

**American Academy of Actuaries
Valuation Task Force
Numerical Examples Group**

**The Unified Valuation System (UVS)
Compared to Existing Statutory Valuation
for a Sample Company**

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Overview

The promulgation of statutory valuation laws is a long and tedious process. In an effort to eliminate the need to develop new laws each time a new innovative product is developed, an American Academy of Actuaries Task Force has begun the study of a Unified Valuation System (UVS). To illustrate the how a UVS might work, this report illustrates for a sample company both balance sheets and income statements under statutory valuation rules and under UVS for a theoretical sample company.

This theoretical company has four lines of business: Term, Participating Whole Life, Universal Life, and Long Term Care. In addition, a Corporate Account is illustrated. Results shown are for illustrative purposes only. The results are not meant as generalized statements about the relative risks or required capital for different product types. The volume of business and age and nature of the inforce block is unique to each product type.

Unusual situations are introduced in some of the lines of business and the Corporate Account to illustrate the different accounting treatment under statutory and UVS. For example, the Universal Life line of business has an unauthorized reinsurer.

For each line of business and the Corporate Account, income statements and balance sheets are provided under statutory reporting requirements and for the proposed UVS. At the total company level, the covariance of individual lines of business is illustrated.

Statutory

Term under Statutory

This is a new block of business with the first year of issues starting in 1996. New life insurance blocks can produce negative assets for a short period after issue. This is due to acquisition expenses exceeding collected premiums when the block is very young.

Term under statutory is illustrated in Table 1.

Participating Whole Life (Par WL) under Statutory

By state law, no more than 10% of earnings on par products can inure to shareholders. Also, capital gains were taken in 1997.

Par WL under statutory is illustrated in Table 2.

Universal Life (UL) under Statutory

Forty percent of the net amount at risk is reinsured. Ten percent of this reinsurance is with an unauthorized reinsurer. A reserve credit is not permitted under statutory for the reinsurance with the unauthorized reinsurer.

There exists a non-admitted bond bought at par in 1993 associated with this block. It is a non-admitted asset under statutory as it exceeds the maximum amount that can be held from a single issuer.

UL under statutory is illustrated in Table 3.

LTC under Statutory

Statutory Reserves use pricing assumptions for mortality and morbidity, 4.5% for interest, and one year preliminary term for the reserve method. Statutory Reserves do not measure transitions to different claim status or mortality improvement. Asset Valuation Reserve (AVR) is at maximum.

LTC under statutory is illustrated in Table 4.

Corporate Account under Statutory

Item A – Phase III Tax Liability

This illustration assumes that a new tax law is enacted late in 1997 taxing Policyholder Surplus Accounts (Phase III). The company has a \$1,500 Policyholder Surplus Account which would be taxable at 30%, or \$450. This \$450 potential liability has always resided in surplus. No explicit Phase III tax liability is held for statutory.

Item B – Vanishing Premium

A class action lawsuit is filed against the company during 1995 for \$2,000,000. The company attorney thinks the outside limit of liability is \$1,500,000 in 1995. In 1997, a settlement is reached for \$1,000,000. The accounting and legal departments decided what liability to book for statutory.

Item C – Slick Co. Shares

In 1995 the company invests \$800,000 in a closely held company called Slick Co. This \$800,000 is set up as an asset in 1995. In 1996, the value of Slick's stock plummets to \$200,000. In 1997, the company sues the Slick Co. auditors. Under statutory, no additional assets are set up in 1997 in anticipation of recovering losses due to the lawsuit.

Item D – Surplus Note

In the late 1970's the company received a \$1,000,000 infusion through a surplus note. During 1996, the issuer, the company and the state insurance commissioner all concurred that principal payments would commence in 1997. No statutory liability is held for the surplus note.

Item E – Post-retirement Benefits

The company decides to grant post-retirement benefits to this years' group of retirees. This is an intent and not a guarantee at the end of 1997. No statutory liability is held since it is not a guarantee.

Corporate Account under statutory is illustrated in Table 5.

Total under Statutory

The totals for the company under statutory are simply the sum of the four lines of business and the corporate account with the exception of RBC. The RBC was recalculated based on the total company rather than the sum of each line's RBC. This resulted in two benefits from covariance: reduced factor for bonds and reduced factor for mortality.

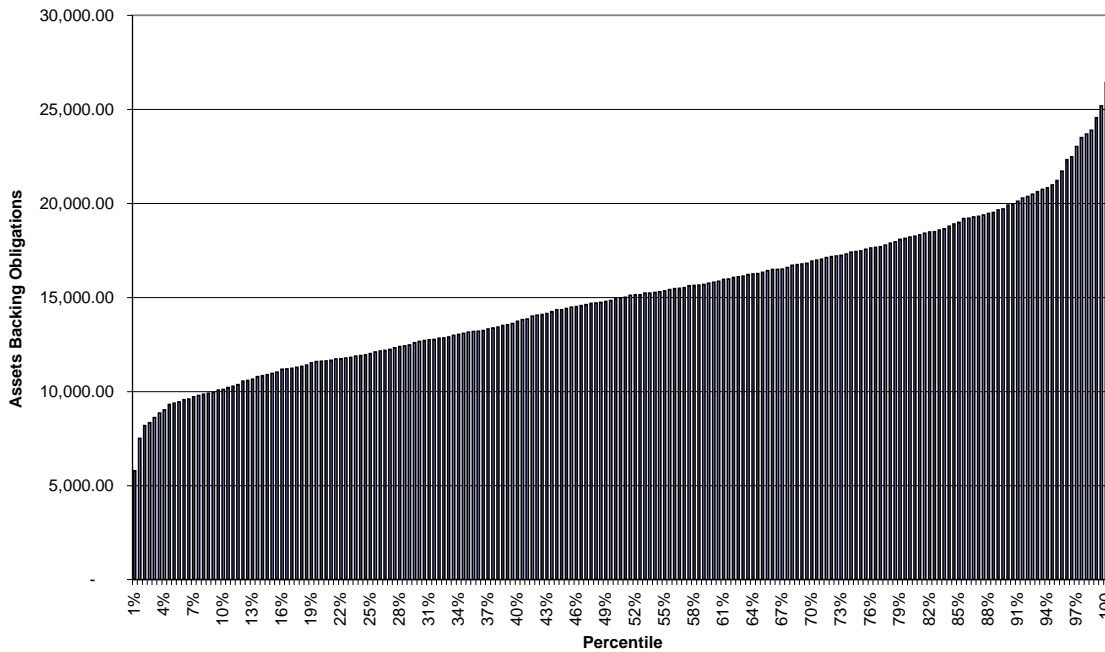
Total for the company under statutory is illustrated in Table 6.

UVS

Each line of business had multiple trials run projecting revenues, benefits and expenses. In general, the liability for each trial is calculated as the present value of future benefits and expenses less the premium value of future revenues. These trial liabilities are then sorted from smallest to largest, and liabilities are established at the eightieth percentile. The additional amount needed to reach the ninety-fifth percentile is illustrated. This amount would be analogous to RBC under statutory.

The presentation of these sorted trials from smallest to largest in a graph is known as the “S-curve” due to the shape of the graph. Chart 1 below shows a sample “S-curve”.

Chart 1
Sample S-curve



UVS results are shown for each line of business, the Corporate Account, the *Total Company without Covariance*, and the *Total Company with Covariance*.

