Comments from the Chair

by Deanne L. Osgood

I would like to congratulate Larry Stern on a successful term as Chairman of the Product Development Section Council! The Council made great strides in communicating with the membership and engaging members in Section activities. Under Larry's leadership, the Council developed a Section Web site, conveniently accessed through the Society of Actuaries site. Also, we successfully utilized the "blast fax" technology to obtain input from our members on various topics and to recruit speakers and other volunteers. *Thirty-five* individuals expressed interest in running for election to the Council for the 2001 term. This is a record for us! We hope that the interest and participation in Section activities continues.

Although Larry has remained active in the Section as a "Friend of the Council," his three-year term expired with the Annual Meeting in 2000. Additional retiring members include: Boris Brizeli and Kathy Anderson, Council Secretary. Also, we had an unusual year where we lost two valuable members, Barry Jacobson and Lilia Sham, during the second year of their three-year terms.

In addition to her duties as Secretary, Kathy represented the Council on the Life Practice Committee of the Society of Actuaries. Barry, Lilia, and Larry, in addition to existing Council member Ken McCullum, were instrumental in designing and executing the successful Distribution Economics

In This Issue

New Flexibility for VUL Product Design in New York State
Surrender Charge Limits Revisited

by Robert A. Hafner

Background

In the course of preparing a non-forfeiture compliance demonstration memorandum for a client, we developed an interpretation of the surrender charge limitations specified in New York's Regulation 77, which increases the maximum allowable surrender charges for renewal years. The amount by which renewal year surrender charges may be increased under this interpretation depends on the product design and, in particular, the amount and timing of "deferred acquisition and other charges" as defined by 11 NYCRR 54.7(b)(1)(xiii). This interpretation was presented to a representative of the New York State Insurance Department who accepted the interpretation after consulting with his superiors and departmental attorneys.

Foundation

Variable universal life non-forfeiture standards are specified in 11 NYCRR 54.7(b) by limiting policy surrender charges. The maximum initial surrender charges allowed are specified by one of two alternative limitations as found in subparagraphs (b)(2)(i) and (b)(2)(ii). The maximum renewal year surrender charges allowed are specified in paragraph (b)(3) as reductions to the maximum initial surrender charge established in paragraph (b)(2).

11 NYCRR 54.7(b)(3) reads as follows: "Any surrender charge in paragraph (2) of this subdivision must be such that *at the end of any policy year* it does not exceed the maximum initial surrender charge that would be allowed multiplied by the ratio of" [temporary life annuities immediate, i.e., $a_{x+t:15-t}$ /$a_{x:15}$] "based on the mortality table and interest rate used in calculating the net level whole life annual premiums. *Furthermore, any such surrender charge* may not exceed the maximum initial surrender charge less the sum of all deferred acquisition and other charges *made to date* against the policy value. For these annuity values, x is the age at which the surrender charge is created and t is the duration of the surrender charge." [emphasis mine]

Symbolically, these constraints may be expressed as follows:

I) $SC_t <= SC_0 * a_{x+t:15-t} / a_{x:15}$ for t = {1, 2, …, 14} and,

II) $SC_t <= SC_0 - \sum_{s=1}^{f(t)} DefAcq_{s+1}$ for t = {1, 2, …, 14}

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seminar held last May. Boris single-hand-edly coordinated the development of the Pricing Innovations seminar held in June. Both seminars qualified for Professional Development credit. I thank the retiring members for their contributions during their terms and hope that they choose to stay involved with the Section in the years to come. We will miss the contribu-tions of these individuals greatly!

I am pleased to introduce the starting line-up for the 2001 Product Develop-ment Section Council. Returning as the sole survivor of the Class of 1999 is Deanne Osgood, current Chairman of the Council. Joining Deanne are Mary

Bahna-Nolan, Vice Chairman, and Lorraine Mayne, Web site liaison. In addition, five new members were elected to the Council—Kevin Howard and Susan Kimball will serve one-year terms, and Noel Abkemeier, Anne Katcher, and Nancy Kenneally will serve three-year terms. We have a creative, energetic Council and are looking forward to serv-ing the membership this year!

