000
57	2	15550	0	0	0	15980	15980	66797	1000000
58	3	15550	290	1150	290	32710	33000	130865	1001150
59	4	15550	702	3794	1008	50210	51218	192768	1003794
60	5	15550	1314	8489	2376	68500	70876	253278	1008489
61	6	15550	2095	15601	4596	87580	92176	312899	1015601
62	7	15550	3166	25815	8002	107470	115472	372535	1025815
63	8	15550	4533	39722	12948	128160	141108	432904	1039722
64	9	15550	6327	58191	19934	149620	169554	494968	1058191
65	10	15550	8523	81883	29456	171850	201306	559596	1081883
66	11	15550	10679	110172	41587	194790	236377	626207	1110172
67	12	15550	13334	143866	56935	218430	275365	695807	1143866
68	13	15550	16404	183437	76041	242730	318771	768981	1183437
69	14	15550	19872	229244	99452	267680	367132	846266	1229244
70	15	15550	22897	279724	126879	293240	420119	926215	1279724
71	16	15550	26207	335039	158732	319350	478082	1009095	1335039
72	17	15550	29901	395535	195501	345860	541361	1095275	1395535
73	18	15550	33854	461264	237576	372740	610316	1184955	1461264
74	19	15550	38259	532648	285476	399780	685256	1278568	1532648
75	20	15550	42869	609635	339469	426790	766259	1376086	1609635
76	21	15550	47730	692271	399850	453630	853480	1477654	1692271
77	22	15550	53094	781040	467156	480190	947346	1583871	1781040
78	23	15550	58773	876085	541744	506380	1048124	1694981	1876085
79	24	15550	64778	977569	623989	532170	1156159	1811291	1977569
80	25	15550	70952	1085415	714089	557500	1271589	1932815	2085415
81	26	15550	77331	1199631	812221	582290	1394511	2059658	2199631
82	27	15550	84460	1321034	919040	606400	1525440	2192678	2321034
83	28	15550	92112	1450102	1034897	629650	1664547	2332371	2450102
84	29	15550	100736	1587939	1160518	651840	1812358	2479853	2587939
85	30	15550	109742	1734829	1296096	672890	1968986	2635495	2734829

EXHIBIT P

05-17-91 PAGE: 2

ILLUSTRATION FOR: Sample output for SOA
Mrs. Sample Output for SOA
PROVIDED BY:

AGE: 55 MALE NONSMOKER
55 FEMALE NONSMOKER
55 JOINT EQUAL AGE

* * * * * * SUMMARY * * * * * *

AGE	END OF YR	ACCUM. ANNUAL PREMIUM	TOTAL ANNUAL DIVIDEND	PUA AMOUNT	PUA CASH VALUE	GTD CASH VALUE	TOTAL CASH VALUE	TOTAL REDUCED PAID-UP	TOTAL DEATH BENEFIT
65	10	155500	8523	81883	29456	171850	201306	559596	1081883
70	15	233250	22897	279724	126879	293240	420119	926215	1279724
75	20	311000	42869	609635	339469	426790	766259	1376086	1609635
85	30	466500	109742	1734829	1296096	672890	1968986	2635495	2734829
95	40	622000	229832	3788710	3338184	846190	4184374	4749103	4788710
100	45	699750	279958	5363390	5363390	1000000	6363390	6363390	6363390

	INTEREST ADJUSTED INDICES @ 5.00% 10 YEAR	20 YEAR
SURRENDER COST INDEX	0.49	-4.49
NET PAYMENT INDEX	13.51	7.80
EQUIVALENT LEVEL ANNUAL DIVIDEND	2.04	7.75

	GUARANTEED VALUES LIFE ONLY	GUARANTEED VALUES 10 YR. CERT.	CURRENT VALUES LIFE ONLY	CURRENT VALUES 10 YR. CERT.
MONTHLY INCOME AT AGE 65	1147.96	1074.06	1898.32	1797.66

DIVIDENDS BUY PAID UP ADDITIONS TO AGE 100.

DIVIDENDS IN THIS ILLUSTRATION ARE BASED ON THE CURRENT DIVIDEND SCALE AND ARE NEITHER GUARANTEED NOR ESTIMATED FOR THE FUTURE.

ISSUE OF THIS POLICY AT THE RATES ILLUSTRATED IS SUBJECT TO UNDERWRITING APPROVAL.

BASED ON AN INITIAL SEVEN PAY PREMIUM OF 35,900.00, THIS POLICY IS NOT A MODIFIED ENDOWMENT CONTRACT.

EXHIBIT P

05-17-91 PAGE: 3

ILLUSTRATION FOR: Sample output for SOA
Mrs. Sample Output for SOA
PROVIDED BY:

AGE: 55 MALE NONSMOKER
55 FEMALE NONSMOKER
55 JOINT EQUAL AGE

THE DEATH BENEFIT SHOWN IS PAID UPON THE SECOND DEATH. NO INSURANCE BENEFITS OTHER THAN THE OPTIONAL 1ST DEATH TERM RIDER ARE PAYABLE AT THE FIRST DEATH. AGE SHOWN IS BASED UPON THE JOINT EQUAL AGE AND IS NOT NECESSARILY THE AGE OF EITHER INSURED.

EXHIBIT Q

236

** ILLUSTRATIONS ** PAGE 1 OF 7

PREPARED ON 05/30/91

MALE 55 NON-SMOKER
FEMALE 55 NON-SMOKER

500,000	FORM	
	PREFERRED	9619.15
500,000	TARGET ADDITIONAL BENEFIT	
	499,092.95 ONE YEAR TERM	
	PUI-Q-RDR(INCLUDES 174.60 TERM PREMIUM)	500.00
	DIV. OPT. "O"	
	POLICY SPLIT OPTION	INCLUDED (*)
		10119.15

ILLUSTRATION ASSUMES BOTH INSUREDS LIVING.

POLICY YEAR	(1) ANNUAL OUTLAY	(2) CUM ANNUAL OUTLAY	(3) TOTAL DIVID	(4) FACE ONE YEAR TERM	(5) FACE AMT OF ADDS	(6) FACE AMOUNT R/ADDS	(7) GUAR CASH VALUE YR END	(8) CASH VALUE OF ADDS	(9) NET CASH VALUE YR END	(10) DEATH BENEFIT BEGIN YEAR
1	10119	10119	0	499093	0	907	0	0	313	1000000
2	10119	20238	0	498216	0	1784	1035	41	1967	1000000
3	10119	30357	295	496575	338	3086	10570	207	12330	1000000
4	10119	40477	495	494444	1211	4345	20370	599	23243	1000000
5	10119	50596	751	491713	2725	5562	30435	1288	34064	1000000
6	10119	60715	1155	488044	5217	6739	40770	2446	47252	1000000
7	10119	70834	1600	483402	8720	7878	51365	4134	60452	1000000
8	10119	80953	2083	477761	13259	8980	62195	6411	74794	1000000
9	10119	91072	2904	470410	19543	10047	73245	9667	90699	1000000
10	10119	101192	4133	460667	28254	11080	84485	14327	108244	1000000
11	0	101192	5482	470168	18753	11080	95915	9932	116477	1000000
12	0	101192	6261	477921	10999	11080	107530	6160	125546	1000000
13	0	101192	7101	483946	4975	11080	119340	3078	135663	1000000
14	0	101192	8142	487984	937	11080	131345	912	146893	1000000
15	0	101192	9239	490089	0	9911	143550	358	159327	1000000
16	0	101192	10417	490300	0	9700	155920	362	173006	1000000
17	0	101192	11686	488625	1676	9700	168415	1399	188009	1000000
18	0	101192	13078	485025	5275	9700	180980	3705	204397	1000000
19	0	101192	14596	479490	10810	9700	193535	7390	222209	1000000
20	0	101192	16261	471971	18330	9700	206035	12586	241502	1000000
21	0	101192	18051	462643	27657	9700	218445	19276	261852	1000000
22	0	101192	19599	452207	38093	9700	230735	27058	283132	1000000
23	0	101192	21181	440892	49409	9700	242920	35818	305245	1000000
24	0	101192	22789	428968	61332	9700	255010	45398	328031	1000000
25	0	101192	24403	416751	73549	9700	267000	55588	351311	1000000

** ILLUSTRATIONS ** PAGE 2 OF 7

PREPARED ON 05/30/91

EXHIBIT Q

POLICY YEAR	(1) ANNUAL OUTLAY	(2) CUM ANNUAL OUTLAY	(3) TOTAL DIVID	(4) FACE ONE YEAR TERM	(5) FACE AMT OF ADDS	(6) FACE AMOUNT R/ADDS	(7) GUAR CASH VALUE YR END	(8) CASH VALUE OF ADDS	(9) NET CASH VALUE YR END	(10) DEATH BENEFIT BEGIN YEAR
26	0	101192	26045	404003	86298	9700	278850	66579	375244	1000000
27	0	101192	27738	390821	99479	9700	290505	78306	399737	1000000
28	0	101192	29508	377266	113035	9700	301890	90728	424687	1000000
29	0	101192	31372	363345	126955	9700	312930	103830	449997	1000000
30	0	101192	33327	349069	141231	9700	323590	117587	475563	1000000
31	0	101192	35320	334482	155818	9700	333870	131951	501295	1000000
32	0	101192	37303	319659	170641	9700	343815	146849	527153	1000000
33	0	101192	39249	304677	185624	9700	353485	162215	553114	1000000
34	0	101192	41130	289587	200714	9700	362990	178013	579247	1000000
35	0	101192	42933	274416	215885	9700	372445	194243	605680	1000000
36	0	101192	44660	259115	231186	9700	382005	210997	632674	1000000
37	0	101192	46330	243546	246755	9700	391855	228469	660609	1000000
38	0	101192	47944	227511	262789	9700	402210	246944	690004	1000000
39	0	101192	49533	210678	279622	9700	413320	266892	721606	1000000
40	0	101192	51146	192540	297761	9700	425390	288985	756356	1000000
41	0	101192	52898	172264	318036	9700	438465	314221	795356	1000000
42	0	101192	54932	148797	341503	9700	452535	343844	839807	1000000
43	0	101192	57251	120446	369854	9700	467410	379609	890963	1000000
44	0	101192	59454	85401	404900	9700	483205	422708	948338	1000000
45	0	101192	58557	55198	435102	9700	500000	463236	1005349	1000000

PLEASE SEE ATTACHED SHEETS WITH IMPORTANT FOOTNOTES

SUMMARY AT 20 YRS

TOTAL PREMIUMS:		101191
(LESS) TOTAL CASH VALUE:		241501
(GUARANTEED)	206035	
(VALUE OF DIVIDENDS)	35466	
DIFFERENCE		-140310
AVERAGE DIFFERENCE PER YEAR		-7015
AVERAGE DEATH BENEFIT	1006626	
5% INTEREST ADJUSTED COSTS(1):		
AT 10 YEARS	3.85	
AT 20 YEARS	-1.76	
5% INTEREST ADJUSTED PAYMENTS:		
AT 10 YEARS	16.64	
AT 20 YEARS	10.11	

237

GUARANTEED CASH VALUES AS SHOWN ON THIS ILLUSTRATION ARE ONLY AVAILABLE IF ALL PREMIUMS HAVE BEEN PAID. THE ANNUAL RATE OF INTEREST UNDERLYING THE COMPUTATION OF THESE GUARANTEES IS 4.00%.

ALL CASH VALUES SHOWN ARE END OF YEAR VALUES.

ALL ILLUSTRATIONS FOR INDIVIDUAL LIFE INSURANCE PRODUCTS ARE TESTED FOR THE POSSIBILITY OF CLASSIFICATION AS A MODIFIED ENDOWMENT FOR THE PURPOSES OF FEDERAL INCOME TAXATION. THIS TEST APPLIES TO POLICIES ENTERED INTO AFTER JUNE 20, 1988 AND MAY NOT BE USED FOR POLICIES IN FORCE BEFORE THAT DATE.

THE ILLUSTRATED OUTLAYS SHOWN ON THIS ILLUSTRATION WOULD NOT CAUSE IT TO BE CLASSIFIED AS A MODIFIED ENDOWMENT. THIS TEST IS NOT A GUARANTEE THAT A PARTICULAR POLICY WILL NOT BE CLASSIFIED AS A MODIFIED ENDOWMENT IN THE FUTURE.

FIGURES DEPENDING ON DIVIDENDS ARE NEITHER ESTIMATED NOR GUARANTEED, BUT ARE BASED ON THE 1991 DIVIDEND SCALE.

ACTUAL FUTURE DIVIDENDS MAY BE HIGHER OR LOWER THAN THOSE ILLUSTRATED DEPENDING ON THE COMPANY'S ACTUAL FUTURE EXPERIENCE.

THE COST OF THE ABOVE POLICY OVER A PERIOD OF YEARS CANNOT BE DETERMINED WITHOUT TAKING INTO ACCOUNT THE INTEREST THAT WOULD HAVE BEEN EARNED HAD THE PREMIUMS BEEN INVESTED RATHER THAN PAID TO THE INSURER.

NET DEATH BENEFIT ON ALL PERMANENT PLANS MEANS THE FACE AMOUNT PLUS RIDERS, IF ANY, PLUS THE END OF YEAR DIVIDEND LESS POLICY LOANS. A FULL DIVIDEND IS NOT GENERALLY PAID UPON DEATH DURING THE POLICY YEAR. OTHER VARIABLES ARE POSSIBLE. YOUR AGENT WILL DEFINE THE RULES UPON REQUEST.

THE POLICY LOAN INTEREST RATE SHOWN ON YOUR ILLUSTRATION IS PAYABLE IN ADVANCE AT A DISCOUNT RATE EQUIVALENT TO AN ANNUAL RATE OF 8.00%. DIVIDENDS ARE AFFECTED BY POLICY LOANS. UNDER CURRENT ECONOMIC CONDITIONS, IN ANY GIVEN POLICY YEAR THE GREATER THE AMOUNT OF LOAN, THE SMALLER THE DIVIDEND. (THIS DOES NOT APPLY TO ECONOMIX TERM, WHICH HAS NO LOAN VALUE.).

THE ILLUSTRATION IS CALCULATED ASSUMING THAT THE POLICY SPLIT OPTION IS INCLUDED. THE POLICY SPLIT OPTION IS INCLUDED IN A POLICY IF IT INSURES TWO LIVES MARRIED TO EACH OTHER. YOUR AGENT CAN SUPPLY DETAILS ON THE IMPORTANCE OF THIS FEATURE AND DETAILS REGARDING ITS EXERCISE.

THE DEATH BENEFIT IS PAYABLE ONLY WHEN BOTH INSUREDS HAVE DIED.

THE TARGET ADDITIONAL AMOUNT SHOWN IN THIS ILLUSTRATION IS ONLY AVAILABLE IF PUA/PUI PAYMENTS AND OYT PREMIUMS ILLUSTRATED ARE PAID. IF PAYMENTS ARE NOT MADE, THE TARGET AMOUNT MAY BE REDUCED.

THE DEATH BENEFITS IN THIS ILLUSTRATION, PARTICULARLY IN THE LATER POLICY YEARS, ARE SENSITIVE TO THE SCHEDULE OF PUA OR PUI DEPOSITS AS WELL AS THE CURRENT DIVIDEND SCALE. IF THE SCHEDULE OF DEPOSITS IS NOT MAINTAINED, OR THE DIVIDEND SCALE IS DECREASED, THE DEATH BENEFIT MAY NOT BE MAINTAINED.

THE INITIAL NUMBER OF YEARS OF CASH OUTLAYS SHOWN IN THIS ILLUSTRATION MAY BE LESS THAN THE REQUIRED NUMBER BECAUSE OF THE MANNER IN WHICH THE ILLUSTRATION WAS REQUESTED. IF SO, ADDITIONAL CASH OUTLAYS WILL BE REQUIRED IN LATER YEARS.

THE NUMBER OF YEARS OF REQUIRED CASH OUTLAYS DEPENDS UPON AGES AT ISSUE, SMOKING CLASSIFICATIONS, POLICY CLASS, FACE AMOUNT, AND CONTINUATION OF CURRENT DIVIDEND SCALE AND ONE YEAR TERM RATES, AND ASSUMES NO POLICY LOANS. THIS IS NOT AN AUTOMATIC DIVIDEND OPTION. POLICY OWNER MUST REQUEST CHANGE OF DIVIDEND OPTION AT POLICY YEAR INDICATED. HE MAY PAY THE BALANCE OF PREMIUM BY SURRENDERING A PORTION OF PAID UP INSURANCE.

THIS IS NOT A PAID-UP POLICY; PREMIUMS ARE DUE AND PAYABLE IN ALL POLICY YEARS.

(1) INTEREST ADJUSTED COST INDICIES ARE BASED ON THE POLICY EXCLUDING RIDERS AND ARE USEFUL IN COMPARING POLICIES OF SIMILAR TYPES.

WHILE IT MAY BE POSSIBLE TO EXCLUDE THE PROCEEDS OF THIS POLICY FROM THE INSUREDS' ESTATES, LEGAL ADVICE SHOULD BE OBTAINED FROM QUALIFIED COUNSEL.

IN THIS ILLUSTRATION MUST BE ACCOMPANIED BY THE FOLLOWING SUPPLEMENTAL ILLUSTRATIONS.

EXHIBIT C

239

PREPARED ON 05/30/91

MALE 55 NON-SMOKER
FEMALE 55 NON-SMOKER
DIVIDENDS BASED ON ALTERNATE DIVIDEND SCALE
DESCRIBED IN FOOTNOTES.

500,000 FORM
PREFERRED 9619.15
500,000 TARGET ADDITIONAL BENEFIT
499,092.95 ONE YEAR TERM
PUI-Q-RDR(INCLUDES 174.68 TERM PREMIUM) 500.00
DIV. OPT. 'Q'
POLICY SPLIT OPTION INCLUDED (*)

10119.15

ILLUSTRATION ASSUMES BOTH INSUREDS LIVING.