Term under UVS

The eightieth and ninety-fifth adequacy levels are negative at end of 1996 because the product is new and all acquisition expenses have been incurred. The negatives occur at the eightieth and ninety-fifth percentiles because the present value for gross premiums exceeds the present value of benefits and expenses at both points. This is consistent with how term insurance can be reported and reserved for in Canada.

Term under UVS is illustrated in Table 7.

Par WL under UVS

The AVR is not separately identified because the probabilities of default have been explicitly incorporated into the reserve determination by reducing asset yields.

The Interest Maintenance Reserve (IMR) is not needed because all the gains and losses are recognized when incurred. Realized capital gains to be distributed to policyholders have been built into the reserve.

Dividends payable to the policyholders in the next year are now included in life reserves.

On the Par WL page, the Par WL UVS liability (UVS Par WL line 1 + line 7) is set equal to the sum of the statutory liability (Stat Par WL line 1), the policyholders' dividends payable next year (Stat Par WL line 7), and the undistributed par earnings (Stat Par WL line 51).

Par WL UVS liability (UVS Par WL line 1 + line 7) =
Statutory liability (Stat Par WL line 1) +
Policyholders' dividends payable next year (Stat Par WL line 7) +
Undistributed par earnings (Stat Par WL line 51).

Since the UVS Par WL liability is derived from the 80% percentile reserve, the UVS undistributed par earnings liability can be solved for.

Par WL under UVS is illustrated in Table 8.

UL under UVS

The AVR is not separately identified because the probabilities of default have been explicitly incorporated into reserve determination by reducing asset yields.

The IMR is not needed as all gains and losses are recognized when incurred. Realized capital gains to be distributed to policyholders have been built into the reserve.

While one reinsurer is considered unauthorized under statutory, the company intends to make premium payments to the reinsurer and expects to receive expense allowances and death claim reimbursements from the reinsurer. Consequently, these cash flows are treated like any other cash flow and no disallowance for unauthorized reinsurance is taken.

The \$1,000 non-admitted bond has been restored to the balance sheet.

UL under UVS is illustrated in Table 9.

LTC under UVS

The carrying value of stocks on the balance sheet is the market value of the stocks. Net investment income includes unrealized gains for stocks and bonds. Net investment income under UVS includes the change in net unrealized capital gains or losses.

LTC under UVS is illustrated in Table 10.

Corporate Account under UVS

Item A – Phase III Tax Liability

A phase III tax liability is established in anticipation of a new tax law.

Item B – Vanishing Premium

In 1995 the actuary uses the attorney's outside limit as the liability. In 1996, the actuary uses own judgment and estimates the liability as \$1,100,000 claim plus \$100,000 legal expenses. In 1997, the settlement is reached and the liability is established for \$1,000,000.

Item C – Slick Co. Shares

In 1995 the company invests \$800,000 in a closely held company called Slick Co. As in statutory, \$800,000 is set up as an asset in 1995. In 1997, the company sues the Slick Co auditors. Under UVS, since prospects are good for a settlement of \$700,000, the company sets up additional assets of \$700,000.

Item D – Surplus Note

Under UVS, a liability for the \$1,000,000 surplus note is set up. The scenarios forecast indicate the company is and should be healthy enough to repay the surplus note.

Item E – Post-retirement Benefits

The company intends to pay post-retirement benefits. Therefore, the present value of expected payments to beneficiaries for \$10,000 is set up as a liability.

Corporate Account under UVS is illustrated in Table 11.

Total without Covariance under UVS

Totals are obtained by summing individual lines of business and the corporate account. Therefore, the covariance of risks between the lines of business is not taken into account. This table is included so a comparison to the *Total with Covariance* can be made.

The total for the company without covariance under UVS is illustrated in Table 12.

Chart 2 illustrates the sorted trials for the four lines of business. The total line on this chart illustrates the total liabilities without covariance.

Total with Covariance under UVS

Covariance of individual lines has been taken into account.

Each individual line of business had a reserve developed by sorting the trial reserves in order from the smallest to the largest reserve. The eightieth and ninety-fifth percentiles were taken from these sorted reserves.

For the *Total with Covariance*, the individual reserves were combined at the trial level before any sorting was done. Next, the combined reserves at the trial level were sorted from the smallest to the largest reserve. As it was done at the individual line of business level, the eightieth and ninety-fifth percentile was taken from these sorted reserves. Finally, the Par WL line of business reserves plus the undistributed par earnings liability were added to the combined reserves from the other three lines of business. Chart 3 illustrates this total with covariance. The individual lines of business are also shown. These individual lines of business lines show which trial contributed to the total.

The *Total with Covariance* liability is less than the sum of the liabilities for each line of business at the eightieth and ninety-fifth percentiles. This is due to covariance. For example, the liabilities for each line of business react differently to the interest and mortality functions. The liabilities for one line of business may react more adversely to the given trial assumptions than another line of business. In the left-hand tail, bad trials from one line of business offset good trials from another line of business, resulting in a higher total liability. In the right-hand tail, good trials from one line of business offset bad trials from another line of business, resulting in a lower total liability. Stated another way, in the left-hand tail, summing the liabilities for each line of business results in a total liability reflecting the best trials for each line. When the trials are combined before sorting, some bad trials are mixed in with the good trials. Chart 4 illustrates the difference in the *Total without Covariance* and the *Total with Covariance*.

Undistributed par earnings were included with the Par WL reserve which results in the sum of the Par WL reserve and the undistributed par earnings liability being level.

The nature of the Corporate Account liabilities suggests that these liabilities have a zero covariance with the individual lines of business. For example, the Phase III Tax Liability is independent of the interest rate and mortality assumptions used to compute the UL reserves. Therefore, the Corporate Account liabilities are added to the combined reserves from the individual lines of business.

The total for the company with covariance under UVS is illustrated in Table 13.

The charts illustrate the risk profile of company in a way not currently available under statutory reporting. While it is not the intent of this report to suggest that the LTC line of business has serious risk, the charts do show how a riskier line of business can appear under UVS. This information would be very valuable to company management and regulators.