So, what has the Council been up to since the Annual Meeting? Together with the Society of Actuaries and the Reinsurance and Nontraditional Marketing sections, we sponsored a very successful *First Annual Product Development Actuary Symposium,* which was held in Chicago in May. A special thank you to Mary Bahna-Nolan, Kevin Howard, and Larry Stern who

joined me in representing the Product Development Section on the planning committee. Kevin Howard also did a tremendous job coordinating the sessions sponsored by our Section at the SOA Spring Meeting in Toronto. There was a grand total of 26 sessions that were spon-sored or co-sponsored by the Section—a new record for us! Finally, believe it or not, the Annual meeting sponsored by the Society of Actuaries has already been planned and speaker recruiting is well underway.

We are focusing our efforts on professional development and continu-ing education during the remainder of the year. Planning is underway for a one-day seminar that will be held during the SOA Power Week in December focused on "financials for product development actuaries," and the *Second Annual Product Development Actuary Symposium,* which will be held in early 2002. We also are exploring opportuni-ties to offer the Product Development Boot Camp later this year. Previously offered in 1996 and 1998, the Boot Camp has been a valuable seminar for actuaries at all levels interested in Product Development. A bigger chal-lenge for us is updating the educational CD-Rom entitled, *"a look at product development,"* originally produced in 1997, to be eligible for Professional Development credit. Details will be posted on our Web site as they emerge!

Please contact any member of the Product Development Section Council if you have any questions or comments, if you are interested in any of the seminar activities, or if you are interested in volunteering for any Section activities.

We look forward to hearing from you!

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New Flexibility for VUL Product Design in New York State
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where

x = Policy issue age.

t = Policy duration at the end of policy year t.

SC_0 = Maximum allowable initial surrender charge as per 11 NYCRR 54.7(b)(2).

SC_t = Maximum allowable renewal surrender charges applicable to policy year t+1 as per 11 NYCRR 54.7(b)(3).

$a_{x+t:\overline{15-t}}$ = Temporary life annuity immediate for age x+t for $15-t$ years.

$DefAcq_{s+1}$ = Deferred acquisition and other charges in policy year s+1.

Interpretation

This interpretation affects when "deferred acquisition and other charges" ($DefAcq_{s+1}$), if any, are recognized in the second condition of (b)(3) as represented by equation II above. In particular, this interpretation affects how the upper limit of the summation, denoted by f(t) in equation II, is defined. The commonly used definition is f(t) = t. However, we will show that the regulatory definition is actually f(t) = t−1, which delays the deduction of deferred acquisition and other costs by one year more than usually understood. The delayed deduction effectively increases the maximum renewal year surrender charges allowed in each year.

Rationale

This interpretation is arrived at by carefully tracing the logic of 11 NYCRR 54.7 as follows:

The opening clause of paragraph (3), "Any surrender charge in paragraph (2)," refers to the maximum initial surrender charge allowed (SC0) as specified by 11 NYCRR 54.7(b)(2). The first sentence of paragraph (3) goes on to specify that renewal year surrender charges are not allowed to exceed the initial surrender charge as amortized by the ratio of temporary life annuity immediate factors as expressed by equation I above. The "at the end of any policy year" clause of paragraph (3) together with the notation for the temporary life annuities unambiguously establishes the calculation timing for SCt as being determined at the end of policy years t = {1, 2, …, 14}. The surrender charge limits, SCt, so determined apply prospectively to policy years t+1. For example, SC1 is determined at the end of policy year one but applies to policy year two which is the first renewal year.

The second limit, as specified in the second sentence of paragraph (3), is the initial surrender charge, SC0, reduced by "the sum of deferred acquisition and other charges *made to date*…" as expressed by equation II. The opening clause, "Furthermore, any such surrender charge," indicates that the limitations which follow modify the antecedent surrender charge limits specified by the preceding sentence. In other words, the renewal year surrender charge limits specified in the first sentence are being modified, or further limited, by the conditions of the second sentence. Consequently, the timing specified by the *"made to date"* clause depends on and must be the same as the timing established for the calculation of SCt in the first sentence of paragraph (3), which occurs *"at the end of any policy year"* for policy years 1-14.

