

**SUBSTITUTE FOR  
HOUSE BILL NO. 5932**

A bill to amend 1956 PA 218, entitled "The insurance code of 1956," by amending sections 102, 830, 830a, 834, 836, 838, 3930, 4060, and 4061 (MCL 500.102, 500.830, 500.830a, 500.834, 500.836, 500.838, 500.3930, 500.4060, and 500.4061), section 102 as amended by 2000 PA 252, section 830 as amended by 1994 PA 228, section 830a as added by 1994 PA 226, sections 834 and 4060 as amended and section 838 as added by 2004 PA 236, section 836 as amended by 1986 PA 12, section 3930 as added by 1992 PA 84, and section 4061 as added by 1993 PA 349, and by adding sections 836a and 836b.

**THE PEOPLE OF THE STATE OF MICHIGAN ENACT:**

- 1           Sec. 102. ~~(1) "Commissioner" as~~ **AS** used in this act:
- 2           **(A) "COMMISSIONER"** means the ~~commissioner of the office of~~
- 3 ~~financial and insurance services.~~ **DIRECTOR.**

1           (B) ~~(2)~~ "Department" as used in this act means the office of  
2 ~~financial and insurance services.~~ **DEPARTMENT OF INSURANCE AND**  
3 **FINANCIAL SERVICES.**

4           (C) "DIRECTOR" MEANS, UNLESS THE CONTEXT CLEARLY IMPLIES A  
5 DIFFERENT MEANING, THE DIRECTOR OF THE DEPARTMENT.

6           (D) "OFFICE OF FINANCIAL AND INSURANCE REGULATION" AND  
7 "OFFICE OF FINANCIAL AND INSURANCE SERVICES" MEAN THE DEPARTMENT.

8           Sec. 830. (1) The ~~commissioner~~ **DIRECTOR** shall annually value  
9 ~~, or cause to be valued,~~ the reserve liabilities, hereinafter  
10 called reserves, for all outstanding life insurance policies and  
11 annuity and pure endowment contracts of every life insurer doing  
12 business in this state **ISSUED BEFORE THE OPERATIVE DATE OF THE**  
13 **VALUATION MANUAL**, except that for an alien insurer, the valuation  
14 ~~shall be~~ **IS** limited to its United States' business. ~~, and may~~  
15 ~~certify the amount of the reserves, specifying the mortality~~  
16 ~~table or tables, rate or rates of interest, and methods, net~~  
17 ~~level premium method or other, used in the calculation of the~~  
18 ~~reserves.~~ In calculating the reserves, the ~~commissioner~~ **DIRECTOR**  
19 may use group methods and approximate averages for fractions of a  
20 year or otherwise. ~~In lieu~~ **INSTEAD** of the valuation of the  
21 reserves required in this section of any foreign or alien  
22 insurer, the ~~commissioner~~ **DIRECTOR** may accept any valuation made  
23 ~~, or caused to be made,~~ by the insurance supervisory official of  
24 any state or other jurisdiction, if the valuation complies with  
25 the minimum standard provided in this section. ~~, and if the~~  
26 ~~official of that state or jurisdiction accepts as sufficient and~~  
27 ~~valid for all legal purposes the certificate of valuation of the~~

1 ~~commissioner, which certificate states the valuation to have been~~  
 2 ~~made in a specified manner according to which the aggregate~~  
 3 ~~reserves would be at least as large as if they had been computed~~  
 4 ~~in the manner prescribed by the law of that state or~~  
 5 ~~jurisdiction.~~

6 (2) THE DIRECTOR SHALL ANNUALLY VALUE THE RESERVE  
 7 LIABILITIES HEREINAFTER CALLED RESERVES FOR ALL OUTSTANDING LIFE  
 8 INSURANCE CONTRACTS, ANNUITY AND PURE ENDOWMENT CONTRACTS,  
 9 ACCIDENT AND HEALTH CONTRACTS, AND DEPOSIT-TYPE CONTRACTS OF  
 10 EVERY COMPANY ISSUED ON OR AFTER THE OPERATIVE DATE OF THE  
 11 VALUATION MANUAL. ON THE ELECTION OF A COMPANY, FOR A CONTRACT  
 12 ACQUIRED BY THE COMPANY THROUGH A BUSINESS ACQUISITION OR  
 13 REINSURANCE TRANSACTION AFTER THE EFFECTIVE DATE OF THE  
 14 AMENDATORY ACT THAT ADDED SECTION 836A, REGARDLESS OF WHEN THE  
 15 CONTRACT WAS ISSUED, THE DIRECTOR SHALL ANNUALLY VALUE THE  
 16 RESERVES FOR THE CONTRACT. INSTEAD OF THE VALUATION OF THE  
 17 RESERVES REQUIRED OF A FOREIGN OR ALIEN COMPANY, THE DIRECTOR MAY  
 18 ACCEPT A VALUATION MADE BY THE INSURANCE SUPERVISORY OFFICIAL OF  
 19 ANY STATE OR OTHER JURISDICTION IF THE VALUATION COMPLIES WITH  
 20 THE MINIMUM STANDARD PROVIDED IN THIS SECTION.

21 (3) ~~(2)~~—Except as otherwise provided in this subsection, the  
 22 insurer shall pay to the ~~commissioner~~, **DIRECTOR**, as compensation  
 23 for the valuation, 1 cent for each thousand dollars insured,  
 24 under policies insuring residents of ~~these~~ **THE** United States, or  
 25 issued by an insurer organized under the laws of this state. For  
 26 annual valuations ~~on or after January 1, 1988,~~ **DECEMBER 31, 1987,**  
 27 the valuation fee imposed under this section ~~shall~~ **DOES** not apply

1 to contracts of reinsurance. A valuation fee under this  
 2 subsection ~~shall~~**DOES** not apply to an annual valuation of a  
 3 domestic insurer ~~on or after January 1, 1988.~~**DECEMBER 31, 1987.**  
 4 For annual valuations for the 1994 calendar year, the valuation  
 5 fee imposed under this subsection for alien insurers ~~shall be~~**IS**  
 6 .67 cent for each thousand dollars insured. ~~On and after January~~  
 7 ~~1, 1995,~~**AFTER DECEMBER 31, 1994,** the valuation fee imposed under  
 8 this subsection ~~shall~~**DOES** not apply to alien insurers.

9 (4) ~~(3)~~An insurer that ~~at any time shall have~~**HAS** adopted  
 10 ~~any~~**A** standard of valuation producing greater aggregate reserves  
 11 than those calculated according to the minimum standard provided  
 12 in this section may, with the approval of the ~~commissioner,~~  
 13 **DIRECTOR,** adopt ~~any~~**A** lower standard of valuation, but not lower  
 14 than the minimum provided in this section.

15 (5) ~~(4)~~**Every**A** foreign cooperative or assessment insurer  
 16 shall ~~have~~**VALUE** its business ~~valued~~ and shall maintain reserves  
 17 ~~in accordance with~~**UNDER** the standards ~~currently~~ required of  
 18 domestic insurers transacting similar insurance ~~by~~**UNDER** this  
 19 act.**SECTION.****

20 (6) **AS USED IN THIS SECTION:**

21 (A) **"ACCIDENT AND HEALTH INSURANCE" MEANS CONTRACTS THAT**  
 22 **INCORPORATE MORBIDITY RISK AND PROVIDE PROTECTION AGAINST**  
 23 **ECONOMIC LOSS RESULTING FROM ACCIDENT, SICKNESS, OR MEDICAL**  
 24 **CONDITIONS AND AS MAY BE SPECIFIED IN THE VALUATION MANUAL.**

25 (B) **"COMPANY" MEANS AN ENTITY THAT HAS WRITTEN, ISSUED, OR**  
 26 **REINSURED LIFE INSURANCE CONTRACTS, ACCIDENT AND HEALTH INSURANCE**  
 27 **CONTRACTS, OR DEPOSIT-TYPE CONTRACTS IN THIS STATE AND HAS AT**

1 LEAST 1 LIFE INSURANCE, ACCIDENT AND HEALTH INSURANCE, OR  
2 DEPOSIT-TYPE POLICY IN FORCE OR ON CLAIM, OR THAT HAS WRITTEN,  
3 ISSUED, OR REINSURED LIFE INSURANCE CONTRACTS, ACCIDENT AND  
4 HEALTH INSURANCE CONTRACTS, OR DEPOSIT-TYPE CONTRACTS IN ANY  
5 STATE AND IS REQUIRED TO HOLD A CERTIFICATE OF AUTHORITY TO WRITE  
6 LIFE INSURANCE, ACCIDENT AND HEALTH INSURANCE, OR DEPOSIT-TYPE  
7 CONTRACTS IN THIS STATE.

8 (C) "DEPOSIT-TYPE CONTRACT" MEANS A CONTRACT THAT DOES NOT  
9 INCORPORATE MORTALITY OR MORBIDITY RISKS AND AS MAY BE SPECIFIED  
10 IN THE VALUATION MANUAL.

11 (D) "LIFE INSURANCE" MEANS A CONTRACT THAT INCORPORATES  
12 MORTALITY RISK, INCLUDING ANNUITY AND PURE ENDOWMENT CONTRACTS,  
13 AND AS MAY BE SPECIFIED IN THE VALUATION MANUAL.

14 (E) "NAIC" MEANS THE NATIONAL ASSOCIATION OF INSURANCE  
15 COMMISSIONERS.

16 (F) "VALUATION MANUAL" MEANS THE MANUAL OF VALUATION  
17 INSTRUCTIONS ADOPTED BY THE NAIC AS DESCRIBED IN SECTION 836B.

18 Sec. 830a. (1) ~~Every~~A life insurance company doing business  
19 in this state shall annually submit to the ~~commissioner~~DIRECTOR  
20 the opinion of a qualified actuary as to whether the reserves and  
21 related actuarial items held in support of the policies and  
22 contracts specified by the ~~commissioner~~DIRECTOR by rule are  
23 computed appropriately, are based on assumptions that satisfy  
24 contractual provisions, are consistent with prior reported  
25 amounts, and comply with applicable laws of this state. The  
26 actuarial opinion required by this section ~~shall~~MUST be  
27 submitted in a form prescribed by the ~~commissioner~~DIRECTOR and

1 may include any other items that the ~~commissioner~~**DIRECTOR**  
2 considers necessary.

3 (2) ~~Every~~**A** life insurance company, except as exempted by or  
4 ~~pursuant to~~**UNDER** rule, shall also annually include in the  
5 opinion required by subsection (1) an opinion of the same  
6 qualified actuary as to whether the reserves and related  
7 actuarial items held in support of the policies and contracts  
8 specified by the ~~commissioner~~**DIRECTOR** by rule, when considered  
9 in light of the assets held by the company with respect to the  
10 reserves and related actuarial items, including, but not limited  
11 to, the investment earnings on the assets and the considerations  
12 anticipated to be received and retained under the policies and  
13 contracts, make adequate provision for the company's obligations  
14 under the policies and contracts, including, but not limited to,  
15 the benefits under and expenses associated with the policies and  
16 contracts. By order, the ~~commissioner~~**DIRECTOR** may provide for a  
17 transition period for establishing any higher reserves that the  
18 qualified actuary may consider necessary ~~in order to~~ render the  
19 opinion required by this subsection.

20 (3) ~~Each~~**ALL OF THE FOLLOWING APPLY TO AN** opinion required  
21 by subsection (2): ~~shall be governed by the following:~~

22 (a) A memorandum ~~shall~~**MUST** be prepared to support each  
23 actuarial opinion that ~~shall be~~**IS** in form and substance  
24 acceptable to the ~~commissioner~~**DIRECTOR**.

25 (b) If the insurance company ~~fails to~~**DOES NOT** provide a  
26 supporting memorandum within the period of time requested by the  
27 ~~commissioner~~**DIRECTOR** or the ~~commissioner~~**DIRECTOR** determines

1 that the supporting memorandum provided by the insurer ~~fails to~~  
2 **DOES NOT** meet the standards prescribed by applicable laws or  
3 rules or is otherwise unacceptable to the ~~commissioner,~~**DIRECTOR**,  
4 the ~~commissioner~~**DIRECTOR** may engage a qualified actuary at the  
5 expense of the company to review the opinion and the basis for  
6 the opinion and prepare a supporting memorandum as is required by  
7 the ~~commissioner.~~**DIRECTOR**.

8 (4) ~~Each~~**ALL OF THE FOLLOWING APPLY TO AN** opinion required  
9 by this section: ~~shall be governed by the following:~~

10 (a) The opinion ~~shall~~**MUST** be submitted with the annual  
11 statement reflecting the valuation of the reserve liabilities for  
12 each year ending on or after December 31, 1994.

13 (b) The opinion ~~shall apply~~**APPLIES** to all business in force  
14 including individual and group disability insurance plans in form  
15 and substance acceptable to the ~~commissioner.~~**DIRECTOR**.

16 (c) The opinion ~~shall~~**MUST** be based on standards as the  
17 ~~commissioner~~**DIRECTOR** may prescribe by rule.

18 (d) For an opinion required to be submitted by a foreign or  
19 alien insurer, the ~~commissioner~~**DIRECTOR** may accept the opinion  
20 filed by ~~that~~**THE FOREIGN OR ALIEN** insurer with the insurance  
21 supervisory official of another state if the ~~commissioner~~  
22 **DIRECTOR** determines that the opinion reasonably meets the  
23 requirements applicable to a company domiciled in this state.

24 (e) ~~Any~~**A** memorandum in support of the opinion, and any  
25 other material provided by the insurer to the ~~commissioner~~  
26 **DIRECTOR** in connection with it, shall be kept confidential by the  
27 ~~commissioner,~~**DIRECTOR**, shall not be made public, and ~~shall~~**IS**

1 not ~~be~~ subject to subpoena, other than for the purpose of  
 2 defending an action seeking damages from ~~any~~ **A** person by reason  
 3 of ~~any~~ **AN** action required by this section or by rules promulgated  
 4 under this section. However, the **DIRECTOR MAY RELEASE THE**  
 5 memorandum or other material ~~may be released by the commissioner~~  
 6 in any of the following instances:

7 (i) With the written consent of the insurer.

8 (ii) To the american academy of actuaries if the memorandum  
 9 or other material is required for the purpose of professional  
 10 disciplinary proceedings and the request ~~sets forth~~ **DESCRIBES**  
 11 procedures satisfactory to the ~~commissioner~~ **DIRECTOR** for  
 12 preserving the confidentiality of the memorandum or other  
 13 material.

14 (iii) If any portion of the confidential memorandum is cited  
 15 by the insurer in its marketing or is cited before any  
 16 governmental agency other than a state insurance regulatory  
 17 agency or is released by the insurer to the news media. ~~In this~~  
 18 ~~event, all portions of the~~ **A** confidential memorandum shall no  
 19 ~~longer be~~ **CITED AS DESCRIBED UNDER THIS SUBPARAGRAPH IS NOT**  
 20 confidential.

21 (5) Except ~~in cases of~~ **FOR** fraud or willful misconduct, the  
 22 qualified actuary ~~shall~~ **IS** not ~~be~~ liable for damages to ~~any~~ **A**  
 23 person other than the insurance company and the ~~commissioner~~  
 24 **DIRECTOR** for ~~any~~ **AN** act, error, omission, decision, or conduct  
 25 with respect to the actuary's opinion. Disciplinary action by the  
 26 ~~commissioner~~ **DIRECTOR** against the insurer or the qualified  
 27 actuary shall be defined in rules by the ~~commissioner~~ **DIRECTOR**.



1           (6) For purposes of this section, "qualified actuary" means  
2 a member of either the american academy of actuaries or the  
3 society of actuaries who also meets any other criteria  
4 established by the ~~commissioner~~**DIRECTOR** by rule.

5           (7) The ~~commissioner~~**DIRECTOR** shall not accept as a  
6 qualified actuary or accept an actuarial opinion prepared in  
7 whole or in part by an individual who has done any of the  
8 following:

9           (a) Been convicted of fraud, bribery, a violation of ~~chapter~~  
10 ~~96 of title 18 of the United States Code, 18 U.S.C. 18 USC~~ 1961  
11 to 1968, or any dishonest conduct or practices under federal or  
12 state law.

13           (b) ~~Been found to have violated~~**VIOLATED** the insurance laws  
14 of this state with respect to any previous reports submitted  
15 under this section.

16           (c) ~~Has failed to~~**DID NOT** detect or disclose material  
17 information in 1 or more previous reports filed under this  
18 section.

19           (8) The ~~commissioner~~**DIRECTOR** may hold a public hearing  
20 ~~pursuant to~~**UNDER** the administrative procedures act of 1969, ~~Act~~  
21 ~~No. 306 of the Public Acts of 1969, being sections 1969 PA 306,~~  
22 **MCL 24.201 to 24.328, of the Michigan Compiled Laws,** to determine  
23 ~~whether~~**IF** an actuary is qualified. After considering the  
24 evidence presented, the ~~commissioner~~**DIRECTOR** may find that the  
25 actuary is not qualified for purposes of expressing his or her  
26 opinion on reserves and related actuarial items as required by  
27 this section, and may require the insurer to replace the actuary

1 with another actuary.

2 ~~—— (9) This section shall take effect December 31, 1994.~~

3 (9) EVERY COMPANY WITH OUTSTANDING LIFE INSURANCE CONTRACTS,  
4 ACCIDENT AND HEALTH INSURANCE CONTRACTS, OR DEPOSIT-TYPE  
5 CONTRACTS IN THIS STATE AND SUBJECT TO REGULATION BY THE DIRECTOR  
6 SHALL ANNUALLY SUBMIT THE OPINION OF THE APPOINTED ACTUARY AS TO  
7 WHETHER THE RESERVES AND RELATED ACTUARIAL ITEMS HELD IN SUPPORT  
8 OF THE POLICIES AND CONTRACTS ARE COMPUTED APPROPRIATELY, ARE  
9 BASED ON ASSUMPTIONS THAT SATISFY CONTRACTUAL PROVISIONS, ARE  
10 CONSISTENT WITH PRIOR REPORTED AMOUNTS, AND COMPLY WITH  
11 APPLICABLE LAWS OF THIS STATE. THE VALUATION MANUAL MUST PROVIDE  
12 THE SPECIFICS OF THIS OPINION, INCLUDING ANY ITEMS CONSIDERED  
13 NECESSARY TO ITS SCOPE.

14 (10) EVERY COMPANY WITH OUTSTANDING LIFE INSURANCE  
15 CONTRACTS, ACCIDENT AND HEALTH INSURANCE CONTRACTS, OR DEPOSIT-  
16 TYPE CONTRACTS IN THIS STATE AND SUBJECT TO REGULATION BY THE  
17 DIRECTOR, EXCEPT AS EXEMPTED IN THE VALUATION MANUAL, SHALL ALSO  
18 ANNUALLY INCLUDE IN THE OPINION REQUIRED BY SUBSECTION (9) AN  
19 OPINION OF THE SAME APPOINTED ACTUARY AS TO WHETHER THE RESERVES  
20 AND RELATED ACTUARIAL ITEMS HELD IN SUPPORT OF THE POLICIES AND  
21 CONTRACTS SPECIFIED IN THE VALUATION MANUAL, WHEN CONSIDERED IN  
22 LIGHT OF THE ASSETS HELD BY THE COMPANY WITH RESPECT TO THE  
23 RESERVES AND RELATED ACTUARIAL ITEMS, INCLUDING, BUT NOT LIMITED  
24 TO, THE INVESTMENT EARNINGS ON THE ASSETS AND THE CONSIDERATIONS  
25 ANTICIPATED TO BE RECEIVED AND RETAINED UNDER THE POLICIES AND  
26 CONTRACTS, MAKE ADEQUATE PROVISIONS FOR THE COMPANY'S OBLIGATIONS  
27 UNDER THE POLICIES AND CONTRACTS, INCLUDING, BUT NOT LIMITED TO,

1 THE BENEFITS UNDER AND EXPENSES ASSOCIATED WITH THE POLICIES AND  
2 CONTRACTS.

3 (11) BOTH OF THE FOLLOWING APPLY TO AN OPINION REQUIRED  
4 UNDER SUBSECTION (10) :

5 (A) A MEMORANDUM, IN FORM AND SUBSTANCE AS SPECIFIED IN THE  
6 VALUATION MANUAL, AND ACCEPTABLE TO THE DIRECTOR, SHALL BE  
7 PREPARED TO SUPPORT EACH ACTUARIAL OPINION.

