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FEDERAL INCOME TAX IMPACT ON PRODUCT DESIGN AND COST

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- Annuities
- Non-participating life products
- Participating life products
- Variable products
- Other

MR. RANDALL MIRE: How have the changes in the tax law affected the cost and therefore the pricing of individual life insurance? This depends upon how companies priced their products before the new tax law - a complex subject.

We are going to look at the major products that have been sold in the last few years - universal life, excess interest whole life, traditional participating and nonparticipating whole life, and annually renewable term. We also are going to look at companies in different tax situations and see how the changes in the tax law have affected the tax costs to these companies and, therefore, the pricing and competitiveness of these products.

For each product, we have run the studies with the same assumptions under the old and new tax laws.

First, we are going to look at the taxation of these products under the 1959 Tax Act. Tax Situation A means "Phase 2 Negative", or tax on gain from operations; Tax Situation B is the old "Phase 1", or tax on investment income; and Tax Situation D is the "Phase 2 Positive", or half tax on gain, half tax on investment income (slide 1).

Slides 2 and 3 show the standard assumptions for each of the products. We are using a fairly standard commission scale and some industry-type expense assumptions.

When looking at mutual companies under the new tax act there are a lot of different ways to measure the surplus tax. Our way is to use target surplus of 7 percent of reserves. We assume that this is the mutual company's pricing objective, the amount of surplus that they allocate to new business, and calculate the surplus tax on that basis.

The most popular product sold today is universal life. Slide 4 shows a standard front-end loaded universal policy and the specifications for the design of the product.

This analysis is considerably complicated because under TEFRA there were a number of unresolved tax issues. There was the question of whether excess interest was a dividend, whether the difference between the guaranteed and current cost of insurance rates was a dividend, whether these policies qualified for the nonparticipating deduction, and for what sort of 818(c) adjustment these policies were eligible. So, to decide whether or not a company is better off under the new tax law, as opposed to TEFRA, we must decide how to price these products under TEFRA.

A universal life policy, which under the 1959 Act was priced to yield a 5 percent profit margin, was not an uncommon goal. Profit margin is a standard pricing technique used by a number of stock life insurance companies which divides the present value of profits by the present value of premiums at a discounted rate equal to the earned rate to come up with the average amount of profit in each premium. This is probably the most common technique used by stock companies to measure profitability.

Included in the cost is the cost of federal income tax. Slide 4a shows a product priced at a 5 percent after-tax basis under the 1959 act for a company in Tax Situation A. We calculated a best scenario, and under TEFRA the profits move up from 5 percent. We have a second TEFRA best scenario because there are two different possible nonparticipating deductions, and margins are in the 20 percent range at age thirty-five.

Slide 5 shows a TEFRA worst scenario. Whether you are better or worse under TEFRA versus the 1959 Act depends upon how you interpret these various unresolved issues.

Under Tax Reduction Act of 1984 (TRA84), the new tax act, there is a reduction in the effective tax rate and the profit margin increases to 5.9 percent. (See slide 5a.) In this example, under the 1959 Act, we are pricing the way a significant number of companies were pricing at that time - assuming no 818(c) and no dividends.

Slide 5b is a graphic summary of the after-tax profit margin for universal life under the various tax acts. The profit margin was 5 percent under the 1959 Act at age thirty-five; under TEFRA, it was somewhere between 2 and 22 percent, a fairly wide margin depending on your interpretation of the tax act. Today, the margin is 5.9 percent. The question of better or worse depends on whether you are measuring profits the way you were a couple of years ago or last year, and what your interpretation of the appropriate unresolved tax issues is.

There are similar results at age fifty-five, only a little less dramatic because of smaller effects of 818(c).

All of this was for a company in Tax Situation A, taxed on gain from operations, which is where most of the rapidly growing stock companies and the smaller and medium-sized stock companies were.

Tax Situation D or Phase 2 Positive with half tax on gain and half tax on investment income is how many mature stock companies were taxed and how most home service companies were taxed under the 1959 Act.

Slide 6 shows universal life with a 5 percent after-tax profit margin. That product actually shows a slight loss, about break-even for a company under the 1959 Act. Under TEFRA, using our best case scenario for unresolved issues, things get better. Under the worst case scenario, things still are better. (See slide 7.)

Slide 8 shows that under the new tax act everybody now gets the same answers no matter where you were before.

Slide 9 is the graphic summary, and it is quite good news for companies that were taxed on this basis. They were about break-even under the 1959 Act, very vague under TEFRA, and now they make a fairly decent return under the new tax law.

Almost all mutuals were in Tax Situation B under the 1959 Act (tax on investment income); under TEFRA, the vast majority moved to A, being taxed on gain from operations. Slide 10 shows all the problems under the 1959 Act. For the same product on which the stock companies were making 5 percent, the mutual company would lose 10 percent. Obviously, that is why the mutuals were not selling universal life. TEFRA was extremely advantageous to the mutuals, under the best scenario changing this 10 percent loss at age thirty-five to an 18 percent gain. Even under the worst scenario, there was a move from huge losses to about break-even. (See slide 11.)

Under the new tax act, we are at 5.9 percent profit margin again. There is a surplus tax, and using the method outlined earlier will bring us down to a 5.1 percent profit margin (slide 12.) Theoretically, this surplus tax represents a return to policyholders - stockholders.

Slide 13 is a graphic summary with good news for the mutual's universal life - huge losses under the 1959 Act turn into decent returns.

Slide 14 is a summary of the whole situation, the 1959 Act, TEFRA best and worst scenarios, and the new tax act.

If you change the product to get back to that 5 percent after-tax profit margin either under TEFRA or the new tax act, what would the cash values look like? Slide 15 shows that either there are significantly better or significantly worse cash values compared to the original product depending on your interpretation of the best or worst scenario under TEFRA. TRA 84 is not much change; you get slightly better cash values than the original pricing. Similar results for age fifty-five appear in slide 16.

Excess interest whole life comes under a variety of names, such as interest-sensitive whole life and irreplaceable life. It is a fixed premium policy with guaranteed minimum cash values, with the actual total cash values reflecting the total interest return on the product.

Slide 17 shows our standard product, the most popular version of excess interest whole life - a high premium version. This is a so-called vanishing premium model where if you pay the premiums for a certain number of years, the policy will become paid up. We are pricing the product to yield a 5 percent profit margin after tax. Slide 18 shows not a 5 percent profit margin but an 8.7 percent profit margin. The reason that you have 8.7 percent is 818(c). The use of 818(c) on this product leads to a huge negative tax if you get a deduction of $21.00/$1000 at issue (which, over the life of a policy, gradually "rolls back"). You could price this product at age thirty-five where you actually would lose money on a pretax basis and make 5 percent after tax. For realism, we say you have to at least break even before tax. Under the TEFRA best scenario, things get even better! Under the worst scenario, you still make money (slide 19). Under TRA 84, things aren't as good (Slide 20). This product moved from fairly profitable to only slightly above break-even, and the culprit is no 818(c).

Slide 21 is a graphic representation which is quite different from universal life.

These two products basically have been competing head to head. So, how does universal life stack up against excess interest whole life with respect to the federal income tax issue? Slide 22 shows universal life and excess interest whole life priced to yield a 10 percent profit margin pretax and the results on an after-tax basis. The interest-sensitive whole life product had an advantage under the 1959 Act - universal life was at 5.4 percent and excess interest whole life way up at 14 percent. Under TEFRA, excess interest whole life on average has an advantage.

We get the same profit margin at age thirty-five under TRA 84. At age fifty-five, the changes are not quite so dramatic (slide 23). The excess interest whole life doesn't have quite as much advantage under earlier tax laws, and, once again, there is the level playing field under TRA 84.

A large part of the popularity of the excess interest whole life policy was due to two factors. It had a tremendous tax advantage up until

the passage of the new tax act, and that just disappeared. Second, as a practical matter, most of these excess interest whole life policies are back-loaded. You could hold substantially lower statutory reserves under the excess interest whole life policy than under a comparable back-loaded universal life product. The new NAIC model bill put these products on a much more even footing. Now these advantages either disappear or become quite small.

