AMERICAN ACADEMY *of* ACTUARIES

Interim Report of the EMO Work Group

To the Innovative Products Working Group Life and Health Actuarial (Technical) Task Force (LHATF)

Orlando, FL- June 2000

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The Academy's Extended Maturity Options (EMO) Work Group of the Committee on State Life Insurance Issues prepared this report.

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June 2000 Report to LHATF

Extended Maturity Options Work Group

I. Overview of Project

At the request of the NAIC's Life and Health Actuarial (Technical) Task Force (LHATF), the American Academy of Actuaries formed the Extended Maturity Options Work Group (EMO Work Group) in January 2000 to study reserve and nonforfeiture issues pertaining to Extended Maturity Options (EMOs) written with life insurance policies.

This report summarizes the fact-finding and research conducted by the EMO Work Group to date, and does not contain any conclusions or recommendations. The sections of this report includes:

- A definition of EMOs;
- A market profile describing current types of EMOs;
- A market profile describing current practice for reserve and nonforfeiture;
- A description of the current regulatory environment; and
- A discussion of research on current model laws and regulations.

II. Definition of Extended Maturity Options

Extended Maturity Options (EMOs) are provisions included with life insurance policies that allow the policy to stay inforce beyond a specified period, typically defined as an attained age. Such provisions may be offered with a variety of life insurance forms, including fixed and variable traditional life policies (whole life), and fixed and variable universal life. The specified ages to which these provisions apply include the maturity age stated in the contract (typically 99) or the highest age of the underlying mortality table (e.g., age 99 for 80 CSO). A common but not universal feature of EMOs is to substantially reduce or eliminate required premiums or cost of insurance charges beyond the extended maturity age.

III. Market Profile - Current Types of Extended Maturity Options

Overview

This section is based primarily on information contained in FULL DISCLOSURE by Blease Research, which reports on insurance industry activities. Company responses to surveys were used to supplement this report information. In total, this section covers 77 products containing EMOs written by 46 companies. See Appendix I for more detailed information.

Extended Maturity Options (EMOs) appear to be prevalent in the life insurance market. Thirty-nine of the forty-six companies reviewed offer these benefits on at least one product in their portfolio. Extended Maturity Options are found on most permanent life insurance product types, including universal life, variable UL, survivorship UL, survivorship WL, variable survivorship and traditional whole life. They are either included in the base policy or offered through policy riders.

Key variations related to EMOs include:

- The relationship between the death benefit and the cash value on and after the maturity age,
- The maturity age,
- Charges assessed for the EMO prior to the maturity age, and
- Charges assessed for the EMO on and after the maturity age.

Relationship between the death benefit and the cash value on and after the maturity age

There are three types of EMOs currently being offered, each type being differentiated by the way in which the death benefit and cash value are related:

- The death benefit is reduced to the cash value. Interest continues to be credited to the cash value, but there are no further charges for mortality or expenses. The policy stays in force until death (Type I).
- The full death benefit continues in force provided the cash value is positive at the maturity age or the policy has a secondary guarantee to the maturity age. In some cases, insurance and expense charges continue to be assessed and loan interest is charged so that coverage could lapse if the cash value is reduced to $0 (Type II).
- The death benefit reduces to the cash value plus a minimum corridor amount. As with Type I EMOs, interest continues to be credited to the cash value, there are no further charges for mortality or expenses, and the policy stays in force until death (Type III).

Most fixed premium life products, such as traditional whole life or fixed premium universal life, typically only offer Type I Options. A few companies, however, also offer a small additional net amount at risk (e.g., 1% of cash value) and no mortality charges beyond the maturity age.

Flexible premium UL and VL products may contain any one of the three types described above.

<u>Additional notes</u>:

Type I, II and III account for 35%, 44% and 8%, respectively, of the policy forms reviewed.

Some of the Type II Options reviewed also provide for a minimum corridor amount of insurance.

A small number of the Type II Options reviewed permit additional premiums after the maturity age.

A few of the Type II Options reviewed include the death benefit on term riders in the amount of death benefit extended.

One of the Type II Options reviewed pays a surrender benefit after the maturity age equal to the greater of the cash value and death benefit.

Since death benefits for Type I and Type III options are based directly on the policy cash value, when these type of EMOs are offered with variable life products the death benefit after the maturity age may fluctuate as a result of the performance of the underlying separate account funds.

