

.....CPS BULLETIN.....

The Newsletter of CPS Actuaries and Computer Programming & Systems, Inc.

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Introduction

This is our first issue of **CPS Bulletin**, the newsletter of CPS Actuaries and Computer Programming & Systems, Inc. It is our goal to provide a newsletter each quarter. We plan to include articles that we think will be of interest to you to keep you up-to-date with regard to the goings-on in the insurance and computer industries.

Our featured article in this issue deals with computer security and viruses. Computer security has been in the news a lot lately as the ILOVEYOU virus has infected computers around the world. Also in this issue is an article about pre-need insurance, which is gaining in popularity as the general population ages and people take steps to pre-arrange their own funeral.

Our newsletter will have specific features that will be presented each quarter. These include an update on topics adopted or being discussed by the NAIC and the state insurance departments, as well as an interest rate section that will provide current benchmark interest rates.

We're looking for feedback from you regarding this issue so that we can provide a newsletter that you find informative and look forward to reading each quarter. ❖

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Computer Security

Computer security has been making headlines recently following the damage caused by several well-publicized computer viruses. In this article we will discuss various issues regarding computer security that will affect your computers both at home and at the workplace.

What is a computer virus?

A computer virus is custom designed software that is embedded into another piece of software (such as a spreadsheet or a Microsoft Word document) and spreads itself systematically from one file to another. The usual transmission methods are via an e-mail attachment or on a diskette. In most cases, the attachment or file on diskette must be opened before the virus can spread. Some viruses are classified as worms. Like viruses, worms replicate themselves. However, instead of spreading from file to file, they spread from computer to computer, infecting an entire system. Almost all worms are spread as attachments to e-mails.

How do viruses affect computers?

Different viruses affect computers in different ways. Viruses have been known to do the following:

- Cause the computer to crash
- Delete or modify files from the hard disk
- Create files that consume disk-space or cause programs to execute more slowly
- Clog e-mail servers.

The "I LOVE YOU" virus was actually a worm. It came as an email from a familiar address with "I LOVE YOU" appearing in the subject line. If you clicked on the attachment, the virus was activated. This virus overwrites certain graphics, music and other files. As it replicated itself, it clogged computer networks, causing delays and shutdowns.

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Pre-Need Insurance

More and more people these days are pre-arranging funeral services either for themselves or for their loved ones. Many people who pre-arrange a funeral also pre-finance it. This insures that the cost of the funeral will be fixed at today's rates if death occurs next week or years from now. The basic ways to pre-pay a funeral are: (1) deposit money with a funeral director who in turn deposits the money into a trust, (2) purchase pre-need insurance or annuity through a funeral director, or (3) purchase a life insurance policy (which is often called "final expense insurance").

The overall cost of a funeral depends on the type of funeral that you choose. The following is a list of some items that are part of planning a funeral and will impact the overall cost:

- Funeral Director's professional services' fee
- Embalming
- Type of casket
- Use of funeral home facilities for viewing the body
- Hearse and limousines
- Type of funeral (i.e., burial or cremation)
- Obituary notices, death certificates
- Flowers
- Opening and closing of grave
- Headstone

To pre-plan a funeral, you typically sit down with a funeral director and go through the type of funeral that you wish to have. A number of funeral homes have web sites so pre-planning can be done over the Internet. Once the funeral is chosen, a price is determined for that funeral and you can begin to make arrangements to pre-pay for it.

One method for pre-paying a funeral is to deposit today's cost of the funeral with the funeral director. This money is invested in a federally insured, interest-bearing trust account. This method allows assets to be sheltered from Medicaid since, under Federal Title 19, pre-paid funeral expenses up to a designated dollar amount are not considered assets by Medicaid. The interest earned on the funds is used to offset the cost of inflation. The funds stay in the person's name that deposited the funds, and are in trust for the funeral home. If the funeral home goes out of business, the funds are still protected and may be transferred to another funeral home.

Another method for pre-paying a funeral is to purchase a pre-need insurance policy from a funeral director.

The insurance amount would be the cost of the funeral that was selected in today's dollars. The funeral home will accept the death benefit as the full payment for the funeral, even if the price for that funeral at the time of death is greater than the death benefit. Typically, premiums are paid over 1, 3, 5 or 10 years. The plans may pay the full death benefit immediately after issue or have a graded death benefit.

One of the problems with purchasing a pre-need policy from a funeral director is the lack of portability of the policy. Insurers that offer pre-need plans establish a network of funeral directors that offer the plans. If you elect to change funeral homes, then your pre-payment arrangement will remain intact as long as you select another funeral home that is part of the network. If you go outside the network, the insurer will pay the death benefit you originally contracted for, but the new funeral home may not be willing to accept that amount as full payment for the funeral.

Whether you elect to pre-pay for the funeral with a trust arrangement or a pre-need policy, there is the risk that the survivors will still have to pay an additional amount at the time of death. This is due to the fact that while the costs of some services are guaranteed by the funeral director (e.g., cost of casket, funeral director's professional fees), there are some services whose costs can only be estimated at the time the funeral is planned. These services would include, for example, the opening and closing of the grave.

