Milliman Research Report


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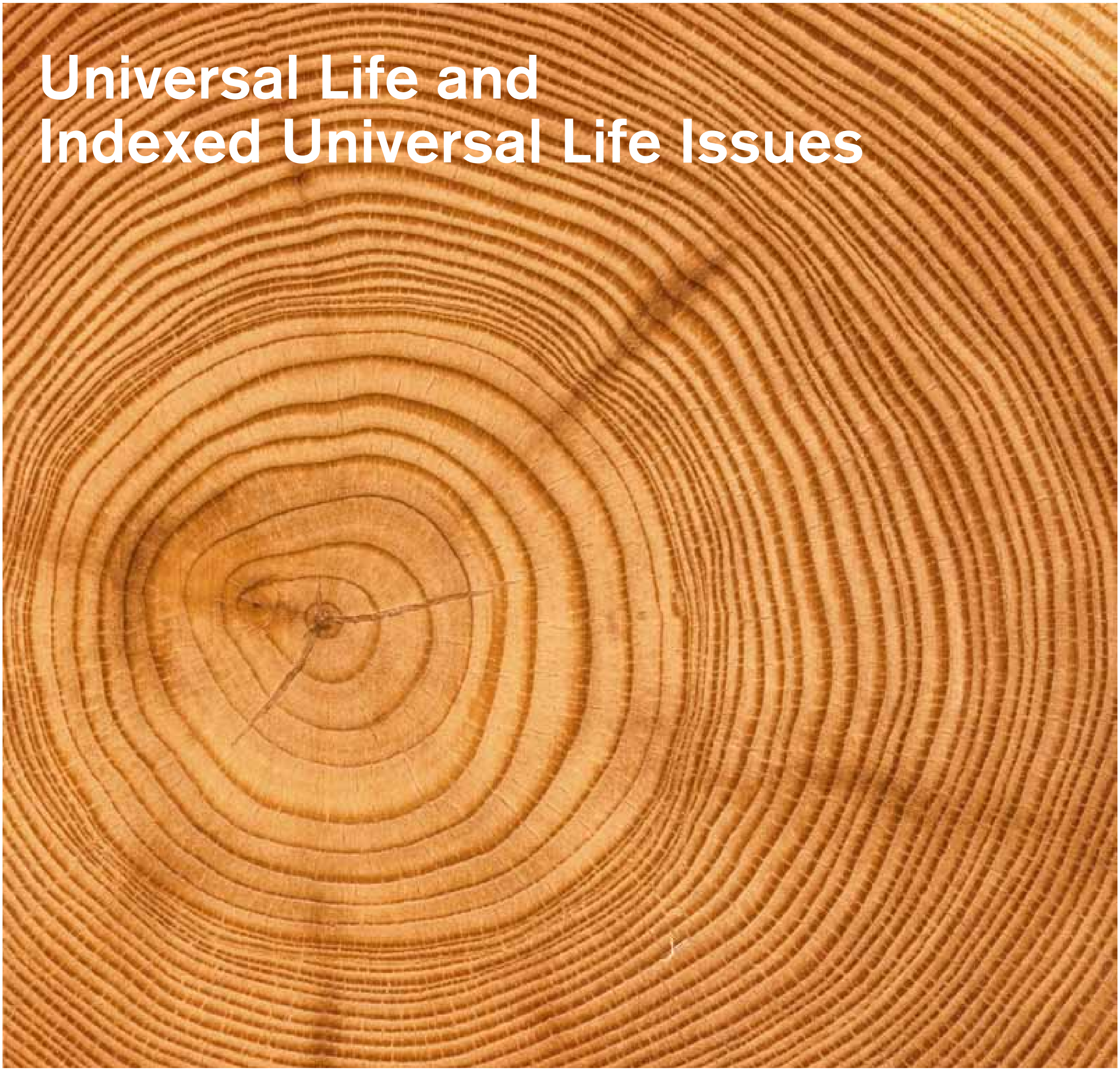
Milliman

# Universal Life and Indexed Universal Life Issues



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## BACKGROUND

Universal life (UL) and indexed universal life (IUL) continue to be key areas of interest in the life insurance market today. In 2010, Milliman conducted its fourth annual comprehensive survey aimed at addressing UL and IUL issues. Survey topics were determined based on input from Milliman consultants, as well as participants in the prior-year survey.

The survey was sent via email to UL/IUL insurance companies on October 21, 2010; 29 companies submitted responses. This is by far the highest level of participation since the inception of the study and is indicative of the great interest in this topic. The 29 companies that participated in the study are:

- Americo
- Ameriprise
- Aviva
- AXA
- Bankers Life and Casualty
- Columbus Life
- Conseco Insurance Company
- Farm Bureau Insurance Michigan
- Genworth
- ING
- John Hancock
- Kansas City Life
- Legal and General America
- Lincoln Financial
- Mass Mutual
- Met Life
- Mutual of Omaha
- National Life/Life Insurance Company of the Southwest
- Nationwide
- New York Life
- Northwestern Mutual
- Penn Mutual
- Principal Financial
- Securian
- State Farm
- Sun Life Financial
- Thrivent
- UNIFI
- USAA

The questions asked of survey participants can be found in Appendix I.

## EXECUTIVE SUMMARY

### SALES

Survey participants reported total UL sales (excluding IUL sales), measured by the sum of recurring premiums plus 10% of single premiums, of $0.98 billion and $1.59 billion for 2010 as of June 30 (YTD 6/30/10) and for calendar year 2009, respectively. The level of sales reported for 2009 was lower than sales reported for the two preceding calendar years by survey participants. The most significant change in the mix of total individual UL sales was seen for 2009 relative to prior periods. UL with secondary guarantees (ULSG) sales as a percent of total individual UL sales increased about 7% for survey participants during this period. Cash accumulation UL sales increased 2% and current assumption UL dropped 9% during this same period relative to 2009. Individual company results were varied, but seven of the 29 participants reported an increase in ULSG sales as a percent of total individual UL sales in both 2009 and YTD 6/30/10.

Average amounts per policy reported by survey participants for all UL types except current assumption UL increased from 2009 to YTD 6/30/10 on a premium basis. On a face amount basis, average amounts per policy increased for ULSG and IUL, but decreased for cash accumulation and current assumption UL. From 2009 to YTD 6/30/10, the total individual UL average premium per policy dropped from $12,607 to $10,235. The significant drop in current assumption UL average premium per policy more than offset the increases reported for ULSG and cash accumulation UL. The total individual UL average face amount per policy increased from $395,874 to $406,913. From 2009 to YTD 6/30/10, IUL average premium per policy increased from $8,397 to $9,370 and average face amount per policy increased from $354,963 to $409,247. The highest average amount per policy (based on premium) among the UL product types was reported for current assumption UL (in 2007 and 2009), IUL (in 2008), and cash accumulation UL (YTD 6/30/10). The highest average amount per policy (based on face amount) among the UL product types was reported for current assumption UL sales in all four reporting periods of the survey.

Expectations regarding the mix of UL/IUL business in the future vary widely by company. Overall survey statistics suggest that there may be a shift in sales in the future from ULSG products to cash accumulation products and current assumption UL products.

**Expectations regarding the mix of UL/IUL business in the future vary widely by company. Overall survey statistics suggest that there may be a shift in sales in the future from ULSG products to cash accumulation products and current assumption UL products.**

The brokerage and career agent channels continue to be the most popular channels through which all UL product types are sold. The brokerage channel gained market share from 2009 to YTD 6/30/10 for all UL products, with the exception of current assumption UL sales measured on a premium basis.