Table 1 – Term under Statutory

Assets	1995	1996	1997	Summary of Operations	1996	1997
1 Bonds	-	-	-	1 Premium	3,910	3,520
2 Stocks	-	-	-	4 Net Inv Inc	(220)	(70)
3 Mortgage loans	-	-	-	4A IMR Amort	-	-
4 Real estate	-	-	-	4B Net gain from Sep Acct.	-	-
8 Cash	-	(3,670)	(1,600)	7 Total	3,690	3,450
11 Subtotals, cash and invested assets	-	(3,670)	(1,600)	8 Death benefits	650	760
13 EDP equipment	-	-	-	10 Annuity benefits	-	-
23 Total assets excluding SA	-	(3,670)	(1,600)	11 Disability benefits	-	-
24 From SA	-	-	-	12 Surrender benefits	-	-
25 Totals	-	(3,670)	(1,600)	17 Incr in aggr reserves for life and A&H	-	2,310
				20 Commissions on premiums	3,910	180
				22 General insurance expenses	2,800	440
				24A Net transfers to or (from) SA	-	-
				26 Totals (8 to 25)	7,360	3,690
Liabilities, Surplus, and Other Funds	1995	1996	1997	27 Net gain from operations before divs	(3,670)	(240)
1 Aggr reserve for life	-	-	2,310	28 Divs to policyholders	-	-
2 Aggr reserve for A&H	-	-	-	29 Net gain from operations after divs	(3,670)	(240)
7 Policyholders' divs payable next yr.	-	-	-	32 Net realized capital gains or (losses) less capital gains tax transferred to IMR	-	-
11 IMR	-	-	-	33 Net income	(3,670)	(240)
24 Asset Valuation Reserve	-	-	-			
26 Total Liabilities excluding SA	-	-	2,310	Capital and Surplus Account		
27 From SA Statement	-	-	-	34 Capital and surplus, 12/31 prior year	-	(3,670)
28 Total Liabilities	-	-	2,310	35 Net Income (line 33)	(3,670)	(240)
37 Surplus	-	(3,670)	(3,910)	36 Change in net unrealized capital gains or (losses)	-	-
39 Totals of lines 28 and 37	-	(3,670)	(1,600)	37 Change in non-admitted assets and related items	-	-
				40 Change in AVR	-	-
				45 Divs to Stockholders	-	-
Disclosure				47 Net change in capital and surplus for the year (lines 35 to 46)	(3,670)	(240)
50 RBC	-	1,166	1,084	Transfer to (from) Corp Account	-	-
				48 Capital and surplus, 12/31, current year	(3,670)	(3,910)
				Disclosure		
				50 Increase in RBC	1,166	(82)

Table 2 – Par WL under Statutory

Assets	1995	1996	1997	Summary of Operations	1996	1997
1 Bonds	61,003	65,017	68,699	1 Premium	6,569	6,244
2 Stocks	-	-	-	4 Net Inv Inc	4,667	4,927
3 Mortgage loans	-	-	-	4A IMR Amort	10	11
4 Real estate	-	-	-	4B Net gain from Sep Acct.	-	-
8 Cash	-	-	-			
11 Subtotals, cash and invested assets	61,003	65,017	68,699	7 Total	11,246	11,182
13 EDP equipment	-	-	-	8 Death benefits	1,468	1,543
23 Total assets excluding SA	61,003	65,017	68,699	10 Annuity benefits	-	-
24 From SA	-	-	-	11 Disability benefits	-	-
25 Totals	61,003	65,017	68,699	12 Surrender benefits	2,391	2,514
				17 Incr in aggr reserves for life and A&H	2,667	2,328
				20 Commissions on premiums	328	312
				22 General insurance expenses	551	526
				24A Net transfers to or (from) SA	-	-
				26 Totals (8 to 25)	7,405	7,223
Liabilities, Surplus, and Other Funds	1995	1996	1997			
1 Aggr reserve for life	54,442	57,109	59,437	27 Net gain from operations before divs	3,841	3,959
2 Aggr reserve for A&H	-	-	-	28 Divs to policyholders	2,598	2,628
7 Policyholders' divs payable next yr.	2,588	2,702	2,736			
11 IMR	81	91	154	29 Net gain from operations after divs	1,243	1,331
24 Asset Valuation Reserve	1,003	1,032	1,552	32 Net realized capital gains or (losses) less capital gains tax transferred to IMR	(20)	(74)
26 Total Liabilities excluding SA	58,114	60,934	63,879	33 Net income	1,223	1,257
27 From SA Statement	-	-	-			
28 Total Liabilities	58,114	60,934	63,879	Capital and Surplus Account		
37 Surplus	2,889	4,083	4,820	34 Capital and surplus, 12/31 prior year	2,889	4,083
39 Totals of lines 28 and 37	61,003	65,017	68,699	35 Net Income (line 33)	1,223	1,257
				36 Change in net unrealized capital gains or (losses)	-	-
				37 Change in non-admitted assets and related items	-	-
				40 Change in AVR	(29)	(520)
				45 Divs to Stockholders	-	-
Disclosure				47 Net change in capital and surplus for the year (lines 35 to 46)	1,194	737
50 RBC	1,292	1,324	1,354	Transfer to (from) Corp Account	-	-
51 Undistributed par earnings	100	200	350	48 Capital and surplus, 12/31, current year	4,083	4,820
				Disclosure		
				50 Increase in RBC	32	30
				51 Increase in Undistributed par earnings	100	150

Table 3 – UL under Statutory

Assets	1995	1996	1997	Summary of Operations	1996	1997
1 Bonds	96,761	102,700	108,376	1 Premium	5,964	5,534
2 Stocks	-	-	-	4 Net Inv Inc	6,945	7,332
3 Mortgage loans	-	-	-	4A IMR Amort	12	13
4 Real estate	-	-	-	4B Net gain from Sep Acct.	-	-
8 Cash	-	-	-			
				7 Total	12,921	12,879
11 Subtotals, cash and invested assets	96,761	102,700	108,376			
				8 Death benefits	907	949
13 EDP equipment	-	-	-	10 Annuity benefits	-	-
				11 Disability benefits	-	-
23 Total assets excluding SA	96,761	102,700	108,376	12 Surrender benefits	5,421	5,637
24 From SA	-	-	-	17 Incr in aggr reserves for life and A&H	4,242	3,844
				20 Commissions on premiums	333	313
25 Totals	96,761	102,700	108,376	22 General insurance expenses	309	291
				24A Net transfers to or (from) SA	-	-
Liabilities, Surplus, and Other Funds	1995	1996	1997	26 Totals (8 to 25)	11,212	11,034
1 Aggr reserve for life	90,803	95,045	98,889	27 Net gain from operations before divs	1,709	1,845
2 Aggr reserve for A&H	-	-	-	28 Divs to policyholders	-	-
7 Policyholders' divs payable next yr.	-	-	-			
11 IMR	96	108	183	29 Net gain from operations after divs	1,709	1,845
24 Asset Valuation Reserve	1,193	1,223	1,839			
24 Reins in Unauthorized Cos.	82	86	90	32 Net realized capital gains or (losses) less capital gains tax transferred to IMR	(24)	(88)
				33 Net income	1,685	1,757
26 Total Liabilities excluding SA	92,174	96,462	101,001			
27 From SA Statement	-	-	-	Capital and Surplus Account		
				34 Capital and surplus, 12/31 prior year	4,587	6,238
28 Total Liabilities	92,174	96,462	101,001			
37 Surplus	4,587	6,238	7,375	35 Net Income (line 33)	1,685	1,757
				36 Change in net unrealized capital gains or (losses)	-	-
39 Totals of lines 28 and 37	96,761	102,700	108,376	37 Change in non-admitted assets and related items	-	-
				38 Change in liab for reins. in unauth. cos.	(4)	(4)
Disclosure				40 Change in AVR	(30)	(616)
				45 Divs to Stockholders	-	-
50 RBC	1,848	1,919	1,988	47 Net change in capital and surplus for the year (lines 35 to 46)	1,651	1,137
				Transfer to (from) Corp Account	-	-
				48 Capital and surplus, 12/31, current year	6,238	7,375
				Disclosure		
				50 Increase in RBC	71	69

