



HOUSE BILL No. 5401

November 9, 1995, Introduced by Rep. Llewellyn and referred to the Committee on Insurance.

A bill to amend section 834 of Act No. 218 of the Public Acts of 1956, entitled as amended

"The insurance code of 1956,"

as amended by Act No. 443 of the Public Acts of 1994, being section 500.834 of the Michigan Compiled Laws.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1 Section 1. Section 834 of Act No. 218 of the Public Acts of
2 1956, as amended by Act No. 443 of the Public Acts of 1994, being
3 section 500.834 of the Michigan Compiled Laws, is amended to read
4 as follows:

5 Sec. 834. (1) Except as otherwise provided in sections 835,
6 836, and 837, the minimum standard for the valuation of policies
7 and contracts described in subsection (8) shall be the
8 commissioner's reserve valuation methods defined in subsections
9 (2), (3), and (6), 5% interest for group annuity and pure

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

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

1 4060(5), the commissioner's 1980 standard ordinary mortality
2 table or, at the election of the company for any 1 or more speci-
3 fied plans of life insurance, the commissioner's 1980 standard
4 ordinary mortality table with 10-year select mortality factors or
5 any ordinary mortality table adopted after 1980 by the national
6 association of insurance commissioners that is approved by a rule
7 promulgated by the commissioner for use in determining the mini-
8 mum standard of valuation for such policies.

9 (II) For all industrial life insurance policies issued on
10 the standard basis, excluding any disability and accidental death
11 benefits in these policies: the 1941 standard industrial mortal-
12 ity table for these policies issued before the operative date of
13 paragraph 7 of section 4060(5); and for these policies issued on
14 or after that operative date, the commissioner's 1961 standard
15 industrial mortality table or any industrial mortality table
16 adopted after 1980 by the national association of insurance com-
17 missioners that is approved by a rule promulgated by the commis-
18 sioner for use in determining the minimum standard of valuation
19 for such policies.

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

26 (IV) For group annuity and pure endowment contracts,
27 excluding any disability and accidental death benefits in these

1 policies: the group annuity mortality table for 1951, any
2 modification of that table approved by the commissioner, or, at
3 the option of the company, any of the tables or modifications of
4 tables specified for individual annuity and pure endowment
5 contracts.

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

23 (VI) For accidental death benefits in or supplementary to
24 policies: for policies issued on or after January 1, 1966, the
25 1959 accidental death benefits table or any accidental death ben-
26 efits table adopted after 1980 by the national association of
27 insurance commissioners that is approved by a rule promulgated by

1 the commissioner for use in determining the minimum standard of
2 valuation for such policies; for policies issued on or after
3 January 1, 1961, and before January 1, 1966, 1 of the above
4 tables or at the option of the insurer the intercompany double
5 indemnity mortality table. A table shall be combined with a mor-
6 tality table permitted for calculating the reserves for life
7 insurance policies.

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

11 (2) Except as otherwise provided in subsections (3) and (6),
12 reserves according to the commissioner's reserve valuation
13 method, for the life insurance and endowment benefits of policies
14 providing for a uniform amount of insurance and requiring the
15 payment of uniform premiums, shall be the excess, if any, of the
16 present value, at the date of valuation, of the future guaranteed
17 benefits provided for by these policies over the then present
18 value of any future modified net premiums for the policies. The
19 modified net premiums for such a policy shall be a uniform per-
20 centage of the respective contract premiums for the future guar-
21 anteed benefits so that the present value of all modified net
22 premiums equals, at the date of issue of the policy, the sum of
23 the then present value of these benefits provided for by the
24 policy and the excess of (g) over (h), as follows:

25 (g) A net level annual premium equal to the present value,
26 at the date of issue, of the future guaranteed benefits provided
27 for after the first policy year divided by the present value, at

1 the date of issue, of an annuity of 1 per annum payable on the
2 first and each subsequent anniversary of the policy on which a
3 premium falls due. However, the net level annual premium shall
4 not exceed the net level annual premium on the 19-year premium
5 whole life plan for insurance of the same amount at an age 1 year
6 higher than the age at issue of the policy.

7 (h) A net 1-year term premium for the future guaranteed ben-
8 efits provided for in the first policy year.

9 However, for any life insurance policy issued on or after
10 January 1, 1986 for which the contract premium in the first
11 policy year exceeds that of the second year and for which no com-
12 parable additional benefit is provided in the first year for that
13 excess and that provides an endowment benefit or a cash surrender
14 value or a combination of them in an amount greater than the
15 excess premium, the reserve according to the commissioner's
16 reserve valuation method as of any policy anniversary occurring
17 on or before the assumed ending date, defined as the first policy
18 anniversary on which the sum of any endowment benefit and any
19 cash surrender value then available is greater than the excess
20 premium, shall be, except as otherwise provided in subsection
21 (6), the greater of the reserve as of that policy anniversary
22 calculated as described in paragraph 1 of this subsection and the
23 reserve as of that policy anniversary calculated as described in
24 that paragraph, but with the value defined in (g) being reduced
25 by 15% of the amount of the excess first year premium; all
26 present values of benefits and premiums being determined without
27 reference to premiums or benefits provided for by the policy

1 after the assumed ending date; the policy being assumed to mature
2 on that date as an endowment; and the cash surrender value pro-
3 vided on that date being considered as an endowment benefit. In
4 making the above comparison, the mortality and interest bases
5 stated in subsection (1) and section 836 shall be used.