The consequence of the timing being controlled by the antecedent limitation becomes evident when the definition of "deferred acquisition and other charges" given in 11 NYCRR 54.7(b)(1)(xiii) is noted, which reads as follows: "Deferred acquisition and other charges are acquisition and other charges deducted from the policy value *after the first policy year*." So, by definition, deferred acquisition and other charges do not exist until the commencement of the second policy year. Since SC1 is determined at the end of policy year one, which is before the commencement of the second policy year, it follows that there are no deferred acquisition and other charges to deduct when determining SC1. This final piece then ties the interpretation together and shows that the limit of summation in equation II must be defined as f(t) = t-1. Thus, when t=1 and f(t) = t−1 = 0 equation II degenerates to SC1 <= SC0 (because the upper limit of summation, f(t)=0, is less than the lower limit s=1.) Only beginning with the determination of SC2, the surrender charge limitation for the second renewal year (i.e., policy year three), will the surrender charge limit be reduced by deferred acquisition and other charges *"made to date"* in the second policy year.

Effect

Clearly, this interpretation will only be beneficial when your policy design contains deferred acquisition and other charges. In this case, the full effect will likely be somewhat dampened by the amortization constraint, expressed by equation I, which does not depend on optional policy cost structures and eliminates surrender charges beyond policy year 15. Because policy design nuances are usually driven more by market forces than by profit objectives per se the greatest value of this interpretation may be the additional design flexibility provided. The degree of flexibility introduced is indicated by policy designs we reviewed where this interpretation increased the renewal year surrender charges allowed by more than 15%.

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Federal DAC Tax

by Matthew S. Easley & Stephen A. Sedlak, submitted by Gregory A. Simmons

In the book "The Education of T. C. MITS," the author offers an example of a problem that 50,000,000 people reportedly got wrong. The reader is presented with a choice of two patterns of salary increase and asked which would be preferable.[1] The author demonstrates that the pattern that virtually no one selected always pays the same as or more than the alternative almost everyone chose. In actuarial work, we are frequently confronted with problems with more than one apparently reasonable answer. This article deals with one of these, where the Federal DAC cost can be applied in an apparently reasonable, but incorrect, manner.

Section 848 of the internal revenue code requires insurance companies to capitalize acquisition expenses on certain contracts. For non-pension life and annuity contracts, the capitalized amount is a percentage of premiums, regardless of the actual acquisition costs incurred. In addition, this applies to all premiums, even though they are received long after the policy's issue when acquisition costs generally occur. Because of the dubious relationship of these amounts to acquisition costs and the arbitrary manner of their determination, they are sometimes referred to as Pseudo Deferred Acquisition Costs (PDAC) and the tax effect as the PDAC tax (or DAC tax for short).

Actually, as with other capitalization required under the internal revenue code, no overall extra tax is usually generated, because the capitalized costs are all eventually amortized back into taxable income, reducing it. In the case of companies with small amounts of PDAC in a given tax year (at or below $10 million), the amortization period for the first $5 million is 60 months. However, the PDAC to which this relatively short period applies is reduced to zero when total PDAC is $15 million in the tax year.

Any excess PDAC must be amortized over 120 months, making it even more costly.

PDAC amortization starts in the middle of the tax year that gave rise to it. This leads to the following formula for the approximate cost of the PDAC:

$$C = TR \cdot R \cdot \left[1 - \left(a_p + \ddot{a}_p\right)/2p\right]$$

where

C is the PDAC cost as a percentage of premium;
TR is the applicable tax rate (usually 35%);
R is the PDAC rate: 1.75% for annuities, 2.05% for group life and 7.7% for any life or non-cancelable A&H contract;
p is the amortization period in years; and
a and $\ddot{a}$
are annuities certain at a selected after tax interest rate (for pricing, this is usually fairly high).

Applying this formula produces the following table of illustrative PDAC costs for non-pension annuities (in basis points):

	Interest Rate			
p	9%	11%	13%	15%
5 Years	11	13	15	17
10 Years	20	23	26	28

The costs for other products can be estimated from the above by simply multiplying the appropriate cost by the ratio of their PDAC factor to 1.75%. Thus, individual non-pension life subject to 10-year amortization has a PDAC cost of approximately 123 BP if a 15% interest rate is used (28 x 7.7 / 1.75 = 123). Using the formula produces a value of 124 BP.