Slide 24 shows a participating whole life policy and how it has fared under the changes in the tax act. This as a standard participating whole life policy being sold by a mutual company and, instead of profit margin, profitability is along the lines of a mutual company's pricing. An asset share at the end of the twentieth year should be 105 percent of reserves (under the 1959 Act). Instead of looking at profit margin, we are looking at asset shares (slide 25). Under TEFRA, the asset share moves up from 105 percent to something in the 138-140 percent range. This is why all stock companies were saying the mutual companies got all the advantages under TEFRA (or at least, with respect to the pricing of individual life insurance). Under TRA 84, the results are a bit more mixed (slide 26) but quite improved. Before the surplus tax, this is clearly much better than the 1959 Act and probably a little better than TEFRA. A standard surplus tax assessment would bring the asset share levels down to, on the average, the same as TEFRA, but mixed (slide 27).

There is another method where, instead of assigning a 7 percent target surplus, you run a standard profit test and let the surplus fall out to be what it is. Under that particular approach you get a lower charge for tax, and the net asset share is higher.

Slide 28 shows the same participating product priced the way the stock company's actuary would price it. Instead of 105 percent asset share related to reserves, we calculate a profit margin and run through the same routine. From a profit margin point of view it is about break-even under the 1959 Act; it was up to higher profit levels under TEFRA; and under TRA 84, level of profit depends upon how you allocate the surplus tax.

Slide 29 shows a stock company in Tax Situation D selling participating whole life, priced to yield on the average 5 percent. There is not a dramatic change in how TEFRA and TRA 84 would affect the profitability.

What has the tax act done to term insurance? As a practical matter, over the past several years term insurance means annually renewable term (ART); and graded premium whole life (slide 30). We have assumed much higher lapsation (25 percent all years) as has been appropriate for term insurance (slide 31). The profit objective is more along the line of what these products really have been priced at, which, at best, was hoping to break even over ten years on a pretax basis. Slide 32 shows typical premium rates for this sort of product.

The product has been priced to break even pretax (slide 33). The key issue for many companies is whether they took the 818(c) into

consideration. If you assume that the nineteen dollar 818(c) is available because this is a whole life policy, you move from break-even to a 34 percent profit margin. Maybe companies weren't pricing that way, but they could use this potential tax gain as a justification for pricing on a zero break-even basis. The phantom premium might have been a negative, but really only a slight negative under TEFRA. This type of advantage now has disappeared and if you price ART for a zero pretax profit, that is what you are likely to make after tax. You cannot count on windfalls to bail you out. Of course, these products have had greater problems than adverse taxation, but you might look at the new tax laws as killing graded premium whole life/term products, since there is no hope of tax benefits bailing out the poor experience on these plans.

Indeterminate premium whole life probably was the most popular product sold by stock life insurance companies prior to universal life (slide 34). This was a traditional whole life policy where premiums were not guaranteed. The product depending heavily on 818(c), was break-even pretax, and made 12.5 percent after-tax, due to high tax gains (slide 35) . Under TEFRA there were mixed results, and the new tax act did not help at all compared to the profits under the 1959 Act. It is going in the opposite direction to considerably larger tax bites and lower profitability.

To emphasize how much these products were hurt slide 36 shows how much you would have to change the premium just to get back to the old profit margin. At age thirty-five, you would have to increase the premiums from $7.80/$1000 to $11.24/$1000 just to get back to your old profit level, a major reason why this sort of product has all but disappeared from the scene. There are similar results for a company in Tax Situation D (slide 37); you don't get hit quite as hard, but taxes really hurt.

The product that never was going to fade from the scene and would be here forever was nonparticipating whole life (slide 38). We used a standard product that was dominant four or five years ago priced to yield 10 percent after-tax, which is probably close to the way it was priced under the 1959 Act (slide 39). This is primarily of historical interest since there are not many people selling these any more. Tax results are similar for a company in Tax Situation D (slide 40).

Slide 41 shows a summary. Suppose a typical stock company was taxed on gain from operations under the old Act and was pricing on a 10 percent pre-tax basis. How have their products been helped or hurt? We have looked at universal life, excess interest whole life, and indeterminate premium whole life.

Under the 1959 Act there was a big advantage for excess interest whole life and indeterminate premium whole life, but universal life was hurt. Under TEFRA it depends tremendously on your interpretation of those unresolved tax issues. Under the new tax act, clearly universal life and excess interest whole life have moved into parity. The indeterminate premium whole life's profits are lower assuming that the tax reserves are lower than the statutory reserves; whereas for excess

interest whole life and universal life, the assumptions are that these reserves are the same. Answers will vary depending upon the actual relationship between tax reserves and statutory reserves. A company in Situation D, selling universal life has the relative advantage flip flop from one product to another (slide 42).

Slide 43 shows universal life sold by a mutual compared to participating whole life sold by a mutual. Under the 1959 Act, a 10 percent pretax participating whole life loses money after-tax (due primarily to Arithmetic Menge). Universal life loses even more, which is why it couldn't be sold. TEFRA is once again a mish-mash; and under TRA 84, universal has an advantage. Once again, these numbers are different because the assumption is that for par whole life the tax reserves are different from statutory reserves, whereas they are the same for universal life. So, the actual relative comparison depends heavily on your tax reserve.

Slide 44 is a comparison of universal life of stocks versus mutuals, where all prices are on a 10 percent pretax basis. Under the 1959 Act, the stock company in Situation A was doing just fine; a stock company in Situation D was about break-even, and the mutual company is losing rapidly. There is the confusion under TEFRA; and TRA 84 shows the level playing field. The only difference between the stock and the mutual is, in effect, the surplus tax; and the results are quite comparable, depending on how they are allocated.

That is the summary of the effects of the new tax law versus the old tax law with respect to pricing business. Throughout, we have talked about profit margin. Profit margin along with return on invested surplus are the two basic measures which have been used by stock companies for pricing individual life insurance. A number of companies use profit margin as a basic goal and try to shoot for a 5 or 10 percent profit margin. They knew then the return on invested surplus and the other measures would be fine.

With the new tax law, that has changed dramatically. A number of companies because of 818(c), had very large tax gains in early years and don't get them anymore under the new tax law. Profitability was more front-ended under the 1959 Act for many companies. An interest-sensitive whole life product, profit tested under the 1959 Act and under the new tax act, yielded 8 percent after-tax under both acts (slide 44a). However, this product used to break even in three years, now, it takes seven years. Similarly, under the 1959 Act, the product had 80 percent return on invested surplus; now it has 20 percent. Don't just focus on profit margin in pricing. You need to take a look at the pattern of the profit, year by year, as well.

A number of companies have relied on profits of in-force business in pricing their new products, and the profitability of in-force business has changed fairly dramatically as well. Again, this is due to the tax law changes (slide 45). For a company in Tax Situation A the present value of future profits for a plain whole life policy at various durations shows that under the new tax act, numbers have risen dramatically. Under the 1959 Act, you have tax reserves which are substantially

higher than statutory reserves; as those tax reserves are released, a huge tax bill is generated that drives down the values of in-force business. Under the new tax law, tax reserves are lower than statutory reserves, giving the opposite effect. The net effect is an increase in the value of in-force business. So, under the new tax law you could utilize some of this value of in-force business to subsidize new business.

MR. SIDNEY LEBLANC: Despite all the complaints about the new tax bill and the complications of tax reserves, the law insures that there are no tax-advantaged products, no tax-advantaged companies, no tax advantaged phases, and no tax advantaged reinsurance. We are no longer in a situation where the tax department can call the shots anymore and dictate what everybody else did because the taxes are not overwhelming. Decisions are made for economic reasons, and taxes are merely one of the considerations.

In addition, the Treasury department is very well aware of the capabilities of the insurance industry in tax scheming and much more responsive to it. If anyone discovers a loophole or abusive situation, it may be short-lived. The current flat tax proposal and the Rostenkowski proposal, which took away the potentially one and one-half year deduction of dividends, are examples of this.

