

SENATE BILL 1433

A bill to amend 1956 PA 218, entitled
"The insurance code of 1956,"
by amending section 834 (MCL 500.834), as amended by 1995
PA 274.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1 Sec. 834. (1) Except as otherwise provided in sections 835,
2 836, and 837, the minimum standard for the valuation of policies
3 and contracts described in subsection (8) shall be the
4 commissioner's reserve valuation methods defined in subsections
5 (2), (3), and (6), 5% interest for group annuity and pure endow-
6 ment contracts, provided that prior notice of any revaluation of
7 reserves with respect to ~~these~~ group annuity and pure endowment
8 contracts is given to the commissioner in the same manner as is
9 required before a revaluation of reserves under section 832(2),
10 and 3-1/2% interest for all other of ~~these~~ THOSE policies and

1 contracts; or in the case of policies and contracts, other than
2 annuity and pure endowment contracts, issued on or after October
3 21, 1974, 4% interest for those policies issued before October 1,
4 1980, and 4-1/2% interest for those policies issued on or after
5 October 1, 1980, or in the case of life insurance contracts,
6 other than annuity and pure endowment contracts, issued after
7 December 31, 1994, 5-1/2% interest for single premium life insur-
8 ance policies and 4-1/2% interest for all other policies, and the
9 following tables:

10 (I) For all ordinary policies of life insurance issued on
11 the standard basis, excluding any disability and accidental death
12 benefits in ~~these~~ THOSE policies: the commissioner's 1941
13 standard ordinary mortality table, for ~~these~~ policies issued
14 before the operative date of paragraph 5 of section 4060(5); and
15 the commissioner's 1958 standard ordinary mortality table for
16 ~~these~~ policies issued on or after that operative date and
17 before the operative date of paragraphs 9 to 19 of section
18 4060(5). For any category of ~~these~~ THOSE policies issued on
19 female risks, all modified net premiums and present values
20 referred to in this section may be calculated according to an age
21 not more than 6 years younger than the actual age of the insured;
22 and, for ~~such~~ THOSE policies issued on or after the operative
23 date of paragraphs 9 to 19 of section 4060(5), the commissioner's
24 1980 standard ordinary mortality table or, at the election of the
25 company for any 1 or more specified plans of life insurance, the
26 commissioner's 1980 standard ordinary mortality table with
27 10-year select mortality factors or any ordinary mortality table

1 adopted after 1980 by the national association of insurance
2 commissioners that is approved by a rule promulgated by the com-
3 missioner for use in determining the minimum standard of valua-
4 tion for ~~such~~ THOSE policies.

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

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

22 (IV) For group annuity and pure endowment contracts, exclud-
23 ing any disability and accidental death benefits in ~~these~~ THOSE
24 policies: the group annuity mortality table for 1951, any modi-
25 fication of that table approved by the commissioner, or, at the
26 option of the company, any of the tables or modifications of

1 tables specified for individual annuity and pure endowment
2 contracts.

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

20 (VI) For accidental death benefits in or supplementary to
21 policies: for policies issued on or after January 1, 1966, the
22 1959 accidental death benefits table or any accidental death ben-
23 efits table adopted after 1980 by the national association of
24 insurance commissioners that is approved by a rule promulgated by
25 the commissioner for use in determining the minimum standard of
26 valuation for ~~such~~ THOSE policies; for policies issued on or
27 after January 1, 1961, and before January 1, 1966, 1 of the above

1 tables or at the option of the insurer the intercompany double
2 indemnity mortality table. A table shall be combined with a mor-
3 tality table permitted for calculating the reserves for life
4 insurance policies.

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

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

23 (g) A net level annual premium equal to the present value,
24 at the date of issue, of the future guaranteed benefits provided
25 for after the first policy year divided by the present value, at
26 the date of issue, of an annuity of 1 per annum payable on the
27 first and each subsequent anniversary of the policy on which a

1 premium falls due. However, the net level annual premium shall
2 not exceed the net level annual premium on the 19-year premium
3 whole life plan for insurance of the same amount at an age 1 year
4 higher than the age at issue of the policy.

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

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

1 and the cash surrender value provided on that date being
2 considered as an endowment benefit. In making the above compari-
3 son, the mortality and interest bases stated in subsection (1)
4 and section 836 shall be used.