Maturity Ages

Among the 77 products offering EMOs reviewed, the contractually stated maturity age varies:

- age 115 (1)
- age 100 (48)
- age 99 (1)
- age 95 (7)
- no maturity age stated (20)

A maximum extension of maturity (to age 110 or 115) existed for 8 of the 77 products reviewed.

Among the Survivorship products reviewed, the maturity age is typically based on a joint equivalent age, the younger insured age, or the older insured age.

Some of the products reviewed allow requests for extension of the maturity age to be made at issue, any time during the life of the contract, prior to a given age (typically 90), or within a certain number days from maturity. Two of the products offering Type II options reviewed provided the option automatically.

Charges For the Extended Maturity Option Prior to the Maturity Age

None of the Type I or Type III Options reviewed charged for the EMO prior to the maturity age.

The following practice currently exists for charges prior to the maturity age on the 34 Type II EMO Options reviewed:

- An explicit charge is assessed (8)
- No explicit charge is assessed (14)
- No charge was mentioned (12)

Charges assessed prior to the maturity age are either an annual charge per $1,000 of net amount at risk, typically for a specified period (e.g., ages 90 to 99) or a one-time charge at the maturity age. Note that charges assessed prior to the maturity age will reduce the cash value versus a policy that does not contain an EMO.

Charges for Extended Maturity Options On or After the Maturity Age

The following practice currently exists for charges on or after the maturity age for the options reviewed:

- No mortality or expense charges are assessed (most common)
- Expense charges, but no mortality charges, are assessed (occasionally)

- Both expense charges and morality charges are assessed (occasionally)
- Loan interest is charged, and loan repayments are permitted on a number of Type II Options

For variable products, asset based charges, such as M&E charges frequently continue after the maturity age.

IV. Market Profile – Current Practice for Reserve and Nonforfeiture

The Extended Maturity Options Work Group surveyed several companies to help identify how companies treat these benefits with respect to reserves and nonforfeiture values.

Although this survey was sent to approximately 25 companies that are believed to either write or provide consulting services for these benefits, only 9 responses were received. While we believe that the summary of the responses below is a representation of industry practice, there may be other practices used by companies that are not reflected in this survey.

Current Practice – Reserves

For policies at and beyond the maturity age, all nine of companies responding indicated that they intend to hold a reserve equal to the death benefit available at these ages. Some intend to discount this reserve for a half-year of interest at the valuation rate. At least one company will hold reserves equal to a discounted net single premium reserve.

For policies prior to the maturity age, five of the nine of companies responding indicated that they intend to pre-fund reserves during the years prior to the maturity age (e.g., ten years) by grading into a reserve equal to the full death benefit by the maturity age. At least two of these companies have policy provisions that fund the benefit by charging a specific additional charge during the years over which these reserves are intended to be pre-funded. Two companies with Type II Options suggested that no additional reserves in excess of CRVM (with a cash value floor) are required before age 100.

Current Practice – Nonforfeiture

Current practice differs between fixed and flexible premium policies. With respect to fixed premium policies, most respondents indicated that EMOs which offer death benefits greater than the cash value at the maturity age (such as Type II EMOs described above) are not typically offered. One company that does offer a Type II Option with a fixed premium policy, however, indicated that it intends to offer a cash value after the maturity age equal to the extended face amount at the maturity age, accumulated with interest.

Regarding flexible premium policies, most respondents indicated that they intend to offer cash value equal to the standard retrospective accumulation fund, less any surrender charges, both prior to and after the maturity age. No respondent indicated it would offer an additional nonforfeiture benefit for those policyholders that paid additional charges for the benefit prior to maturity age.

All of the companies responding with respect to flexible premium UL policies indicated that they intend to credit interest to cash value after the maturity age. Some plan to charge administration fees. Several indicated that cash values are guaranteed not to go below the cash value at the maturity age.

V. Regulatory Environment

The Extended Maturity Options Work Group surveyed members of LHATF and a few additional regulatory actuaries representing approximately 20 insurance departments to determine if there are any formal positions regarding reserve and nonforfeiture values for Extended Maturity Options. Actuaries representing 13 states responded to this survey. The responses appeared to be based on the respondent's interpretation of requirements coupled with judgement as to what was reasonable.