8 (B) IF AN INSURANCE COMPANY DOES NOT PROVIDE A SUPPORTING  
9 MEMORANDUM AT THE REQUEST OF THE DIRECTOR WITHIN A PERIOD  
10 SPECIFIED IN THE VALUATION MANUAL OR THE DIRECTOR DETERMINES THAT  
11 THE SUPPORTING MEMORANDUM PROVIDED BY THE INSURANCE COMPANY DOES  
12 NOT MEET THE STANDARDS PRESCRIBED BY THE VALUATION MANUAL OR IS  
13 OTHERWISE UNACCEPTABLE TO THE DIRECTOR, THE DIRECTOR MAY ENGAGE A  
14 QUALIFIED ACTUARY AT THE EXPENSE OF THE COMPANY TO REVIEW THE  
15 OPINION AND THE BASIS FOR THE OPINION AND PREPARE THE SUPPORTING  
16 MEMORANDUM REQUIRED BY THE DIRECTOR.

17 (12) ALL OF THE FOLLOWING APPLY TO AN OPINION REQUIRED UNDER  
18 SUBSECTION (9) OR (10) :

19 (A) THE OPINION MUST BE IN FORM AND SUBSTANCE AS SPECIFIED  
20 IN THE VALUATION MANUAL AND ACCEPTABLE TO THE DIRECTOR.

21 (B) THE OPINION MUST BE SUBMITTED WITH THE ANNUAL STATEMENT  
22 REFLECTING THE VALUATION OF THE RESERVE LIABILITIES FOR EACH YEAR  
23 ENDING ON OR AFTER THE OPERATIVE DATE OF THE VALUATION MANUAL.

24 (C) THE OPINION APPLIES TO ALL POLICIES AND CONTRACTS  
25 DESCRIBED IN SUBSECTION (10), AND TO OTHER ACTUARIAL LIABILITIES  
26 AS MAY BE SPECIFIED IN THE VALUATION MANUAL.

27 (D) THE OPINION MUST BE BASED ON STANDARDS ADOPTED FROM TIME

1 TO TIME BY THE ACTUARIAL STANDARDS BOARD OR ITS SUCCESSOR, AND ON  
2 SUCH ADDITIONAL STANDARDS AS MAY BE PRESCRIBED IN THE VALUATION  
3 MANUAL.

4 (E) FOR AN OPINION REQUIRED TO BE SUBMITTED BY A FOREIGN OR  
5 ALIEN COMPANY, THE DIRECTOR MAY ACCEPT THE OPINION FILED BY THE  
6 FOREIGN OR ALIEN COMPANY WITH THE INSURANCE SUPERVISORY OFFICIAL  
7 OF ANOTHER STATE IF THE DIRECTOR DETERMINES THAT THE OPINION  
8 REASONABLY MEETS THE REQUIREMENTS APPLICABLE TO A COMPANY  
9 DOMICILED IN THIS STATE.

10 (F) EXCEPT FOR FRAUD OR WILLFUL MISCONDUCT, THE APPOINTED  
11 ACTUARY IS NOT LIABLE FOR DAMAGES TO A PERSON OTHER THAN THE  
12 INSURANCE COMPANY AND THE DIRECTOR FOR AN ACT, ERROR, OMISSION,  
13 OR DECISION, OR CONDUCT, WITH RESPECT TO THE APPOINTED ACTUARY'S  
14 OPINION.

15 (G) THE DIRECTOR SHALL DETERMINE BY REGULATION DISCIPLINARY  
16 ACTION AGAINST THE COMPANY OR THE APPOINTED ACTUARY.

17 (13) AS USED IN THIS SECTION:

18 (A) "ACCIDENT AND HEALTH INSURANCE" MEANS CONTRACTS THAT  
19 INCORPORATE MORBIDITY RISK AND PROVIDE PROTECTION AGAINST  
20 ECONOMIC LOSS RESULTING FROM ACCIDENT, SICKNESS, OR MEDICAL  
21 CONDITIONS AND AS MAY BE SPECIFIED IN THE VALUATION MANUAL.

22 (B) "APPOINTED ACTUARY" MEANS A QUALIFIED ACTUARY WHO IS  
23 APPOINTED IN ACCORDANCE WITH THE VALUATION MANUAL TO PREPARE THE  
24 ACTUARIAL OPINION REQUIRED UNDER SUBSECTION (9) OR (10).

25 (C) "COMPANY" MEANS AN ENTITY THAT HAS WRITTEN, ISSUED, OR  
26 REINSURED LIFE INSURANCE CONTRACTS, ACCIDENT AND HEALTH INSURANCE  
27 CONTRACTS, OR DEPOSIT-TYPE CONTRACTS IN THIS STATE AND HAS AT

1 LEAST 1 POLICY IN FORCE OR ON CLAIM OR THAT HAS WRITTEN, ISSUED,  
2 OR REINSURED LIFE INSURANCE CONTRACTS, ACCIDENT AND HEALTH  
3 INSURANCE CONTRACTS, OR DEPOSIT-TYPE CONTRACTS IN ANY STATE AND  
4 IS REQUIRED TO HOLD A CERTIFICATE OF AUTHORITY TO WRITE LIFE  
5 INSURANCE, ACCIDENT AND HEALTH INSURANCE, OR DEPOSIT-TYPE  
6 CONTRACTS IN THIS STATE.

7 (D) "DEPOSIT-TYPE CONTRACT" MEANS CONTRACTS THAT DO NOT  
8 INCORPORATE MORTALITY OR MORBIDITY RISKS AND AS MAY BE SPECIFIED  
9 IN THE VALUATION MANUAL.

10 (E) "LIFE INSURANCE" MEANS CONTRACTS THAT INCORPORATE  
11 MORTALITY RISK, INCLUDING ANNUITY AND PURE ENDOWMENT CONTRACTS,  
12 AND AS MAY BE SPECIFIED IN THE VALUATION MANUAL.

13 (F) "NAIC" MEANS THE NATIONAL ASSOCIATION OF INSURANCE  
14 COMMISSIONERS.

15 (G) "QUALIFIED ACTUARY" MEANS AN INDIVIDUAL WHO IS QUALIFIED  
16 TO SIGN AN APPLICABLE STATEMENT OF ACTUARIAL OPINION IN  
17 ACCORDANCE WITH THE AMERICAN ACADEMY OF ACTUARIES QUALIFICATION  
18 STANDARDS FOR ACTUARIES SIGNING STATEMENTS OF ACTUARIAL OPINION  
19 AND WHO MEETS THE REQUIREMENTS SPECIFIED IN THE VALUATION MANUAL.

20 (H) "VALUATION MANUAL" MEANS THE MANUAL OF VALUATION  
21 INSTRUCTIONS ADOPTED BY THE NAIC AS SPECIFIED IN SECTION 836B.

22 Sec. 834. (1) Except as otherwise provided in sections 835,  
23 836, and 837, the minimum standard for the valuation of policies  
24 and contracts described in subsection (8) ~~shall be~~ IS the  
25 commissioner's reserve valuation methods defined in subsections  
26 (2), (3), and (6), 5% interest for group annuity and pure  
27 endowment contracts ~~, provided that~~ IF prior notice of any

1 revaluation of reserves with respect to group annuity and pure  
 2 endowment contracts is given to the ~~commissioner~~**DIRECTOR** in the  
 3 same manner as is required before a revaluation of reserves under  
 4 section 832(2), and 3-1/2% interest for all other of those  
 5 policies and contracts; or ~~in the case of~~**FOR** policies and  
 6 contracts, other than annuity and pure endowment contracts,  
 7 issued ~~on or after~~ October ~~21, 20~~, 1974, 4% interest for those  
 8 policies issued before October 1, 1980, and 4-1/2% interest for  
 9 those policies issued ~~on or after~~ ~~October 1,~~ **SEPTEMBER 30**, 1980,  
 10 or ~~in the case of~~**FOR** life insurance contracts, other than  
 11 annuity and pure endowment contracts, issued after December 31,  
 12 1994, 5-1/2% interest for single premium life insurance policies  
 13 and 4-1/2% interest for all other policies, and the following  
 14 tables:

15       **(A)** ~~(I)~~ For all ordinary policies of life insurance issued  
 16 on the standard basis, excluding any disability and accidental  
 17 death benefits in those policies: the commissioner's 1941  
 18 standard ordinary mortality table, for policies issued before the  
 19 operative date of paragraph 5 of section 4060(5); and the  
 20 commissioner's 1958 standard ordinary mortality table for  
 21 policies issued on or after that operative date and before the  
 22 operative date of paragraphs 9 to ~~19-18~~ of section 4060(5). For  
 23 any category of those policies issued on female risks, all  
 24 modified net premiums and present values referred to in this  
 25 section may be calculated according to an age not more than 6  
 26 years younger than the actual age of the insured; and, for those  
 27 policies issued on or after the operative date of paragraphs 9 to

1 ~~19-18~~ of section 4060(5), the commissioner's 1980 standard  
2 ordinary mortality table or, at the election of the company for  
3 any 1 or more specified plans of life insurance, the  
4 commissioner's 1980 standard ordinary mortality table with 10-  
5 year select mortality factors or any ordinary mortality table  
6 adopted after 1980 by the national association of insurance  
7 commissioners that is approved by a rule promulgated by the  
8 ~~commissioner~~-**DIRECTOR** for use in determining the minimum standard  
9 of valuation for those policies or the 2001 CSO mortality table  
10 under section 838.

11 (B) ~~(II)~~—For all industrial life insurance policies issued  
12 on the standard basis, excluding any disability and accidental  
13 death benefits in those policies: the 1941 standard industrial  
14 mortality table for those policies issued before the operative  
15 date of paragraph 7 of section 4060(5); and for those policies  
16 issued on or after that operative date, the commissioner's 1961  
17 standard industrial mortality table or any industrial mortality  
18 table adopted after 1980 by the national association of insurance  
19 commissioners that is approved by a rule promulgated by the  
20 ~~commissioner~~-**DIRECTOR** for use in determining the minimum standard  
21 of valuation for those policies.

22 (C) ~~(III)~~—For individual annuity and pure endowment  
23 contracts, excluding any disability and accidental death benefits  
24 in those policies: the 1937 standard annuity mortality table or,  
25 at the option of the company, the annuity mortality table for  
26 1949, ultimate, or any modification of either of those tables  
27 approved by the ~~commissioner~~-**DIRECTOR**.

1           (D) ~~(IV)~~—For group annuity and pure endowment contracts,  
2 excluding any disability and accidental death benefits in those  
3 policies: the group annuity mortality table for 1951, any  
4 modification of that table approved by the ~~commissioner,~~  
5 **DIRECTOR**, or, at the option of the company, any of the tables or  
6 modifications of tables specified for individual annuity and pure  
7 endowment contracts.

8           (E) ~~(V)~~—For total and permanent disability benefits in or  
9 supplementary to ordinary policies or contracts: for policies or  
10 contracts issued ~~on or after January 1, 1966,~~ **DECEMBER 31, 1965,**  
11 the tables of period 2 disablement rates and the 1930 to 1950  
12 termination rates of the 1952 disability study of the society of  
13 actuaries, with due regard to the type of benefit or any tables  
14 of disablement rates and termination rates adopted after 1980 by  
15 the national association of insurance commissioners that are  
16 approved by a rule promulgated by the ~~commissioner~~ **DIRECTOR** for  
17 use in determining the minimum standard of valuation for those  
18 policies; for policies or contracts issued ~~on or after January 1,~~  
19 ~~1961,~~ **DECEMBER 31, 1960,** and before January 1, 1966, either those  
20 tables or, at the option of the company, the class (3) disability  
21 table, 1926; and for policies issued before January 1, 1961, the  
22 class (3) disability table, 1926. For active lives, a table ~~shall~~  
23 **MUST** be combined with a mortality table permitted for calculating  
24 the reserves for life insurance policies.

25           (F) ~~(VI)~~—For accidental death benefits in or supplementary  
26 to policies: for policies issued ~~on or after January 1, 1966,~~  
27 **DECEMBER 31, 1965,** the 1959 accidental death benefits table or



1 any accidental death benefits table adopted after 1980 by the  
2 national association of insurance commissioners that is approved  
3 by a rule promulgated by the ~~commissioner~~**DIRECTOR** for use in  
4 determining the minimum standard of valuation for those policies;  
5 for policies issued ~~on or after January 1, 1961,~~**DECEMBER 31,**  
6 **1960**, and before January 1, 1966, 1 of the above tables or at the  
7 option of the insurer the intercompany double indemnity mortality  
8 table. A table ~~shall~~**MUST** be combined with a mortality table  
9 permitted for calculating the reserves for life insurance  
10 policies.

11 (G) ~~(VII)~~For group life insurance, life insurance issued on  
12 the substandard basis, and other special benefits: any table  
13 approved by the ~~commissioner~~**DIRECTOR**.

14 (2) Except as otherwise provided in subsections (3) and (6),  
15 reserves according to the commissioner's reserve valuation  
16 method, for the life insurance and endowment benefits of policies  
17 providing for a uniform amount of insurance and requiring the  
18 payment of uniform premiums, ~~shall be~~**IS** the excess, if any, of  
19 the present value, at the date of valuation, of the future  
20 guaranteed benefits provided for by those policies over the then  
21 present value of any future modified net premiums for the  
22 policies. The modified net premiums for the policy ~~shall be~~**IS** a  
23 uniform percentage of the respective contract premiums for the  
24 future guaranteed benefits so that the present value of all  
25 modified net premiums equals, at the date of issue of the policy,  
26 the sum of the then present value of these benefits provided for  
27 by the policy and the excess of ~~(g)~~**SUBDIVISION (A)** over ~~(h)~~,

1 **SUBDIVISION (B)**, as follows:

2       **(A)** ~~(g)~~—A net level annual premium equal to the present  
3 value, at the date of issue, of the future guaranteed benefits  
4 provided for after the first policy year divided by the present  
5 value, at the date of issue, of an annuity of 1 per annum payable  
6 on the first and each subsequent anniversary of the policy on  
7 which a premium falls due. However, the net level annual premium  
8 ~~shall~~**MUST** not exceed the net level annual premium on the 19-year  
9 premium whole life plan for insurance of the same amount at an  
10 age 1 year higher than the age at issue of the policy.

11       **(B)** ~~(h)~~—A net 1-year term premium for the future guaranteed  
12 benefits provided for in the first policy year.

13       However, for any life insurance policy issued ~~on or~~ after  
14 ~~January 1, 1986~~**DECEMBER 31, 1985** for which the contract premium  
15 in the first policy year exceeds that of the second year and for  
16 which no comparable additional benefit is provided in the first  
17 year for that excess and that provides an endowment benefit or a  
18 cash surrender value or a combination of endowment benefit and  
19 cash surrender value in an amount greater than the excess  
20 premium, the reserve according to the commissioner's reserve  
21 valuation method as of any policy anniversary occurring on or  
22 before the assumed ending date, defined as the first policy  
23 anniversary on which the sum of any endowment benefit and any  
24 cash surrender value then available is greater than the excess  
25 premium, ~~shall be,~~**IS**, except as otherwise provided in subsection  
26 (6), the greater of the reserve as of that policy anniversary  
27 calculated as described in paragraph 1 of this subsection and the

1 reserve as of that policy anniversary calculated as described in  
2 that paragraph, but with the value defined in ~~(g)~~**SUBDIVISION (A)**  
3 being reduced by 15% of the amount of the excess first year  
4 premium; all present values of benefits and premiums being  
5 determined without reference to premiums or benefits provided for  
6 by the policy after the assumed ending date; the policy being  
7 assumed to mature on that date as an endowment; and the cash  
8 surrender value provided on that date being considered as an  
9 endowment benefit. In making the above comparison, the mortality  
10 and interest bases stated in subsection (1) and section 836 ~~shall~~  
11 **MUST** be used.

12 Reserves according to the commissioner's reserve valuation  
13 method for ~~(I)~~life insurance policies providing for a varying  
14 amount of insurance or requiring the payment of varying premiums;  
15 ~~;(II)~~group annuity and pure endowment contracts purchased under  
16 a retirement plan or plan of deferred compensation, established  
17 or maintained by an employer, including a partnership or sole  
18 proprietorship, or by an employee organization, or by both, other  
19 than a plan providing individual retirement accounts or  
20 individual retirement annuities under section 408 of the internal  
21 revenue code **OF 1986**, 26 USC 408; ~~;(III)~~disability and  
22 accidental death benefits in all policies and contracts; ~~;~~and  
23 ~~(IV)~~all other benefits, except life insurance and endowment  
24 benefits in life insurance policies and benefits provided by all  
25 other annuity and pure endowment contracts, ~~shall~~**MUST** be  
26 calculated by a method consistent with the principles of this  
27 subsection.

1           (3) This subsection applies to all annuity and pure  
2 endowment contracts other than group annuity and pure endowment  
3 contracts purchased under a retirement plan or plan of deferred  
4 compensation, established or maintained by an employer, including  
5 a partnership or sole proprietorship, or by an employee  
6 organization, or by both, other than a plan providing individual  
7 retirement accounts or individual retirement annuities under  
8 section 408 of the internal revenue code **OF 1986**, 26 USC 408.  
9 Without action by the Michigan Legislature to adopt actuarial  
10 guideline 35, reserves according to the commissioner's annuity  
11 reserve method for benefits under annuity or pure endowment  
12 contracts, excluding any disability and accidental death benefits  
13 in those contracts, ~~shall~~**MUST** be the greatest of the respective  
14 excesses of the present values, at the date of valuation, of the  
15 future guaranteed benefits, including guaranteed nonforfeiture  
16 benefits, provided for by those contracts at the end of each  
17 respective contract year, over the present value, at the date of  
18 valuation, of any future valuation considerations derived from  
19 future gross considerations, required by the terms of the  
20 contract, that become payable before the end of that respective  
21 contract year. The future guaranteed benefits ~~shall~~**MUST** be  
22 determined by using the mortality table, if any, and the interest  
23 rate specified in those contracts for determining guaranteed  
24 benefits. The valuation considerations are the portions of the  
25 respective gross considerations applied under the terms of the  
26 contracts to determine nonforfeiture values.

27           (4) An insurer's aggregate reserves for all life insurance

1 policies, excluding disability and accidental death benefits,  
2 shall not be less than the aggregate reserves calculated in  
3 accordance with the methods ~~set forth~~ **DESCRIBED** in subsections  
4 (2), (3), (6), and (7), and the mortality table or tables and  
5 rate or rates of interest used in calculating nonforfeiture  
6 benefits for the policies. The aggregate reserves for all  
7 policies, contracts, and benefits shall not be less than the  
8 aggregate reserves determined by the ~~qualified~~ **APPOINTED** actuary  
9 to be necessary to render the opinion required by section 830a.

