

LIFE INSURANCE ILLUSTRATIONS MODEL REGULATION

Table of Contents

Section 1.	Purpose
Section 2.	Authority
Section 3.	Applicability and Scope
Section 4.	Definitions
Section 5.	Policies to Be Illustrated
Section 6.	General Rules and Prohibitions
Section 7.	Standards for Basic Illustrations
Section 8.	Standards for Supplemental Illustrations
Section 9.	Delivery of Illustrations and Record Retention
Section 10.	Annual Report; Notice to Policy Owners
Section 11.	Annual Certifications
Section 12.	Penalties
Section 13.	Separability
Section 14.	Effective Date

Section 1. Purpose

The purpose of this regulation is to provide rule

- C. Credit life insurance; or
- D. Life insurance policies with no illustrated death benefits on any individual exceeding \$10,000.

Section 4. Definitions

For the purposes of this regulation:

- A. “Actuarial Standards Board” means the board established by the American Academy of Actuaries to develop and promulgate standards of actuarial practice.
- B. “Contract premium” means the gross premium that is required to be paid under a fixed premium policy, including the premium for a rider for which benefits are shown in the illustration.
- C. “Currently payable scale” means a scale of non-guaranteed elements in effect for a policy form as of the preparation date of the illustration or declared to become effective within the next ninety-five (95) days.
- D. “Disciplined current scale” means a scale of non-guaranteed elements constituting a limit on illustrations currently being illustrated by an insurer that is reasonably based on actual recent historical experience, as certified annually by an illustration actuary designated by the insurer. Further guidance in determining the disciplined current scale as contained in standards established by the Actuarial Standards Board may be relied upon if the standards:
 - (1) Are consistent with all provisions of this regulation;
 - (2) Limit a disciplined current scale to reflect only actions that have already been taken or events that have already occurred;
 - (3) Do not permit a disciplined current scale to include any projected trends of improvements in experience or any assumed improvements in experience beyond the illustration date; and
 - (4) Do not permit assumed expenses to be less than minimum assumed expenses.
- E. “Generic name” means a short title descriptive of the policy being illustrated such as “whole life,” “term life” or “flexible premium adjustable life.”
- F. “Guaranteed elements” and “non-guaranteed elements”

- (1) “Guaranteed elements” means the premiums, benefits, values, credits or charges under a policy of life insurance that are guaranteed and determined at issue.
- (2) “Non-guaranteed elements” means the premiums, benefits, values, credits or charges under a policy of life insurance that are not guaranteed or not

- (b) Marginal expenses; and
 - (c) A generally recognized expense table based on fully allocated expenses representing a significant portion of insurance companies and approved by the [National Association of Insurance Commissioners or by the commissioner].
- (2) Marginal expenses may be used only if greater than a generally recognized expense table. If no generally recognized expense table is approved, fully allocated expenses must be used.
- L. “Non-term group life” means a group policy or individual policies of life insurance issued to members of an employer group or other permitted group where:
 - (1) Every plan of coverage was selected by the employer or other group representative;
 - (2) Some portion of the premium is paid by the group or through payroll deduction; and
 - (3) Group underwriting or simplified underwriting is used.
- M. “Policy owner” means the owner named in the policy or the certificate holder in the case of a group policy.
- N. “Premium outlay” means the amount of premium assumed to be paid by the policy owner or other premium payer out-of-pocket.
- O. “Self-supporting illustration” means an illustration of a policy form for which it can be demonstrated that, when using experience assumptions underlying the disciplined current scale, for all illustrated points in time on or after the fifteenth policy anniversary or the twentieth policy anniversary for second-or-later-to-die policies (or upon policy expiration if sooner), the accumulated value of all policy cash flows equals or exceeds the total policy owner value available. For this purpose, policy owner value will include cash surrender values and any other illustrated benefit amounts available at the policy owner’s election.

Section 5. Policies to Be Illustrated

- A. Each insurer marketing policies to which this regulation is applicable shall notify the commissioner whether a policy form is to be marketed with or without an illustration. For all policy forms being actively marketed on the effective date of this

this regulation, the identification shall be made at the time of filing. Any previous identification may be changed by notice to the commissioner.