The evolution of the surplus tax says something about its fairness and allocation. Life insurance companies were taxed on the 1959 Act from 1958 to 1981. It taxed most large companies on either investment income or the average of investment income and gain. Most small companies were taxed on gains without any deductions for dividends. Inflation caused interest to rise and companies taxed on investment income showed a high increase in tax liabilities. Companies taxed on gains before dividends had major potential problems in nondeductible dividends with excess interest or phantom premiums. A partial solution to this, which became a negotiating tool, was Mod-Co. The American Council of Life Insurance (ACLI) Steering Committee basically wrote the 1982 tax bill as far as the life provisions are concerned. It resulted in most stock companies being taxed on gains minus 85 percent of dividends and (77.5 percent for mutual companies). This solved most of the industry's problems. Few companies were taxed on investment income. The companies with the dividend exposure had it limited to 15 percent.

The stock companies' primary argument about the bill was that the segment balance should not be disturbed. The proportion of tax that mutual and stock segments paid should not change. The mutual companies' argument was product balance. All products should be able to compete in the marketplace with the same level of tax. Both lost their primary arguments. However, the industry came out pretty well in the 1984 tax act:

1. the inside build-up survived;
2. fringe benefits weren't taxed;
3. the total tax was not prohibitive;
4. both sides can compete;
5. the 1959 tax was done away with and;
6. the dividend question was resolved;

If one of the flat tax proposals passes this year, 1984 might be considered "the good old days."

The surplus tax caused the mutuals to become the only cooperative, fraternal, nonprofit, credit union, or mutual type organization with a tax disadvantage. The Treasury would like to fix that by taxing all those other companies and leave the surplus tax as is.

The logic for a surplus tax is that a piece of the dividends paid to the policyholders is a dividend to the stockholder. And, since dividends to stockholders are not deductible, there should be additional taxes on mutuals on reflect this.

To determine the portion of the policyowner dividend, or the dividend to stockholders, the mutual stockholder dividend was set as a percent of surplus based on the difference in return on surplus achieved by the stocks versus the mutuals. Logic gave way to political realities when the differential was artificially increased to achieve the 55/45 segment balance. At one point in negotiation, the mutuals agreed to the Stark-Moore proposal if the differential would grade into the actual difference between the return on surplus instead of maintaining the 55/45 "balance." This was rejected, but the mutuals ultimately agreed.

This all affects the pricing and the allocation to lines of business. Conceptually, if a mutual company prices on a pretax basis using return on surplus and sets its objectives on a comparable basis to stock companies, it should have enough money left to pay its own taxes, accumulate its desired surplus, and pay its surplus tax. That's the way the mutual surplus tax was set. Thus, in the marketplace, mutuals and stocks should have fairly competitive products.

In pricing, how is the surplus tax allocated to lines of business? One reason the mutuals prefer the surplus tax as opposed to a tax directly related to products is that they have the right to allocate this tax to lines of business and to products in the company. There is very little attention focused on the amount of the surplus tax paid by the group line of business, the health line of business, or the pension line of business. Some companies don't view these lines of business as mutual operations, but they do require surplus and they do generate other items in the equity base; therefore, they generate surplus tax.

There are three ways to allocate to lines of business. These need to be judged for practical results as much as theoretical equity. They are:

1. pricing like a stock company;
2. allocation based on required surplus;
3. allocation based on accumulated surplus.

Pricing like a stock company means the surplus tax is not allocated directly to lines, but is reflected in pricing. A nonparticipating pricing basis would charge a relatively higher percentage of surplus tax to new issues.

One advantage of this approach is consistent pricing between a mutual parent and a stock subsidiary. This is appropriate since taxes are not affected by whether a mutual company sells the product in the parent or the subsidiary.

Any method which uses required surplus or accumulated surplus must also recognize other items in the equity base. The equity base starts with statutory surplus and adds deficiency reserves, the Mandatory Securities Valuation Reserve (MSVR), the difference between tax and statement reserves, nonadmitted financial assets, voluntary reserves, and one-half of the dividend liability. While some of these (such as deficiency reserves and the MRVR) may be considered part of the surplus, and others (such as nonadmitted financial assets) are not really product related, there are some that are related directly to products (such as dividend liability and the difference between tax and statement reserves). These must be considered in the allocation and the pricing of the surplus tax.

An elegant way to approach this allocation is to look at the required surplus by line of business and allocate the surplus tax to the lines of business on that basis and within lines of business to products in proportion to the required surplus. A final adjustment is made for the other equity base items such as dividend liability and the difference between tax and statement reserves.

This has certain practical problems. Any required surplus formula is necessarily subjective either in results or in assumptions. The increase in profits required for a non-individual line of business may be more than the lines can afford to take. For instance, in a group line of business it may require as much as 1 percent of premiums pretax to simply pay for the surplus tax. Mutual group operations normally show less profit than stock group operations, but 1 percent is a major increase for group lines.

Considerations are similar for individual health and group pensions. Normally required surplus is expressed as a percent of premium for group and individual health, and as a percent of assets for group pension, despite much lower surplus requirements in group pension. The tight profit margins imply similar problems for individual health and group lines of business.

An allocation of required surplus by line suggests the allocation within a line to be on the same basis. Most actuaries would suggest that required surplus in individual lines would be based on reserves; assuming that the company is not so heavily into term, that this allocation would be predominantly to old policyowners.

As an example of the pricing impact of the surplus tax let us review a participating universal life policy. If we assume that required surplus is 7 percent of reserves, then the surplus tax is 7.8 percent of that, and the tax is 36.8 percent of that taxable income. This has to be grossed up in order to pay the tax on the profit charge. It generates a reduction in interest credits of about 32 basis points. The equity

base goes up by more than the required surplus as it includes the MSVR, nonadmitted financial assets, tax reserves, and so on. If you look at how the universal life product affects these, there normally aren't any deficiency reserves, and the tax reserves are normally equal to the statement reserves. The dividend liability is usually one-half of one month's excess interest. This would increase the 32 basis points to about a 34 basis points reduction.

For a whole life policy, dividends are normally credited annually. This increases the dividend liability to a half year dividend rather than a half month dividend and the reduction in interest for the dividend liabilities is about twelve times as much, or 15-20 basis points instead of the 2 basis points. Statement reserves also are not normally set equal to tax reserves, and occasionally, deficiency reserves are required thereby causing additions to the equity base and to the charge for surplus tax. The exact amount charged depends on the pricing technique, particularly on the difference between tax and statement reserves.

The 34 basis points reduction on the universal life is about 1 percent of premium, but it can be two to three times as much on whole life depending on the tax versus statutory reserves and the pricing technique. Statutory reserves should be set equal to the tax reserves in order to avoid increases to the equity base. There is also a major advantage for dividends credited monthly versus annually. A profit charge of this magnitude for individual insurance is not out of line with the difference between the profit charge of a typical stock and a typical mutual company.

Surplus can also be allocated on accumulated surplus. For allocation to lines of business, this may sound appealing, but it looses something in logic since losses this year will reduce the surplus tax in the future. Thus initial losses are good for future operating profits in a line of business. This method has more logic for pricing within lines than it does for allocation to lines. A pricing technique which uses accumulated surplus would charge substantially less of the surplus tax to new products and substantially more to existing in-force business.

In order to sign the dividend opinion, the actuary has to make some assumption about how he plans to allocate and price the surplus tax, since the dividend opinion says that old and new issues are priced consistently. These decisions have to be made based on practical considerations for the particular company involved plus some theoretical frame work.

While the surplus tax was set at 7.8 percent in 1984, we would expect it to be adjusted upward, possibly substantially. Other than the surplus tax, all products are basically equal. The former tax advantage held by graded premium whole life, excess whole life, and qualified pensions, no longer apply.