A weighted average issue age was determined for sales of survey participants based on the midpoint of the specified issue age ranges. In general, average ages dropped for all products except cash accumulation UL and IUL sales to females from 2009 to YTD 6/30/10. The most significant drop was for ULSG sales measured on a face amount basis. This may be indicative of lower stranger-owned life insurance (STOLI) activity. The table in Figure 1 summarizes the average ages calculated based on sales reported by issue age range and gender for 2009 and YTD 6/30/10.

**FIGURE 1: AVERAGE AGES**

| GENDER | ULSG | CASH ACCUMULATION UL | CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|
| **BASED ON 2009 SALES, PREMIUM** | | | | |
| MALE | 62 | 52 | 63 | 53 |
| FEMALE | 64 | 48 | 63 | 54 |
| **BASED ON 2009 SALES, FACE AMOUNT** | | | | |
| MALE | 56 | 41 | 55 | 46 |
| FEMALE | 57 | 38 | 54 | 44 |
| **BASED ON YTD 6/30/10 SALES, PREMIUM** | | | | |
| MALE | 61 | 53 | 59 | 53 |
| FEMALE | 63 | 51 | 63 | 55 |
| **BASED ON YTD 6/30/10 SALES, FACE AMOUNT** | | | | |
| MALE | 52 | 43 | 53 | 46 |
| FEMALE | 52 | 40 | 53 | 45 |

**In general, there was movement to better underwriting classes for ULSG and current assumption UL, and movement to lower underwriting classes for cash accumulation UL and IUL when comparing 2009 sales to YTD 6/30/10 sales measured on a premium basis.**

For all UL product types the YTD 6/30/10 sales distribution by underwriting class shifted relative to that for 2009. In general, there was movement to better underwriting classes for ULSG and current assumption UL, and movement to lower underwriting classes for cash accumulation UL and IUL when comparing 2009 sales to YTD 6/30/10 sales measured on a premium basis. For all UL product types except IUL there was generally a movement to better underwriting classes when sales are measured on a face amount basis. There was little change in the number of underwriting classes by survey participants from 2009 to YTD 6/30/10.

Sales data is becoming more available on UL/IUL products with long-term care (LTC) riders as more and more companies begin to offer and track such products. Nine survey participants reported total UL/IUL sales with LTC riders of $80.0 million and $49.0 million premium for 2009 and YTD 6/30/10, respectively. The total face amount issued for such policies was reported as $1.3 billion and $806 million for 2009 and YTD 6/30/10, respectively. Note that this business is heavily skewed to single premium sales, so the 10% weighting is significant for this block. The distribution of sales by rider type elected was similar between 2009 and YTD 6/30/10. Rider type refers to the election of an LTC accelerated benefit rider (ABR) only, ABR and extension of benefits (EOB) rider, or ABR, EOB rider, and inflation protection rider. ULSG products with LTC riders had the highest average sales based on premium and face amount for both 2009 and YTD 6/30/10. Average size per policy was the highest for cash accumulation UL products with LTC riders (based on premiums) and for IUL products with LTC riders (based on face amount). The brokerage and career agent channels were also the most popular channels through which these products are sold. Average issue ages ranged from 59 to 65.

## PROFIT MEASURES

The predominant profit measure reported by survey participants continues to be an after-tax, after-capital statutory return on investment/internal rate of return (ROI/IRR). Few participants changed their profit goals or measures because of the recent economic environment. The median ROI/IRR profit target reported was 12% for all products, except cash accumulation UL with a median of 11.6%. Survey participants reported their actual results relative to profit goals for 2009 and YTD 6/30/10. The majority of cash accumulation UL, current assumption UL, and IUL participants are at least meeting their profit goals. Only nine out of 20 ULSG participants were at least meeting their profit goals in 2009. YTD 6/30/10 these numbers dropped to seven out of 20 ULSG participants that were at least meeting their profit goals. **The primary reason given for not meeting profit goals was interest earnings.**

## TARGET SURPLUS

The majority of survey participants continue to set target surplus relevant to pricing new sales issued today on a National Association of Insurance Commissioners (NAIC) basis. The overall NAIC risk-based capital percent of company action level ranged from 200% to 350% for ULSG, from 250% to 350% for current assumption and IUL markets, and from 200% to 521% for cash accumulation UL. Few participants indicate they are well prepared for the changes to the C-3 component of risk-based capital.

## RESERVES

Most respondents to the survey expect that principles-based reserves (PBR) will be in place in 2014 at the earliest. Participants' comments regarding their outlook on the impact of PBR were primarily related to the expectation of a reduction in reserves. The majority of participants have not examined the underwriting criteria scoring system or any other actuarially sound method for establishing a valuation mortality table. Of those responding, 40% reported the credibility of mortality on their UL business at 80% or greater. Also, few survey participants have modeled PBR-type reserves on existing UL products. Eighteen participants are using or moving toward the 2001 CSO preferred class structure mortality tables and/or lapses in reserves under Section 8C of Actuarial Guideline 38.

**Most respondents to the survey expect that principles-based reserves (PBR) will be in place in 2014 at the earliest. Participants' comments regarding their outlook on the impact of PBR were primarily related to the expectation of a reduction in reserves. The majority of participants have not examined the underwriting criteria scoring system or any other actuarially sound method for establishing a valuation mortality table.**

## RISK MANAGEMENT

The cost of financing assumed in pricing ULSG products currently ranges from 100 to 200 bps. Four participants assume the same costs that were assumed a year ago, and three assume a higher cost. Five companies assume no cost of financing in pricing ULSG products.

Twelve of the 29 participants are reacting to the current marketplace by repricing, and 10 are riding it out. The implications of the recent financial crisis on capital solutions are varied among survey participants. Over 40% of them reported very little or no implications. Others reported implications that relate to limited external funding solution availability and/or costs.

Retention limits range from $250,000 to $40 million for survey participants.

Few participants hedge the investment risk in ULSG products, but all 12 IUL participants reported that they hedge the index included in their IUL products.

## UNDERWRITING

Table-shaving programs are offered by 13 of the 29 participants, and all except one reported their programs will be continued.

The most popular underwriting tools being used by survey participants, especially at the older ages, are tele-underwriting/telephonic screening (20), cognitive impairment testing (20), prescription drug database searches (19), activities of daily living (ADL) measures (18), and additional questions on applications (16).

A number of participants (8) have special simplified underwriting products and each described a different special market where the product is used. This is a slight increase relative to responses to last year's survey.

The majority of survey participants have created unique preferred risk parameters, especially for the older ages.

## PRODUCT DESIGN

Secondary guarantee designs of ULSG products were fairly evenly split between the three most common structures: shadow account with a single fund (8); shadow account with multiple funds (6), and minimum scheduled premium design (6).

**Ten participants repriced their ULSG design in the last 12 months, and nearly all reported that premium rates on the new basis versus the old basis increased. Fourteen participants intend to modify their secondary guarantee products in the next 12 months.**

The low interest rate environment has impacted survey participants' outlook for the various UL product types in similar ways. The outlook, in general, is negative, with lower profits, lower crediting and guaranteed rates, and increased premiums expected. Strategies used in light of the recent low interest rates include intentionally reducing or limiting UL sales (10), riding it out (16), or launching new designs (4).

Ten survey participants currently offer an LTC accelerated benefit rider. Five additional companies expect to develop an LTC combination product in the next 12 to 24 months, which, when coupled with the 10 companies already offering LTC riders, implies that nearly 52% of survey respondents expect to market LTC combination plans within two years.

Twenty-two survey participants currently offer a living benefit or expect to offer a living benefit in the next 12 months. In nearly all cases, participants are providing an accelerated death benefit, primarily for terminal illness.

The majority of survey participants design UL/IUL products that allow policyholders to choose between the cash value accumulation test (CVAT) or the guideline premium test to comply with the definition of life insurance.