The EMO Work Group notes the following from the review of this survey:

- None of the respondents indicated that their state has a formal written position beyond the NAIC Model SVL and SNFL regarding the determination of reserve and nonforfeiture values for Extended Maturity Options.
- Respondents describing how their state determines compliance with statutes and regulations varied. Respondents were generally consistent, however, in indicating that their state requires traditional level premium, level death benefit coverage to have reserves and nonforfeiture values equal to the death benefit at the maturity age.
- For flexible premium UL products, about half of the respondents indicated their state requires reserves and nonforfeiture values to be equal to the death benefit at maturity. In addition, over half of the respondents indicated their state does not allow mortality and expense charges past age 100, although a couple noted their state allows a minimal policy fee or administrative charge.
- For traditional products, over half of the respondents indicated that their state does not allow premiums past age 100.

For more detail, refer to Appendix II for the actual responses.

VI. Research on Model Laws and Regulations

The Extended Maturity Options Work Group reviewed the NAIC model laws and regulations that are currently in place which may have an impact on reserve and nonforfeiture requirements for EMOs. In addition, NY Regulation 147, which contains a reserve requirement for policies with EMOs, was reviewed. This section discusses the work group's observations.

NAIC Model SVL and SNFL

In reviewing these model laws, the EMO Work Group notes the following:

- Both the NAIC Model SVL and the SNFL clearly require the use of a prospective approach to determine reserve and nonforfeiture values for fixed premium, fixed benefit products.
- Both model laws specify, however, that for plans of insurance which are of such a nature that minimum values cannot be determined by the standards set forth in these model

laws, reserves and nonforfeiture values, respectively, are required to be computed in a manner that is "consistent with the principles" of these model laws. Such requirements are found in Section 9(B) of the NAIC Model SVL and in Section 6(C) of the NAIC Model SNFL.

- One example of the application of the "consistent with the principles concept" noted above is in Actuarial Guideline XXII. This guideline specifies that the "minimum nonforfeiture values for an "indeterminate premium policy" are the greater of those assuming that the gross premiums for the policy are (i) those according to the schedule of gross premiums based on current assumptions at issue and illustrated to prospective policyholders, or (ii) those according to the schedule of maximum gross premiums included in the policy." In this situation, a prospective approach that is consistent with the NAIC Model SNFL is used. In summary, even though future premium payments are not known at issue, minimum nonforfeiture values are established at issue. It is important to note that this guideline specifically excludes flexible premium UL policies.
- For life insurance policies required to use 1980 CSO, it is impossible to literally apply the prospective approach in the NAIC Model SVL and SNFL to determine reserves and nonforfeiture values beyond age 99, because there are no specified mortality rates at those ages.

Universal Life Insurance Model Regulation

In reviewing this model regulation and other documents discussing the concepts of this regulation, the EMO Work Group notes the following:

- The UL Model Regulation requires a retrospective approach for determining nonforfeiture values for flexible premium UL policies, and a traditional prospective approach for determining nonforfeiture values for fixed premium UL products. The Model Regulation requires a prospective approach for reserves for both fixed and flexible premium policies, but one that has modifications from the approach required in the NAIC Model SVL.
- The UL Model Regulation does not specifically address the determination of reserves or nonforfeiture values for EMOs offered with either fixed or flexible premium UL policies. It is also unclear whether EMOs were contemplated in the development of this model regulation.
- A 1983 report on this matter from the ACLI states the following: "The main reason for this preference (i.e., retrospective in lieu of prospective) is that it is easier to calculate, and understand, retrospective cash values than prospective ones."

NAIC Valuation of Life Insurance Policies Model Regulation (XXX) and NY Regulation 147

- NAIC Model Regulation XXX contains reserve requirements for secondary guarantees, including guarantees to age 100, but does not address reserves for EMOs.
- New York Regulation 147 does address reserves both before and after age 99 with respect to policies providing EMOs. Section 98.7(c) requires that "reserves for any policy that guarantees other than payment of cash surrender values at age 100 shall be

calculated, before and after age 100, assuming the policy endows at age 100 for the greater of the cash surrender value or the death benefit at age 100."

VII. Next Steps

The EMO Work Group will update the above report, if necessary, to reflect any additional information it receives. The work group asks LHATF for input in determining its future direction in considering potential reserve and nonforfeiture issues pertaining to EMOs.

If there are questions or comments, please address them to either Thomas Campbell, chair of the EMO Work Group, or Damien McAndrews of the American Academy of Actuaries.

THE INFORMATION CONTAINED IN THIS SPREADSHEET WAS OBTAINED FROM THE BLEASE RESEARCH MARKET REPORT.