At this point, all we need to do is reflect this cost in the pricing of our product, as a percentage of premium, just like we do for any other premium related cost (e.g., commissions). In order to retain the desired profitability, this will require that we recover the cost by increased charges to the policyholder. Unfortunately, this can produce a pricing answer that is not correct. This can happen for two reasons:

1. If the PDAC cost is handled just like any other percentage of premium cost, the pricing will assume that it is deductible if no adjustment is made. However, this is not true. PDAC costs aren't deductible items for federal taxes in the computation of taxable income. One way to deal with this to "gross up" the PDAC cost by dividing it by one less the tax rate. Thus, the 28 BP in our example becomes 43 BP, and the 124 BP becomes 190 BP. If the PDAC cost is directly charged to the policyholder, the 190 BP becomes taxable income and 124 BP (190 BP x 65%) remains after tax to pay for the cost of the PDAC.

2. In addition, the loading charged to recoup the PDAC cost can have the secondary effect of changing the level and/or incidence of projected profits. For example, if the PDAC cost is charged as an up front premium load, the funds in the contract are reduced, as are future contract loads. On the other hand, if interest spread is increased to offset the PDAC cost, the growth of funds accumulated in the policy, and therefore the level of future interest spreads, will fall, but with a different incidence.

To illustrate this, consider a single, premium annuity with a premium of $1000, commission of 5%, acquisition

costs of $24.37, an interest spread of 2% and net investment income of 8%. Funds under this annuity will accumulate at the resulting 6% interest credit. No surrender charges or administration costs are assumed, and the contract is assumed to surrender at the end of year five for simplicity.

We can assume the latter as long as we know the PDAC cost on a present value basis, since its amortization is independent of the product's life. However, this won't work very well if we try to solve for a rate of return and is done here only to make the illustration easier to follow. In actual practice, it will generally be better to model PDAC amounts and their subsequent amortization as a period by period adjustment to statutory gains in order to obtain a realistic taxable income.

Continuing our illustration:

Year	EOY Fund	Spread	Commission & Expenses	Gain	Tax	Net Gain	PV @ 15%
0	1,000.00	0.00	74.37	(74.37)	(26.03)	(48.34)	(48.34)
1	1,060.00	20.00	0.00	20.00	7.00	13.00	11.30
2	1,123.60	21.20	0.00	21.20	7.42	13.78	10.42
3	1,191.02	22.48	0.00	22.48	7.87	14.61	9.61
4	1,262.48	23.82	0.00	23.82	8.34	15.48	8.85
5	0.00	25.24	0.00	25.24	8.83	16.41	8.16
Subtotal							0.00
PDAC Cost							2.80
Total PV							(2.80)

Thus, our hypothetical product has a return of exactly 15% before the advent of the DAC tax, but earns somewhat less (12.74%) when recognition of the PDAC cost becomes necessary. If we make a charge only for the PDAC cost, the return is 14.07%, still not up to 15%. Even if we gross up the PDAC cost, the situation improves (to a return of 14.82%), but still not quite enough, as is shown:

	Charge 2.80				Charge 4.31 = (2.80/.65)			
Year	EOY Fund	Spread	Net Gain	PV@ 15%	EOY Fund	Spread	Net Gain	PV @ 15%
0	997.20	0.00	(46.52)	(46.52)	995.69	0.00	(45.54)	(45.54)
1	1,057.03	19.94	12.96	11.27	1,055.43	19.91	12.94	11.25
2	1,120.45	21.14	13.74	10.39	1,118.76	21.11	13.72	10.37
3	1,187.68	22.41	14.57	9.58	1,185.88	22.38	14.54	9.56
4	1,258.94	23.75	15.44	8.83	1,257.04	23.71	15.42	8.82
5	0.00	25.18	16.37	8.14	0.00	25.14	16.34	8.12
Subtotal				1.69				2.59
PDAC Cost				2.80				2.80
Total PV				(1.11)				(.21)

It turns out that the correct premium loading to restore the desired 15% return in this example is 4.65, or 1.66 times the unadjusted PDAC cost of 2.80. This is the amount (after tax is paid on it) which will exactly offset both the PDAC cost and the loss of spread income due to the reduced policy funds in our example. While one could have iterated to get this loading, there is an alternative way in this case to obtain it which is instructive. If we let L be the desired loading, C be the PDAC cost, V be the after tax present value (at the desired rate of return) of spreads without the DAC tax and prem be the premium, we have

$$L = (C + L \times V / prem) / .65 \Rightarrow L = C / (.65 - V / prem) = 2.80 / (.65 - .04834) = 4.65$$