What design implications does this mean for participating products? There are still some loop holes. For instance, since the inside buildup is tax free, and policy loans are still deductible, one argues for the

design of a minimum deposit plan and charging 12-13 percent interest on the policy loans. If the flat tax proposal came in, this would be killed.

There is substantial motivation to set tax reserves equal to statement reserves. It doesn't make sense to set up reserves which are not tax deductible. However, the tax answers for updates are not nearly as good as they were in 1980 and, in terms of paying benefits to policyholders, dividends appear to work equally well.

There is motivation to increase dividends and to decrease interest on reserves beyond setting tax reserves equal to statement reserves since dividends, instead of interest on reserves, help the company share calculation. While few companies will be investing in tax-exempt, preferred, or common stocks for tax purposes, most companies will have some of these in their portfolios for investment consideration. Paying dividends versus required interest improves the tax answers on investments due to the fraction multiplied by dividends in the company share calculation. On the other hand, increasing the dividend liability tends to increase the equity base and the surplus tax.

There is motivation for mutual companies to reduce their surplus level to the minimum required. If excess surplus is invested at current interest rates of around 12.5 percent, then after the surplus tax it only earns about 5 percent. If you keep $632 in house it earns 5 percent or about $31 a year. If the $1,000 is paid to the insured, it costs the company $632, and the insured can invest it tax free at around 9 percent to yield $90 a year versus the $31 in house. If companies instead invest this vitality surplus, they need to get 16 percent after tax return to justify not paying it out. Considerations such as increased capital required, expected profit squeeze, and the lack of excess surplus will cause few companies to have large increases in dividends which would affect solvency, competition, total mutual tax (by reducing the mutual surplus), and other companies' mutual tax (by reducing mutual return on surplus.)

There is more motivation for reducing the average equity base without affecting surplus through accelerating depreciation; selling preferred stocks and bonds at losses thereby reducing the MSVR and surplus; and offsetting the loss on stocks and bonds with capital gains on common stocks, and market discounts which do not impact the equity base. Because of these considerations, we may see some huge asset swaps between mutual companies.

Some group policyowners may move anniversaries, particularly those with anniversaries early in the year, to accrue the dividends and reduce their equity base. Group policyowners may reduce their group contingency reserve in order to satisfy the reasonableness requirements for the company and the voluntary employee's beneficiary association (VEBA) requirements for policyowners.

The 1984 Act also said a taxpayer cannot borrow to buy market discount. Companies with group pension business classified as items in the nature of interest, face a possible issue that group pension

business is borrowing. One way to resolve this is to attach permanent annuity guarantees to pension policies to cause life reserve treatment.

The current Treasury proposal would affect company taxes in a number of ways. It would reduce the company tax rate from 36.8 percent to 33 percent by taking away the 20 percent Taxable Income Adjustment and the small company deduction and reducing the corporate rate to 46 percent. It would require slower depreciation on new purchases, and tax capital gains at 33 percent instead of 28 percent. It would index interest and tax income net of inflation. Thus, if you earn 12 percent interest with 4 percent inflation, the tax would be on 8 percent. This would affect insurance company's income and their outgo.

Another key provision is that instead of having taxable income based on the change in reserves, it would be based on increases in cash values. This would have a significant impact during the early years of a whole life product. It would have a major impact on product lines which don't have cash values, such as group insurance, term insurance, and health insurance. The Treasury proposal would disallow any deduction for increases in reserves on those products. An additional impact on companies is the tax-deductibility of one half of stockholder dividends. This would reduce the stock company's tax substantially. It is expected that dividend pay out would go up about 20 percent. This will increase investment income from dividends for all companies. Since stock company's taxes are reduced and since the reason for the mutual company's tax is in the nondeductibility of stockholder dividends, the argument is we should do away with one half of the mutual company's surplus tax. The deductibility of stockholder dividends is a provision which probably won't survive the bill.

The major impact on our companies is not due to the company's tax provisions but rather to the changes in policyowners' taxation. All of the major flat tax proposals, the Treasury the Bradley-Gephardt, and the Kemp-Kaston, tax the inside buildup on life insurance for policyowners, limit deductibility of policy loans, and in some form or another, tax the fringe benefits to policyowners.

For the third time in four years, the inside buildup is being attacked. The inside buildup provisions would tax the gain in the contract based on cash values on all life and annuity plans. If we win this issue, we will probably win it on political power rather than logic.

The savings portion of insurance can be used as an IRA and IRA limits are increased. Normally an increase in IRA limits hurts the insurance industry. It gives an alternative investment vehicle. In this case, since most lower income policyowners don't have an IRA, they can come out better using their insurance policies as IRAs than they would from having tax free inside buildup. In the upscale market almost everyone has an IRA, and taxation of the inside buildup would severly restrict permanent insurance sales.

The taxation of fringe benefits ranges considerably within the various proposals, but all cases have some taxation of employee benefits. This is too big a piece of revenue to leave untouched in any flat tax proposal.

On group health insurance, the proposals range from taxing the entire amount in the Bradley-Gephardt bill to taxing group health premiums in excess of $70 per month per individual and $170 per month per family in the Treasury proposal. Generally, all employer-paid group term life would be taxable, 401(k) would no longer be viable, and there are some changes in the pension provisions. Fringe benefit taxation has substantial opposition, there is a good chance of it being restricted.

MR. ANDREW KERSTEIN: The Deficit Reduction Act of 1984 (DEFRA) is a major overhaul of the whole foundation of taxation for life insurance companies and a change in the whole tax planning efforts that companies have to use. The rewards for those who can be most successful are even greater than the opportunities under the 1959 Act or under TEFRA. The Treasury Department's annual report for Congress about the life insurance tax provisions and how they're operating under DEFRA will be used by Congress to remedy defects that may be found in the law and to close loopholes that are being abused. There is growing pressure from the banking industry to "level the playing field," that is to take away the advantages that life insurance companies have enjoyed to date on their products. This means that we should be cautious and conservative in product designs. We must also be cautious in the way we advertise our products. There is a clear indication that Congress feels that if life insurance companies are going to sell investment products, those products are going to be taxed like investment products sold by any other company. If life insurance companies are going to truly sell products that are designed for the retirement needs and death benefit protection of the U.S. population then tax advantages are fine.

From the consumer's perspective, the 1984 Act had minor impacts on Single Premium Deferred Annuities (SPDAs). Most of the impact on that product was done under TEFRA. Despite feelings that switching from FIFO to LIFO would cause the product to go away, post-TEFRA sales of SPDAs did not show this to be true. Under DEFRA, there are some changes made to the distribution rules if the original contract holder dies, but these are relatively insignificant. However, the underlying theory of these changes is the attempt to close one of the loopholes that existed prior to DEFRA where one could just keep deferring the tax by continuously naming contingent annuitants. The 1984 tax act laws also eliminate the ten-year aging exception to the 5 percent penalty tax if money is withdrawn before age fifty-nine and a half.

DEFRA has two major parts to SPDA product design. One is purely logistic, the requirement in the 1984 tax act that new distribution rules have to become part of the contract. This meant that if you had an SPDA already being sold, you had to rush to design an endorsement to it and file it with all of the states.

The second impact involves pricing of SPDAs, centering around the tax reserve question. Tax reserves for SPDAs are to be computed using the Commissioner Annuity Reserve Valuation Method (CARVM). That's relatively straightforward and easy except that, in 1983 and 1984, several states promulgated regulations that addressed what they call a

contingent surrender charge that exists in an SPDA that has a "bail-out" provision.

The NAIC decided not to adopt such a position. Now even if for statutory purposes, a company can deduct surrender charges from the accumulation values of SPDAs where there is a "bail-out", it can not for tax purposes. For many companies this created a windfall profit in 1984. Companies that held full accumulated values on SPDAs, at December 31, 1983, had presumably deducted these amounts in tax returns prior to 1984. The Deficit Reduction Act and fresh-start provisions allows them to take those accumulated values down to the cash values and deduct that differential all over again. This part of the law, however, and the resulting NAIC decision adversely affected 1984 issues in that the same thing happened. Companies had to set up full accumulated values for statutory reserves but were only allowed to deduct the cash values for tax purposes. Depending upon percent of business in force prior to 1984 versus 1984 sales, companies either ended up with a windfall tax benefit or an adverse tax position. An added windfall came for stock companies when the accounting profession ruled that the whole adjustment made under fresh-start can be taken into 1984 operating income.