10 (5) Reserves for all policies and contracts issued ~~prior to~~  
11 **BEFORE** June 27, 1994 may be calculated, at the option of the  
12 insurer, according to any standards that produce greater  
13 aggregate reserves for all those policies and contracts than the  
14 minimum reserves required by the laws in effect immediately  
15 before June 27, 1994. Reserves for a category of policies,  
16 contracts, or benefits as established by the ~~commissioner,~~  
17 **DIRECTOR**, issued ~~on or~~ after June 27, ~~26~~, 1994, may be calculated  
18 at the option of the insurer according to any standards that  
19 produce greater aggregate reserves than those calculated  
20 according to the minimum standard provided in this act. However,  
21 the rate or rates of interest used for policies and contracts,  
22 other than annuity and pure endowment contracts, ~~shall~~ **MUST** not  
23 be ~~higher~~ **GREATER** than the corresponding rate or rates of  
24 interest used in calculating any nonforfeiture benefits provided  
25 for in those policies and contracts. ~~Any~~ **AN** insurer that had  
26 previously adopted any standard of valuation producing greater  
27 aggregate reserves than those calculated according to the minimum

1 standard provided in this section and section 835 may, with the  
2 ~~commissioner's~~**DIRECTOR'S** approval, adopt any lower standard of  
3 valuation, but not lower than the minimum standard provided by  
4 this section and section 835. However, for the purposes of this  
5 section, the holding of additional reserves previously determined  
6 by a ~~qualified~~**AN APPOINTED** actuary to be necessary to render the  
7 opinion required by section 830a ~~shall~~**IS** not ~~be~~ considered to be  
8 the adoption of a higher standard of valuation.

9 (6) If in any contract year the gross premium charged by a  
10 ~~life~~**AN** insurer on a policy or contract is less than the  
11 valuation net premium for the policy or contract calculated by  
12 the method used in calculating the reserve on the policy or  
13 contract, the insurer may use the minimum valuation standards of  
14 mortality, either at the time of issue or the time of valuation  
15 of the policy or contract and the minimum valuation rate of  
16 interest at time of issue or the time of valuation of the policy  
17 or contract, ~~so long as~~**IF** the minimum reserve required for the  
18 policy or contract is the greater of either the reserve  
19 calculated according to the mortality table, rate of interest,  
20 and method actually used for the policy or contract, or the  
21 reserve calculated by the method actually used for the policy or  
22 contract using the minimum valuation standards of mortality and  
23 rate of interest and replacing the valuation net premium by the  
24 actual gross premium in each contract year for which the  
25 valuation net premium exceeds the actual gross premium. The  
26 minimum valuation standards of mortality and rate of interest  
27 referred to in this subsection are those standards stated in

1 subsection (1) and section 836. However, for any life insurance  
2 policy issued ~~on or after January 1, 1986~~ **DECEMBER 31, 1985** for  
3 which the gross premium in the first policy year exceeds that of  
4 the second year and for which no comparable additional benefit is  
5 provided in the first year for that excess and that provides an  
6 endowment benefit or a cash surrender value or a combination of  
7 endowment benefit and cash surrender value in an amount greater  
8 than the excess premium, ~~the provisions of this subsection shall~~  
9 ~~be applied~~ **APPLIES** as if the method actually used in calculating  
10 the reserve for that policy were the method described in  
11 subsection (2), ignoring paragraph 2 of that subsection. The  
12 minimum reserve at each policy anniversary of that policy ~~shall~~  
13 **MUST** be the greater of the minimum reserve calculated in  
14 accordance with subsection (2), including paragraph 2 of that  
15 subsection, and the minimum reserve calculated in accordance with  
16 this subsection.

17 (7) For any plan of life insurance that provides for future  
18 premium determination, the amounts of which are to be determined  
19 by the insurance company based on then estimates of future  
20 experience, or, ~~in the case of~~ **FOR** any plan of life insurance or  
21 annuity ~~that is of such a nature that~~ the minimum reserves cannot  
22 be determined by the methods described in subsections (2), (3),  
23 and (6), the reserves that are held under those plans must be  
24 appropriate in relation to the benefits and the pattern of  
25 premiums for that plan and computed by a method that is  
26 consistent with the principles of this standard valuation law, as  
27 determined by rules promulgated by the ~~commissioner~~ **DIRECTOR**.

1           (8) This section applies to only life insurance policies and  
2 contracts issued on and after the operative date of section 4060,  
3 the standard nonforfeiture law, except as otherwise provided in  
4 sections 835 and 836 for group annuity and pure endowment  
5 contracts issued on or after the operative date of section 4060  
6 and except as otherwise provided in section 837 for universal  
7 life contracts.

8           (9) AS USED IN THIS SECTION:

9           (A) "APPOINTED ACTUARY" MEANS A QUALIFIED ACTUARY WHO IS  
10 APPOINTED IN ACCORDANCE WITH THE VALUATION MANUAL TO PREPARE THE  
11 ACTUARIAL OPINION REQUIRED IN SECTION 830A(9).

12           (B) "NAIC" MEANS THE NATIONAL ASSOCIATION OF INSURANCE  
13 COMMISSIONERS.

14           (C) "QUALIFIED ACTUARY" MEANS AN INDIVIDUAL WHO IS QUALIFIED  
15 TO SIGN THE APPLICABLE STATEMENT OF ACTUARIAL OPINION IN  
16 ACCORDANCE WITH THE AMERICAN ACADEMY OF ACTUARIES QUALIFICATION  
17 STANDARDS FOR ACTUARIES SIGNING STATEMENTS OF ACTUARIAL OPINIONS  
18 AND WHO MEETS THE REQUIREMENTS SPECIFIED IN THE VALUATION MANUAL.

19           (D) "VALUATION MANUAL" MEANS THE MANUAL OF VALUATION  
20 INSTRUCTIONS ADOPTED BY THE NAIC AS SPECIFIED IN SECTION 836B.

21           Sec. 836. (1) The calendar year statutory valuation interest  
22 rates as defined in this section ~~shall be~~ ARE the interest rates  
23 used in determining the minimum standard for the valuation of the  
24 following:

25           (a) All life insurance policies issued in a particular  
26 calendar year on or after the operative date of paragraphs 9 to  
27 ~~19-18~~ of section 4060(5).



1 (b) All individual annuity and pure endowment contracts  
 2 issued in a calendar year ~~on or after January 1, 1983.~~ **DECEMBER**  
 3 **31, 1982.**

4 (c) All annuities and pure endowments purchased in a  
 5 calendar year ~~on or after January 1, 1983.~~ **DECEMBER 31, 1982** under  
 6 group annuity and pure endowment contracts.

7 (d) The net increase, if any, in a calendar year after  
 8 January 1, 1983 in amounts held under guaranteed interest  
 9 contracts.

10 (2) The calendar year statutory valuation interest rates, I,  
 11 shall be determined as follows, and the results rounded to the  
 12 nearer 0.25%:

13 (a) For life insurance,

$$14 \quad I = .03 + W (R_1 - .03) + \frac{W}{2} (R_2 - .09).$$

15

16 where R is the reference interest rate defined in this  
 17 section,  $R_1$  is the lesser of R and .09,  $R_2$  is the greater of R and  
 18 .09, and W is the weighting factor defined in this section.

19 (b) For single premium immediate annuities and for annuity  
 20 benefits involving life contingencies arising from other  
 21 annuities with cash settlement options and from guaranteed  
 22 interest contracts with cash settlement options,

$$23 \quad I = .03 + W (R - .03)$$

24 where R is the reference interest rate defined in this

1 section,  $R_1$  is the lesser of  $R$  and  $.09$ ,  $R_2$  is the greater of  $R$  and  
2  $.09$ , and  $W$  is the weighting factor defined in this section.

3 (c) For other annuities with cash settlement options and  
4 guaranteed interest contracts with cash settlement options,  
5 valued on an issue year basis, except as stated in subdivision  
6 (b), the formula for life insurance stated in subdivision (a)  
7 ~~shall apply~~ **APPLIES** to annuities and guaranteed interest  
8 contracts with guaranteed durations in excess of 10 years and the  
9 formula for single premium immediate annuities stated in  
10 subdivision (b) ~~shall apply~~ **APPLIES** to annuities and guaranteed  
11 interest contracts with guaranteed duration of 10 years or less.

12 (d) For other annuities with no cash settlement options and  
13 for guaranteed interest contracts with no cash settlement  
14 options, the formula for single premium immediate annuities  
15 stated in subdivision (b) ~~shall apply~~ **APPLIES**.

16 (e) For other annuities with cash settlement options and  
17 guaranteed interest contracts with cash settlement options,  
18 valued on a change in fund basis, the formula for single premium  
19 immediate annuities stated in subdivision (b) shall  
20 ~~apply~~ **APPLIES**.

21 (3) However, if the calendar year statutory valuation  
22 interest rate for any life insurance policies issued in any  
23 calendar year determined without reference to this sentence  
24 differs from the corresponding actual rate for similar policies  
25 issued in the immediately preceding calendar year by less than  
26  $0.5\%$ , the calendar year statutory valuation interest rate for  
27 ~~such~~ **THE** life insurance policies ~~shall~~ **MUST** be equal to the

1 corresponding actual rate for the immediately preceding calendar  
 2 year. For purposes of applying the immediately preceding  
 3 sentence, the calendar year statutory valuation interest rate for  
 4 life insurance policies issued in a calendar year ~~shall~~**MUST** be  
 5 determined for 1980 using the reference interest rate defined for  
 6 1979 and ~~shall~~**MUST** be determined for each subsequent calendar  
 7 year regardless of when paragraphs 9 to ~~19~~**18** of section 4060(5)  
 8 become operative.

9 (4) The weighting factors referred to in the formulas in  
 10 subsection (2) are given in the following tables:

11 (a) The weighting factors for life insurance are:

12	Guaranteed	
13	Duration	Weighting
14	<u>(Years)</u>	<u>Factors</u>
15	10 or less	.50
16	more than 10, but not more than 20	.45
17	more than 20	.35

18 For life insurance, the guaranteed duration is the maximum  
 19 number of years the life insurance can remain in force on a basis  
 20 guaranteed in the policy or under options to convert to plans of  
 21 life insurance with premium rates or nonforfeiture values, or  
 22 both, ~~which~~**THAT** are guaranteed in the original policy.

23 (b) The weighting factor for single premium immediate  
 24 annuities and for annuity benefits involving life contingencies  
 25 arising from other annuities with cash settlement options and  
 26 guaranteed interest contracts with cash settlement options is

1 .80.

2 (c) The weighting factors for other annuities and for  
 3 guaranteed interest contracts, except as stated in subdivision  
 4 (b), are specified in subparagraphs (i), (ii), and (iii), according  
 5 to the rules and definitions in subparagraphs (iv), (v), and (vi)  
 6 as follows:

7 (i) For annuities and guaranteed interest  
 8 contracts valued on an issue year basis:

9 Guaranteed	Weighting Factor		
10 Duration	For Plan Type		
11 <u>(Years)</u>	<u>A</u>	<u>B</u>	<u>C</u>
12 5 or less:	.80	.60	.50
13 more than 5, but not more than 10:	.75	.60	.50
14 more than 10, but not more than 20:	.65	.50	.45
15 more than 20:	.45	.35	.35
16	Plan Type		
17	<u>A</u>	<u>B</u>	<u>C</u>

18 (ii) For annuities and guaranteed  
 19 interest contracts valued on a change in fund  
 20 basis, the factors shown in subparagraph (i)  
 21 increased by:

.15	.25	.05
Plan Type		
<u>A</u>	<u>B</u>	<u>C</u>

24 (iii) For annuities and guaranteed  
 25 interest contracts valued on an issue year  
 26 basis, other than those with no cash  
 27 settlement options, ~~which~~**THAT** do not guarantee  
 28 interest on considerations received more than

1 1 year after issue or purchase and for  
 2 annuities and guaranteed interest contracts  
 3 valued on a change in fund basis ~~which~~ **THAT**  
 4 do not guarantee interest rates on  
 5 considerations received more than 12 months  
 6 beyond the valuation date, the factors shown  
 7 in subparagraph (i) or derived in subparagraph

8 (ii) increased by: .05 .05 .05

9 (iv) For other annuities with cash settlement options and  
 10 guaranteed interest contracts with cash settlement options, the  
 11 guaranteed duration is the number of years for which the contract  
 12 guarantees interest rates in excess of the calendar year  
 13 statutory valuation interest rate for life insurance policies  
 14 with guaranteed duration in excess of 20 years. For other  
 15 annuities with no cash settlement options and for guaranteed  
 16 interest contracts with no cash settlement options, the  
 17 guaranteed duration is the number of years from the date of issue  
 18 or date of purchase to the date annuity benefits are scheduled to  
 19 commence.

20 (v) As used in subparagraphs (i) to (iii):

21 (A) "Plan Type A" means at any time **THE** policyholder may  
 22 withdraw funds only with an adjustment to reflect changes in  
 23 interest rates or asset values since receipt of the funds by the  
 24 insurance company; without ~~such~~ **THE** adjustment but in  
 25 installments over 5 years or more; as an immediate life annuity;  
 26 or no withdrawal permitted.

27 (B) "Plan Type B" means before expiration of the interest

1 rate guarantee, **THE** policyholder may withdraw funds only with an  
2 adjustment to reflect changes in interest rates or asset values  
3 since receipt of the funds by the insurance company; without ~~such~~  
4 **THE** adjustment but in installments over 5 years or more; or no  
5 withdrawal permitted. At the end of interest rate guarantee,  
6 funds may be withdrawn without ~~such~~**THE** adjustment in a single  
7 sum or installments over less than 5 years.

8 (C) "Plan Type C" means **THE** policyholder may withdraw funds  
9 before expiration of interest rate guarantee in a single sum or  
10 installments over less than 5 years either without adjustment to  
11 reflect changes in interest rates or asset values since receipt  
12 of the funds by the insurance company or subject only to a fixed  
13 surrender charge stipulated in the contract as a percentage of  
14 the fund.

15 (vi) A company may elect to value guaranteed interest  
16 contracts with cash settlement options and annuities with cash  
17 settlement options on either an issue year basis or on a change  
18 in fund basis. Guaranteed interest contracts with no cash  
19 settlement options and other annuities with no cash settlement  
20 options must be valued on an issue year basis. As used in this  
21 section, an issue year basis of valuation refers to a valuation  
22 basis under which the interest rate used to determine the minimum  
23 valuation standard for the entire duration of the annuity or  
24 guaranteed interest contract is the calendar year valuation  
25 interest rate for the year of issue or year of purchase of the  
26 annuity or guaranteed interest contract, and the change in fund  
27 basis of valuation refers to a valuation basis under which the

1 interest rate used to determine the minimum valuation standard  
2 applicable to each change in the fund held under the annuity or  
3 guaranteed interest contract is the calendar year valuation  
4 interest rate for the year of the change in the fund.

5 (5) As used in subsections (2) and (3), "the reference  
6 interest rate" means:

7 (a) For all life insurance, the lesser of the average over a  
8 period of 36 months and the average over a period of 12 months,  
9 ending on June 30 of the calendar year next preceding the year of  
10 issue, of Moody's corporate bond yield average - monthly average  
11 corporates, as published by Moody's investors service, inc.

12 (b) For single premium immediate annuities and for annuity  
13 benefits involving life contingencies arising from other  
14 annuities with cash settlement options and guaranteed interest  
15 contracts with cash settlement options, the average over a period  
16 of 12 months, ending on June 30 of the calendar year of issue or  
17 year of purchase or December 31 of the calendar year preceding  
18 the year of issue or year of purchase, of Moody's corporate bond  
19 yield average - monthly average corporates, as published by  
20 Moody's investors service, inc. An insurer shall use the same  
21 method of computing the reference interest rate under this  
22 subdivision in all of its contracts. An insurer shall not change  
23 its method of computing the reference interest rate under this  
24 subdivision unless the insurer has notified and received approval  
25 from the ~~commissioner~~-**DIRECTOR**.

26 (c) For other annuities with cash settlement options and  
27 guaranteed interest contracts with cash settlement options,

1 valued on a year of issue basis, except as stated in subdivision  
2 (b), with guaranteed duration in excess of 10 years, the lesser  
3 of the average over a period of 36 months and the average over a  
4 period of 12 months, ending on June 30 of the calendar year of  
5 issue or purchase or December 31 of the calendar year preceding  
6 the year of issue or year of purchase, of Moody's corporate bond  
7 yield average - monthly average corporates, as published by  
8 Moody's investors service, inc. An insurer shall use the same  
9 method of computing the reference interest rate under this  
10 subdivision in all of its contracts. An insurer shall not change  
11 its method of computing the reference interest rate under this  
12 subdivision unless the insurer has notified and received approval  
13 from the ~~commissioner~~-**DIRECTOR**.

14 (d) For other annuities with cash settlement options and  
15 guaranteed interest contracts with cash settlement options,  
16 valued on a year of issue basis, except as stated in subdivision  
17 (b), with guaranteed duration of 10 years or less, the average  
18 over a period of 12 months, ending on June 30 of the calendar  
19 year of issue or purchase or December 31 of the calendar year  
20 preceding the year of issue or year of purchase, of Moody's  
21 corporate bond yield average - monthly average corporates, as  
22 published by Moody's investors service, inc. An insurer shall use  
23 the same method of computing the reference interest rate under  
24 this subdivision in all of its contracts. An insurer shall not  
25 change its method of computing the reference interest rate under  
26 this subdivision unless the insurer has notified and received  
27 approval from the ~~commissioner~~-**DIRECTOR**.



1 (e) For other annuities with no cash settlement options and  
2 for guaranteed interest contracts with no cash settlement  
3 options, the average over a period of 12 months, ending on June  
4 30 of the calendar year of issue or purchase or December 31 of  
5 the calendar year preceding the year of issue or year of  
6 purchase, of Moody's corporate bond yield average - monthly  
7 average corporates, as published by Moody's investors service,  
8 inc. An insurer shall use the same method of computing the  
9 reference interest rate under this subdivision in all of its  
10 contracts. An insurer shall not change its method of computing  
11 the reference interest rate under this subdivision unless the  
12 insurer has notified and received approval from the  
13 ~~commissioner~~. **DIRECTOR**.

14 (f) For other annuities with cash settlement options and  
15 guaranteed interest contracts with cash settlement options,  
16 valued on a change in fund basis, except as stated in subdivision  
17 (b), the average over a period of 12 months, ending on June 30 of  
18 the calendar year of the change in the fund or December 31 of the  
19 calendar year preceding the year of the change in the fund, of  
20 Moody's corporate bond yield average - monthly average  
21 corporates, as published by Moody's investors service, inc. An  
22 insurer shall use the same method of computing the reference  
23 interest rate under this subdivision in all of its contracts. An  
24 insurer shall not change its method of computing the reference  
25 interest rate under this subdivision unless the insurer has  
26 notified and received approval from the ~~commissioner~~. **DIRECTOR**.

27 (6) ~~In the event that~~ **IF** Moody's corporate bond yield

1 average - monthly average corporates is no longer published by  
2 Moody's investors service, inc. or ~~in the event that~~ **IF** the  
3 national association of insurance commissioners determines that  
4 Moody's corporate bond yield average - monthly average corporates  
5 as published by Moody's investors service, inc. is no longer  
6 appropriate for the determination of the reference interest rate,  
7 then an alternative method for determination of the reference  
8 interest rate, which is adopted by the national association of  
9 insurance commissioners and approved by a rule promulgated by the  
10 ~~commissioner,~~ **DIRECTOR**, may be substituted.

11 (7) Any changes to policy or contract forms that are needed  
12 because of changes in valuation rates ~~shall~~ **DO** not require  
13 refiling with, or approval by, the ~~commissioner.~~ **DIRECTOR**.

14 (8) An insurer may use December 31, 1985 for purposes of  
15 computing the reference interest rate for the calendar year 1986  
16 only.