## COMPENSATION

Compensation structures are quite varied among survey participants. Twelve of the 29 companies do not vary commissions and marketing allowables by product type. Median commissions, as well as the range of commissions, were similar between ULSG and cash accumulation UL. Current assumption and IUL products had slightly higher first-year commissions.

Rolling target premiums are the most common in IUL compensation programs, with nearly 64% of IUL respondents rolling target premiums. Target premiums are commonly rolled for two years. For all other product types, at most 38% of respondents roll target premiums.

## PRICING

A portfolio crediting strategy is assumed in pricing ULSG products by the majority of survey participants (over 71%). Earned rates assumed in pricing ULSG products ranged from 5.25% to 6.50%. Fourteen of the 15 participants that reported changes in earned rates reported a decrease relative to those assumed in pricing one year ago.

The use of stochastic modeling to evaluate ULSG investment risk is used by 12 out of 21 participants. This level of use is a slight increase over what has been reported for the past several years, but is surprisingly low given the industry's greater awareness of the risks involved in ULSG products and the movement from a formula-based valuation framework to a principles-based approach.

Seven participants subtract a *haircut* off of the portfolio yield to reflect the embedded policyholder optionality when pricing UL products.

**Nearly all survey participants test sensitivities with respect to the net investment rate, lapse rates, and mortality rates on all UL products. A significant number of participants also test lapse rates in the tail and expenses on all UL products.**

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Two participants reported that their mortality assumptions are strictly based on consultants' recommendations and one reported that they are strictly based on industry tables. All other participants use various combinations of company experience, industry tables, guidance from reinsurers, and consultants' recommendations in developing mortality assumptions. The majority of survey participants reported that the slope of their mortality assumption is more similar to the 2001 Valuation Basic Table (VBT) than the 1975-1980 Select & Ultimate Table or the 2009 VBT. Most participants vary their preferred-to-standard ratio by issue age and/or by duration. Nearly two-thirds of the companies assume that preferred-to-standard rates eventually converge and one-third assume they do not converge. Sixteen of the 29 participants do not assume mortality improvement in pricing UL/IUL products.

Economic capital is reflected in pricing by eight of the 29 survey participants. Three participants reflect market-consistent economic value in pricing of UL/IUL products.

There is a wide range of expense structures among survey participants.

## ADMINISTRATION

Administrative platforms for participants vary widely.

Participants reported that it takes from one to 12 months to implement a repricing of an existing UL/IUL product, from two to 18 months for the redesign of an existing product, and from three to 24 months for the development of a new UL/IUL product.

## ILLUSTRATION TESTING

The credited rate used in IUL illustrations ranges from 5.00% to 8.73%.

Seventeen of the 29 survey participants reported they find that illustration actuary requirements create constraints in UL/IUL pricing. The majority of those participants also believe the constraints are more severe for certain product types. A variety of practices are employed in regard to illustrating in-force policies if the lapse support test fails. More than half of the responses indicated a negative effect of the low interest rate environment on the ability to support illustration testing of in-force and new business.

A significant number of the participants annually file illustration actuary certifications at the end of the calendar year. Nearly all participants revisit assumptions specific to illustration actuary certifications during the timeframe specific to the annual cycle for testing and certification. The majority of those revisiting assumptions reevaluate the self-support and lapse-support tests in light of emerging information, and a majority indicated that product or illustration adjustments are sometimes necessary prior to the next annual cycle.

**A significant number of the participants annually file illustration actuary certifications at the end of the calendar year. Nearly all participants revisit assumptions specific to illustration actuary certifications during the timeframe specific to the annual cycle for testing and certification.**

# APPENDIX I

# THE SURVEY

### MILLIMAN, INC.
### UNIVERSAL LIFE AND INDEXED UNIVERSAL LIFE SURVEY

This survey covers individual U.S. universal life insurance and indexed universal life insurance plans. Survivorship life and variable universal life plans are NOT included.

Throughout the survey the terms UL with secondary guarantees, cash accumulation UL, current assumption UL, and total individual UL are used. Following are the definitions of these terms:

**UL with secondary guarantees (ULSG)**: A UL product designed specifically for the death benefit guarantee market that features long-term (lifetime or near lifetime) no-lapse guarantees either through a rider or as part of the base policy.

**Cash accumulation UL**: A UL product designed specifically for the accumulation-oriented market where cash accumulation and efficient distribution are the primary concerns of the buyer. Within this category are products that allow for high early cash value accumulation, typically through the election of an accelerated cash value rider.

**Current assumption UL**: A UL product designed to offer the lowest cost death benefit coverage without death benefit guarantees. Within this category are products sometimes referred to as *dollar-solve* or *term-alternative* products.

**Total individual UL**: Individual UL products that include ULSG, cash accumulation UL and current assumption UL, but do not include indexed UL.

Sales refers to the sum of recurring premiums plus 10% of single premiums.

### SALES

A. Please provide historical UL/IUL sales (in $millions) broken down by market.

| CALENDAR YEAR | (A)+(B)+(C) TOTAL INDIVIDUAL UL | (A) UL WITH SECONDARY GUARANTEES | (B) CASH ACCUMULATION UL | (C) CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|---|
| 2007 | | | | | |
| 2008 | | | | | |
| 2009 | | | | | |
| YTD 6/30/10 | | | | | |

B. Please provide historical UL/IUL average sizes ($) broken down by market.

**AVERAGE PREMIUM PER POLICY**

| CALENDAR YEAR | (A)+(B)+(C) TOTAL INDIVIDUAL UL | (A) UL WITH SECONDARY GUARANTEES | (B) CASH ACCUMULATION UL | (C) CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|---|
| 2007 | | | | | |
| 2008 | | | | | |
| 2009 | | | | | |
| YTD 6/30/10 | | | | | |

**AVERAGE FACE AMOUNT PER POLICY**

| CALENDAR YEAR | (A)+(B)+(C) TOTAL INDIVIDUAL UL | (A) UL WITH SECONDARY GUARANTEES | (B) CASH ACCUMULATION UL | (C) CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|---|
| 2007 | | | | | |
| 2008 | | | | | |
| 2009 | | | | | |
| YTD 6/30/10 | | | | | |

C. What are your expectations regarding the mix of UL/IUL business in the future?

| | TOTAL | UL WITH SECONDARY GUARANTEES | CASH ACCUMULATION UL | CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|---|
| TODAY | 100% | | | | |
| 2 YEARS FROM NOW | 100% | | | | |
| 5 YEARS FROM NOW | 100% | | | | |

If your expectations have changed in the last year please explain the reason for the change.

D. Within each market, please provide 2009 UL/IUL sales (in $millions) by distribution channel.

**SALES ($ PREMIUMS)**

| DISTRIBUTION CHANNEL | (A)+(B)+(C) TOTAL INDIVIDUAL UL | (A) UL WITH SECONDARY GUARANTEES | (B) CASH ACCUMULATION UL | (C) CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|---|
| PPGA | | | | | |
| BROKERAGE | | | | | |
| MLEA | | | | | |
| CAREER AGENT | | | | | |
| STOCKBROKERS | | | | | |
| FINANCIAL INSTITUTIONS | | | | | |
| WORKSITE | | | | | |
| HOME SERVICE | | | | | |
| DIRECT RESPONSE | | | | | |

**SALES (FACE AMOUNT)**

| DISTRIBUTION CHANNEL | (A)+(B)+(C) TOTAL INDIVIDUAL UL | (A) UL WITH SECONDARY GUARANTEES | (B) CASH ACCUMULATION UL | (C) CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|---|
| PPGA | | | | | |
| BROKERAGE | | | | | |
| MLEA | | | | | |
| CAREER AGENT | | | | | |
| STOCKBROKERS | | | | | |
| FINANCIAL INSTITUTIONS | | | | | |
| WORKSITE | | | | | |
| HOME SERVICE | | | | | |
| DIRECT RESPONSE | | | | | |

Within each market, please provide YTD 6/30/10 UL/IUL sales (in $millions) by distribution channel.