Assume that the industry is going to unite and try to get the NAIC to adopt the change in the definition of the CARVM. There is a real risk that the IRS may turn around and reject that change for tax purposes. There is concern that the IRS may just say the decision was made in 1984 and unless the states formally adopt changes in the law, and not just in the regulations, the definition of the CARVM used in 1984 is what the industry is going to be stuck with.

How do you handle renewal blocks of business that are still within a surrender charge period and are of the type that have contingent surrender charges? What are the tax ramifications of renewing at the bailout rate or below the bailout rate? It's going to be very difficult for a company to adequately price its after-tax return on SPDAs.

The tax law had a much more significant impact on single premium life. The impact was far more reaching than an SPDAs from both the consumer's standpoint and the company's standpoint. Section 7702 contains two definitions under which a single premium life contract can qualify as a life insurance product. The street names for these two tests are cash value accumulation and guideline single premium. In 1982 when TEFRA was passed, we had temporary definitions. The 1984 Act made significant changes and restrictions to these definitions. That has a major impact on design and pricing.

For companies marketing a product that qualifies under the cash value accumulation test, the most significant change came in handling substandard or rated applicants. The industry's standard was an age rate-up technique which reduced the death benefit paid to a rated client. You still gave that person the same credited interest rate on his cash value. The requirement that a contract not mature prior to true age 95 disallowed an age rate-up on a cash value accumulation product. Most companies were left to go accept/reject. Our company,

which is a primary writer of a cash value accumulation single premium life, looked at various methods of handling the substandard problem. We could not find one that the agents would like or could sell and that the tax council would say qualifies as a life insurance product. So we had to go accept/reject like much of the competition or switch to a guideline single premium approach where the opportunity to handle rated cases is far greater.

For companies that either are marketing a guideline single premium product or are going to develop one, key aspects of the definition under Section 7702 are changed. The corridor limits are substantially increased. The mortality, interest, and expense assumptions used in calculating guideline single premiums are also clarified and severely restricted. The interest rate must be the greater of 6 percent or the rate that is guaranteed in the contract. There is no longer an advantage to guaranteeing a 4 or 4.5 percent interest rate in the contract. The mortality charges have to be the ones specified in the contract, or if there are none, then the charges should be the ones that determine statutory reserves. Also, you can't assume the death benefit is going to increase, even though at some point under single premium life, you're likely to hit the corridor and have to force up the death benefit. Only charges for supplemental benefits or expenses explicitly made in the contract can be reflected in the guideline single premium calculation. All of these changes appear consistent with the direction Congress and the Internal Revenue Service are taking. All of these changes lower the guideline single-premium and increase the corresponding pure insurance amount the company selling the product has to offer. Presumably it costs something to provide this greater insurance amount which lowers the interest rate companies credit on the cash value portion of the contract. This is consistent with Congress' intention to decrease investment aspects of life insurance products.

However, these restrictions can cause a problem in the design aspects of a back-end-loaded, guideline single premium life product. There is conflict in complying with the standard nonforfeiture law. We spent the last three or four months trying to develop our new guideline single premium life product. We had a number of blackboard sessions with ten to fifteen people to brainstorm a solution to the delicate balance between life insurance definition and minimum nonforfeiture laws. We tested a number of preliminary designs and had difficulty finding a balance. In some designs we found that at the end of year one the minimum nonforfeiture lawwould have required us to have a cash value, which was greater than the single premium accumulated at a rate of interest higher than we expected to pay, (a negative surrender charge.) In other cases, as we approached the end of the mortality table, we would be below the minimum nonforfeiture values. The risk was the provision in the code that says you use the greater of 6 percent or the interest rate guaranteed in contract. Our tax counsel felt that, since the code doesn't say reserve interest rate or cash value accumulation interest rate guaranteed in the contract and if you're applying the minimum nonforfeiture law with an interest rate of 7.5 percent, the 7.5 percent might be interpreted as the interest rate guaranteed in the contract.

Anybody interested in designing a guideline single premium life product needs to be very careful. There are several approaches that companies are using today to try to solve the balance between nonforfeiture laws and tax definition laws. Many tax counsels believe these approaches are dependent upon interpretations of definitions that may not stand the test of time. Additionally, fewer tax counsels are confident that future rulings are going to be made purely prospective. For example,if we go back to SPDAs, the new distribution laws were not only applicable to new sales but also to all new 1035 exchanges. This might indicate that Congress is not going to be as lenient as it has been with grandfathering.

The so-called zero cost loan is where you credit the cash value loan funds with the same interest rate you charge the policyholder. The IRS can come out with a position that zero cost loans are nothing different than a withdrawal from the contract. Withdrawals from a single premium life contract are going to be taxed on a LIFO basis. Several companies have put forth statements referring to sections of the Blue Book saying it's fine to withdraw money from single premium universal life or single-premium life and that withdrawals are going to be taxed on a FIFO basis. Our company not only believes this interpretation to be incorrect, but we believe that there will be legislation or regulations that will clarify this point.

Another open issue on single premium life is tax reserves. I don't know if anybody is entirely clear on what the definition of CRVM is for an interest-sensitive back-end loaded, single premium life product. We may get into a whole series of questions concerning contingent surrender charges where there's a bailout rate in the contract or excess interest guarantees. When these issues are resolved, we may be able to get a more definitive pricing model, and that may have an impact on future pricing.

It's accurate to say that the DEFRA has had a major impact on pricing and design features of SPDAs and of single premium life. As with any new tax act, there is still a large number of unanswered questions but this time there is added sensitivity. There is a sensitivity on the part of Congress and on the part of the Treasury with respect to life insurance product taxation. It would be very wise for our industry to take a conservative position where open questions remain by trying not only to comply with the letter of the law but the spirit of the law. If we can restrain ourselves, we may be able to withstand the attacks that are being made on the life insurance business and be able to retain our competitive advantages longer.

MR. ANTHONY SPANO: The NAIC deferred action on adopting a new definition of the CARVM at the December 1984 meeting. At the March NAIC meeting, the Life Insurance Committee of the NAIC approved the guideline.

Before any NAIC action becomes official, it has to be approved at what is referred to as a plenary session, which is a session with all of the insurance commissioners present. There was no plenary session at the

March meeting, but there will be one at the June meeting. I'm not aware of any opposition to the guideline, and I would look for final action in June.

MR. PETER PALMER: What is the relative survivability of policy loan interest deductions and inside buildup and should we be prepared to give up policy loan interest deductions in order to save inside buildup? The inside buildup would only be bad as part of a flat tax proposal, because some other division of flat tax proposal could have a life of its own. The industry is held hostage to the inside buildup. We're forced to give up something for it and policy loans deductibility might be that something. There is some pessimism about this passing, but there is still a very meaningful chance that we would lose the inside buildup.

MR. VIRGIL WAGNER: The whole tax proposal is a large package, with a lot of individual pieces. In the ACLI we're not trading anything at this point, so one thing is not more important than another. Obviously, the inside buildup is extremely important; we're paying a lot of attention to that.