- B. If the insurer identifies a policy form as one to be marketed without an illustration, any use of an illustration for any policy using that form prior to the first policy anniversary is prohibited.

Drafting Note: The prohibition in Section 5B may need to be modified if required by the state's replacement regulation.

- C. If a policy form is identified by the insurer as one to be marketed with an illustration, a basic illustration prepared and delivered in accordance with this regulation is required, except that a basic illustration need not be provided to individual members of a group or to individuals insured under multiple lives coverage issued to a single applicant unless the coverage is marketed to these individuals. The illustration furnished an applicant for a group life insurance policy or policies issued to a single applicant on multiple lives may be either an individual or composite illustration representative of the coverage on the lives of members of the group or the multiple lives covered.
- D. Potential enrollees of non-term group life subject to this regulation shall be furnished a quotation with the enrollment materials. The quotation shall show potential policy values for sample ages and policy years on a guaranteed and non-guaranteed basis appropriate to the group and the coverage. This quotation shall not be considered an

Drafting Note: States may wish to replace disclosure requirements under the state’s version of the Universal Life Insurance Model Regulation with the basic illustration as contained in this regulation.

Section 7. Standards for Basic Illustrations

A. Format. A basic illustration shall conform with the following requirements:

- (1) The illustration shall be labeled with the date on which it was prepared.
- (2) Each page, including any explanatory notes or pages, shall be numbered and show its relationship to the total number of pages in the illustration (*e.g.*, the fourth page of a seven-page illustration shall be labeled “page 4 of 7 pages”).
- (3) The assumed dates of payment receipt and benefit pay-out within a policy year shall be clearly identified.
- (4) If the age of the proposed insured is shown as a component of the tabular detail, it shall be issue age plus the numbers of years the policy is assumed to have been in force.
- (5) The assumed payments on which the illustrated benefits and values are based shall be identified as premium outlay or contract premium, as applicable. For policies that do not require a specific contract premium, the illustrated payments shall be identified as premium outlay.
- (6) Guaranteed death benefits and values available upon surrender, if any, for the illustrated premium outlay or contract premium shall be shown and clearly labeled guaranteed.
- (7) If the illustration shows any non-guaranteed elements, they cannot be based on a scale more favorable to the policy owner than the insurer’s illustrated scale at any duration. These elements shall be clearly labeled non-guaranteed.
- (8) The guaranteed elements, if any, shall be shown before corresponding non-guaranteed elements and shall be specifically referred to on any page of an illustration that shows or describes only the non-guaranteed elements (

- (3) A brief description of any policy features, riders or options, guaranteed or non-guaranteed, shown in the basic illustration and the impact they may have on the benefits and values of the policy;
- (4) Identification and a brief definition of column headings and key terms used in the illustration; and
- (5) A statement containing in substance the following: “This illustration assumes that the currently illustrated nonguaranteed elements will continue unchanged for all years shown. This is not likely to occur, and actual results may be more or less favorable than those shown.”

Section 8. Standards for Supplemental Illustrations

- A. A supplemental illustration may be provided so long as:
- (1) It is appended to, accompanied by or preceded by a basic illustration that complies with this regulation;
 - (2) The non-guaranteed elements shown are not more favorable to the policy owner than the corresponding elements based on the scale used in the basic illustration;
 - (3) It contains the same statement required of a basic illustration that non-guaranteed elements are not guaranteed; and
 - (4) For a policy that has a contract premium, the contract premium underlying the supplemental illustration is equal to the contract premium shown in the basic illustration. For policies that do

later than at the time of policy delivery. This form shall be submitted to the insurer at the time of policy application.