17 **SEC. 836A. (1) THE DIRECTOR SHALL PROMULGATE REGULATIONS**  
18 **CONTAINING THE MINIMUM STANDARDS APPLICABLE TO THE VALUATION OF**  
19 **DISABILITY PLANS AND CONTRACTS ISSUED BEFORE THE DATE OF THE**  
20 **VALUATION MANUAL. FOR ACCIDENT AND HEALTH INSURANCE CONTRACTS**  
21 **ISSUED ON OR AFTER THE OPERATIVE DATE OF THE VALUATION MANUAL,**  
22 **THE STANDARD PRESCRIBED IN THE VALUATION MANUAL IS THE MINIMUM**  
23 **STANDARD OF VALUATION REQUIRED UNDER SECTION 830(2).**

24 **(2) AS USED IN THIS SECTION, THE FOLLOWING DEFINITIONS APPLY**  
25 **ON AND AFTER THE OPERATIVE DATE OF THE VALUATION MANUAL:**

26 **(A) "ACCIDENT AND HEALTH INSURANCE" MEANS CONTRACTS THAT**  
27 **INCORPORATE MORBIDITY RISK AND PROVIDE PROTECTION AGAINST**

1 ECONOMIC LOSS RESULTING FROM ACCIDENT, SICKNESS, OR MEDICAL  
2 CONDITIONS AND AS MAY BE SPECIFIED IN THE VALUATION MANUAL.

3 (B) "NAIC" MEANS THE NATIONAL ASSOCIATION OF INSURANCE  
4 COMMISSIONERS.

5 (C) "VALUATION MANUAL" MEANS THE MANUAL OF VALUATION  
6 INSTRUCTIONS ADOPTED BY THE NAIC AS SPECIFIED IN SECTION 836B.

7 SEC. 836B. (1) ALL OF THE FOLLOWING APPLY TO THE VALUATION  
8 MANUAL:

9 (A) EXCEPT AS OTHERWISE PROVIDED UNDER SUBDIVISION (E) OR  
10 (G), FOR POLICIES ISSUED ON OR AFTER THE OPERATIVE DATE OF THE  
11 VALUATION MANUAL AND, AT A COMPANY'S OPTION FOR POLICIES OR  
12 INDIVIDUAL BLOCKS OF POLICIES ACQUIRED BY THE COMPANY THROUGH A  
13 BUSINESS ACQUISITION OR REINSURANCE TRANSACTION AFTER THE  
14 EFFECTIVE DATE OF THE AMENDATORY ACT THAT ADDED THIS SECTION,  
15 REGARDLESS OF WHEN THE POLICIES WERE ISSUED, THE STANDARD  
16 PRESCRIBED IN THE VALUATION MANUAL IS THE MINIMUM STANDARD OF  
17 VALUATION REQUIRED UNDER SECTION 830(2).

18 (B) THE OPERATIVE DATE OF THE VALUATION MANUAL IS JANUARY 1  
19 OF THE FIRST CALENDAR YEAR FOLLOWING THE FIRST JULY 1 AS OF WHICH  
20 ALL OF THE FOLLOWING HAVE OCCURRED:

21 (i) THE NAIC HAS ADOPTED THE VALUATION MANUAL BY A VOTE OF AT  
22 LEAST 42 MEMBERS, OR 3/4 OF THE MEMBERS VOTING, WHICHEVER IS  
23 GREATER.

24 (ii) THE STANDARD VALUATION LAW, AS AMENDED BY THE NAIC IN  
25 2009, OR LEGISLATION INCLUDING SUBSTANTIALLY SIMILAR TERMS AND  
26 PROVISIONS, HAS BEEN ENACTED BY STATES REPRESENTING GREATER THAN  
27 75% OF THE DIRECT PREMIUMS WRITTEN AS REPORTED IN THE FOLLOWING

1 ANNUAL STATEMENTS SUBMITTED FOR 2008: LIFE, ACCIDENT, AND HEALTH  
2 ANNUAL STATEMENTS; HEALTH ANNUAL STATEMENTS; OR FRATERNAL ANNUAL  
3 STATEMENTS.

4 (iii) THE STANDARD VALUATION LAW, AS AMENDED BY THE NAIC IN  
5 2009, OR LEGISLATION INCLUDING SUBSTANTIALLY SIMILAR TERMS AND  
6 PROVISIONS, HAS BEEN ENACTED BY AT LEAST 42 OF THE FOLLOWING 55  
7 JURISDICTIONS: THE 50 STATES OF THE UNITED STATES, AMERICAN  
8 SAMOA, THE AMERICAN VIRGIN ISLANDS, THE DISTRICT OF COLUMBIA,  
9 GUAM, AND PUERTO RICO.

10 (C) UNLESS A CHANGE IN THE VALUATION MANUAL SPECIFIES A  
11 LATER EFFECTIVE DATE, A CHANGE TO THE VALUATION MANUAL IS  
12 EFFECTIVE ON JANUARY 1 AFTER THE DATE THE NAIC ADOPTS THE CHANGE  
13 TO THE VALUATION MANUAL BY A VOTE REPRESENTING BOTH OF THE  
14 FOLLOWING:

15 (i) AT LEAST 3/4 OF THE MEMBERS OF THE NAIC, BUT NOT LESS  
16 THAN A MAJORITY OF THE TOTAL MEMBERSHIP.

17 (ii) MEMBERS OF THE NAIC REPRESENTING JURISDICTIONS THAT  
18 AMOUNT TO GREATER THAN 75% OF THE DIRECT PREMIUMS WRITTEN AS  
19 REPORTED IN THE FOLLOWING ANNUAL STATEMENTS MOST RECENTLY  
20 AVAILABLE BEFORE THE VOTE IN SUBPARAGRAPH (i): LIFE, ACCIDENT, AND  
21 HEALTH ANNUAL STATEMENTS; HEALTH ANNUAL STATEMENTS; OR FRATERNAL  
22 ANNUAL STATEMENTS.

23 (D) THE VALUATION MANUAL MUST SPECIFY ALL OF THE FOLLOWING:

24 (i) MINIMUM VALUATION STANDARDS FOR AND DEFINITIONS OF THE  
25 POLICIES OR CONTRACTS SUBJECT TO SECTION 830(2). THE MINIMUM  
26 VALUATION STANDARDS ARE ALL OF THE FOLLOWING:

27 (A) THE DIRECTOR'S RESERVE VALUATION METHOD FOR LIFE

1 INSURANCE CONTRACTS, OTHER THAN ANNUITY CONTRACTS, SUBJECT TO  
2 SECTION 830(2).

3 (B) THE DIRECTOR'S ANNUITY RESERVE VALUATION METHOD FOR  
4 ANNUITY CONTRACTS SUBJECT TO SECTION 830(2).

5 (C) MINIMUM RESERVES FOR ALL OTHER POLICIES OR CONTRACTS  
6 SUBJECT TO SECTION 830(2).

7 (ii) THE POLICIES OR CONTRACTS OR TYPES OF POLICIES OR  
8 CONTRACTS THAT ARE SUBJECT TO THE REQUIREMENTS OF A PRINCIPLE-  
9 BASED VALUATION IN SUBSECTION (2) AND THE MINIMUM VALUATION  
10 STANDARDS CONSISTENT WITH THOSE REQUIREMENTS.

11 (iii) FOR POLICIES AND CONTRACTS SUBJECT TO A PRINCIPLE-BASED  
12 VALUATION UNDER SUBSECTION (2), ALL OF THE FOLLOWING APPLY:

13 (A) REQUIREMENTS FOR THE FORMAT OF REPORTS TO THE DIRECTOR  
14 UNDER SUBSECTION (3)(C) AND THAT MUST INCLUDE INFORMATION  
15 NECESSARY TO DETERMINE IF THE VALUATION IS APPROPRIATE AND IN  
16 COMPLIANCE WITH THIS SECTION.

17 (B) ASSUMPTIONS MUST BE PRESCRIBED FOR RISKS OVER WHICH THE  
18 COMPANY DOES NOT HAVE SIGNIFICANT CONTROL OR INFLUENCE.

19 (C) PROCEDURES FOR CORPORATE GOVERNANCE AND OVERSIGHT OF THE  
20 ACTUARIAL FUNCTION, AND A PROCESS FOR APPROPRIATE WAIVER OR  
21 MODIFICATION OF THE PROCEDURES.

22 (iv) FOR POLICIES THAT ARE NOT SUBJECT TO A PRINCIPLE-BASED  
23 VALUATION UNDER SUBSECTIONS (2), (3), AND (4), THE MINIMUM  
24 VALUATION STANDARD IS 1 OF THE FOLLOWING:

25 (A) THE STANDARD IS CONSISTENT WITH THE MINIMUM STANDARD OF  
26 VALUATION BEFORE THE OPERATIVE DATE OF THE VALUATION MANUAL.

27 (B) THE STANDARD DEVELOPS RESERVES THAT QUANTIFY THE

1 BENEFITS AND GUARANTEES, AND THE FUNDING, ASSOCIATED WITH THE  
2 CONTRACTS AND THEIR RISKS AT A LEVEL OF CONSERVATISM THAT  
3 REFLECTS CONDITIONS THAT INCLUDE UNFAVORABLE EVENTS THAT HAVE A  
4 REASONABLE PROBABILITY OF OCCURRING.

5 (v) OTHER REQUIREMENTS, INCLUDING, BUT NOT LIMITED TO, THOSE  
6 RELATING TO RESERVE METHODS, MODELS FOR MEASURING RISK,  
7 GENERATION OF ECONOMIC SCENARIOS, ASSUMPTIONS, MARGINS, USE OF  
8 COMPANY EXPERIENCE, RISK MEASUREMENT, DISCLOSURE, CERTIFICATIONS,  
9 REPORTS, ACTUARIAL OPINIONS AND MEMORANDUMS, TRANSITION RULES,  
10 AND INTERNAL CONTROLS.

11 (vi) THE DATA AND FORM OF THE DATA REQUIRED UNDER SUBSECTION  
12 (5), TO WHOM THE DATA MUST BE SUBMITTED, AND MAY SPECIFY OTHER  
13 REQUIREMENTS INCLUDING DATA ANALYSES AND REPORTING OF ANALYSES.

14 (E) IF THERE IS NOT A SPECIFIC VALUATION REQUIREMENT OR IF  
15 THE DIRECTOR DETERMINES THAT A SPECIFIC VALUATION REQUIREMENT IN  
16 THE VALUATION MANUAL DOES NOT COMPLY WITH THIS SECTION, THE  
17 COMPANY SHALL, WITH RESPECT TO THE REQUIREMENT, COMPLY WITH  
18 MINIMUM VALUATION STANDARDS PRESCRIBED BY THE DIRECTOR BY RULE.

19 (F) THE DIRECTOR MAY ENGAGE A QUALIFIED ACTUARY, AT THE  
20 EXPENSE OF THE COMPANY, TO PERFORM AN ACTUARIAL EXAMINATION OF  
21 THE COMPANY AND OPINE ON THE APPROPRIATENESS OF ANY RESERVE  
22 ASSUMPTION OR METHOD USED BY THE COMPANY, OR TO REVIEW AND OPINE  
23 ON A COMPANY'S COMPLIANCE WITH ANY REQUIREMENT OF THIS SECTION.  
24 THE DIRECTOR MAY RELY UPON THE OPINION, REGARDING THIS SECTION,  
25 OF A QUALIFIED ACTUARY ENGAGED BY THE COMMISSIONER OF ANOTHER  
26 STATE, DISTRICT, OR TERRITORY OF THE UNITED STATES. AS USED IN  
27 THIS SUBDIVISION, "ENGAGE" INCLUDES EMPLOYMENT AND CONTRACTING.

1 (G) THE DIRECTOR MAY REQUIRE A COMPANY TO CHANGE ANY  
2 ASSUMPTION OR METHOD THAT THE DIRECTOR CONSIDERS NECESSARY TO  
3 COMPLY WITH THE REQUIREMENTS OF THE VALUATION MANUAL OR THIS  
4 SECTION, AND THE COMPANY SHALL ADJUST THE RESERVES AS REQUIRED BY  
5 THE DIRECTOR.

6 (2) A COMPANY SHALL ESTABLISH RESERVES USING A PRINCIPLE-  
7 BASED VALUATION THAT MEETS ALL OF THE FOLLOWING CONDITIONS FOR  
8 POLICIES OR CONTRACTS AS SPECIFIED IN THE VALUATION MANUAL:

9 (A) QUANTIFY THE BENEFITS AND GUARANTEES, AND THE FUNDING,  
10 ASSOCIATED WITH THE CONTRACTS AND THEIR RISKS AT A LEVEL OF  
11 CONSERVATISM THAT REFLECTS CONDITIONS THAT INCLUDE UNFAVORABLE  
12 EVENTS THAT HAVE A REASONABLE PROBABILITY OF OCCURRING DURING THE  
13 LIFETIME OF THE CONTRACTS. FOR POLICES OR CONTRACTS WITH  
14 SIGNIFICANT TAIL RISK, REFLECTS CONDITIONS APPROPRIATELY ADVERSE  
15 TO QUANTIFY THE TAIL RISK.

16 (B) INCORPORATE ASSUMPTIONS, RISK ANALYSIS METHODS,  
17 FINANCIAL MODELS, AND MANAGEMENT TECHNIQUES THAT ARE CONSISTENT  
18 WITH, BUT NOT NECESSARILY IDENTICAL TO, THOSE USED WITHIN THE  
19 COMPANY'S OVERALL RISK ASSESSMENT PROCESS, WHILE RECOGNIZING  
20 POTENTIAL DIFFERENCES IN FINANCIAL REPORTING STRUCTURES AND ANY  
21 PRESCRIBED ASSUMPTIONS OR METHODS.

22 (C) INCORPORATE ASSUMPTIONS THAT ARE DERIVED IN 1 OF THE  
23 FOLLOWING MANNERS:

24 (i) THE ASSUMPTION IS PRESCRIBED IN THE VALUATION MANUAL.

25 (ii) FOR ASSUMPTIONS THAT ARE NOT PRESCRIBED IN THE VALUATION  
26 MANUAL, THE ASSUMPTIONS MUST DO THE FOLLOWING, AS APPLICABLE:

27 (A) USE THE COMPANY'S AVAILABLE EXPERIENCE, TO THE EXTENT IT

1 IS RELEVANT AND STATISTICALLY CREDIBLE.

2 (B) TO THE EXTENT THAT COMPANY DATA ARE NOT AVAILABLE,  
3 RELEVANT, OR STATISTICALLY CREDIBLE, USE OTHER RELEVANT AND  
4 STATISTICALLY CREDIBLE EXPERIENCE.

5 (D) PROVIDE MARGINS FOR UNCERTAINTY, INCLUDING ADVERSE  
6 DEVIATION AND ESTIMATION ERROR, SUCH THAT THE GREATER THE  
7 UNCERTAINTY, THE LARGER THE MARGIN AND RESULTING RESERVE.

8 (3) A COMPANY THAT USES PRINCIPLE-BASED VALUATION FOR 1 OR  
9 MORE POLICIES OR CONTRACTS SUBJECT TO THIS SECTION AS SPECIFIED  
10 IN THE VALUATION MANUAL SHALL DO ALL OF THE FOLLOWING:

11 (A) ESTABLISH PROCEDURES FOR CORPORATE GOVERNANCE AND  
12 OVERSIGHT OF THE ACTUARIAL VALUATION FUNCTION CONSISTENT WITH  
13 THOSE DESCRIBED IN THE VALUATION MANUAL.

14 (B) PROVIDE TO THE DIRECTOR AND THE BOARD OF DIRECTORS AN  
15 ANNUAL CERTIFICATION OF THE EFFECTIVENESS OF THE INTERNAL  
16 CONTROLS WITH RESPECT TO THE PRINCIPLE-BASED VALUATION. THE  
17 INTERNAL CONTROLS MUST BE DESIGNED TO ASSURE THAT ALL MATERIAL  
18 RISKS INHERENT IN THE LIABILITIES AND ASSOCIATED ASSETS SUBJECT  
19 TO THE VALUATION ARE INCLUDED IN THE VALUATION, AND THAT  
20 VALUATIONS ARE MADE IN ACCORDANCE WITH THE VALUATION MANUAL. THE  
21 CERTIFICATION MUST BE BASED ON THE CONTROLS IN PLACE AT THE END  
22 OF THE PRECEDING CALENDAR YEAR.

23 (C) DEVELOP, AND FILE WITH THE DIRECTOR ON REQUEST, A  
24 PRINCIPLE-BASED VALUATION REPORT THAT COMPLIES WITH STANDARDS  
25 PRESCRIBED IN THE VALUATION MANUAL.

26 (4) A PRINCIPLE-BASED VALUATION MAY INCLUDE A PRESCRIBED  
27 FORMULAIC RESERVE COMPONENT.



1 (5) A COMPANY SHALL SUBMIT MORTALITY, MORBIDITY,  
2 POLICYHOLDER BEHAVIOR, OR EXPENSE EXPERIENCE AND OTHER DATA AS  
3 PRESCRIBED IN THE VALUATION MANUAL.

4 (6) EXCEPT AS OTHERWISE PROVIDED IN THIS SECTION,  
5 CONFIDENTIAL INFORMATION IS CONFIDENTIAL AND PRIVILEGED, IS NOT  
6 SUBJECT TO DISCLOSURE UNDER THE FREEDOM OF INFORMATION ACT, 1976  
7 PA 442, MCL 15.231 TO 15.246, IS NOT SUBJECT TO SUBPOENA, AND IS  
8 NOT SUBJECT TO DISCOVERY OR ADMISSIBLE IN EVIDENCE IN A PRIVATE  
9 CIVIL ACTION. HOWEVER, THE DIRECTOR MAY USE THE CONFIDENTIAL  
10 INFORMATION IN THE FURTHERANCE OF ANY REGULATORY OR LEGAL ACTION  
11 BROUGHT AS A PART OF THE DIRECTOR'S OFFICIAL DUTIES.

12 (7) THE DIRECTOR OR ANY PERSON WHO RECEIVED CONFIDENTIAL  
13 INFORMATION WHILE ACTING UNDER THE AUTHORITY OF THE DIRECTOR  
14 SHALL NOT TESTIFY IN A PRIVATE CIVIL ACTION CONCERNING  
15 CONFIDENTIAL INFORMATION.

16 (8) THE DIRECTOR MAY DO ALL OF THE FOLLOWING:

17 (A) EXCEPT AS OTHERWISE PROVIDED IN THIS SUBDIVISION, SHARE  
18 CONFIDENTIAL INFORMATION WITH OTHER STATE, FEDERAL, AND  
19 INTERNATIONAL REGULATORY AGENCIES AND WITH THE NAIC AND ITS  
20 AFFILIATES AND SUBSIDIARIES. THE DIRECTOR MAY ALSO SHARE  
21 CONFIDENTIAL INFORMATION DESCRIBED IN SUBSECTION (18) (C) (i) AND  
22 (iv) ONLY WITH THE ACTUARIAL BOARD FOR COUNSELING AND DISCIPLINE  
23 OR ITS SUCCESSOR ON REQUEST FOR THE PURPOSE OF PROFESSIONAL  
24 DISCIPLINARY PROCEEDINGS AND WITH STATE, FEDERAL, AND  
25 INTERNATIONAL LAW ENFORCEMENT OFFICIALS. THE DIRECTOR SHALL NOT  
26 SHARE CONFIDENTIAL INFORMATION UNLESS THE RECIPIENT AGREES IN  
27 WRITING TO MAINTAIN THE CONFIDENTIALITY AND PRIVILEGED STATUS OF

1 THE CONFIDENTIAL INFORMATION AND HAS VERIFIED IN WRITING THE  
2 LEGAL AUTHORITY TO MAINTAIN CONFIDENTIALITY.

3 (B) SUBJECT TO THIS SUBDIVISION, RECEIVE DOCUMENTS,  
4 MATERIALS, DATA, OR INFORMATION FROM REGULATORY OR LAW  
5 ENFORCEMENT OFFICIALS OF OTHER FOREIGN OR DOMESTIC JURISDICTIONS,  
6 THE ACTUARIAL BOARD FOR COUNSELING AND DISCIPLINE OR ITS  
7 SUCCESSOR, AND THE NAIC AND ITS AFFILIATES AND SUBSIDIARIES. THE  
8 DIRECTOR SHALL MAINTAIN AS CONFIDENTIAL OR PRIVILEGED ANY  
9 DOCUMENTS, MATERIALS, OR INFORMATION RECEIVED WITH NOTICE OR THE  
10 UNDERSTANDING THAT IT IS CONFIDENTIAL OR PRIVILEGED UNDER THE  
11 LAWS OF THE JURISDICTION THAT IS THE SOURCE OF THE DOCUMENT,  
12 MATERIAL, OR INFORMATION.

