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**Bulletin 8-85**

May 10, 1985

**GUIDELINES FOR SUBMISSION OF GUARANTEED-ISSUE LIFE POLICIES WITH REDUCED DEATH BENEFITS IN EARLY YEARS (OTHER THAN PENSION LIFE POLICIES) AND WITHDRAWAL OF APPROVALS OF SUCH POLICIES PREVIOUSLY APPROVED**

This Department has examined a number of life insurance policies which are issued either with no evidence of insurability or as an alternative to another policy for which the applicant is not eligible. This class of policy appears to make possible a residual market of sorts for life insurance, and as such, is a needed product. There are, however, three adverse factors which must be dealt with to make with to made this type of policy serve the needs for which it is designed. Two relate to the issuing company's solvency, the third to sales Practices. They are as follows:

- (1) the substandard character of the risks covered,
- (2) agent antiselection, and
- (3) inherent sources of misrepresentation in some design features.

Each is susceptible of compensation, and the following guidelines are designed to minimize these adverse characteristics,

**GUIDELINE ONE.** Reduced benefits in early years are reduced benefits and must be prominently identified as such in policies and sales material. No such policy will be approved which purports to "return" premiums, with or without "interest," during the period of reduced benefits.

**GUIDELINE TWO.** While accidental death benefits, appropriately rated, may be added by rider in the same manner as they are with other life insurance policies, the inclusion of an accidental death benefit to be in effect only during the period of reduced benefits (e.g., in lieu of the reduced benefit or in such amount as to increase the total benefit to that payable after the period of reduced benefits), is misleading and appears to be contrary to Ark. Stat, Ann. § 66-3323(1)(b). Such provisions will not be approved.

**GUIDELINE THREE.** The degree of extra mortality appears to depend on age at issue, method of marketing (e.g. mass marketing, specialty salesman or brokerage) and place within the marketing system, i.e. as primary product or alternate issue. This should be reflected in the reserve structure, which must be furnished, as well as the premium structure. Each policy submission must also include an actuarial opinion, including a demonstration of the anticipated impact on surplus of writing the anticipated volume of this business, as to the appropriateness and sufficiency of premium and reserve structures. Reserve sufficiency may be demonstrated by comparison of proposed statutory reserves with those produced by a gross premium valuation. Assumptions used in such gross premium valuation should be set out.

This Bulletin supersedes Bulletin 1-77.

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