Table 4 – LTC under Statutory

Assets	1995	1996	1997	Summary of Operations	1996	1997
1 Bonds	78,780	88,614	98,458	1 Premium	6,604	6,405
2 Stocks	26,260	29,538	32,819	4 Net Inv Inc	6,302	7,089
3 Mortgage loans	-	-	-	4A IMR Amort	-	-
4 Real estate	-	-	-	4B Net gain from Sep Acct.	-	-
8 Cash	-	-	-			
				7 Total	12,906	13,494
11 Subtotals, cash and invested assets	105,040	118,152	131,277			
				8 Death benefits	-	-
13 EDP equipment	-	-	-	10 Annuity benefits	-	-
				11 Disability benefits	2,742	3,839
23 Total assets excluding SA	105,040	118,152	131,277	12 Surrender benefits	-	-
24 From SA	-	-	-	17 Incr in aggr reserves for life and A&H	7,648	8,305
				20 Commissions on premiums	-	-
25 Totals	105,040	118,152	131,277	22 General insurance expenses	991	961
				24A Net transfers to or (from) SA	-	-
Liabilities, Surplus, and Other Funds	1995	1996	1997	26 Totals (8 to 25)	11,381	13,105
1 Aggr reserve for life	-	-	-			
2 Aggr reserve for A&H	66,700	74,348	82,653	27 Net gain from operations before divs	1,525	389
7 Policyholders' divs payable next yr.	-	-	-	28 Divs to policyholders	-	-
11 IMR	-	-	-			
24 Asset Valuation Reserve	8,666	9,748	10,830	29 Net gain from operations after divs	1,525	389
24 Reins in Unauthorized Cos.	-	-	-			
				32 Net realized capital gains or (losses) less capital gains tax transferred to IMR	-	-
26 Total Liabilities excluding SA	75,366	84,096	93,483	33 Net income	1,525	389
27 From SA Statement	-	-	-			
				Capital and Surplus Account		
28 Total Liabilities	75,366	84,096	93,483	34 Capital and surplus, 12/31 prior year	29,674	34,056
37 Surplus	29,674	34,056	37,794			
				35 Net Income (line 33)	1,525	389
39 Totals of lines 28 and 37	105,040	118,152	131,277	36 Change in net unrealized capital gains or (losses)	3,939	4,431
				37 Change in non-admitted assets and related items	-	-
				38 Change in liab for reins. in unauth. cos.	-	-
Disclosure				40 Change in AVR	(1,082)	(1,082)
				45 Divs to Stockholders	-	-
50 RBC	13,669	15,116	16,564	47 Net change in capital and surplus for the year (lines 35 to 46)	4,382	3,738
				Transfer to (from) Corp Account	-	-
				48 Capital and surplus, 12/31, current year	34,056	37,794
				Disclosure		
				50 Increase in RBC	1,448	1,448

Table 5 – Corporate Account under Statutory

Assets	1995	1996	1997	Summary of Operations	1996	1997
1 Bonds	5,000	5,000	5,000	1 Premium	-	-
2 Stocks	-	-	-	4 Net Inv Inc	-	-
3 Mortgage loans	-	-	-	4A IMR Amort	-	-
4 Real estate	-	-	-	4B Net gain from Sep Acct.	-	-
8 Cash	5,000	4,992	4,934	7 Total	-	-
11 Subtotals, cash and invested assets	10,000	9,992	9,934	8 Death benefits	-	-
13 EDP equipment	-	-	-	10 Annuity benefits	-	-
C Slick Co shares	800	200	200	11 Disability benefits	-	-
23 Total assets excluding SA	10,800	10,192	10,134	12 Surrender benefits	-	-
24 From SA	-	-	-	17 Incr in aggr reserves for life and A&H	-	-
25 Totals	10,800	10,192	10,134	B Incr in Vanishing Premium Liability	200	600
Liabilities, Surplus, and Other Funds	1995	1996	1997	20 Commissions on premiums	-	-
1 Aggr reserve for life	-	-	-	22 General insurance expenses	-	-
2 Aggr reserve for A&H	-	-	-	D1 Interest paid on surplus note	8	8
7 Policyholders' divs payable next yr.	-	-	-	D2 Principal paid on surplus note	-	50
11 IMR	-	-	-	24A Net transfers to or (from) SA	-	-
24 Asset Valuation Reserve	-	-	-	26 Totals (8 to 25)	208	658
24 Reins in Unauthorized Cos.	-	-	-	27 Net gain from operations before divs	(208)	(658)
B Vanishing Premium Liability	200	400	1,000	28 Divs to policyholders	-	-
26 Total Liabilities excluding SA	200	400	1,000	29 Net gain from operations after divs	(208)	(658)
27 From SA Statement	-	-	-	32 Net realized capital gains or (losses) less capital gains tax transferred to IMR	-	-
28 Total Liabilities	200	400	1,000	33 Net income	(208)	(658)
35 Unassigned funds (surplus)	10,600	9,792	9,134	Capital and Surplus Account		
37 Surplus	10,600	9,792	9,134	34 Capital and surplus, 12/31 prior year	10,600	9,792
39 Totals of lines 28 and 38	10,800	10,192	10,134	35 Net Income (line 33)	(208)	(658)
Disclosure				36 Change in net unrealized capital gains or (losses)	(600)	-
50 RBC	50	50	50	37 Change in non-admitted assets and related items	-	-
				38 Change in liab for reins. in unauth. cos.	-	-
				40 Change in AVR	-	-
				45 Divs to Stockholders	-	-
				47 Net change in capital and surplus for the year (lines 35 to 46)	(808)	(658)
				Transfer to (from) Corp Account	-	-
				48 Capital and surplus, 12/31, current year	9,792	9,134
				Disclosure		
				50 Increase in RBC	-	-

Table 6 – Total under Statutory

Assets	1995	1996	1997	Summary of Operations	1996	1997
1 Bonds	241,544	261,331	280,533	1 Premium	23,047	21,703
2 Stocks	26,260	29,538	32,819	4 Net Inv Inc	17,694	19,278
3 Mortgage loans	-	-	-	4A IMR Amort	22	24
4 Real estate	-	-	-	4B Net gain from Sep Acct.	-	-
8 Cash	5,000	1,322	3,334	7 Total	40,763	41,005
11 Subtotals, cash and invested assets	272,804	292,191	316,686	8 Death benefits	3,025	3,252
13 EDP equipment	-	-	-	10 Annuity benefits	-	-
C Slick Co shares	800	200	200	11 Disability benefits	2,742	3,839
23 Total assets excluding SA	273,604	292,391	316,886	12 Surrender benefits	7,812	8,151
24 From SA	-	-	-	17 Incr in aggr reserves for life and A&H	14,557	16,787
25 Totals	273,604	292,391	316,886	B Incr in Vanishing Premium Liability	200	600
Liabilities, Surplus, and Other Funds	1995	1996	1997	20 Commissions on premiums	4,571	805
1 Aggr reserve for life	145,245	152,154	160,636	22 General insurance expenses	4,651	2,218
2 Aggr reserve for A&H	66,700	74,348	82,653	D1 Interest paid on surplus note	8	8
7 Policyholders' divs payable next yr.	2,588	2,702	2,736	D2 Principal paid on surplus note	-	50
11 IMR	177	199	337	24A Net transfers to or (from) SA	-	-
24 Asset Valuation Reserve	10,862	12,003	14,221	26 Totals (8 to 25)	37,566	35,710
24 Reins in Unauthorized Cos.	82	86	90	27 Net gain from operations before divs	3,197	5,295
B Vanishing Premium Liability	200	400	1,000	28 Divs to policyholders	2,598	2,628
26 Total Liabilities excluding SA	225,854	241,892	261,673	29 Net gain from operations after divs	599	2,667
27 From SA Statement	-	-	-	32 Net realized capital gains or (losses) less capital gains tax transferred to IMR	(44)	(162)
28 Total Liabilities	225,854	241,892	261,673	33 Net income	555	2,505
37 Surplus	47,750	50,499	55,213	Capital and Surplus Account		
39 Totals of lines 28 and 37	273,604	292,391	316,886	34 Capital and surplus, 12/31 prior year	47,750	50,499
Disclosure				35 Net Income (line 33)	555	2,505
50 RBC	15,933	18,589	20,068	36 Change in net unrealized capital gains or (losses)	3,339	4,431
51 Undistributed par earnings	100	200	350	37 Change in non-admitted assets and related items	-	-
				38 Change in liab for reins. in unauth. cos.	(4)	(4)
				40 Change in AVR	(1,141)	(2,218)
				45 Divs to Stockholders	-	-
				47 Net change in capital and surplus for the year (lines 35 to 46)	2,749	4,714
				Transfer to (from) Corp Account	-	-
				48 Capital and surplus, 12/31, current year	50,499	55,213
				Disclosure		
				50 Increase in RBC	2,656	1,479