POLICY YEAR	(1) NET PREMIUM	(2) TOTAL DIVID	(3) FACE AMT OF ADDS	(4) FACE AMOUNT R/ADDS	(5) FACE ONE YEAR TERM	(6) COST OF DIV TERM INS	(7) OYT COST PER THOUSND	(8) GUAR CASH VALUE YR END	(9) NET CASH VALUE YR END	(10) DEATH BENEFIT BEGIN YEAR
1	10119	0	0	907	499093	175	.35	0	313	1000000
2	10119	0	0	1784	498216	174	.35	1035	1952	1000000
3	10119	279	295	3086	496618	174	.35	10570	12283	1000000
4	10119	464	1083	4345	494572	173	.35	20370	22941	1000000
5	10119	497	1933	5562	492504	172	.35	30435	33929	1000000
6	10119	533	2849	6739	490411	172	.35	40770	45258	1000000
7	10119	572	3832	7878	488290	171	.35	51365	56921	1000000
8	10119	615	4885	8980	486135	170	.35	62195	69040	1000000
9	10119	800	6333	10047	483620	169	.35	73245	82200	1000000
10	10119	1582	9356	11080	479564	221	.46	84485	96402	1000000
11	9619	2421	13964	11080	474957	280	.59	95915	111284	1000000
12	9619	3283	20079	11080	468841	352	.75	107530	127143	1000000
13	9619	4209	27707	11080	461213	438	.95	119340	144437	1000000
14	9619	5332	37115	11080	451805	538	1.19	131345	163151	1000000
15	9619	6501	48254	11080	440667	652	1.48	143550	183376	1000000
16	9619	7739	61093	11080	427828	796	1.86	155920	205158	1000000
17	9619	9057	75639	11080	413282	959	2.32	168415	228579	1000000
18	9619	10488	91952	11080	396969	1143	2.88	180980	253704	1000000
19	9619	12035	110082	11080	378839	1356	3.58	193535	280591	1000000
20	9619	13728	130138	11080	358782	1589	4.43	206035	309313	1000000

EXHIBIT Q

** ILLUSTRATIONS ** PAGE 6 OF 7

PREPARED ON 05/30/91

POLICY YEAR	(1) NET PREMIUM	(2) TOTAL DIVID	(3) FACE AMT OF ADDS	(4) FACE AMOUNT R/ADDS	(5) FACE ONE YEAR TERM	(6) COST OF DIV TERM INS	(7) DYT COST PER THOUSND	(8) GUAR CASH VALUE YR END	(9) NET CASH VALUE YR END	(10) DEATH BENEFIT BEGIN YEAR
21	9619	15536	152053	11080	336867	1920	5.70	218445	339509	1000000
22	9619	17096	175256	11080	313665	2309	7.36	230735	371135	1000000
23	9619	18693	199686	11080	289235	2736	9.46	242920	404220	1000000
24	9619	20325	225301	11080	263620	3192	12.11	255010	438781	1000000
25	9619	21981	252083	11080	236837	3650	15.41	267000	474886	1000000
26	9619	23696	280406	11080	208514	3872	18.57	278850	512826	1000000
27	9619	25508	310524	11080	178396	3968	22.24	290505	552810	1000000
28	9619	27463	342837	11080	146084	3868	26.48	301890	595128	1000000
29	9619	29606	377913	11080	111008	3478	31.33	312930	640196	1000000
30	9619	31966	416504	11080	72416	2670	36.87	323590	688573	1000000
31	9619	34508	459511	11080	29410	1268	43.13	333870	741047	1000000
32	9619	37222	506858	11080	0	0	50.15	343815	797713	1017938
33	9619	40077	557018	11080	0	0	57.96	353485	857467	1068097
34	9619	42988	609994	11080	0	0	66.53	362990	920515	1121073
35	9619	45928	665750	11080	0	0	75.86	372445	987131	1176829
36	9619	48897	724243	11080	0	0	85.87	382005	1057668	1235323
37	9619	51903	785430	11080	0	0	96.51	391855	1132573	1296509
38	9619	54916	849210	11080	0	0	107.77	402210	1212380	1360290
39	9619	57941	915475	11080	0	0	119.59	413320	1297819	1426555
40	9619	61005	984115	11080	0	0	131.95	425390	1389652	1495195
41	9619	64208	1055110	11080	0	0	144.79	438465	1488467	1566190
42	9619	67668	1128555	11080	0	0	159.22	452535	1594696	1639635
43	9619	71257	1204386	11080	0	0	174.27	467410	1707351	1715465
44	9619	73970	1281495	11080	0	0	189.89	483205	1820682	1792575
45	9619	69914	1352788	11080	0	0	350.00	500000	1936764	1863868

PLEASE SEE ATTACHED SHEETS WITH IMPORTANT FOOTNOTES

SUMMARY AT 20 YRS

TOTAL PREMIUMS:		197383
(LESS) TOTAL CASH VALUE:		309312
(GUARANTEED)	206035	
(VALUE OF DIVIDENDS)	103277	
DIFFERENCE		-111929
AVERAGE DIFFERENCE PER YEAR		-5596
AVERAGE DEATH BENEFIT	1004588	
5% INTEREST ADJUSTED COSTS(1):		
AT 10 YEARS	5.31	
AT 20 YEARS	1.85	
5% INTEREST ADJUSTED PAYMENTS:		
AT 10 YEARS	18.10	
AT 20 YEARS	13.72	

241

EXHIBIT Q

PREPARED ON 05/30/91

THIS ILLUSTRATION IS BASED ON THE PLAN, FACE AMOUNT, DIVIDEND OPTION AND UNDERWRITING CLASS SPECIFIED BY THE AGENT. HOWEVER, RESULTS BASED ON DIVIDENDS ARE BASED ON A MODIFIED SCALE. THE INTEREST RATE FACTOR OF THIS DIVIDEND SCALE IS ASSUMED TO BE A LEVEL 8.00%, BUT OTHER COMPONENTS OF THIS SCALE ARE IDENTICAL WITH THE 1991 DIVIDEND SCALE. THIS ILLUSTRATION IS INTENDED TO SHOW WHAT TERM INSURANCE AMOUNTS AND COSTS WOULD BE IF THE DIVIDEND SCALE DECREASES MATERIALLY DUE TO A REDUCTION IN INTEREST RATES.

GUARANTEED CASH VALUES AS SHOWN ON THIS ILLUSTRATION ARE ONLY AVAILABLE IF ALL PREMIUMS HAVE BEEN PAID. THE ANNUAL RATE OF INTEREST UNDERLYING THE COMPUTATION OF THESE GUARANTEES IS 4.00%.

ALL CASH VALUES SHOWN ARE END OF YEAR VALUES.

ALL ILLUSTRATIONS FOR INDIVIDUAL LIFE INSURANCE PRODUCTS ARE TESTED FOR THE POSSIBILITY OF CLASSIFICATION AS A MODIFIED ENDOWMENT FOR THE PURPOSES OF FEDERAL INCOME TAXATION. THIS TEST APPLIES TO POLICIES ENTERED INTO AFTER JUNE 20, 1988 AND MAY NOT BE USED FOR POLICIES IN FORCE BEFORE THAT DATE.

THE ILLUSTRATED OUTLAYS SHOWN ON THIS ILLUSTRATION WOULD NOT CAUSE IT TO BE CLASSIFIED AS A MODIFIED ENDOWMENT. THIS TEST IS NOT A GUARANTEE THAT A PARTICULAR POLICY WILL NOT BE CLASSIFIED AS A MODIFIED ENDOWMENT IN THE FUTURE.

FIGURES DEPENDING ON DIVIDENDS ARE NEITHER ESTIMATED NOR GUARANTEED, BUT ARE BASED ON A HYPOTHETICAL DIVIDEND SCALE.

ACTUAL FUTURE DIVIDENDS MAY BE HIGHER OR LOWER THAN THOSE ILLUSTRATED DEPENDING ON THE COMPANY'S ACTUAL FUTURE EXPERIENCE.

THE COST OF THE ABOVE POLICY OVER A PERIOD OF YEARS CANNOT BE DETERMINED WITHOUT TAKING INTO ACCOUNT THE INTEREST THAT WOULD HAVE BEEN EARNED HAD THE PREMIUMS BEEN INVESTED RATHER THAN PAID TO THE INSURER.

NET DEATH BENEFIT ON ALL PERMANENT PLANS MEANS THE FACE AMOUNT PLUS RIDERS, IF ANY, PLUS THE END OF YEAR DIVIDEND LESS POLICY LOANS. A FULL DIVIDEND IS NOT GENERALLY PAID UPON DEATH DURING THE POLICY YEAR. OTHER VARIABLES ARE POSSIBLE. YOUR AGENT WILL DEFINE THE RULES UPON REQUEST.

THE POLICY LOAN INTEREST RATE SHOWN ON YOUR ILLUSTRATION IS PAYABLE IN ADVANCE AT A DISCOUNT RATE EQUIVALENT TO AN ANNUAL RATE OF 8.00%. DIVIDENDS ARE AFFECTED BY POLICY LOANS. TO THE EXTENT THE DIVIDEND SCALE IS BASED ON AN INTEREST RATE GREATER THAN 7.00%, IN ANY GIVEN POLICY YEAR THE GREATER THE AMOUNT OF LOAN, THE SMALLER THE DIVIDEND.

THE ILLUSTRATION IS CALCULATED ASSUMING THAT THE POLICY SPLIT OPTION IS INCLUDED. THE POLICY SPLIT OPTION IS INCLUDED IN A POLICY IF IT INSURES TWO LIVES MARRIED TO EACH OTHER. YOUR AGENT CAN SUPPLY DETAILS ON THE IMPORTANCE OF THIS FEATURE AND DETAILS REGARDING ITS EXERCISE.

THE DEATH BENEFIT IS PAYABLE ONLY WHEN BOTH INSUREDS HAVE DIED.

THE TARGET ADDITIONAL AMOUNT SHOWN IN THIS ILLUSTRATION IS ONLY AVAILABLE IF PUA/PUI PAYMENTS AND OYT PREMIUMS ILLUSTRATED ARE PAID. IF PAYMENTS ARE NOT MADE, THE TARGET AMOUNT MAY BE REDUCED.

THE DEATH BENEFITS IN THIS ILLUSTRATION, PARTICULARLY IN THE LATER POLICY YEARS, ARE SENSITIVE TO THE SCHEDULE OF PUA OR PUI DEPOSITS AS WELL AS THE CURRENT DIVIDEND SCALE. IF THE SCHEDULE OF DEPOSITS IS NOT MAINTAINED, OR THE DIVIDEND SCALE IS DECREASED, THE DEATH BENEFIT MAY NOT BE MAINTAINED.

(1) INTEREST ADJUSTED COST INDICIES ARE BASED ON THE POLICY EXCLUDING RIDERS AND ARE USEFUL IN COMPARING POLICIES OF SIMILAR TYPES.

WHILE IT MAY BE POSSIBLE TO EXCLUDE THE PROCEEDS OF THIS POLICY FROM THE INSUREDS' ESTATES, LEGAL ADVICE SHOULD BE OBTAINED FROM QUALIFIED COUNSEL.

IN THIS ILLUSTRATION MUST BE ACCOMPANIED BY THE FOLLOWING SUPPLEMENTAL ILLUSTRATIONS.

242

Appendix III
Summary of Comments on the Preliminary Report

The Task Force received a number of comments on the preliminary report, both in writing and at the open forums. These comments are summarized below. The Task Force carefully reviewed these comments in the development of our conclusions. Copies of all correspondence will be made available to the AAA and CIA for their consideration.

Applicability to Variable Life
Several commenters noted that the alternatives identified were not appropriate for variable life policies.

The Task Force agreed that our report focused on the illustration practices for General Account policies. The first section was changed to exclude variable life policies from the scope of our research, other than as an alternative illustration model.

Define the problem and the role of the actuary
Several commenters suggested the need to define the problems with illustrations at an earlier point in the report and the role of the actuary in solving these problems.

The Task Force agreed and added these points to the first section.

Research Methodology
Many commenters suggested that our research should include consumer interviews or focus groups.

The Task Force discussed this approach with market researchers associated with LIMRA. They indicated that focus groups would tell us how they think they should have used illustrations during the sales process, as opposed to how the illustration was actually reviewed and considered by the buyer. For this reason, we did not pursue this methodology.

What data should be on the illustration
One commenter noted that our Task Force does not define the data that every consumer should have available on the illustration.

The Task Force used current regulations to define a starting point. We recommended changes as we deemed necessary and appropriate.

Valuation
One commenter suggested that the underlying problem in the U.S. is its conservative valuation procedures.

The Task Force believes the revision of valuation procedures is beyond the scope of our research.

Concerns with current practices
Several commenters brought what they considered unique or questionable illustration practices to our attention to ensure that the final report would encompass these practices.

The Task Force considered these comments in developing our conclusions.

Alternatives to Type B Usage
Many commenters agreed with the conclusion that illustrations cannot be used for Type B analysis in today's environment. Those who disagreed argued that consumers require a tool to measure relative performance. Among their comments were:

- it should be possible to provide reasonable estimates of future performance based on credible assumptions
- sensitivity analysis or the range approach should help the consumer determine variation
- illustrations are the best indicator until some better measure is developed

The Task Force acknowledges that a methodology for measuring and comparing products should be developed. We have added a recommendation that the SOA continue research in this area. We strongly support sensitivity analysis and the use of reasonable, credible assumptions but that still does not address the variation among companies regarding relative conservatism in the choice of underlying assumptions.

Concerns with alternative practices

Many commenters pointed out concerns and problems with the suggested alternatives in the areas of implementation, helpfulness to the consumer, and potential for abuse.

The Task Force considered these comments in restructuring the alternatives and developing conclusions on each.

Disclosure and Standards

Many commenters stated a preference for solutions involving improved disclosure or standards of practice, rather than increased regulation. Some even provided sample disclosures for the illustration.

These comments will be passed on to the CIA and AAA, for their consideration in developing an implementation plan for changes to illustration practices.

Limited control by actuaries

Several commenters noted that the illustration practices are set by company management, with input from the actuaries. Further, neither the actuaries nor management are present when the agent meets with the buyer. Therefore, there is little that actuaries can effectively do to change industry practices.

The Task Force acknowledges the fact that the role of the actuary in the illustration process does not provide our profession with complete control. However, the actuary has a role in identifying short-comings of current practices for management and others, and in developing appropriate and ethical standards of practice for the profession.

APPENDIX IV

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Senator METZENBAUM. Our last witness is Mr. Geoff Rips, director of public information, Office of Public Insurance Counsel, Austin, TX.

We are happy to welcome you, Mr. Rips.

TESTIMONY OF GEOFF RIPS

Mr. RIPS. Thank you, Mr. Chairman, for having me. I am the public information director of the Texas Office of Public Insurance Counsel. It is a State agency representing the interests of insurance consumers in Texas.

In May, our office conducted a survey of consumer complaints about life insurance that were filed over the past year. We found that complaints making their way to the Texas Department of Insurance often involved real or perceived deception on the part of an agent or company. But for every instance of deception, there were hundreds of cases of misunderstanding, inadequate knowledge, and just plain vulnerability on the part of consumers when faced with the wall of numbers and language that constitute the life insurance market. It is an institutional obfuscation that characterizes the industry.

Consumer ignorance is bliss for the life insurance industry. Of the more than 1,800 complaints received by the Texas Department of Insurance over the last year, the largest grouping came from people who didn't get as much cash value for their policies as they had expected.

For instance, an agent convinced Lynn Gant of Houston to invest more than $87,000 in a life insurance policy in which she was promised that her cash value would be a tax-free investment equal to the premiums, plus interest, and would remain liquid at all times. She, of course, had been deceived.

The great majority of consumers complaining about their life insurance policies, however, are not necessarily victims of false representations by agents. In many cases, the product itself is built and marketed in such a way that it will not deliver what the consumer believes he or she is buying.

We are talking about hard-working, middle-class Americans here who are trying to do right by their families. They are being sold great expectations, and somehow thousands each year in Texas, through no fault of their own, are getting trapped into spending and sometimes wasting their hard-earned money for life insurance policies that don't provide what they need.

Vincente Martinez from Houston was persuaded to buy life insurance as a college savings plan for his daughter, Elsa. Mr. Martinez was under the impression that he could borrow on the policy at any time, but after spending more than $1,700 in premiums, Mr. Martinez found he had no cash value after 7 years. Even after 18 years, the so-called college savings plan would have accumulated only $525 in cash value. Mr. Martinez therefore stopped paying the premiums and the policy was canceled.

Deliberate misrepresentation, however, is not the source of the vast majority of consumer problems in dealing with life insurance, particularly whole life. Basically, it is not necessary. Instead, the fault rests with the complex and arcane language and calculations involved in virtually every whole life policy.

A large number of consumers walk away with a whole life policy without understanding the critical difference between cash value and face value. As a result, 20 percent of the cash value policies lapse within 2 years and more than half fail to be extended beyond 10 years.

Melvin Heinsohn of Columbus, TX, had parents who paid for 20 years on a $500 life insurance policy in Melvin's name. He is now a 65-year-old veteran. He wrote the company to collect the cash value on the policy and he found that the policy's cash value was only $56.10. In 1976, when Heinsohn had received no more bills for the policy, he stopped making payments. The company then began using the policy's cash value to pay for extended term insurance.

Consumers face other problems when it comes time to collect on life insurance policies. Sometimes, death benefits are denied for policies that never should have been sold. The most egregious example we found involved a life insurance policy sold to Rosa Balderrama of San Antonio, who had Down syndrome and was unable to answer any of the questions on the application. The agent filled out the application himself. The form was signed with an "X." When Ms. Balderrama died and her beneficiary tried to collect on the policy, the company denied the claim, saying Ms. Balderrama misrepresented her medical condition.

Companies can and do deny claims simply because consumers cannot provide proof that they bought a policy. That happened to Gary Fox of Wichita Falls, TX. Consumers find themselves paying huge surrender charges and huge fees to transfer their policies from one company to another. While these fee schedules are usually right there on the paper, they are rarely understood when the policy is purchased.

And then, of course, there is a problem that has been talked about about illustrations and projection charts. Most of the complaints that we got involving life insurance involved whole life policies. Companies like whole life policies because they are simply more profitable. These companies, therefore, try to make sure that the motivation is also there for the agents selling the insurance.

The commissions on whole life policies generally run 5 to 10 times higher than those on term policies. In addition to that carrot, some companies also carry a big stick. Recently, a number of agents have contacted our office claiming their companies penalize them for not bringing in enough revenue from life insurance policies by taking away their right to buy into auto insurance until they have boosted their sales of life policies. Under this kind of pressure to make a sale, agents may not be as frank as they need to be when describing policies to their customers.

While part of the solution to these problems is to better educate consumers about what they are buying, such efforts alone will not solve the problems consumers face. Only regulatory reform can transform the life insurance marketplace into one in which consumers understand the product they are buying, buy what they need, and get what they pay for. We have a few recommendations that I have included in the written testimony.

[The prepared statement of Mr. Rips follows:]

Statement
by
Geoff Rips
Public Information Director
Texas Office of Public Insurance Counsel

Before the
Oversight Hearing on Life Insurance
Subcommittee on Antitrust, Monopolies and Business Rights
Committee on the Judiciary
United States Senate

June 23, 1992

I am Geoff Rips, Public Information Director for the Texas Office of Public Insurance Counsel. The Office of Public Insurance Counsel represents consumers as a class in rate hearings, rule changes, and other matters involving all lines of insurance regulated by the Texas Department of Insurance (TDI). Our office is unique in that it is the only state agency in the nation created specifically for the purpose of representing the interests of consumers on insurance issues. Our mandate includes addressing consumer concerns about life insurance.

While we do not directly receive individual consumer complaints regarding insurance, we do monitor the complaints received at the Texas Department of Insurance in order to ascertain whether a pattern emerges that necessitates a public policy response, through rule changes, legislation or enhanced enforcement. In May we conducted a survey of consumer complaints about life insurance filed between January 1991 and February 1992. I am here today to discuss some of the problems we found individual consumers facing in purchasing and collecting on life insurance policies.

Introduction

Each year, Americans spend billions of dollars on life insurance in an effort to provide some level of financial protection for their families in the event of unexpected death.

If purchasing life insurance were that simple and straightforward, I would not be here today to testify before this committee.

But as anyone who has tried to purchase it knows, buying life insurance is anything but simple.