Tax Situations

A = Phase 2 Negative = 46% GO
B = Phase 1 = 46% TII
D = Phase 2 Positive = 23% (GO + TII)

SLIDE 2

Standard Assumptions

	Age 35	Age 55
Class	Male, Nonsmoker	
Policy Size	$100,000	
Interest	12%	
Lapse	20% ➧ 5%	15% ➧ 5%
Mortality	Nonmed	Medical

Standard Assumptions

Commissions -- 100%(1), 5%(2-10), 2%(11+)

Expense-	Acq.	Maintenance
Per Policy	$30.00/80.00	$20.00
Per 1000	1.00	--
%Premium	20%	2%

SLIDE 4

Universal Life
Product Description

	35	55
Level Target Premium	$6.50	$22.50
First Year Load per 1000	4.15	9.55
Premium Load	8.0%	
Guaranteed Interest	4.5%	
Current Interest	10.5%	
Earned Interest	12.0%	

Universal Life
Stock Company (A)

	Profit Margin	
	35	55
1959 Act	5.0%	5.0%
TEFRA -- Best		
1959 Act	5.0	5.0
$19 818(c)	13.1	3.4
Nonpar (10% v)	3.6	2.6
	21.7	11.0
TEFRA -- Best		
Nonpar(3% Premium)	1.2	1.2
	19.3	9.6

SLIDE 5

Universal Life
Stock Company (A)

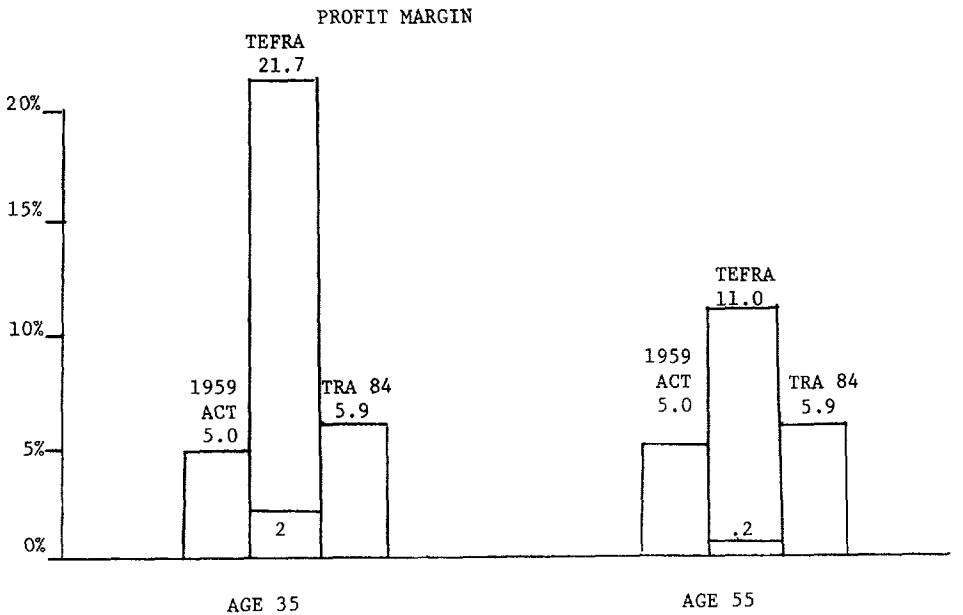
	Profit Margin	
	35	55
1959 Act	5.0%	5.0%
TEFRA -- Best	21.7	11.0
TEFRA -- Worst		
1959 Act	5.0	5.0
Interest Div.	(1.9)	(1.9)
COI Div.	(1.4)	(2.9)
	1.7	.2

Universal Life
Stock Company (A)

		Profit Margin	
		35	55
TRA 84			
	1959 Act	5.0%	5.0%
	36.8% Tax Rate	.9	.9
		5.9	5.9

SLIDE 5b

UNIVERSAL LIFE - STOCK COMPANY (A)



Universal Life
Stock Company (D)

	Profit Margin	
	35	55
1959 Act	(.3)%	(.8)%
TEFRA -- Best		
1959 Act	(.3)	(.8)
Geometric Menge	2.6	2.5
$19 818(c)	9.4	2.5
	11.7	4.2

Universal Life
Stock Company (D)

	Profit Margin	
	35	55
1959 Act	(.3)%	(.8)%
TEFRA -- Best	11.7	4.2
TEFRA -- Worst		
1959 Act	(.3)	(.8)
Geometric Menge	2.6	2.5
	2.3	1.7

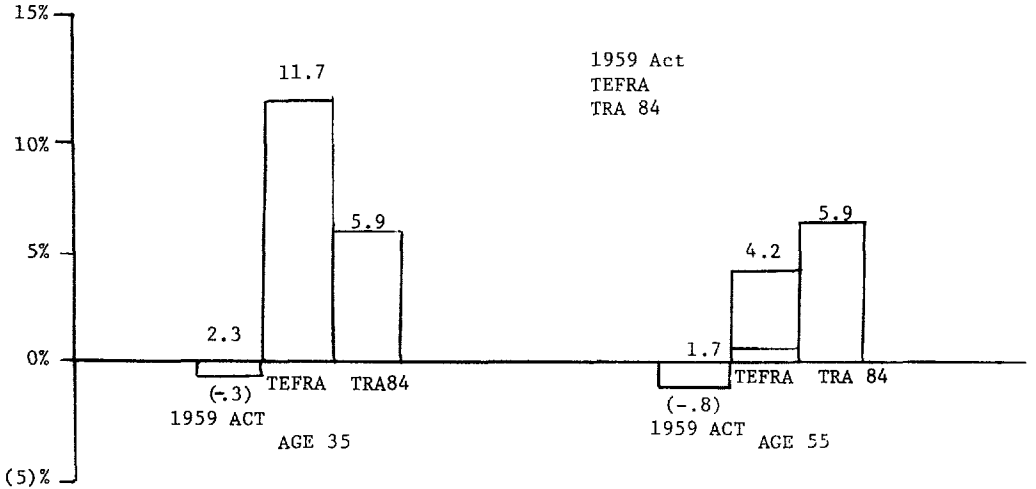
Universal Life
Stock Company (D)

		Profit Margin	
		35	55
TRA 84			
	1959 Act	(.3)%	(.8)%
	No Nonpar Special	(2.1)	(1.5)
	Tax on GO	7.4	7.3
	36.8% Tax Rate	.9	.9
		5.9	5.9

SLIDE 9

UNIVERSAL LIFE - STOCK COMPANY (D)

PROFIT MARGIN



Universal Life
Mutual Company (B ➧ A)

	Profit Margin	
	35	55
1959 Act	(9.6)%	(9.6)%
TEFRA -- Best		
1959 Act	(9.6)	(9.6)
Tax on GO	14.6	14.6
$19 818(c)	13.1	3.4
	18.1	8.4

Universal Life
Mutual Company (B ▸ A)

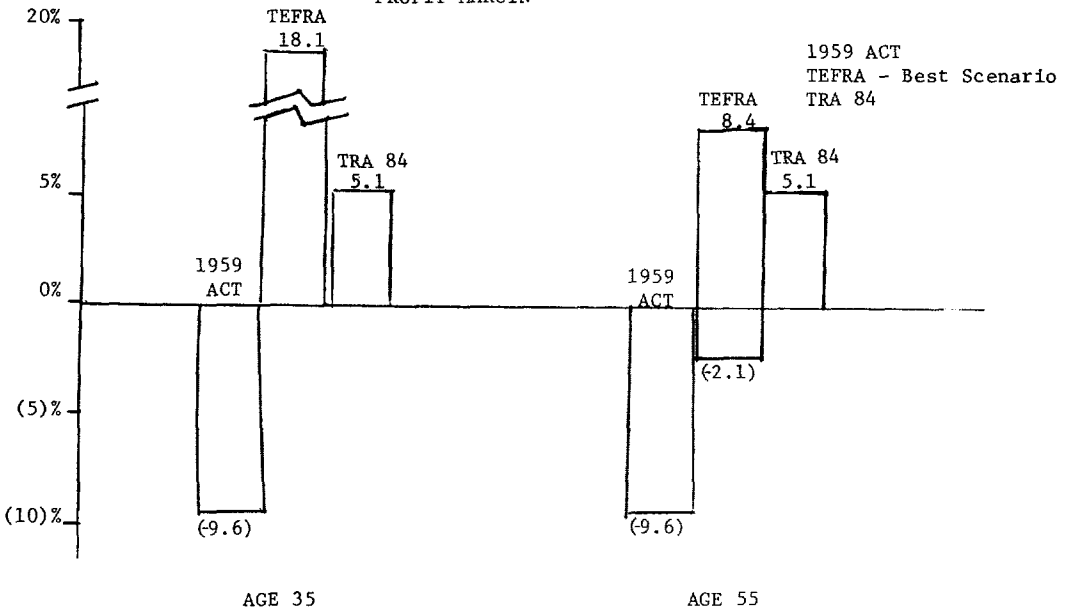
	Profit Margin	
	35	55
1959 Act	(9.6)%	(9.6)%
TEFRA -- Best	18.1	8.4
TEFRA -- Worst		
1959 Act	(9.6)	(9.6)
Tax on GO	14.6	14.6
Interest Div.	(2.9)	(2.8)
COI Div.	(2.1)	(4.3)
	.0	(2.1)