It should be noted that this holds only if the premium in question is single, the spreads are uniformly affected by the PDAC charge, the PDAC charge is made when the premium is received, and no element of the product besides the spreads are affected by the PDAC or the charge for it. Very few real life products will actually meet these conditions, so this formula should be viewed more as instructional and probably shouldn't be used in the pricing process except as a reasonableness check. This says that, at least for this kind of loading charge and product, the needed amount also depends on the ratio of the after tax value of fund related items to the premium giving rise to the PDAC. While this is fairly small in this example, it could be a lot larger if V were larger. This will tend to happen

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for many accumulation products as acquisition costs increase. In the case of a life contract, the situation is even more complex since the net amount at risk and any related charges are also impacted by changes in the fund balance.

For traditional life products, the DAC tax loading would probably be in the form of an increased premium and the grossed up cost would suffice (if it weren't for the need to gross it up further for percentage of premium costs such as commissions and premium taxes). For UL products, the load will tend to pull down funds and can therefore produce effects similar to those outlined above except that they will be over four times bigger because of the greater PDAC rate.

However, life products also have mortality spreads that may be influenced by the loading in different ways. Reductions in funds will also cause differences in amounts at risk and therefore in mortality margins. For a typical (Option A) UL plan, this will generally result in higher mortality margins that will tend to mitigate the lost fund revenue. However, for highly funded products that qualify as life insurance using the cash value test under IRC Sec. 7702, amounts at risk may be less than they would have been in the absence of the DAC tax load. This is due to the fact that fund increases for these products drive up the insured amounts and this is generally amplified by a factor greater than one. This in turn will tend to increase the needed loading still further.

The following example is based on a rather contrived product. It is a single-premium life contract funded at the CVAT limit and assumed to surrender after five years. The COI charges are set equal to the expected mortality. The other loads are designed to produce a 15% return and to be similar to the annuity described above with commissions reduced to 3% to pay a 2% premium tax. The major difference is the higher PDAC expense. We have also simplified the product for illustration purposes by assuming that COIs are collected at year-end, just prior to the death payments, in order to avoid complications due to the time value of money since our discount rate does not equal the fund accumulation rate. (The more common model for insurance products is to collect the COIs at the beginning of the period, and to pay the death claims at the end of the period.) Finally, to maintain a 15% return, we had to reduce the acquisition expense to $23.97. The reduction is because the fund will grow at a lower rate due to the deduction of COIs, thereby reducing the spread income we are able to achieve.

Year	EOY Fund	Spread	Commissions & Expenses	Gain	Tax	Net Gain	PV@15%
0	1,000.00	0.00	(73.97)	(73.97)	(25.69)	(48.08)	(48.08)
1	1,057.18	20.00	0.00	20.00	7.00	13.00	11.30
2	1,117.27	21.14	0.00	21.14	7.40	13.74	10.39
3	1,180.36	22.35	0.00	22.35	7.82	14.52	9.55
4	1,246.55	23.61	0.00	23.61	8.26	15.34	8.77
5	0.00	24.93	0.00	24.93	8.73	16.21	8.06
Subtotal							0.00
PDAC Cost							12.41
Total PV							(12.41)

The return of this product is exactly 15% before PDAC but is only 6.27% when PDAC is recognized. The next tables show what the product would look like if we charged (a) the actual PDAC cost, and (b) the PDAC cost grossed up for FIT.

	Charge 12.41				Charge 19.09 = (12.41/.65)		
Year	EOY Fund	Spread	Net Gain	PV@ 15%	EOY Fund	Spread	Net Gain	PV @ 15%
0	987.59	0.00	(40.01)	(40.01)	980.91	0.00	(35.67)	(35.67)
1	1,044.06	19.75	12.84	11.16	1,038.88	19.62	12.75	11.09
2	1,103.41	20.88	13.57	10.26	1,098.14	20.74	13.48	10.19
3	1,165.72	22.07	14.34	9.43	1,160.38	21.92	14.25	9.37
4	1,231.08	23.31	15.15	8.66	1,225.70	23.16	15.05	8.61
5	0.00	24.62	16.00	7.96	0.00	24.46	15.90	7.90
Subtotal				7.47				11.49
PDAC Cost					12.41			12.41
Total PV				(4.94)				(0.92)

Again, we see that charging the PDAC cost leaves us short of our desired 15% return, producing a return of only 11.09%, and charging the PDAC grossed-up for income taxes produces a return of 14.22%. It turns out that the correct premium loading to restore the desired 15% return in this example is $20.62, and the ratio of the final load to the PDAC is 1.66 for this simple product, just as it was for the annuity example.