**SALES ($ PREMIUMS)**

| DISTRIBUTION CHANNEL | (A)+(B)+(C) TOTAL INDIVIDUAL UL | (A) UL WITH SECONDARY GUARANTEES | (B) CASH ACCUMULATION UL | (C) CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|---|
| PPGA | | | | | |
| BROKERAGE | | | | | |
| MLEA | | | | | |
| CAREER AGENT | | | | | |
| STOCKBROKERS | | | | | |
| FINANCIAL INSTITUTIONS | | | | | |
| WORKSITE | | | | | |
| HOME SERVICE | | | | | |
| DIRECT RESPONSE | | | | | |

**SALES (FACE AMOUNT)**

| DISTRIBUTION CHANNEL | (A)+(B)+(C) TOTAL INDIVIDUAL UL | (A) UL WITH SECONDARY GUARANTEES | (B) CASH ACCUMULATION UL | (C) CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|---|
| PPGA | | | | | |
| BROKERAGE | | | | | |
| MLEA | | | | | |
| CAREER AGENT | | | | | |
| STOCKBROKERS | | | | | |
| FINANCIAL INSTITUTIONS | | | | | |
| WORKSITE | | | | | |
| HOME SERVICE | | | | | |
| DIRECT RESPONSE | | | | | |

If there has been a change in the distribution of sales by channel in recent years, please describe the change and explain the reason for the shift.

E. Within each market, please provide 2009 UL/IUL sales (in $millions) by premium type; Single Premium Sales should be reported at 100% rather than 10%.

| PREMIUM TYPE | (A)+(B)+(C) TOTAL INDIVIDUAL UL | (A) UL WITH SECONDARY GUARANTEES | (B) CASH ACCUMULATION UL | (C) CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|---|
| SINGLE PREMIUM | | | | | |
| PERIODIC PREMIUM | | | | | |
| LIMITED PAY | | | | | |

Within each market, please provide YTD 6/30/10 UL/IUL sales (in $millions) by premium type; Single Premium Sales should be reported at 100% rather than 10%.

| PREMIUM TYPE | (A)+(B)+(C) TOTAL INDIVIDUAL UL | (A) UL WITH SECONDARY GUARANTEES | (B) CASH ACCUMULATION UL | (C) CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|---|
| SINGLE PREMIUM | | | | | |
| PERIODIC PREMIUM | | | | | |
| LIMITED PAY | | | | | |

If there has been a change in the distribution of sales by premium type in recent years, please describe the change and explain the reason for the shift.

F. Within each market, please provide 2009 UL/IUL sales (in $millions) by issue age group.

**SALES ($ PREMIUMS) – MALES**

| ISSUE AGE GROUP | (A)+(B)+(C) TOTAL INDIVIDUAL UL | (A) UL WITH SECONDARY GUARANTEES | (B) CASH ACCUMULATION UL | (C) CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|---|
| < 25 | | | | | |
| 25 - 34 | | | | | |
| 35 - 44 | | | | | |
| 45 - 54 | | | | | |
| 55 - 64 | | | | | |
| 65 - 74 | | | | | |
| 75+ | | | | | |

**SALES (FACE AMOUNT) – MALES**

| ISSUE AGE GROUP | (A)+(B)+(C) TOTAL INDIVIDUAL UL | (A) UL WITH SECONDARY GUARANTEES | (B) CASH ACCUMULATION UL | (C) CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|---|
| < 25 | | | | | |
| 25 - 34 | | | | | |
| 35 - 44 | | | | | |
| 45 - 54 | | | | | |
| 55 - 64 | | | | | |
| 65 - 74 | | | | | |
| 75+ | | | | | |

**SALES ($ PREMIUMS) – FEMALES**

| ISSUE AGE GROUP | (A)+(B)+(C) TOTAL INDIVIDUAL UL | (A) UL WITH SECONDARY GUARANTEES | (B) CASH ACCUMULATION UL | (C) CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|---|
| < 25 | | | | | |
| 25 - 34 | | | | | |
| 35 - 44 | | | | | |
| 45 - 54 | | | | | |
| 55 - 64 | | | | | |
| 65 - 74 | | | | | |
| 75+ | | | | | |

**SALES (FACE AMOUNT) – FEMALES**

| ISSUE AGE GROUP | (A)+(B)+(C) TOTAL INDIVIDUAL UL | (A) UL WITH SECONDARY GUARANTEES | (B) CASH ACCUMULATION UL | (C) CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|---|
| < 25 | | | | | |
| 25 - 34 | | | | | |
| 35 - 44 | | | | | |
| 45 - 54 | | | | | |
| 55 - 64 | | | | | |
| 65 - 74 | | | | | |
| 75+ | | | | | |

Within each market, please provide YTD 6/30/10 UL/IUL sales (in $millions) by issue age group.

**SALES ($ PREMIUMS) – MALES**

| ISSUE AGE GROUP | (A)+(B)+(C) TOTAL INDIVIDUAL UL | (A) UL WITH SECONDARY GUARANTEES | (B) CASH ACCUMULATION UL | (C) CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|---|
| < 25 | | | | | |
| 25 - 34 | | | | | |
| 35 - 44 | | | | | |
| 45 - 54 | | | | | |
| 55 - 64 | | | | | |
| 65 - 74 | | | | | |
| 75+ | | | | | |

**SALES (FACE AMOUNT) – MALES**

| ISSUE AGE GROUP | (A)+(B)+(C) TOTAL INDIVIDUAL UL | (A) UL WITH SECONDARY GUARANTEES | (B) CASH ACCUMULATION UL | (C) CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|---|
| < 25 | | | | | |
| 25 - 34 | | | | | |
| 35 - 44 | | | | | |
| 45 - 54 | | | | | |
| 55 - 64 | | | | | |
| 65 - 74 | | | | | |
| 75+ | | | | | |

**SALES ($ PREMIUMS) – FEMALES**

| ISSUE AGE GROUP | (A)+(B)+(C) TOTAL INDIVIDUAL UL | (A) UL WITH SECONDARY GUARANTEES | (B) CASH ACCUMULATION UL | (C) CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|---|
| < 25 | | | | | |
| 25 - 34 | | | | | |
| 35 - 44 | | | | | |
| 45 - 54 | | | | | |
| 55 - 64 | | | | | |
| 65 - 74 | | | | | |
| 75+ | | | | | |

**SALES (FACE AMOUNT) – FEMALES**

| ISSUE AGE GROUP | (A)+(B)+(C) TOTAL INDIVIDUAL UL | (A) UL WITH SECONDARY GUARANTEES | (B) CASH ACCUMULATION UL | (C) CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|---|
| < 25 | | | | | |
| 25 - 34 | | | | | |
| 35 - 44 | | | | | |
| 45 - 54 | | | | | |
| 55 - 64 | | | | | |
| 65 - 74 | | | | | |
| 75+ | | | | | |

If there has been a change in the distribution of sales by issue age and/or gender in recent years, please describe the change and explain the reason for the shift.