In Texas, life insurance is for all intents and purposes unregulated, as it is in almost every state. Texas consumers are confronted with a marketplace in which products and sales practices vary widely. In Texas, nearly 850 life insurance companies compete for a market that generated $4.1 billion in premiums in 1990 alone. Texas currently operates on a "file and use" system, under which insurers simply file the forms they plan to use with the Texas Department of Insurance. Last year alone, the Department approved 1,709 new individual life insurance forms. In the past decade, 28,950 forms were approved for use.

Most insurance companies dealing in personal lines find life insurance to be far more profitable than auto and homeowners insurance, for example. Our office has had a number of agents tell us their companies often use auto and homeowners insurance to reach potential customers for life insurance. Many of these companies use both the carrot and the stick to prod agents to increase life-insurance revenues. The carrot is the high initial commission. The stick on occasion has been a threatened loss of job or the inability to bind customers for property and casualty insurance until life insurance premiums increase.

Most consumers depend on life insurance agents to steer them through the maze of products and projections. Few realize that the person they are depending on for advice and counsel has strong incentives to sell them coverage they may not need. Few also realize that their agent may not entirely understand the product he or she is selling, often may not explain the product fully and, in some cases, may misrepresent the product altogether in order to clinch a sale.

Confusion and misrepresentation have led to many of the problems that Texas consumers are experiencing with life insurance. Of the 1,829 complaints received by the Texas Department of Insurance last year, the largest grouping of complaints involved letters from people who did not get as much cash value for their policies as they had expected based upon their company's illustrations or their agent's projections. (Exhibit B) Many reported that they were told they would receive a certain high rate of return and later found this not to be the case. Or they were told they would receive the policy's face value within a certain period of time, and when that time arrived they received much less.

Deliberate misrepresentation, however, is not the source of the vast majority of consumer problems in dealing with life insurance, particularly whole life. Instead, the fault rests with the

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complex and arcane language and calculations involved in virtually any whole life policy. A consumer walking into an agent's office seeking a basic, fair life insurance policy will walk out hoping that is what she got. A consumer holding a variable life policy, for instance, who finds out he must pay premiums for three or four years beyond what he had figured on, will go on paying, all the while kicking himself for not having understood what he was getting into.

Part of the solution to these problems is to better educate consumers about what they are buying. The Office of Public Insurance Counsel is working to help Texas consumers become more knowledgeable about buying life insurance. These efforts alone, however, will not solve the problems consumers face. Only regulatory reform will transform the life insurance marketplace into one in which consumers understand the product they are buying and get what they pay for.

High Commissions Provide Agent Incentives for Whole Life

Most of the individual problems that arise in life insurance involve whole life policies, which link insurance protection with savings accounts, known as "cash value." In general, insurance companies selling personal lines are much more interested in selling life insurance than auto or homeowners insurance. And they are more interested in selling whole life than term life. They, therefore, make sure that interest is transferred to the agents selling their insurance.

The commissions on whole life policies generally run five to ten times higher than those on term policies, which provide only insurance with no savings features.

With a typical cash-value policy, anywhere from 50 to 100 percent of the first year's premium goes to the agent, while the company takes 20 to 45 percent to cover selling expenses. In the second through tenth policy years, the agent usually collects about 5 percent or more of the annual premium.

This means that for selling a $100,000 policy to a 35-year-old non-smoking male, an agent collecting a 55 percent commission will earn $605 of a $1,100 first-year premium for selling a whole life policy but only $132 of a $240 premium for selling the same amount of coverage in annual renewable term insurance. These hefty commissions provide a powerful incentive for agents to sell whole life policies, even though they may not offer the right coverage for the customer.

Commissions aren't the only means insurance companies use to encourage agents to promote whole life insurance. Recently, a number of agents have contacted our office claiming that their companies penalized them for not bringing in enough revenue from life insurance policies by taking away their right to sell auto insurance until they boosted their sales of life policies. Under this kind of pressure to make a sale, agents may not be as frank as they need to be when describing policies to their customers.

An agent convinced Lynn Gant of Houston to invest $87,200 with his company with the assurance that it would be a tax-free investment that would remain liquid at all times. Ms. Gant believed

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that all the money she had invested, plus 10 percent interest, would be returned to her any time she requested it, as it would were it in a savings account. After investing the money, Ms. Gant learned that she had bought a universal life policy that only paid cash value. Fortunately, Ms. Gant's attorney was able to retrieve all her money because the agent had engaged in deceptive trade practices in selling her the life insurance policy.

The great majority of consumers complaining about their life insurance policies are not necessarily victims of false representations by agents. In many cases, the product itself is marketed in such a way that it will not deliver what the consumer believes he or she is buying.

Vincente Martinez, also from Houston, was persuaded to buy life insurance by a sales pitch commonly used, promoting it as a college savings plan for his daughter, Elsa. Mr. Martinez was under the impression that he could borrow on the policy at any time. But after seven years of paying premiums of $252 per year, Mr. Martinez was told that the policy's cash value was only $100. Mr. Martinez, claiming that he was misled him into buying a policy he did not want, requested a refund of the premiums. The company said he knew what he was buying and refused his request. Mr. Martinez then stopped paying premiums, and it was eventually cancelled.

The seven years in premiums Mr. Martinez paid add up to $1,764. Had he put his money in a savings account paying five percent interest, after taxes he would now have $2,154 put aside to pay for college for Elsa. Instead, he now has nothing.

By putting aside the same premiums for eighteen years, he would have been able to save $7,444 after taxes. Our review of the illustration that was presented to Mr. Martinez to explain the policy values shows that his "college savings" policy would have paid just $525 after 18 years.

A Texas family that bought insurance for a child as an investment in the future learned the hard way what the return on an investment in life insurance can prove to be. For 20 years, Melvin Heinsohn's parents paid premiums on a $500 life insurance policy in Melvin's name. When Melvin, a 65-year-old veteran living in Columbus, Texas, wrote to the company to collect the cash value on the policy, he discovered that the policy's cash value was only $56.10. In 1976, when the Heinsohns stopped making payments, the company began using the policy's cash value to pay for extended term insurance.. Heinsohn, 65, wrote the company again: "...you don't understand. This was a 20 year paid up policy and my parents were poor but they paid every month and it was taken out when I was small, and when I got married I paid every bill they sent me. When they quit sending a bill, I was sure it was paid in full." But Mr. Heinsohn was out of luck. He had not read or understood the fine print. This is a fairly common provision in insurance policies but clearly not what the Heinsohns and other policyholders understood they were purchasing. (Exhibit A)

The emphasis on life insurance as a savings tool is a common sales tactic. Employees of Jake Harris & Sons in Deer Park, Texas, were persuaded to buy life policies that were presented as a "salary deferred savings program." Employees were told they could get all or part of their money any time they wanted, and, according to the employees, the words "life insurance" were never mentioned. The "salary savings plan" turned out to be universal life insurance.

Sometimes death benefits are denied for policies that never should have been sold. The most egregious example we found involved a life insurance policy sold to Rosa Balderrama of San Antonio, who had Down's syndrome and was not capable of answering any of the questions on the application. The agent filled out the application himself. The form was signed by Ms. Balderrama with an "X." (Exhibit A.) When Ms. Balderrama died and her beneficiary tried to collect on the policy, the company denied the claim, saying that Ms. Balderrama misrepresented her medical condition. After the Texas Department of Insurance intervened, the company decided to pay the claim.

One of the most common misunderstandings consumers have about whole life policies is the difference between the policy's cash value and its face value. Many of the complaints TDI receives are from consumers who expected the policy's cash value to be the same as the face value. While most agents do not try to mislead their clients, a large number of consumers walk away with a whole life policy without understanding the critical distinction between cash value and face value.

Darnell Wilson bought a life policy in 1952 with a face value of $500 and paid a premium of $2.03 a month for 38 years. When he had paid $925.68 in premiums, almost double the face value, he was told that the cash value of the policy was $130. After Mr. Wilson complained to TDI, the company told him that the policy would mature in 1995, and the correct cash value was $378.

Insurance Companies Benefit from Great Expectations

Most consumers don't have a clue how their policies work, what they guarantee and what risks are involved. Consumers do not know that, before any of their money goes to work for them, their premiums are used to pay often exorbitant agent commissions and company fees. Many are not told that the rosy projections of how much cash value their policy will earn are simply projections – almost always overly optimistic – and not guarantees of what cash value, or in some cases premiums, will be in future years.

Most of the projections insurance companies provide include cautionary language, but it is usually written in language that is inaccessible and difficult for consumers to understand.

The problem of inflated expectations has grown in the past decade as insurance companies have introduced new variations of whole life policies with such features as vanishing premiums. These are policies in which interest earnings are used to pay for future premiums so buyers can "pay up" the insurance portion of their policies rather than paying premiums for their whole life.

But consumers often do not understand that the size and duration of these payments depends largely upon interest rates and the success of company investments. If interest rates drop, a buyer could be paying on a policy for much longer than expected.

Consumers face other problems when it comes time to collect on life insurance policies. Companies can, and do, deny claims simply because insureds cannot provide proof that they bought a policy. Texan Gary Lee Fox, for example, had been paying premiums on a life insurance policy since 1957. The company had cashed Mr. Fox's checks, but when he requested a certificate of assumption for the policy, the company told him it had no record of the policy and would not honor his request unless Mr. Fox provided proof of the policy's existence.

Patricia and John Wells decided to cash in their whole life policy, which showed a cash value of $1,682. They received only $802, and the company kept $880 as a surrender charge. The company reminded the Wells of the table of surrender charges that was part of the original contract. Upon review, the Wells found the table in question to be incomprehensible, as it would be to most consumers.

George Bodman transferred a life insurance policy from one company to another. The assuming company took $2,096 from the cash value for fees and charges. Mr. Bodman said he was not told about these charges, but the company claims that the information was in the contract.

Confusion about what is in a life insurance contract – or any insurance policy for that matter – comes as no surprise to most Americans. But life insurance policies are particularly daunting. Illustrations and projections, disclaimers and footnotes are difficult enough, but the sheer number of life insurance forms on the market make it virtually impossible to compare policies. Texas has no plain language requirement for life insurance forms. Even the most diligent consumer is hard put to decipher what the language in many of these forms really means.

Recommendations

As I mentioned earlier, many of the problems consumers face with life insurance can be addressed through regulatory changes aimed at making the life insurance market more accountable to its customers. These changes include:

- Requiring plain language for all policy forms.
- Limiting the number of life insurance forms to standard forms with approved interchangeable parts for different types of policies.
- Requiring prominent warnings on all projections or illustrations of premium cost or cash-value growth that these are strictly company projections and not guarantees of future premiums or value.
- Requiring all projections or illustrations to show what premiums would amount to if invested elsewhere at five percent. The SEC prospectus for variable life insurance includes this requirement.
- Requiring companies to provide a table of "guaranteed values" showing the most a policyholder will have to pay and the lowest values or benefits he or she might receive.
- Limiting agent's fees and requiring companies to disclose what portion of premiums go to paying agent's fees.

- Providing consumers with simple information they need to know to make an informed choice about what they buy. This could be part of the policy or a separate pamphlet that agents would be required to provide consumers. Our office has just published a pamphlet aimed at helping people shop for life insurance, but, without regulatory intervention, life insurance consumers will still not be guaranteed that they will receive the information we think they need to make informed decisions.
- Requiring life insurance companies to have the burden of proof as to whether or not a consumer has a policy.
- Publishing basic comparative price information about life insurance policies so consumers can become better participants in the marketplace.

One last point I'd like to mention is that the tax incentives for whole life insurance are an important part of the sales pitch agents use. This is an important lever the federal government has in dealing with the life insurance market.

Conclusion

I have discussed some of the confusion and deception consumers encounter when buying individual life insurance policies. The complaints making their way to the Texas Department of Insurance often involve deception or perceived deception on the part of an agent or company.

But for every instance of deception, there are hundreds of cases of misunderstanding, inadequate knowledge and just plain vulnerability on the part of consumers when faced with the wall of numbers and language that constitute the life insurance market.

Plain language requirements, simplified forms and full disclosure of the information consumers need to make reasoned choices would go a long way toward addressing many of these problems. There are, of course, a host of other problems confronting consumers and the industry, but the reforms that I am discussing on behalf of the Texas Office of Public Insurance Counsel would be a good place to start.

As consumers become more educated about life insurance, the market is beginning to respond with low-load policies, rebating of agent's commissions and other features that should make life insurance a better investment. But we cannot depend solely on the insurance marketplace to act in the interests of its customers as long as it profits so handsomely from their ignorance. The Office of Public Insurance Counsel is working with the Texas Legislature to introduce many of the reforms I have mentioned today. Our office looks forward to working with you at the Federal level to address problems facing life insurance consumers.

Thank you.

Exhibit A

Examples of Life-Insurance Consumer Problems

Ideal Concrete
Houston Division
713 782 1850

RECEIVED #2
SEP 24 1990
STATE BOARD OF INS.
MAIL ROOM

RECEIVED
MDC SEP 24 1990
STATE BOARD OF INSURANCE
AUSTIN, TEXAS

IDEAL

Dear Sir,
My Parents took out this $500.00 Paid up Policy it was paid up in 20 years And I was a small boy when they took it out on me and I am now 65 years old, and I served in world war two, when I got Married I still paid on it Now I'll mail you the letter they sent me.

Thank you
Melvin Heinsohn
1318 Prairie St,
Columbus Tx 78934

American General
Life Insurance Company 7 3 5 0 3 8 0 0 0 1

P.O. Box 4373 • Houston, Texas 77210-4373 • 713-522-1111

A Subsidiary of American General Corporation

September 12, 1990

Melvin Heinsohn
1318 Prairie St
Columbus Tx 78934

040

Policy Number: 0001111250
Insured: Melvin Heinsohn

Dear Mr. Heinsohn:

This is in response to your letter of July 13, 1990, concerning the above policy. We apologize for the delay.

During extensive research of our records, we find that the amount you received was correct. Your policy provided for an endowment at the age of 65, providing, that premiums were paid up to that time. Because premiums were not paid in 1976, the cash value was used to purchase Extended-Term Insurance under the non-forfeiture provision of your policy. This provided term insurance until June 22,1990. The remaining cash value was sent to you.

On January 13, 1987, you requested a cash value quote, and we stated that it was $56.10 at that time. On April 25, 1990, a letter was sent notifying you that the coverage was going to terminate on June 22, 1990 with no further value.

I hope this information helps explain the amount of the check in question.

Sincerely,

Elizabeth Bishop 4-11
Policyowner Service

AMERICAN GENERAL

This is the name of the
Ins, American General
Po Box 1931 Houston, Tx,
77251

Sir!

RECEIVED
MDC FEB 05 1991
STATE BOARD OF INSURANCE
AUSTIN, TEXAS

I got your letter, but you don't understand, this was a 20 year paid up policy & my parents were poor but they paid every month and it was taken out when I was small, and when I got married I paid every bill they sent me, when they quit senting a bill, I was sure it was paid in full.

Please sent a copy of this to Ann Richards she is looking into these Ins. Co.

Thank you
Melvin Heinsohn
1318 Prairie St.
Columbus Tx 78934

Mr. & Mrs. Augustin Balderrama Jr.
1906 Homebrook Dr.
Houston, Texas 77038
(713) 947-9485

September 14, 1990

RECEIVED

MDC SEP 19 1990

STATE BOARD OF INSURANCE
AUSTIN, TEXAS

State Board of Insurance
Complaint Department
1110 San Jacinto
Austin, Texas 78786

Dear Sirs:

On March 7, 1989 Mr. Antonio Sodano sold my sister an insurance policy for $10,000. My sister had Down Syndrome and even though she was obviously retarded and incapable of answering any questions, Mr. Sodano proceeded to complete an application for insurance on her. He answered all the medical questions for her and even made up an occupation for her. My sister was incapable of working. He had her sign the application which she marked with an (X). He took her premium and a policy was issued.

My parents do not read, write or understand English. They were not capable of reading or answering any of the questions on the application either. When my father told me that they had bought insurance for Rosa, I didn't think to check with the agent, I trusted that he was capable of doing his job properly. Therefore, my mind was at ease.

My sister died on June 12, 1990 and American National is now refusing to pay the face value of this policy. As you can see by the attached papers they are accusing us of misrepresentation. It is very hard to misrepresent a person who at first sight it is obvious she is disabled. Rosa Balderrama was incapable of misrepresenting herself because she was incapable of communication.

My parents are both elderly people and do not have the financial means to pay for a funeral. Therefore, when my sister died the financial burden was put on me and my family.

Did American National train Mr. Sodano to qualify prospects for insurance. It is very obvious to me that certain medical questions would be enough to qualify a person for insurance. But to look at a Down Syndrome person and still proceed to write insurance on her seems to be a desperate commission sale on the part of the agent.

Please see what you can do get this matter straighened out so that American National will pay my family the face value of this policy that was bought in good faith.

Enclosed are copies of the letters from American National, a copy of the death certificate and letters from my sister's doctors.

Sincerely,

Augustin F. Balderrama Jr.

Mr. & Mrs. Augustin Balderrama Jr.

[illegible]
[illegible] - Attorney General

AMERICAN NATIONAL

AMERICAN NATIONAL INSURANCE COMPANY
ONE MOODY PLAZA
GALVESTON, TEXAS 77550-7999
409/763-4661

August 10, 1990

2-202 Debit 11

Claim C249321 - Rosa Balderrama - Policy H11975288

This claim has been carefully reviewed but unfortunately it cannot be approved for payment.

This policy was issued on March 16, 1989 on the basis of the representations given to the Company on the application signed by Rosa Balderrama on March 7, 1989. We are attaching a copy of pertinent parts of the policy including a copy of the application. As you can see, there is nothing to indicate any adverse health history, treatments, hospitalizations or anything of that nature.

Attached you will find copies of records indicating medical history prior to the application for this policy. You will note that some of the pertinent points on these reproductions have been underlined. A copy of the death certificate is attached for your information.

If the Company had been given correct information on the application as it should have been it would not have issued the policy. Furthermore it does not appear that the insured was in the required good health on the effective date of the policy. The beneficiary is entitled to return of all premiums paid in the total amount of $355.20, plus interest.

Please explain this very carefully to Augustin Balderrama and then present him with the enclosed check for $404.92.

Address Reply to Writer; Refer to Claim Number; Name of Insured; Policy Number(s); and Date of this Letter.

AMERICAN NATIONAL

AMERICAN NATIONAL INSURANCE COMPANY
ONE MOODY PLAZA
GALVESTON, TEXAS 77550-7999
409/763-4661

You should also explain that if the beneficiary does not agree with our Company, or if the medical information we now have is in any way incomplete or incorrect we will be glad to consider any and all additional information that the beneficiary would like to furnish.

Please promptly let us know the results of your handling.

Sincerely,

Earl Hennessy
Life Claim Department
P O Box 1840
Galveston TX 77553-1840
EH/hf

Address Reply to Writer: Refer to Claim Number: Name of Insured: Policy Number(s): and Date of this Letter.