6 Reserves according to the commissioner's reserve valuation
7 method for (I) life insurance policies providing for a varying
8 amount of insurance or requiring the payment of varying premiums,
9 (II) group annuity and pure endowment contracts purchased under a
10 retirement plan or plan of deferred compensation, established or
11 maintained by an employer, including a partnership or sole pro-
12 prietorship, or by an employee organization, or by both, other
13 than a plan providing individual retirement accounts or individ-
14 ual retirement annuities under section 408 of the internal reve-
15 nue code, (III) disability and accidental death benefits in all
16 policies and contracts, and (IV) all other benefits, except life
17 insurance and endowment benefits in life insurance policies and
18 benefits provided by all other annuity and pure endowment con-
19 tracts, shall be calculated by a method consistent with the prin-
20 ciples of this subsection.

21 (3) This subsection applies to all annuity and pure endow-
22 ment contracts other than group annuity and pure endowment con-
23 tracts purchased under a retirement plan or plan of deferred com-
24 pensation, established or maintained by an employer, including a
25 partnership or sole proprietorship, or by an employee organiza-
26 tion, or by both, other than a plan providing individual
27 retirement accounts or individual retirement annuities under

1 section 408 of the internal revenue code. Reserves according to
2 the commissioner's annuity reserve method for benefits under
3 annuity or pure endowment contracts, excluding any disability and
4 accidental death benefits in these contracts, shall be the great-
5 est of the respective excesses of the present values, at the date
6 of valuation, of the future guaranteed benefits, including guar-
7 anteed nonforfeiture benefits, provided for by these contracts at
8 the end of each respective contract year, over the present value,
9 at the date of valuation, of any future valuation considerations
10 derived from future gross considerations, required by the terms
11 of the contract, that become payable before the end of that
12 respective contract year. The future guaranteed benefits shall
13 be determined by using the mortality table, if any, and the
14 interest rate specified in these contracts for determining guar-
15 anteed benefits. The valuation considerations are the portions
16 of the respective gross considerations applied under the terms of
17 these contracts to determine nonforfeiture values.

18 (4) An insurer's aggregate reserves for all life insurance
19 policies, excluding disability and accidental death benefits,
20 shall not be less than the aggregate reserves calculated in
21 accordance with the methods set forth in subsections (2), (3),
22 (6), and (7), and the mortality table or tables and rate or rates
23 of interest used in calculating nonforfeiture benefits for the
24 policies. The aggregate reserves for all policies, contracts,
25 and benefits shall not be less than the aggregate reserves deter-
26 mined by the qualified actuary to be necessary to render the
27 opinion required by section 830a.

1 (5) Reserves for all policies and contracts issued prior to
2 June 27, 1994 may be calculated, at the option of the insurer,
3 according to any standards that produce greater aggregate
4 reserves for all such policies and contracts than the minimum
5 reserves required by the laws in effect immediately before June
6 27, 1994. Reserves for a category of policies, contracts, or
7 benefits as established by the commissioner, issued on or after
8 June 27, 1994, may be calculated, at the option of the insurer,
9 according to any standards that produce greater aggregate
10 reserves than those calculated according to the minimum standard
11 provided in this act. However, the rate or rates of interest
12 used for policies and contracts, other than annuity and pure
13 endowment contracts, shall not be higher than the corresponding
14 rate or rates of interest used in calculating any nonforfeiture
15 benefits provided for in those policies and contracts. Any
16 insurer that had previously adopted any standard of valuation
17 producing greater aggregate reserves than those calculated
18 according to the minimum standard provided in this section and
19 section 835 may, with the commissioner's approval, adopt any
20 lower standard of valuation, but not lower than the minimum stan-
21 dard provided by this section and section 835. However, for the
22 purposes of this section, the holding of additional reserves pre-
23 viously determined by a qualified actuary to be necessary to
24 render the opinion required by section 830a shall not be consid-
25 ered to be the adoption of a higher standard of valuation.

26 (6) If in any contract year the gross premium charged by a
27 life insurer on a policy or contract is less than the valuation

1 net premium for the policy or contract calculated by the method
2 used in calculating the reserve thereon, ~~but for any policy or~~
3 ~~contract issued before January 1, 1996 at the option of the~~
4 insurer ~~using~~ MAY USE the minimum valuation standards of mor-
5 tality, either at the time of issue or the time of valuation of
6 such policy or contract and the minimum valuation rate of inter-
7 est at time of issue or the time of valuation of such policy or
8 contract, ~~and for any policy or contract issued on or after~~
9 ~~January 1, 1996 using the minimum valuation standards of mortal-~~
10 ~~ity and rates of interest,~~ the minimum reserve required for the
11 policy or contract shall be the greater of either the reserve
12 calculated according to the mortality table, rate of interest,
13 and method actually used for the policy or contract, or the
14 reserve calculated by the method actually used for the policy or
15 contract using the minimum valuation standards of mortality and
16 rate of interest and replacing the valuation net premium by the
17 actual gross premium in each contract year for which the valua-
18 tion net premium exceeds the actual gross premium. However, for
19 any policy or contract issued before January 1, ~~1996~~ 1985, for
20 which gross premiums vary by duration, including renewable term
21 plans where renewal premiums beyond the current term period are
22 guaranteed in the policy, the valuation net premiums shall be
23 calculated as a uniform percentage of all the respective gross
24 premiums or premiums guaranteed in the policy or contract. The
25 minimum valuation standards of mortality and rate of interest
26 referred to in this subsection are those standards stated in
27 subsection (1) and section 836. However, for any life insurance

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

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

26 (8) This section applies to only life insurance policies and
27 contracts issued on and after the operative date of section 4060,

1 the standard nonforfeiture law, except as otherwise provided in
2 sections 835 and 836 for group annuity and pure endowment con-
3 tracts issued on or after the operative date of section 4060 and
4 except as otherwise provided in section 837 for universal life
5 contracts.