	Product Type	Maturity Age	Coverage Beyond 100	Maximum Age?	Base or Rider?	Description	Explicit Charge?	coi charges?	expense charges?	allow prems?	cred int	riders end?	Loan int Charged?	Loan repay allowed	automatic or PH request?	notes
1	UL	100	y		b	db=cv		n		n		y				
2	UL	100	y		b	db=cv		n	n	n						
3	UL	95	n													
4	UL	95	y		b											
5	UL	100	y		r	db=cv	n									
6	UL	100	y		r	db>cv	y									
7	UL	95	y	+20	r	db=cv	n	n	n	n	y	y				
8	UL	none	y	110	b	db>cv	n	y	y		y					stays inforce as long as av can fund charges
9	UL	100	y		b	db=cv										
10	UL	100	y		b	db=cv		n	n		y					
11	UL	100	y		b	db>cv	n	n	n							must select at issue
12	UL	none	y		na	db>cv	n	y	y	y	y	y				cois at age 99 rate, policy may lapse due to charges,
																ph can surrender after 100 and get greater of db and cv
13	UL	none	y			db>cv	n	n	y		y					specified amount in effect at 100 continues
14	UL	100	y	115	e	db=cv	n									may select at any time
15	UL	100	y	115	e	db>cv	y	n								must select by age 90
16	UL	100	y	115	e	db=cv	n									may select at any time
17	UL	100	y	115	e	db>cv	y	n								must select by age 90
18	UL	100	y				n	n	y							
19	UL	95	y		b	db=cv										
20	UL	100	y			db>cv		y	y		y					
21	UL	none	y		b	db>cv	n	n	n	n			y	y		if av>0 at 100, db extended
22	UL	100	n													
23	UL	100	y			db=cv	n	n	n							only permitted if cv>db at 100
24	UL	99	n													
25	UL	95	n													
26	UL	100	y			db=cv	n	n			y					states "non-taxable event" - credited curent interest
27	UL	100	y			db=cv	n	n			y					states "non-taxable event" - credited curent interest
28	UL	100	y	110		db=cv	n									owner may request "extended endowment"
29	UL	100	y		r	db>cv		n								continues FULL db as long as av stays > 0
30	UL	none	y			db=cv										
31	UL	none	y			db=cv										
32	UL	95	n													
33	UL	100	y			db>cv	n			n						orginal db continued, written request by policyholder needed
34	UL	100	y		b	db>cv			n		y	n	y	y		db+term ins continued, if cv>1 @100 and future loan int paid. Automatic
35	UL	100	n													seeking approval of endorsement that permits db>cv
36	UL	100	n													
37	UL	100	n													
38	UL	100	y			db>cv		n	n		y					available on request
39	UL	115	y	115	b	db=cv x (1+corr)	n	n	n	n	y	y				int credited @ 4%
40	UL	100	y		r	db>cv	n					y				FULL DB contined if policy in force @ 100
41	UL	100	n													
42	UL	100	n													
43	UL	100	y		b	db=cv x 1.01	n	n	n	w/ consent	y			y		no change in specified amount or db option
44	UL	100	y		b	db=cv x 1.01	n	n	n	w/ consent	y			y		no change in specified amount or db option
45	VUL	100	y		b	db>cv		n	y							FULL DB if cv >0 @ 100. Can be initiated any time prior to 100
46	VUL	95	n													
47	VUL	95	y		r											
48	VUL	none	y													
49	VUL	99	y			db=cv										
50	VUL	95	y		b	db=cv										
51	VUL	100	y		b	db=gr (cv, VWL am	n	n		n	y					db,cv fluctuate w/ fund performace. May move cv into fixed account
52	VUL	100	y		r	db>cv		n								FULL DB extended (including term ins) as long as net cv stays > 0
53	VUL	95	y			db=cv										
54	VUL	none	y		b	db=cv	n									
55	VUL	100	y		b	db>cv	y	n			y					FULL DB, $200 fee, funds moved to guaranteed investment division
56	VUL	100	y		b	db>cv	y	n			y					FULL DB, $200 fee, funds moved to guaranteed investment division
57	VUL	100	n													
58	Survivor UL	none	y		b	db>cv	n	y	y	y	y					FULL DB as long as av stays > 0, illustrated to age 115, cois are younger age 1
59	Survivor UL	none	y		b	db=cv	n	n	n							DB=CV when first insured reaches 100
60	Survivor UL	100	y		b	db>cv	n	y							request any time	Mat age is JEA 100, coi after 100 is the age 99 jea rate
61	Survivor UL	none	y		b	db>cv		y	y	y	y					FULL DB while av stays >0, coi is age 99 rate
62	Survivor UL	100	y		b	db>cv	y									
63	Survivor UL	100	y		b				y							coverage beyond youngest age 100
64	Survivor UL	100	y		b	db=cv	n	n	n						request	
65	Survivor UL	none	y		b	db>cv		n							automatic	FULL DB if cv @ 100 > 0
66	Survivor UL	100	y		b	db=cv	n	n	n	n	y				request at mat	Matures at younger age 100
67	Survivor UL	100	y		r	db>cv	y									charge for FULL DB is $2.5 per 1000 nar beg at younger age 90

