GUIDELINE 25

John B. Yanko

For fixed premium whole life insurance policies with the death benefit adjusted using a guaranteed "cost of living index," the minimum reserve shall use the maximum valuation interest rate for the year of issue, an acceptable mortality table, and an annual increasing death benefit assumption, which is the maximum valuation interest rate less:

1. 2.0% if the annual increase is limited to 0% through 5.0%.
2. 1.5% if the annual increase is limited to 5.01% through 10.0%.
3. 1.0% for all other plans.

For fixed premium whole life insurance policies not exceeding $10,000 with the death benefit adjusted using a guaranteed "cost of living index," the minimum nonforfeiture benefit shall be based on a level death benefit, an acceptable mortality table and an interest rate equal to:

1. 4.5% if the annual increase is limited to 0% through 5.0%.
2. 4.25% if the annual increase is limited to 5.01% through 10.0%.
3. 4.0% for all other plans.

The present value of future benefits component shall be adjusted each year from projected to current death benefit. Policies exceeding a $10,000 death benefit may not conform to §7702.

These changes are effective for policies issued on or after January 1, 1991.

ILLINOIS BULLETINS AND REGULATIONS

John R. Miller and William M. Buchanan

I. Illinois Bulletin 89-57 on single premium deferred annuity (SPDA) reserves:

   A. Issued October 30, 1989

   B. The bulletin emphasizes that Actuarial Guideline VIII clearly indicates that reserves under the Commissioner's Annuity Reserve Valuation Method (CARVM) method should be the greatest of "any" of the discounted values of all guaranteed future benefits.

   C. The bulletin was prompted by the introduction of what has been called certificate of deposit annuities. Also of concern are contracts that have rapid and steep reductions in surrender charges.

   D. The regulation has been enforced in recent department examinations.

II. Illinois Bulletin 90-7 on reserving for AIDS:

   A. Issued October 18, 1990.

   B. The bulletin reiterates the need for evaluating the impact of AIDS on reserve levels when signing the actuarial opinion.

   C. The bulletin was released because it is unlikely that the Actuarial Standards Board (ASB) standard on "The Cost of HIV-Related Claims" will be effective at the time of signing the actuarial opinion for the 1990 annual statement.

III. Proposal Illinois cash-flow testing regulation:

A. No regulation has been issued.

B. Mr. Larry Gorski, Life Actuary for the Illinois Insurance Department, was concerned with the progress being made by the NAIC regarding cash-flow testing and was considering implementing requirements for cash-flow testing in Illinois independent of the NAIC.

C. Currently Mr. Gorski is satisfied with the direction and progress of the NAIC on cash-flow testing and the valuation actuary concept.

D. Mr. Gorski anticipates that the NAIC model will be completed and implemented in Illinois effective with the December 31, 1992 annual statement.

IV. Reserves for long-term-care coverages

A. No regulation has been issued.

B. Mr. Gorski has several concerns regarding assumptions used to calculate long-term-care reserves. These concerns are founded in the uncertainty to future experience. Some of these concerns are the extent to which:

1. The existence of such coverage will create higher utilization than current data indicate.

2. The existence of such coverage will cause claims to continue for a longer period of time than current data indicate.

3. Adequate facilities will be available which will effect utilization and costs.
4. Governmental programs may be implemented.

In light of the unknown and unpredictable nature of these factors, an added element of conservatism seems called for.