

a meeting on May 25, 2000, at 10:30 a.m. at the office of the Chief Actuary of the U.S. Railroad Retirement Board, 844 North Rush Street, Chicago, Illinois, on the conduct of the 21st Actuarial Valuation of the Railroad Retirement System. The agenda for this meeting will include a discussion of the results and presentation of the 21st Actuarial Valuation. The text and tables which constitute the Valuation will have been prepared in draft form for review by the Committee. It is expected that this will be the last meeting of the Committee before publication of the Valuation.

The meeting will be open to the public. Persons wishing to submit written statements or make oral presentations should address their communications or notices to the RRB Actuarial Advisory Committee, c/o Chief Actuary, U.S. Railroad Retirement Board, 844 North Rush Street, Chicago, Illinois 60611-2092.

Dated: May 11, 2000.

**Beatrice Ezerski,**

*Secretary to the Board.*

[FR Doc. 00-12866 Filed 5-22-00; 8:45 am]

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## SECURITIES AND EXCHANGE COMMISSION

[Rel. No. IC-24456; File No. 812-12092]

### Northbrook Life Insurance Company, et al.

May 16, 2000.

**AGENCY:** Securities and exchange Commission ("Commission")

**ACTION:** Notice of application for an order pursuant to Section 11(a) of the Investment Company Act of 1940 (the "Act") approving the terms of an offer of a Longevity Reward Rider to owners of certain variable annuity contracts (the "Contracts").

*Applicants:* Northbrook Life Insurance Company ("Northbrook"), Northbrook Life Insurance Company Variable Annuity Account II ("Account II"), and Dean Witter Reynolds Inc. ("Dean Witter").

*Summary of Application:* Applicants seek an order approving the terms of a proposed offer to certain owners of the Contracts of a rider that (a) upon death of a Contract's owner, gives any surviving spouse the option of continuing the Contract with a value equal to the death benefit then payable, (b) reduces or waives certain charges, and (c) imposes a new withdrawal charge on purchase payments made before or after the rider's issue date (the "Rider Date").

*Filing Date:* The application was filed on May 15, 2000.

*Hearing or Notification of Hearing:* An order granting the application will be issued unless the Commission orders a hearing. Interested persons may request a hearing by writing to the Secretary of the Commission and serving Applicants with a copy of the request, personally or by mail. Hearing requests must be received by the Commission by 5:30 p.m. on June 7, 2000, and should be accompanied by proof of service on Applicants in the form of an affidavit or, for lawyers, a certificate of service. Hearing requests should state the nature of the requester's interest, the reason for the request, and the issues contested. Persons who wish to be notified of a hearing may request notification by writing to the Secretary of the Commission.

**ADDRESSES:** Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, DC. 20549-0609. Applicants, Bruce A. Teichner, Esq., Associate Counsel, Allstate Life Insurance Company, 3100 Sanders Road, Northbrook, Illinois 60062.

**FOR FURTHER INFORMATION CONTACT:** Ann L. Vlcek, Senior Counsel, Michael D. Pappas, Senior Counsel, or William J. Kotapish, Assistant Director, Office of Insurance Products, Division of Investment Management, at (202) 942-0670.

**SUPPLEMENTARY INFORMATION:** The following is a summary of the application. The complete application is available for a fee from the Public Reference Branch of the Commission, 450 Fifth Street, N.W., Washington, DC. 20549-0102, (202) 942-8090.

### Applicant's Representations

1. Northbrook is a wholly-owned subsidiary of Allstate Life Insurance company ("Allstate Life"). Allstate Life is an indirect subsidiary of The Allstate Corporation, a publicly-traded insurance holding company. Northbrook is Account II's depositor within the meaning of the Act.

2. Dean Witter is a wholly-owned subsidiary of Morgan Stanley Dean Witter & Co., a publicly-traded financial services company. Dean Witter is the principal underwriter of Account II. Dean Witter is registered as a broker-dealer under the Securities Exchange Act of 1934 (File No. 9-14172).

3. Account II is registered under the Act as a unit investment trust (File No. 811-6116). Account II funds the Morgan Stanley Dean Witter Variable Annuity II Contracts (defined above as the "Contracts") that Northbrook and Dean

Witter have offered and sold for a number of years.

4. The Contracts, which are registered under the Securities Act of 1933 (File No. 033-35412), are deferred annuity contracts under which Contract owners may make one or more purchase payments over a period of time (called the "accumulation phase"). During the accumulation phase, the Contract owner's purchase payments, after deduction of certain charges, earn (at the owner's election) a "variable" return based on the investment performance of one or more of Account II's subaccounts and/or a fixed rate of return that Northbrook declares from time to time.