Page 1

PART ONE — APPLICATION FOR INSURANCE
AMERICAN NATIONAL INSURANCE COMPANY
GALVESTON, TEXAS — Home Service Division
(Print in black ink - Do not use ditto marks)

AMERICAN NATIONAL

0045695

1. PROPOSED INSURED
Last Name: BalDErrama M.I.
BIRTH PLACE/BIRTH STATE: San Antonio, texas
DATE OF BIRTH (Mo-Da-Yr): 07-14-57 AGE: 31
First Name: Rosa
Has proposed insured used tobacco in any form during the past twelve months? Yes No: X
Sex (M/F): F Height(Ft/In): 5' 0" Weight: 175 Social Security No.: 454-12-9745
Marital Status: Mar Sing Div Wid Sep: X
Home Phone: 512-6778305
Residence address: Rt 9 Box 964 County: Bexar Work Phone: -
City, State: San Antonio, texas Zip: 78227 Years at this address: 31 years
Former address (Past 2 years): Same
Occupation: House KeePinG/Seams
Job title/duties (Be specific): Cleans Houses / Seamstress
Employed by and kind of business: SElf EmPloyed
Business address: Rt 9 Box 964 City/State: San Antonio, tx Zip: 78227 Date of employment (Mo-Yr): 3, 1982

2. ADDITIONAL PERSON PROPOSED FOR INSURANCE
Last Name M.I.
BIRTH PLACE/BIRTH STATE
DATE OF BIRTH (Mo-Da-Yr) - - AGE
First Name
Sex (M/F) Height(Ft/In) Weight Relationship
Marital Status: Mar Sing Div Wid Sep
Has proposed insured used tobacco in any form during the past twelve months? Yes No
Residence address
Occupation
Date of employment (Mo-Yr)
City, State
Job title/duties (Be specific)
Zip
Employed by and kind of business

3. CHILDREN PROPOSED FOR INSURANCE

CHILDREN PROPOSED FOR INSURANCE (Last Name, First Name, M.I.)	Relationship	Date of Birth (Mo-Da-Yr)	Age	Height (Ft/In)	Weight	Sex (M/F)
		- -				
		- -				
		- -				
		- -				
		- -				
		- -				

Has the name of any child under 18 been omitted? Yes (Explain) No

Is any child not living at the same address with the Proposed Insured? Yes (Explain) No

4. First Beneficiary (For additional space use Form 1048ED3)
Name: Agustin Balderrama Relationship: Brother Age: 37
Second Beneficiary
Name: Micaela Baldcrrama Relationship: Mother Age: 7[illegible]

5. Owner (If other than Proposed Insured)
Last Name M.I.
Address
First Name
Contingent Owner (if any) Name
Relationship Social Security No. - -
Relationship

7900

Page 3 **IN CONTINUATION OF AND BECOMING A PART OF AN APPLICATION TO AMERICAN NATIONAL INSURANCE COMPANY, GALVESTON, TEXAS -**

14. Has any proposed insured(s): — Yes / No

(a) Any abnormality, deformity, disease or disorder or is any proposed insured presently receiving treatment or taking medicine of any kind? — No: X

(b) Ever had a surgical operation or been advised to have an operation which was not performed? — No: X

(c) Ever had an X-ray, electrocardiogram, blood or urine test or other laboratory tests? If "Yes", state why, when, where, and by whom. — No: X

(d) Ever made claim for or received any insurance benefit, compensation or pension, governmental or other-wise, on account of any injury or sickness? — No: X

(e) Any impairment of sight or hearing? — No: X

(f) Ever been under observation or treatment in any hospital, sanitarium, clinic or rest home? — No: X

(g) Ever used barbiturates, amphetamines, hallucinatory drugs, heroin, opiates or other narcotics, except as prescribed by a physician? — No: X

(h) Ever received counseling or treatment regarding the use of alcohol or drugs?

(i) Ever had or been treated for high or low blood pressure, chest pain, for sugar in the urine, or for cancer in any form?

(j) Ever been told he or she had an Immune Deficiency Disorder, AIDS, the AIDS Related Complex (ARC) or test results indicating exposure to the AIDS virus?

(k) Ever consulted or been treated or examined by any physician or practitioner for any cause not previously mentioned in this application?

(l) Are all proposed insureds now in good health? — Yes: X

(m) Answer if any proposed insured is under 1 year of age.

Birth weight: lb. oz.

Was birth abnormal or premature?

15. Give full details below of all "Yes," answers to question 14 (a)-(k) & (m) and if answer is "No" on 14 (l).

Person	Ques. No.	Reason, condition disease, or injury, etc	Date	Degree of recovery	Name and address of attending physicians (Street, City, State)
		NONE			

APPLICATION DECLARATIONS & AGREEMENTS

Each of the undersigned declares for themselves, and all other interested parties, that all of the answers in the 3 pages of this application anc supplements to it are full, complete and true to the best of their knowledge and belief. They also agree that: (1) these answers as written: (i) given to induce the Company to issue a Policy; and (ii) shall form the basis for and become a part of any Policy issued on this application; (2) e: as otherwise provided in the Conditional Receipt with the same serial number as this application, no Policy will be effective until it is: (i) iss (ii) delivered to the applicant; and (iii) the full first premium paid, all during the lifetime and good health of the insured(s); (3) the Company issue a Policy different from that specified in this application by listing the difference(s) on the Policy Data Page, and acceptance of such diff Policy will be a ratification of the changes except that no change in: (i) amount of insurance; (ii) classification; (iii) plan of insurance; or (iv) ben will be effective unless agreed to by the owner in writing; (4) the Company is not bound by any statements made by anyone or any other facts k to anyone concerning any proposed insured(s) if not in writing in this application or any supplement to it; and (5) only the President or a Vice Pres or the Secretary of the Company has the authority to waive any of the Company rights or requirements or to waive or alter any of the provi: of: (i) this application; or (ii) any Policy issued on this application.

Dated at San Antonio, Texas (City, State) — 0 X (HER SIGNATURE) Signature of Proposed Insured (if age 16 or older)

this 7 day of March, 19 89 — Signature of Additional Person Proposed for Insurance (Use for Spouse Term Rider or Joint

Witnessed by Antonio Sodano (Signature of Licensed Agent) — 0 X (HER SIGNATURE) Signature of Owner or Premium Payer

Print Agent's Name Antonio Sodano

SIGNATURE REQUIRED IF CONDITIONAL RECEIPT TO BE DETACHED

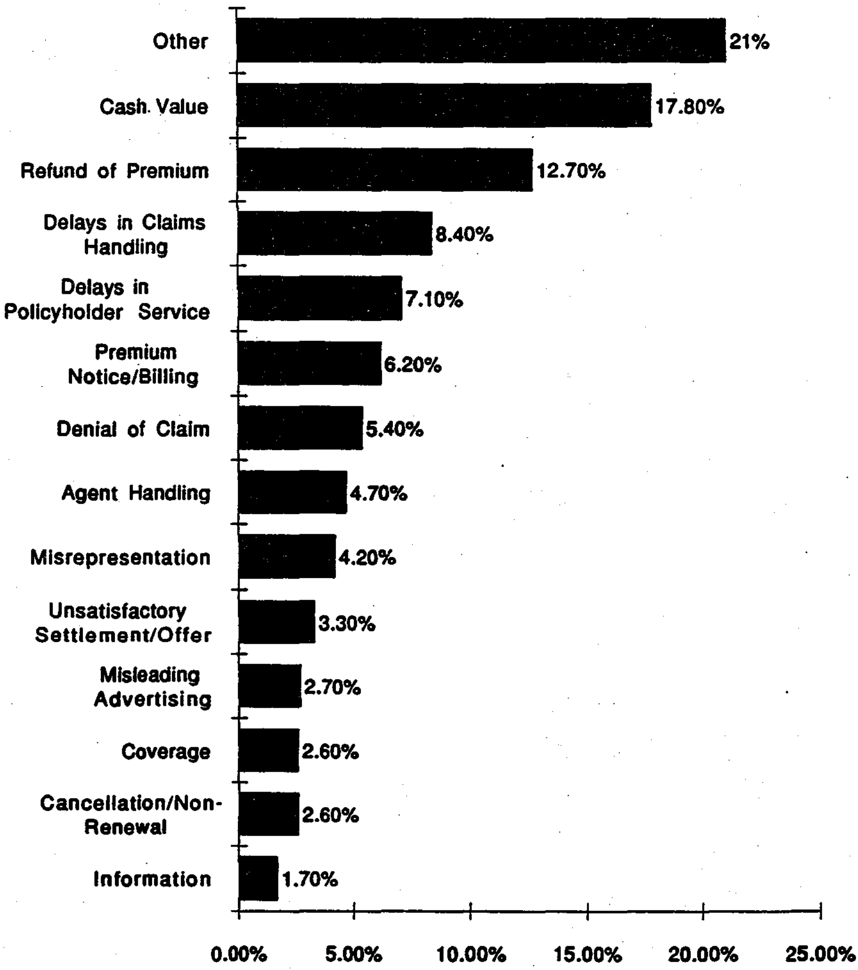
I hereby certify that I have read and received the Conditional Receipt, and agree to its terms. I understand that the Company will not permit accept of my deposit or detachment of the Conditional Receipt unless this statement is true.

0 X (HER SIGNATURE) Signature of Proposed Insured (if age 16 or older) — 0 X (HER SIGNATURE) Signature of Premium Payer

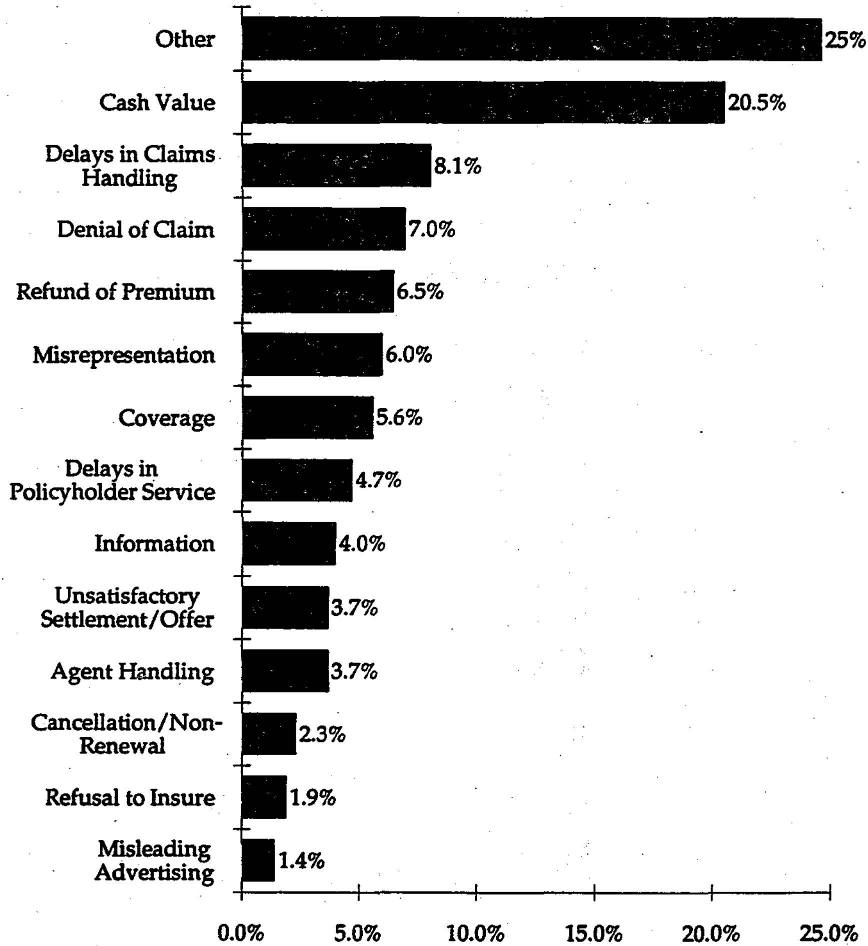
Exhibit B

Categories of Individual Life Insurance Complaints Received by the Texas Department of Insurance

1991 Individual Life Complaints
Total - 1,827



1992 Individual Life Complaints*
Total - 430



*1992 figures are not for a full fiscal year, figures are from 9/1/91 thru 2/4/92

Senator METZENBAUM. Mr. Rips, you are like a breath of fresh air this morning. I very much appreciate your testimony and I will come back to you with some questions subsequently.

Mr. Hunt, you made a statement that concerns me greatly. You said in the 1980's, replacement life insurance policies began to proliferate. Insurance companies are encouraging their policyholders to cash in their life insurance to buy new and often less secure products with the proceeds. This activity has the effect of causing policyholders to lose the savings component in the replaced policies. Many years will go by before they can again accumulate savings they could retrieve should they cancel the policy before they die. I would assume that they would also lose the commission that had been paid on the first policy and get no credit for it with respect to the second policy.

Why are so many policyholders cashing in their life insurance and buying new products?

Mr. HUNT. Well, as I noted, I have been around a long time and when I first came into the business, there was a definite opinion held, I think, by most companies and their agents that replacement was a bad thing, and it was discouraged, and I don't think the problems were severe back then, particularly if you look at the termination rates.

In the early 1980's, two things happened. Interest rates skyrocketed and the universal life form was brought out by many companies. It has been said that universal life was the perfect replacement vehicle because you could take the cash value of the existing policy and dump it in the new policy, and you couldn't do that with whole life insurance that preceded universal life.

So the combination of those things created a climate, and even financial writers got caught up in it by calling universal life better than whole life, which it wasn't. In fact, it was worse. I think that that is the reason why we have had such a great wave of replacements. It became more socially acceptable within the industry as a result of what I have mentioned.

Senator METZENBAUM. I remember a time when people relied on the savings portion of their life insurance. They thought it was a nest egg that they could cash in if they needed to, and they felt that they were not only buying insurance on their life, but they were also providing a savings portion.

Now, you are telling us that people are giving up that security and getting less than they had for their effort. Do you think they would be doing so if what was happening were fully disclosed to them?

Mr. HUNT. Well, I would hope not. In my work—and I have referred in my prepared testimony to 1-year rates of return that could easily be disclosed by companies, but which they have failed to do. It is quite possible that if a person surrenders a policy in the early years, if he only kept it one more year, because of the manipulation of cash value patterns, he might get a 30-percent return in the next year. But he gives it up and he gets a negative return by buying a new policy. This happens all the time, and some means has to be found to help life insurance commissioners—consumers who are beset by the wave of replacement artists within the business.

Senator METZENBAUM. You mentioned by a slip of the tongue life insurance commissioners, and you answered Senator Specter that you weren't so sure that Federal intervention is needed. Do you think the States are doing an adequate job, the insurance commissioners?

Mr. HUNT. I am certainly impressed with what insurance commissioners are doing today as compared to when I was one. I think they are much more attuned to consumer needs and responsive to the difficulties, and I think they have responded well to the wave of insolvency troubles.

With respect to life insurance, as others have commented, the life insurance industry does what it wants to. It is not regulated by the State insurance commissioners in any consumer sense.

Senator METZENBAUM. I think that is the sum and substance of it. They are just not regulated. It is an industry that is on its own and does what it wants to do. Is that pretty much true?

Mr. HUNT. Well, I think that is why they are not here today. Why bother?

Senator METZENBAUM. When policies are replaced as you say, do the companies and their agents enjoy a windfall of new commissions and charges that they can collect on the new policies?

Mr. HUNT. Well, in certain respects, one should not assume that the money transferred over earns the full commission. The money transferred over is subject to a deduction that might be as low as, say, eight percent, but the new premiums are subject to first-year commissions. In general, what happens is that people often give up policies that are very good, now that they have had them 3 or 4 years, looking ahead, for policies that are lousy, looking ahead 5 years. It happens all the time.

Senator METZENBAUM. Very few buyers actually realize that there are now a variety of products that purport to act like savings or investment vehicles. Some policies tie savings buildup to a set interest rate, something like a passbook account at a bank. Other policies accumulate interest based on the insurance company's own investment portfolio, paying the policyholder's account based on its own success or failure, like a mutual fund.

One of your great concerns, as I understand it, has been that consumers aren't able to determine what their yield will be. Some illustrations have guaranteed and projected rates of return, but still don't give policyholders what they need to make an informed choice on what their premium dollars will yield in savings buildup.

I understand that no State has passed the NAIC model regulation for yield indexes that would require companies to give them that information. In your opinion, why don't the insurance departments require that they get those things?

Mr. HUNT. Well, I think life insurance is another thing for insurance commissioners. They are too busy with auto insurance, medical malpractice insurance, workers compensation insurance, and perhaps the overriding aspect is that life insurance is one of the few unregulated lines as to price and therefore there is a certain lack of leverage that the insurance commissioners have over the industry, or an historic need to work on other things rather than life insurance. I think life insurance goes by default.

Senator METZENBAUM. In my opening statement, I indicated, and questioned the first panel, that companies are dipping into policyholders' savings components without policyholders' consent or knowledge to pay themselves premiums after the insured stops paying them. There are clauses in the policies that allow them to do that, according to my understanding of the facts.

What I don't understand is why there is no State requirement that a company notify and get permission from the policyholder before funds are transferred from the policy's cash value for the payment of premiums. Why don't insurance departments require insurers to notify the policyholders before they raid the policyholders' savings?

Mr. HUNT. Well, there are some technicalities in your question, Senator. I think, in general, life insurance companies would not do that without permission. I think what you are referring to is either automatic policy loan provisions that the customer has signed up for perhaps unknowingly or certain other technical aspects.

For example, in universal life it is not well understood that if you don't pay premiums, the company will keep your policy in force and your cash surrender value will eventually deplete. But I would not want—at least it is not known to me that somehow they are doing this surreptitiously. It may be lack of understanding on the part of the policyholder of the provisions of his policy.

Senator METZENBAUM. I think Mr. Rips actually cited such an example, didn't he?

Mr. HUNT. Well, if I understood Mr. Rips' testimony, he might have been referring to what we might call a low-value policy with an extremely small face amount in which the premiums are mainly expense dollars rather than savings dollars, and a great deal more was paid in than ultimately resulted, but it could also have been the extended term provision of a whole life policy that caused it to terminate.

Senator METZENBAUM. Thank you very much.

Ms. Faucett, first of all, let us make clear what the American Association of Actuaries—is that the title?

Ms. FAUCETT. There is the Society of Actuaries and there is the American Academy of Actuaries.

Senator METZENBAUM. Yours is the——

Ms. FAUCETT. I am with both of them.

Senator METZENBAUM. You are with both of them, OK.

Ms. FAUCETT. However, I am here today with the American Academy of Actuaries.

Mr. HUNT. So am I, Senator, with both of them.

Senator METZENBAUM. OK. Query: Do either of the actuarial societies have any special relationship with the insurance industry other than that you do work for them?

Mr. HUNT. Generally, most of us are employed in some respect with the insurance industry, but we have no special relationship with the insurance industry. We are professional organizations.

Senator METZENBAUM. So that when you come to a conclusion as a group of actuaries, you are actually a group of people who are, in the main, working for insurance companies, but are finding fault with some of their practices, as indicated by your earlier testimony. Is that a fair——

58-720 - 92 - 10

Ms. FAUCETT. We are presenting the facts that we found during the course of our research, yes, sir.

Senator METZENBAUM. Very good. Your association did a report that outlined many of the problems consumers are encountering with policy illustrations. You have told us that most of the companies responding to your survey admitted that there is a need to improve sales illustration practices. You also said State regulations haven't kept up with changes in the industry. So questionable practices, such as some we have discussed here today, are not illegal, but nothing prevents life insurance companies from voluntarily doing the ethical and honest thing even if they don't have a regulatory requirement to do so.