Universal Life
Mutual Company (B ➧ A)

	Profit Margin 35	Profit Margin 55
TRA 84		
1959 Act	(9.6)%	(9.6)%
Tax on GO	14.6	14.6
36.8% Tax Rate	.9	.9
	5.9	5.9
Surplus Tax	(.8)	(.8)
	5.1	5.1

SLIDE 13

UNIVERSAL LIFE - MUTUAL COMPANY (B→A)
PROFIT MARGIN



SLIDE 14

Universal Life

	Profit Margin	
	35	55
1959 Act		
Stock (A)	5.0%	5.0%
Stock (D)	(.9)	(1.0)
Mutual (B)	(9.6)	(9.6)
TEFRA (Best / Worst)	18.1	8.4
Stock (A)	21.7 / 1.7	11.0 / 0.2
Stock (D)	11.0 / 1.6	4.0 / 1.5
Mutual (A)	18.1 / (.1)	8.4 / (2.4)
TRA 84		
Stock	5.9	5.9
Mutual	5.1	5.1

Universal Life
△ Cash Values for Same Profits
Age 35

	CV_{10}	CV_{20}	% of CV_{20}
Base Plan	$58	$201	100%
TEFRA			
- Stock A Best	69	240	119
- Stock A Worst	52	175	87
TRA 84			
- Stock	60	207	103
- Mutual	59	202	100

Universal Life
△ Cash Values for Same Profits
Age 55

	CV_{10}	CV_{20}	% of CV_{20}
Base Plan	$200	$651	100%
TEFRA			
- Stock A Best	239	833	128
- Stock A Worst	161	464	71
TRA 84			
- Stock	206	680	104
- Mutual	201	655	101

Excess Interest Whole Life (EIWL)
Product Description

	35	55
Guaranteed Whole Life		
Level Premium (7 year vanish)	$13.82	$38.06
Surrender Charge (% premium)	200% ➧ 0% (20 years)	
Premium Load	None	

EIWL-Stock Company (A)

	Profit Margin	
	35	55
1959 Act	8.7%	5.0%
TEFRA -- Best		
1959 Act	8.7	5.0
$19 818(c)	(.9)	(.3)
Nonpar (10%V)	4.6	3.5
	12.4	8.2

EIWL-Stock Company (A)

	Profit Margin	
	35	55
1959 Act	8.7%	5.0%
TEFRA -- Best	12.4	8.2
TEFRA -- Worst		
1959 Act	8.7	5.0
$19 818(c)	(.9)	(.3)
Interest Div.	(2.9)	(2.7)
COI Div.	(.8)	(1.8)
	4.1	.2

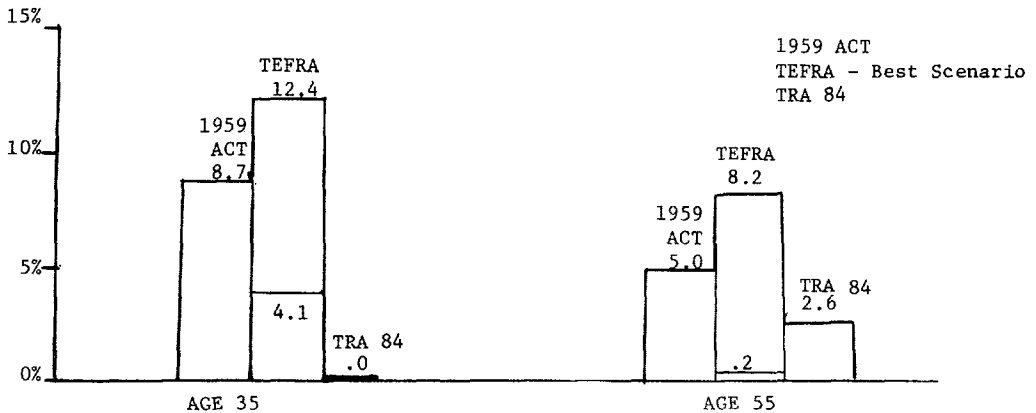
EIWL-Stock Company (A)

	Profit Margin	
	35	55
TRA 84		
1959 Act	8.7%	5.0%
$0 818(c)	(8.7)	(2.7)
36.8% Tax Rate	.0	.3
	.0	2.6

SLIDE 21

EIWL - STOCK COMPANY (A)

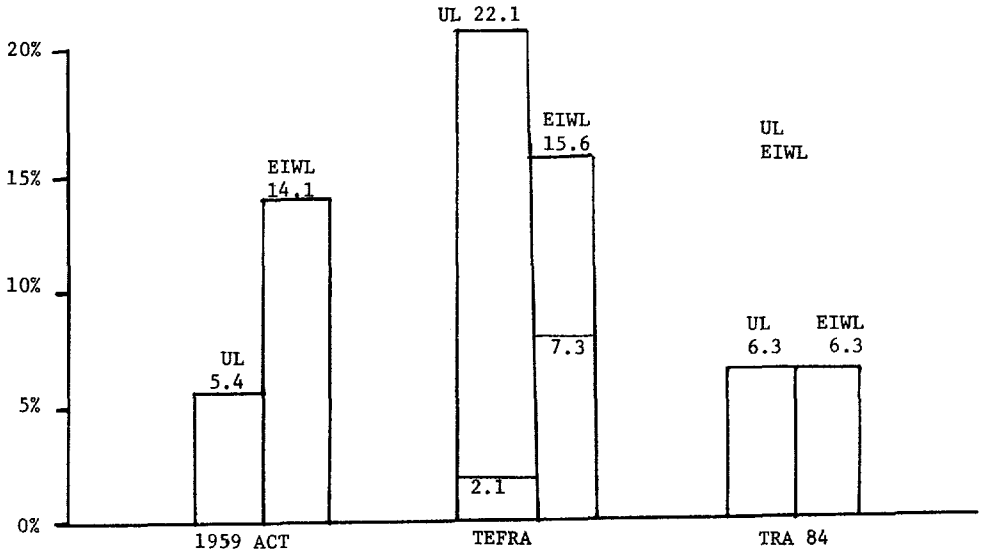
PROFIT MARGIN



SLIDE 22

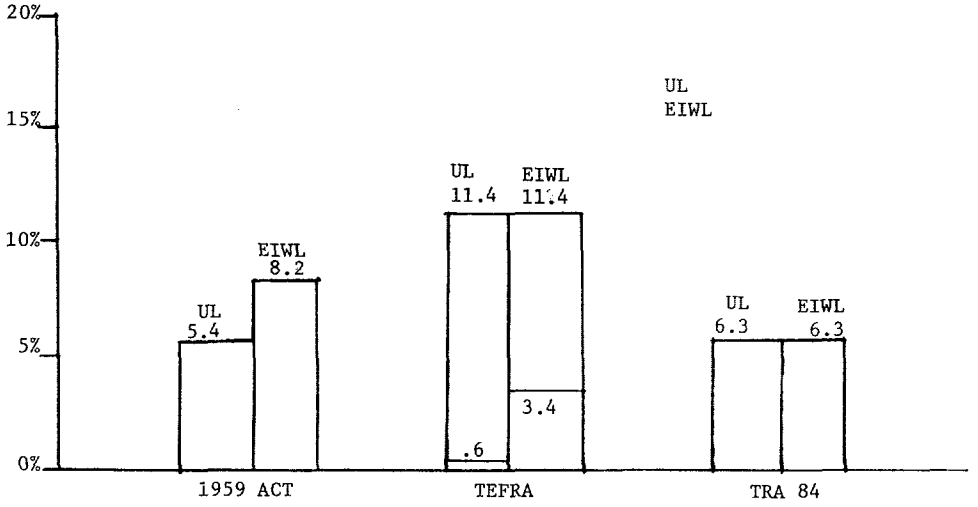
UNIVERSAL LIFE VS. EIWL - STOCK COMPANY (A)