5. At the end of the accumulation phase, the Contract owner elects whether to receive a "lump sum" payment of the Contract's accumulated value, or to receive that value under one of several payment options that Northbrook offers. Payment options are available on a variable and/or fixed basis. The Contracts incorporate many other features, including several "death benefit" options, partial withdrawal rights, full surrender rights, transfer privileges, and other optional rider benefits.

6. The Contracts currently impose a withdrawal charge of up to 6% of any amount by which purchase payments withdrawn in any year exceed 15% of the cumulative purchase payments that had been made as of the beginning of that year (the "annual free withdrawal amount"). The withdrawal charge associated with each purchase payment declines 1% each year until it is 0% beginning in the seventh year after the payment was made. Unused portions of the annual free withdrawal amount do not carry over to future years.

7. The Contracts also impose an annual Contract maintenance charge of \$30, a \$25 charge applicable to certain transfers in excess of twelve during a one-year period (which is currently being waived), a daily administrative charge at an annual rate of 0.10% of the Contract's value in Account II, a mortality and expense risk charge at an annual rate of 1.25% of the Contract's value in Account II (or higher if certain optional rider benefits are selected), and a charge corresponding to any applicable state premium taxes.

8. Northbrook now proposes to offer a Longevity Reward Rider (the "LRR") to owners of certain outstanding Contracts. The LRR provides additional Contract benefits. The benefits under the LRR include: (a) An option whereby a deceased owner's surviving spouse may continue the Contract using the then-current death benefit value as the new Contract value, if higher, rather

than the current Contract value; (b) a reduced mortality and expense risk charge (*i.e.*, at an annual rate that is .07% less than the rate that otherwise would apply); (c) a permanent waiver of the \$30 annual Contract maintenance charge if the Contract's value exceeds \$40,000 at any time; and (d) a reduction in the withdrawal charge that will apply to the withdrawal of any purchase payments that are made after the LRR is added to the Contract.

9. Contract owners who elect the LRR will have a new three year withdrawal charge schedule that will apply to withdrawals made after the Rider Date. The new schedule would apply to any amount of such a subsequent withdrawal of purchase payments that exceeds the 15% annual free withdrawal amount, regardless of whether such withdrawn purchase payments were made before or after the Rider Date.

10. The withdrawal charge under the new withdrawal charge schedule will begin at 3% and decline by 1% per year over three years to 0% by the end of the third year. For purchase payments made prior to the rider Date, the three year period runs from the Rider Date. For any purchase payment made subsequent to the Rider Date, the three year period runs from the date of that payment.

11. The same exceptions to imposing the LRR withdrawal charge will apply as apply to the Contract's basic withdrawal charge. Specifically, no LRR withdrawal charge will be imposed at the time a payment option commences, upon the death of a Contract owner or annuitant, upon amounts withdrawn to satisfy any applicable minimum distribution requirements under the Internal Revenue Code, or upon amounts withdrawn that are within the 15% annual free withdrawal amount. These are the same exceptions as would apply to the Contracts without the LRR.

12. The LRR will be offered only to Contract owners who have maintained their existing purchase payments in their Contracts for at least six years. Accordingly, no amount of withdrawal charge will remain on any purchase payments made prior to the Rider Date.

13. Contract owners will not be permitted to elect for the LRR to apply to part of a Contract and not to the rest. Any election of the LRR must apply to the whole Contract.

14. Applicants state that the principal purpose of offering the LRR is to reward the eligible Contract owners for their persistency. In addition, the LRR allows Northbrook to maintain the Contract on a competitive footing with other newer variable annuity contracts in the

marketplace that offer the same or similar benefits.

15. After an initial notification of the offer in the Contract prospectus or other communication to Contract owners by Dean Witter's registered representatives, the LRR will be offered by providing eligible owners who express an interest in learning the details of the offer, in addition to such prospectus, a separate document explaining the offer ("the Officer Document").

16. The Offering Document will advise such Contract owners that the offer is specifically designed for those Contract owners who intend to continue to hold their Contracts as long-term investment vehicles. The Offering Document will state that the offer is not intended for all Contract owners, and that it is especially not appropriate for any Contract owner who anticipates surrendering all or a significant part of his or her Contract within the next three years. In this regard, the Offering Document will encourage Contract owners to carefully evaluate their personal financial situation when deciding whether to accept or reject the offer of the LRR. In addition, the Offering Document will explain how an owner of a Contract contemplating acceptance of the LRR may avoid the LRR withdrawal charge if no more than the annual 15% free withdrawal amount is withdrawn in any one year and any subsequent purchase payments are maintained until expiration of the applicable LRR withdrawal charge period. In this regard, the Offering Document will state in clear plain English that, if a significant amount of the Contract's value is surrendered or withdrawn during the three years following the Rider Date: (a) the LRR's benefits may be more than offset by the LRR withdrawal charge; and (b) a Contract owner may be worse off than if he or she had rejected the offer.