Why don't they do that? I mean, these are not highbinders. These are not con artists. These are very proper men and women. They belong to the best clubs. They are oftentimes very active in the United Way and community activities. Why is it, when it comes to their business practices, that—why don't they conduct themselves ethically and honestly in dealing with their policyholders?

Ms. FAUCETT. Well, I think they do choose to act in an ethical fashion with their policyholders. The products and the policy features that are causing us trouble today are ones that have arisen over the last 5 to 10 years, and perhaps we didn't realize the full implications of what the consumer needed to understand at point of sale in order to really be able to make an intelligent decision about the purchase and to understand fully what they were buying.

Based on our research, we now know that there are things that consumers do not understand about the illustration, and that perhaps we should be doing a better job of portraying to them, and that is what the work of our task force has attempted to do is to identify those areas where we do need to make improvement to better communicate with the consumer.

Senator METZENBAUM. And what do you think the timetable on that is?

Ms. FAUCETT. Well, a group of us from the society task force were just rolled into a committee of the American Academy of Actuaries, and I am very hopeful that we can have at least a framework for changes that need to occur within illustration practices, say, during the next 6 to 9 months.

Senator METZENBAUM. The next what?

Ms. FAUCETT. The next 6 to 9 months, as to all of the things that need to occur, and to begin working with the regulators and the industry groups to try to effect positive change that will help the consumer.

Senator METZENBAUM. Have you had any of the insurance companies come forward and say, tell us what we need to do, we would like to conduct our business in a manner that is proper?

Ms. FAUCETT. Yes, sir, I have. Actually, the response from the insurance community and from the agents has been very supportive. All of them are very interested in doing a better job with the consumer.

Senator METZENBAUM. Has any one company that you know of made a change yet?

Ms. FAUCETT. Not to my personal knowledge, sir.

Senator METZENBAUM. Now, you make some recommendations in your report for educational efforts, disclosure, and professional standards of practice. For those recommendations to be implemented industrywide, the NAIC would need to approve a model regulation, which in turn would need to be passed in each of the 50 States. Or there could be an alternate. Companies would have to mutually agree to a standard in which they fully disclose information not specifically required.

Since they are exempt from the antitrust laws, which, as you probably know, I don't agree with, they certainly could at this moment join together this afternoon and agree to do the things that the Society of Actuaries has concluded should be done. Why don't they move more rapidly?

Ms. FAUCETT. I think it is possible that they might, sir. Just so that you understand, the Society of Actuaries is an actuarial organization that is responsible for research and education. Our report is a research report and it identifies a number of alternatives to current practice. It is the American Academy of Actuaries that actually takes that research and then determines how best to go about implementing changes, whether they be standards of practices, which would be regulations that would be promulgated within the actuarial organizations, or whether they would be regulations or disclosures that would go through the NAIC.

So in some sense, we are just getting to the group that can go about and develop a framework for change. We have done the research. Now, we need to develop an implementation plan, and my hope is that we can get a number of companies to agree that the path that we are defining is the right one to follow and that they will voluntarily move in that effort before the NAIC actually acts on it, as long as there is an indication from the NAIC that they agree with the changes that we are recommending.

Senator METZENBAUM. Do you think these things are going to happen soon?

Ms. FAUCETT. Well, I certainly hope they are going to happen in my lifetime.

Mr. HUNT. Which is a long time. [Laughter.]

Senator METZENBAUM. That really is very reassuring, and I am sure that the American people are going to be ecstatic to know that you hope it will happen in your lifetime.

Ms. FAUCETT. As you know, actuaries are very conservative.

Senator METZENBAUM. I hope you have a long lifetime, but I sure hope that the insurance industry moves a lot faster than that, and I am not even talking about my lifetime. I think yesterday was too late. I think that for this industry to be guilty of such reprehensible practices and to sit on their hands and do nothing—I just believe it is incredible.

The only reason they don't do something about it is because the American people don't know about it. I am hopeful that as a result of these hearings they will know more, but I am a realist enough to know that 1 day's news story or commentary, or whatever, with respect to radio or TV does not cause these impregnable companies to move very rapidly. I think it is shameful.

In your professional opinion, will this situation get worse for consumers if your recommendations are not adopted by the industry?

Ms. FAUCETT. I don't know that it will get worse, but certainly it will not get any better.

Senator METZENBAUM. Thank you very much. Your testimony is very refreshing and we appreciate it very, very much.

Ms. FAUCETT. Thank you.

Senator METZENBAUM. Mr. Rips, you testified that last year the largest group of complaints that you received about life insurance came from people whose policies didn't have the amount of cash value that they had been told and were shown. I am talking about illustrations like those on the charts in this room.

You say that part of the solution to this problem is better consumer education, which your office is now doing. Mr. Rips, frankly, wouldn't it be in the companies' best interests to better educate consumers so that they know what they are buying and don't end up complaining to you about being ripped off?

Mr. RIPS. Well, I guess in a perfect world, but I think there is too much profit to be made from consumer ignorance.

Senator METZENBAUM. From consumer what?

Mr. RIPS. Ignorance.

Senator METZENBAUM. Ignorance.

Mr. RIPS. And so it is difficult for me to see the motivation for companies to clear these things up by themselves. In terms of industry public relations, what happens with a life insurance policy happens one family at a time. A lot of people just walk away from their policies. A lot of people think it is their fault because they haven't understood what has happened to them.

So there isn't really an up-swell of popular opinion to bring down the life insurance industry, as there might be with taxes or utility rates going up, or even auto insurance rates going up all at once. It happens one family at a time, so I don't think the industry has to worry about the public perception of life insurance that much.

Senator METZENBAUM. What are the essential things that a customer needs to know in order to make an informed decision about buying life insurance with a savings component?

Mr. RIPS. Well, most of the essential things are what most customers don't know at this time. I mean, it involves the——

Senator METZENBAUM. Say that again. Most of the things that they should know they don't know?

Mr. RIPS. They don't know, and have a hard time finding out. I mean, they should know the rate of return. They should know what the commissions do and what the administrative charges do. They need to know how the surrender charges work. They need to have bells and whistles around the cash value charts and other illustrations.

They need to know about comparing renewable term insurance to life insurance and how much insurance they are buying with their whole life. They need to know a lot of things because the idea of competition is—competition doesn't really work if the consumer isn't informed.

Senator METZENBAUM. Now, you testified that regulatory changes are needed to assure that consumers get the information that you just told us was essential. The reforms you suggested included requirements that policy forms be in plain language, that there be prominent warnings on all company-projected illustrations, and that companies provide a table of guaranteed values as part of their illustration.

You also heard Ms. Faucett testify that her association has published a report criticizing some of the industry practices that you are concerned about and calling for specific reforms, which she very knowledgeably said she hopes will occur during her lifetime.

It sounds to me as though you are not confident the industry will adopt these reforms voluntarily. Is that correct, and if not, why not?

Mr. RIPS. That is right. In Texas, at least, we haven't had much luck with companies regulating themselves, or with their good intentions. We had insurance reform legislation that went through the legislature last year which included plain-language requirements. We were able to pass that for the property and casualty insurance industry, but there was a lot of fight from the life, health, and accident industry, who said that they would begin doing some of this themselves. So it was not included in the insurance reform package.

Senator METZENBAUM. Do you have any evidence that they have?

Mr. RIPS. No. Today, there is none. Not only that, but the legislation did include two sentences to be included in every life, accident, and health policy saying if you have a complaint or question, call this 1-800 number, and we had a number of the life and health companies fighting the inclusion of that in their policies on the deck page because they said it was just too great an expense. So even where some of these things are required, we are still fighting them.

Senator METZENBAUM. What did you do before you held this position, Mr. Rips?

Mr. RIPS. Well, I worked for the State comptroller of Texas.

Senator METZENBAUM. State comptroller?

Mr. RIPS. Yes.

Senator METZENBAUM. I think you are one of the most straightforward State officials in the insurance departments that I have met. That doesn't say that all of them have not been able and straightforward, but there have been some strong disappointments, certainly, from the NAIC.

Mr. RIPS. Well, may I say that, actually, my independence derives from the fact that, as of September 1, we are an independent agency solely representing——

Senator METZENBAUM. You are what?

Mr. RIPS. We are an independent State agency solely representing the consumers in Texas, and so we are not beholden to interests that the Department of Insurance may be beholden to. I think we are the only State with an agency specifically devoted to representing insurance consumers.

Senator METZENBAUM. How did that come about?

Mr. RIPS. It was part of this insurance reform legislation that Governor Richards helped pass this last year. I think it definitely at least becomes a burr under the saddle for both the industry and other State agencies, and I think it serves an important function.

Senator METZENBAUM. I think it is great and I think you are trying to do a good job. I am very thankful to this panel.

Now, I want to say if there is anybody from the insurance companies who is in the audience and wishes to come forward to make a statement on behalf of themselves or their company, the floor is open to them. This subcommittee will hear them. We had indicated previously we tried to get testimony from the insurance industry.

If there is somebody who feels that they are just bursting with information they would like to share with us, and they represent the company and have an authority to speak for the company, we will hear them.

Will you state your name, please, sir?

Mr. DEPALO. I am Armand DePalo, the chief——

Senator METZENBAUM. Pardon?

Mr. DEPALO. Armand DePalo, the chief actuary of Guardian Life Insurance.

Senator METZENBAUM. Which one?

Mr. DEPALO. Guardian Life.

Senator METZENBAUM. Thank you very much.

Mr. DEPALO. Senator, just to clarify the record, at your request I did attend this meeting and I have no prepared remarks, as I told your office, but I was totally willing to come here at any time and answer any questions directed at me. So I am here to represent the Guardian, and my statements not only represent my own opinion, but it will represent those of the company.

Senator METZENBAUM. Why don't you get closer to the mike? I am having trouble hearing you.

Mr. DEPALO. Is this better?

Senator METZENBAUM. First of all, would you be good enough to stand? Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. DEPALO. Yes, sir.

Senator METZENBAUM. And will you state your name, please?

TESTIMONY OF ARMAND DePALO, CHIEF ACTUARY, GUARDIAN LIFE INSURANCE CO. OF AMERICA

Mr. DEPALO. It is Armand DePalo, chief actuary of Guardian Life Insurance Company of America.

Senator METZENBAUM. And will you bring the mike a little closer to you, please?

Mr. DEPALO. I will try. Is this better?

Senator METZENBAUM. That is good. Thank you.

Mr. DEPALO. OK.

Senator METZENBAUM. Happy to have you with us. Now, you indicate that you are willing to answer any questions, but you don't care to make a statement?

Mr. DEPALO. Well, Senator, since I did not really know the format of your presentation, it was very difficult to prepare anything, not knowing what questions or desires you had. Since I heard some of the testimony of others, I will make some very short introduction remarks, and then I am more than glad to address any questions that you may have.

Of interest here is the life insurance industry has been complex not only for the last couple of years, but well over a century. In fact, in 1905, there were many issues that were addressed by the

Armstrong administration through their investigations that set the stage of many of the laws that are now the foundation of New York State insurance regulation, which is probably a very consumer-oriented set of laws.

Life insurance can't be explained simply, and that is one of the problems, and I think the key problem that you are addressing today—and it really has to be made clear to everybody—is no illustration under any circumstance is a representation of future results. The question then becomes why, then, is an illustration used at all, and the only viable use of an illustration is to help a consumer understand how the policy may function under a set of assumptions.

The only thing that a consumer can really look at is his own insurance needs. Does he have a need for insurance? If he doesn't have a need for insurance, he should not be buying it. And then, second, how has that company performed for other existing policyholders that they currently have in force? And, yes, sir, there is a variance in experience between companies.

Mutual companies have, as a group, been able to deliver more to their consumers than stock companies. There are good stock companies, there are bad stock companies. There are good mutual companies, there are bad mutual companies. But I think, as an industry, the industry's officers, the company officers, try to deliver good value to the consumer, and I think what we are faced with today is technology that is growing very rapidly.

And I think the industry, though, is addressing technology. I think industry groups, not only through the Society of Actuaries, but also the Society of CLU's, who represent a large group of well-trained agents, are trying to find better ways to get a handle on disclosure and understanding of the contracts.

Senator METZENBAUM. Tell me how that is being done. You say they are trying. What have they done?

Mr. DEPALO. The Society of CLU's also has a committee that is working right now that is trying to do an educational study, and the educational study is trying to gather information from a wide number of companies as to what their practices are and keep this as an educational resource of the Society of CLU's so that their membership can research what the practices of individual companies are.

I had no prepared remarks, Senator, but I am more than glad if you have any directed questions.

Senator METZENBAUM. Mr. DePalo, do you believe your company and others are fully and fairly disclosing to customers what they need, the information that is needed for them?

Mr. DEPALO. I think my company, in particular, is. We try very, very hard to get as much information as we can go the consumer. Can I certify to you that every consumer understands every piece of information given to him? That is a hard question to answer. Guardian, in particular, does put the consumer first, and we do try very hard on that point.

The industry, in general—I can't speak for other companies, and I will guarantee you, Senator, there is a wide variety from companies that have a stance such as the Guardian's to those that do not put the consumer as high up on their importance as the Guardian does.

Senator METZENBAUM. Well, would you agree with your statement in the Wall Street——

Mr. DEPALO. If I made a statement—and I have made statements in several public records, Senator. I stand behind every statement that I will allow to be printed publicly. Those do represent my statements as Armand DePalo, an individual, not Armand DePalo as an officer of the Guardian Life Insurance Co.

Senator METZENBAUM. Well, you are quoted here as the chief actuary of Guardian Life Insurance Company of America.

Mr. DEPALO. That is correct.

Senator METZENBAUM. They don't say it is personal or whether you are speaking for the company. You say, "Illustrations are not a prediction of the future. They just, 'give you some understanding of how the policy may operate under one scenario.' "

Well, now, I am a policyholder and I see these predictions, I see these numbers up there. Isn't it reasonable for me as the prospective purchaser of the policy to think that those figures that are on the policy—that I have a right to assume that those are not just scenario, but what the company expects to happen? Wouldn't you do that if you saw that?

Mr. DEPALO. I think, Senator, you are addressing where the problem lies, but not what the person should have a perspective of understanding. I think there is a strong amount of disclosure in many ways given to a policyholder that that is not true, from the footnotes on the illustration to information that is given with the policy that refers to the guarantees.

The problem is that the consumer does also bear part of the responsibility because they probably discount some of the information given to them, such as, yes, you are telling me that it is not guaranteed, but I want to—and this is the problem; they want to believe that those values are more a prediction of the future than they can be, because they are not a prediction of the future.

Senator METZENBAUM. But don't you think the consumer says, well, if this big company, Guardian Life Insurance, prints it and shows it to me as a projection—the average person thinks that the company truly expects that to be the case. Yet, we have had earlier testimony that in the filings with the insurance departments, the same company has said we have no chance of making those projections. Now, how do you explain that?

Mr. DEPALO. What is illustrated, as you mentioned earlier, is what the current payments—or at least what it should be is what the current payments of the company are, and that actually has very strong value, but it is not a value of the prediction of the future. Let me try to give you an example to try to explain——

Senator METZENBAUM. Wait a minute. Do you think that all companies, and does yours, show what the current payments are, or do you show what the projections are? Do you show the actual current payments?

Mr. DEPALO. My illustrations, which are not projections, are linked directly to what is currently being paid to policyholders. So there is no gap between what is illustrated in the Guardian versus what is currently being paid to policyholders. I do not know, and I do not believe that it is necessarily true for all policies or all types of policies.

Senator METZENBAUM. You show here total dividend, net premium, cumulative premium, guaranteed cash value at yearend, net cash value at yearend, increase in total cash value, cumulative premium less value, death benefit, net paid-up insurance. How many of those figures could the policyholder expect were realistic?

Mr. DEPALO. There are only—which ones are realistic or which ones are guaranteed?

Senator METZENBAUM. Which ones are guaranteed?

Mr. DEPALO. As far as guarantees of a whole life policy are concerned, the only things that are guaranteed are that if you paid your premium in every single year, you would have the death benefit of the policy guaranteed to you, as well as the column called "Guaranteed Cash Values." All other columns are dependent on the current ability of the company to pass through to the consumer excess earnings that the company has been able to earn. And what is critical to the consumer is not what is being illustrated, but how fairly that company chooses to pass through the excess earnings of that company if they are then available.

Senator METZENBAUM. Well, you say here the guaranteed cash values are only available if the premiums have been paid. The annual rate of interest underlying the computation of these guarantees is 5 percent for the first 25 years and 4 percent thereafter. These figures up here are not related to 5-percent and 4-percent returns, are they?

Mr. DEPALO. The guaranteed cash values under a traditional life insurance contract have a formula that works off of a net premium that is—while not directly related to the gross premium, is similar.

Senator METZENBAUM. I don't understand what that means. Now, tell me what that means.

Mr. DEPALO. Traditional insurance, which is what this is——

Senator METZENBAUM. No. I just want you to answer my question. Are these figures based upon the 5-percent guarantee for the first 25 years and——

Mr. DEPALO. The column called "Guaranteed Cash Values" are.

Senator METZENBAUM. Are?

Mr. DEPALO. Are. The column called "Total Cash Values" are dependent on the yearly crediting of dividends.

Senator METZENBAUM. So, now, I am an ordinary joker and I buy a policy, and they show me guaranteed cash value and then they show me net cash value at year-end. And I say to my insurance agent, what is the difference? Can you tell me?

Mr. DEPALO. The difference is one is what you will receive if the company paid you no dividends and you chose to pay your premium in every single year to continue your coverage. The other column is what you would get on this particular illustration if you paid your premiums in every year and the company was crediting its current dividend scale in all future years.

Dividend scales change yearly in many companies, including my own, and can go both up and down, and more important than that, will go up and down as the actual experience of the company changes. So once again, Senator, I must stress that the issue here is not the value of the illustration, but getting the message through to the consumer that the illustration is a tool to understand the dynamics of the contract, but not a prediction of the contract.

Senator METZENBAUM. And how many agents do you think do that, get the message through to the consumers? Do you think your agents do that?

Mr. DEPALO. I think many agents do, and I am sure, Senator, many agents have failed at doing that. I know from my own company that we have for the last decade—because illustrations with the introduction of universal life have really heated up the marketplace for illustrations, the industry changed from a needs-selling environment to, in many respects, universal life created the day of the illustration selling.

Guardian stresses to its agents, and we are stressing it right now, sell the needs. If you cover the needs—it is wonderful if the dividends are there, but the need is what you sell from, and we are making a major effort in my own company to make sure that our agents understand needs-selling and we have extensive training tools on both needs-selling, estate planning tools, and other tools; that the insurance is planned because there is a need for the insurance, not because the illustration looks good to a particular client.

Senator METZENBAUM. Do you think the average insurance policy purchaser realizes that that policy up there which calls for an annual premium of $5,206—that the buyer would pay $5,206 in the first year as sales commission?

Mr. DEPALO. Only about half of that is sales commission. The other half does go to expenses, but I think, in particular——

Senator METZENBAUM. Whose expenses?

Mr. DEPALO. The expenses of the company.

Senator METZENBAUM. Of the company, OK.

Mr. DEPALO. Some of that may be selling expenses. Some of that is home office, but it is clear from that illustration, Senator, that there is no value to the consumer if that contract terminated in the first year.