13 (9) THE DIRECTOR MAY ENTER INTO WRITTEN AGREEMENTS GOVERNING  
14 SHARING AND USE OF INFORMATION PROVIDED UNDER THIS SECTION.

15 (10) THE DISCLOSURE OR SHARING OF CONFIDENTIAL INFORMATION  
16 TO THE DIRECTOR UNDER THIS SECTION IS NOT A WAIVER OF AN  
17 APPLICABLE PRIVILEGE OR CLAIM OF CONFIDENTIALITY.

18 (11) A PRIVILEGE ESTABLISHED UNDER THE LAW OF ANY STATE OR  
19 JURISDICTION THAT IS SUBSTANTIALLY SIMILAR TO THE PRIVILEGE  
20 ESTABLISHED UNDER THIS SECTION APPLIES IN ANY PROCEEDING IN, AND  
21 IN ANY COURT OF, THIS STATE.

22 (12) AS USED IN SUBSECTIONS (6) TO (10), "REGULATORY  
23 AGENCY", "LAW ENFORCEMENT AGENCY", AND "NAIC" INCLUDE, BUT ARE  
24 NOT LIMITED TO, THEIR EMPLOYEES, AGENTS, CONSULTANTS, AND  
25 CONTRACTORS.

26 (13) NOTWITHSTANDING ANYTHING IN THIS SECTION TO THE  
27 CONTRARY, ANY CONFIDENTIAL INFORMATION DESCRIBED IN SUBSECTION

1 (18) (C) (i) AND (iv) IS SUBJECT TO ALL OF THE FOLLOWING:

2 (A) THE CONFIDENTIAL INFORMATION IS SUBJECT TO SUBPOENA FOR  
3 THE PURPOSE OF DEFENDING AN ACTION SEEKING DAMAGES FROM THE  
4 APPOINTED ACTUARY SUBMITTING THE RELATED MEMORANDUM IN SUPPORT OF  
5 AN OPINION SUBMITTED UNDER SECTION 830A OR PRINCIPLE-BASED  
6 VALUATION REPORT DEVELOPED UNDER SUBSECTION (3) (C) BY REASON OF  
7 AN ACTION REQUIRED BY SECTION 830A OR SUBSECTION (3) (C) OR BY  
8 RULES PROMULGATED UNDER THIS SECTION.

9 (B) THE DIRECTOR MAY RELEASE THE CONFIDENTIAL INFORMATION  
10 WITH THE WRITTEN CONSENT OF THE COMPANY.

11 (C) IF ANY PORTION OF A MEMORANDUM IN SUPPORT OF AN OPINION  
12 SUBMITTED UNDER SECTION 830A OR A PRINCIPLE-BASED VALUATION  
13 REPORT DEVELOPED UNDER SUBSECTION (3) (C) IS CITED BY THE COMPANY  
14 IN ITS MARKETING, IS CITED BEFORE A GOVERNMENTAL AGENCY OTHER  
15 THAN A STATE INSURANCE DEPARTMENT, OR IS RELEASED BY THE COMPANY  
16 TO THE NEWS MEDIA, THE MEMORANDUM OR REPORT IS NOT CONFIDENTIAL.

17 (14) EXCEPT AS PROVIDED IN SUBSECTION (15), A DOMESTIC  
18 COMPANY IS EXEMPT FROM THE REQUIREMENTS UNDER SUBSECTIONS (1) TO  
19 (5) IF THE DOMESTIC COMPANY MEETS BOTH OF THE FOLLOWING  
20 REQUIREMENTS:

21 (A) THE DOMESTIC COMPANY HAS LESS THAN \$500,000,000.00 OF  
22 ORDINARY LIFE PREMIUMS AND, IF THE DOMESTIC COMPANY IS A MEMBER  
23 OF A GROUP OF LIFE INSURERS, THE GROUP HAS COMBINED ORDINARY LIFE  
24 PREMIUMS OF LESS THAN \$1,000,000,000.00.

25 (B) THE DOMESTIC COMPANY REPORTED TOTAL ADJUSTED CAPITAL OF  
26 AT LEAST 450% OF THE AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL  
27 IN THE MOST RECENT RISK-BASED CAPITAL REPORT AND THE APPOINTED

1 ACTUARY HAS PROVIDED AN UNQUALIFIED OPINION ON THE RESERVES.

2 (15) A DOMESTIC COMPANY THAT MEETS THE REQUIREMENTS UNDER  
3 SUBSECTION (14) (A) AND (B) MAY ELECT TO BE BOUND BY THE  
4 REQUIREMENTS OF SUBSECTIONS (1) TO (5) FOR A CALENDAR YEAR. THE  
5 ELECTION MUST BE IN WRITING AND FILED WITH THE DIRECTOR BY  
6 FEBRUARY 1 OF THE YEAR FOLLOWING THE CALENDAR YEAR IN WHICH THE  
7 COMPANY MAKES THE ELECTION.

8 (16) FOR PURPOSES OF SUBSECTION (14), ORDINARY LIFE PREMIUMS  
9 ARE MEASURED AS DIRECT PLUS REINSURANCE ASSUMED FROM AN  
10 UNAFFILIATED COMPANY FROM THE PRIOR CALENDAR YEAR ANNUAL  
11 STATEMENT.

12 (17) EXCEPT FOR A DOMESTIC COMPANY THAT MAKES AN ELECTION  
13 UNDER SUBSECTION (15), FOR A DOMESTIC COMPANY THAT IS EXEMPT FROM  
14 THE REQUIREMENTS OF SUBSECTIONS (1) TO (5) UNDER SUBSECTION (14),  
15 SECTIONS 830A, 832, 834, 835, 836, AND 836A ARE APPLICABLE, AND A  
16 REFERENCE TO THIS SECTION IN SECTIONS 830A, 834, AND 836A IS NOT  
17 APPLICABLE.

18 (18) AS USED IN THIS SECTION:

19 (A) "ACCIDENT AND HEALTH INSURANCE" MEANS CONTRACTS THAT  
20 INCORPORATE MORBIDITY RISK AND PROVIDE PROTECTION AGAINST  
21 ECONOMIC LOSS RESULTING FROM ACCIDENT, SICKNESS, OR MEDICAL  
22 CONDITIONS AND AS MAY BE SPECIFIED IN THE VALUATION MANUAL.

23 (B) "COMPANY" MEANS AN ENTITY THAT HAS WRITTEN, ISSUED, OR  
24 REINSURED LIFE INSURANCE CONTRACTS, ACCIDENT AND HEALTH INSURANCE  
25 CONTRACTS, OR DEPOSIT-TYPE CONTRACTS IN THIS STATE AND HAS AT  
26 LEAST 1 POLICY IN FORCE OR ON CLAIM OR THAT HAS WRITTEN, ISSUED,  
27 OR REINSURED LIFE INSURANCE CONTRACTS, ACCIDENT AND HEALTH

1 INSURANCE CONTRACTS, OR DEPOSIT-TYPE CONTRACTS IN ANY STATE AND  
2 IS REQUIRED TO HOLD A CERTIFICATE OF AUTHORITY TO WRITE LIFE  
3 INSURANCE, ACCIDENT AND HEALTH INSURANCE, OR DEPOSIT-TYPE  
4 CONTRACTS IN THIS STATE.

5 (C) "CONFIDENTIAL INFORMATION" MEANS ALL OF THE FOLLOWING:

6 (i) A MEMORANDUM IN SUPPORT OF AN OPINION SUBMITTED UNDER  
7 SECTION 830A AND ANY OTHER DOCUMENTS, MATERIALS, AND OTHER  
8 INFORMATION, INCLUDING, BUT NOT LIMITED TO, ALL WORKING PAPERS,  
9 AND COPIES OF WORKING PAPERS, CREATED, PRODUCED, OR OBTAINED BY  
10 OR DISCLOSED TO THE DIRECTOR OR ANY OTHER PERSON IN CONNECTION  
11 WITH THE MEMORANDUM.

12 (ii) ALL DOCUMENTS, MATERIALS, AND OTHER INFORMATION,  
13 INCLUDING, BUT NOT LIMITED TO, ALL WORKING PAPERS, AND COPIES OF  
14 WORKING PAPERS, CREATED, PRODUCED, OR OBTAINED BY OR DISCLOSED TO  
15 THE DIRECTOR OR ANY OTHER PERSON IN THE COURSE OF AN EXAMINATION  
16 MADE UNDER SUBSECTION (1) (F) IF AN EXAMINATION REPORT OR OTHER  
17 MATERIAL PREPARED IN CONNECTION WITH AN EXAMINATION MADE UNDER  
18 SECTION 222 IS NOT HELD AS PRIVATE AND CONFIDENTIAL INFORMATION  
19 UNDER SECTION 222, AN EXAMINATION REPORT OR OTHER MATERIAL  
20 PREPARED IN CONNECTION WITH AN EXAMINATION MADE UNDER SUBSECTION  
21 (1) (F) IS NOT "CONFIDENTIAL INFORMATION" TO THE SAME EXTENT AS IF  
22 THE EXAMINATION REPORT OR OTHER MATERIAL HAD BEEN PREPARED UNDER  
23 SECTION 222.

24 (iii) ANY REPORTS, DOCUMENTS, MATERIALS, AND OTHER INFORMATION  
25 DEVELOPED BY A COMPANY IN SUPPORT OF, OR IN CONNECTION WITH, AN  
26 ANNUAL CERTIFICATION BY THE COMPANY UNDER SUBSECTION (3) (B)  
27 EVALUATING THE EFFECTIVENESS OF THE COMPANY'S INTERNAL CONTROLS

1 WITH RESPECT TO A PRINCIPLE-BASED VALUATION AND ANY OTHER  
2 DOCUMENTS, MATERIALS, AND OTHER INFORMATION, INCLUDING, BUT NOT  
3 LIMITED TO, ALL WORKING PAPERS, AND COPIES OF WORKING PAPERS,  
4 CREATED, PRODUCED, OR OBTAINED BY OR DISCLOSED TO THE DIRECTOR OR  
5 ANY OTHER PERSON IN CONNECTION WITH SUCH REPORTS, DOCUMENTS,  
6 MATERIALS, AND OTHER INFORMATION.

7 (iv) ANY PRINCIPLE-BASED VALUATION REPORT DEVELOPED UNDER  
8 SUBSECTION (3)(C) AND ANY OTHER DOCUMENTS, MATERIALS, AND OTHER  
9 INFORMATION, INCLUDING, BUT NOT LIMITED TO, ALL WORKING PAPERS,  
10 AND COPIES OF WORKING PAPERS, CREATED, PRODUCED, OR OBTAINED BY  
11 OR DISCLOSED TO THE DIRECTOR OR ANY OTHER PERSON IN CONNECTION  
12 WITH THE REPORT.

13 (v) ANY DOCUMENTS, MATERIALS, DATA, AND OTHER INFORMATION  
14 SUBMITTED BY A COMPANY UNDER SUBSECTION (5), COLLECTIVELY,  
15 EXPERIENCE DATA, AND ANY OTHER DOCUMENTS, MATERIALS, DATA, AND  
16 OTHER INFORMATION, INCLUDING, BUT NOT LIMITED TO, ALL WORKING  
17 PAPERS, AND COPIES OF WORKING PAPERS, CREATED OR PRODUCED IN  
18 CONNECTION WITH THE EXPERIENCE DATA, IN EACH CASE THAT INCLUDE  
19 ANY POTENTIALLY COMPANY-IDENTIFYING OR PERSONALLY IDENTIFIABLE  
20 INFORMATION, THAT IS PROVIDED TO OR OBTAINED BY THE DIRECTOR,  
21 TOGETHER WITH ANY EXPERIENCE DATA, THE EXPERIENCE MATERIALS AND  
22 ANY OTHER DOCUMENTS, MATERIALS, DATA, AND OTHER INFORMATION,  
23 INCLUDING, BUT NOT LIMITED TO, ALL WORKING PAPERS, AND COPIES OF  
24 WORKING PAPERS, CREATED, PRODUCED, OR OBTAINED BY OR DISCLOSED TO  
25 THE DIRECTOR OR ANY OTHER PERSON IN CONNECTION WITH THE  
26 EXPERIENCE MATERIALS.

27 (D) "DEPOSIT-TYPE CONTRACT" MEANS CONTRACTS THAT DO NOT

1 INCORPORATE MORTALITY OR MORBIDITY RISKS AND AS MAY BE SPECIFIED  
2 IN THE VALUATION MANUAL.

3 (E) "LIFE INSURANCE" MEANS CONTRACTS THAT INCORPORATE  
4 MORTALITY RISK, INCLUDING ANNUITY AND PURE ENDOWMENT CONTRACTS,  
5 AND AS MAY BE SPECIFIED IN THE VALUATION MANUAL.

6 (F) "NAIC" MEANS THE NATIONAL ASSOCIATION OF INSURANCE  
7 COMMISSIONERS.

8 (G) "POLICYHOLDER BEHAVIOR" MEANS ANY ACTION A POLICYHOLDER,  
9 CONTRACT HOLDER, OR ANY OTHER PERSON WITH THE RIGHT TO ELECT  
10 OPTIONS, SUCH AS A CERTIFICATE HOLDER, MAY TAKE UNDER A POLICY OR  
11 CONTRACT SUBJECT TO THIS SECTION, INCLUDING, BUT NOT LIMITED TO,  
12 LAPSE, WITHDRAWAL, TRANSFER, DEPOSIT, PREMIUM PAYMENT, LOAN,  
13 ANNUITIZATION, OR BENEFIT ELECTIONS PRESCRIBED BY THE POLICY OR  
14 CONTRACT BUT EXCLUDING EVENTS OF MORTALITY OR MORBIDITY THAT  
15 RESULT IN BENEFITS PRESCRIBED IN THEIR ESSENTIAL ASPECTS BY THE  
16 TERMS OF THE POLICY OR CONTRACT.

17 (H) "PRINCIPLE-BASED VALUATION" MEANS A RESERVE VALUATION  
18 THAT USES 1 OR MORE METHODS OR 1 OR MORE ASSUMPTIONS DETERMINED  
19 BY THE INSURER AND IS REQUIRED TO COMPLY WITH THIS SECTION AS  
20 SPECIFIED IN THE VALUATION MANUAL.

21 (I) "QUALIFIED ACTUARY" MEANS AN INDIVIDUAL WHO IS QUALIFIED  
22 TO SIGN THE APPLICABLE STATEMENT OF ACTUARIAL OPINION IN  
23 ACCORDANCE WITH THE AMERICAN ACADEMY OF ACTUARIES QUALIFICATION  
24 STANDARDS FOR ACTUARIES SIGNING SUCH STATEMENTS AND WHO MEETS THE  
25 REQUIREMENTS SPECIFIED IN THE VALUATION MANUAL.

26 (J) "TAIL RISK" MEANS A RISK THAT OCCURS EITHER WHERE THE  
27 FREQUENCY OF LOW PROBABILITY EVENTS IS HIGHER THAN EXPECTED UNDER

1 A NORMAL PROBABILITY DISTRIBUTION OR WHERE THERE ARE OBSERVED  
2 EVENTS OF VERY SIGNIFICANT SIZE OR MAGNITUDE.

3 (K) "VALUATION MANUAL" MEANS THE MANUAL OF VALUATION  
4 INSTRUCTIONS ADOPTED BY THE NAIC AS SPECIFIED IN THIS SECTION.

5 Sec. 838. (1) As used in this section:

6 (a) "2001 CSO mortality table" means that mortality table,  
7 consisting of separate rates of mortality for male and female  
8 lives, developed by the American academy of actuaries CSO task  
9 force from the valuation basic mortality table developed by the  
10 society of actuaries individual life insurance valuation  
11 mortality task force and adopted by the NAIC in December 2002.  
12 Unless the context indicates otherwise, the 2001 CSO mortality  
13 table includes both the ultimate form of that table and the  
14 select and ultimate form of that table and includes both the  
15 smoker and nonsmoker mortality tables and the composite mortality  
16 tables. It also includes both the age-nearest-birthday and age-  
17 last-birthday bases of the mortality tables.

18 (b) "2001 CSO mortality table (F)" means that mortality  
19 table consisting of the rates of mortality for female lives from  
20 the 2001 CSO mortality table.

21 (c) "2001 CSO mortality table (M)" means that mortality  
22 table consisting of the rates of mortality for male lives from  
23 the 2001 CSO mortality table.

24 (d) "Composite mortality tables" means mortality tables with  
25 rates of mortality that do not distinguish between smokers and  
26 nonsmokers.

27 (e) "NAIC" means the national association of insurance



1 commissioners.

2 (f) "Smoker and nonsmoker mortality tables" means mortality  
3 tables with separate rates of mortality for smokers and  
4 nonsmokers.

5 (2) In addition to the other requirements of this act, a  
6 life insurer shall use appendix A-830 of the NAIC accounting  
7 practices and procedures manual for the valuation of life  
8 insurance policies. Any supplements, replacements, or changes to  
9 appendix A-830 of the NAIC accounting practices and procedures  
10 manual that are adopted by the NAIC ~~shall~~ only take effect if  
11 adopted by the ~~commissioner~~ **DIRECTOR** by rules promulgated  
12 ~~pursuant to~~ **UNDER** the administrative procedures act of 1969, 1969  
13 PA 306, MCL 24.201 to 24.328. This section does not expand the  
14 applicability of appendix A-830 of the NAIC accounting practices  
15 and procedures manual to include life insurance policies  
16 otherwise exempt under appendix A-830 of the NAIC accounting  
17 practices and procedures manual.

18 (3) At the election of an insurer for each plan of insurance  
19 and subject to this section, the 2001 CSO mortality table may be  
20 used as the minimum standard for policies issued on or after July  
21 1, 2004 and before January 1, 2009 to which sections ~~834(1)(I)~~  
22 **834(1)(A)** and 4060(5)(f) **AND (G)** are applicable. If an insurer  
23 elects to use the 2001 CSO mortality table, it shall do so for  
24 both valuation and nonforfeiture purposes. Subject to this  
25 section, the 2001 CSO mortality table ~~shall~~ **MUST** be used in  
26 determining minimum standards for policies issued on or after  
27 January 1, 2009 to which sections ~~834(1)(I)~~ **834(1)(A)** and

1 4060(5)(f) **AND (G)** are applicable.

2 (4) For plans of insurance without separate rates for  
3 smokers and nonsmokers, the composite mortality tables ~~shall~~**MUST**  
4 be used. For each plan of insurance with separate rates for  
5 smokers and nonsmokers, an insurer may use any of the following:

6 (a) Composite mortality tables to determine minimum reserve  
7 liabilities, minimum cash surrender values, and amounts of paid-  
8 up nonforfeiture benefits.