Final expense insurance is a life insurance policy that is purchased for the purpose of using the death benefit of the policy to cover the cost of a funeral. While a funeral home does not guarantee the cost of the funeral in this instance, an individual purchasing such a policy can obtain coverage to cover a majority of the funeral's cost. This type of plan allows the insured to select the beneficiary, which does not have to be a funeral home. Similar to pre-need insurance, payment periods range from 1 to 10 years.

We believe that final expense insurance offers an excellent selling opportunity for fraternalists. This is especially true if currently issued plans can be used so that entering the market does not involve a large, up-front investment. ❖

NAIC Update

This section provides an overview of items adopted, proposed or considered by the NAIC. If any of these items are adopted by the NAIC, then the states must adopt them before they go into effect.

Electronic Commerce: A Working Group is attempting to develop a self-assessment tool for states to use in evaluating their laws to facilitate electronic commerce. Areas being examined include signature requirements, delivery of document requirements, disclosure of license requirements and record retention by companies. The U.S. Congress is also addressing the topic of electronic signatures.

Actuarial Opinion and Memorandum Regulation:

The Task Force has been discussing various amendments to the current Model Regulation for some time. The latest draft incorporates several significant changes. The most important change is the elimination of Section 7 opinions, which currently permit the actuary to exclude the adequacy of assets from the opinion. The draft indicates that, regardless of company size, the actuary would have to render an opinion as to the adequacy of reserves. The draft also addresses the conditions under which a "state of domicile" opinion may be filed in a non-domicile state.

Review of Policy Forms: The NAIC is discussing the possibility of creating an umbrella organization that will review policy form submissions. This will help reduce smaller insurers' costs since only one filing would be necessary rather than the current situation where separate filings are required for each state.

Life Insurance Disclosure Model Regulation: When the Illustration Model Regulation was adopted by the NAIC in 1995 (and subsequently by most states), the regulators recognized that there were inconsistencies with the Life Insurance Disclosure Model Regulation. A Working Group is now working on the disclosure rules for life insurance to eliminate the inconsistencies.

Suitability of Sales: A Working Group is exploring issues related to setting standards for the suitability of sales of life insurance. Some states have commented on the need for some kind of insurer responsibility, especially with regard to seniors. Development of a Model Regulation has been recommended. ❖

How does one know whether a given attachment contains a virus?

There is no way of knowing for sure. If you have virus detection software (e.g. Norton Antivirus) or a firewall (i.e., a software and hardware combination that protects an internal network from unauthorized access), then the danger is reduced. The danger cannot be entirely eliminated because new viruses in new formats are constantly being created. In order to detect new viruses, the detection software must be updated often.

One of the most important defense approaches to detecting a virus is to be skeptical of any files you receive. This means taking care when opening an attachment or file you are not expecting, even if it comes from someone you know.

Are certain systems more vulnerable than others?

Currently, almost all viruses seem to be designed for Microsoft products, especially Microsoft Outlook. The risk is reduced if one uses other products such as the Linux operating system and/or Netscape Messaging.

How long will the infections last?

An e-mail virus is analogous to a virus in the human body. The Internet community will produce fixes (antibodies) to combat any virus that infects it in about two days. Thus, in the workplace, an employee could be deemed irresponsible if his or her computer got infected after 3 days of a virus's life.

Conclusion

Computer security is something that should be taken seriously, whether you're using the computer in your home or office. With the increasing use of the Internet, viruses have the ability to spread very quickly. According to the Symantec web site (www.sasc.com), there are more than 4,700 known viruses that Norton Antivirus software currently checks for. Some estimates have new viruses being created at the rate of 6 per day. If you purchased antivirus software more than a month ago and have never updated it, you are exposing yourself to a risk of being inflicted with a computer virus.

At CPS, we have a great deal of experience in establishing security procedures for companies and will be happy to answer any questions you may have. ❖

Interest Rate Monitor

The following are some key interest rate benchmarks:

<i>Benchmark</i>	<i>Current</i>	<i>3 Months Ago</i>	<i>1 Year Ago</i>
Fed Funds	6.47%	6.06%	4.69%
Prime Rate	9.50%	9.00%	7.75%
30 yr mortg	7.88%	7.95%	7.51%

Source: www.bloomberg.com as of June 21, 2000.

Note to Fraternalists Licensed in New York

Two new Circular Letters were recently issued:

No. 14 (2000): You must provide the Department with your fax number to which they may transmit any complaints they receive regarding your Society. The fax number should be e-mailed to Sandra Glindmyer at sglindmy@ins.state.ny.us.

No. 15 (2000): A fraternal may not employ a person that was convicted of a felony involving dishonesty or breach of trust. Societies employing such a person are subject to criminal penalties unless a written exemption is received from the NY Department. ❖

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ADDRESS CORRECTION REQUESTED

About CPS

CPS Actuaries and Computer Programming & Systems, Inc.

CPS is an independent company with over 30 years of technology leadership. We offer a wide range of computer and actuarial services. Since 1967, CPS has been servicing the needs of business and industry, local government, professional organizations and educational institutions.

There are two major divisions that make up CPS. One is an actuarial consulting firm that specializes in the needs of fraternal benefit societies. The other is a computer consulting firm that develops and maintains software applications, manages computer networks as an outside consultant for a variety of companies, and develops, hosts and maintains web sites.

For further information regarding our services, contact us at 203-324-9203, or visit our web site at www.cpsincorp.com. ❖

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