Act No. 349
Public Acts of 1993
Approved by the Governor
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STATE OF MICHIGAN
87TH LEGISLATURE
REGULAR SESSION OF 1993

Introduced by Senator Wartner

ENROLLED SENATE BILL No. 716

AN ACT to amend sections 834, 2226, 3057, 4012, 4018, 4024, 4026, 4060, and 4430 of Act No. 218 of the Public Acts of 1956, entitled as amended "An act to revise, consolidate, and classify the laws relating to the insurance and surety business; to regulate the incorporation or formation of domestic insurance and surety companies and associations and the admission of foreign and alien companies and associations; to provide their rights, powers, and immunities and to prescribe the conditions on which companies and associations organized, existing, or authorized under this act may exercise their powers; to provide the rights, powers, and immunities and to prescribe the conditions on which other persons, firms, corporations, associations, risk retention groups, and purchasing groups engaged in an insurance or surety business may exercise their powers; to provide for the imposition of a privilege fee on domestic insurance companies and associations and the state accident fund; to provide for the imposition of a tax on the business of foreign and alien companies and associations; to provide for the imposition of a tax on risk retention groups and purchasing groups; to provide for the imposition of a tax on the business of surplus line agents; to modify tort liability arising out of certain accidents; to provide for limited actions with respect to that modified tort liability and to prescribe certain procedures for maintaining those actions; to require security for losses arising out of certain accidents; to provide for the continued availability and affordability of automobile insurance and homeowners insurance in this state, to facilitate the purchase of that insurance by all residents of this state at fair and reasonable rates, and to provide for certain powers and duties, upon certain persons, as they affect the continued availability and affordability of that insurance; to provide for certain reporting with respect to insurance and with respect to certain claims against uninsured or self-insured persons; to prescribe duties for certain state departments and officers with respect to that reporting; to provide for certain assessments; to establish and continue certain state insurance funds; to modify and clarify the status, rights, powers, duties, and operations of the nonprofit malpractice insurance fund; to provide for the departmental supervision and regulation of the insurance and surety business within this state; to provide for the conservation, rehabilitation, or liquidation of unsound or insolvent insurers; to provide for the protection of policyholders, claimants, and creditors of unsound or insolvent insurers; to provide for associations of insurers to protect policyholders and claimants in the event of insurer insolvencies; to prescribe educational requirements for insurance agents and solicitors; to provide for the regulation of multiple employer welfare arrangements; to create an automobile theft prevention authority to reduce the number of automobile thefts in this state; to prescribe the powers and duties of the automobile theft prevention authority; to provide certain powers and duties upon certain persons; to provide certain powers and duties upon certain officials, departments, and authorities of this state; to provide an appropriation; to repeal certain acts and parts of acts; to repeal certain acts and parts of acts on specific dates; to repeal certain parts of this act on specific dates; and to provide penalties for the violation of this act," section 834 as amended by Act No. 221 of the Public Acts of 1982, section 4060 as amended by Act No. 222 of the Public Acts of 1982, and section 4430 as amended by Act No. 305 of the Public Acts of 1990, being sections 500.834, 500.2226, 500.3057, 500.4012, 500.4018, 500.4024, 500.4026, 500.4060, and 500.4430 of the Michigan Compiled Laws; to add sections 837, 2010, 2236a, 4001, 4037, 4038, and 4061; to repeal certain parts of the act; and to repeal certain parts of the act on a specific date.

The People of the State of Michigan enact:

Section 1. Sections 834, 2226, 3057, 4012, 4018, 4024, 4026, 4060, and 4430 of Act No. 218 of the Public Acts of 1956, section 834 as amended by Act No. 221 of the Public Acts of 1982, section 4060 as amended by Act No. 222 of the Public Acts of 1982, and section 4430 as amended by Act No. 305 of the Public Acts of 1990, being sections 500.834, 500.2226, 500.3057, 500.4012, 500.4018, 500.4024, 500.4026, 500.4060, and 500.4430 of the Michigan Compiled Laws, are amended and sections 837, 2010, 2236a, 4001, 4037, 4038, and 4061 are added to read as follows:

Sec. 834. (1) Except as otherwise provided in sections 835, 836, and 837, the minimum standard for the valuation of policies and contracts described in subsection (8) shall be the commissioner's reserve valuation methods defined in subsections (2), (3), and (6), 5% interest for group annuity and pure endowment contracts, provided that prior notice of any revaluation of reserves with respect to these group annuity and pure endowment contracts is given to the commissioner in the same manner as is required before a revaluation of reserves under section 832(2), and 3-1/2% interest for all other of these policies and contracts; or in the case of policies and contracts, other than annuity and pure endowment contracts, issued on or after October 21, 1974, 4% interest for those policies issued before October 1, 1980, and 4-1/2% interest for those policies issued on or after October 1, 1980, and the following tables:

(I) For all ordinary policies of life insurance issued on the standard basis, excluding any disability and accidental death benefits in these policies: the commissioner's 1941 standard ordinary mortality table, for these policies issued before the operative date of paragraph 5 of section 4060(5); and the commissioner's 1958 standard ordinary mortality table for these policies issued on or after that operative date and before the operative date of paragraphs 9 to 19 of section 4060(5). For any category of these policies issued on female risks, all modified net premiums and present values referred to in this section may be calculated according to an age not more than 6 years younger than the actual age of the insured; and, for such policies issued on or after the operative date of paragraphs 9 to 19 of section 4060(5), the commissioner's 1980 standard ordinary mortality table or, at the election of the company for any 1 or more specified plans of life insurance, the commissioner's 1980 standard ordinary mortality table with 10-year select mortality factors or any ordinary mortality table adopted after 1980 by the national association of insurance commissioners that is approved by a rule promulgated by the commissioner for use in determining the minimum standard of valuation for such policies.

(II) For all industrial life insurance policies issued on the standard basis, excluding any disability and accidental death benefits in these policies: the 1941 standard industrial mortality table for these policies issued before the operative date of paragraph 7 of section 4060(5); and for these policies issued on or after that operative date, the commissioner's 1961 standard industrial mortality table or any industrial mortality table adopted after 1980 by the national association of insurance commissioners that is approved by a rule promulgated by the commissioner for use in determining the minimum standard of valuation for such policies.

(III) For individual annuity and pure endowment contracts, excluding any disability and accidental death benefits in these policies: the 1937 standard annuity mortality table or, at the option of the company, the annuity mortality table for 1949, ultimate, or any modification of either of these tables approved by the commissioner.

(IV) For group annuity and pure endowment contracts, excluding any disability and accidental death benefits in these policies: the group annuity mortality table for 1951, any modification of that table approved by the commissioner, or, at the option of the company, any of the tables or modifications of tables specified for individual annuity and pure endowment contracts.

(V) For total and permanent disability benefits in or supplementary to ordinary policies or contracts: for policies or contracts issued on or after January 1, 1966, the tables of period 2 disablement rates and the 1930 to 1950 termination rates of the 1952 disability study of the society of actuaries, with due regard to the type of benefit or any tables of disablement rates and termination rates adopted after 1980 by the national association of insurance commissioners that are approved by a rule promulgated by the commissioner for use in determining the minimum standard of valuation for such policies; for policies or contracts issued on or after January 1, 1961, and before January 1, 1966, either these tables or, at the option of the company, the class (3) disability table, 1926; and for policies issued before January 1, 1961, the class (3) disability table, 1926. For active lives, a table shall be combined with a mortality table permitted for calculating the reserves for life insurance policies.