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	Product Type	Maturity Age	Coverage Beyond 100	Maximum Age?	Base or Rider?	Description	Explicit Charge?	coi charges?	expense charges?	allow prems?	cred int	riders end?	Loan int Charged?	Loan repay allowed	automatic or PH request?	notes
68	Survivor UL	100	y	10	r	db>cv		n				n				FULL DB while cv stays > 0
69	Survivor UL	100	y		b	db>cv	n			n					request	FULL DB guaranteed
70	Survivor UL	95	y		e	db>cv	n	n				n	y	y		FULL DB if cv>0 @ 100, may need to pay loan int
71	Survivor UL	none	y		b	db=cv x 1.01										not available in NY
72	Survivor UL	100	n													matures at younger age 100
73	Survivor UL	115	y	115	b	db=cv x (1+corr)	n	n	n	n	y					int credited @ 4%
74	Survivor UL	100	y		r	db>cv	n					y			request at mat	FULL DB if cv > 0 @ 100
75	Survivor UL	100	n													
76	Survivor UL	100	y		b	db>cv		n	n						automatic	FULL DB
77	Survivor UL	none			b	db = cv x (1+cor)						y				
78	Survivor WL	100	n													
79	Survivor WL	100	n													
80	Survivor WL	100	y		b	db=cv	n									
81	Survivor WL	100	n													
82	Survivor WL	100	n													
83	Survivor WL	100	n													
84	Survivor WL	none	y			db=cv										policy paid up at age 99
85	Survivor WL	none	y							n						
86	Survivor WL	none	y							n						
87	Survivor WL	100	n													
88	Survivor WL	100	y							n						policy paid up at age 99
89	Survivor WL	none	y													stays in force until death or surrender
90	Survivor WL	100	y										y			DB extended as long as in force
91	Survivor WL	100	n													
92	Survivor WL	none	y		b											FULL DB extended until death
93	VL Survivorship	none	y		b	db>cv	n	n	n							FULL DB extended as long as AV > 0 when younger reaches 100
94	VL Survivorship	none	y													FULL DB paid on 2nd death
95	VL Survivorship	100	y		r	db>cv	y									charge for FULL DB is $2.5 per 1000 nar beg at younger age 90
96	VL Survivorship	100	y		r	db=gr(db, cv)										FULL DB if cumulative premium test met
97	VL Survivorship	100	n													
98	VL Survivorship	100	y			db=cv										
99	VL Survivorship	100	y			db=cv		n	n							
100	VL Survivorship	100	y			db>cv							y			FULL DB if av stays > 0
101	VL Survivorship	100	y			db=cv		n								

Appendix II

AGE 100 SURVEY
Responses as of 2/16/00 to 1/31/00 Survey sent by Mark Peavy to the
LHATF Members and Other Interested Regulators

The LHATF has the following charge for 2000: "Study life insurance reserving and nonforfeiture issues pertaining to insureds over age 100. Make recommendations regarding the need for new or revised models or actuarial guidelines by the Winter National Meeting." In looking to the model SVL and the model SNFL, it is unclear how to calculate terminal reserves and cash surrender values at age 99 and beyond, since 1) the formulas in the laws are prospective, and 2) there exist no mortality rates at age 100, 101, etc. The LHATF has sought the assistance of the AAA relative to this project; in turn, the AAA created the Extended Maturity Options Work Group. Mike Boerner, Mike Pressley (Tillinghast-Towers Perrin), and I are members of that group, and were assigned the specific task of surveying regulators to see if there currently exist formal positions among the states regarding how to handle valuation and nonforfeiture values at age 99 and beyond. In order to comply with that assignment, it would be appreciated if you could respond to the following survey. If possible, a response by Monday, February 7 would be appreciated, although later submissions will also be helpful. Thank you for your attention to this matter.