For a product with higher acquisition expenses, the ratio of the final load to the PDAC can become even higher. Using the above model, we tested a UL contract with acquisition expenses of 23% of premium. (While this level of acquisition expenses would not likely be seen in a single-premium UL product, it is not at all unreasonable for other life-insurance products.) To pay for these increased expenses, the interest spread had to be increased from 2% to 6.75%. The ratio of the final load to the PDAC is 200% and would be even higher with higher acquisition expenses. In the case of a more realistic life product which has positive mortality margins, the reduced fund balance would generate higher COI margins and make the ratio of the final load to the PDAC unpredictable.

The interactions in real products are much more complex and hard to predict. The actual tax effects of the PDAC should be included in the basic pricing runs to produce the best results. Trying to price PDAC as an add-on is prone to potentially significant error, and this error may not be detected because the actuary already thinks the proper charge has been made and moves on to other issues. This is more difficult to do for products that are priced on a "menu" basis with many of the loads being customized by the client. However, base runs of a typical product can be used to inform the actuary of the level of the true cost based on that product structure.

Appendix: Solution to the salary puzzle.
Interestingly, pattern #2 is the better choice! Note the salaries in the table below:

As you can see, the person electing pattern number two always receives the same as, or more than, the person electing pattern number one.

Time Period	Salary 1 (annual)	Salary 2 (semiannual)	Pay This Period Pay 1	Pay 2	Cummulative Pay Pay 1	Pay 2
First six months	30,000	15,000	15,000	15,000	15,000	15,000
Second six months		16,500	15,000	16,500	30,000	31,500
Third six months	36,000	18,000	18,000	18,000	48,000	49,500
Fourth six months		19,500	18,000	19,500	66,000	69,000
Fifth six months	42,000	21,000	21,000	21,000	87,000	90,000
Sixth six months		22,500	21,000	22,500	108,000	112,500
Seventh six months	48,000	24,000	24,000	24,000	132,000	136,500
Eighth six months		22,500	24,000	25,500	156,000	162,000

Endnote
(1) *The Celebrated Man in the Street,* by Lillian Lieber. We have updated the original numbers to account for inflation. Pattern number one is an annual salary of $30,000, with annual raises of $6,000. Pattern number two is a semiannual salary of $15,000, with semiannual raises of only $1,500. Assume that you are paid monthly; for example, your first month's salary would be $2,500 under either pattern number one or number two. Which salary pattern would you prefer? The solution was given in the appendix.

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Annual Meeting in New Orleans, October 21-24, 2001, Hilton Riverside Hotel

The following Annual meeting sessions will be sponsored by the Product Development Section:

Sunday, October 21
541SM
PD Section Dinner Cruise: *Cruisin' on the Mississippi, enjoy a dinner cruise on the Mighty Mississippi.*

Monday, October 22
10:30 a.m. - noon
12PD
Hot Topics in Variable Products
This session explores product and market trends and provides a market scan of major players, sales history and distribution trends.

13PD
Life/LTC Blends: The Best of Both Worlds
Industry reps address the market need for and acceptance of life and long-term combination products and the issues for carriers to consider regarding developing, marketing and distributing this emerging product.

Monday, October 22
2:00 p.m. - 3:30 p.m.
34PD
Insured Female Mortality - What is Really Happening?
Discussion on the biological and environmental factors affecting gender-based differences in mortality.

43TS
Reserving for Guaranteed Living Benefits on Variable Annuities
Provides a roadmap through the draft Actuarial Guideline and insight into the choices that a valuation actuary must make.

Tuesday, October 23
8:30 a.m. - 10:00 a.m.
64IF
Income Products: Consumer Issues (Part 1)
The session focuses on consumer needs related to income products.

68TS
Communicating Financial Impact of New Products
Learn how to explain profitability measures to senior management.

Tuesday, October 23
10:30 a.m. - noon
79PD
Mutual Funds Versus Annuities
Explores the growth trends of the mutual fund and annuity marketplace and also compares and contrasts product offerings.

80PD
Income Products - Pricing (Part 2)
Attendees gain an understanding of the important financial issues related to income products.