Table 7 – Term under UVS

Assets	1995	1996	1997	Summary of Operations	1996	1997
1 Bonds	-	-	-	1 Premium	3,910	3,520
2 Stocks	-	-	-	4 Net Inv Inc	(220)	(70)
3 Mortgage loans	-	-	-	4A IMR Amort	-	-
4 Real estate	-	-	-	4B Net gain from Sep Acct.	-	-
8 Cash	-	(3,670)	(1,600)	7 Total	3,690	3,450
11 Subtotals, cash and invested assets	-	(3,670)	(1,600)	8 Death benefits	650	760
13 EDP equipment	-	-	-	10 Annuity benefits	-	-
23 Total assets excluding SA	-	(3,670)	(1,600)	11 Disability benefits	-	-
24 From SA	-	-	-	12 Surrender benefits	-	-
25 Totals	-	(3,670)	(1,600)	17 Incr in aggr reserves for life and A&H	(3,640)	1,910
				20 Commissions on premiums	3,910	180
				22 General insurance expenses	2,800	440
				24A Net transfers to or (from) SA	-	-
Liabilities, Surplus, and Other Funds	1995	1996	1997	26 Totals (8 to 25)	3,720	3,290
1 Assets backing life obligations	-	(3,640)	(1,730)	27 Net gain from operations before divs	(30)	160
2 Assets backing A&H obligations	-	-	-	28 Divs to policyholders	-	-
7 Undistributed par earnings	-	-	-	29 Net gain from operations after divs	(30)	160
11 IMR	-	-	-	32 Net realized capital gains or (losses) less capital gains tax transferred to IMR	-	-
24 Asset Valuation Reserve	-	-	-	33 Net income	(30)	160
26 Total Liabilities excluding SA	-	(3,640)	(1,730)			
27 From SA Statement	-	-	-	Capital and Surplus Account		
28 Total Liabilities	-	(3,640)	(1,730)	34 Capital and surplus, 12/31 prior year	-	(30)
37 Surplus	-	(30)	130	35 Net Income (line 33)	(30)	160
39 Totals of lines 28 and 37	-	(3,670)	(1,600)	36 Change in net unrealized capital gains or (losses)	-	-
				37 Change in non-admitted assets and related items	-	-
				40 Change in AVR	-	-
				45 Divs to Stockholders	-	-
Disclosure				47 Net change in capital and surplus for the year (lines 35 to 45)	(30)	160
50 Additional assets needed to reach 95% confidence	-	3,180	3,550	Transfer to (from) Corp Account	-	-
				48 Capital and surplus, 12/31, current year	(30)	130
				Disclosure		
				50 Increase in Additional assets needed to reach 95% confidence	3,180	370

Table 8 - Par WL under UVS

Assets	1995	1996	1997	Summary of Operations	1996	1997
1 Bonds	61,003	65,017	68,699	1 Premium	6,569	6,244
2 Stocks	-	-	-	4 Net Inv Inc	4,667	4,927
3 Mortgage loans	-	-	-	4A IMR Amort	-	-
4 Real estate	-	-	-	4B Net gain from Sep Acct.	-	-
8 Cash	-	-	-			
11 Subtotals, cash and invested assets	61,003	65,017	68,699	7 Total	11,236	11,171
13 EDP equipment	-	-	-	8 Death benefits	1,468	1,543
23 Total assets excluding SA	61,003	65,017	68,699	10 Annuity benefits	-	-
24 From SA	-	-	-	11 Disability benefits	-	-
25 Totals	61,003	65,017	68,699	12 Surrender benefits	2,391	2,514
				17 Incr in aggr reserves for life and A&H	2,984	2,486
				17z Incr in Undistributed par earnings	(103)	26
				20 Commissions on premiums	328	312
				22 General insurance expenses	551	526
				24A Net transfers to or (from) SA	-	-
				26 Totals (8 to 25)	7,619	7,407
				27 Net gain from operations before divs	3,617	3,764
				28 Divs to policyholders	2,484	2,594
				29 Net gain from operations after divs	1,133	1,170
				32 Net realized capital gains or (losses) less capital gains tax transferred to IMR	-	-
				33 Net income	1,133	1,170
				Capital and Surplus Account		
				34 Capital and surplus, 12/31 prior year	3,873	5,006
				35 Net Income (line 33)	1,133	1,170
				36 Change in net unrealized capital gains or (losses)	-	-
				37 Change in non-admitted assets and related items	-	-
				40 Change in AVR	-	-
				45 Divs to Stockholders	-	-
				47 Net change in capital and surplus for the year (lines 35 to 45)	1,133	1,170
				Transfer to (from) Corp Account	-	-
				48 Capital and surplus, 12/31, current year	5,006	6,176
				Disclosure		
				50 Increase in Additional assets needed to reach 95% confidence	122	21
Liabilities, Surplus, and Other Funds	1995	1996	1997			
1 Assets backing life obligations	52,563	55,547	58,033			
2 Assets backing A&H obligations	-	-	-			
7 Undistributed par earnings	4,567	4,464	4,490			
11 IMR	-	-	-			
24 Asset Valuation Reserve	-	-	-			
26 Total Liabilities excluding SA	57,130	60,011	62,523			
27 From SA Statement	-	-	-			
28 Total Liabilities	57,130	60,011	62,523			
37 Surplus	3,873	5,006	6,176			
39 Totals of lines 28 and 37	61,003	65,017	68,699			
Disclosure						
50 Additional assets needed to reach 95% confidence	1,892	2,014	2,035			