(VI) For accidental death benefits in or supplementary to policies: for policies issued on or after January 1, 1966, the 1959 accidental death benefits table or any accidental death benefits table adopted after 1980 by the national association of insurance commissioners that is approved by a rule promulgated by the commissioner for use in determining the minimum standard of valuation for such policies; for policies issued on or after January 1, 1961, and before January 1, 1966; the intercompany double indemnity mortality table. A table shall be combined with a mortality table permitted for calculating the reserves for life insurance policies.

(VII) For group life insurance, life insurance issued on the substandard basis, and other special benefits: any table approved by the commissioner.

(2) Except as otherwise provided in subsections (3) and (6), reserves according to the commissioner's reserve valuation method, for the life insurance and endowment benefits of policies providing for a uniform amount of insurance and requiring the payment of uniform premiums, shall be the excess, if any, of the present value, at the date of valuation, of the future guaranteed benefits provided for by these policies over the then present value of any future modified net premiums for the policies. The modified net premiums for such a policy shall be a uniform percentage of the respective contract premiums for the future guaranteed benefits so that the present value of all modified net premiums equals, at the date of issue of the policy, the sum of the then present value of these benefits provided for by the policy and the excess of (g) over (h), as follows:

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

(h) A net 1-year term premium for the future guaranteed benefits provided for in the first policy year.

However, for any life insurance policy issued on or after January 1, 1986 for which the contract premium in the first policy year exceeds that of the second year and for which no comparable additional benefit is provided in the first year for that excess and that provides an endowment benefit or a cash surrender value or a combination of them in an amount greater than the excess premium, the reserve according to the commissioner's reserve valuation method as of any policy anniversary occurring on or before the assumed ending date, defined as the first policy anniversary on which the sum of any endowment benefit and any cash surrender value then available is greater than the excess premium, shall be, except as otherwise provided in subsection (6), the greater of the reserve as of that policy anniversary calculated as described in paragraph 1 of this subsection and the reserve as of that policy anniversary calculated as described in that paragraph, but with the value defined in (g) being reduced by 15% of the amount of the excess first year premium; all present values of benefits and premiums being determined without reference to premiums or benefits provided for by the policy after the assumed ending date; the policy being assumed to mature on that date as an endowment; and the cash surrender value provided on that date being considered as an endowment benefit. In making the above comparison, the mortality and interest bases stated in subsection (1) and section 836 shall be used.

Reserves according to the commissioner's reserve valuation method for (I) life insurance policies providing for a varying amount of insurance or requiring the payment of varying premiums, (II) group annuity and pure endowment contracts purchased under a retirement plan or plan of deferred compensation, established or maintained by an employer, including a partnership or sole proprietorship, or by an employee organization, or by both, other than a plan providing individual retirement accounts or individual retirement annuities under section 408 of the internal revenue code, (III) disability and accidental death benefits in all policies and contracts, and (IV) all other benefits, except life insurance and endowment benefits in life insurance policies and benefits provided by all other annuity and pure endowment contracts, shall be calculated by a method consistent with the principles of this subsection. However, extra premiums charged because of impairments or special hazards shall be disregarded in the determination of modified net premiums.

(3) This subsection shall apply to all annuity and pure endowment contracts other than group annuity and pure endowment contracts purchased under a retirement plan or plan of deferred compensation, established or maintained by an employer, including a partnership or sole proprietorship, or by an employee organization, or by both, other than a plan providing individual retirement accounts or individual retirement annuities under section 408 of the internal revenue code. Reserves according to the commissioner's annuity reserve method for benefits under annuity or pure endowment contracts, excluding any disability and accidental death benefits in these contracts, shall be the greatest of the respective excesses of the present values, at the date of valuation, of the future guaranteed benefits, including guaranteed nonforfeiture benefits, provided for by these contracts at the end of each respective contract year, over the present value, at the date of valuation, of any future valuation considerations derived from future gross considerations, required by the terms of the contract, that become payable before the end of that respective contract year. The future guaranteed benefits shall be determined by using the mortality table, if any, and the interest rate specified in these contracts for determining guaranteed benefits. The valuation considerations are the portions of the respective gross considerations applied under the terms of these contracts to determine nonforfeiture values.

(4) An insurer's aggregate reserves for all life insurance policies, excluding disability and accidental death benefits, shall not be less than the aggregate reserves calculated in accordance with the methods set forth in subsections (2), (3), (6), and (7), and the mortality table or tables and rate or rates of interest used in calculating nonforfeiture benefits for the policies.

(5) Reserves for a category of policies, contracts, or benefits as established by the commissioner, may be calculated, at the option of the insurer, according to any standards that produce greater aggregate reserves for the category than those calculated according to the minimum standard provided in this act. However, the rate or rates of interest used for policies and contracts, other than annuity and pure endowment contracts, shall not be higher than the corresponding rate or rates of interest used in calculating any nonforfeiture benefits provided for therein.

(6) If in any contract year the gross premium charged by a life insurer on a policy or contract is less than the valuation net premium for the policy or contract calculated by the method used in calculating the reserve thereon, but at the option of the insurer using the minimum valuation standards of mortality either at the time of issue or the time of valuation of such policy or contract and the minimum valuation rate of interest at time of issue or the time of valuation of such policy or contract, the minimum reserve required for the policy or contract shall be the greater of either the reserve calculated according to the mortality table, rate of interest, and method actually used for the policy or contract, or the reserve calculated by the method actually used for the policy or contract using the minimum valuation standards of mortality and rate of interest and replacing the valuation net premium by the actual gross premium in each contract year for which the valuation net premium exceeds the actual gross premium. However, with respect to any policy or contract, issued before January 1, 1985, for which gross premiums vary by duration, including renewable term plans where renewal premiums beyond the current term period are guaranteed in the policy, the valuation net premiums shall be calculated as a uniform percentage of all the respective gross premiums or premiums guaranteed in the policy or contract. With respect to policies issued on or after January 1, 1985, the method described in the preceding sentence for the calculation of valuation net premiums shall apply unless the commissioner shall determine and issue a report to the legislature before January 1, 1985, that such method either would produce an inadequate amount of reserves and will lead to serious financial consequences for insurers or would produce an excessive amount of reserves. The minimum valuation standards of mortality and rate of interest referred to in this subsection are those standards stated in subsection (1) and section 836. However, for any life insurance policy issued on or after January 1, 1986 for which the gross premium in the first policy year exceeds that of the second year and for which no comparable additional benefit is provided in the first year for that excess and which provides an endowment benefit or a cash surrender value or a combination thereof in an amount greater than the excess premium, the provisions of this subsection shall be applied as if the method actually used in calculating the reserve for that policy were the method described in subsection (2), ignoring paragraph 2 of that subsection. The minimum reserve at each policy anniversary of such a policy shall be the greater of the minimum reserve calculated in accordance with subsection (2), including paragraph 2 of that subsection, and the minimum reserve calculated in accordance with this subsection.