17. To accept the LRR, an owner must complete an internal election form. This election form will include the disclosure set forth in Condition No. 1 under "Applicant' Conditions" below.

18. The compensation to registered representatives who offer the LRR to Contract owners is expected to take the form of annual "trail" commissions equal to approximately 0.70% of the Contract's average value. On the sale of a new Contract, the registered representative would currently earn a commission equal to approximately 5% of purchase payments made, plus annual trail commission of approximately .10%.

19. The Contracts provide a basic death benefit equal to the highest of (a) the Contract's accumulated value; (b)

the cumulative amount of all purchase payments made to date (with approximate adjustment for any partial withdrawals that have been made); and (c) the Contract's accumulated value on the most recent death benefit anniversary, which are every sixth anniversary of a Contract's issuance beginning with the sixth, with appropriate adjustment for subsequent purchase payments and partial withdrawals. The Applicants assert that this basic death benefit can be of quite significant value to a Contract Owner and that it can reasonably be expected that, in many cases where an owner has died, the death benefit will exceed the Contract's then accumulated value. The Applicants maintain, therefore, that the LRR could have considerable value for a surviving spouse who wishes to continue the Contract.

20. The .07% reduction in the mortality and expense risk charge and, in cases involving more than \$40,000 of Contract value, the waiver of the \$30 annual charge that otherwise would apply are further benefits that the LRR would provide. These benefits are guaranteed and cannot be reduced or withdrawn. In particular, if the Contract value ever exceeds \$40,000 at any time following the Rider Date, the \$30 charge will be waived for the remaining duration of the Contract, even if its value subsequently falls below \$40,000.

21. Finally, additional purchase payments made after the LRR is added to a Contract will be subject only to the 3%/3-year withdrawal charge schedule provided for in that rider, rather than the Contract's regular 6%/6-year withdrawal charge schedule that would have applied to those same purchase payments if the LRR had not been added to the Contract. Applicants assert that this is a substantial benefit to any Contract owner, including a surviving spouse, who may have an interest in making further purchase payments.

#### **Applicants' Legal Analysis**

1. Section 11(a) of the Act makes it unlawful for any registered open-end company, or any principal underwriter for such a company, to make or cause to be made an offer to the holder of a security of such company, or of any other open-end investment company, to exchange that security for a security in the same or another such company on any basis other than the relative net asset values of the respective securities, unless the terms of the offer have first been submitted to and approved by the Commission.

2. section 11(c) of the Act, in pertinent part, requires, in effect, that any offer of exchange of the securities of

a registered unit investment trust for the securities of any other investment company be approved by the Commission regardless of the basis of the exchange.

3. Standing alone, Section 11(a) by its terms applies only to exchanges of securities issued by "open-end" investment companies, which, under Section 5(a)(1) of the Act, includes only management-type investment companies. Account II itself, as noted above, is a unit investment trust-type (rather than a management-type) of investment company under Section 4(2) of the Act. It would appear, therefore, that Section 11 could require Commission approval for Applicants' offer of the LRR only if that falls within the ambit of Section 11(c).

4. Applicants do not concede that their offer of the LRR to existing Contract owners necessarily constitutes an offer of securities of a registered unit investment trust in exchange for securities of any other investment company within the purview of Section 11(c). Nor do Applicants concede that, for purposes of Section 11, a Contract with the LRR is a different security than a contract without the LRR. Nevertheless, Applicants request an exemption pursuant to Section 11(a) of the Act to the extent deemed necessary to permit the offer of the LRR as described herein.

5. Applicants have considered whether they could rely on Rule 11a-2 under the Act. Applicants believe and represent that the only provision in Rule 11a-2 that could prevent such reliance would be the so-called "tacking" requirement in Rule 11a-2(d)(1). Applicants state that since the LRR withdrawal charge continues for only three years, and since the most recent purchase payment made by Contract owners who are eligible for the LRR was made at least six years prior to the Rider Date, the tracking requirement effectively would prohibit the imposition of any portion of the LRR's withdrawal charge with respect to purchase payments made prior to the Rider Date. For that reason, Applicants have concluded that Rule 11a-2 is unavailable to them.