9 (b) Smoker and nonsmoker mortality tables to determine the  
10 valuation net premiums and additional minimum reserves, if any,  
11 required by section 834 and composite mortality tables to  
12 determine the basic minimum reserve liabilities, minimum cash  
13 surrender values, and amounts of paid-up nonforfeiture benefits.

14 (c) Smoker and nonsmoker mortality tables to determine  
15 minimum reserve liabilities, minimum cash surrender values, and  
16 amounts of paid-up nonforfeiture benefits.

17 (5) An insurer may, at the option of the insurer for each  
18 plan of insurance, use the 2001 CSO mortality table in its  
19 ultimate or select and ultimate form for the purpose of  
20 determining minimum reserve liabilities, minimum cash surrender  
21 values, and amounts of paid-up nonforfeiture benefits for each  
22 plan of insurance.

23 (6) If the 2001 CSO mortality table is the minimum reserve  
24 standard for any plan for an insurer, the actuarial opinion in  
25 the annual statement filed with the ~~commissioner shall~~**DIRECTOR**  
26 **MUST** be completed ~~pursuant to~~**UNDER** section 830a. ~~An~~**THE DIRECTOR**  
27 **MAY EXEMPT AN** insurer that does business in this state and in no

1 other state ~~may be exempted~~ from this subsection. ~~by the~~  
2 ~~commissioner.~~

3 (7) In valuing life insurance policies pursuant to appendix  
4 A-830 of the NAIC accounting practices and procedures manual, all  
5 of the following apply:

6 (a) In determining the applicability to any universal life  
7 policy, the net level reserve premium for the secondary guarantee  
8 period is based on the ultimate mortality rates in the 2001 CSO  
9 mortality table.

10 (b) All calculations under the contract segmentation method  
11 are made using the 2001 CSO mortality rate, and, if elected, the  
12 optional minimum mortality standard for deficiency reserves. The  
13 value of " $q_{x+k+t-1}$ " is the valuation mortality rate for deficiency  
14 reserves in policy year  $k+t$ , but using the unmodified select  
15 mortality rates if modified select mortality rates are used in  
16 the computation of deficiency reserves.

17 (c) For purposes of general calculation requirements for  
18 basic reserves and premium deficiency reserves, the 2001 CSO  
19 mortality table is the minimum standard for basic reserves.

20 (d) For purposes of general calculation requirements for  
21 basic reserves and premium deficiency reserves, the 2001 CSO  
22 mortality table is the minimum standard for deficiency reserves.  
23 If select mortality rates are used, they may be multiplied by X  
24 percent for durations in the first segment, subject to the  
25 conditions set forth in appendix A-830 of the NAIC accounting  
26 practices and procedures manual. In demonstrating compliance with  
27 those conditions, the demonstrations may not combine the results

1 of tests that utilize the 1980 CSO mortality table with those  
2 tests that utilize the 2001 CSO mortality table, unless the  
3 combination is explicitly required by regulation or is necessary  
4 to be in compliance with relevant actuarial standards of  
5 practice.

6 (e) When determining minimum value for policies with  
7 guaranteed nonlevel gross premiums or guaranteed nonlevel  
8 benefits, other than universal life policies, the valuation  
9 mortality table used in determining the tabular cost of insurance  
10 ~~shall be~~ **IS** the ultimate mortality rates in the 2001 CSO  
11 mortality table.

12 (f) When determining the optional exemption for yearly  
13 renewable term reinsurance for policies with guaranteed nonlevel  
14 gross premiums or guaranteed nonlevel benefits, other than  
15 universal life policies, the calculations ~~shall~~ **MUST** use the  
16 maximum valuation interest rate and the ultimate mortality rates  
17 in the 2001 CSO mortality table.

18 (g) When determining the optional exemption for attained-  
19 age-based yearly renewable term life insurance policies with  
20 guaranteed nonlevel gross premiums or guaranteed nonlevel  
21 benefits, other than universal life policies, the calculations  
22 ~~shall~~ **MUST** use the maximum valuation interest rate and the  
23 ultimate mortality rates in the 2001 CSO mortality table.

24 (h) When determining the exemption from unitary reserves for  
25 certain n-year renewable term life insurance policies with  
26 guaranteed nonlevel gross premiums or guaranteed nonlevel  
27 benefits, other than universal life policies, the calculations

1 ~~shall~~**MUST** use the ultimate mortality rates in the 2001 CSO  
2 mortality table.

3 (i) For flexible premium and fixed premium universal life  
4 insurance policies that contain provisions resulting in the  
5 ability of a policyowner to keep a policy in force over a  
6 secondary guarantee period, the 1-year valuation premium for  
7 purposes of identifying policies with a secondary guarantee ~~shall~~  
8 ~~be~~**IS** calculated using the ultimate mortality rates in the 2001  
9 CSO mortality table.

10 (8) For any ordinary life insurance policy delivered or  
11 issued for delivery in this state on or after July 1, 2004 that  
12 uses the same premium rates and charges for male and female lives  
13 or is issued in circumstances where applicable law does not  
14 permit distinctions on the basis of gender, a mortality table  
15 that is a blend of the 2001 CSO mortality table (M) and the 2001  
16 CSO mortality table (F) may, at the option of the insurer for  
17 each plan of insurance, be substituted for the 2001 CSO mortality  
18 table for use in determining minimum cash surrender value and  
19 amounts of paid-up nonforfeiture benefits. No change in minimum  
20 valuation standards is implied by this subsection.

21 (9) In determining minimum reserve liabilities and  
22 nonforfeiture benefits, an insurer may choose from among the  
23 blended tables developed by the American academy of actuaries CSO  
24 task force and adopted by the NAIC in December 2002.

25 (10) It is not, by itself, a violation of chapter 20 for an  
26 insurer to issue the same kind of policy of life insurance on  
27 both a sex-distinct and sex-neutral basis.

1           Sec. 3930. (1) If long-term care benefits are provided  
2 through the acceleration of benefits under group or individual  
3 life policies or riders to those policies, policy reserves for  
4 the benefits ~~shall~~**MUST** be determined in accordance with section  
5 ~~834(1)(vii)~~**834(1)(G)**. Claim reserves ~~shall~~**MUST** also be  
6 established if the policy or rider is in claim status.

7           (2) Reserves for policies and riders subject to subsection  
8 (1) ~~shall~~**MUST** be based on the multiple decrement model utilizing  
9 all relevant decrements except for voluntary termination rates.  
10 Single decrement approximations may be used if the calculation  
11 produces essentially similar reserves, if the reserve is clearly  
12 more conservative, or if the reserve is immaterial. The  
13 calculations may take into account the reduction in life  
14 insurance benefits due to the payment of long-term care benefits.  
15 However, ~~in no event shall~~ the reserves for the long-term care  
16 benefit and the life insurance benefit **MUST NOT** be less than the  
17 reserves for the life insurance benefit assuming no long-term  
18 care benefit.

19           (3) In the development and calculation of reserves for  
20 policies and riders subject to subsection (1), due regard ~~shall~~  
21 **MUST** be given to the applicable policy provisions, marketing  
22 methods, administrative procedures, and all other considerations  
23 that have an impact on projected claim costs, including, but not  
24 limited to, all of the following:

- 25           (a) Definition of insured events.  
26           (b) Covered long-term care facilities.  
27           (c) Existence of home convalescence care coverage.

- 1 (d) Definition of facilities.  
 2 (e) Existence or absence of barriers to eligibility.  
 3 (f) Premium waiver provision.  
 4 (g) Renewability.  
 5 (h) Ability to raise premiums.  
 6 (i) Marketing method.  
 7 (j) underwriting procedures.  
 8 (k) Claims adjustment procedures.  
 9 (l) Waiting period.  
 10 (m) Maximum benefit.  
 11 (n) Availability of eligible facilities.  
 12 (o) Margins in claim costs.  
 13 (p) Optional nature of benefit.  
 14 (q) Delay in eligibility for benefit.  
 15 (r) Inflation protection provisions.  
 16 (s) Guaranteed insurability option.  
 17 (4) Any applicable valuation morbidity table ~~shall~~**MUST** be  
 18 certified as appropriate as a statutory valuation table by a  
 19 member of the American academy of actuaries.

20 Sec. 4060. (1) This section shall be known as the standard  
 21 nonforfeiture law for life insurance and ~~shall apply~~**APPLIES** to  
 22 life insurance contracts except as otherwise provided in section  
 23 4061 for universal life insurance contracts.

24 (2) ~~For~~**SUBJECT TO SUBDIVISIONS (G) AND (H), FOR** policies  
 25 issued on and after the operative date of this section, as  
 26 defined in subsection (10), a policy of life insurance, except as  
 27 ~~stated~~**PROVIDED** in subsection (9), ~~shall~~**MAY** not be delivered or

1 issued for delivery in this state unless it contains in substance  
2 **ALL OF** the following provisions, or corresponding provisions that  
3 in the opinion of the ~~commissioner~~**DIRECTOR** are at least as  
4 favorable to the defaulting or surrendering policyholder as are  
5 the minimum requirements specified in this subsection and are  
6 essentially in compliance with subsection (8):

7 (a) ~~That in the event of~~ **IF THERE IS A** default in a premium  
8 payment, the company will grant, ~~upon~~**ON** proper request not later  
9 than 60 days after the due date of the premium in default, a  
10 paid-up nonforfeiture benefit on a plan stipulated in the policy,  
11 effective as of that due date, of an amount as specified in this  
12 section. ~~In lieu~~**INSTEAD** of the stipulated paid-up nonforfeiture  
13 benefit, the company may substitute, ~~upon~~**ON** proper request not  
14 later than 60 days after the due date of the premium in default,  
15 an actuarially equivalent alternative paid-up nonforfeiture  
16 benefit that provides a greater amount or longer period of death  
17 benefits or, if applicable, a greater amount or earlier payment  
18 of endowment benefits.

19 (b) ~~That upon~~**ON** surrender of the policy within 60 days  
20 after the due date of a premium payment in default, after  
21 premiums have been paid for not less than 3 full years ~~in the~~  
22 ~~ease of~~**FOR** ordinary insurance or 5 full years ~~in the ease of~~**FOR**  
23 industrial insurance, the company will pay, in place of any paid-  
24 up nonforfeiture benefit, a cash surrender value of an amount  
25 specified in this section.

26 (c) ~~That a~~**THE** specified paid-up nonforfeiture benefit ~~shall~~  
27 **WILL** become effective as specified in the policy unless the



1 person entitled to make the election elects another available  
2 option not later than 60 days after the due date of the premium  
3 in default.

4 (d) ~~That if~~ **IF** the policy has become paid up by completion  
5 of all premium payments or if it is continued under any paid-up  
6 nonforfeiture benefit ~~which~~ **THAT** became effective on or after the  
7 third policy anniversary ~~in the case of~~ **FOR** ordinary insurance or  
8 the fifth policy anniversary ~~in the case of~~ **FOR** industrial  
9 insurance, the company will pay, upon surrender of the policy  
10 within 30 days after any policy anniversary, a cash surrender  
11 value of an amount specified in this section.

12 (e) ~~That for~~ **FOR** policies that cause on a basis guaranteed  
13 in the policy unscheduled changes in benefits or premiums, or  
14 that provide an option for changes in benefits or premiums other  
15 than a change to a new policy, a statement of the mortality  
16 table, interest rate, and method used in calculating cash  
17 surrender values and the paid-up nonforfeiture benefits available  
18 under the policy.

19 For all other policies, a statement of the mortality table  
20 and interest rate used in calculating the cash surrender values  
21 and the paid-up nonforfeiture benefits available under the  
22 policy, together with a table showing the cash surrender value,  
23 if any, and paid-up nonforfeiture benefit, if any, available  
24 under the policy on each policy anniversary either during the  
25 first 20 policy years or during the term of the policy, whichever  
26 is shorter. The values and benefits ~~shall~~ **MUST** be calculated ~~upon~~  
27 **ON** the assumption that there are no dividends or paid-up

1 additions credited to the policy and that there is no  
2 indebtedness to the company on the policy.

3 (f) A statement that the cash surrender values and the paid-  
4 up nonforfeiture benefits available under the policy are not less  
5 than the minimum values and benefits required by or ~~pursuant to~~  
6 **UNDER** the insurance law of the state in which the policy is  
7 delivered; an explanation of the manner in which the cash  
8 surrender values and the paid-up nonforfeiture benefits are  
9 altered by the existence of any paid-up additions credited to the  
10 policy or any indebtedness to the company on the policy; if a  
11 detailed statement of the method of computation of the values and  
12 benefits shown in the policy is not stated in the policy, a  
13 statement that the method of computation has been filed with the  
14 insurance supervisory official of the state in which the policy  
15 is delivered; and a statement of the method to ~~be used in~~  
16 ~~calculating~~ **CALCULATE** the cash surrender value and paid-up  
17 nonforfeiture benefit available under the policy on any policy  
18 anniversary beyond the last anniversary for which the values and  
19 benefits are consecutively shown in the policy.

20 (G) Subdivisions (a) to (f) or portions of those  
21 subdivisions not applicable by reason of the plan of insurance,  
22 to the extent inapplicable, may be omitted from the policy.

23 (H) The company shall reserve the right to defer the payment  
24 of any cash surrender value for a period of 6 months after demand  
25 for the payment with surrender of the policy.

26 (3) ~~Any~~ **A** cash surrender value available under ~~the~~ **A** policy  
27 ~~in the event of~~ **IF THERE IS A** default in a premium payment due on

1 any policy anniversary, whether or not required by subsection  
2 (2), ~~shall~~**MUST** be an amount not less than the excess, if any, of  
3 the present value, on the anniversary, of the future guaranteed  
4 benefits that would have been provided for by the policy,  
5 including any existing paid-up additions, if there had been no  
6 default, over the sum of the then present value of the adjusted  
7 premiums as defined in subsection (5), corresponding to premiums  
8 that would have fallen due on and after the anniversary, and the  
9 amount of any indebtedness to the company on the policy. However,  
10 for ~~any~~**A** policy issued on or after the operative date of  
11 paragraphs 9 to ~~19~~**18** of subsection (5) that provides  
12 supplemental life insurance or annuity benefits at the option of  
13 the insured and for an identifiable additional premium by rider  
14 or supplemental policy provision, the cash surrender value ~~shall~~  
15 **MUST** be an amount not less than the sum of the cash surrender  
16 value for an otherwise similar policy issued at the same age  
17 without the rider or supplemental policy provision and the cash  
18 surrender value for a policy that provides only the benefits  
19 otherwise provided by the rider or supplemental policy provision.

20 For ~~any~~**A** family policy issued on or after the operative  
21 date of paragraphs 9 to ~~19~~**18** of subsection (5) that defines a  
22 primary insured and provides term insurance on the life of the  
23 spouse of the primary insured expiring before the spouse's age  
24 71, the cash surrender value ~~shall~~**MUST** be an amount not less  
25 than the sum of the cash surrender value for an otherwise similar  
26 policy issued at the same age without the term insurance on the  
27 life of the spouse and the cash surrender value for a policy that

1 provides only the benefits otherwise provided by the term  
2 insurance on the life of the spouse.

3 ~~Any~~ **A** cash surrender value available within 30 days after a  
4 policy anniversary under a policy paid up by completion of all  
5 premium payments or a policy continued under a paid-up  
6 nonforfeiture benefit, whether or not required by subsection (2),  
7 ~~shall~~ **MUST** be an amount not less than the present value, on the  
8 anniversary, of the future guaranteed benefits provided for by  
9 the policy, including any existing paid-up additions, decreased  
10 by any indebtedness to the company on the policy.

11 (4) ~~Any~~ **A** paid-up nonforfeiture benefit available under ~~the~~  
12 **A** policy ~~in the event of~~ **IF THERE IS A** default in a premium  
13 payment due on a policy anniversary ~~shall~~ **MUST** be such that its  
14 present value as of the anniversary ~~shall~~ **MUST** at least equal the  
15 cash surrender value then provided for by the policy or, if ~~none~~  
16 ~~is provided for,~~ **THE POLICY DOES NOT PROVIDE FOR A CASH SURRENDER**  
17 **VALUE**, that cash surrender value that would have been required by  
18 this section in the absence of the condition that premiums ~~shall~~  
19 **MUST** have been paid for at least a specified period.

20 (5) Paragraphs 1 to 8 of this subsection ~~shall~~ **DO** not apply  
21 to policies issued on or after the operative date of paragraphs 9  
22 to ~~19~~ **18** as defined in paragraph ~~19~~ **18**. Except as provided in  
23 ~~the third~~ paragraph **3** of this subsection, the adjusted premiums  
24 for a policy ~~shall~~ **MUST** be calculated on an annual basis and  
25 ~~shall~~ **MUST** be a uniform percentage of the respective premiums  
26 specified in the policy for each policy year, excluding any extra  
27 premiums charged because of impairments or special hazards, so

1 that the present value, at the date of issue of the policy, of  
 2 all the adjusted premiums equals the sum of ~~(I)~~ **(i)** the then  
 3 present value of the future guaranteed benefits provided for by  
 4 the policy; ~~(II)~~ **(ii)** 2% of the amount of insurance, if the  
 5 insurance is uniform in amount, or of the equivalent uniform  
 6 amount, as hereinafter defined, if the amount of insurance varies  
 7 with duration of the policy; ~~(III)~~ **(iii)** 40% of the adjusted  
 8 premium for the first policy year; ~~(IV)~~ **(iv)** 25% of either the  
 9 adjusted premium for the first policy year or the adjusted  
 10 premium for a whole life policy of the same uniform or equivalent  
 11 uniform amount with uniform premiums for the whole of life issued  
 12 at the same age for the same amount of insurance, whichever is  
 13 less. In applying the percentages specified in items ~~(III)~~ **(iii)**  
 14 and ~~(IV)~~ **(iv)** above, an adjusted premium shall ~~shall~~ **MUST** not be  
 15 considered to exceed 4% of the amount of insurance or uniform  
 16 amount equivalent thereto. **TO THE AMOUNT OF INSURANCE.** The date  
 17 of issue of a policy for the purpose of this subsection shall be  
 18 **IS** the date ~~as of which~~ **THAT** the rated age of the insured is  
 19 determined.

20 ~~In the case of~~ **FOR** a policy providing an amount of insurance  
 21 varying with duration of the policy, the equivalent uniform  
 22 amount of the policy for the purpose of this subsection shall be  
 23 **IS** considered to be the uniform amount of insurance provided by  
 24 an otherwise similar policy, containing the same endowment  
 25 benefit or benefits, if any, issued at the same age and for the  
 26 same term, the amount of which does not vary with duration and  
 27 the benefits under which have the same present value at the date

1 of issue as the benefits under the policy. However, ~~in the case~~  
 2 ~~of~~ **FOR** a policy providing a varying amount of insurance issued on  
 3 the life of a child under age 10, the equivalent uniform amount  
 4 may be computed as though the amount of insurance provided by the  
 5 policy before the attainment of age 10 were the amount provided  
 6 by the policy at age 10.

7 The adjusted premiums for a policy providing term insurance  
 8 benefits by rider or supplemental policy provision ~~shall~~ **MUST** be  
 9 equal to (a) the adjusted premiums for an otherwise similar  
 10 policy issued at the same age without the term insurance  
 11 benefits, increased, during the period for which premiums for the  
 12 term insurance benefits are payable, by (b) the adjusted premiums  
 13 for that term insurance. Items (a) and (b) ~~shall~~ **MUST** be  
 14 calculated separately and as specified in the first 2 paragraphs  
 15 of this subsection. However, for the purposes of items ~~(II),~~  
 16 ~~(III), and (IV)~~ **(ii), (iii), AND (iv)** of the first paragraph of this  
 17 subsection, the amount of insurance or equivalent uniform amount  
 18 of insurance used in the calculation of the adjusted premiums  
 19 referred to in (b) ~~shall~~ **MUST** be equal to the excess of the  
 20 corresponding amount determined for the entire policy over the  
 21 amount used in the calculation of the adjusted premiums in (a).