SURVEY SUMMARY COMMENTS:
In general states surveyed did not have a written position in addition to the model SVL and SNFL regarding the calculation of reserve and nonforfeiture values for life insurance at age 99 and beyond. Responses describing how a state determines compliance with statutes and regulations varied from state to state. However, states were generally consistent in requiring traditional level premium, level death benefit coverage to have reserves and cash values equal the death benefit at the end of age 99. For UL such a response was not as clear but after age 99 around half of the respondents said that they do not allow mortality charges.

The above summarizes some of the consistency in responses to the survey. Please see the individual state responses for more detail in state considerations.

===

1) **Does your state have written positions, in addition to the model SVL and model SNFL language, regarding the calculation of reserve and nonforfeiture values for life insurance at age 99 and beyond? If "yes," please submit a copies of that material. Examples of such material would be statutory or regulatory language added to the model SVL and model SNFL, bulletins, or checklists used for policy approval.**

   AR – No

   CA - No. We are currently not filing life insurance policies of the type that guarantee the death benefit past age 100 to be at least equal to the face amount if there is a charge for such extended benefit. We have been filing policies which do not explicitly charge for such a benefit. We are currently discussing whether to stop filing these as well.

   CT – No

   FL - No adopted laws or formal bulletin; believe SVL and SNFL require cv=reserve=death benefit

KS - I have not been involved with life form review or financial review in KS...would be surprised if these questions have been processed here.

KY - No

LA - Our state does not have a written position on the calculation of reserves and nonforfeiture values for life insurance at ages greater than 100.

MD - Maryland does not have any written laws, regs, or department position related to this question.

MN - No, we have no such written positions.

NE - Our state does not have a written position on the calculation of reserves and nonforfeiture values for life insurance at ages greater than 100.

OR - We do not have a formal written position.

SC – No

TX –Yes. We have a written position as reflected in our checklist used for policy approval. A copy of this checklist is attached to this email.

VA - Virginia does not have a written position regarding reserves and nonforfeiture values beyond age 99. What we would expect to find would depend upon the reasonableness of the company's practice relative to the type of product and the terms of the specific policy form.

2) **If your state does not have a written position described in #1, please briefly describe how your state determines if reserves and nonforfeiture values at age 99 and beyond are in compliance with your state's statutes and regulations.**

AR - These would be referred to me as the actuary and we have never had a filing addressing this.

CA - Regarding policies which impose an extra charge for the extended benefit seven, ten, or some other number of years prior to age 100, we originally required that the current COI charge plus the extended benefit charge not be greater than the guaranteed COI charge. We are no longer filing such policies. We require that the reserve equal the death benefit at age 100 and later.

Regarding nonforfeiture benefits, I believe that the spirit of the SNL generally requires that the cash value equal the death benefit at and after age 100. However, I also believe that the SNL allows flexibility for the regulatory state to approve policies which it determines are in the best interest of consumers.

CT - We have encountered this, and approve policies on a case-by-case basis. That is, when we encounter a WL policy form submission with a policy maturity date extending beyond age 100, we may approve it provided that the analyst sees no harm being done to the contractowner or insured. The absence of prescribed minimum values for reserves or nonforfeiture at these ages is not seen as a barrier to case-by-case approval of such policy forms.

Of course, if a policy matures at an advanced age according to contractual terms, and the proceeds are simply managed by the interested parties according to deposit accounting, with proceeds at interest and adequate disclosure, the department would have no objection.

FL - A requirement on our checklist: age 100+ reserve = death benefit = cv

KY - Since there is no statute, regulation or written guideline, the only basis is that of whether the contract is inconsistent, ambiguous or misleading or contains exceptions or conditions that deceptively affect the risk purported to be assumed in the contract; in other words it is a matter of actuarial judgement

LA - Our state follows the traditional actuarial approach that the policy endows at age 100.

MD - We do not permit charges for mortality beyond age 100. Any death benefit has to be equal to the cash value. This simplifies reserve calculations considerably.

MN - We require the enclosure of a signed actuarial memorandum with a life filing. The actuarial support is to provide evidence of compliance with our Standard Nonforfeiture Law. Otherwise, no special attention has been paid to this issue and no special problems have been identified.

NE- At age 100, the policy would endow.

OR - Beyond age 99, the nonforfeiture values are equal to the fund value or cash value of the policy at age 100, accumulating past age 100 at a rate no less than the guaranteed rate. The reserve past age 100, would be equal to the death benefit. Although Oregon reserve and nonforfeiture statutes do not specifically address this situation, this is what we believe to be adequate.