Senator METZENBAUM. Does the company pay 100 percent commission to the agent in the first year?

Mr. DEPALO. No, the company does not. New York State law requires that a commission not exceed 55 percent.

Senator METZENBAUM. Fifty-five percent.

Mr. DEPALO. And there is an expense allowance that can be paid for the running of the agency. So under New York State law, a company is limited to a total commission, plus expenses of the company, of somewhat less than 100 percent.

Senator METZENBAUM. But the agent under New York law gets 55-percent commission, plus the expenses of running his agency?

Mr. DEPALO. It is normally paid to the manager of the agency, and normally consumed by clerical and other staff expenses of that agency, so it is not income to the individual.

Senator METZENBAUM. And so the total amount runs 100 percent of the total premium. Is that what you are saying?

Mr. DEPALO. I would say slightly less, but it is not a—it is a substantial percentage of the premium.

Senator METZENBAUM. Would you agree that 98 percent of the people who buy insurance don't know that?

Mr. DePalo. No. I think most people do know that agents who sell life insurance do make a large commission on the sale of life insurance. I think most people have a family member some place that has sold life insurance, and I think there is a fair understanding that an agent does make a large front-end compensation on the selling of life insurance.

Senator Metzenbaum. I understand a large commission, but the fact that they get all of it in the first year? Do you think that they know that?

Mr. DePalo. I think they have a good feeling that that is true. I don't think they are ignorant of the fact that the large—or the majority of the first-year premium is going to the agent or to the company. That is the intent of why it is so important to illustrate and disclose to the consumer surrender values and not just accumulated values.

Senator Metzenbaum. Now, your policy fails to disclose the buyer's life expectancy, the annual cost of the death benefit, the amount of the expenses that the buyer will pay that will be withheld if he or she cancels. It provides no way to calculate the cash value. Projected premiums and values end at age 74, when we know the average ages are going beyond, and the fact that the company's interest crediting rate decreases in 1991—none of that is disclosed to the buyer. Is that right, Mr. DePalo?

Mr. DePalo. I believe you can get an illustration out to any age that the agent chooses to run. I believe the reason you only have age 74 there is that is what—I believe that is all that fits on that one page. Our illustrations do run to age 100 and can be run——

Senator Metzenbaum. But other than that, none of that information is disclosed, is that right, all the other items I mentioned?

Mr. DePalo. Most of what is disclosed is what is on your chart up there. Life expectancy is an estimate. Anyone can choose a life expectancy. We are more than glad to give you our estimate of a life expectancy for your particular age. As we all know, life expectancy—some will live longer, some will live shorter.

Senator Metzenbaum. But there are averages and there are projections.

Mr. DePalo. That is correct.

Senator Metzenbaum. And you use them in your actuarial calculations, don't you?

Mr. DePalo. Of course we do.

Senator Metzenbaum. And you have changed them within recent years as life expectancy has increased, but you haven't necessarily adjusted your rates accordingly, have you?

Mr. DePalo. We have increased our dividends for improvement in mortality as our experience develops. Our dividend scale is based on a calculation of actual experience over a prior period of approximately 5 years, and as mortality improves, we pass the vast majority of those improvements on to existing policyholders. And the mortality assumptions used in our new business illustrations are linked to be the same assumption that is being used for payment of dividends to recent issues.

Senator Metzenbaum. Thank you very much, Mr. DePalo. We appreciate your coming forward.

Mr. DePalo. A pleasure.

Senator METZENBAUM. Is there anybody else who wishes to be heard from the insurance companies?

[No response.]

Senator METZENBAUM. If not, this hearing stands adjourned. Again, I will repeat our doors are open to the ACLI or any and all insurance companies.

[Whereupon, at 11:58 a.m., the subcommittee adjourned.]

58-720 - 92 - 11

WHAT CONSUMERS AREN'T TOLD

Essential Information not Disclosed in Policy Sales Ilustrations

45 Year Old Male Non-Smoker $300,000 coverage

Alexander Hamilton Life
A Household International Company

Annual Premium $2,334

1. Policy Not Guaranteed after Age 57
2. Buyer Pays over $1,400 in First Year Sales Commission
3. Buyer's Life Expectancy Withheld
4. Annual Cost of Death Benefit Withheld
5. Amount of Expenses buyer will pay withheld
6. No way to calculate cash value
7. Featured Rate of Growth Not Guaranteed
8. Company's Interest Crediting Rate Decreased in 1991

The Guardian

Annual Premium $5,206

1. Buyer Pays $5,206 in First Year Sales Commission
2. Buyer's Life Expectancy Withheld
3. Annual Cost of Death Benefit Withheld
4. Amount of Expenses Buyer Will Pay Withheld
5. No Way to Calculate Cash Value
6. Projected Premiums and Values End at Age 74
7. Company's interest crediting rate decreased in 1991

ITT HARTFORD

Annual Premium $5,387

1. Buyer pays over $4,578 in First Year Sales Commissions
2. Buyer's Life Expectancy Withheld
3. Annual Cost of Death Benefit Withheld
4. Amount of Expenses Buyer Will Pay Withheld
5. No way to calculate cash value
6. Cancellation Charges Not Disclosed
7. Company's interest Crediting Rate Decreased in 1991

NEW YORK LIFE

Annual Premium $4,769-5,603

1. Buyer Pays $4,769 in First Year Sales Commissions
2. Annual Cost of Death Benefit Withheld
3. Amount of Expenses Buyer Will Pay Withheld
4. Some Premium and Policy Values not Guaranteed
5. No way to calculate cash value

PACIFIC MUTUAL

Annual Premium $6,800

1. Buyer Pays $6,800 in First Year Sales Commissions
2. Annual Cost of Death Benefit withheld
3. Buyer's Life Expectancy Withheld
4. Amount of Expenses Buyer Will Pay Withheld
5. No way to calculate cash value
6. Company's interest crediting rate decreased in 1991

APPENDIX

Alexander Hamilton

ALEXANDER HAMILTON LIFE
IRRESISTIBLE NEWLIFE II
FLEXIBLE PREMIUM ADJUSTABLE LIFE INSURANCE (FORM NO. 76360)

INITIAL SPECIFIED AMT: 300,000

MALE AGE 45 PREFERRED

OPTION A: LEVEL DEATH BENEFIT

			CURRENT CHARGES CURRENT INTEREST OF 7.500%#			GUARANTEED CHARGES GUARANTEED INTEREST OF 4.000%		
AGE	YR	YEARLY NET OUTLAY	ACCUMULATION VALUE	CASH SURRENDER VALUE	DEATH BENEFIT	ACCUMULATION VALUE	CASH SURRENDER VALUE	DEATH BENEFIT
45	1	2,334	1,564	0	300,000	1,501	0	300,000
46	2	2,334	3,188	854	300,000	2,331	0	300,000
47	3	2,334	4,872	2,538	300,000	3,077	743	300,000
48	4	2,334	6,610	4,510	300,000	3,731	1,630	300,000
49	5	2,334	8,401	6,534	300,000	4,273	2,406	300,000
50	6	2,334	10,239	8,605	300,000	4,690	3,056	300,000
51	7	2,334	12,121	10,720	300,000	4,950	3,549	300,000
52	8	2,334	14,042	12,875	300,000	5,024	3,857	300,000
53	9	2,334	15,999	15,065	300,000	4,876	3,942	300,000
54	10	2,334	17,984	17,284	300,000	4,465	3,765	300,000
55	11	2,334	20,086	19,620	300,000	3,760	3,293	300,000
56	12	2,334	22,220	21,986	300,000	2,720	2,486	300,000
57	13	2,334	24,377	24,377	300,000	1,312	1,312	300,000
58	14	2,334	26,550	26,550	300,000			
59	15	2,334	28,727	28,727	300,000			
60	16	2,334	31,047	31,047	300,000			
61	17	2,334	33,375	33,375	300,000			
62	18	2,334	35,701	35,701	300,000			
63	19	2,334	38,010	38,010	300,000			
64	20	2,334	40,282	40,282	300,000			
65	21	2,334	42,700	42,700	300,000			
66	22	2,334	45,062	45,062	300,000			
67	23	2,334	47,339	47,339	300,000			
68	24	2,334	49,497	49,497	300,000			
69	25	2,334	51,496	51,496	300,000			
70	26	2,334	53,286	53,286	300,000			
71	27	2,334	54,814	54,814	300,000			
72	28	2,334	56,012	56,012	300,000			
73	29	2,334	56,806	56,806	300,000			
74	30	2,334	57,103	57,103	300,000			

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ALEXANDER HAMILTON LIFE
IRRESISTIBLE NEWLIFE II
FLEXIBLE PREMIUM ADJUSTABLE LIFE INSURANCE (FORM NO. 76360)

INITIAL SPECIFIED AMT: 300,000

MALE AGE 45 PREFERRED

OPTION A: LEVEL DEATH BENEFIT

			CURRENT CHARGES CURRENT INTEREST OF 7.500%#			GUARANTEED CHARGES GUARANTEED INTEREST OF 4.000%		
AGE	YR	YEARLY NET OUTLAY	ACCUMU-LATION VALUE	CASH SURRENDER VALUE	DEATH BENEFIT	ACCUMU-LATION VALUE	CASH SURRENDER VALUE	DEATH BENEFIT
75	31	2,334	56,797	56,797	300,000			
76	32	2,334	55,760	55,760	300,000			
77	33	2,334	53,838	53,838	300,000			
78	34	2,334	50,848	50,848	300,000			
79	35	2,334	46,563	46,563	300,000			
80	36	2,334	40,712	40,712	300,000			
81	37	2,334	32,955	32,955	300,000			
82	38	2,334	22,876	22,876	300,000			
83	39	2,334	9,954	9,954	300,000			

\# In policy years 11-15, 16-20 and 21 and thereafter, the current interest rate is illustrated with an additional 1/2%, 1% and 1 1/2% respectively. This is in accordance with the 1/2% improvements to the Twindex in years 11, 16 and 21, as indicated on the interest rate endorsement.

This report is not valid without the ADDITIONAL BENEFITS AND INFORMATION report

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ALEXANDER HAMILTON LIFE
IRRESISTIBLE NEWLIFE II
FLEXIBLE PREMIUM ADJUSTABLE LIFE INSURANCE (FORM NO. 76360)

INITIAL SPECIFIED AMT: 300,000

MALE AGE 45 PREFERRED

OPTION A: LEVEL DEATH BENEFIT

VALUES REFLECT CURRENT MORTALITY CHARGES AND CURRENT INTEREST OF 7.500%#

INTERNAL RATE OF RETURN UPON SURRENDER OR DEATH

AGE	YR	ANNUALIZED OUTLAY	CUMULATIVE OUTLAY	BEFORE-TAX SURRENDER VALUE	BEFORE-TAX SURRENDER % RETURN	AFTER-TAX DEATH BENEFIT	AFTER-TAX DEATH % RETURN
45	1	2,334	2,334	0	-100.00	300,000	12,753.47
46	2	2,334	4,668	854	-71.52	300,000	984.83
47	3	2,334	7,002	2,538	-42.77	300,000	367.27
48	4	2,334	9,336	4,510	-27.06	300,000	205.85
49	5	2,334	11,670	6,534	-18.74	300,000	137.39
50	6	2,334	14,004	8,605	-13.78	300,000	100.78
51	7	2,334	16,338	10,720	-10.55	300,000	78.39
52	8	2,334	18,672	12,875	-8.33	300,000	63.43
53	9	2,334	21,006	15,065	-6.73	300,000	52.80
54	10	2,334	23,340	17,284	-5.55	300,000	44.91
55	11	2,334	25,674	19,620	-4.56	300,000	38.84
56	12	2,334	28,008	21,986	-3.79	300,000	34.04
57	13	2,334	30,342	24,377	-3.18	300,000	30.16
58	14	2,334	32,676	26,550	-2.82	300,000	26.97
59	15	2,334	35,010	28,727	-2.52	300,000	24.30
60	16	2,334	37,344	31,047	-2.21	300,000	22.04
61	17	2,334	39,678	33,375	-1.95	300,000	20.10
62	18	2,334	42,012	35,701	-1.74	300,000	18.43
63	19	2,334	44,346	38,010	-1.57	300,000	16.97
64	20	2,334	46,680	40,282	-1.43	300,000	15.68
65	21	2,334	49,014	42,700	-1.27	300,000	14.55
66	22	2,334	51,348	45,062	-1.15	300,000	13.53
67	23	2,334	53,682	47,339	-1.06	300,000	12.63
68	24	2,334	56,016	49,497	-1.00	300,000	11.81
69	25	2,334	58,350	51,496	-0.98	300,000	11.07
70	26	2,334	60,684	53,286	-0.98	300,000	10.41
71	27	2,334	63,018	54,814	-1.01	300,000	9.80
72	28	2,334	65,352	56,012	-1.08	300,000	9.24
73	29	2,334	67,686	56,806	-1.19	300,000	8.73
74	30	2,334	70,020	57,103	-1.35	300,000	8.26

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ALEXANDER HAMILTON LIFE
IRRESISTIBLE NEWLIFE II
FLEXIBLE PREMIUM ADJUSTABLE LIFE INSURANCE (FORM NO. 76360)

INITIAL SPECIFIED AMT: 300,000

MALE AGE 45 PREFERRED

OPTION A: LEVEL DEATH BENEFIT

VALUES REFLECT CURRENT MORTALITY CHARGES AND CURRENT INTEREST OF 7.500%#

INTERNAL RATE OF RETURN UPON SURRENDER OR DEATH

AGE	YR	ANNUALIZED OUTLAY	CUMULATIVE OUTLAY	BEFORE-TAX SURRENDER VALUE	BEFORE-TAX SURRENDER % RETURN	AFTER-TAX DEATH BENEFIT	AFTER-TAX DEATH % RETURN
75	31	2,334	72,354	56,797	-1.56	300,000	7.82
76	32	2,334	74,688	55,760	-1.84	300,000	7.42
77	33	2,334	77,022	53,838	-2.21	300,000	7.05
78	34	2,334	79,356	50,848	-2.71	300,000	6.70
79	35	2,334	81,690	46,563	-3.40	300,000	6.38
80	36	2,334	84,024	40,712	-4.39	300,000	6.08
81	37	2,334	86,358	32,955	-5.98	300,000	5.80
82	38	2,334	88,692	22,876	-9.03	300,000	5.53
83	39	2,334	91,026	9,954	-18.99	300,000	5.28

THIS ILLUSTRATION REFLECTS VALUES BASED UPON CURRENT MORTALITY AND CURRENT INTEREST RATES AND IS NOT VALID WITHOUT THE GUARANTEED VALUES.

In policy years 11-15, 16-20 and 21 and thereafter, the current interest rate is illustrated with an additional 1/2%, 1% and 1 1/2% respectively. This is in accordance with the 1/2% improvements to the Twindex in years 11, 16 and 21, as indicated on the interest rate endorsement.

This report is not valid without the ADDITIONAL BENEFITS AND INFORMATION report

ALEXANDER HAMILTON LIFE
IRRESISTIBLE NEWLIFE II
FLEXIBLE PREMIUM ADJUSTABLE LIFE INSURANCE (FORM NO. 76360)

INITIAL SPECIFIED AMT: 300,000

MALE AGE 45 PREFERRED

OPTION A: LEVEL DEATH BENEFIT

VALUES REFLECT CURRENT MORTALITY CHARGES AND CURRENT INTEREST OF 7.500%#

PRESENT VALUE ANALYSIS AT 5.00% UPON SURRENDER OR DEATH

				BEFORE-TAX SURRENDER		AFTER-TAX DEATH	
AGE	YR	ANNUALIZED OUTLAY	CUMULATIVE OUTLAY	PRESENT VALUE	P.V. DIFFERENCE	PRESENT VALUE	P.V. DIFFERENCE
45	1	2,334	2,334	0	-2,334	285,714	283,380
46	2	2,223	4,557	775	-3,782	272,109	267,552
47	3	2,117	6,674	2,192	-4,481	259,151	252,477
48	4	2,016	8,690	3,710	-4,980	246,811	238,121
49	5	1,920	10,610	5,120	-5,491	235,058	224,448
50	6	1,829	12,439	6,421	-6,018	223,865	211,426
51	7	1,742	14,181	7,619	-6,562	213,204	199,024
52	8	1,659	15,839	8,714	-7,125	203,052	187,213
53	9	1,580	17,419	9,711	-7,708	193,383	175,964
54	10	1,505	18,924	10,611	-8,313	184,174	165,250
55	11	1,433	20,357	11,471	-8,885	175,404	155,047
56	12	1,365	21,721	12,243	-9,479	167,051	145,330
57	13	1,300	23,021	12,928	-10,093	159,097	136,076
58	14	1,238	24,259	13,410	-10,849	151,521	127,262
59	15	1,179	25,437	13,818	-11,619	144,305	118,868
60	16	1,123	26,560	14,223	-12,337	137,434	110,873
61	17	1,069	27,629	14,561	-13,068	130,889	103,260
62	18	1,018	28,648	14,835	-13,813	124,656	96,009
63	19	970	29,618	15,042	-14,576	118,720	89,103
64	20	924	30,541	15,182	-15,359	113,067	82,526
65	21	880	31,421	15,327	-16,094	107,683	76,262
66	22	838	32,259	15,404	-16,854	102,555	70,297
67	23	798	33,056	15,412	-17,644	97,672	64,615
68	24	760	33,816	15,347	-18,469	93,021	59,204
69	25	724	34,540	15,207	-19,333	88,591	54,051
70	26	689	35,229	14,986	-20,243	84,372	49,143
71	27	656	35,886	14,682	-21,204	80,355	44,469
72	28	625	36,511	14,288	-22,223	76,528	40,017
73	29	595	37,106	13,801	-23,305	72,884	35,778
74	30	567	37,673	13,212	-24,461	69,413	31,740

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ALEXANDER HAMILTON LIFE
IRRESISTIBLE NEWLIFE II
FLEXIBLE PREMIUM ADJUSTABLE LIFE INSURANCE (FORM NO. 76360)

INITIAL SPECIFIED AMT: 300,000

MALE AGE 45 PREFERRED

OPTION A: LEVEL DEATH BENEFIT

VALUES REFLECT CURRENT MORTALITY CHARGES AND CURRENT INTEREST OF 7.500%#

PRESENT VALUE ANALYSIS AT 5.00% UPON SURRENDER OR DEATH

				BEFORE-TAX SURRENDER		AFTER-TAX DEATH	
AGE	YR	ANNUALIZED OUTLAY	CUMULATIVE OUTLAY	PRESENT VALUE	P.V. DIFFERENCE	PRESENT VALUE	P.V. DIFFERENCE
75	31	540	38,213	12,516	-25,698	66,108	27,895
76	32	514	38,728	11,702	-27,025	62,960	24,232
77	33	490	39,217	10,761	-28,457	59,962	20,744
78	34	467	39,684	9,679	-30,005	57,107	17,423
79	35	444	40,128	8,441	-31,687	54,387	14,259
80	36	423	40,551	7,029	-33,522	51,797	11,246
81	37	403	40,954	5,419	-35,535	49,331	8,376
82	38	384	41,338	3,583	-37,756	46,982	5,644
83	39	366	41,704	1,485	-40,219	44,744	3,041

THIS ILLUSTRATION REFLECTS VALUES BASED UPON CURRENT MORTALITY AND CURRENT INTEREST RATES AND IS NOT VALID WITHOUT THE GUARANTEED VALUES.