G. Within each market, please provide 2009 UL/IUL sales (in $millions) by underwriting class.

**SALES ($ PREMIUMS)**

| UNDERWRITING CLASS | (A)+(B)+(C) TOTAL INDIVIDUAL UL | (A) UL WITH SECONDARY GUARANTEES | (B) CASH ACCUMULATION UL | (C) CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|---|
| BEST NS/NT CLASS | | | | | |
| NEXT BEST NS/NT CLASS | | | | | |
| SECOND NEXT BEST NS/NT CLASS | | | | | |
| THIRD NEXT BEST NS/NT CLASS | | | | | |
| FOURTH NEXT BEST NS/NT CLASS | | | | | |
| BEST S/T CLASS | | | | | |
| NEXT BEST S/T CLASS | | | | | |
| SECOND NEXT BEST S/T CLASS | | | | | |

**SALES (FACE AMOUNT)**

| UNDERWRITING CLASS | (A)+(B)+(C) TOTAL INDIVIDUAL UL | (A) UL WITH SECONDARY GUARANTEES | (B) CASH ACCUMULATION UL | (C) CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|---|
| BEST NS/NT CLASS | | | | | |
| NEXT BEST NS/NT CLASS | | | | | |
| SECOND NEXT BEST NS/NT CLASS | | | | | |
| THIRD NEXT BEST NS/NT CLASS | | | | | |
| FOURTH NEXT BEST NS/NT CLASS | | | | | |
| BEST S/T CLASS | | | | | |
| NEXT BEST S/T CLASS | | | | | |
| SECOND NEXT BEST S/T CLASS | | | | | |

Within each market, please provide YTD 6/30/10 UL/IUL sales (in $millions) by underwriting class.

**SALES ($ PREMIUMS)**

| UNDERWRITING CLASS | (A)+(B)+(C) TOTAL INDIVIDUAL UL | (A) UL WITH SECONDARY GUARANTEES | (B) CASH ACCUMULATION UL | (C) CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|---|
| BEST NS/NT CLASS | | | | | |
| NEXT BEST NS/NT CLASS | | | | | |
| SECOND NEXT BEST NS/NT CLASS | | | | | |
| THIRD NEXT BEST NS/NT CLASS | | | | | |
| FOURTH NEXT BEST NS/NT CLASS | | | | | |
| BEST S/T CLASS | | | | | |
| NEXT BEST S/T CLASS | | | | | |
| SECOND NEXT BEST S/T CLASS | | | | | |

**SALES (FACE AMOUNT)**

| UNDERWRITING CLASS | (A)+(B)+(C) TOTAL INDIVIDUAL UL | (A) UL WITH SECONDARY GUARANTEES | (B) CASH ACCUMULATION UL | (C) CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|---|
| BEST NS/NT CLASS | | | | | |
| NEXT BEST NS/NT CLASS | | | | | |
| SECOND NEXT BEST NS/NT CLASS | | | | | |
| THIRD NEXT BEST NS/NT CLASS | | | | | |
| FOURTH NEXT BEST NS/NT CLASS | | | | | |
| BEST S/T CLASS | | | | | |
| NEXT BEST S/T CLASS | | | | | |
| SECOND NEXT BEST S/T CLASS | | | | | |

If there has been a change in the distribution of sales by underwriting class in recent years, please describe the change and explain the reason for the shift.

H. Please provide 2009 UL/IUL sales (in $millions) on all business with LTC riders.

**SALES ($ PREMIUMS)**

| LTC RIDER TYPE | (A)+(B)+(C) TOTAL INDIVIDUAL UL | (A) UL WITH SECONDARY GUARANTEES | (B) CASH ACCUMULATION UL | (C) CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|---|
| WITH LTC ACCELERATED BENEFIT RIDER ONLY | | | | | |
| WITH LTC ACCELERATED BENEFIT RIDER AND EXTENSION OF BENEFITS RIDER | | | | | |
| WITH LTC ACCELERATED BENEFIT RIDER, EXTENSION OF BENEFITS RIDER, AND INFLATION PROTECTION RIDER | | | | | |

**SALES (FACE AMOUNT)**

| LTC RIDER TYPE | (A)+(B)+(C) TOTAL INDIVIDUAL UL | (A) UL WITH SECONDARY GUARANTEES | (B) CASH ACCUMULATION UL | (C) CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|---|
| WITH LTC ACCELERATED BENEFIT RIDER ONLY | | | | | |
| WITH LTC ACCELERATED BENEFIT RIDER AND EXTENSION OF BENEFITS RIDER | | | | | |
| WITH LTC ACCELERATED BENEFIT RIDER, EXTENSION OF BENEFITS RIDER, AND INFLATION PROTECTION RIDER | | | | | |

Please provide YTD 6/30/10 UL/IUL sales (in $millions) on all business with LTC riders.

**SALES ($ PREMIUMS)**

| LTC RIDER TYPE | (A)+(B)+(C) TOTAL INDIVIDUAL UL | (A) UL WITH SECONDARY GUARANTEES | (B) CASH ACCUMULATION UL | (C) CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|---|
| WITH LTC ACCELERATED BENEFIT RIDER ONLY | | | | | |
| WITH LTC ACCELERATED BENEFIT RIDER AND EXTENSION OF BENEFITS RIDER | | | | | |
| WITH LTC ACCELERATED BENEFIT RIDER, EXTENSION OF BENEFITS RIDER, AND INFLATION PROTECTION RIDER | | | | | |

**SALES (FACE AMOUNT)**

| LTC RIDER TYPE | (A)+(B)+(C) TOTAL INDIVIDUAL UL | (A) UL WITH SECONDARY GUARANTEES | (B) CASH ACCUMULATION UL | (C) CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|---|
| WITH LTC ACCELERATED BENEFIT RIDER ONLY | | | | | |
| WITH LTC ACCELERATED BENEFIT RIDER AND EXTENSION OF BENEFITS RIDER | | | | | |
| WITH LTC ACCELERATED BENEFIT RIDER, EXTENSION OF BENEFITS RIDER, AND INFLATION PROTECTION RIDER | | | | | |

I. Please provide average sizes ($) on all business **with LTC Riders**.

**AVERAGE PREMIUM PER POLICY**

| CALENDAR YEAR | (A)+(B)+(C) TOTAL INDIVIDUAL UL | (A) UL WITH SECONDARY GUARANTEES | (B) CASH ACCUMULATION UL | (C) CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|---|
| 2009 | | | | | |
| YTD AS OF 6/30/10 | | | | | |

**AVERAGE FACE AMOUNT PER POLICY**

| CALENDAR YEAR | (A)+(B)+(C) TOTAL INDIVIDUAL UL | (A) UL WITH SECONDARY GUARANTEES | (B) CASH ACCUMULATION UL | (C) CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|---|
| 2009 | | | | | |
| YTD AS OF 6/30/10 | | | | | |

J. Please provide UL/IUL sales of all business **with LTC Riders** that is single premium business.

**SINGLE PREMIUM SALES BASED ON $ PREMIUM**

| CALENDAR YEAR | (A)+(B)+(C) TOTAL INDIVIDUAL UL | (A) UL WITH SECONDARY GUARANTEES | (B) CASH ACCUMULATION UL | (C) CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|---|
| 2009 | | | | | |
| YTD AS OF 6/30/10 | | | | | |

**SINGLE PREMIUM SALES BASED ON FACE AMOUNT**

| CALENDAR YEAR | (A)+(B)+(C) TOTAL INDIVIDUAL UL | (A) UL WITH SECONDARY GUARANTEES | (B) CASH ACCUMULATION UL | (C) CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|---|
| 2009 | | | | | |
| YTD AS OF 6/30/10 | | | | | |

K. Please provide UL/IUL sales of all business **with LTC Riders** by distribution channel.

| | SALES ($PREMIUM) | | SALES (FACE AMOUNT) | |
|---|---|---|---|---|
| DISTRIBUTION CHANNEL | 2009 | YTD AS OF 6/30/10 | 2009 | YTD AS OF 6/30/10 |
| PPGA | | | | |
| BROKERAGE | | | | |
| MLEA | | | | |
| CAREER AGENT | | | | |
| STOCKBROKERS | | | | |
| FINANCIAL INSTITUTIONS | | | | |
| WORKSITE | | | | |
| HOME SERVICE | | | | |
| DIRECT RESPONSE | | | | |