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

SCHEDULE
BASIC VALUES COMMISSIONER'S STANDARD ORDINARY
1958 TABLE OF MORTALITY

Values of number living at exact age (l_x) number dying (d_x)
and expectation of life (e_x)

Age	l_x	d_x	e_x	Age	l_x	d_x	e_x
0	10,000,000	70,800	68.30	23	9,612,127	18,167	47.64
1	9,929,200	17,475	67.78	24	9,593,960	18,324	46.73
2	9,911,725	15,066	66.90	25	9,575,636	18,481	45.82
3	9,896,659	14,449	66.00	26	9,557,155	18,732	44.90
4	9,882,210	13,835	65.10	27	9,538,423	18,981	43.99
5	9,868,375	13,322	64.19	28	9,519,442	19,324	43.08
6	9,855,053	12,812	63.27	29	9,500,118	19,760	42.16
7	9,842,241	12,401	62.35	30	9,480,358	20,193	41.25
8	9,829,840	12,091	61.43	31	9,460,165	20,718	40.34
9	9,817,749	11,879	60.51	32	9,439,447	21,239	39.43
10	9,805,870	11,865	59.58	33	9,418,208	21,850	38.51
11	9,794,005	12,047	58.65	34	9,396,358	22,551	37.60
12	9,781,958	12,325	57.72	35	9,373,807	23,528	36.69
13	9,769,633	12,896	56.80	36	9,350,279	24,685	35.78
14	9,756,736	13,562	55.87	37	9,325,594	26,112	34.88
15	9,743,175	14,225	54.95	38	9,299,482	27,991	33.97
16	9,728,950	14,983	54.03	39	9,271,491	30,132	33.07
17	9,713,967	15,737	53.11	40	9,241,359	32,622	32.18
18	9,698,230	16,390	52.19	41	9,208,737	35,362	31.29
19	9,681,840	16,846	51.28	42	9,173,375	38,253	30.41
20	9,664,994	17,300	50.37	43	9,135,122	41,382	29.54
21	9,647,694	17,655	49.46	44	9,093,740	44,741	28.67
22	9,630,039	17,912	48.55	45	9,048,999	48,412	27.81

Age	l_x	d_x	e_x	Age	l_x	d_x	e_x
46	9,000,587	52,473	26.95	73	4,731,089	299,289	8.69
47	8,948,114	56,910	26.11	74	4,431,800	301,894	8.24
48	8,891,204	61,794	25.27	75	4,129,906	303,011	7.81
49	8,829,410	67,104	24.45	76	3,826,895	303,014	7.39
50	8,762,306	72,902	23.63	77	3,523,881	301,997	6.98
51	8,689,404	79,160	22.82	78	3,221,884	299,829	6.59
52	8,610,244	85,758	22.03	79	2,922,055	295,683	6.21
53	8,524,486	92,832	21.25	80	2,626,372	288,848	5.85
54	8,431,654	100,337	20.47	81	2,337,524	278,983	5.51
55	8,331,317	108,307	19.71	82	2,058,541	265,902	5.19
56	8,223,010	116,849	18.97	83	1,792,639	249,858	4.89
57	8,106,161	125,970	18.23	84	1,542,781	231,433	4.60
58	7,980,191	135,663	17.51	85	1,311,348	211,311	4.32
59	7,844,528	145,830	16.81	86	1,100,037	190,109	4.06
60	7,698,698	156,592	16.12	87	909,929	168,455	3.80
61	7,542,106	167,736	15.44	88	741,474	146,997	3.55
62	7,374,370	179,271	14.78	89	594,477	126,303	3.31
63	7,195,099	191,174	14.14	90	468,174	106,809	3.06
64	7,003,925	203,394	13.51	91	361,365	88,813	2.82
65	6,800,531	215,917	12.90	92	272,552	72,480	2.58
66	6,584,614	228,749	12.31	93	200,072	57,881	2.33
67	6,355,865	241,777	11.73	94	142,191	45,026	2.07
68	6,114,088	254,835	11.17	95	97,165	34,128	1.80
69	5,859,253	267,241	10.64	96	63,037	25,250	1.51
70	5,592,012	278,426	10.12	97	37,787	18,456	1.18
71	5,313,586	287,731	9.63	98	19,331	12,916	.83
72	5,025,855	294,766	9.15	99	6,415	6,415	.50

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

Sec. 837. (1) As used in this section:

(a) "A" means the present value of all future guaranteed benefits at the date of valuation.

(b) "B" means the quantity $\frac{\underline{PVFB}}{a_x} a_{x+t}$.

(c) "C" is the quantity $((g)\text{-}(h)) \frac{\underline{(a_{x+t})}}{a_x}$ (r) where (g) and (h) are the same as (g) and (h) as defined in section 834(2) for the plan of insurance defined at issue by the guaranteed maturity premiums and all guarantees contained in the policy or declared by the insurer.

(d) "D" is the sum of any additional quantities analogous to "C" that arise because of structural changes in the policy, with each such quantity being determined on a basis consistent with that of "C" using the maturity date in effect at the time of the change.

(e) "Guaranteed maturity fund at any duration" means that amount which, together with future guaranteed maturity premiums, will mature the policy based on all policy guarantees at issue.

(f) "Guaranteed maturity premium for fixed premium universal life insurance policies" shall be the premium defined in the policy that at issue provides the minimum policy guarantees.

(g) "Guaranteed maturity premium for flexible premium universal life insurance policies" means that level gross premium, paid at issue and periodically thereafter over the period during which premiums are allowed to be paid, which will mature the policy on the latest maturity date, if any, permitted under the policy for an amount that is in accordance with the policy structure. If there is no applicable latest maturity date, the highest age in the valuation mortality table shall be used.

(h) "Maturity amount" means the initial death benefit if the death benefit is level over the lifetime of the policy except for the existence of a minimum death benefit corridor, or means the specific amount if the death benefit equals a specified amount plus the policy value or cash surrender value except for the existence of a minimum death benefit corridor.

(i) "PVFB" means the present value of all benefits guaranteed at issue assuming future guaranteed maturity premiums are paid by the policyowner and taking into account all guarantees contained in the policy or declared by the insurer.

(j) "Structural changes" are those changes that are separate from the automatic workings of the policy. Such changes usually would be initiated by the policyholder and include changes in the guaranteed benefits, changes in latest maturity date, or changes in allowable premium payment period. For fixed premium universal life policies with redetermination of all credits and charges no more frequently than annually, on policy anniversaries, structural changes also include changes in guaranteed benefits, or in fixed premiums, unanticipated by the guaranteed maturity premium for such policies at the date of issue, even if such changes arise from automatic workings of the policy.

(k) The letter "r" is equal to 1, unless the policy is a flexible premium policy and the policy value is less than the guaranteed maturity fund, in which case "r" is the ratio of the policy value to the guaranteed maturity fund.

(*l*) The letter "t" means the duration of the policy.

(m) The letter "x" means the issue age.

(n) "a_x" and "a_{x+t}" are present values of an annuity of 1 per year payable on policy anniversaries beginning at ages x and x+t, respectively, and continuing until the highest attained age at which a premium may be paid under the policy.

(2) All of the following are valuation requirements for universal life insurance policies:

(a) The minimum valuation standard for universal life insurance policies shall be the commissioner's reserve valuation method as described in this section and the tables and interest rates as specified in this section.

