

# ***Lessons from Adoption & Implementation of the 2001 CSO Table***

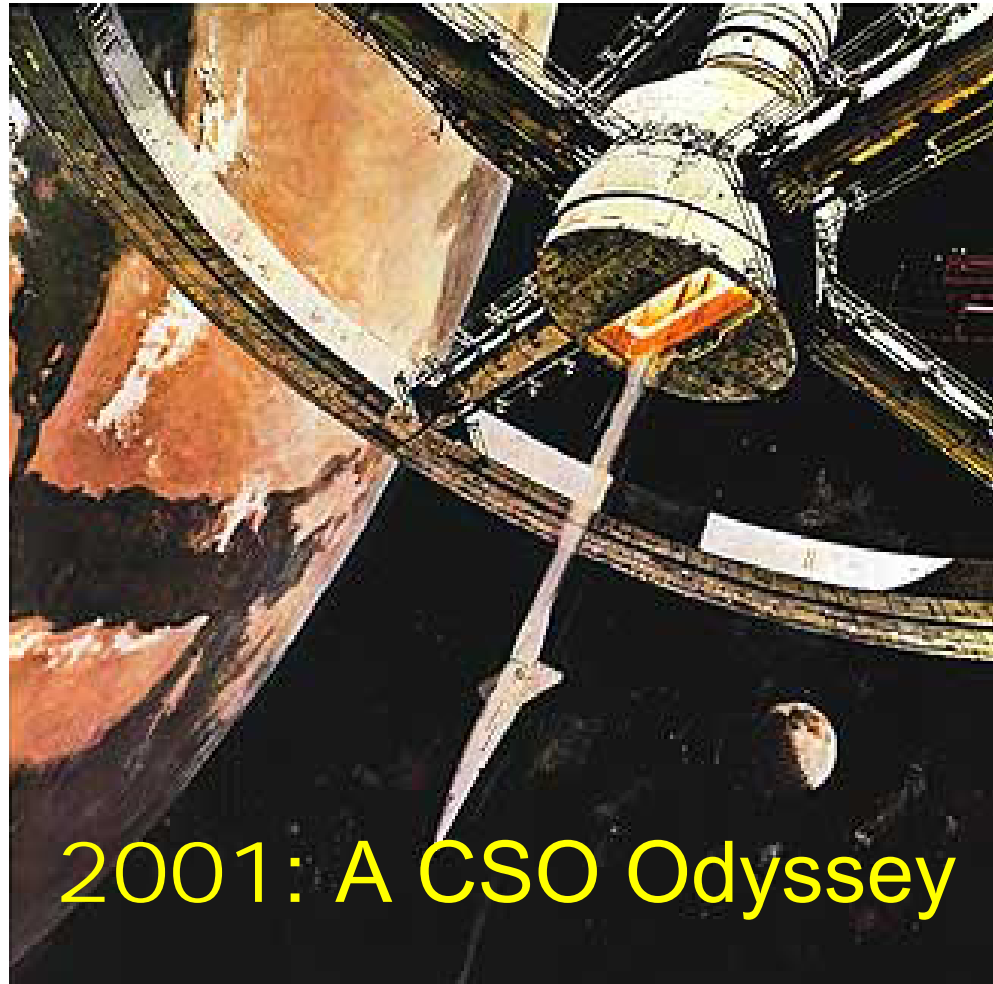
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- **What Lessons Did We Learn from the Adoption & Implementation of the 2001 CSO Table**
  - Case Design
  - Implementation
  - Filing
  - Post Mortem (or close to)
- **Not Pricing or Reserving Impacts**
  - Where Significant, Adopted Almost Immediately Several Years Ago

- **Model Regulation Adopted by LHATF in December 2002**
- **States Began Adopting in 2003 with Earliest Effective Date of 1/1/2004**
- **2001 CSO Table Became Operative Table in 2004 (adoption of 26 states)**
- **IRS Notice 2006-95 Clarified Use of 1980 CSO Products through Calendar Year 2008**
- **Products Issued on 1/1/2009 and Later Must Use 2001 CSO for 7702**

# Primary Impact of 2001 CSO Adoption

- **Guaranteed Premium Products Including Term, Whole Life, UL**
  - Lower XXX/AXXX Reserves
  - Lower Capital Requirements
  - Improved Returns
  - *Desire to Implement Quickly*
- **Current Assumption Products**
  - Minimal Impact to Reserves
  - Maximum COI's Limited
  - *No Rush to Implement*
- **Current Assumption Accumulation Products**
  - Minimal Impact to Reserves
  - Minimal Impact to Reserves
  - Reduced 7702 Limits
  - *Wait as Long as Possible!*