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This report is not valid without the ADDITIONAL BENEFITS AND INFORMATION report

ALEXANDER HAMILTON LIFE
IRRESISTIBLE NEWLIFE II
FLEXIBLE PREMIUM ADJUSTABLE LIFE INSURANCE (FORM NO. 76360)

INITIAL SPECIFIED AMT: 300,000

MALE AGE 45 PREFERRED

OPTION A: LEVEL DEATH BENEFIT

ADDITIONAL BENEFITS AND INFORMATION

MODAL PREMIUM: ANNUAL

MINIMUM FIRST YEAR (ANNUALIZED) PREMIUM	2,334
GUIDELINE SINGLE PREMIUM	68,467
GUIDELINE LEVEL PREMIUM	6,219
MODIFIED ENDOWMENT PREMIUM	16,719

THIS ILLUSTRATION IS VALID IN ALL STATES EXCEPT NEW YORK, MASSACHUSETTS, NEW JERSEY AND MONTANA.

UPON WRITTEN NOTIFICATION TO ALEXANDER HAMILTON LIFE, THE MATURITY AGE CAN BE EXTENDED BEYOND THE CURRENT MATURITY AGE OF 95 DEPENDING UPON STATE APPROVAL.

TWINDEX

ALEXANDER HAMILTON LIFE USES A TWINDEX SYSTEM FOR DETERMINING THE GUARANTEED MINIMUM INTEREST RATE ON IRRESISTIBLE NEWLIFE II. THIS TWIN INDEX FOR DECLARING INTEREST GIVES POLICYOWNERS EARNINGS TIED TO THE GREATER OF SHORT OR LONG TERM MONEY RATES ON THE EQUITY/ACCUMULATION VALUE OF THEIR POLICIES.

THE TWINDEX WORKS AS FOLLOWS:

AT THE BEGINNING OF EACH CALENDAR QUARTER THE COMPANY COMPARES THE LATEST YIELD RATE FOR 13-WEEK U.S. TREASURY BILLS TO THE 3-MONTH AVERAGE YIELD FOR 10-YEAR U.S. TREASURY NOTES. THE GREATER OF THESE RATES MINUS 1 1/2% (POLICY YEARS 1-10), 1% (YEARS 11-15), 1/2% (YEARS 16-20) AND 0% (YEARS 21+) IS THE TWINDEX RATE FOR THE NEXT QUARTER ON THE EQUITY/ ACCUMULATION VALUE IN EXCESS OF POLICY LOANS. THE GUARANTEED MINIMUM INTEREST RATE PAYABLE BY THE COMPANY IS THE TWINDEX RATE OR 4%, WHICHEVER IS GREATER. IF EITHER OF THE INDEXES EQUALS OR EXCEEDS 15%, THE GUARANTEED RATE PAYABLE BY THE COMPANY WILL BE 15% MINUS THE APPLICABLE PRESCRIBED FACTOR. THE COMPANY MAY STILL DECLARE A RATE HIGHER THAN THIS IF DEEMED APPROPRIATE.

ADDITIONAL BENEFITS AND INFORMATION CONTINUED ON NEXT PAGE

ALEXANDER HAMILTON LIFE
IRRESISTIBLE NEWLIFE II
FLEXIBLE PREMIUM ADJUSTABLE LIFE INSURANCE (FORM NO. 76360)

INITIAL SPECIFIED AMT: 300,000

MALE AGE 45 PREFERRED

OPTION A: LEVEL DEATH BENEFIT

CONTINUATION OF ADDITIONAL BENEFITS AND INFORMATION

COST AND PAYMENT INDEXES

	NET PAYMENT INDEX			SURRENDER COST INDEX		
	CURRENT CHARGES AND CURRENT INTEREST OF 7.500%#	CURRENT CHARGES AND ILLUSTRATED INTEREST OF 5.000%	GUARANTEED CHARGES AND GUARANTEED INTEREST OF 4.000%	CURRENT CHARGES AND CURRENT INTEREST OF 7.500%#	CURRENT CHARGES AND ILLUSTRATED INTEREST OF 5.000%	GUARANTEED CHARGES AND GUARANTEED INTEREST OF 4.000%
YEAR 5	7.78	7.78	7.78	4.03	6.29	6.40
YEAR 10	7.78	7.78	7.78	3.42	6.68	6.83
YEAR 15	7.78			3.55		
AGE 65	7.78			3.91		

THESE INDEXES ARE COMPUTED BY THE FORMULAE AS PRESCRIBED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS; AND REFLECT THE TIME VALUE OF MONEY AT 5.00 PERCENT.

THESE INDEXES INCLUDE THE COST OF ADDITIONAL BENEFITS.

In policy years 11-15, 16-20 and 21 and thereafter, the current interest rate is illustrated with an additional 1/2%, 1% and 1 1/2% respectively. This is in accordance with the 1/2% improvements to the Twindex in years 11, 16 and 21, as indicated on the interest rate endorsement.

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Guardian

** GUARDIAN/GIAC LIFEPLAN ILLUSTRATIONS ** PAGE 1 OF 3

PREPARED ON 05/26/92

MALE AGE 45

300,000 WHOLE LIFE PD UP @ 100
PREFERRED NON-SMOKER 5206.20
DIVIDENDS TO PAID UP ADDS

5206.20

AGE AT START OF YR	(1) TOTAL DIVID	(2) NET PREMIUM	(3) CUM PREMIUM	(4) GUAR CASH VALUE YR END	(5) NET CASH VALUE YR END	(6) INCR IN TOTAL CASH VALUE	(7) CUM PREMIUM LESS VALUE	(8) DEATH BENEFIT	(9) NET PAID UP INSUR
1 45	0	5206	5206	0	0	0	5206	300000	0
2 46	0	5206	10412	0	15	15	10397	300015	47
3 47	15	5206	15619	4506	4672	4657	10946	300197	14063
4 48	151	5206	20825	9783	10275	5602	10550	300811	29783
5 49	319	5206	26031	15216	16226	5951	9805	301906	45314
6 50	500	5206	31237	20811	22605	6379	8632	303536	60831
7 51	746	5206	36443	26556	29549	6943	6895	305913	76646
8 52	1131	5206	41650	33069	37738	8189	3912	309257	94387
9 53	1565	5206	46856	39756	46645	8907	211	313626	112533
10 54	2049	5206	52062	46611	56333	9688	-4271	319070	131151
11 55	2584	5206	57268	53643	66879	10546	-9611	325629	150310
12 56	3165	5206	62474	60655	78311	11432	-15837	333288	169976
13 57	3751	5206	67681	68262	90730	12419	-23049	342033	190245
14 58	4398	5206	72887	75876	104204	13474	-31317	351888	211136
15 59	5077	5206	78093	83709	118818	14614	-40725	362849	232694
16 60	5801	5206	83299	90843	133774	14956	-50475	374967	253284
17 61	6616	5206	88505	98139	150013	16239	-61508	388297	274659
18 62	7478	5206	93712	105594	167673	17660	-73961	402889	296950
19 63	8451	5206	98918	113199	186854	19181	-87937	418825	320181
20 64	9494	5206	104124	120951	207694	20839	-103570	436152	344428
21 65	10636	5206	109330	127209	230364	22671	-121034	456597	373428
22 66	14416	5206	114536	133449	254975	24611	-140439	482108	404254
23 67	16057	5206	119743	139674	281720	26744	-161977	509221	437093
24 68	17861	5206	124949	145890	310777	29057	-185828	538724	472083
25 69	19805	5206	130155	152094	342284	31507	-212129	570713	509306
26 70	21859	5206	135361	158262	376487	34203	-241126	605342	549023
27 71	24163	5206	140567	164373	413613	37126	-273045	642900	591475
28 72	26703	5206	145774	170385	453907	40294	-308133	683658	636755
29 73	29531	5206	150980	176256	497625	43719	-346646	727956	685784
30 74	32671	5206	156186	181956	545036	47411	-388850	776125	738251

PLEASE SEE ATTACHED SHEETS WITH IMPORTANT FOOTNOTES

300

PREPARED ON 05/26/92

SUMMARY AT 20 YRS

TOTAL PREMIUMS:		104124
(LESS) TOTAL CASH VALUE:		207693
(GUARANTEED)	120951	
(VALUE OF DIVIDENDS)	86742	
DIFFERENCE		-103569
AVERAGE DIFFERENCE PER YEAR		-5178
AVERAGE DEATH BENEFIT	339557	
5% INTEREST ADJUSTED COSTS(1):		
AT 10 YEARS	3.36	
AT 20 YEARS	-.70	
5% INTEREST ADJUSTED PAYMENTS:		
AT 10 YEARS	15.12	
AT 20 YEARS	10.91	
5% EQUIVALENT LEVEL ANNUAL DIVIDENDS:		
AT 10 YEARS	2.23	
AT 20 YEARS	6.44	

GUARANTEED CASH VALUES AS SHOWN ON THIS ILLUSTRATION ARE ONLY AVAILABLE IF ALL PREMIUMS HAVE BEEN PAID. THE ANNUAL RATE OF INTEREST UNDERLYING THE COMPUTATION OF THESE GUARANTEES IS 5% FOR THE FIRST 20 YEARS AND 4% THEREAFTER.

ALL CASH VALUES SHOWN ARE END OF YEAR VALUES.

ALL LIFEPLAN ILLUSTRATIONS FOR INDIVIDUAL LIFE INSURANCE PRODUCTS ARE TESTED FOR THE POSSIBILITY OF CLASSIFICATION AS A MODIFIED ENDOWMENT FOR THE PURPOSES OF FEDERAL INCOME TAXATION. THIS TEST APPLIES TO POLICIES ENTERED INTO AFTER JUNE 20, 1988 AND MAY NOT BE USED FOR POLICIES IN FORCE BEFORE THAT DATE.

THE ILLUSTRATED OUTLAYS SHOWN ON THIS ILLUSTRATION WOULD NOT CAUSE IT TO BE CLASSIFIED AS A MODIFIED ENDOWMENT. THIS TEST IS NOT A GUARANTEE THAT A PARTICULAR POLICY WILL NOT BE CLASSIFIED AS A MODIFIED ENDOWMENT IN THE FUTURE.

FIGURES DEPENDING ON DIVIDENDS ARE NEITHER ESTIMATED NOR GUARANTEED, BUT ARE BASED ON THE 1992 DIVIDEND SCALE.

ACTUAL FUTURE DIVIDENDS MAY BE HIGHER OR LOWER THAN THOSE ILLUSTRATED DEPENDING ON THE COMPANY'S ACTUAL FUTURE EXPERIENCE.

THE COST OF THE ABOVE POLICY OVER A PERIOD OF YEARS CANNOT BE DETERMINED WITHOUT TAKING INTO ACCOUNT THE INTEREST THAT WOULD HAVE BEEN EARNED HAD THE PREMIUMS BEEN INVESTED RATHER THAN PAID TO THE INSURER.

NET DEATH BENEFIT ON ALL PERMANENT PLANS MEANS THE FACE AMOUNT PLUS RIDERS, IF ANY, PLUS THE END OF YEAR DIVIDEND LESS POLICY LOANS. A FULL DIVIDEND IS NOT GENERALLY PAID UPON DEATH DURING THE POLICY YEAR. OTHER VARIABLES ARE POSSIBLE. YOUR AGENT WILL DEFINE THE RULES UPON REQUEST.

THE POLICY LOAN INTEREST RATE SHOWN ON YOUR ILLUSTRATION IS PAYABLE IN ADVANCE AT A DISCOUNT RATE EQUIVALENT TO AN ANNUAL RATE OF 8.00%. DIVIDENDS ARE AFFECTED BY POLICY LOANS. UNDER CURRENT ECONOMIC CONDITIONS, IN ANY GIVEN POLICY YEAR THE GREATER THE AMOUNT OF LOAN, THE SMALLER THE DIVIDEND. (THIS DOES NOT APPLY TO ECONOMIX TERM, WHICH HAS NO LOAN VALUE.).

THE NET PAID UP INSURANCE SHOWN IS THE AMOUNT THAT CAN BE PURCHASED WITH THE END OF YEAR NET CASH VALUE (REMAINDER AFTER LOAN HAS BEEN REPAID). SINCE REPAYMENT OF THE LOAN AT THIS TIME MAY HAVE TAX CONSEQUENCES, YOU SHOULD CONSULT YOUR AGENT FOR ALTERNATIVES.

(1) INTEREST ADJUSTED COST INDICIES ARE BASED ON THE POLICY EXCLUDING RIDERS AND ARE USEFUL IN COMPARING POLICIES OF SIMILAR TYPES.

A WHOLE LIFE POLICY WITH DIFFERENT PREMIUMS AND VALUES THAN THE PLAN ILLUSTRATED IS ALSO AVAILABLE FOR SALE BY THE GUARDIAN. ASK YOUR GUARDIAN REPRESENTATIVE TO EXPLAIN WHICH PLAN BEST MEETS YOUR NEEDS.

Hartford Life

HARTFORD LIFE INSURANCE COMPANY

INTEREST SENSITIVE LIFE INSURANCE POLICY ILLUSTRATION
INITIAL FACE AMOUNT: $300,000

ITT HARTFORD

INSURED: ISSUE AGE/SEX : 45/M STAG SERIES
AGENT: PREMIUM CLASS : PREFERRED SL 2

	CURRENT (NON-GUARANTEED) VALUES					GUARANTEED VALUES		
POL YR	GROSS PREMIUM	DEATH BENEFIT	ACCOUNT VALUE	CASH VALUE	INTEREST RATE	GROSS PREMIUM	DEATH BENEFIT	CASH VALUE
1	5,387.56	300,000	1,211	0	8.000%	5,387.56	300,000	0
2	5,387.56	300,000	5,961	261	8.000%	5,387.56	300,000	0
3	5,387.56	300,000	11,012	5,501	8.000%	5,387.56	300,000	4,104
4	5,387.56	300,000	16,457	11,143	8.000%	5,387.56	300,000	8,860
5	5,387.56	300,000	22,297	17,190	8.000%	5,387.56	300,000	13,772
6	5,387.56	300,000	28,599	23,707	8.000%	5,387.56	300,000	18,839
7	5,387.56	300,000	35,347	30,681	8.000%	5,387.56	300,000	24,056
8	5,387.56	300,000	42,580	38,150	8.000%	5,387.56	300,000	29,419
9	5,387.56	300,000	50,347	46,164	8.000%	5,387.56	300,000	34,919
10	5,387.56	300,000	58,698	54,774	8.000%	5,387.56	300,000	40,553
11	0.00*	300,000	62,262	58,609	8.000%	5,387.56	300,000	46,316
12	0.00*	300,000	66,031	62,661	8.000%	5,387.56	300,000	52,209
13	0.00*	300,000	70,079	67,007	8.000%	5,387.56	300,000	58,235
14	0.00*	300,000	74,381	71,623	8.000%	5,387.56	300,000	64,390
15	0.00*	300,000	78,990	76,561	8.000%	5,387.56	300,000	70,667
16	0.00*	300,000	83,909	81,828	8.000%	5,387.56	300,000	77,059
17	0.00*	300,000	89,150	87,436	8.000%	5,387.56	300,000	83,557
18	0.00*	300,000	94,790	93,616	8.000%	5,387.56	300,000	90,293
19	0.00*	300,000	100,825	100,238	8.000%	5,387.56	300,000	97,125
20	0.00*	300,000	107,393	107,393	8.000%	5,387.56	300,000	103,990

	CURRENT (NON-GUARANTEED) VALUES					GUARANTEED VALUES			
				5% ADJUSTED INDEXES PER $1000					
POLICY YEAR	TOTAL PREMIUM	TOTAL NET COST	CASH VALUE	SURRENDER	PAYMENT	SURRENDER	PAYMENT	TOTAL PREMIUM	CASH VALUE
5	26,938	9,748	17,190	8.08	17.96	10.05	17.96	26,938	13,772
10	53,876	-898	54,774	4.13	17.96	7.72	17.96	53,876	40,553
15	53,876*	-22,685	76,561	2.10	13.36	7.56	17.96	80,813	70,667
20	53,876*	-53,517	107,393	0.82	11.13	7.97	17.96	107,751	103,990
AGE									
65	53,876*	-53,517	107,393					107,751	103,990

* Current values assume election to pay no premium after the 10th year. However, guaranteed values assume continuing premium payments.

Current values are based on the Company's current cost of insurance and credited interest rates. These rates are not guaranteed, and are subject to change by the Company. Current credited interest, first year and thereafter, is 8.00%. The guaranteed minimum interest rate is 4.00% in any policy year, and 5.00% cumulative.

New York Life

NYLIC
3.a.v.

NEW YORK LIFE INSURANCE COMPANY
PROPOSAL PAGE

May 27, 1992

Sample Illustration

Modified Premium Whole Life
Ledger

Male 45
Issued in NY

═══ MODIFIED PREMIUM WHOLE LIFE ═══

Non-Smoker — $300,000 Face Amount

Annual Payment

Paid Up Additions — Owner is Insured

Tax Bracket = 28.00%

	Annually	Semi-Annually	Quarterly	C-O-M
INITIAL PREMIUM	$4,769.00	$2,449.00	$1,243.50	$419.00
ULTIMATE PREM.	$5,603.00	$2,878.00	$1,459.50	$491.00
7 PAY LIMIT	$13,905.00	$6,952.50	$3,476.25	$1,158.75
MAX OPP PREMIUM	$9,136.00	$4,503.50	$2,232.75	$739.75

Dividends are not guaranteed. For explanation refer to Form 11939.
This illustration was prepared for NEW YORK LIFE INSURANCE COMPANY using ISIS.
ISIS Ver. W.L. 5.6190MW 2-29-92 Page 1 of 3
Illus Code: 11111 11111 11111 11111 11111 11111 11111 11111

NEW YORK LIFE INSURANCE COMPANY
Prepared by Sample Illustration
Modified Premium Whole Life
Ledger

May 27, 1992

Male 45
Issued in NY

MODIFIED PREMIUM WHOLE LIFE

Non-Smoker
$300,000 Face Amount

YR	AGE	(1) Net Premium	(2) Policy Cash Value	(3) Cash Value of Adds	(4) Net Cash Value	(5) Annual Cash Value Increase	(6) Face Amount of Adds	(7) Net Death Benefit
1	45	4769	0	0	0	0	0	300000
2	46	4769	0	240	240	240	0	300000
3	47	4769	1800	739	2539	2299	803	300803
4	48	4769	6000	1519	7519	4979	2384	302384
5	49	4769	10200	2624	12824	5305	4723	304723
6	50	5603	15300	4076	19376	6552	7872	307872
7	51	5603	20700	5791	26491	7115	11800	311800
8	52	5603	26100	7805	33905	7414	16184	316184
9	53	5603	31500	10160	41660	7755	21065	321065
10	54	5603	37800	12909	50709	9049	26497	326497
11	55	5603	44400	16460	60860	10151	32549	332549
12	56	5603	50700	20876	71576	10716	40146	340146
13	57	5603	57000	26223	83223	11647	49281	349281
14	58	5603	63600	32577	96177	12954	59944	359944
15	59	5603	70500	40019	110519	14342	72146	372146
16	60	5603	77100	48654	125754	15236	85903	385903
17	61	5603	84000	58578	142578	16824	101279	401279
18	62	5603	90900	69914	160814	18235	118311	418311
19	63	5603	97800	82793	180593	19779	137085	437085
20	64	5603	104100	97363	201463	20870	157709	457709
21	65	5603	110700	113544	224244	22781	180298	480298
22	66	5603	117000	131458	248458	24214	204561	504561
23	67	5603	123600	151219	274819	26361	230568	530568
24	68	5603	129900	172921	302821	28002	258371	558371
25	69	5603	136500	196705	333205	30384	287982	587982

- This policy has been checked for all years and is not a modified endowment. Any future premium or rider changes could affect this. See form 11939.
- Values reflect premium payments within 31 days following policy anniversary.