(b) The terminal reserve for the basic policy and any benefits or riders for which premiums are not paid separately as of any policy anniversary shall be equal to the net level premium reserves less "C" and less "D", where net level premium reserves shall be equal to (A-B)(r).

(c) The guaranteed maturity premium is calculated at issue based on all policy guarantees at issue, excluding guarantees linked to an external referent. The guaranteed maturity premium for both flexible and fixed premium policies shall be adjusted for death benefit corridors provided by the policy. The guaranteed maturity premium may be less than the premium necessary to pay all charges.

(d) The guaranteed maturity premium, the guaranteed maturity fund, and "B" shall be recalculated to reflect any structural changes in the policy. This recalculation shall be done in a manner consistent with this section.

(e) The recomputation of "B", for fixed premium universal life structural changes, shall exclude from "PVFB", the present value of future guaranteed benefits, those guaranteed benefits that are funded by the excess of the insurer's declared guarantees of interest, mortality and expenses, over the guarantees contained in the policy at the date of issue.

(f) Future guaranteed benefits shall be determined by both of the following:

(*i*) Projecting the greater of the guaranteed maturity fund and the policy value, taking into account future guaranteed maturity premiums, if any, and using all guarantees of interest, mortality, expense deductions, etc., contained in the policy or declared by the insurer.

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

(g) To the extent that the insurer declares guarantees more favorable than the contractual guarantees in the policy, the declared guarantees shall be applicable to the determination of future guaranteed benefits.

(h) All present values shall be determined using all of the following:

(*i*) An interest rate or rates specified in section 834(1) for policies issued in the same year.

(*ii*) The mortality rates specified in section 834(1) for policies issued in the same year or contained in such other table as may be approved by the commissioner for this purpose.

(*iii*) Any other tables needed to value supplementary benefits provided by a rider that is being valued together with the policy.

(i) The mortality and interest bases for calculating present values are the minimum standards specified in section 834(1).

(j) If, in any policy year, the guaranteed maturity premium on any universal life insurance policy is less than the valuation net premium for the policy, calculated by the valuation method actually used in calculating the reserve thereon but using the minimum valuation standards of mortality and rate of interest, the minimum reserve required for the contract shall be the greater of the following:

(*i*) The reserve calculated according to the method, the mortality table, and the rate of interest actually used.

(*ii*) The reserve calculated according to the method actually used but using the minimum valuation standards of mortality and rate of interest and replacing the valuation net premium by the guaranteed maturity premium in each policy year for which the valuation net premium exceeds the guaranteed maturity premium.

(k) For universal life insurance reserves on a net level premium basis, the valuation net premium is $\frac{PVFB}{a_x}$ and for reserves on a commissioner's reserve valuation method, the valuation net premium is $\frac{PVFB}{a_x} + \frac{(g)-(h)}{a_x}$.

Sec. 2010. It is an unfair method of competition and an unfair or deceptive act or practice in the business of insurance for a malpractice insurer to refuse to offer insurance to a health care provider or hospital on the grounds that the health care provider or hospital has entered or intends to enter into valid written agreements with patients or prospective patients for the arbitration of cases or controversies arising out of the professional or business relationships between a patient and the health care provider or hospital.

Sec. 2226. (1) A life insurer shall not make with or issue to any citizen or resident of this state any contract of life insurance that does not distinctly state the amount of the life benefits, the manner of payment, the period of the continuance, and the amount of the annual, semi-annual, or quarterly premium, or by which the payment of the life benefit assured shall be contingent upon the payment of assessments made upon surviving members and shall be made in accordance with the statutes now or hereafter regulating the business of life insurance. For a universal or variable life insurance contract, the insurer shall clearly and specifically state the amount of benefits or manner in which the benefits are calculated.

(2) Every policy of life insurance hereafter issued or delivered within this state by any life insurer doing business within this state shall contain the entire contract between the parties and nothing shall be incorporated therein by reference to any constitution, bylaws, rules, application, or other writing unless the same are endorsed upon or attached to the policy when issued.

(3) For standard provisions required in life insurance contracts see chapters 40, 42, and 44.

Sec. 2236a. All of the following information shall be maintained on file by the insurer for all interest indexed universal life insurance policies:

(a) A description of how the interest credits are determined, including all of the following:

(*i*) A description of the index.

(*ii*) The relationship between the value of the index and the actual interest rate to be credited.

(*iii*) The frequency and timing that determines the interest rate.

(*iv*) If more than 1 rate of interest applies to different portions of the policy value, the allocation of interest credits.

(b) The insurer's investment policy, which shall include a description of all of the following:

(*i*) How the insurer addresses the reinvestment risks.

(*ii*) How the insurer plans to address the risk of capital loss on cash outflows.

(*iii*) How the insurer plans to address the risk that appropriate investments may not be available or not available in sufficient quantities.

(*iv*) How the insurer plans to address the risk that the indexed interest rate may fall below the minimum contractual interest rate guaranteed in the policy.

(*v*) The amount and type of assets currently held for interest indexed policies.

(*vi*) The amount and type of assets expected to be acquired in the future.

(c) If a policy is linked to an index for a specified period less than the maturity date of the policy, a description of the method to be used to determine interest credits upon the expiration of the period.

(d) A description of any interest guarantee in addition to or in lieu of the index.

(e) A description of any maximum premium limitations and the conditions under which they apply.

Sec. 3057. (1) There is created within the bureau an arbitration administration fund. Except as provided in subsection (5), the arbitration administration fund shall be annually funded by order of the commissioner in such amount as shall be sufficient to defray the actual expenses of the advisory committee and the administrative expense of the projected number of arbitration proceedings for that year.

(2) The administrative expense shall include the amount that would otherwise be payable by a claimant as a party to a proceeding together with the costs of arbitrators.

(3) The administrative expense may also include a provision for a consulting contract with the American arbitration association or similar agency for a limited and reasonable amount of technical and organizational advice and consultation in the implementation of this chapter.

(4) For the privilege of doing business in this state every insurer offering malpractice insurance to a hospital or health care provider in this state shall remit to the arbitration administration fund the amount designated by the

commissioner pursuant to this section. The commissioner shall allocate a projected cost among malpractice insurers on a pro rata basis according to premium volume and such other relevant factors as the commissioner may designate by rule.

(5) Any money remaining in the arbitration administration fund as of September 30, 1994 shall be carried forward for use in the fiscal year beginning October 1, 1994. For the fiscal year beginning October 1, 1994, the commissioner shall not assess pursuant to this section against insurers offering malpractice insurance to hospitals or health care providers in this state an amount that together with the amount remaining in the arbitration administration fund as of September 30, 1994 will exceed $250,000.00. Assessments made after October 1, 1994 shall be made on a quarterly basis and shall be assessed against only those insurers that annually write $1,000,000.00 or more in medical malpractice premiums. If the commissioner finds that there are insufficient funds to meet the requirements of this subsection, the commissioner shall make his or her finding in writing and, after notice to and an opportunity for comment by the assessed insurers, the commissioner may make a supplemental assessment in an amount equal to the amount necessary to meet the requirements of this subsection. The amount assessed under this subsection and money in the arbitration administration fund shall be used solely for the actual costs of administering arbitration proceedings under this chapter. Any supplemental assessment finding by the commissioner under this subsection is directly appealable to the circuit court for Ingham county.