AFTER TAX PROFIT MARGINS IF PRETAX = 10% ISSUE AGE 35



SLIDE 23

UNIVERSAL LIFE VS. EIWL - STOCK COMPANY (A)
AFTER TAX PROFIT MARGINS IF PRETAX = 10%
ISSUE AGE 55



Par Whole Life
Product Description

	35	55
Level Premium Whole Life	$13.82	$38.06
Cash Values	58 CSO, 5.5%, Min.	
Reserves	58 CSO, 4.5%, CRVM	
Dividends	Paid in Cash	
Interest	11%	
Profit Objective	105% Asset Share	

Par Whole Life
Mutual Company

	Asset Share	
	35	55
1959 Act	105 %	105 %
TEFRA		
1959 Act	105	105
Tax on GO	48	63
$19 818(c)	(2)	(1)
22.5% Dividends	(13)	(29)
	138	138

Par Whole Life
Mutual Company

	Asset Share	
	35	55
1959 Act	105%	105%
TEFRA	138	138
TRA 84		
1959 Act	105	105
Tax on GO	48	63
$0 818(c)	(16)	(10)
36.8% Tax Rate	10	16
58 CSO 6% Reserves	(15)	(9)
	132	165

Par Whole Life
Mutual Company

	Asset Share	
	35	55
1959 Act	105%	105%
TEFRA	138	138
TRA 84		
Before Surplus Tax	132	165
7% Target Surplus	(16)	(15)
	116	150
Accumulated Surplus	(4)	(14)
	128	151

Par Whole Life
Mutual Company

	Profit Margin	
	35	55
1959 Act	.5%	.3%
TEFRA	10.0	4.5
TRA 84		
Before Surplus Tax	4.8	5.6
7% Target Surplus	1.6	4.2
Accumulated Surplus	4.6	4.6

Par Whole Life
Stock Company (D)

	Profit Margin	
	35	55
1959 Act	6.8%	4.0%
TEFRA	8.4	5.1
TRA 84	4.8	5.6

GPWL/ART
Product Description

Plan:	Increasing Premium Whole Life Indeterminate Premium 10-Year Re-entry
Cash Values:	$0 During First 10 Years

GPWL/ART
Profit Test Assumptions

- Standard, Except 25% Lapse All Years
- Profit Objective -- 10 Year Breakeven, Pretax

GPWL/ART
Product Description
Current Gross Premiums per $1,000

Year	Age 35	Age 55
1	$1.53	$3.34
2	1.75	4.40
3	2.03	5.56
5	2.69	8.23
10	4.75	16.06

GPWL/ART

	Profit Margins	
	35	55
Pre-tax	.0%	.0%
$5 818(c)(2)	8.9	3.3
$19 818(c)(2)	33.6	12.5
Phantom Premium	(1.8)	(9.1)

Indeterminate Premium Whole Life (IPWL)
Product Description

	35	55
Level Premium Whole Life		
Current Premiums per 1000	$7.80	$24.43
Cash Values	58 CSO, 5.5%, Min.	
Reserves	58 CSO, 4.5%, CRVM	
Interest	12% ➧ 10%	

IPWL -- Stock Company (A)

	Profit Margin	
	35	55
1959 Act	12.5%	12.5%
TEFRA		
Best	16.0	14.5
Worst	8.4	10.0
TRA 84		
1959 Act	12.5	12.5
No 818(c)	(10.9)	(3.3)
36.8% Tax Rate	.3	1.6
58 CSO 6% Tax Reserves	(6.0)	(1.7)
	(4.1)	9.1

IPWL - Stock Company (A)

Change in Premium to Keep
12.5% Profit Margin

Age 35 $7.80 ➧ $11.24!!!

Age 55 $24.43 ➧ $26.60

IPWL -- Stock Company (D)

	Profit Margin	
	35	55
1959 Act	2.2%	10.0%
TEFRA	4.4	11.4
TRA 84		
1959 Act	2.2	10.0
$0 818(c)	(7.9)	(2.4)
No Nonpar Special	(2.1)	(1.2)
Tax on GO	9.4	2.8
36.8% Tax Rate	.3	1.6
58 CSO 6% Tax Reserves	(6.0)	(1.7)
	(4.1)	9.1

Guaranteed Cost Whole Life
Product Description

	35	55
Level Premium Whole Life		
Premium per 1000	$18.18	$41.73
Higher Cash Values / Reserves		
Average Size -- $10,000		
Higher Lapse / Mortality		
Interest	12% ➧ 8%	

Guaranteed Cost Whole Life
Stock Company (A)

	Profit Margin	
	35	55
1959 Act	10.0%	10.0%
TEFRA	11.4	11.4
TRA 84		
1959 Act	10.0	10.0
$0 818(c)	(4.1)	(1.7)
36.8% Tax Rate	1.0	1.4
58 CSO 6% Tax Reserves	(1.9)	(0.9)
	5.0	8.8

Guaranteed Cost Whole Life
Stock Company (D)

	Profit Margin	
	35	55
1959 Act	7.8%	9.8%
TEFRA	8.4	10.3
TRA 84		
1959 Act	7.8	9.8
$0 818(c)	(2.9)	(1.2)
No Nonpar Special	(1.8)	(1.3)
Tax on GO	2.8	1.0
36.8% Tax Rate	1.0	1.4
58 CSO 6% Tax Reserves	(1.9)	(0.9)
	5.0	8.8

After Tax Profit Margins -- 10% Pretax Stock Company (A)

	1959 Act		TEFRA		TRA 84	
	35	55	35	55	35	55
UL	5.4	5.4	22.1/ 2.1	11.4/0.6	6.3	6.3
EIWL	14.1	8.2	15.6/ 7.3	11.4/3.4	6.3	6.3
IPWL	16.3	8.7	19.8/12.2	11.7/6.2	.4	4.6

After Tax Profit Margins -- 10% Pretax
Stock Company (D)

	1959 Act		TEFRA		TRA 84	
	35	55	35	55	35	55
UL	.3	(.2)	12.3/0.8	4.8/0.8	6.3	6.3
IPWL	7.7	4.5	8.2/8.2	7.6/7.6	.4	4.6

After Tax Profit Margins -- 10% Pretax
Mutual Company (B➧A)

	1959 Act		TEFRA		TRA 84	
	35	55	35	55	35	55
UL(Par)	(8.8)	(8.8)	18.5/0.4	8.8/(1.7)	5.5	5.5
Par WL	(2.5)	(.3)	8.4/8.4	4.2/ 4.2	(.3)	3.8

After Tax Profit Margins -- 10% Pretax
Universal Life

	1959 Act		TEFRA		TRA 84	
	35	55	35	55	35	55
Stock (A)	5.4	5.4	22.1/2.1	11.4/0.6	6.3	6.3
Stock (D)	.3	(.2)	12.3/0.8	4.8/0.8	6.3	6.3
Mutual	(8.8)	(8.8)	18.5/0.4	8.8/(1.7)	5.5	5.5

EIWL Profit Results

	1959 Act	TRA 84
Profit Margin	8%	8%
Break-Even Year	3	7
Return on Investment	80%	20%

Value of Inforce Business
Guaranteed Cost Whole Life Issue Age 35

Policy Duration	1959 Act	TRA 84	Increase
5	$26.64	$38.91	46%
10	34.33	49.18	43
15	40.24	55.63	38
20	44.59	60.16	35