

Right-sizing the reserves:

What this means for you and your clients

Overview

Two significant regulatory changes are affecting the Life Insurance Industry — Principle-Based Reserving (PBR) and a new standard mortality table, the 2017 Commissioners Standard Ordinary (CSO) Table. These regulations apply to all life insurance carriers.

- **January 1, 2020**, all life products sold on or after this date must be compliant with these regulations.
- **December 31, 2019**, all non-compliant life products must be placed in force with premium.

Lincoln is actively bringing our Life, Lincoln *MoneyGuard*® solutions and Executive Benefits portfolios into compliance by the deadline to ensure our distribution partners have a seamless transition to the new products, and can continue to offer clients the benefits of Lincoln solutions.

Why this is happening

PBR represents a change in the way carriers calculate reserves needed to pay future claims. Existing reserving formulas are more than 150 years old. Because products have evolved since then, the old one-size-fits-all approach to reserving is moving to a “right-size” method aligned to the actual risk carriers assume on various products. Here’s how right-sizing the reserves may benefit your clients:

- **Enhanced reserving** — so insurers hold a reserve based on each specific product and feature
- **Better solvency control** — further enabling regulators to ensure that insurers can keep their promises
- **Pricing alignment** — so you and your clients can have even greater confidence that premiums are reflective of the specific insurance coverage being provided*

The new 2017 CSO table sets the mortality standard for calculating the minimum cash value, statutory reserves and death benefit required for a policy to be considered life insurance. It also specifies the maximum amount that can be charged for cost of insurance. Generally speaking, mortality rates under the new table are lower, which has the potential to result in savings that may be passed on to consumers, with the understanding that there are several other factors that determine product pricing. An additional consideration is policies are expected to be less efficient for clients interested in designing policies to maximize cash value growth. This will be true across carriers.

How this affects you

When presenting solutions to meet client needs, consider carriers' transition dates to help ensure the product you're recommending can be placed.

If you begin the sale of a non-compliant product in 2019, but do not have it placed with premium on or before the December 31, 2019 deadline, the original product sale cannot be completed in the new year. No exceptions can be made.

As we approach December 31, 2019, to help ensure that you have sufficient time for policy placement without interruption, you'll want to:

1. Check whether the life insurance product you recommend is PBR/CSO compliant.
2. Review the carrier's transition rules for accepting non-compliant business.
3. Keep in mind for 1035 exchanges that the carrier has up to 6 months to send funds.

What you can expect from Lincoln going forward

Throughout the industry you will see a lot of product updates this year. Lincoln is committed to the life insurance industry and providing value to you and your clients.

We will continue introducing PBR/CSO compliant products beginning in May. You will also see a client disclosure in illustrations for non-compliant products, so you can help your clients understand the placement requirements associated with these new regulations.



Watch for our PBR/CSO compliant icon across Lincoln materials and tools to help you easily discern if the version of the product you're selling is compliant. You'll find the icon above the disclosures on the back of our marketing material, along with indicators in our illustration software, producer websites and state availability grids.

Be on the lookout for the latest news

- Our monthly advisor newsletter for the most up-to-date information
- New business communications regarding status and pending updates
- Landing pages with support material

Key dates

November 1, 2019

The last day for formal applications to be submitted on non-PBR/CSO compliant Lincoln products. Final transition rules to be determined and products introduced earlier in the year may have an earlier cutoff date as communicated in product launch announcements.

December 31, 2019

Non-PBR/CSO compliant policies must be placed in force with premium, including 1035 exchanges.

January 1, 2020

Only compliant policies can be sold, issued or placed.

Note: Cannot backdate to qualify or sell in states that have not approved products. There are no exceptions allowed.

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| Not a deposit |
| Not FDIC-insured |
| Not insured by any federal government agency |
| Not guaranteed by any bank or savings association |
| May go down in value |

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LCN-2514995-042419
 PDF 5/19 **Z01**
Order code: LIF-PBR19-ARC001



*ACLI, "Principle-Based Reserves," <https://www.acli.com/Public-Policy/Principle-Based-Reserves>

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