22 Except as otherwise provided in paragraph 5 of this  
 23 subsection, for all policies of ordinary insurance, all adjusted  
 24 premiums and present values referred to in this section ~~shall~~  
 25 **MUST** be calculated on the basis of the commissioners 1941  
 26 standard ordinary mortality table. For a category of ordinary  
 27 insurance issued on female risks, adjusted premiums and present

1 values may be calculated according to an age not more than 3  
2 years younger than the actual age of the insured. Except as  
3 otherwise provided in paragraph 7 of this subsection, the  
4 calculations for all policies of industrial insurance ~~shall~~**MUST**  
5 be made on the basis of the 1941 standard industrial mortality  
6 table. All calculations ~~shall~~**MUST** be made on the basis of the  
7 rate of interest, not exceeding 3-1/2% per annum, specified in  
8 the policy for calculating cash surrender values and paid-up  
9 nonforfeiture benefits. In calculating the present value of any  
10 paid-up term insurance with accompanying pure endowment, if any,  
11 offered as a nonforfeiture benefit, the rates of mortality  
12 assumed may be not more than 130% of the rates of mortality  
13 according to the applicable table. For insurance issued on a  
14 substandard basis, the calculation of adjusted premiums and  
15 present values may be based on another table of mortality as  
16 specified by the company and approved by the  
17 ~~commissioner~~**DIRECTOR**.

18 For ordinary policies issued on or after the operative date  
19 of this paragraph, as defined in paragraph 6, all adjusted  
20 premiums and present values referred to in this section ~~shall~~  
21 **MUST** be calculated on the basis of the commissioners 1958  
22 standard ordinary mortality table and the rate of interest  
23 specified in the policy for calculating cash surrender values and  
24 paid-up nonforfeiture benefits. However, the rate of interest  
25 ~~shall~~**MAY** not exceed 3-1/2% per annum, except that a rate of  
26 interest not exceeding 4% per annum may be used for policies  
27 issued on or after October 21, 1974, and before October 1, 1980,

1 and a rate of interest not exceeding 5-1/2% per annum may be used  
2 for policies issued on or after October 1, 1980. For a category  
3 of ordinary insurance issued on female risks, adjusted premiums  
4 and present values may be calculated according to an age not more  
5 than 6 years younger than the actual age of the insured. In  
6 calculating the present value of a paid-up term insurance with  
7 accompanying pure endowment, if any, offered as a nonforfeiture  
8 benefit, the rates of mortality assumed may be not more than  
9 those shown in the commissioners 1958 extended term insurance  
10 table. For insurance issued on a substandard basis, the  
11 calculation of adjusted premiums and present values may be based  
12 on another table of mortality as specified by the company and  
13 approved by the ~~commissioner~~-**DIRECTOR**.

14 After May 23, 1960, ~~any~~-**A** company may file with the  
15 ~~commissioner~~-**DIRECTOR** a written notice of its election to invoke  
16 ~~the provisions of~~ paragraph 5 after a specified date before  
17 January 1, 1966. After the filing of the notice, then on the  
18 specified date, that ~~shall be~~-**IS** the operative date for the  
19 company, paragraph 5 ~~shall become~~-**IS** operative with respect to  
20 the ordinary policies issued by the company and bearing a date of  
21 issue that is the same as or later than the specified date. If a  
22 company does not make an election, the operative date of  
23 paragraph 5 for the company ~~shall be~~-**IS** January 1, 1966.

24 For industrial policies issued on or after the operative  
25 date of this paragraph, as defined in paragraph 8, all adjusted  
26 premiums and present values referred to in this section ~~shall~~  
27 **MUST** be calculated on the basis of the commissioners 1961



1 standard industrial mortality table and the rate of interest  
 2 specified in the policy for calculating cash surrender values and  
 3 paid-up nonforfeiture benefits. However, the rate of interest  
 4 ~~shall~~ **MAY** not exceed 3-1/2% per annum, except that a rate of  
 5 interest not exceeding 4% per annum may be used for policies  
 6 issued ~~on or after October 21, 20, 1974,~~ and before October 1,  
 7 1980, and a rate of interest not exceeding 5-1/2% per annum may  
 8 be used for policies issued ~~on or after October 1, 1980.~~  
 9 **SEPTEMBER 30, 1980.** In calculating the present value of paid-up  
 10 term insurance with accompanying pure endowment, if any, offered  
 11 as a nonforfeiture benefit, the rates of mortality assumed may be  
 12 not more than those shown in the commissioners 1961 industrial  
 13 extended term insurance table. For insurance issued on a  
 14 substandard basis, the calculation of adjusted premiums and  
 15 present values may be based on another table of mortality as  
 16 specified by the company and approved by the  
 17 ~~commissioner.~~ **DIRECTOR.**

18 After May 23, 1969, a company may file with the ~~commissioner~~  
 19 **DIRECTOR** a written notice of its election to invoke ~~the~~  
 20 ~~provisions of~~ paragraph 7 after a specified date before January  
 21 1, 1968. After the filing of the notice, then on the specified  
 22 date, which ~~shall be~~ **IS** the operative date for the company,  
 23 paragraph 7 ~~shall become~~ **IS** operative with respect to the  
 24 industrial policies issued by the company and that bear a date of  
 25 issue the same as or later than the specified date. If a company  
 26 does not make an election, the operative date of paragraph 7 for  
 27 the company ~~shall be~~ **IS** January 1, 1968.

1 Paragraphs 9 to ~~19 shall~~ **18** apply to all policies issued on  
2 or after the operative date of those paragraphs as defined in  
3 paragraph ~~19.~~ **18**. Except as provided in paragraph 15, the  
4 adjusted premiums for any policy ~~shall~~ **MUST** be calculated on an  
5 annual basis and ~~shall~~ **MUST** be a uniform percentage of the  
6 respective premiums specified in the policy for each policy year,  
7 excluding amounts payable as extra premiums to cover impairments  
8 or special hazards and also excluding any uniform annual contract  
9 charge or policy fee specified in the policy in a statement of  
10 the method ~~to be used in calculating~~ **THAT IS USED TO CALCULATE**  
11 the cash surrender values and paid-up nonforfeiture benefits, so  
12 that the present value, at the date of issue of the policy, of  
13 all adjusted premiums ~~shall be~~ **IS** equal to the sum of (i) the then  
14 present value of the future guaranteed benefits provided for by  
15 the policy; (ii) 1% of either the amount of insurance, if the  
16 insurance ~~be~~ **IS** uniform in amount, or the average amount of  
17 insurance at the beginning of each of the first 10 policy years;  
18 and (iii) 125% of the nonforfeiture net level premium as defined in  
19 this subsection. However, in applying the percentage specified in  
20 (iii), the nonforfeiture net level premium shall not be ~~deemed~~  
21 **CONSIDERED** to exceed 4% of either the amount of insurance, if the  
22 insurance is uniform in amount, or the average amount of  
23 insurance at the beginning of each of the first 10 policy years.  
24 The date of issue of a policy for the purpose of this subsection  
25 ~~shall be~~ **IS** the date ~~as of~~ **ON** which the rated age of the insured  
26 is determined.

27 The nonforfeiture net level premium ~~shall~~ **MUST** be equal to

1 the present value, at the date of issue of the policy, of the  
2 guaranteed benefits provided for by the policy divided by the  
3 present value, at the date of issue of the policy, of an annuity  
4 of 1 per annum payable on the date of issue of the policy and on  
5 each anniversary of the policy on which a premium falls due.

6 For policies that cause on a basis guaranteed in the policy  
7 unscheduled changes in benefits or premiums, or that provide an  
8 option for changes in benefits or premiums other than a change to  
9 a new policy, the adjusted premiums and present values initially  
10 ~~shall~~**MUST** be calculated on the assumption that future benefits  
11 and premiums will not change from those stipulated at the date of  
12 issue of the policy. At the time of a change in the benefits or  
13 premiums, the future adjusted premiums, nonforfeiture net level  
14 premiums, and present values ~~shall~~**MUST** be recalculated on the  
15 assumption that future benefits and premiums will not change from  
16 those stipulated by the policy immediately after the change.

17 Except as otherwise provided in paragraph 15 of this  
18 subsection, the recalculated future adjusted premiums ~~shall be~~**IS**  
19 a uniform percentage of the respective future premiums specified  
20 in the policy for each policy year, excluding amounts payable as  
21 extra premiums to cover impairments and special hazards and  
22 excluding any uniform annual contract charge or policy fee  
23 specified in the policy in a statement of the method ~~to be used~~  
24 ~~in calculating~~**TO CALCULATE** the cash surrender values and paid-up  
25 nonforfeiture benefits, so that the present value, at the time of  
26 change to the newly defined benefits or premiums, of all ~~such~~**THE**  
27 future adjusted premiums ~~shall be~~**IS** equal to the excess of the

1 sum of the then present value of the then future guaranteed  
2 benefits provided for by the policy and the additional expense  
3 allowance, if any, over the then cash surrender value, if any, or  
4 present value of any paid-up nonforfeiture benefit under the  
5 policy.

6 The additional expense allowance, at the time of the change  
7 to the newly defined benefits or premiums, ~~shall be~~ **IS** the sum of  
8 1% of the excess, if positive, of the average amount of insurance  
9 at the beginning of each of the first 10 policy years after the  
10 change over the average amount of insurance before the change at  
11 the beginning of each of the first 10 policy years after the time  
12 of the most recent previous change, or, if there has been no  
13 previous change, the date of issue of the policy; and 125% of the  
14 increase, if positive, in the nonforfeiture net level premium.

15 The recalculated nonforfeiture net level premium ~~shall be~~ **IS**  
16 equal to the result obtained by dividing (a) by (b) where (a)  
17 equals the sum of (i) the nonforfeiture net level premium  
18 applicable before the change times the present value of an  
19 annuity of 1 per annum payable on each anniversary of the policy  
20 on or after the date of the change on which a premium would have  
21 fallen due had the change not occurred; and (ii) the present value  
22 of the increase in future guaranteed benefits provided for by the  
23 policy, and (b) equals the present value of an annuity of 1 per  
24 annum payable on each anniversary of the policy on or after the  
25 date of change on which a premium falls due.

26 Notwithstanding any other provisions of this subsection to  
27 the contrary, for a policy issued on a substandard basis that

1 provides reduced graded amounts of insurance so that, in each  
2 policy year, the policy has the same tabular mortality cost as an  
3 otherwise similar policy issued on the standard basis that  
4 provides higher uniform amounts of insurance, adjusted premiums  
5 and present values for the substandard policy may be calculated  
6 as if it were issued to provide the higher uniform amounts of  
7 insurance on the standard basis.

8 All adjusted premiums and present values referred to in this  
9 section for all policies of ordinary insurance ~~shall~~**MUST** be  
10 calculated on the basis of the commissioners 1980 standard  
11 ordinary mortality table or, at the election of the company for  
12 any 1 or more specified plans of life insurance, the  
13 commissioners 1980 standard ordinary mortality table with 10-year  
14 select mortality factors. All adjusted premiums and present  
15 values referred to in this section for all policies of industrial  
16 insurance ~~shall~~**MUST** be calculated on the basis of the  
17 commissioners 1961 standard industrial mortality table. All  
18 adjusted premiums and present values referred to in this section  
19 for all policies issued in a particular calendar year ~~shall~~**MUST**  
20 be calculated on the basis of a rate of interest not exceeding  
21 the nonforfeiture interest rate as defined in this subsection for  
22 policies issued in that calendar year. However:

23 (a) At the option of the company, calculations for all  
24 policies issued in a particular calendar year may be made on the  
25 basis of a rate of interest not exceeding the nonforfeiture  
26 interest rate, as defined in this subsection, for policies issued  
27 in the immediately preceding calendar year.

1 (b) Under any paid-up nonforfeiture benefit, including any  
2 paid-up dividend additions, any cash surrender value available,  
3 whether or not required by subsection (2), ~~shall~~**MUST** be  
4 calculated on the basis of the mortality table and rate of  
5 interest used in determining the amount of that paid-up  
6 nonforfeiture benefit and paid-up dividend additions, if any.

7 (c) A company may calculate the amount of any guaranteed  
8 paid-up nonforfeiture benefit, including any paid-up additions,  
9 under the policy on the basis of an interest rate no lower than  
10 that specified in the policy for calculating cash surrender  
11 values.

12 (d) In calculating the present value of any paid-up term  
13 insurance with accompanying pure endowment, if any, offered as a  
14 nonforfeiture benefit, the rates of mortality assumed may be not  
15 more than those shown in the commissioners 1980 extended term  
16 insurance table for policies of ordinary insurance and not more  
17 than the commissioners 1961 industrial extended term insurance  
18 table for policies of industrial insurance.

19 (e) For insurance issued on a substandard basis, the  
20 calculation of adjusted premiums and present values may be based  
21 on appropriate modifications of the tables provided in  
22 subdivision (d).

23 (f) ~~Any~~**FOR A POLICY ISSUED BEFORE THE OPERATIVE DATE OF THE**  
24 **VALUATION MANUAL, ANY COMMISSIONERS STANDARD** ordinary mortality  
25 tables, adopted after 1980 by the national association of  
26 insurance commissioners, that are approved by a rule promulgated  
27 by the ~~commissioner~~**DIRECTOR** for use in determining the minimum

1 nonforfeiture standard or as provided under section 838 may be  
2 substituted for the commissioners 1980 standard ordinary  
3 mortality table with or without 10-year select mortality factors  
4 or for the commissioners 1980 extended term insurance table.

5 (G) FOR POLICIES ISSUED ON OR AFTER THE OPERATIVE DATE OF  
6 THE VALUATION MANUAL, THE VALUATION MANUAL MUST PROVIDE THE  
7 COMMISSIONERS STANDARD MORTALITY TABLE FOR USE IN DETERMINING THE  
8 MINIMUM NONFORFEITURE STANDARD THAT MAY BE SUBSTITUTED FOR THE  
9 COMMISSIONERS 1980 STANDARD ORDINARY MORTALITY TABLE WITH OR  
10 WITHOUT 10-YEAR SELECT MORTALITY FACTORS OR FOR THE COMMISSIONERS  
11 1980 EXTENDED TERM INSURANCE TABLE. IF THE DIRECTOR APPROVES BY  
12 REGULATION ANY COMMISSIONERS STANDARD ORDINARY MORTALITY TABLE  
13 ADOPTED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS  
14 FOR USE IN DETERMINING THE MINIMUM NONFORFEITURE STANDARD FOR  
15 POLICIES ISSUED ON OR AFTER THE OPERATIVE DATE OF THE VALUATION  
16 MANUAL, THE MINIMUM NONFORFEITURE STANDARD SUPERSEDES THE MINIMUM  
17 NONFORFEITURE STANDARD PROVIDED BY THE VALUATION MANUAL.

18 (H) ~~(g) Any~~ FOR A POLICY ISSUED BEFORE THE OPERATIVE DATE OF  
19 THE VALUATION MANUAL, ANY COMMISSIONERS STANDARD industrial  
20 mortality tables, adopted after 1980 by the national association  
21 of insurance commissioners, that are approved by a rule  
22 promulgated by the ~~commissioner~~ DIRECTOR for use in determining  
23 the minimum nonforfeiture standard may be substituted for the  
24 commissioners 1961 standard industrial mortality table or the  
25 commissioners 1961 industrial extended term insurance table.

26 (I) FOR POLICIES ISSUED ON OR AFTER THE OPERATIVE DATE OF  
27 THE VALUATION MANUAL, THE VALUATION MANUAL MUST PROVIDE THE

1 COMMISSIONERS STANDARD MORTALITY TABLE FOR USE IN DETERMINING THE  
2 MINIMUM NONFORFEITURE STANDARD THAT MAY BE SUBSTITUTED FOR THE  
3 COMMISSIONERS 1961 STANDARD INDUSTRIAL MORTALITY TABLE OR THE  
4 COMMISSIONERS 1961 INDUSTRIAL EXTENDED TERM INSURANCE TABLE. IF  
5 THE DIRECTOR APPROVES BY REGULATION ANY COMMISSIONERS STANDARD  
6 INDUSTRIAL MORTALITY TABLE ADOPTED BY THE NATIONAL ASSOCIATION OF  
7 INSURANCE COMMISSIONERS FOR USE IN DETERMINING THE MINIMUM  
8 NONFORFEITURE STANDARD FOR POLICIES ISSUED ON OR AFTER THE  
9 OPERATIVE DATE OF THE VALUATION MANUAL, THE MINIMUM NONFORFEITURE  
10 STANDARD SUPERSEDES THE MINIMUM NONFORFEITURE STANDARD PROVIDED  
11 BY THE VALUATION MANUAL. The FOLLOWING APPLIES TO THE  
12 NONFORFEITURE INTEREST RATE:

13 (i) SUBJECT TO THIS SUBPARAGRAPH, FOR A POLICY ISSUED BEFORE  
14 THE OPERATIVE DATE OF THE VALUATION MANUAL, THE nonforfeiture  
15 interest rate per annum for ~~any~~ A policy issued in a particular  
16 calendar year ~~shall be~~ IS equal to 125% of the calendar year  
17 statutory valuation interest rate for ~~such~~ THE policy as defined  
18 in the standard valuation law, rounded to the nearest 0.25%. THE  
19 NONFORFEITURE INTEREST RATE UNDER THIS SUBPARAGRAPH MAY NOT BE  
20 LESS THAN 4%.

21 (ii) FOR POLICIES ISSUED ON AND AFTER THE OPERATIVE DATE OF  
22 THE VALUATION MANUAL, THE NONFORFEITURE INTEREST RATE PER ANNUM  
23 FOR ANY POLICY ISSUED IN A PARTICULAR CALENDAR YEAR IS PROVIDED  
24 BY THE VALUATION MANUAL.

25 Notwithstanding any other provision in this act to the  
26 contrary, any refiling of nonforfeiture values or their methods  
27 of computation for any previously approved policy form that



1 involves only a change in the interest rate or mortality table  
 2 used to compute nonforfeiture values ~~shall~~ **MAY** not require  
 3 refiling of any other provisions of that policy form.

4 After July 10, 1982, ~~any~~ **A** company may file with the  
 5 ~~commissioner~~ **DIRECTOR** a written notice of its election to comply  
 6 with paragraphs 9 to ~~19~~ **18** of this subsection at a specified date  
 7 before January 1, 1989, ~~which shall be~~ **THAT IS** the operative date  
 8 of those paragraphs for that company. If a company ~~makes no~~ **DOES**  
 9 **NOT MAKE AN** election, the operative date of paragraphs 9 to ~~19~~ **18**  
 10 of this subsection for the company ~~shall be~~ **IS** January 1, 1989.

11 (6) For ~~any~~ **A** plan of life insurance that provides for  
 12 future premium determination, the amounts of which are to be  
 13 determined by the insurance company based on then estimates of  
 14 future experience, or for ~~any~~ **A** plan of life insurance ~~that is of~~  
 15 ~~such a nature that~~ **AS TO WHICH THE** minimum values cannot be  
 16 determined by the methods described in subsections (2) to (5),  
 17 **ALL OF THE FOLLOWING APPLY:**

18 (a) The ~~commissioner~~ **DIRECTOR** must be satisfied that the  
 19 benefits provided under the plan are substantially as favorable  
 20 to policyholders and insureds as the minimum benefits otherwise  
 21 required by subsections (2) to (5).