L. Please provide UL/IUL sales of all business **with LTC Riders** by issue age group and gender.

| MALES | SALES ($PREMIUM) | | SALES (FACE AMOUNT) | |
|---|---|---|---|---|
| ISSUE AGE GROUP | 2009 | YTD AS OF 6/30/10 | 2009 | YTD AS OF 6/30/10 |
| < 25 | | | | |
| 25 - 34 | | | | |
| 35 - 44 | | | | |
| 45 - 54 | | | | |
| 55 - 64 | | | | |
| 65 - 74 | | | | |
| 75+ | | | | |

| FEMALES | SALES ($PREMIUM) | | SALES (FACE AMOUNT) | |
|---|---|---|---|---|
| ISSUE AGE GROUP | 2009 | YTD AS OF 6/30/10 | 2009 | YTD AS OF 6/30/10 |
| < 25 | | | | |
| 25 - 34 | | | | |
| 35 - 44 | | | | |
| 45 - 54 | | | | |
| 55 - 64 | | | | |
| 65 - 74 | | | | |
| 75+ | | | | |

## PROFIT MEASURES

A. Please provide responses relevant to the pricing of new sales issued today.

| PROFIT MEASURES AND GOALS | UL WITH SECONDARY GUARANTEES | CASH ACCUMULATION UL | CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|
| **STATUTORY** | | | | |
| STATUTORY ROI/IRR (%) | | | | |
| AFTER-TAX? (Y/N) | | | | |
| AFTER-CAPITAL? (Y/N) | | | | |
| PRIMARY OR SECONDARY MEASURE? | | | | |
| STATUTORY ROA (BPS) | | | | |
| AFTER-TAX? (Y/N) | | | | |
| AFTER-CAPITAL? (Y/N) | | | | |
| PRIMARY OR SECONDARY MEASURE? | | | | |
| PROFIT MARGIN (% OF PREMIUM) | | | | |
| AFTER-TAX? (Y/N) | | | | |
| AFTER-CAPITAL? (Y/N) | | | | |
| PRIMARY OR SECONDARY MEASURE? | | | | |
| OTHER (DESCRIBE) | | | | |
| AFTER-TAX? (Y/N) | | | | |
| AFTER-CAPITAL? (Y/N) | | | | |
| PRIMARY OR SECONDARY MEASURE? | | | | |
| **GAAP** | | | | |
| GAAP ROE (%) | | | | |
| AFTER-TAX? (Y/N) | | | | |
| AFTER-CAPITAL? (Y/N) | | | | |
| PRIMARY OR SECONDARY MEASURE? | | | | |
| HOW IS ROE MEASURED OVER THE LIFE OF THE BUSINESS?: | | | | |
| AVERAGE PROFITS/AVERAGE CAPITAL? (Y/N) | | | | |
| DISCOUNTED PROFITS / DISCOUNTED CAPITAL? (Y/N) | | | | |
| OTHER (PLEASE DESCRIBE) | | | | |
| GAAP ROA (BPS) | | | | |
| AFTER-TAX? (Y/N) | | | | |
| AFTER-CAPITAL? (Y/N) | | | | |
| PRIMARY OR SECONDARY MEASURE? | | | | |
| OTHER (DESCRIBE) | | | | |
| AFTER-TAX? (Y/N) | | | | |
| AFTER-CAPITAL? (Y/N) | | | | |
| PRIMARY OR SECONDARY MEASURE? | | | | |

B. If your profit goals changed in the last two years, please describe the change in basis (e.g. statutory IRR to statutory profit margin) and/or the change in target (e.g. increased from 10% to 12%) and the rationale for the change.

C1. Indicate with an *X* your actual results for 2009 relative to profit goals:

| | UL WITH SECONDARY GUARANTEES | CASH ACCUMULATION UL | CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|
| EXCEED PROFIT GOALS | | | | |
| MEETING OR CLOSE TO PROFIT GOALS | | | | |
| SHORT OF PROFIT GOALS | | | | |

C1.1 If short of profit goals, which of the following factors were primary contributors to the shortfall? (indicate with an *X*)

| FACTOR | UL WITH SECONDARY GUARANTEES | CASH ACCUMULATION UL | CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|
| INTEREST EARNINGS? | | | | |
| MORTALITY? | | | | |
| EXPENSES? | | | | |
| OTHER? (PLEASE DESCRIBE) | | | | |

C2. Indicate with an *X* your actual results for YTD 6/30/10 relative to profit goals:

| | UL WITH SECONDARY GUARANTEES | CASH ACCUMULATION UL | CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|
| EXCEED PROFIT GOALS | | | | |
| MEETING OR CLOSE TO PROFIT GOALS | | | | |
| SHORT OF PROFIT GOALS | | | | |

C2.1 If short of profit goals, which of the following factors were primary contributors to the shortfall? (indicate with an *X*)

| FACTOR | UL WITH SECONDARY GUARANTEES | CASH ACCUMULATION UL | CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|
| INTEREST EARNINGS? | | | | |
| MORTALITY? | | | | |
| EXPENSES? | | | | |
| OTHER? (PLEASE DESCRIBE) | | | | |

## TARGET SURPLUS

A. Please provide responses relevant to the pricing of new sales issued today.

| TARGET SURPLUS BASIS | UL WITH SECONDARY GUARANTEES | CASH ACCUMULATION UL | CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|
| OVERALL NAIC RBC (% OF COMPANY ACTION LEVEL) | | | | |
| % OF NET AMOUNT AT RISK | | | | |
| % OF RESERVES | | | | |
| % OF PREMIUM | | | | |
| S&P (RATING CAPITAL LEVEL – AAA, AA, A, BBB) | | | | |
| A.M. BEST (% BCAR) | | | | |
| % MCCSR | | | | |
| INTERNAL FORMULA (EXPRESS AS A % OF NAIC CAL) | | | | |
| OTHER (PLEASE DESCRIBE AND EXPRESS AS A % OF NAIC CAL) | | | | |

B. If there has been a change in target surplus in recent years, please describe the change and the rationale for the change.

C. How well are you prepared for the changes to the C-3 component of risk based capital? If you performed the stochastic exclusion test, what were the results [less than or equal to 4% ratio (pass) or greater than 4% ratio (fail)]? Is this the result you expected for your UL block? If not, how is it different? For your inforce block, if the company performed the stochastic analysis for C-3 today (CTE90), would the C-3 requirement be zero? That is, would all capital be resident in the reserves?

## RESERVES

A. What is your outlook on the impact of principles-based reserves (PBR) relative to your UL/IUL business? Realistically, when do you think that PBR will be in place? Do you anticipate your company will implement PRB immediately or over the three year phase in period allowed?

B. Have you/your company examined the Underwriting Criteria Scoring system or any other actuarially sound method for establishing a valuation mortality basis?

C. Understanding that not all cells (policy year/age/risk class combination) will have credibility, generally how credible (e.g., 30%, 50%, etc.) would you say the business is that has similar underwriting processes as the company's Total Individual UL business?