SC **–** At this time we do not check reserves and non-forfeiture values.

TX - Since we have our checklist then no response is required here. However we believe that the SVL and the SNFL can be interpreted to require that the DB=CV=RV for traditional products at age 99 and beyond and for UL products after age 99. Some rationale is attached to support this for traditional products. Note that we allow a UL policy to define what the DB is after age 99.

VA - Virginia does not have a written position regarding reserves and nonforfeiture values beyond age 99. What we would expect to find would depend upon the reasonableness of the company's practice relative to the type of product and the terms of the specific policy form.

3) **Does your state regard its version of the SVL and SNFL as requiring that the terminal reserve and the cash surrender value equal the death benefit at the end of the policy year for insureds aged 99? Is the answer different for traditional products and UL products?**

AR - Yes for traditional. No for UL.

CA - Our current thinking is that both the reserve and cash surrender value must equal the death benefit at the end of the policy year for insureds age 99. We currently believe the answer is the same for traditional and UL products; however, this belief is not unanimous among the Department's actuaries.

CT - The policy must mature according to contractual terms. If the contract terms specify endowment (WL), it must endow. If the contract (typically UL) provides for substantial amounts-at-risk at these advanced ages, no special prohibition/proscription is made other than the actual contract charges should be “reasonable”.

Therefore, the answer is not different for UL as opposed to WL (which by definition endows).

FL - Yes. The same applies to UL and traditional.

KY - Yes; no

LA - Our state does require that the terminal reserve and cash value equal the death benefit at age 100. There is no distinction in this application between traditional and UL products.

MD - Our position for all products is that the terminal reserve and cash value must equal the death benefit at the end of the policy year for insureds age 99 or older.

MN - Although we have no stated position of which I am aware for either traditional or UL products, I believe that were one developed today we would conclude that at the end of the mortality table the death benefit should equal the reserve, which should equal the cash surrender value. Our state has not adopted the UL model regulation, but I don’t think our conclusion should be different for UL.

NE - Yes, our law would require that the terminal reserve and cash surrender value equal the death benefit and the end of the policy year for insureds aged 99. The answer is not different for traditional products and UL policies.

OR - For most policies, at age 100 the death benefit equals the cash surrender value and the reserve equals the death benefit.

Some companies have filed riders that allow for policyholders to pre-fund a level of death benefits that are in excess of what the fund value may be at age 100. The riders allow for additional premiums to be collected or additional charges assessed beginning at an age around 90, and continued until age 100. In this situation the policyholder may pre-fund a death benefit of $100,000 and have only $5,000 of fund value at age 100. Instead of having the death benefit reduced to $5,000, the death benefit continues at $100,000. The $5,000 cash value would accumulate at the minimum guaranteed interest rate.

The majority of the guideline below address this latter situation involving the higher pre-funded death benefit. We have reviewed a number of these forms, but have not yet approved any. We are very concerned about appropriate disclosure to policyholders. With this type of rider, if the fund value is near the same value as the death benefit when the insured is age 90 (i.e. at about the age he would have to pay additional charges), he may be better off not choosing the rider. One cannot make an informed choice at time of issue.

SC – Yes. Yes, It’s different for UL. UL products which are flexible use tables beyond a hundred.

TX - For a traditional product the RV=CV=DB at the end of age 99. A UL product is allowed to define what the death benefit is after age 99 and after this time the RV=CV=DB where no mortality charges are allowed but a small administrative charge is allowed.

VA - Virginia does not have a written position regarding reserves and nonforfeiture values beyond age 99. What we would expect to find would depend upon the reasonableness of the company's practice relative to the type of product and the terms of the specific policy form.

4) For traditional products, does your state permit premium to be collected from insureds age 100 and beyond? For UL products, does your state permit mortality and expense charges to be applied to insureds age 100 and beyond?

AR - We have no law or reg that addresses this so our conclusion is that yes it can be done. We have not a complaint (that anyone can remember) or even an inquiry about this. So as is obvious by our answers, we have not really addressed this issue.

CA - We would permit premiums if these would just accumulate at interest; however, we do not permit any charges such as COI and expense charges.

CT - Yes to both questions, subject to an overall "reasonability" review.

The department presumes that companies want to continue policies at advanced ages in order to protect clients from constructive and/or actual receipt of proceeds and the consequence of FIT on the gain inherent on "inside build-up".