Dividends are not guaranteed. For explanation refer to Form 11939.
This illustration was prepared for NEW YORK LIFE INSURANCE COMPANY using ISIS.
ISIS Ver. W.L. 5.6190MW 2-29-92 Page 2 of 3
Illus Code: 11111 11111 11111 11111 11111 11111 11111 11111

NEW YORK LIFE INSURANCE COMPANY
Prepared by Sample Illustration
Modified Premium Whole Life
Ledger

May 27, 1992

Male 45
Issued in NY

MODIFIED PREMIUM WHOLE LIFE

Non-Smoker
$300,000 Face Amount

YR	AGE	(1) Net Premium	(2) Policy Cash Value	(3) Cash Value of Adds	(4) Net Cash Value	(5) Annual Cash Value Increase	(6) Face Amount of Adds	(7) Net Death Benefit
26	70	5603	142800	222749	365549	32343	319492	619492
27	71	5603	149400	251263	400663	35115	353059	653059
28	72	5603	155700	282503	438203	37539	388917	688917
29	73	5603	162000	316769	478769	40566	427374	727374
30	74	5603	168000	354294	522294	43525	468801	768801
SUMMARY								
20	64	5603	104100	97363	201463	20870	157709	457709
21	65	5603	110700	113544	224244	22781	180298	480298
26	70	5603	142800	222749	365549	32343	319492	619492
LE	79	5603	196200	598199	794399	62274	728077	1028077
55	99	5603	300000	3582497	3882497	354140	3323711	3623711

	NET	AVERAGE
Death Benefit at Life Expectancy (age 79)	$1,028,077	$504,305
Cost of a Dollar at Life Expectancy (age 79)	$0.190	$0.380

- This policy has been checked for all years and is not a modified endowment. Any future premium or rider changes could affect this. See form 11939.
- Values reflect premium payments within 31 days following policy anniversary.

Dividends are not guaranteed. For explanation refer to Form 11939.
This illustration was prepared for NEW YORK LIFE INSURANCE COMPANY using ISIS.
ISIS Ver. W.L. 5.6190MW 2-29-92 Page 3 of 3
Illus Code: - 11111 11111 11111 11111 11111 11111 11111 11111

NEW YORK LIFE INSURANCE COMPANY

Form 11939 (How to Read a Life Insurance Illustration).

Why New York Life. New York Life Insurance Company has been in existence for over 145 years. New York Life and its subsidiary, New York Life Insurance and Annuity Corporation, are two of a handful of companies which have achieved the highest ranking from the three most prominent industry evaluators (A.M. Best, Standard & Poor's, and Moody's Investor Services).

Some Important Notes About Illustrations. An illustration is not part of a policy and is not a contract. The amount of proceeds payable depend on the terms of the policy and any riders.

An illustration shows relationships between premiums, guaranteed cash values and illustrative dividends or illustrative cash values based on current rates.

An illustration may depict a use of a policy, such as financing college tuition, a hypothetical side fund investment, such as a certificate of deposit, or a concept, such as mortgage acceleration, which is not part of the policy. It may also compare two types of policies, such as Term vs. Whole Life, based on current or stated assumptions. If so, that use, side fund, investment, concept or comparison will be listed and described on the proposal page. You should consult your own legal or tax advisor to review your own needs and circumstances in evaluating the concept or use of the policy depicted and the efficacy of the assumptions for the illustration, in addition to looking to those advisors for the preparation of additional documents necessary to implement your plans. All tax related issues should be reviewed with your tax advisor.

Any figure or any statement in this illustration is based on the current dividend scale or the current excess interest crediting rate and assumes that current rates of investment return, mortality, expense experience, charges for contingencies, and current tax laws continue in the future. Changes in these experience factors from the levels reflected in current illustrations may lead to changes in dividend scales or excess interest rates in the future. Therefore, dividends or excess interest rates are not estimates or promises of future results, and are not guaranteed. Dividends or excess interest actually payable may be higher or lower than illustrated. The amounts and calculations illustrated assume that all premiums are fully paid for the period shown. If the premium is not paid, those amounts will change.

NEW YORK LIFE INSURANCE COMPANY

Form 11939 (How to Read a Life Insurance Illustration).

New York Life is the Company You Keep - For a Lifetime and Beyond: Let's look at a simple illustration for New York Life's Whole Life product. There will usually be a Proposal Page which highlights the basic parameters upon which the proposal is based, i.e., sex and age of proposed insured, initial face amount, smoker or non-smoker status, and any applicable riders. The illustration itself will begin on the following page in the form of a ledger with columns. A brief explanation of the most frequently used columns will help you understand how your premium dollars work in the policy.

Net Premium The Net Premium column represents the amount of dollars you must pay each year to keep the policy in force. It may be less than the annual policy premium in certain years. This happens when policy benefits (dividends, paid-up additions, policy loans) are used to pay part or all of your premium. If it is more convenient, you can pay part of your premium semi-annually, quarterly, or monthly from your checking account.

Policy Cash Value The Policy Cash Value column represents the minimum cash value produced by your premium dollars. This amount is guaranteed as long as the policy's premium is paid each year. As one of the policy's lifetime benefits, cash value is available to you as a loan at a competitive rate.

Cash Value of Adds The Cash Value of Adds column represents the cash value of your paid-up insurance additions that your dividends purchased. These values may be different because the actual dividends paid in the future may be different from those we illustrate today. You can also purchase paid-up insurance by using the OPP Rider (Option to Purchase Paid-Up Additions).

Net Cash Value The Net Cash Value column is simply the Policy Cash Value and the Cash Value of Adds combined.

Annual Cash Value Increase Based on the guaranteed cash value, premiums and dividends illustrated, the Annual Cash Value Increase column shows how much your cash value increases each year.

Face Amount of Adds Dividends credited to your policy or generated by OPP rider payments may be used to buy additional paid-up insurance. The Face Amount of Adds is the total amount of additional insurance your dividends and OPP rider payments have purchased. These additions, as well as your base policy, can in turn generate further dividends that will also increase both the death benefit and cash value of your policy.

Net Death Benefit The Net Death Benefit column shows your total death benefit after paid-up additions, termination dividends and/or dividend accumulations have been added.

NEW YORK LIFE INSURANCE COMPANY

Form 11939 (How to Read a Life Insurance Illustration).

A Word About Dividends Dividends play an important role in many values shown on a life insurance illustration. Dividends are a return of your premium and are based on investment earnings, expenses, persistency (how many policies stay in force), mortality experience, and charges for contingencies attributed to a class of policyowners with similar characteristics. They are not guaranteed.

Summary Cash Value life insurance, like Whole Life, is really an easy concept to understand. A Whole Life policy has both living and death benefits. Premiums and annual dividends can help both the cash value and death benefits grow. Cash Values grow tax deferred and are available to you during your lifetime as a loan if the need should arise.

A Final Note This overview was designed to make you feel more comfortable with looking at an illustration and evaluating the purchase of a policy. It is one step in understanding the policy and the Company. Your New York Life agent can further assist you in understanding our products, our Company, and the services we provide. Just ask!

NEW YORK LIFE INSURANCE COMPANY

Form 11939 (How to Read a Life Insurance Illustration).

	10 Years	20 Years
Net Payment Cost Index	$14.28	$10.55
Surrender Cost Index	$4.74	$0.56

Pacific Mutual

CLIENT
NON-SMOKER MALE AGE 45

VERSA-FLEX III - GPT
PRESENTED BY PACIFIC MUTUAL

LEDGER ILLUSTRATION

			Projected Values at 8.50%			
YR	AGE	ANNUAL PREMIUM (1)	ANN'L INCR IN ACCUM VALUE (2)	END OF YR ACCUMULATED VALUE (3)	END OF YR SURRENDER VALUE (4)	END OF YR DEATH BENEFIT (5)
1	45	6,800	4,719	4,719	831	300,000
2	46	6,800	4,984	9,703	5,971	300,000
3	47	6,800	5,563	15,267	12,001	300,000
4	48	6,800	6,052	21,319	18,519	300,000
5	49	6,800	6,585	27,904	25,571	300,000
6	50	6,800	8,185	36,088	34,222	300,000
7	51	6,800	8,880	44,968	43,568	300,000
8	52	6,800	9,643	54,611	53,678	300,000
9	53	6,800	10,468	65,079	64,613	300,000
10	54	6,800	13,696	78,775	78,775	300,000
TOTAL		68,000	78,775			
11	55	6,800	13,078	91,853	91,853	300,000
12	56	6,800	14,225	106,078	106,078	300,000
13	57	6,800	15,458	121,536	121,536	300,000
14	58	6,800	16,791	138,327	138,327	300,000
15	59	6,800	18,272	156,599	156,599	300,000
16	60	6,800	19,856	176,455	176,455	300,000
17	61	6,800	21,694	198,149	198,149	300,000
18	62	6,800	23,749	221,898	221,898	300,000
19	63	6,800	26,047	247,946	247,946	307,453
20	64	6,800	46,826	294,771	294,771	359,621
TOTAL		136,000	294,771			
21	65	6,800	33,649	328,421	328,421	394,105
22	66	6,800	36,660	365,081	365,081	434,447
23	67	6,800	39,934	405,015	405,015	477,918
24	68	6,800	43,475	448,490	448,490	524,733
25	69	6,800	47,319	495,809	495,809	575,139
26	70	6,800	51,496	547,305	547,305	629,401
27	71	6,800	56,204	603,509	603,509	681,965
28	72	6,800	61,406	664,915	664,915	738,056
29	73	6,800	67,201	732,116	732,116	798,007
30	74	6,800	73,651	805,767	805,767	862,171
TOTAL		204,000	805,767			

CLIENT | **VERSA-FLEX III - GPT**
NON-SMOKER MALE AGE 45 | **PRESENTED BY PACIFIC MUTUAL**

SUMMARY PAGE

		<-------- PROJECTED ---------			<-------- GUARANTEED -------->		
YEAR	ANNUALIZED PREMIUM	ACCUM'D VALUE (EOY)	NET SURR'R VALUE (EOY)	NET DEATH BENEFIT (EOY)	ACCUM'D VALUE (EOY)	NET SURR'R VALUE (EOY)	NET DEATH BENEFIT (EOY)
1	6800.00	4719	831	300000	4183	295	300000
2	6800.00	9703	5971	300000	8343	4611	300000
3	6800.00	15267	12001	300000	12574	9308	300000
4	6800.00	21319	18519	300000	16876	14077	300000
5	6800.00	27904	25571	300000	21242	18909	300000
6	6800.00	36088	34222	300000	26667	24801	300000
7	6800.00	44968	43568	300000	32185	30786	300000
8	6800.00	54611	53678	300000	37789	36856	300000
9	6800.00	65079	64613	300000	43465	42998	300000
10	6800.00	78775	78775	300000	49239	49239	300000
15	6800.00	156599	156599	300000	78750	78750	300000
20	6800.00	294771	294771	359621	109122	109122	300000
25	6800.00	495809	495809	575139	138423	138423	300000
30	6800.00	805767	805767	862171	164473	164473	300000
35	6800.00	1288718	1288718	1353153	181420	181420	300000
40	6800.00	2021908	2021908	2123003	177603	177603	300000
45	6800.00	3113208	3113208	3268869	89102	89102	300000
50	6800.00	4789622	4789622	4837518	##	##	##

ADDITIONAL OUTLAYS REQUIRED TO MAINTAIN REQUESTED BENEFITS.

ALL VALUES EXCEPT PREMIUMS, LOANS, LOAN INTEREST, AND WITHDRAWALS ARE VALUES AT THE END OF THE POLICY YEAR. THE 'NET SURRENDER VALUE' IS EQUAL TO THE ACCUMULATED VALUE, LESS ANY POLICY DEBT AND LESS ANY SURRENDER CHARGES. THE 'NET DEATH BENEFIT' IS THE POLICY DEATH BENEFIT LESS ANY POLICY DEBT.

THE PREMIUM MODE ASSUMED IN THIS ILLUSTRATION IS ANNUAL.

INITIAL GUIDELINE SINGLE PREMIUM: $ 76,212.20
INITIAL GUIDELINE LEVEL PREMIUM: $ 6,920.10
INITIAL SEVEN PAY PREMIUM: $ 16,689.23

THIS IS AN ILLUSTRATION AND NOT A CONTRACT. ALTHOUGH THE INFORMATION CONTAINED IN THIS ILLUSTRATION IS BASED ON CERTAIN TAX AND LEGAL ASSUMPTIONS, IT IS NOT INTENDED TO BE TAX OR LEGAL ADVICE. SUCH ADVICE SHOULD BE OBTAINED FROM APPLICANT'S OWN COUNSEL OR OTHER EXPERT.

--- TAX BRACKET ---

START	END	AMOUNT
1	50	31.00

THE CURRENT INTEREST AND MORTALITY CHARGE RATES ARE SUBJECT TO CHANGE. POLICY VALUES WILL VARY FROM THOSE ILLUSTRATED IF ACTUAL RATES DIFFER FROM THOSE ASSUMED. CURRENT MORTALITY CHARGE RATES ARE BASED ON CURRENT MORTALITY EXPERIENCE AND ARE NOT DEPENDENT UPON FUTURE IMPROVEMENTS IN UNDERLYING MORTALITY.

SUMMARY PAGE CONTINUED ON NEXT PAGE

CLIENT
NON-SMOKER MALE AGE 45

VERSA-FLEX III - GPT
PRESENTED BY PACIFIC MUTUAL

PROJECTED VALUES ARE BASED ON CURRENT MORTALITY COSTS AND DECLARED INTEREST AS SHOWN BELOW. THE NONGUARANTEED PORTION OF THE INTEREST WAS REDUCED WHEN NECESSARY TO REFLECT ADDITIONAL COSTS ARISING FROM THE DAC TAX. POLICY VALUES FULLY REFLECT THE EFFECT OF THE DAC TAX. AT THE END OF YEAR 10, AN EXTRA AMOUNT (EQUIVALENT TO 0.5% FOR EACH YEAR DECLARED INTEREST EXCEEDS 6%) IS ADDED TO THE CASH VALUE. AT THE END OF YEAR 20, AN EXTRA AMOUNT (EQUIVALENT TO AN ADDITIONAL 0.5% FOR EACH YEAR DECLARED INTEREST EXCEEDS 6%) IS ADDED TO THE CASH VALUE.

--- PROJECTED DECLARED INTEREST RATES ---

START	END	AMOUNT
1	50	8.50

GUARANTEED VALUES ARE BASED ON MAXIMUM MORTALITY COSTS AND GUARANTEED INTEREST OF 4.00%.

---- DEATH BENEFIT OPTION ----

START	END	OPTION
1	50	LEVEL

--- BASE POLICY FACE AMOUNT ---

START	END	AMOUNT
1	50	150,000

--- VARIABLE ADDED PROTECTION TARGET AMOUNTS ---

START	END	AMOUNT
1	50	150,000

WHEN THE DEATH BENEFIT IS GREATER THAN THE FACE AMOUNT DUE TO CASH VALUE GROWTH, PAYMENT OF ADDITIONAL PREMIUM WILL BE SUBJECT TO APPROVAL.

UNDER CURRENT FEDERAL TAX LAW, THIS POLICY WILL QUALIFY AS LIFE INSURANCE ONLY IF THE SUM OF PREMIUMS PAID AT ANY TIME DOES NOT EXCEED THE GREATER OF THE GUIDELINE SINGLE PREMIUM OR THE SUM OF THE GUIDELINE LEVEL PREMIUMS AT SUCH TIME. THE GUIDELINE PREMIUMS WILL CHANGE WHENEVER THERE IS A CHANGE IN THE FACE AMOUNT OF INSURANCE OR IN OTHER POLICY BENEFITS.

BASED ON THE ASSUMPTIONS IN THIS ILLUSTRATION, THIS POLICY WOULD NOT BECOME A MODIFIED ENDOWMENT CONTRACT (MEC). THE FEDERAL INCOME TAX CONSEQUENCES OF A MEC CAN BE SIGNIFICANT. CONSULT YOUR TAX ADVISOR FOR FURTHER DETAILS.

ALL VALUES ASSUME PREMIUMS AND LOAN INTEREST ARE PAID WHEN DUE. IF A PAYMENT IS RECEIVED WITHOUT BEING DESIGNATED AS A PREMIUM PAYMENT OR LOAN PAYMENT, AND THERE IS AN OUTSTANDING LOAN, THE PAYMENT WILL BE APPLIED AS A PREMIUM PAYMENT.

THIS ILLUSTRATION WAS PREPARED FOR PRESENTATION IN THE STATE OF CALIFORNIA.

New York Life Insurance Company
51 Madison Avenue, New York, NY 10010
212 576-5069

George J. Trapp
Senior Vice President

NEW YORK LIFE

June 30, 1992

The Honorable Howard K. Metzenbaum
Chairman, Subcommittee on Antitrust,
Monopolies and Business Rights
Committee on the Judiciary
United States Senate
Washington, D. C. 20510

Re: Testimony of Harold G. Mercer before the Subcommittee on Antitrust, Monopolies and Business Rights, June 23, 1992

Dear Mr. Chairman:

I am responsible for New York Life Insurance Company's Human Resources Department, including its benefits and compensation program.

Following your Subcommittee Hearing on June 23, I had an opportunity to read the written testimony of one of our agents, Mr. Harold G. Mercer. I would like to correct a major error in that testimony, namely:

- The life insurance plan on executives, described by Mr. Mercer at pages 17-19, was never purchased by New York Life and was, in fact, rejected as inappropriate.

Contrary to his statement, the plan actually adopted by the Company does not compromise policyholder interests. The fact is that the Company recovers the entire cost of the portion of the premiums it pays on the lives of key executives, plus interest (at approximately eight percent). Furthermore, standard underwriting procedures and principles were used at all times in the planning, implementation and placement of this plan (a substantial portion of the benefits are reinsured with a non-affiliated reinsurer which had to be satisfied with the validity of the underwriting).

NYLIFE for
Financial Products & Services

The Honorable Howard K. Metzenbaum
June 30, 1992
Page 2

I respectfully request that this letter be included in the record of these hearings in order to correct what I believe is a significant error in the record. My correction of this limited aspect of Mr. Mercer's testimony should not be interpreted as implying agreement on behalf of New York Life with any other specific aspects of his testimony.

Thank you.

Sincerely,

cc: Senators DeConcini, Heflin, Simon, Thurmond, Specter and Hatch
Mr. Harold G. Mercer

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