Table 9 – UL under UVS

Assets	1995	1996	1997	Summary of Operations	1996	1997
1 Bonds	97,761	103,700	109,376	1 Premium	5,964	5,534
2 Stocks	-	-	-	4 Net Inv Inc	6,945	7,332
3 Mortgage loans	-	-	-	4A IMR Amort	-	-
4 Real estate	-	-	-	4B Net gain from Sep Acct.	-	-
8 Cash	-	-	-			
				7 Total	12,909	12,866
11 Subtotals, cash and invested assets	97,761	103,700	109,376			
				8 Death benefits	907	949
13 EDP equipment	-	-	-	10 Annuity benefits	-	-
				11 Disability benefits	-	-
23 Total assets excluding SA	97,761	103,700	109,376	12 Surrender benefits	5,421	5,637
24 From SA	-	-	-	17 Incr in aggr reserves for life and A&H	4,436	4,054
				17z Incr in Undistributed par earnings	-	-
25 Totals	97,761	103,700	109,376	20 Commissions on premiums	333	313
				22 General insurance expenses	309	291
Liabilities, Surplus, and Other Funds	1995	1996	1997	24A Net transfers to or (from) SA	-	-
1 Assets backing life obligations	87,809	92,245	96,299	26 Totals (8 to 25)	11,406	11,244
2 Assets backing A&H obligations	-	-	-			
7 Undistributed par earnings	-	-	-	27 Net gain from operations before divs	1,503	1,622
11 IMR	-	-	-	28 Divs to policyholders	-	-
24 Asset Valuation Reserve	-	-	-	29 Net gain from operations after divs	1,503	1,622
				32 Net realized capital gains or (losses) less capital gains tax transferred to IMR	-	-
26 Total Liabilities excluding SA	87,809	92,245	96,299	33 Net income	1,503	1,622
27 From SA Statement	-	-	-			
28 Total Liabilities	87,809	92,245	96,299	Capital and Surplus Account		
37 Surplus	9,952	11,455	13,077	34 Capital and surplus, 12/31 prior year	9,952	11,455
39 Totals of lines 28 and 37	97,761	103,700	109,376	35 Net Income (line 33)	1,503	1,622
				36 Change in net unrealized capital gains or (losses)	-	-
Disclosure				37 Change in non-admitted assets and related items	-	-
50 Additional assets needed to reach 95% confidence	5,565	5,543	5,835	40 Change in AVR	-	-
				45 Divs to Stockholders	-	-
				47 Net change in capital and surplus for the year (lines 35 to 45)	1,503	1,622
				Transfer to (from) Corp Account	-	-
				48 Capital and surplus, 12/31, current year	11,455	13,077
				Disclosure		
				50 Increase in Additional assets needed to reach 95% confidence	(22)	292

Table 10 – LTC under UVS

Assets	1995	1996	1997	Summary of Operations	1996	1997
1 Bonds	78,780	88,614	98,458	1 Premium	6,604	6,405
2 Stocks	26,260	29,538	32,819	4 Net Inv Inc	10,241	11,520
3 Mortgage loans	-	-	-	4A IMR Amort	-	-
4 Real estate	-	-	-	4B Net gain from Sep Acct.	-	-
8 Cash	-	-	-			
				7 Total	16,845	17,925
11 Subtotals, cash and invested assets	105,040	118,152	131,277			
				8 Death benefits	-	-
13 EDP equipment	-	-	-	10 Annuity benefits	-	-
				11 Disability benefits	2,742	3,839
23 Total assets excluding SA	105,040	118,152	131,277	12 Surrender benefits	-	-
24 From SA	-	-	-	17 Incr in aggr reserves for life and A&H	12,260	12,260
				17z Incr in Undistributed par earnings	-	-
25 Totals	105,040	118,152	131,277	20 Commissions on premiums	-	-
				22 General insurance expenses	991	961
Liabilities, Surplus, and Other Funds	1995	1996	1997	24A Net transfers to or (from) SA	-	-
1 Assets backing life obligations	-	-	-	26 Totals (8 to 25)	15,993	17,060
2 Assets backing A&H obligations	105,040	117,300	129,560			
7 Undistributed par earnings	-	-	-	27 Net gain from operations before divs	852	865
11 IMR	-	-	-	28 Divs to policyholders	-	-
24 Asset Valuation Reserve	-	-	-	29 Net gain from operations after divs	852	865
				32 Net realized capital gains or (losses) less capital gains tax transferred to IMR	-	-
26 Total Liabilities excluding SA	105,040	117,300	129,560	33 Net income	852	865
27 From SA Statement	-	-	-			
				Capital and Surplus Account		
28 Total Liabilities	105,040	117,300	129,560	34 Capital and surplus, 12/31 prior year	-	852
37 Surplus	-	852	1,717	35 Net Income (line 33)	852	865
39 Totals of lines 28 and 37	105,040	118,152	131,277	36 Change in net unrealized capital gains or (losses)	-	-
				37 Change in non-admitted assets and related items	-	-
Disclosure				40 Change in AVR	-	-
50 Additional assets needed to reach 95% confidence	16,806	18,768	20,730	45 Divs to Stockholders	-	-
				47 Net change in capital and surplus for the year (lines 35 to 45)	852	865
				Transfer to (from) Corp Account	-	-
				48 Capital and surplus, 12/31, current year	852	1,717
				Disclosure		
				50 Increase in Additional assets needed to reach 95% confidence	1,962	1,962

Table 11 - Corporate Account under UVS

Assets	1995	1996	1997	Summary of Operations	1996	1997
1 Bonds	5,000	5,000	5,000	1 Premium	-	-
2 Stocks	-	-	-	4 Net Inv Inc	-	-
3 Mortgage loans	-	-	-	4A IMR Amort	-	-
4 Real estate	-	-	-	4B Net gain from Sep Acct.	-	-
8 Cash	5,000	4,992	4,934	C Unrealized Gain (Loss) from Slick Co.	(600)	700
11 Subtotals, cash and invested assets	10,000	9,992	9,934	7 Total	(600)	700
13 EDP equipment	-	-	-	8 Death benefits	-	-
C1 Slick Co. shares	800	200	200	10 Annuity benefits	-	-
C2 Lawsuit recoverable	-	-	700	11 Disability benefits	-	-
23 Total assets excluding SA	10,800	10,192	10,834	12 Surrender benefits	-	-
24 From SA	-	-	-	17 Incr in aggr reserves for life and A&H	(5,891)	3,419
25 Totals	10,800	10,192	10,834	17z Incr in Undistributed par earnings	-	-
				A Incr in Phase III Tax Liability	-	450
				B Incr in Vanishing Premium Liability	(300)	(200)
				D Incr in Surplus Note Liability	-	(50)
				E Incr in Post Retirement Benefits Liability	-	10
Liabilities, Surplus, and Other Funds	1995	1996	1997	20 Commissions on premiums	-	-
1 Assets backing life obligations	-	-	-	22 General insurance expenses	-	-
2 Assets backing A&H obligations	-	-	-	D1 Interest paid on surplus note	8	8
2A Adjustmet to 1 and 2 due to covar	(4,604)	(10,495)	(7,077)	D2 Principal paid on surplus note	-	50
7 Undistributed par earnings	-	-	-	24A Net transfers to or (from) SA	-	-
11 IMR	-	-	-	26 Totals (8 to 25)	(6,183)	3,687
24 Asset Valuation Reserve	-	-	-	27 Net gain from operations before divs	5,583	(2,987)
A Phase III Tax Liability	-	-	450	28 Divs to policyholders	-	-
B Vanishing Premium Liability	1,500	1,200	1,000	29 Net gain from operations after divs	5,583	(2,987)
D Surplus Note Liability	1,000	1,000	950	32 Net realized capital gains or (losses)	-	-
E Post Retirement Benefits Liability	-	-	10	33 Net income	5,583	(2,987)
26 Total Liabilities excluding SA	(2,104)	(8,295)	(4,667)			
27 From SA Statement	-	-	-	Capital and Surplus Account		
28 Total Liabilities	(2,104)	(8,295)	(4,667)	34 Capital and surplus, 12/31 prior year	12,904	18,487
37 Surplus	12,904	18,487	15,501	35 Net Income (line 33)	5,583	(2,987)
39 Totals of lines 28 and 37	10,800	10,192	10,834	36 Change in net unrealized capital gains or (losses)	-	-
				37 Change in non-admitted assets and related items	-	-
Disclosure				40 Change in AVR	-	-
50 Additional assets needed to reach 95% confidence	45	945	46	45 Divs to Stockholders	-	-
				47 Net change in capital and surplus for the year (lines 35 to 45)	5,583	(2,987)
				Transfer to (from) Corp Account	-	-
				48 Capital and surplus, 12/31, current year	18,487	15,501
				Disclosure		
				50 Increase in Additional assets needed to reach 95% confidence	900	(899)