Of course, tax issues are not within the scope of CT regulatory reach, and policy language (not insurance department practices and/or rules) are controlling in each circumstance. That is, if the policy maturity date is age 100 or earlier, the prescriptive and proscriptive provisions of CT's SNFL and SVL would terminate at that point. However, after that point, a regulatory framework consisting of deposit accounting, proceeds at interest, and disclosure is unobjectionable from the department's view, and on a case-by-case basis, the department approves contracts of insurance with maturity age extending beyond current statutory mortality table limits (i.e., 100+) subject to a general "reasonability" review.

FL - No premium may be collected -- no apparent life risk. Level policy fee may be permissible on UL as it does not affect valuation or nonforfeiture; but no mortality and expense charges.

KY - Yes; yes

LA - This is an interesting issue that we come across when we examine companies. There have been situations where the company is still collecting premiums from traditional policyholders at ages greater than 100. However, we do not accept the practice and have directed the companies to stop the practice. The same principles would apply to the UL policies. However, in my experience I have not seen a UL policy in which the policyholder was greater than age 100.

MD - No for both. The death benefit must equal the cash value, which must earn interest but cannot be charged for any reason.

MN - I am not aware of anything in our statutes or regulations that addresses this question. In the absence of a prohibition, we may have approved such plans. No special attention has been paid to this issue and no special problems have been identified. From our conclusions in #3, however, were we to have a position on this issue, collection of premiums or assessment of mortality and expense charges would logically not be permitted.

NE - No for both products.

OR - No we do not allow premiums to be collected, or mortality and expense charges assessed beyond age 100.

Concluding remarks. Although, the extended benefit provisions are problematic, I do not think they are worth developing additional reserve statutes for.

SC – No, however, life rates are not filed for approval. UL - Yes.

TX - For traditional products premiums are allowed to be collected but they must accumulate at a rate not less than the guaranteed interest rate. For UL products premiums are also allowed but they must also accumulate at the guaranteed rate and there can be no mortality charges. The only charge allowed is an administrative charge not to exceed $10 per month.

VA - Virginia does not have a written position regarding reserves and nonforfeiture values beyond age 99. What we would expect to find would depend upon the reasonableness of the company's practice relative to the type of product and the terms of the specific policy form.

Appendix II

TEXAS DEPARTMENT OF INSURANCE

Although every effort has been made to ensure the accuracy of the information contained in this document, all parties are advised to consult the Texas Insurance Code, the Texas Administrative Code and other applicable laws, regarding the extent and nature of their own requirements.

All dealings with the Texas Department of Insurance are governed and controlled solely by the Texas Insurance Code, the Texas Administrative Code and other applicable laws, and not by this document

PRODUCT: EXTENSION OF MATURITY DATE BEYOND AGE 100

DOCUMENT: CHECKLIST

All references in this checklist to the Texas Administrative Code and the Texas Insurance Code are referred to as TAC and TIC, respectively.

This type of provision may be included as a provision of the policy or be added to previously approved policies by endorsement if such endorsement will be attached to all new issues. It may be offered to existing policyholders on an optional basis. If offered to existing policyholders, a copy of the offer letter that will be sent to existing policyholders must be provided with the endorsement.

Required Provisions - Article 21.24 and 3.42 (i)(2), TIC

The policy or endorsement must contain the following:

_____ A definition of the death benefit payable in years subsequent to the insured's age 100.

_____ A provision as to whether premiums may be paid in years subsequent to age 100. If premiums will be accepted by the company, the contract must specify that premiums will continue to accrue interest until the new maturity date without any deductions assessed against the policy's cash value.

_____ A provision specifying the latest available maturity date to which the alternate maturity date election is subject.

_____ A unique definition of the account values in years subsequent to the insured's attained age 100. The account value must be at least as great as the cash surrender value at the insured's attained age 100, accumulated with interest at a rate not less than the guaranteed interest rate from said age to the date of determination.

_____ Mortality charges may not be deducted after attained age 100; deduction of a nominal administrative fee (not to exceed $10.00 per month) is permitted.

_____ Address if loans are available after the extension of maturity date. Please note that we will accept a letter of commitment that loans are available subsequent to the insured's age 100.

Appendix II

A **prominent disclosure statement** must be shown within the policy provision or endorsement that:

_____ The policy may not qualify as life insurance after attained age 100,

_____ The policy may be subject to tax consequences,

_____ A tax advisor should be consulted prior to making such election.

_____ The actuarial memorandum must provide a reserve statement showing that reserves will be held equal to the cash surrender value at age 100, plus interest credited to the extended age.