Sec. 4001. As used in this chapter, the following definitions apply only to universal life insurance:

(a) "Cash surrender value" means the net cash surrender value plus any amounts outstanding as policy loans.

(b) "Fixed premium universal life insurance policy" means a universal life insurance policy other than a flexible premium universal life insurance policy.

(c) "Flexible premium universal life insurance policy" means a universal life insurance policy that permits the policyowner to vary, independently of each other, the amount or timing of 1 or more premium payments or the amount of insurance.

(d) "Interest-indexed universal life insurance policy" means any universal life insurance policy where the interest credits are linked to an external referent.

(e) "Net cash surrender value" means the maximum amount payable to the policyowner upon surrender.

(f) "Policy value" means the amount to which separately identified interest credits and mortality, expense, or other charges are made under a universal life insurance policy.

(g) "Universal life insurance" means any individual or group life insurance policy under the policy provisions of which separately identified interest credits, other than in connection with dividend accumulations, premium deposit funds, or other supplementary accounts, and mortality and expense charges are made to the policy. A universal life insurance policy may provide for other credits and charges, such as charges for the cost of benefits provided by rider.

Sec. 4012. Each life insurance policy shall contain the following provisions:

(a) A grace period of 1 month for the payment of every premium after the first year, which may be subject to an interest charge, during which month the insurance shall continue in force and which provision may contain a stipulation that if the insured dies during the month of the grace period, the overdue premium will be deducted in any settlement under the policy. For a flexible premium universal life insurance policy, an insurer may instead provide for a grace period of at least 1 month after lapse with lapse occurring on that date on which the net cash surrender value first equals zero or as otherwise defined in the policy.

(b) That written notice shall be sent by the insurer to the policyowner's last known address at least 30 days prior to termination of coverage.

Sec. 4018. Each life insurance policy shall contain a provision that if there is a misstatement as to the age or sex of the insured in the policy, the amount payable or the death benefit under the policy shall be that which would be purchased by the most recent mortality charge or premium at the correct age or sex.

Sec. 4024. Each life insurance policy shall contain a provision for nonforfeiture benefits and cash surrender values in accordance with the requirements of section 4058, 4060, or 4061.

Sec. 4026. Except for universal life insurance policies, each life insurance policy shall contain a table showing in figures the loan values and the options available under the policies each year upon default in premium payments during at least the first 20 years of the policy. Universal life insurance policies shall clearly describe and illustrate calculations used to determine loan values and the options available under the policies upon default in premium payments.

Sec. 4037. Each universal life insurance policy shall contain all of the following provisions:

(a) That the insurer will send to the policyholder without charge at least annually a report advising the policyholder as to the policy status. The end of the current report period shall be not more than 3 months prior to the date of the mailing of the report. The report shall include all of the following:

(*i*) The beginning and end of the current report period.

(*ii*) The policy value at the end of the previous report period and at the end of the current report period.

(*iii*) The total of all amounts, identifying each by type such as interest, mortality, expense, and riders, that have been credited or debited to the policy value during the current report period.

(*iv*) The current death benefit at the end of the current report period on each life covered by the policy.

(*v*) The net cash surrender value of the policy as of the end of the current report period.

(*vi*) The amount of outstanding loans, if any, as of the end of the current report period.

(*vii*) For fixed premium universal life insurance policies, if, assuming guaranteed interest, mortality, and expense loads and continued scheduled premium payments, the policy's net cash surrender value is such that it would not maintain insurance in force until the end of the next reporting period, a notice to this effect.

(*viii*) For flexible premium universal life insurance policies, if, assuming guaranteed interest, mortality, and expense loads, the policy's net cash surrender value will not maintain insurance in force until the end of the next reporting period unless further premium payments are made, a notice to this effect.

(b) An illustrative report that will be sent to the policyowner upon request. This report shall contain the same minimum requirements as those set forth in the universal life disclosure requirements in section 4038.

(c) Guarantees of minimum interest credits and maximum mortality and expense charges, all values and data shown in the policy are based on guarantees, figures based on nonguarantees are not included in the policy, minimum and maximum guarantees are in addition to any index guarantees, and if guaranteed credits or charges are also the current credits or charges, the amounts may be included in the policy if clearly labelled. The maturity date is not considered a guarantee for purposes of this section.

(d) At least a general description of the calculation of cash surrender values including all of the following information:

(*i*) The guaranteed maximum expense charges and loads.

(*ii*) Any limitation on the crediting of additional interest. Interest credits shall not remain conditional for a period longer than 12 months.

(*iii*) The guaranteed minimum rate or rates of interest.

(*iv*) The guaranteed maximum mortality charges.

(*v*) Any other guaranteed charges.

(*vi*) Any surrender or partial withdrawal charges.

(e) If the policyowner has the right to change the basic coverage, a statement of any limitation on the amount or timing of the change. If the policyowner has the right to increase the basic coverage, a statement as to whether a new period of contestability or suicide is applicable to the additional coverage.

(f) If a policy provides for a maturity date, end date, or similar date, then a statement, in close proximity to that date, that it is possible that coverage may not continue to the maturity date even if scheduled premiums are paid in a timely manner, if such is the case.

Sec. 4038. (1) As used in this section, "policy cost factors" means those amounts that affect the price per thousand of life insurance coverage or other benefits. They include interest, mortality, expense charges, and fees, including any surrender or withdrawal charges, but not persistency assumptions.

(2) Unless a statement of policy information is provided pursuant to subsection (3), for initial disclosure in connection with any advertising, solicitation, or negotiation of a universal life insurance policy all of the following are required:

(a) Any statement of policy cost factors or benefits shall contain all of the following:

(*i*) The corresponding guaranteed policy cost factors or benefits, clearly identified.

(*ii*) A statement explaining the nonguaranteed nature of any current interest rates, charges, or other fees applied to the policy, including the insurer's rights to alter any of these factors.

(*iii*) Any limitation on the crediting of interest, including identification of those portions of the policy to which a specified interest rate shall be credited.

(b) Any illustration of the policy value shall be accompanied by the corresponding net cash surrender value.

(c) Any statement regarding the crediting of a specific current interest rate shall also contain the frequency and timing by which that rate is determined.

(d) If any statement refers to the policy being interest-indexed, the index shall be described. In addition, a description shall be given of the frequency and timing of determining the interest rate and of any adjustments made to the index in arriving at the interest rate credited under the policy.

(e) Any illustrated benefits based upon nonguaranteed interest, mortality, or expense factors shall be accompanied by a statement indicating that these benefits are not guaranteed.

(f) If the guaranteed cost factors or initial policy cost factor assumptions would result in policy values becoming exhausted prior to the policy's maturity date, that fact shall be disclosed, including notice that coverage will terminate under such circumstances.

(3) At the time the agent takes an application for a policy, except as provided in subsection (4), the agent shall furnish to the applicant a statement of policy information for the applicant in a format approved by the commissioner. The illustration of policy premium, death benefit, and cash value shall be shown for the current interest rate actually being paid on existing policies in force and for the interest rate guaranteed in the policy. No interest rates other than these may be illustrated. The commissioner shall issue guidelines for the statement of policy information.

