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LINDA RUTHARDT
COMMISSIONER OF INSURANCE

BULLETIN 00-02

TO: Licenses, Insurers and Interested Parties

FROM: Commissioner Linda Ruthardt

DATE: March 30, 2000

RE: Universal Life and Variable Life Policies With No-Lapse Guarantees

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The Division of Insurance continues to receive for review Universal Life and Variable Life policies with no-lapse guarantees. No-Lapse guarantees designate a premium and a time period during which, if the designated premium is paid, the policy is guaranteed not to lapse. It has been the practice of the Division of Insurance to limit these provisions to five years.

This bulletin removes that limit and sets forth guidelines to assist insurers with the filing of no-lapse guarantees. All actuarial information and actuarial certifications relative to proposed reserving information must be forwarded to the State Rating Bureau for review.

Definition of No-Lapse Guarantee: The guarantee that a flexible premium universal life insurance policy or a flexible premium variable life insurance policy will remain in force as long as a designated premium is paid and regardless of the magnitude of the accumulated account value.

Actuarial Memorandum: The requisite actuarial memorandum, prepared and signed by a qualified actuary, must contain the following:

1. A description of the no-lapse guarantee.
2. An explanation and sample calculation of the reserving for the no-lapse guarantee.
3. An explanation and sample calculation of any nonforfeiture benefits attributed to the no-lapse guarantee.
4. A demonstration that the no-lapse provision is self-supporting. The self-support test described in the NAIC Life Insurance Illustrations Model Regulation and the Actuarial Standard of Practice No. 24 shall be one acceptable method for demonstrating self-support.

Policy: At a minimum, all policy forms must comply with the following requirements:

1. The existence of and extent of the no-lapse period(s) must be made explicit on the data pages and in the policy provisions.
2. The Premium and/or Grace Period provision(s) must carefully and in a straightforward manner explain the criteria for maintaining the no-lapse feature. The policyholder, accordingly, must be clearly informed, in the policy form, of those actions prior to the end of the no-lapse period that would cause the no-lapse protection to be damaged.

3. If there are nonforfeiture values attributable to the no-lapse provision, they must be explicitly provided in both explanatory text and numerical values.
4. For policies with no-lapse provisions that **do not** extend for the life of the contract clear disclosures, as delineated below, must be provided.
   a. If a deficit in the account value needs to be made up upon termination of the no-lapse period, that fact must be clearly described.
   b. It must be disclosed that the termination of the no-lapse period may bring with it the necessity of maintaining the contract with premium amounts significantly higher than the premiums required to satisfy the no-lapse guarantee.

In short, there must be sufficient information in the policy to inform the policyholder of the financial consequences to the policyholder of the cessation of the no-lapse period.

5. Regardless of the duration(s) of the no-lapse period(s), the financial consequences to the policyholder of paying only the premium required to satisfy the no-lapse guarantee must be disclosed. In particular, such a disclosure must point out the fact that the policyholder may be foregoing the advantage of building up a significant account value.

Advertising Materials: Filings must include all advertising materials, including any illustrations used in marketing the contract form. Language in marketing materials must disclose:

a. the duration of any no-lapse guarantees
b. the actions that would cause the no-lapse feature to be damaged.
c. the financial effect on the policyholder of the termination of the no-lapse guarantee period.
d. the nonforfeiture benefits, if any, attributable to the no-lapse guarantee.
e. the financial consequences to the policyholder of paying only the premium required to satisfy the no-lapse guarantee.

Any questions about this Bulletin may be directed to Henry S. Lieberman, Supervisor of Life Policy Review for the State Rating Bureau at (617) 521-7340.