Table 12 - Total with no Covariance under UVS (Sum of the Sorted)

Assets	1995	1996	1997	Summary of Operations	1996	1997
1 Bonds	242,544	262,331	281,533	1 Premium	23,047	21,703
2 Stocks	26,260	29,538	32,819	4 Net Inv Inc	21,633	23,709
3 Mortgage loans	-	-	-	4A IMR Amort	-	-
4 Real estate	-	-	-	4B Net gain from Sep Acct.	-	-
8 Cash	5,000	1,322	3,334	C Unrealized Gain (Loss) from Slick Co.	(600)	700
11 Subtotals, cash and invested assets	273,804	293,191	317,686	7 Total	44,080	46,112
13 EDP equipment	-	-	-	8 Death benefits	3,025	3,252
C1 Slick Co. shares	800	200	200	10 Annuity benefits	-	-
C2 Lawsuit recoverable	-	-	700	11 Disability benefits	2,742	3,839
23 Total assets excluding SA	274,604	293,391	318,586	12 Surrender benefits	7,812	8,151
24 From SA	-	-	-	17 Incr in aggr reserves for life and A&H	16,040	20,710
25 Totals	274,604	293,391	318,586	17z Incr in Undistributed par earnings	(103)	26
				A Incr in Phase III Tax Liability	-	450
Liabilities, Surplus, and Other Funds	1995	1996	1997	B Incr in Vanishing Premium Liability	(300)	(200)
1 Assets backing life obligations	140,372	144,152	152,602	D Incr in Surplus Note Liability	-	(50)
2 Assets backing A&H obligations	105,040	117,300	129,560	E Incr in Post Retirement Benefits Liability	-	10
7 Undistributed par earnings	4,567	4,464	4,490	20 Commissions on premiums	4,571	805
11 IMR	-	-	-	22 General insurance expenses	4,651	2,218
24 Asset Valuation Reserve	-	-	-	D1 Interest paid on surplus note	8	8
A Phase III Tax Liability	-	-	450	D2 Principal paid on surplus note	-	50
B Vanishing Premium Liability	1,500	1,200	1,000	24A Net transfers to or (from) SA	-	-
D Surplus Note Liability	1,000	1,000	950	26 Totals (8 to 25)	38,446	39,269
E Post Retirement Benefits Liability	-	-	10	27 Net gain from operations before divs	5,634	6,843
26 Total Liabilities excluding SA	252,479	268,116	289,062	28 Divs to policyholders	2,484	2,594
27 From SA Statement	-	-	-	29 Net gain from operations after divs	3,150	4,249
28 Total Liabilities	252,479	268,116	289,062	32 Net realized capital gains or (losses)	-	-
37 Surplus	22,125	25,275	29,524	33 Net income	3,150	4,249
39 Totals of lines 28 and 37	274,604	293,391	318,586	Capital and Surplus Account		
Disclosure				34 Capital and surplus, 12/31 prior year	22,125	25,275
50 Additional assets needed to reach 95% confidence	24,308	30,450	32,196	35 Net Income (line 33)	3,150	4,249
				36 Change in net unrealized capital gains or (losses)	-	-
				37 Change in non-admitted assets and related items	-	-
				40 Change in AVR	-	-
				45 Divs to Stockholders	-	-
				47 Net change in capital and surplus for the year (lines 35 to 45)	3,150	4,249
				Transfer to (from) Corp Account	-	-
				48 Capital and surplus, 12/31, current year	25,275	29,524
				Disclosure		
				50 Increase in Additional assets needed to reach 95% confidence	6,142	1,746

Table 13 - Total with Covariance under UVS (Sum then Sorted)

Assets	1995	1996	1997	Summary of Operations	1996	1997
1 Bonds	242,544	262,331	281,533	1 Premium	23,047	21,703
2 Stocks	26,260	29,538	32,819	4 Net Inv Inc	21,633	23,709
3 Mortgage loans	-	-	-	4A IMR Amort	-	-
4 Real estate	-	-	-	4B Net gain from Sep Acct.	-	-
8 Cash	5,000	1,322	3,334	C Unrealized Gain (Loss) from Slick Co.	(600)	700
11 Subtotals, cash and invested assets	273,804	293,191	317,686	7 Total	44,080	46,112
13 EDP equipment	-	-	-	8 Death benefits	3,025	3,252
C1 Slick Co. shares	800	200	200	10 Annuity benefits	-	-
C2 Lawsuit recoverable	-	-	700	11 Disability benefits	2,742	3,839
23 Total assets excluding SA	274,604	293,391	318,586	12 Surrender benefits	7,812	8,151
24 From SA	-	-	-	17 Incr in aggr reserves for life and A&H	10,149	24,129
25 Totals	274,604	293,391	318,586	17z Incr in Undistributed par earnings	(103)	26
				A Incr in Phase III Tax Liability	-	450
				B Incr in Vanishing Premium Liability	(300)	(200)
				D Incr in Surplus Note Liability	-	(50)
				E Incr in Post Retirement Benefits Liability	-	10
				20 Commissions on premiums	4,571	805
				22 General insurance expenses	4,651	2,218
				D1 Interest paid on surplus note	8	8
				D2 Principal paid on surplus note	-	50
				24A Net transfers to or (from) SA	-	-
				26 Totals (8 to 25)	32,555	42,688
				27 Net gain from operations before divs	11,525	3,424
				28 Divs to policyholders	2,484	2,594
				29 Net gain from operations after divs	9,041	830
				32 Net realized capital gains or (losses)	-	-
				33 Net income	9,041	830
				Capital and Surplus Account		
				34 Capital and surplus, 12/31 prior year	26,729	35,770
				35 Net Income (line 33)	9,041	830
				36 Change in net unrealized capital gains or (losses)	-	-
				37 Change in non-admitted assets and related items	-	-
				40 Change in AVR	-	-
				45 Divs to Stockholders	-	-
				47 Net change in capital and surplus for the year (lines 35 to 45)	9,041	830
				Transfer to (from) Corp Account	-	-
				48 Capital and surplus, 12/31, current year	35,770	36,601
				Disclosure		
				50 Increase in Additional assets needed to reach 95% confidence	7,073	(1,523)