## 2001: A CSO Odyssey

- **Transitioned Guaranteed Premium Products Several Years Ago**
- **Majority of Current Assumption Products Transitioned in 2008**
- **Used 2001 CSO Transition as Opportunity to Simplify Portfolio**
- **Rolled Out (Rolling Out) 27 New Products in 2008**
- **Installed Over 250 Plan Codes**
- **Obtained Approximately 1700 State Approvals to Date**

# We Weren't Alone

Company	% Complete as of the End of 2Q '08
AIG American General	30%
Company A	78%
Company B	70%
Company C	40%
Company D	75%
Company E	70%
Company F	15%
Company G	65%
Company H	28%
Company I	50%
Company J	55%
Company K	65%
Company L	100%
Company M	70%
Company N	65%

**Carriers with Independent Distribution Tended to Wait Longer**

- **Majority of Accumulation Products Launched in 2008**
- **1980 CSO Versions of Products Still Being Launched in 2007**
- **In Extremely Price Sensitive Market ... Competitive Pressures Drove Implementation**



# 7702 Impact

## 1980 CSO Product

## 2001 CSO Product

## % Change

		Minimum Non Mec Death Benefit	MEC Premium	Sample GLP - Option B	Minimum Non Mec Death Benefit	MEC Premium	Sample GLP - Option B	Minimum Non Mec Death Benefit	Sample GLP - Option B
Male	35	2,462,462		116,550	2,950,836		97,587	20%	84%
	55	1,291,078	100,000	140,027	1,490,862	100,000	114,275	15%	82%
	75	687,012		181,413	787,284		149,129	15%	82%
Female	35	2,884,732		112,135	3,346,465		78,425	16%	70%
	55	1,520,230	100,000	135,933	1,682,327	100,000	90,902	11%	67%
	75	806,264		184,319	909,348		120,778	13%	66%

**Increased Death  
Benefit, Less Efficient  
Accumulation**

**Lower Income Streams**

**Increased Death  
Benefit, Less Efficient  
Accumulation**

# New Case Designs Necessary

## 1980 CSO Product

## 2001 CSO Product

	Minimum Non Mec Death Benefit	MEC Premium	Sample GLP - Option B	Minimum Non Mec Death Benefit	MEC Premium	Sample GLP - Option B
1	406,098			338,887		
2	406,098			338,887		
3	406,098			338,887		
4	406,098			318,921		
5	406,098	406,098	473,121	317,225	338,887	330,561
6	406,098			330,561		
7	406,098			330,561		
8				330,561		
9				198,192		
10						
Total	2,842,683			2,842,683		

**New Cases Designs**

**Increased Use of CVAT**

**Renewed Focus on  
Maximizing 7702 on  
Product Design**

# Why Pay More Than You Need

<b>MALE 60</b>	<b>Length of Guarantee</b>	<b>Length of Premium Payment</b>	<b>Premium</b>	
<b>\$1 Million Policy</b>  <b>Preferred No Tobacco</b>	<i>Life (121)</i>	<i>100</i>	<i>\$16,254</i>	← 1980 CSO to 2001 CSO
	<i>Life (121)</i>	<i>Life (121)</i>	<i>\$15,898</i>	
	<i>105</i>	<i>105</i>	<i>\$15,370</i>	← Producer Positioning
	<i>90</i>	<i>90</i>	<i>\$12,377</i>	

**Increased Use of Flexible Nature of Products**

**Obvious Pricing Concerns if Distribution Risk Exists**

- **Broad Feedback to Start Earlier**
- **What Decisions Would You Have Made Different?**
- **Launch Products that Are Less Competitive?**
- **Update Products that Didn't Need Updating?**
- **Opportunity Cost of Not Doing the Alternative?**
- **Launch Products with Limited Competitive Information?**
- **There Was Opportunity:**
  - Niche/Conversion Products
  - Simplifying the Portfolio...

- **Many Legacy Products**
- **Significant Duplication**
- **Products Designed for Different Distribution Channels but Essentially the Same**
- **Reduced Core Independent Distribution Life Products from 14 to 8**
- **Well Received by Every Distribution Outlet**
- **Refined Cost / Understanding of Product Maintenance ... More Expensive than You Think!**

- **States Definitely Became “backlogged”**
- **States Very Willing to Find Solution to Minimize Impact**
- **Follow Up Very Critical**
- **Success with Consultants and Government Affairs**
- **Impact of Compact or OFC?**

- **Dust Off 7702 Training Materials**
  - Internal – Good Refresher
  - External – Lack of Understanding of Mortality: Pricing, Valuation, Tax
- **Implementation**
  - We Started Transition Rules Sooner ... Why Not Always?
  - Specs, Specs, Specs!

**Thank You**