22 (b) The ~~commissioner~~ **DIRECTOR** must be satisfied that the  
 23 benefits and the pattern of premiums of that plan are not  
 24 misleading to prospective policyholders or insureds.

25 (c) The cash surrender values and paid-up nonforfeiture  
 26 benefits provided by the plan must not be less than the minimum  
 27 values and benefits required for the plan computed by a method

1 consistent with the principles of this section, as determined by  
2 rules promulgated by the ~~commissioner~~-DIRECTOR.

3 (7) ~~Any~~-A cash surrender value and paid-up nonforfeiture  
4 benefit, available under the policy ~~in the event of~~-IF THERE IS A  
5 default in a premium payment due at a time other than on the  
6 policy anniversary, ~~shall~~-MUST be calculated with allowance for  
7 the lapse of time and the payment of fractional premiums beyond  
8 the last preceding policy anniversary. All values referred to in  
9 subsections (3), (4), and (5) may be calculated on the assumption  
10 that a death benefit is payable at the end of the policy year of  
11 death. The net value of any paid-up additions, other than paid-up  
12 term additions, ~~shall~~-MUST be not less than the amounts used to  
13 provide the additions. Notwithstanding subsection (3), additional  
14 benefits payable in any of the following ways, and premiums for  
15 all these additional benefits, ~~shall~~-MUST be disregarded in  
16 ascertaining cash surrender values and nonforfeiture benefits  
17 required by this section, and the additional benefits ~~shall~~-ARE  
18 not ~~be~~-required to be included in any paid-up nonforfeiture  
19 benefits:

20 (a) In the event of death or dismemberment by accident or  
21 accidental means.

22 (b) In the event of total and permanent disability.

23 (c) As reversionary annuity or deferred reversionary annuity  
24 benefits.

25 (d) As term insurance benefits provided by a rider or  
26 supplemental policy provision to which, if issued as a separate  
27 policy, this section would not apply.

1 (e) As term insurance on the life of a child or on the lives  
2 of children provided in a policy on the life of a parent of the  
3 child, if the term insurance expires before the child's age is  
4 26, is uniform in amount after the child's age is 1, and has not  
5 become paid-up by reason of the death of a parent of the child.

6 (f) As other policy benefits additional to life insurance  
7 and endowment benefits.

8 (8) This subsection ~~shall apply~~ **APPLIES** to all policies  
9 issued ~~on or after January 1, 1986.~~ **DECEMBER 31, 1985**. Any cash  
10 surrender value available under the policy ~~in the event of~~ **IF**  
11 **THERE IS A** default in a premium payment due on any policy  
12 anniversary ~~shall~~ **MUST** be in an amount that does not differ by  
13 more than 0.2% of either the amount of insurance, if the  
14 insurance is uniform in amount, or the average amount of  
15 insurance at the beginning of each of the first 10 policy years  
16 from the sum of (a) the greater of zero and the basic cash value  
17 as specified in this subsection and (b) the present value of any  
18 existing paid-up additions less the amount of any indebtedness to  
19 the company under the policy.

20 The basic cash value ~~shall~~ **MUST** be equal to the present  
21 value on ~~such~~ **THE** anniversary of the future guaranteed benefits  
22 that would have been provided for by the policy, excluding any  
23 existing paid-up additions and before deduction of any  
24 indebtedness to the company, if there had been no default, less  
25 the then present value of the nonforfeiture factors, as defined  
26 in this subsection, corresponding to premiums that would have  
27 fallen due on and after ~~such~~ **THE** anniversary. However, the

1 effects on the basic cash value of supplemental life insurance or  
2 annuity benefits or of family coverage ~~shall~~**MUST** be the same as  
3 are the effects specified in subsection (3) or (5), whichever is  
4 applicable, on the cash surrender values.

5 The nonforfeiture factor for each policy year ~~shall~~**MUST** be  
6 an amount equal to a percentage of the adjusted premium for the  
7 policy year, as defined in paragraphs 1 to 4 of subsection (5) or  
8 paragraphs 9 to ~~19~~**18** of subsection (5), whichever is applicable.  
9 The nonforfeiture factor:

10 (a) Must be the same percentage for each policy year between  
11 the second policy anniversary and the later of the fifth policy  
12 anniversary and the first policy anniversary at which there is  
13 available under the policy a cash surrender value in an amount,  
14 before including any paid-up additions and before deducting any  
15 indebtedness, of at least 0.2% of either the amount of insurance,  
16 if the insurance is uniform in amount, or the average amount of  
17 insurance at the beginning of each of the first 10 policy years.

18 (b) Must be such that no percentage after the later of the 2  
19 policy anniversaries specified in subdivision (a) may apply to  
20 fewer than 5 consecutive policy years.

21 However, the basic cash value may not be less than the value  
22 that would be obtained if the adjusted premiums for the policy,  
23 as defined in paragraphs 1 to 4 or paragraphs 9 to ~~19~~**18** of  
24 subsection (5), whichever is applicable, were substituted for the  
25 nonforfeiture factors in the calculation of the basic cash value.

26 All adjusted premiums and present values referred to in this  
27 subsection ~~shall~~**MUST** be calculated for a particular policy on

1 the same mortality and interest bases as are used in  
 2 demonstrating the policy's compliance with the other subsections  
 3 of this section. The cash surrender values referred to in this  
 4 subsection ~~shall~~**MUST** include any endowment benefits provided for  
 5 by the policy.

6 Any cash surrender value available other than ~~in the event~~  
 7 ~~of~~**IF THERE IS A** default in a premium payment due on a policy  
 8 anniversary and the amount of any paid-up nonforfeiture benefit  
 9 available under the policy ~~in the event of~~**IF THERE IS A** default  
 10 in a premium payment ~~shall~~**MUST** be determined in manners  
 11 consistent with the manners specified for determining the  
 12 analogous minimum amounts in subsections (2), (3), (4), and (7)  
 13 and paragraphs 9 to ~~19~~**18** of subsection (5). The amounts of any  
 14 cash surrender values and of any paid-up nonforfeiture benefits  
 15 granted in connection with additional benefits such as those  
 16 listed in subsection (7) ~~shall~~**MUST** conform with the principles  
 17 of this subsection.

18 (9) This section does not apply to any of the following:

19 (a) Reinsurance.

20 (b) Group insurance.

21 (c) Pure endowment.

22 (d) Annuity or reversionary annuity contract.

23 (e) A term policy of uniform amount ~~, which provides no~~**THAT**  
 24 **DOES NOT PROVIDE** guaranteed nonforfeiture or endowment benefits,  
 25 or renewal thereof,**OF GUARANTEED NONFORFEITURE OR ENDOWMENT**  
 26 **BENEFITS**, of 20 years or less expiring before age 71, for which  
 27 uniform premiums are payable during the entire term of the

1 policy.

2 (f) A term policy of decreasing amount ~~, which provides no~~  
 3 **THAT DOES NOT PROVIDE** guaranteed nonforfeiture or endowment  
 4 benefits ~~—AND~~ on which each adjusted premium, calculated as  
 5 specified in subsection (5), is less than the adjusted premium ~~se~~  
 6 ~~calculated,~~ **CALCULATED UNDER SUBSECTION (5)**, on a term policy of  
 7 uniform amount, or **THE** renewal thereof, ~~which provides no~~ **OF A**  
 8 **TERM POLICY THAT DOES NOT PROVIDE** guaranteed nonforfeiture or  
 9 endowment benefits, issued at the same age and for the same  
 10 initial amount of insurance and for a term of 20 years or less  
 11 expiring before age 71, for which uniform premiums are payable  
 12 during the entire term of the policy.

13 (g) A policy ~~, which provides no~~ **THAT DOES NOT PROVIDE**  
 14 guaranteed nonforfeiture or endowment benefits, for which no cash  
 15 surrender value, if any, or present value of any paid-up  
 16 nonforfeiture benefit, at the beginning of any policy year,  
 17 calculated as specified in subsections (3) to (5), exceeds 2.5%  
 18 of the amount of insurance at the beginning of the same policy  
 19 year.

20 (h) A policy that ~~shall be~~ **IS** delivered outside this state  
 21 through an agent or other representative of the company issuing  
 22 the policy.

23 For purposes of determining the applicability of this  
 24 section, the age at expiry for a joint term life insurance policy  
 25 ~~shall be~~ **IS** the age at expiry of the oldest life.

26 (10) After July 30, 1943, a company may file with the  
 27 ~~commissioner~~ **DIRECTOR** a written notice of its election to comply

1 with this section after a specified date before January 1, 1948.  
2 After the filing of the notice, then on the specified date, ~~which~~  
3 ~~shall be~~**THAT IS** the operative date for the company, this section  
4 ~~shall become~~**IS** operative with respect to the policies thereafter  
5 issued by the company. If a company does not make an election,  
6 the operative date of this section for the company ~~shall be~~**IS**  
7 January 1, 1948.

8           **(11) AS USED IN THIS SECTION, "OPERATIVE DATE OF THE**  
9 **VALUATION MANUAL" MEANS JANUARY 1 OF THE FIRST CALENDAR YEAR THAT**  
10 **THE VALUATION MANUAL AS THAT TERM IS DEFINED IN SECTION 836B IS**  
11 **EFFECTIVE.**

12           Sec. 4061. (1) All of the following apply to the minimum  
13 cash surrender values for flexible premium universal life  
14 insurance policies:

15           (a) Minimum cash surrender values for flexible premium  
16 universal life insurance policies ~~shall~~**MUST** be determined  
17 separately for the basic policy and any benefits and riders for  
18 which premiums are paid separately. For a basic policy and any  
19 benefits and riders for which premiums are not paid separately,  
20 all of the following requirements apply:

21           (i) All accumulations ~~shall~~**MUST** be at the actual rate or  
22 rates of interest at which interest credits have been made  
23 unconditionally to the policy, or have been made conditionally,  
24 but for which the conditions have since been met. The minimum  
25 cash surrender value, before adjustment for indebtedness and  
26 dividend credits, available on a date as of which interest is  
27 credited to the policy ~~shall~~**MUST** be equal to the accumulation to

1 that date of the premiums paid minus the accumulations to that  
2 date of all of the following minus any unamortized unused initial  
3 and additional expense allowances:

4 (A) The benefits charges.

5 (B) The averaged administrative expense charges for the  
6 first policy year and any insurance-increase years.

7 (C) Actual administrative expense charges for other years.

8 (D) Initial and additional acquisition expense charges not  
9 exceeding the initial or additional expense allowances,  
10 respectively.

11 (E) Any service charges actually made.

12 (F) Any deductions made for partial withdrawals.

13 (ii) Interest on the premiums and on all charges referred to  
14 in subparagraph (i) (A) through (F) ~~shall~~**MUST** be accumulated from  
15 and to such dates as are consistent with the manner in which  
16 interest is credited in determining the policy value.

17 (iii) Service charges ~~shall~~**MUST** exclude charges for cash  
18 surrender or election of a paid-up nonforfeiture benefit and  
19 include charges permitted by the policy to be imposed as the  
20 result of a policyowner's request for a service by the insurer,  
21 such as the furnishing of future benefit illustrations or of  
22 special transactions.

23 (iv) Benefit charges ~~shall~~**MUST** include the charges made for  
24 mortality and any charges made for riders or supplementary  
25 benefits for which premiums are not paid separately. If benefit  
26 charges are substantially level by duration and develop low or no  
27 cash values, ~~then the commissioner shall have the right to~~



1 **DIRECTOR MAY** require higher cash values unless the insurer  
 2 provides adequate justification that the cash values are  
 3 appropriate in relation to the policy's other characteristics.

4 (v) If the amount of insurance is subsequently increased  
 5 ~~upon~~**ON** request of the policyowner or by the terms of the policy,  
 6 an additional expense allowance and an unused additional expense  
 7 allowance ~~shall~~**MUST** be determined on a basis consistent with  
 8 this subsection and with section 4060(5) paragraph 13 using the  
 9 face amount and the latest maturity date permitted at that time  
 10 under the policy.

11 (vi) The unamortized unused initial expense allowance during  
 12 the policy year beginning on the policy anniversary at age  $x+t$ ,  
 13 where " $x$ " is the same issue age, ~~shall~~**MUST** be the unused initial  
 14 expense allowance multiplied by

$$\frac{a_{x+t}}{a_x}$$

17 where  $a_{x+t}$  and  $a_x$  are present values of an annuity of 1 per  
 18 year payable on policy anniversaries beginning at ages  $x+t$  and  $x$ ,  
 19 respectively, and continuing until the highest attained age at  
 20 which a premium may be paid under the policy, both on the  
 21 mortality and interest bases guaranteed in the policy. An  
 22 unamortized unused additional expense allowance ~~shall~~**MUST** be the  
 23 unused additional expense allowance multiplied by a similar ratio  
 24 of annuities, with  $a_x$  replaced by an annuity beginning on the date  
 25 as of which the additional expense allowance was determined.

26 (b) As used in this subsection:

1           (i) "Additional acquisition expense charges" means the excess  
2 of the expense charges, other than service charges, actually made  
3 in an insurance-increase year over the averaged administrative  
4 expense charges for that year.

5           (ii) "Administrative expense charges" means charges per  
6 premium payment, charges per dollar of premium paid, periodic  
7 charges per thousand dollars of insurance, periodic per policy  
8 charges, and any other charges permitted by the policy to be  
9 imposed without regard to the policyowner's request for services.

10           (iii) "Averaged administrative expense charges" means those  
11 charges that would have been imposed in a year if the charge rate  
12 or rates for each transaction or period within that year had been  
13 equal to the arithmetic average of the corresponding charge rates  
14 that the policy states will be imposed in policy years 2 through  
15 20 in determining the policy value.

16           (iv) "Initial acquisition expense charges" means the excess  
17 of the expense charges, other than service charges, actually made  
18 in the first policy year over the averaged administrative expense  
19 charges for that year.

20           (v) "Initial expense allowance" means the allowance provided  
21 by items (ii), (iii), and (iv) of section 4060(5) paragraph 1 or by  
22 items (ii) and (iii) of section 4060(5) paragraph 9, as applicable,  
23 for a fixed premium, fixed benefit endowment policy with a face  
24 amount equal to the initial face amount of the flexible premium  
25 universal life insurance policy, with level premiums paid  
26 annually until the highest attained age at which a premium may be  
27 paid under the flexible premium universal life insurance policy,

1 and maturing on the latest maturity date permitted under the  
2 policy, if any, otherwise at the highest age in the valuation  
3 mortality table.

4 (vi) "Insurance-increase year" means the year beginning on  
5 the date of increase in the amount of insurance by policyowner  
6 request or by the terms of the policy.

7 (vii) "Unused initial expense allowance" means the excess, if  
8 any, of the initial expense allowance over the initial  
9 acquisition expense charges.

10 (2) All of the following provisions apply to the minimum  
11 cash surrender values for fixed premium universal life insurance  
12 policies:

13 (a) The minimum cash surrender values ~~shall~~**MUST** be  
14 determined separately for the basic policy and any benefits and  
15 riders for which premiums are paid separately. All of the  
16 following requirements ~~pertain~~**APPLY** to a basic policy and any  
17 benefits and riders for which premiums are not paid separately:

18 (i) The minimum cash surrender value before adjustment for  
19 indebtedness and dividend credits that is available on a date as  
20 of which interest is credited to the policy is equal to (A - B -  
21 C - D).

22 (ii) Future guaranteed benefits are determined by both of the  
23 following:

24 (A) Projecting the policy value, taking into account future  
25 premiums, if any, and using all guarantees of interest,  
26 mortality, expense deductions, and other guarantees, that depend  
27 upon the policy value, contained in the policy or declared by the

1 insurer.

2 (B) Taking into account any benefits guaranteed in the  
3 policy or by declaration that do not depend on the policy value.

4 (iii) All present values ~~shall~~**MUST** be determined using an  
5 interest rate or rates specified by section 4060 for policies  
6 issued in the same year and the mortality rates specified by  
7 section 4060 for policies issued in the same year or contained in  
8 ~~such~~**ANY** other table as approved by the ~~commissioner~~**DIRECTOR** for  
9 this purpose.

10 (b) As used in this subsection:

11 (i) "A" means the present value of all future guaranteed  
12 benefits.

13 (ii) "B" means the present value of future adjusted premiums.  
14 The adjusted premiums are calculated as described in section  
15 4060(5) paragraphs 1 to 6 and 9, as applicable. If section  
16 4060(5) paragraph 9 is applicable, the nonforfeiture net level  
17 premium is equal to the quantity

$$\frac{PVFB.}{a_x}$$

20 (iii) "C" means the present value of any quantities analogous  
21 to the nonforfeiture net level premium that arise because of  
22 guarantees declared by the insurer after the issue date of the  
23 policy. **ALSO**,  $a_x$  ~~shall~~**MUST** be replaced by an annuity beginning on  
24 the date as of which the declaration became effective and payable  
25 until the end of the period covered by the declaration. The types  
26 of quantities included in "C" are increased current interest rate

1 credits guaranteed for a future period, decreased current  
2 mortality rate charges guaranteed for a future period, or  
3 decreased current expense charges guaranteed for a future period.

4 (iv) "D" means the sum of any quantities analogous to "B"  
5 which arise because of structural changes in the policy.

6 (v) "PVFB" equals the present value of all benefits  
7 guaranteed at issue assuming future premiums are paid by the  
8 policyowner and all guarantees contained in the policy or  
9 declared by the insurer.

10 (vi) "Structural changes" means those changes that are  
11 separate from the automatic workings of the policy. Structural  
12 changes usually would be initiated by the policy owner and  
13 include changes in the guaranteed benefits, changes in latest  
14 maturity date, or changes in allowable premium payment period.

15 (vii) " $a_x$ " equals the present value of an annuity of 1 per  
16 year payable on policy anniversaries beginning at age x and  
17 continuing until the highest attained age at which a premium may  
18 be paid under the policy.

19 (3) All of the following apply to minimum paid-up  
20 nonforfeiture benefits:

21 (a) If a universal life insurance policy provides for the  
22 optional election of a paid-up nonforfeiture benefit, ~~it shall be~~  
23 ~~such that its~~ **THE** present value ~~shall~~ **OF THE PAID-UP**  
24 **NONFORFEITURE BENEFIT MUST** be at least equal to the cash  
25 surrender value provided for by the policy on the effective date  
26 of the election. The present value ~~shall~~ **MUST** be based on  
27 mortality and interest standards at least as favorable to the

1 policyowner as 1 of the following:

2 (i) For a flexible premium universal life insurance policy,  
3 the mortality and interest ~~basis~~**BASES** guaranteed in the policy  
4 for determining the policy value.

5 (ii) For a fixed premium policy, the mortality and interest  
6 standards permitted for paid-up nonforfeiture benefits in section  
7 4060.

8 (b) Instead of the paid-up nonforfeiture benefit, the  
9 insurer may substitute, ~~upon~~**ON** proper request not later than 60  
10 days after the due date of the premium in default, an actuarially  
11 equivalent alternative paid-up nonforfeiture benefit that  
12 provides a greater amount or longer period of death benefits, or,  
13 if applicable, a greater amount or earlier payment of endowment  
14 benefits.

15 (c) Any secondary guarantees should be taken into  
16 consideration when computing minimum paid-up nonforfeiture  
17 benefits.

18 (d) A charge may be made at the surrender of the policy  
19 ~~provided that~~**IF** the result after the deduction of the charge is  
20 not less than the minimum cash surrender value required by this  
21 section.

22 (e) To preserve equity between policies on a premium paying  
23 basis and on a paid-up basis, present values ~~shall~~**MUST** comply  
24 with subsection (1) for flexible premium universal life insurance  
25 policies and with subsection (2) for fixed premium universal life  
26 insurance policies.