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

20 (3) This subsection applies to all annuity and pure endow-
21 ment contracts other than group annuity and pure endowment con-
22 tracts purchased under a retirement plan or plan of deferred com-
23 pensation, established or maintained by an employer, including a
24 partnership or sole proprietorship, or by an employee organiza-
25 tion, or by both, other than a plan providing individual retire-
26 ment accounts or individual retirement annuities under section
27 408 of the internal revenue code. ~~Reserves~~ WITHOUT ACTION BY

1 THE MICHIGAN LEGISLATURE TO ADOPT ACTUARIAL GUIDELINE 35,
 2 RESERVES according to the commissioner's annuity reserve method
 3 for benefits under annuity or pure endowment contracts, excluding
 4 any disability and accidental death benefits in ~~these~~ THOSE
 5 contracts, shall be the greatest of the respective excesses of
 6 the present values, at the date of valuation, of the future guar-
 7 anteed benefits, including guaranteed nonforfeiture benefits,
 8 provided for by ~~these~~ THOSE contracts at the end of each
 9 respective contract year, over the present value, at the date of
 10 valuation, of any future valuation considerations derived from
 11 future gross considerations, required by the terms of the con-
 12 tract, that become payable before the end of that respective con-
 13 tract year. The future guaranteed benefits shall be determined
 14 by using the mortality table, if any, and the interest rate spec-
 15 ified in ~~these~~ THOSE contracts for determining guaranteed
 16 benefits. The valuation considerations are the portions of the
 17 respective gross considerations applied under the terms of
 18 ~~these~~ THE contracts to determine nonforfeiture values.

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

1 determined by the qualified actuary to be necessary to render the
2 opinion required by section 830a.

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

1 (6) If in any contract year the gross premium charged by a
2 life insurer on a policy or contract is less than the valuation
3 net premium for the policy or contract calculated by the method
4 used in calculating the reserve ~~thereon~~ ON THE POLICY OR
5 CONTRACT, the insurer may use the minimum valuation standards of
6 mortality, either at the time of issue or the time of valuation
7 of ~~such~~ THE policy or contract and the minimum valuation rate
8 of interest at time of issue or the time of valuation of ~~such~~
9 THE policy or contract, so long as the minimum reserve required
10 for the policy or contract is the greater of either the reserve
11 calculated according to the mortality table, rate of interest,
12 and method actually used for the policy or contract, or the
13 reserve calculated by the method actually used for the policy or
14 contract using the minimum valuation standards of mortality and
15 rate of interest and replacing the valuation net premium by the
16 actual gross premium in each contract year for which the valua-
17 tion net premium exceeds the actual gross premium. The minimum
18 valuation standards of mortality and rate of interest referred to
19 in this subsection are those standards stated in subsection (1)
20 and section 836. However, for any life insurance policy issued
21 on or after January 1, 1986 for which the gross premium in the
22 first policy year exceeds that of the second year and for which
23 no comparable additional benefit is provided in the first year
24 for that excess and ~~which~~ THAT provides an endowment benefit or
25 a cash surrender value or a combination ~~thereof~~ OF ENDOWMENT
26 BENEFIT AND CASH SURRENDER VALUE in an amount greater than the
27 excess premium, the provisions of this subsection shall be

1 applied as if the method actually used in calculating the reserve
2 for that policy were the method described in subsection (2),
3 ignoring paragraph 2 of that subsection. The minimum reserve at
4 each policy anniversary of ~~such a~~ THAT policy shall be the
5 greater of the minimum reserve calculated in accordance with sub-
6 section (2), including paragraph 2 of that subsection, and the
7 minimum reserve calculated in accordance with this subsection.

8 (7) ~~In the case of~~ FOR any plan of life insurance that
9 provides for future premium determination, the amounts of which
10 are to be determined by the insurance company based on then esti-
11 mates of future experience, or, in the case of any plan of life
12 insurance or annuity that is of such a nature that the minimum
13 reserves cannot be determined by the methods described in subsec-
14 tions (2), (3), and (6), the reserves that are held under those
15 plans must be appropriate in relation to the benefits and the
16 pattern of premiums for that plan and computed by a method that
17 is consistent with the principles of this standard valuation law,
18 as determined by rules promulgated by the commissioner.

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