Tuesday, October 23
2:30 p.m. - 4:00 p.m.
102PD
Income Products: Structured Settlement Annuity Market (Part 3)
Gain an understanding of structured settlements, through examining a specific and well-established payout annuity market.

101PD
Regulation XXX Update
Learn about the most current issues concerning Regulation XXX.

Wednesday, October 24
8:00 a.m. - 9:30 a.m.
127SM
Product Development Section Hot Breakfast

Wednesday, October 24
10:00 a.m.. - 11:30 a.m.
154WS
Tax Issues - Hot Topics
This session emphasizes the most recent developments in life insurance company and policyholder taxation.

149L
Applicant-Selected Underwriting
Basic understanding of the modifications to traditional pricing and underwriting functions necessary to design and offer a product using a unique selection approach.

Wednesday, October 24
Noon - 1:30 p.m.
160TS
Understanding and Managing the Risks Underlying Guaranteed Benefits in Variable Annuities
Gain an understanding of the challenges facing an insurer in this segment of the market and the tools with which to address them.

WIN A CRUISE FOR TWO!!!!

How Do I Win?	Enter the Product Development Section Council's "Name Our Newsletter" contest. Submit the winning entry and win two passes on board the Cajun Queen to go "Cruisin on the Mississippi" at the Product Development Section Council's social event on Sunday evening, October 21 at the 2001 Annual Meeting. (Even if you are not planning to attend the Annual Meeting, tickets are transferable and you will be the envy of your peers with the recognition you will receive.)
Why Should I Enter?	The Product Development Section Council feels our newsletter name is a little bland. Our newsletter has always provided you with information that helps you keep up with changes in the Product Development environment. We want our newsletter to have a name that reflects this leading-edge mentality; one that is as innovative and creative as the Product Development actuaries the newsletter is written for.
How Do I Enter?	E-mail your entry to *rgorter129@aol.com* no later than September 1, 2001. The winner will be notified by September 14.

Submit your entry today!

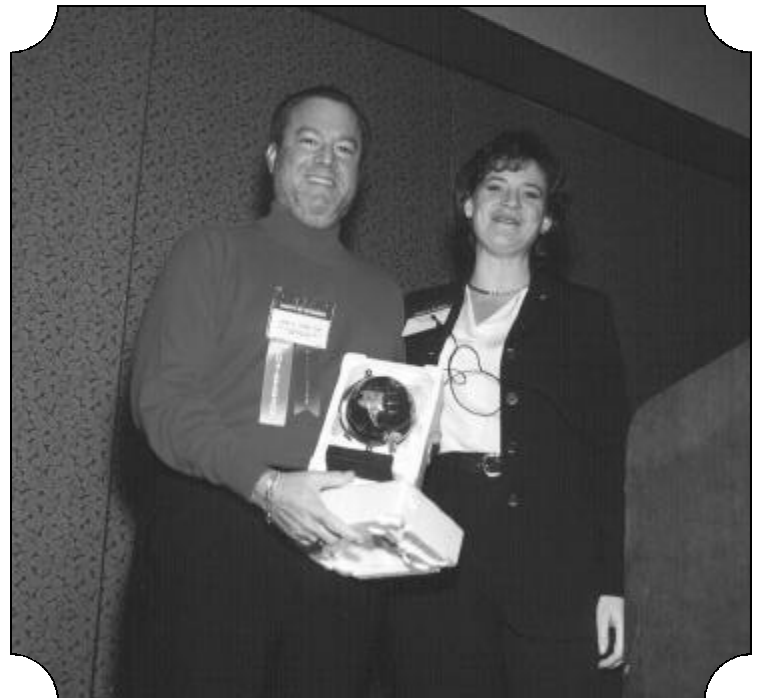## *Product Development Section Council Meets in Chicago*

Council members gathered in Chicago to plan the future course of the Product Development Section -

Standing - left to right - Kevin Howard, Nancy Kenneally, Noel Abkemeier, Lorraine Mayne, Susan Kimball

Seated - left to right - Anne Katcher, Larry Stern (1999-2000 Chairperson), Deanne Osgood (2000-2001 Chairperson), Mary Bahna-Nolan

Missing - Ken McCullum

Deanne Osgood (2000-2001 Chairperson) presenting a gift of appreciation from the Product Development Section to Larry Stern (1999-2000 Chairperson)

Product Development Section Council Meets in Chicago

Product Development Section Council members enjoying the "fruits" of their labors at the section luncheon at the Annual Meeting in Chicago.