Chart 2

UVS Assets Backing Obligations with No Covariance - 1997

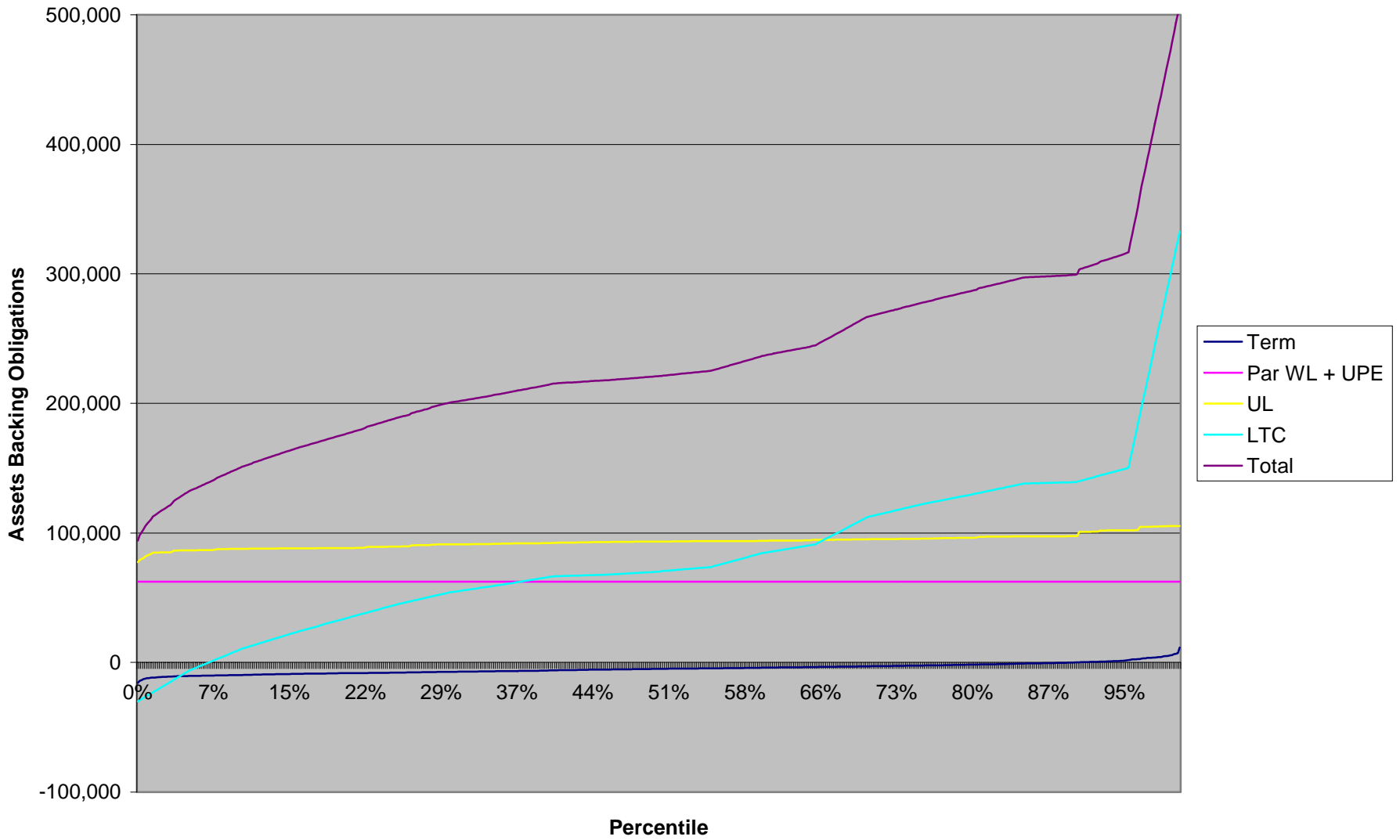


Chart 3

UVS Assets Backing Obligations with Covariance - 1997

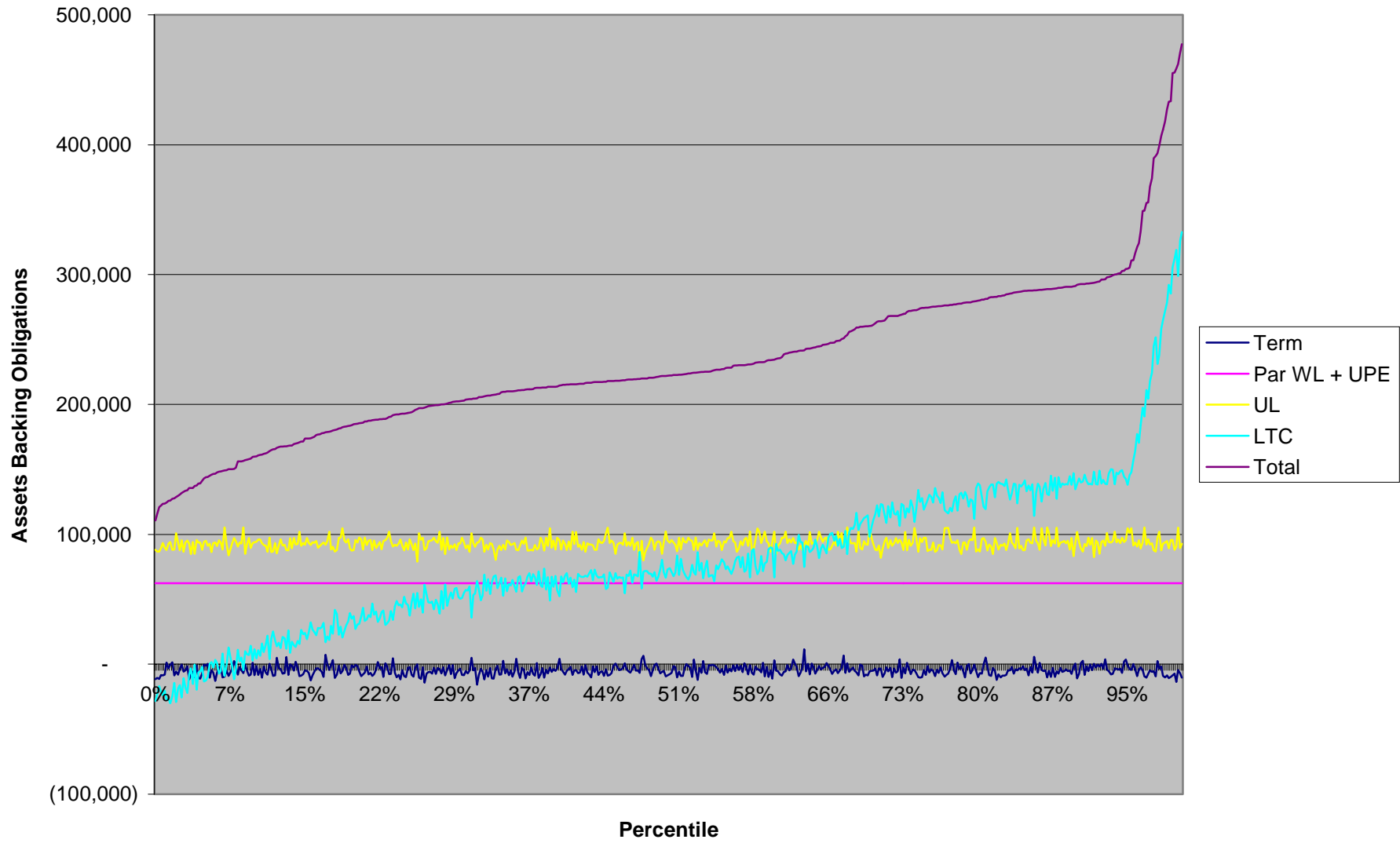


Chart 4

UVS Assets Backing Obligations - 1997