6. Congress enacted Section 11 to prevent "switching," *i.e.*, the practice of inducing security holders of one investment company to exchange their securities for those of a different investment company solely for the purpose of exacting additional selling charges. Applicants assert that the LRR would not involve "switching." Applicants maintain, to the contrary, that the purpose of the LRR is to enable Contract owners to enhance their

Contracts through the rider without having to buy a new variable annuity contract. Applicants represent that because the LRR provides clear benefits, as described above, the LRR's sole purpose is not to exact additional selling charges (or any other type of charge).

7. Applicants state that the LRR would not result in any duplicative charges. Applicants represent that the limited withdrawal charge provided under the LRR is reasonable in relation to the benefits that the rider provides and the costs that Applicants will incur in providing those benefits. Those costs will include costs of developing and administering the LRR, the direct dollar costs of the charges that will be waived or reduced and the benefits that will be paid under the LRR, and the costs of distributing the LRR to Contract owners and educating them about it.

8. Applicants represent that any possible withdrawal charge under the LRR is modest in amount. Applicants state that, if the Contract owner makes no withdrawals during the three years after the Rider Date, there is no possibility that any withdrawal charge will ever be deducted that exceeds what would have been deducted absent the LRR. Applicants also state that even if purchase payments are withdrawn during that three year period, the LRR withdrawal charge will apply only if more than the 15% annual free withdrawal amount is withdrawn in any year.

9. The LRR will be offered only to Contract owners who already have demonstrated an inclination to maintain their Contracts for substantial periods of time. Applicants believe that the income taxes that are generally payable when earnings are withdrawn from a Contract, as well as the tax penalties that may apply if those withdrawals are made prior to the owner's reaching age 59½, serve as additional motivations that cause most owners to hold their Contracts for a substantial number of years (and often until retirement).

10. Applicants state that any withdrawal charge will be waived for withdrawals of any amounts necessary to meet any federal tax law minimum distribution requirements applicable to a Contract.

11. Under all these circumstances, Applicants believe that, as a practical matter, few owners that add the LRR to their Contracts will ever actually pay any additional withdrawal charges as a result; and to the extent that the LRR succeeds in its purpose of maintaining the Contracts on a competitive footing in the marketplace, withdrawals should be even further reduced.

12. Applicants state that except for the withdrawal charge as described above, the LRR will not result in any increase in or imposition of any charge. Accordingly, Applicants assert that except for the potential imposition of the LRR withdrawal charge on certain withdrawals that occur within three years after the Rider Date, every aspect of a Contract will be at least as favorable after the LRR is added as it was before. Applicants maintain that adding the LRR to a Contract will have no adverse tax consequences to a Contract's owner.

13. In light of these considerations, Applicants do not believe there is any public policy or purpose under Section 11 (or otherwise) that would preclude offering the LRR on the terms and subject to the conditions stated herein.

#### *Applicants' Conditions*

Applicants consent to the following conditions:

1. The Offering Document will contain concise, plain English statements that: (a) the LRR is suitable only for Contract owners who expect to hold their Contracts as long term investments; and (b) if a significant amount of the Contract's value is surrendered or withdrawn during the first three years after the Rider Date, the LRR's benefits may be more than offset by that charge, and a Contract owner may be worse off than if he or she had rejected the LRR.

2. The Offering Document will disclose in concise plain English the only aspect in which adding the LRR rider could disadvantage a Contract owner (*i.e.*, through the possible imposition of the LRR withdrawal charge).

3. A Contract owner choosing to add the LRR will complete and sign the election form, which will prominently restate in concise, plain English the statements required in Condition No. 1, and will return it to Northbrook. If the election form is more than two pages long, Northbrook will use a separate document to obtain the Contract owner's acknowledgment of the statements referred to in Condition No. 1 above.

4. Applicants will maintain and make available the following separately identifiable records, for the time periods specified below, for review by the Commission upon request: (a) Northbrook will maintain records showing the level of LRR purchases and how it relates to the total number of Contract owners eligible to acquire the LRR (at least quarterly as a percentage of the number eligible); (b)(i) Northbrook will maintain copies of any form of Offering Document, prospectus