Don't Forget To Vote In The Product Development Section Council Election!

Take an active role in the election process! The following section members are candidates for the three council seats:

Scott Lloyd Berlin -   *New York Life Insurance Company,* New York
Anthony V. Ferraro -   *Aon Consulting of New Jersey*, Closter, New Jersey
Paul A. Haley -   *GE Financial Assurance*, Richmond, Virginia
Kevin J. Howard -   *Empire General Life Assurance*, Overland Park, Kansas
Susan K. Kimball -   *ING Re*, Denver, Colorado

Ballots must arrive in the SOA office no later than Friday, August 3. Section members who do not receive the election mailing by July 19 should contact Lois Chinnock at the SOA office (phone: 847/706-3524; e-mail: *lchinnock@soa.org*)

PRODUCT DEVELOPMENT NEWS

2001 Meeting Editors Wanted

Are you interested in reading 2000-2001 SOA meeting manuscripts in your specialty areas before they are published onto our Web site? Do you want an opportunity to increase your professional actuarial knowledge and exposure to current ideas? If so, this volunteer position is for you.

What would I do?

Review *Record* manuscripts that have already been edited for grammar, style, and format for actuarial content and accuracy. Work with SOA staff and moderators to help us get the Record sessions onto the SOA Web site faster.
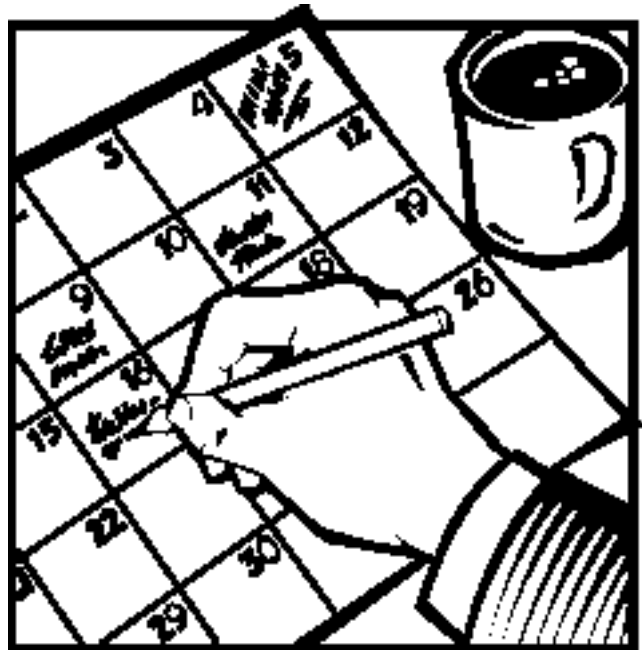
What do I need?

Actuarial knowledge in the following areas and a red pen. The specialty areas are:

• Actuary of the Future, Financial Reporting, Health, Health Disability Income, Investments, Long-Term Care, Management and Personal/Professional Development, PRODUCT DEVELOPMENT, Nontraditional Marketing, and Pension.

How much time will it take?

It takes a few hours to review papers. We only send one or two manuscripts at a time depending on your workload. You can choose 1-3 meetings.

How can I sign up?

Contact the Chairperson, Rich Cruise at 402-361-7499 or by e-mail at: *rcruise@LincolnDirectLife.com.*

Do it now!

You'll be listed in the *Yearbook* as a member of the Editorial Board and your name will appear in the meeting table of contents on the Web site.

CRUISIN' ON THE MISSISSIPPI!

Enjoy a dinner cruise on the Mighty Mississippi! This event is a great opportunity for casual networking, socializing, and dining.

Docked within a short walk of the Annual Meeting hotel in New Orleans, the Cajun Queen boards from 7:00 to 8:00 p.m. and cruises from 8:00 to 10:00 p.m. on Sunday, October 21. Attendees enjoy drinks, a buffet dinner and music in grand New Orleans style.

LIMITED SPACE AVAILABLE. Advance registration is required. There is a non-refundable charge of $45 per person for Product Development Section members and $55 per person for all other attendees. Sign up for the cruise when you register for the annual meeting. Questions?? Call Mary Rocuskie at 847/706-3545.