(4) If the policy information for the applicant is not furnished at the time of application, it shall be delivered within 15 working days after the application is taken, but at least 5 days before delivery of the policy.

(5) If the policy is delivered sooner than 5 days after the policy information for the applicant, the free-look period shall be extended to 15 days. If the statement of policy information for applicant is not delivered at the time of application, the disclosure shall be accompanied by a statement that it is delivered for the express purpose of allowing comparison with other policies.

(6) For direct response solicitation methods, the statement of policy information for the applicant in compliance with the guidelines may be furnished at the time of delivery of the policy, so long as the purchaser is given an unconditional refund provision of at least 10 days.

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

(2) For policies issued on and after the operative date of this section, as defined in subsection (10), a policy of life insurance, except as stated in subsection (9), shall not be delivered or issued for delivery in this state unless it contains in substance the following provisions, or corresponding provisions that in the opinion of the commissioner are at least as favorable to the defaulting or surrendering policyholder as are the minimum requirements specified in this subsection and are essentially in compliance with subsection (8):

(a) That in the event of default in a premium payment, the company will grant, upon proper request not later than 60 days after the due date of the premium in default, a paid-up nonforfeiture benefit on a plan stipulated in the policy, effective as of that due date, of an amount as specified in this section. In lieu of the stipulated paid-up nonforfeiture benefit, the company may substitute, upon proper request not later than 60 days after the due date of the premium in default, an actuarially equivalent alternative paid-up nonforfeiture benefit that provides a greater amount or longer period of death benefits or, if applicable, a greater amount or earlier payment of endowment benefits.

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

(c) That a specified paid-up nonforfeiture benefit shall become effective as specified in the policy unless the person entitled to make the election elects another available option not later than 60 days after the due date of the premium in default.

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

(e) That for policies that cause on a basis guaranteed in the policy unscheduled changes in benefits or premiums, or that provide an option for changes in benefits or premiums other than a change to a new policy, a statement of the mortality table, interest rate, and method used in calculating cash surrender values and the paid-up nonforfeiture benefits available under the policy. For all other policies, a statement of the mortality table and interest rate used in calculating the cash surrender values and the paid-up nonforfeiture benefits available under the policy, together with a table showing the cash surrender value, if any, and paid-up nonforfeiture benefit, if any, available under the policy on each policy anniversary either during the first 20 policy years or during the term of the policy, whichever is shorter. The values and benefits shall be calculated upon the assumption that there are no dividends or paid-up additions credited to the policy and that there is no indebtedness to the company on the policy.

(f) A statement that the cash surrender values and the paid-up nonforfeiture benefits available under the policy are not less than the minimum values and benefits required by or pursuant to the insurance law of the state in which the policy is delivered; an explanation of the manner in which the cash surrender values and the paid-up nonforfeiture benefits are altered by the existence of any paid-up additions credited to the policy or any indebtedness to the company on the policy; if a detailed statement of the method of computation of the values and benefits shown in the policy is not stated in the policy, a statement that the method of computation has been filed with the insurance supervisory official of the state in which the policy is delivered; and a statement of the method to be used in calculating the cash surrender value and paid-up nonforfeiture benefit available under the policy on any policy anniversary beyond the last anniversary for which the values and benefits are consecutively shown in the policy.

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

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

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

For any family policy issued on or after the operative date of paragraphs 9 to 19 of subsection (5) that defines a primary insured and provides term insurance on the life of the spouse of the primary insured expiring before the spouse's age 71, the cash surrender value shall be an amount not less than the sum of the cash surrender value for an otherwise similar policy issued at the same age without the term insurance on the life of the spouse and the cash surrender value for a policy that provides only the benefits otherwise provided by the term insurance on the life of the spouse.

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

(4) Any paid-up nonforfeiture benefit available under the policy in the event of default in a premium payment due on a policy anniversary shall be such that its present value as of the anniversary shall at least equal the cash surrender value then provided for by the policy or, if none is provided for, that cash surrender value that would have been required by this section in the absence of the condition that premiums shall have been paid for at least a specified period.

(5) Paragraphs 1 to 8 of this subsection shall not apply to policies issued on or after the operative date of paragraphs 9 to 19 as defined in paragraph 19. Except as provided in the third paragraph of this subsection, the adjusted premiums for a policy shall be calculated on an annual basis and shall be a uniform percentage of the respective premiums specified in the policy for each policy year, excluding any extra premiums charged because of impairments or special hazards, so that the present value, at the date of issue of the policy, of all the adjusted premiums equals the sum of (I) the then present value of the future guaranteed benefits provided for by the policy; (II) 2% of the amount of insurance, if the insurance is uniform in amount, or of the equivalent uniform amount, as hereinafter defined, if the amount of insurance varies with duration of the policy; (III) 40% of the adjusted premium for the first policy year; (IV) 25% of either the adjusted premium for the first policy year or the adjusted premium for a whole life policy of the same uniform or equivalent uniform amount with uniform premiums for the whole of life issued at the same age for the same amount of insurance, whichever is less. In applying the percentages specified in items (III) and (IV) above, an adjusted premium shall not be considered to exceed 4% of the amount of insurance or uniform amount equivalent thereto. The date of issue of a policy for the purpose of this subsection shall be the date as of which the rated age of the insured is determined.

In the case of a policy providing an amount of insurance varying with duration of the policy, the equivalent uniform amount of the policy for the purpose of this subsection shall be considered to be the uniform amount of insurance provided by an otherwise similar policy, containing the same endowment benefit or benefits, if any, issued at the same age and for the same term, the amount of which does not vary with duration and the benefits under which have the same present value at the date of issue as the benefits under the policy. However, in the case of a policy providing a varying amount of insurance issued on the life of a child under age 10, the equivalent uniform amount may be computed as though the amount of insurance provided by the policy before the attainment of age 10 were the amount provided by the policy at age 10.

The adjusted premiums for a policy providing term insurance benefits by rider or supplemental policy provision shall be equal to (a) the adjusted premiums for an otherwise similar policy issued at the same age without the term insurance benefits, increased, during the period for which premiums for the term insurance benefits are payable, by (b) the adjusted premiums for that term insurance. Items (a) and (b) shall be calculated separately and as specified in the first 2 paragraphs of this subsection. However, for the purposes of items (II), (III), and (IV) of the first paragraph of this subsection, the amount of insurance or equivalent uniform amount of insurance used in the calculation of the adjusted premiums referred to in (b) shall be equal to the excess of the corresponding amount determined for the entire policy over the amount used in the calculation of the adjusted premiums in (a).

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

For ordinary policies issued on or after the operative date of this paragraph, as defined in paragraph 6, all adjusted premiums and present values referred to in this section shall be calculated on the basis of the commissioners 1958 standard ordinary mortality table and the rate of interest specified in the policy for calculating cash surrender values and paid-up nonforfeiture benefits. However, the rate of interest shall not exceed 3-1/2% per annum, except that a rate of interest not exceeding 4% per annum may be used for policies issued on or after October 21, 1974, and before October 1, 1980, and a rate of interest not exceeding 5-1/2% per annum may be used for policies issued on or after October 1, 1980. For a category of ordinary insurance issued on female risks, adjusted premiums and present values may be calculated according to an age not more than 6 years younger than the actual age of the insured. In calculating the present value of a paid-up term insurance with accompanying pure endowment, if any, offered as a nonforfeiture benefit, the rates of mortality assumed may be not more than those shown in the commissioners 1958 extended term insurance table. For insurance issued on a substandard basis, the calculation of adjusted premiums and present values may be based on another table of mortality as specified by the company and approved by the commissioner.

