



2001 CSO Products: A New Marketplace is Taking Shape

By now, many of you are aware of the new 2001 CSO tables. What you may not be aware of is how they will affect life insurance products, premiums, the Marketplace and, more importantly, your business. The 2001 CSO tables were released in 2004 and are based on the mortality experience of the years 1990-1995. As of January 1, 2009, insurance carriers will be required to use the 2001 CSO tables for all new business. In addition to new mortality costs, the 2001 CSO tables include the following changes:

- Separate non-smoker, smoker and composite non-smoker/smoker tables for both males and females
- A 25-year select period with ultimate ages for each table
- Ultimate ages extended to age 120
- Availability of both age-near and age-last birthday basis

As of April 2006, several companies have already updated their Universal Life portfolios to include products based on these new tables – among them American General, Hartford Life, Lincoln Financial, Jefferson-Pilot Life, John Hancock and Prudential. A large majority of the products released to date have been guaranteed death benefit products. The use of the new CSO tables has added some flexibility to level-pay schedules. With some products, policyowners are now able to pay premiums up to age 120. In most cases, this type of premium plan offers a lower annual premium than if premiums were paid to 100, however, it may require a larger cumulative premium if the insured lives beyond age 100.

Although the 2001 CSO tables provide the ability for insurance companies to extend premium payments to age 120, not all companies have adopted this option. So far, we have seen three different approaches:

Premium to age 120: Premium schedule has total flexibility up to age 120. In most cases, the lifetime guaranteed level premium might be calculated based on an outlay to age 105, 110, etc. As the premium is extended past age 100, it will typically be reduced. The extent of that reduction varies by product.

Premium duration varies after age 100: This option is very similar to the one described above. In this case, however, while premiums are allowed past age 100, they may not be permitted all the way to age 120. With this type of design, age 120 is selected as the desired premium duration. Depending on the scenario, the illustration software will return an outlay schedule that runs anywhere from age 101 to age 120. The same characteristics as premium to age 120 remain – the death benefit is guaranteed to age 120, and the annual premium based on a schedule that runs past age 100 is typically lower than one that doesn't.

Premium to age 100: Although the 2001 CSO tables permit premium to age 120, some companies have chosen to cap level-pay premiums at age 100.

The [attached analysis](#) includes some recently released 2001 CSO products. The premium duration selections illustrate the difference between premium levels based on a pay to age 100 and to age 120. For a product like the American General ContinUL Extend the difference between the age 100 and age 120 outlay is 2.4 percent. Comparatively, the MassMutual UL Guard and Lincoln Financial UL^{LPR-7} illustrate a difference of only a few dollars.

Also included in this analysis are the 1980 CSO-based products that have been replaced. In each instance, where the new product allows premium to age 120, the new product offers a lower premium than its 1980 CSO based predecessor. In cases where the new products calculate premiums to age 100 rather than age 120, the difference in premium is much less and, in the case of the John Hancock Protection UL, the age 100 premium is greater than that of the older product. Transamerica is the only company in this exhibit to release a 2001 CSO product with premiums that exceed their 1980 CSO-based product, regardless of the premium duration selected. Although we haven't seen much of this so far, new reserving requirements and higher reinsurance costs may make increases like this more common.

Over the next couple of years we can expect to see a steady flow of 2001 CSO based products introduced into the marketplace. At this point, it doesn't appear as though there is any type of consistent model by which these new products will be structured. Premium flexibility and premium levels have been improved in some of these new products, but we have yet to see the full effects the new reserve requirements may have.

For more information regarding the products included in this summary, or any information regarding the 2001 CSO tables, please contact me or another member of the Life Competitive Services Unit for assistance. We will continue to update the field as new products are released.

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Company/Product	Level Pay Premium	Cost Difference	Guaranteed Duration	Target Premium
American General ContinUL Extend (I-2/06)-premium past age 100	\$11,181	0.0%	Lifetime	\$13,320
American General ContinUL Extend (I-2/06)-premium to age 100	\$11,446	2.4%	Lifetime	\$13,320
American General ContinUL (I-6/04)-1980 CSO	\$11,696	4.6%	Lifetime	\$13,320
John Hancock Protection UL-G (I-2/05)-premium past age 100	\$11,644	0.0%	Lifetime	\$12,146
John Hancock Protection UL (I-8/05)-1980 CSO	\$11,717	0.6%	Lifetime	\$15,120
John Hancock Protection UL-G (I-2/05)-premium to age 100	\$12,145	4.3%	Lifetime	\$12,207
Lincoln National UL ^{LPR} 7-premium past age 100	\$11,675	0.0%	Lifetime	\$14,140
Lincoln National UL ^{LPR} 7-premium to age 100	\$11,680	0.0%	Lifetime	\$14,140
Lincoln National UL ^{LPR} 6-1980 CSO	\$11,687	0.1%	Lifetime	\$14,500
MassMutual UL Guard (I-12/05)-premium past age 100	\$12,494	0.0%	Lifetime	\$13,770
MassMutual UL Guard (I-12/05)-premium to age 100	\$12,499	0.0%	Lifetime	\$13,770
MassMutual UL2G (E-7/01)-1980 CSO	\$12,996	4.0%	Lifetime	\$13,250
PruLife UL Protector 2005 (I-5/05)-premium past age 100	\$11,728	0.0%	Lifetime	\$12,520
PruLife UL Protector 2005 (I-5/05)-premium to age 100	\$11,934	1.8%	Lifetime	\$12,520
PruLife UL Protector 2003 (E-6/06)-1980 CSO	\$12,540	6.9%	Lifetime	\$13,180
Transamerica TransACE GL (E-10/04)-1980 CSO	\$12,032	0.0%	Lifetime	\$12,032
Transamerica TransACE LP (E-2/06)-premium past age 100	\$12,188	1.3%	Lifetime	\$12,188
Transamerica TransACE LP (E-2/06)-premium to age 100	\$12,255	1.9%	Lifetime	\$12,255
MetLife Guarantee Advantage UL (E-11/05)-premium to age 100	\$11,659	0.0%	Lifetime	\$13,788
MetLife Guarantee Advantage UL (I-10/04)-1980 CSO	\$12,210	4.7%	Lifetime	\$13,788
Principal Universal Life Protector (E-5/05)-1980 CSO	\$10,590	0.0%	Lifetime	\$12,110
Principal Universal Life Protector II (I-8/05)-premium to age 100	\$12,249	15.7%	Lifetime	\$12,110

Notes: MetLife does not allow premiums past age 100.
Principal does not allow premiums past age 100 when searching for the guaranteed premium.