disclosure, election form, acknowledgment form, or offering letter, regarding the offering of the LRR, including the dates(s) used, and (ii) Dean Witter will maintain copies of any other written materials or scripts for presentations used by registered representatives regarding the LRR, including the dates used; (c) records showing information about each LRR purchase that occurs, including (i) the following information to be maintained by Northbrook: The name of the Contract owner; the Contract number; the election form (and separate acknowledgment form, if any, used to obtain the Contract owner's acknowledgment of the statements required in Condition No. 1 above), including the date such election or acknowledgment form was signed; the date of birth, address and telephone number of the Contract owner; the issue date of the LRR; the amount of the Contract's value on that date; and persistency information relating to the Contract (date of any subsequent withdrawals and withdrawal charges paid); and (ii) the following information to be maintained by Dean Witter: The name of the Contract owner, the Contract number, the registered representative's name, CRD number, firm affiliation, branch office address and telephone number; the name of the registered representative's broker-dealer; and the amount of commissions paid to the registered representative that relates to the LRR; and (d) each of Northbrook and Dean Witter will maintain logs showing any Contract owner complaints received by it about the LRR, state insurance department inquiries to it about the LRR, or litigation, arbitration or other proceedings to which it is a party regarding the LRR.

5. Applicants will include the following information on the logs referred to in Condition No. 4(d) above: date of complaint or commencement of proceeding; name and address of the person making the complaint or commencing the proceeding; nature of the complaint or proceeding; and persons named or involved in the complaint or proceeding.

6. Applicants will retain (i) the records specified in Condition Nos. 4(a) and (d) above for six years from creation of the record; (ii) the records specified in Condition No. 4(b) above for six years after the date of last use; and (iii) the records specified in Condition No. 4(c) for five years from the Rider Date. The records referred to in these conditions will be prepared and retained, for the periods specified herein, by Northbrook and Dean Witter. Nevertheless, upon request of the Commission or its staff,

Northbrook and Dean Witter shall coordinate the prompt assembly of such records for review at a single easily accessible location.

#### Conclusion

For the reasons discussed above, Applicants submit that the LRR offer is necessary or appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policies and provisions of the Act. Applicants submit that the requested order should therefore be granted.

For the Commission, by the Division of Investment Management, pursuant to delegated authority.

**Margaret H. McFarland,**

*Deputy Secretary.*

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**BILLING CODE 8010-01-M**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42784; File No. SR-CHX-00-12]

### Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change and Amendment No. 1 by the Chicago Stock Exchange, Incorporated Relating to Fees for the E-Session

May 15, 2000.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on May 1, 2000, the Chicago Stock Exchange, Incorporated ("CHX" or "Exchange") filed with the Securities and Exchange Commission ("Commission" or "SEC") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. On May 15, 2000, the Exchange amended the proposal.<sup>3</sup> The Exchange has designated this proposal as one establishing or changing a due, fee, or other charge imposed by the CHX under Section 19(b)(3)(A)(ii) of the Act,<sup>4</sup> which renders the proposal effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> See May 12, 2000 letter from Kathleen M. Boege, Associate General Counsel, CHX, to Nancy J. Sanow, Assistant Director, Division of Market Regulation, SEC ("Amendment No. 1"). Amendment No. 1 states that the subject E-Session credit will be available through October 1, 2000.

<sup>4</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

### I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend its membership dues and fees schedule (the "Schedule") to provide Exchange specialists and floor brokers with a credit of \$.25 per trade executed during the Exchange's extended hours trading session ("E-Session")<sup>5</sup> through October 1, 2000. The text of the proposed rule change is below. Additions are in italics. Deletions are in brackets.

#### MEMBERSHIP DUES AND FEES

\* \* \* \* \*

#### M. Credits

##### 1. Specialist Credits

Total monthly fees owned by a specialist to the Exchange will be reduced (but to no less than zero) by the application of the following [transaction] credits:

a. No change.

b. No change.

c. *E-Session Credits. A credit of \$.25 per trade executed during the E-Session. This credit shall be available through October 1, 2000.*

##### 2. Floor Broker Credits.

a. No change.

b. No change.

c. *E-Session Credits. Total monthly fees owned by a floor broker to the Exchange will also be reduced (but to no less than zero) by the application of an E-Session Credit. "E-Session Credit" means a credit of \$.25 per trade executed during the E-Session. This credit shall be available through October 1, 2000.*

\* \* \* \* \*

### II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of

<sup>5</sup> On October 13, 1999, the Commission approved, on a pilot basis, the CHX's proposed rule change that allowed the CHX to implement an extended hours trading session. See Securities Exchange Act Release No. 42004 (October 13, 1999), 64 FR 56548 (October 20, 1999) (SR-CHX-99-16). The E-Session is currently approved to continue through October 1, 2000. See Securities Exchange Act Release No. 42463 (February 28, 2000), 65 FR 11817 (March 6, 2000) (SR-CHX-00-02).