After May 23, 1960, any company may file with the commissioner a written notice of its election to invoke the provisions of paragraph 5 after a specified date before January 1, 1966. After the filing of the notice, then on the specified date, that shall be the operative date for the company, paragraph 5 shall become operative with respect to the ordinary policies issued by the company and bearing a date of issue that is the same as or later than the specified date. If a company does not make an election, the operative date of paragraph 5 for the company shall be January 1, 1966.

For industrial policies issued on or after the operative date of this paragraph, as defined in paragraph 8, all adjusted premiums and present values referred to in this section shall be calculated on the basis of the commissioners 1961 standard industrial mortality table and the rate of interest specified in the policy for calculating cash surrender values and paid-up nonforfeiture benefits. However, the rate of interest shall not exceed 3-1/2% per annum, except that a rate of interest not exceeding 4% per annum may be used for policies issued on or after October 21, 1974, and before October 1, 1980, and a rate of interest not exceeding 5-1/2% per annum may be used for policies issued on or after October 1, 1980. In calculating the present value of paid-up term insurance with accompanying pure endowment, if any, offered as a nonforfeiture benefit, the rates of mortality assumed may be not more than those shown in the commissioners 1961 industrial extended term insurance table. For insurance issued on a substandard basis, the calculation of adjusted premiums and present values may be based on another table of mortality as specified by the company and approved by the commissioner.

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

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

The nonforfeiture net level premium shall be equal to the present value, at the date of issue of the policy, of the guaranteed benefits provided for by the policy divided by the present value, at the date of issue of the policy, of an annuity of 1 per annum payable on the date of issue of the policy and on each anniversary of the policy on which a premium falls due.

For policies that cause on a basis guaranteed in the policy unscheduled changes in benefits or premiums, or that provide an option for changes in benefits or premiums other than a change to a new policy, the adjusted premiums and present values initially shall be calculated on the assumption that future benefits and premiums will not change from those stipulated at the date of issue of the policy. At the time of a change in the benefits or premiums, the future adjusted premiums, nonforfeiture net level premiums, and present values shall be recalculated on the assumption that future benefits and premiums will not change from those stipulated by the policy immediately after the change.

Except as otherwise provided in paragraph 15 of this subsection, the recalculated future adjusted premiums shall be a uniform percentage of the respective future premiums specified in the policy for each policy year, excluding amounts payable as extra premiums to cover impairments and special hazards and excluding any uniform annual contract charge or policy fee specified in the policy in a statement of the method to be used in calculating the cash surrender values and paid-up nonforfeiture benefits, so that the present value, at the time of change to the newly defined benefits or premiums, of all such future adjusted premiums shall be equal to the excess of the sum of the then present value of the then future guaranteed benefits provided for by the policy and the additional expense allowance, if any, over the then cash surrender value, if any, or present value of any paid-up nonforfeiture benefit under the policy.

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

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

Notwithstanding any other provisions of this subsection to the contrary, for a policy issued on a substandard basis that provides reduced graded amounts of insurance so that, in each policy year, the policy has the same tabular mortality cost as an otherwise similar policy issued on the standard basis that provides higher uniform amounts of insurance, adjusted premiums and present values for the substandard policy may be calculated as if it were issued to provide the higher uniform amounts of insurance on the standard basis.

All adjusted premiums and present values referred to in this section for all policies of ordinary insurance shall be calculated on the basis of the commissioners 1980 standard ordinary mortality table or, at the election of the company for any 1 or more specified plans of life insurance, the commissioners 1980 standard ordinary mortality table with 10-year select mortality factors. All adjusted premiums and present values referred to in this section for all policies of industrial insurance shall be calculated on the basis of the commissioners 1961 standard industrial mortality table. All adjusted premiums and present values referred to in this section for all policies issued in a particular calendar year shall be calculated on the basis of a rate of interest not exceeding the nonforfeiture interest rate as defined in this subsection for policies issued in that calendar year. However:

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

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

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

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

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

(f) Any ordinary mortality tables, adopted after 1980 by the national association of insurance commissioners, that are approved by a rule promulgated by the commissioner for use in determining the minimum nonforfeiture standard may be substituted for the commissioners 1980 standard ordinary mortality table with or without 10-year select mortality factors or for the commissioners 1980 extended term insurance table.

(g) Any industrial mortality tables, adopted after 1980 by the national association of insurance commissioners, that are approved by a rule promulgated by the commissioner for use in determining the minimum nonforfeiture standard may be substituted for the commissioners 1961 standard industrial mortality table or the commissioners 1961 industrial extended term insurance table.

The nonforfeiture interest rate per annum for any policy issued in a particular calendar year shall be equal to 125% of the calendar year statutory valuation interest rate for such policy as defined in the standard valuation law, rounded to the nearest 0.25%.

Notwithstanding any other provision in this act to the contrary, any refiling of nonforfeiture values or their methods of computation for any previously approved policy form that involves only a change in the interest rate or mortality table used to compute nonforfeiture values shall not require refiling of any other provisions of that policy form.

After July 10, 1982, any company may file with the commissioner a written notice of its election to comply with paragraphs 9 to 19 of this subsection at a specified date before January 1, 1989, which shall be the operative date of those paragraphs for that company. If a company makes no election, the operative date of paragraphs 9 to 19 of this subsection for the company shall be January 1, 1989.

(6) For any plan of life insurance that provides for future premium determination, the amounts of which are to be determined by the insurance company based on then estimates of future experience, or for any plan of life insurance that is of such a nature that minimum values cannot be determined by the methods described in subsections (2) to (5):

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

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

(c) The cash surrender values and paid-up nonforfeiture benefits provided by the plan must not be less than the minimum values and benefits required for the plan computed by a method consistent with the principles of this section, as determined by rules promulgated by the commissioner.

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

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

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

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

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

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

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

(8) This subsection shall apply to all policies issued on or after January 1, 1986. Any cash surrender value available under the policy in the event of default in a premium payment due on any policy anniversary shall be in an amount that does not differ by more than 0.2% of either the amount of insurance, if the insurance is uniform in amount, or the average amount of insurance at the beginning of each of the first 10 policy years from the sum of (a) the greater of zero and the basic cash value as specified in this subsection and (b) the present value of any existing paid-up additions less the amount of any indebtedness to the company under the policy.

The basic cash value shall be equal to the present value on such anniversary of the future guaranteed benefits that would have been provided for by the policy, excluding any existing paid-up additions and before deduction of any indebtedness to the company, if there had been no default less the then present value of the nonforfeiture factors, as defined in this subsection, corresponding to premiums that would have fallen due on and after such anniversary. However, the effects on the basic cash value of supplemental life insurance or annuity benefits or of family coverage shall be the same as are the effects specified in subsection (3) or (5), whichever is applicable, on the cash surrender values.

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

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

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

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

All adjusted premiums and present values referred to in this subsection shall be calculated for a particular policy on the same mortality and interest bases as are used in demonstrating the policy's compliance with the other subsections of this section. The cash surrender values referred to in this subsection shall include any endowment benefits provided for by the policy.