D. Have you modeled PBR-type reserves on existing products? Have you developed new designs for consideration under PBR?

| | UL WITH SECONDARY GUARANTEES | CASH ACCUMULATION UL | CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|
| HAVE YOU MODELED PBR-TYPE RESERVES ON EXISTING PRODUCTS? | | | | |
| HAVE YOU DEVELOPED NEW DESIGNS FOR CONSIDERATION UNDER PBR? | | | | |

E. Are you participating in the NAIC Impact Study of VM-20 Principal-Based Approach to Valuations?

F. Preferred structure 2001 CSO and lapses

| PLEASE INDICATE WITH AN *X* WHICH OF THE FOLLOWING APPROACHES YOU ARE USING OR ARE MOVING TOWARD. | UL WITH SECONDARY GUARANTEES | CASH ACCUMULATION UL | CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|
| A. PREFERRED MORTALITY SPLITS AND LAPSES IN RESERVES | | | | |
| B. PREFERRED MORTALITY SPLITS ONLY | | | | |
| C. LAPSES ONLY | | | | |
| D. NO PREFERRED MORTALITY SPLITS AND NO LAPSES | | | | |

If item d. above was selected, please explain why the preferred structure 2001 CSO Mortality table and/or lapses are not being taken advantage of.

If items a. or b. were selected, do you intend to use the preferred structure 2001 CSO Mortality Table for valuing policies issued prior to January 1, 2007 when the revised regulation is approved?

## RISK MANAGEMENT

A. Please indicate your use of the following risk management measures regarding your UL/IUL business:

| RISK MANAGEMENT MEASURE | CURRENTLY | ONE YEAR AGO |
|---|---|---|
| EXTERNAL REINSURANCE (YES/NO) | | |
| IF YES, WHAT FORM OF REINSURANCE IS USED (YRT, COINSURANCE)? | | |
| IF YES, IS ONSHORE OR OFFSHORE REINSURANCE USED? | | |
| INTERNAL REINSURANCE (YES/NO) | | |
| IF YES, IS ONSHORE OR OFFSHORE REINSURANCE USED? | | |
| ARE THE CAPITAL MARKETS ACCESSED FOR SUPPORT? | | |
| IF YES, ARE PUBLIC OR PRIVATE SECURITIATIONS ACCESSED? | | |

B. Have you structured capital solutions so you are allowed to hold AXXX-type reserves as tax reserves?

| | CURRENTLY | ONE YEAR AGO |
|---|---|---|
| HAVE YOU STRUCTURED CAPITAL SOLUTIONS SO YOU ARE ALLOWED TO HOLD AXXX-TYPE RESERVES AS TAX RESERVES? | | |

C. What cost of financing do you assume in pricing your ULSG products? If changes were made to your assumption in the last year, when were they made?

| | CURRENTLY | ONE YEAR AGO |
|---|---|---|
| WHAT COST OF FINANCING DO YOU ASSUME IN PRICING YOUR ULSG PRODUCTS? | | |

D. With respect to risk management issues, how are you reacting to the current marketplace? (please indicate with an *X*)

| HOW ARE YOU REACTING TO THE CURRENT MARKETPLACE? |
|---|
| REPRICING |
| RIDING IT OUT |
| OTHER (PLEASE DESCRIBE) |

E. What implications has the recent economic environment had on your capital solutions?

F. What are your retention limits?

G. Do you hedge the investment rate risk in your UL with secondary guarantee business?

H. Do you hedge the index included in your IUL with derivative instruments or accept the risk?

If you hedge, please describe the hedging strategy you use to fund the index credits for IUL.
If you hedge, what is the threshold of volume (account value) before hedging is economically efficient?
If you hedge, do you hedge your IUL with your indexed annuity business?

## UNDERWRITING

A. Do you have a table-shaving program? (Y/N)

If yes:

Please describe your table-shaving program.
What is the age range offering?
What is the maximum number of tables that may be shaved?
Have you modified your program in the last two years?
If yes, please describe.
Do you expect to continue your table-shaving program?

B. Are you using any of the following underwriting tools, especially at the older ages? If so, at what ages?

| UNDERWRITING TOOLS | TOOL USED? (Y/N) | AGES WHERE USED |
|---|---|---|
| DO YOU USE TELE-UNDERWRITING OR TELEPHONIC SCREENING? | | |
| DO YOU USE COGNITIVE IMPAIRMENT TESTING? | | |
| DO YOU USE ADL MEASURES? | | |
| DO YOU USE PRESCRIPTION DRUG DATABASE SEARCHES? | | |
| HAVE YOU DEVELOPED ADDITIONAL QUESTIONS ON YOUR APPLICATION? | | |

If yes to any of the above, please describe.
Which of these has changed in the last year and how?

C. Do you have any special simplified issue underwritten products for special markets?

If yes:

What are the markets?
Are the new tools described above triggering this activity?

If no:

Are you thinking of new programs in the future?

D. Have you created *unique* preferred risk parameters for the older ages? (indicate Y/N):

1) Family history _____
2) Cholesterol _____
3) BMI _____
4) Other. Please describe. _____

## PRODUCT DESIGN

A. When a UL with secondary guarantee product is funded on a guaranteed basis, on average at what duration does the cash value go to zero, if ever?

B. On UL with secondary guarantees, please indicate with an *X* which design(s) you offer:

| | |
|---|---|
| Minimum scheduled premium design | ________ |
| Shadow account design with a single fund | ________ |
| Shadow account design with multiple funds | ________ |
| Hybrid (please describe) | ________ |

If you have a minimum scheduled premium design, how late can the premium be paid to still meet the minimum premium requirement (e.g., 30 days, 60 days)?

C. Did you reprice your UL with Secondary Guarantee product in the last 12 months?

If yes, please describe the general level of rates on the new vs. the old basis.

D. Do you expect to modify your secondary guarantees in the next 12 months?

If yes, is the modification coincident with your migration to a product priced on the interim solution (AG 38 Section 8C)?

If no, are you waiting for principles-based reserves to be effective prior to making any changes?

E. Are you moving toward guarantees (or limited guarantees) on Current Assumption UL business?

F. What is the impact of the low interest rate environment on your outlook for the various UL product types?

| WHAT IS THE IMPACT OF THE LOW INTEREST RATE ENVIRONMENT ON YOUR OUTLOOK FOR THE VARIOUS UL PRODUCT TYPES? | |
|---|---|
| ULSG | |
| CASH ACCUMULATION UL | |
| CURRENT ASSUMPTION UL | |
| IUL | |

G. Which strategies have you used in light of the recent low interest rate economy? (indicate with an *X* all that apply)

| WHICH STRATEGIES HAVE YOU USED IN LIGHT OF THE RECENT LOW INTEREST RATE ENVIRONMENT? | |
|---|---|
| INTENTIONALLY REDUCE/LIMIT SALES BY: | |
| INCREASING PREMIUM RATES | |
| DISCONTINUED SALES OF CERTAIN PRODUCTS | |
| RIDING IT OUT/DOING NOTHING | |
| LAUNCHING A NEW DESIGN WITH: | |
| REDUCED GUARANTEES | |
| REMOVING THE NO LAPSE GUARANTEE | |
| OTHER (PLEASE DESCRIBE) | |

H. Do you currently offer a long term care accelerated benefit rider today?

   Do you expect to develop LTC combination products in the next 12 to 24 months?

I. Do you currently offer other living benefits (terminal illness, critical illness, etc.) or expect to offer a living benefit in the next 12 months?

   If you currently offer a living benefit, what is the benefit design?

J. Do you currently offer a hybrid UL/term policy? If not, are you considering offering such a policy in the next 12 months?

K. Do you currently offer a simplified issue, single premium UL policy, If yes, does it include a LTC rider? If not, are you considering offering such a policy in the next 12 months?

L. Does your IUL product automatically allocate money to the fixed account so charges are deducted from the fixed account and the indexed accounts are not invaded?

M. Do you have a Death Benefit Option C (also known as Death Benefit Option 3) which is equal to the stated amount plus the sum of premiums?

