

Study Group Conference – 3/16/05

No-Lapse Life Insurance Policies

EXHIBIT 1

1. Static-pricing provides premium certainty. Future pricing factors (primarily fixed-income yields), in retrospect, may cause market-priced policies' premiums to be consistently higher or the benefits lower than static-priced policies. **Advantage static-priced policies.**
2. Fixed-income yields may provide market-priced policies with better performance, either measured as more value or lower premium costs. **Advantage market-priced policies.**
3. Market-priced policies have much higher cash values that can be obtained if a policy is surrendered or cash values are withdrawn or borrowed. **Advantage market-priced policies.**
4. Static-priced policies could become so underpriced that the company is seized for solvency protection. – **Static-pricing disaster.** (This is considered in detail later in this report).

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EXHIBIT 2

Estimate of Premiere Mutual Premiums for Various Dividend-Interest-Rates

Dividend Interest Rate	Premium	Difference with Acme Life \$195,000 Premium
9.50%	\$168,000	16%
9.25%	173,333	12%
9.00%	175,000	11%
8.75%	180,000	8%
8.50%	185,000	5%
8.25%	190,000	3%
8.00%	195,000	---
7.75%	200,000	[3%]
7.50%	205,000	[5%]
7.25%	213,000	[9%]
7.00%	219,950	[13%]
6.75%	225,000	[15%]
6.50%	232,000	[19%]
6.25%	240,000	[23%]
6.00%	245,000	[26%]
5.75%	255,000	[31%]
5.50%	260,000	[33%]
5.25%	269,000	[38%]
5.00%	275,000	[41%]

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EXHIBIT 3

History of Premier Mutual Dividend-Interest-Rate

Year	Dividend Interest Rate	Year	Dividend Interest Rate
1981	7.25%	1993	9.25%
1982	9.00%	1994	8.50%
1983	9.75%	1995	8.50%
1984	10.75%	1996	8.50%
1985	11.00%	1997	8.50%
1986	11.25%	1998	8.80%
1987	11.00%	1999	8.80%
1988	10.25%	2000	8.80%
1989	10.00%	2001	8.80%
1990	10.00%	2002	8.60%
1991	10.00%	2003	8.20%
1992	9.25%	2004	7.70%

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EXHIBIT 4

Estimated Effect of Lapse-Supported Pricing

Ages	Illustrated Surrender Value	Net Asset Share	Persisting Policies' Gain
76 / 75	\$394,482	\$931,958	\$537,476
81 / 80	1,417,944	2,385,120	967,176
86 / 85	2,211,115	3,655,241	1,444,126
92 / 90	2,460,415	5,244,336	2,783,921
96 / 95	378,542	6,310,526	5,931,984

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EXHIBIT 5

Comparison of Illustrated Cash Values

Ages	Premiere Mutual	Acme Life
76 / 75	\$ 848,112	394,482
81 / 80	2,232,999	1,417,944
86 / 85	3,893,830	2,382,072
91 / 90	5,407,362	2,460,415
96 / 95	6,893,773	378,542
101 / 100	10,000,000	0

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EXHIBIT 6

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... for the unfettered exchange of ideas about insurance

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AND A POTENTIAL FINANCIAL DISASTER FOR THE LIFE INSURANCE BUSINESS**

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EXHIBIT 7

Fitch Ratings – “Looming Financial Implications of Universal Life” (7/21/2004)

“... these secondary guarantees create both a pricing and reserving risk ... Pricing assumptions appear to have excessive lapse assumptions, aggressive mortality underwriting and higher implied crediting rates than are warranted. Obviously, this pricing environment can create significant risk if these assumptions do not hold.”

“Ultimately, Fitch believes the UL market will consolidate to a select number of insurers who have the financial flexibility and deep pockets to withstand the surplus burden and return on equity impact of the scale to efficiently implement capital market solutions.”

Moody’s Investors Service – “Beware of What you Price For: Credit Implications of UL Secondary Guarantees for U.S. Life Insurers” (7/2004)

“Moody’s has become increasingly concerned about the potential impact of UL secondary guarantees on the statutory reserve requirements and profitability of life insurers that are aggressively selling death benefit oriented UL policies. Moody’s believes that the industry’s exposure to this coverage has increased dramatically over the past few years due to the increase in use of death benefit oriented UL policies, often used in estate planning situations. MOODY’S FEARS THAT INSURERS WRITING THESE POLICIES COULD SUFFER POTENTIALLY LARGE LOSSES IF AGGRESSIVE PRICING ASSUMPTIONS INVOLVING PORTFOLIO YIELD, SURRENDER RATES, LETTER OF CREDIT COSTS AND MORTALITY RATES DO NOT MATERIALIZE AS EXPECTED. In addition, Moody’s believes that some companies are not positioned to adequately deal with large future statutory reserve requirements and the resultant need for capital that can be created by this type of coverage.”

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EXHIBIT 8

Comparison of Acme Life and Premiere Mutual Death Benefits

Age	Acme Life	Premiere Mutual*	Difference	% One Alive
78	\$1,273,041	\$768,617	[66.0%]	99%
82	1,273,041	925,643	[38.0%]	92%
87	1,273,041	1,173,623	[8.4%]	80%
89	1,273,041	1,290,302	1.3%	68%
92	1,273,041	1,478,678	16.0%	52%
97	1,273,041	1,857,627	46.0%	26%
99	1,273,041	2,020,842	59.0%	19%

* Actual Premiere Mutual death benefits will be different

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EXHIBIT 9

Single-Premium Policy Design

Company	Cost per \$1,000	Static or Market Priced	Full or Low Load
Low Life	\$230	Static-Priced	Full-Load
Full-of-Life	320	Static-Priced	Full-Load
Acme Life	330	Static-Priced	Full-Load
US Life	305	Static-Priced	Low-Load
US Life	355	Static-Priced	Full-Load
Existing XYZ Life	489	Market-Priced	Full-Load
Existing Ajax Life	495	Market-Priced	Full-Load
Existing ABC Life	493	Market-Priced	Full-Load
Premiere Mutual	328	Market-Priced	Low-Load
ABC Life	370	Static-Priced	Full-Load
Ajax Life	360	Static-Priced	Full-Load

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EXHIBIT 10

- With vanishing premium promises during historically high fixed-income yields in the 1980s and early 1990s – low premium promises based on illustrated high returns of variable life from the mid-1990s to 2000 – the life insurance industry gave its implicit imprimatur to permanent life insurance underfunding. This informal underfunding with market-priced policies puts all of the risk on the policyholder and it hasn't worked very well. No-Lapse policies makes underfunding an official life insurance company strategy that excites agents, advisors and buyers because the term guarantee appears to transfer all of the jeopardy to the insurance company – but this increases solvency risks, which represents the ultimate in policy owner peril
- If you sell or recommend No-Lapse policies without disclosing the risks and having clients sign off to them you better increase your malpractice insurance coverage
- Do not sell or recommend market-priced policies offered by companies aggressively selling No-Lapse policies – they are first in line to have their pricing implode if their No-Lapse isn't profitable
- No-Lapse is a welcome addition to the gallery of life insurance policies. It is appropriate when level death benefits are desired, little or no cash values expected, you can identify the most risky companies (avoiding them) and your clients understand and sign off on the potential disadvantages and increased solvency risks