Any cash surrender value available other than in the event of default in a premium payment due on a policy anniversary and the amount of any paid-up nonforfeiture benefit available under the policy in the event of default in a premium payment shall be determined in manners consistent with the manners specified for determining the analogous minimum amounts in subsections (2), (3), (4), and (7) and paragraphs 9 to 19 of subsection (5). The amounts of any cash surrender values and of any paid-up nonforfeiture benefits granted in connection with additional benefits such as those listed in subsection (7) shall conform with the principles of this subsection.

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

(a) Reinsurance.

(b) Group insurance.

(c) Pure endowment.

(d) Annuity or reversionary annuity contract.

(e) A term policy of uniform amount, which provides no guaranteed nonforfeiture or endowment benefits, or renewal thereof, of 20 years or less expiring before age 71, for which uniform premiums are payable during the entire term of the policy.

(f) A term policy of decreasing amount, which provides no guaranteed nonforfeiture or endowment benefits, on which each adjusted premium, calculated as specified in subsection (5), is less than the adjusted premium so calculated, on a term policy of uniform amount, or renewal thereof, which provides no guaranteed nonforfeiture or endowment benefits, issued at the same age and for the same initial amount of insurance and for a term of 20 years or less expiring before age 71, for which uniform premiums are payable during the entire term of the policy.

(g) A policy, which provides no guaranteed nonforfeiture or endowment benefits, for which no cash surrender value, if any, or present value of any paid-up nonforfeiture benefit, at the beginning of any policy year, calculated as specified in subsections (3) to (5), exceeds 2.5% of the amount of insurance at the beginning of the same policy year.

(h) A policy that shall be delivered outside this state through an agent or other representative of the company issuing the policy.

For purposes of determining the applicability of this section, the age at expiry for a joint term life insurance policy shall be the age at expiry of the oldest life.

(10) After July 30, 1943, a company may file with the commissioner a written notice of its election to comply with this section after a specified date before January 1, 1948. After the filing of the notice, then on the specified date, which shall be the operative date for the company, this section shall become operative with respect to the policies thereafter issued by the company. If a company does not make an election, the operative date of this section for the company shall be January 1, 1948.

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

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

(*i*) All accumulations shall be at the actual rate or rates of interest at which interest credits have been made unconditionally to the policy, or have been made conditionally, but for which the conditions have since been met. The minimum cash surrender value, before adjustment for indebtedness and dividend credits, available on a date as of which interest is credited to the policy shall be equal to the accumulation to that date of the premiums paid minus the accumulations to that date of all of the following minus any unamortized unused initial and additional expense allowances:

(A) The benefits charges.

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

(C) Actual administrative expense charges for other years.

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

(E) Any service charges actually made.

(F) Any deductions made for partial withdrawals.

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

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

(*iv*) Benefit charges shall include the charges made for mortality and any charges made for riders or supplementary benefits for which premiums are not paid separately. If benefit charges are substantially level by duration and develop low or no cash values, then the commissioner shall have the right to require higher cash values unless the insurer provides adequate justification that the cash values are appropriate in relation to the policy's other characteristics.

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

(*vi*) The unamortized unused initial expense allowance during the policy year beginning on the policy anniversary at age x+t, where "x" is the same issue age, shall be the unused initial expense allowance multiplied by $\frac{a_{x+t}}{a_x}$ where a_{x+t} and a_x are present values of an annuity of 1 per year payable on policy anniversaries beginning at ages x+t and x, respectively, and continuing until the highest attained age at which a premium may be paid under the policy, both on the mortality and interest bases guaranteed in the policy. An unamortized unused additional expense allowance shall be the unused additional expense allowance multiplied by a similar ratio of annuities, with a_x replaced by an annuity beginning on the date as of which the additional expense allowance was determined.

(b) As used in this subsection:

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

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

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

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

(*v*) "Initial expense allowance" means the allowance provided by items (*ii*), (*iii*), and (*iv*) of section 4060(5) paragraph 1 or by items (*ii*) and (*iii*) of section 4060(5) paragraph 9, as applicable, for a fixed premium, fixed benefit endowment policy with a face amount equal to the initial face amount of the flexible premium universal life insurance policy, with level premiums paid annually until the highest attained age at which a premium may be paid under the flexible premium universal life insurance policy, and maturing on the latest maturity date permitted under the policy, if any, otherwise at the highest age in the valuation mortality table.

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

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

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

(a) The minimum cash surrender values shall be determined separately for the basic policy and any benefits and riders for which premiums are paid separately. All of the following requirements pertain to a basic policy and any benefits and riders for which premiums are not paid separately:

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

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

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

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

(*iii*) All present values shall be determined using an interest rate or rates specified by section 4060 for policies issued in the same year and the mortality rates specified by section 4060 for policies issued in the same year or contained in such other table as approved by the commissioner for this purpose.

(b) As used in this subsection:

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

(*ii*) "B" means the present value of future adjusted premiums. The adjusted premiums are calculated as described in section 4060(5) paragraphs 1 to 6 and 9, as applicable. If section 4060(5) paragraph 9 is applicable, the nonforfeiture net level premium is equal to the quantity $\frac{PVFB}{a_x}$.

(*iii*) "C" means the present value of any quantities analogous to the nonforfeiture net level premium that arise because of guarantees declared by the insurer after the issue date of the policy. a_x shall be replaced by an annuity beginning on the date as of which the declaration became effective and payable until the end of the period covered by the declaration. The types of quantities included in "C" are increased current interest rate credits guaranteed for a future period, decreased current mortality rate charges guaranteed for a future period, or decreased current expense charges guaranteed for a future period.

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

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

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

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

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

(a) If a universal life insurance policy provides for the optional election of a paid-up nonforfeiture benefit, it shall be such that its present value shall be at least equal to the cash surrender value provided for by the policy on the effective date of the election. The present value shall be based on mortality and interest standards at least as favorable to the policyowner as 1 of the following:

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

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

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

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

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

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

Sec. 4430. (1) Except as otherwise provided in section 2236(8)(d), a policy of group life insurance shall not be issued or delivered in this state unless and until a copy of the form of the group life insurance has been filed with and approved by the commissioner.

(2) A policy of group life insurance shall not be issued or delivered unless it contains in substance the provisions of sections 4432 through 4442. A group universal life policy as defined in section 4001(g) shall not be issued or delivered unless it complies with the provisions of chapter 40.

Section 2. Sections 834, 2226, 4012, 4018, 4024, 4026, 4060, and 4430 of Act No. 218 of the Public Acts of 1956, as amended by this amendatory act, and sections 837, 2010, 2236a, 4001, 4037, 4038, and 4061 of Act No. 218 of the Public Acts of 1956, as added by this amendatory act, shall take effect October 1, 1994.

Section 3. (1) Section 3053 of Act No. 218 of the Public Acts of 1956, being section 500.3053 of the Michigan Compiled Laws, is repealed.

(2) Chapter 30a of Act No. 218 of the Public Acts of 1956, being sections 500.3051 to 500.3062 of the Michigan Compiled Laws, is repealed effective October 1, 1995.

This act is ordered to take immediate effect.

Secretary of the Senate.

Co-Clerk of the House of Representatives.

Approved ---

Governor.