- (2) If the policy is issued, a basic illustration conforming to the policy as issued shall be sent with the policy and signed no later than the time the policy is delivered. A copy shall be provided to the insurer and the policy owner.
- C. If the basic illustration or revised illustration is sent to the applicant or policy owner by mail from the insurer, it shall include instructions for the applicant or policy owner to sign the duplicate copy of the numeric summary page of the illustration for the policy issued and return the signed copy to the insurer. The insurer's obligation under this subsection shall be satisfied if it can demonstrate that it has made a diligent effort to secure a signed copy of the numeric summary page. The requirement to make a diligent effort shall be deemed satisfied if the insurer includes in the mailing a self-addressed postage prepaid envelope with instructions for the return of the signed numeric summary page.
- D. A copy of the basic illustration and a revised basic illustration, if any, signed as applicable, along with any certification that either no illustration was used or that the policy was applied for other than as illustrated, shall be retained by the insurer until three (3) years after the policy is no longer in force. A copy need not be retained if no policy is issued.

Section 10. Annual Report; Notice to Policy Owners

- A. In the case of a policy designated as one for which illustrations will be used, the insurer shall provide each policy owner with an annual report on the status of the policy that shall contain at least the following information:
 - (1) For universal life policies, the report shall include the following:
 - (a) The beginning and end date of the current report period;
 - (b) The policy value at the end of the previous report period and at the end of the current report period;
 - (c) The total amounts that have been credited or debited to the policy value during the current report period, identifying each by type (e.g., interest, mortality, expense and riders);
 - (d) The current death benefit at the end of the current report period on each life covered by the policy;
 - (e) The net cash surrender value of the policy as of the end of the current report period;

- (f) The amount of outstanding loans, if any, as of the end of the current report period; and
- (g) For fixed premium policies:

If, assuming guaranteed interest, mortality and expense loads and continued scheduled premium payments, the policy's net cash surrender value is such that it would not maintain insurance in force until the end of the next reporting period, a notice to this effect shall be included in the report; or
- (h) For flexible premium policies:

If, assuming guaranteed interest, mortality and expense loads, the policy's net cash surrender value will not maintain insurance in force until the end of the next reporting period unless further premium payments are made, a notice to this effect shall be included in the report.

Drafting Note: For states that have adopted the NAIC Universal Life Model Regulation, this paragraph could be replaced with a reference to the equivalent of Section 9 of the model regulation.

- (2) For all other policies, where applicable:
 - (a) Current death benefit;
 - (b) Annual contract premium;
 - (c) Current cash surrender value;
 - (d) Current dividend;
 - (e) Application of current dividend; and
 - (f) Amount of outstanding loan.
- (3) Insurers writing life insurance policies that do not build nonforfeiture values shall only be required to provide an annual report with respect to these policies for those years when a change has been made to nonguaranteed policy elements by the insurer.

- B. If the annual report does not include an in force illustration, it shall contain the following notice displayed prominently: **“IMPORTANT POLICY OWNER NOTICE:** You should consider requesting more detailed information about your policy to understand how it may perform in the future. You should not consider replacement of your policy or make changes in your coverage without requesting a

current illustration. You may annually request

- (d) Resigned or been removed as an illustration actuary within the past five (5) years as a result of acts or omissions indicated in any adverse report on examination or as a result of a failure to adhere to generally acceptable actuarial standards;
 - (4) Not fail to notify the commissioner of any action taken by a commissioner of another state similar to that under Paragraph (3) above;
 - (5) Disclose in the annual certification whether, since the last certification, a currently payable scale applicable for business issued within the previous five (5) years and within the scope of the certification has been reduced for reasons other than changes in the experience factors underlying the disciplined current scale. If nonguaranteed elements illustrated for new policies are not consistent with those illustrated for similar in force policies, this must be disclosed in the annual certification. If nonguaranteed elements illustrated for both new and in force policies are not consistent with the nonguaranteed elements actually being paid, charged or credited to the same or similar forms, this must be disclosed in the annual certification; and
 - (6) Disclose in the annual certification the method used to allocate overhead expenses for all illustrations:
 - (a) Fully allocated expenses;
 - (b) Marginal expenses; or
 - (c) A generally recognized expense table based on fully allocated expenses representing a significant portion of insurance companies and approved by the [National Association of Insurance Commissioners or by the commissioner].
- D.
- (1) The illustration actuary shall file a certification with the board and with the commissioner:
 - (a) Annually for all policy forms for which illustrations are used; and
 - (b) Before a new policy form is illustrated.
 - (2) If an error in a previous certifica