N. Are your UL/IUL products designed to meet the cash value accumulation test (CVAT) or guideline premium test? (Indicate Y/N)

| CVAT OR GUIDELINE PREMIUM TEST | UL WITH SECONDARY GUARANTEES | CASH ACCUMULATION UL | CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|
| ALL CVAT | | | | |
| ALL GUIDELINE PREMIUM | | | | |
| MIX OF CVAT AND GUIDELINE PREMIUM | | | | |
| POLICYHOLDER CHOICE | | | | |

## COMPENSATION

A. Please provide the following components of your compensation programs by market type: (Report total compensation across all levels of producers, excluding BGA bonuses).

| | UL WITH SECONDARY GUARANTEES | CASH ACCUMULATION UL | CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|
| TYPICAL FIRST YEAR COMMISSION - UP TO TARGET | | | | |
| TYPICAL FIRST YEAR COMMISSION - EXCESS | | | | |
| TYPICAL RENEWAL COMMISSIONS | | | | |
| MARKETING ALLOWABLE (INCLUDES EXPENSES FOR HOME OFFICE SUPPORT AND/OR ALLOWABLES FOR BGA SUPPORT); ADDITIVE TO COMMISSION<br><br>DO YOU PAY A PRODUCTION BONUS ON YOUR UL/IUL BUSINESS?<br><br>IF YES, PLEASE DESCRIBE. | | | | |
| DO YOU HAVE ROLLING TARGET PREMIUMS? (Y/N)<br>IF YES, FOR HOW MANY YEARS? | | | | |

B. If your compensation has changed in the last year, please describe the components that changed and the % increase or % decrease.

## PRICING

A. Do you assume a new money or portfolio crediting strategy in pricing UL with secondary guarantee products?

What earned rate is assumed?
How has this rate changed relative to the rate assumed one year ago? (% increase or % decrease)

B. Do you use stochastic modeling to evaluate the investment risk in your UL with secondary guarantee products?

C. When pricing UL products, some companies use the practice of subtracting a *haircut* off of the portfolio yield to reflect the embedded policyholder optionality (typically lapsing in high interest rate scenarios with some minor impact of losing money when rates are low and the minimum credited rate is hit.) The *haircut* may be determined based on stochastic analysis and dynamic lapse functions.

Do you subtract a *haircut* when pricing UL products?
If so, is the *haircut* determined based on stochastic analysis and dynamic lapse functions?
If not, how is the *haircut* determined?

D. In pricing your UL with secondary guarantee products, at what duration do lapse rates decrease to the ultimate lapse rate?

What ultimate lapse rate do you assume in pricing?
What are the lapse rates if the guarantee is *in-the-money* (i.e., the secondary guarantee is still in effect but the current cash values are not positive)?
What are the lapse rates if the guarantee is not *in-the-money*?
How have your lapse rates changed relative to the rates assumed one year ago? (% increase or % decrease)

E. Which of the following sensitivities are performed in the pricing process for each product type?

| SENSITIVITY | UL WITH SECONDARY GUARANTEES | CASH ACCUMULATION UL | CURRENT ASSUMPTION UL | IUL |
|---|---|---|---|---|
| INCREASE/DECREASE IN NET INVESTMENT INCOME | | | | |
| INCREASE/DECREASE IN LAPSE RATES | | | | |
| LAPSE RATES IN THE TAIL | | | | |
| INCREASE/DECREASE IN MORTALITY RATES | | | | |
| INCREASE/DECREASE IN EXPENSES | | | | |
| OTHER (PLEASE DESCRIBE) | | | | |

F. What are your mortality assumptions based on?

Company experience _____
Industry tables (specify which tables) _____
Consultant's recommendation _____
Other (please specify) _____

G. Is the slope of your pricing mortality assumption more similar to the 1975-1980 Select & Ultimate Table, the 2001 Valuation Basic Table, or the 2008 Valuation Basic Table?

H. Do you vary the preferred to standard ratio by issue age?

Do you vary the preferred to standard ratio by duration?
Do these rates eventually converge?
If yes, at what age?
If no, what permanent differential in rates exists?

I. Do you use mortality improvement assumptions in your pricing?

Is mortality improvement implicit or explicit?
If mortality improvement is applied for a certain number of years, how many years?
If mortality improvement is applied to a certain age, to what age?
Please provide detail on your mortality improvement assumptions (e.g., by age, gender, risk class, etc.)

J. Have you changed your mortality assumption in pricing in light of 2008 VBT studies?

K. Is economic capital reflected in pricing?

Is market consistent economic capital reflected in pricing?

L. Are any special provisions reflected in pricing for redundant reserves?

If so, please indicate which provisions are reflected.

Existing funding solutions _____
Anticipated long-term funding solutions _____
No funding solutions in place, but reduced cost assumed due to reduced risks _____
Other (please describe) _____

M. Home Office Expense Levels

(Exclude premium taxes and field expenses). Expenses should be reported assuming a $500,000 policy.

| HOME OFFICE EXPENSE LEVELS | PRICING LEVELS | ACTUAL LEVELS (FULLY ALLOCATED) |
|---|---|---|
| ACQUISITION (EXCLUDING COMMISSIONS) | | |
| $ PER POLICY | | |
| % OF PREMIUM – UP TO TARGET | | |
| % OF PREMIUM – EXCESS | | |
| PER UNIT | | |
| OTHER (PLEASE SPECIFY) | | |
| MAINTENANCE | | |
| $ PER POLICY | | |
| ANNUAL INFLATION % | | |
| % OF PREMIUM | | |
| PER UNIT | | |
| % OF ACCOUNT VALUE | | |
| OTHER (PLEASE SPECIFY) | | |

N. Please indicate how the following expenses are categorized for pricing expense purposes. Allocate first to Acquisition vs. Maintenance and within those categories by per policy/% of premium/per unit/% AV/Other.

| HOME OFFICE EXPENSE LEVELS | ACQUISITION | MAINTENANCE |
|---|---|---|
| DISTRIBUTION (EXCLUDING COMMISSION) | | |
| MARKETING | | |
| AGENT LICENSING | | |
| COMPLIANCE/LEGAL | | |
| NEW BUSINESS | | |
| UNDERWRITING | | |
| POLICY ADMINISTRATION | | |
| RESERVES/TAXES/CAPITAL | | |
| ACCOUNTING/FINANCIAL | | |
| ACTUARIAL | | |
| IT | | |

If you are unable to categorize any of the above expenses as directed, please explain any differences.

## ADMINISTRATION

A. What administration platform are you currently using to administer your UL products?

B. How quickly can you implement the following:

A reprice?
A redesign?
A new product?

## ILLUSTRATION TESTING

A. If applicable, do you treat the cost of letters of credit as an expense in illustration testing?

If not, do you handle LOC costs in illustration testing in another fashion, or are they ignored?

B. What rate is the illustrated rate for IUL?

How has this rate changed relative to the rate used one year ago? (% increase or % decrease)
What are you doing to keep this rate attractive?
How are you tracking this rate?
How often are you changing this rate?

C. Do you find that illustration actuary requirements create a pricing constraint?

If so, is the constraint more severe for certain product types?

Please list the types of products that give rise to illustration actuary challenges.

What solutions have been employed during product development and pricing to overcome Illustration Actuary challenges?

What is your practice regarding illustrating inforce policies for which the lapse support test has failed? (e.g., do you create a new scale for illustrations that is not equal to the current scale?)

D. What has been the impact of the low interest rate environment on your ability to support illustration testing for:

Inforce business?
New business?

Are the higher rate floors on old inforce blocks of business causing issues for illustration testing?

E. What is the illustration actuary calendar at your company?

Are assumptions specific to illustration actuary certifications revisited during the timeframe specific to the annual cycle for testing and certification?

If so, please respond to the following questions:

Which assumptions are likely to be re-evaluated?
Are self support and lapse support test re-evaluated in light of emerging information?
Are product or illustration adjustments sometimes necessary prior to the next annual cycle?

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