

**SUBSTITUTE FOR  
HOUSE BILL NO. 5931**

A bill to amend 1956 PA 218, entitled  
"The insurance code of 1956,"  
by amending sections 834 and 4060 (MCL 500.834 and 500.4060),  
section 834 as amended by 2000 PA 378 and section 4060 as amended  
by 1993 PA 349, and by adding section 838.

**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  
6 endowment contracts, provided that prior notice of any  
7 revaluation of reserves with respect to group annuity and pure  
8 endowment contracts is given to the commissioner in the same  
9 manner as is required before a revaluation of reserves under

1 section 832(2), and 3-1/2% interest for all other of those  
2 policies and contracts; or in the case of policies and contracts,  
3 other than annuity and pure endowment contracts, issued on or  
4 after October 21, 1974, 4% interest for those policies issued  
5 before October 1, 1980, and 4-1/2% interest for those policies  
6 issued on or after October 1, 1980, or in the case of life  
7 insurance contracts, other than annuity and pure endowment  
8 contracts, issued after December 31, 1994, 5-1/2% interest for  
9 single premium life insurance policies and 4-1/2% interest for  
10 all other policies, and the following tables:

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

House Bill No. 5931 (H-1) as amended June 9, 2004

1 factors or any ordinary mortality table adopted after 1980 by the  
2 national association of insurance commissioners that is approved  
3 by a rule promulgated by the commissioner for use in determining  
4 the minimum standard of valuation for those policies **or the 2001 [CSO]**  
5 **mortality table under section 838.**

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

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

23 (IV) For group annuity and pure endowment contracts,  
24 excluding any disability and accidental death benefits in those  
25 policies: the group annuity mortality table for 1951, any  
26 modification of that table approved by the commissioner, or, at  
27 the 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  
4 supplementary 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 those policies; for policies or  
13 contracts issued on or after January 1, 1961, and before January  
14 1, 1966, either those tables or, at the option of the company,  
15 the class (3) disability table, 1926; and for policies issued  
16 before January 1, 1961, the class (3) disability table, 1926.  
17 For active lives, a table shall be combined with a mortality  
18 table permitted for calculating the reserves for life insurance  
19 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  
23 benefits 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 those policies; for policies issued on or after  
27 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  
3 mortality 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 those policies over the then present  
15 value of any future modified net premiums for the policies. The  
16 modified net premiums for the policy shall be a uniform  
17 percentage of the respective contract premiums for the future  
18 guaranteed benefits so that the present value of all modified net  
19 premiums equals, at the date of issue of the policy, the sum of  
20 the then present value of these benefits provided for by the  
21 policy and the excess of (g) over (h), as follows:

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

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

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

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

1 being considered as an endowment benefit. In making the above  
2 comparison, the mortality and interest bases stated in subsection  
3 (1) and section 836 shall be used.

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

19 (3) This subsection applies to all annuity and pure  
20 endowment contracts other than group annuity and pure endowment  
21 contracts purchased under a retirement plan or plan of deferred  
22 compensation, established or maintained by an employer, including  
23 a partnership or sole proprietorship, or by an employee  
24 organization, or by both, other than a plan providing individual  
25 retirement accounts or individual retirement annuities under  
26 section 408 of the internal revenue code, **26 USC 408**. Without  
27 action by the Michigan Legislature to adopt actuarial guideline

1 35, reserves according to the commissioner's annuity reserve  
2 method for benefits under annuity or pure endowment contracts,  
3 excluding any disability and accidental death benefits in those  
4 contracts, shall be the greatest of the respective excesses of  
5 the present values, at the date of valuation, of the future  
6 guaranteed benefits, including guaranteed nonforfeiture benefits,  
7 provided for by those contracts at the end of each respective  
8 contract year, over the present value, at the date of valuation,  
9 of any future valuation considerations derived from future gross  
10 considerations, required by the terms of the contract, that  
11 become payable before the end of that respective contract year.  
12 The future guaranteed benefits shall be determined by using the  
13 mortality table, if any, and the interest rate specified in those  
14 contracts for determining guaranteed benefits. The valuation  
15 considerations are the portions of the respective gross  
16 considerations applied under the terms of the contracts to  
17 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  
26 determined 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 those 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  
21 standard provided by this section and section 835. However, for  
22 the purposes of this section, the holding of additional reserves  
23 previously determined by a qualified actuary to be necessary to  
24 render the opinion required by section 830a shall not be  
25 considered 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 on the policy or contract, the  
3 insurer may use the minimum valuation standards of mortality,  
4 either at the time of issue or the time of valuation of the  
5 policy or contract and the minimum valuation rate of interest at  
6 time of issue or the time of valuation of the policy or contract,  
7 so long as the minimum reserve required for the policy or  
8 contract is the greater of either the reserve calculated  
9 according to the mortality table, rate of interest, and method  
10 actually used for the policy or contract, or the reserve  
11 calculated by the method actually used for the policy or contract  
12 using the minimum valuation standards of mortality and rate of  
13 interest and replacing the valuation net premium by the actual  
14 gross premium in each contract year for which the valuation net  
15 premium exceeds the actual gross premium. The minimum valuation  
16 standards of mortality and rate of interest referred to in this  
17 subsection are those standards stated in subsection (1) and  
18 section 836. However, for any life insurance policy issued on or  
19 after January 1, 1986 for which the gross premium in the first  
20 policy year exceeds that of the second year and for which no  
21 comparable additional benefit is provided in the first year for  
22 that excess and that provides an endowment benefit or a cash  
23 surrender value or a combination of endowment benefit and cash  
24 surrender value in an amount greater than the excess premium, the  
25 provisions of this subsection shall be applied as if the method  
26 actually used in calculating the reserve for that policy were the  
27 method described in subsection (2), ignoring paragraph 2 of that

1 subsection. The minimum reserve at each policy anniversary of  
2 that policy shall be the greater of the minimum reserve  
3 calculated in accordance with subsection (2), including paragraph  
4 2 of that subsection, and the minimum reserve calculated in  
5 accordance with this subsection.

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

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

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

25 (a) "2001 CSO mortality table" means that mortality table,  
26 consisting of separate rates of mortality for male and female  
27 lives, developed by the American academy of actuaries CSO task

House Bill No. 5931 (H-1) as amended June 9, 2004

1 force from the valuation basic mortality table developed by the  
2 society of actuaries individual life insurance valuation  
3 mortality task force and adopted by the NAIC in December 2002.  
4 Unless the context indicates otherwise, the 2001 CSO mortality  
5 table includes both the ultimate form of that table and the  
6 select and ultimate form of that table and includes both the  
7 smoker and nonsmoker mortality tables and the composite mortality  
8 tables. It also includes both the age-nearest-birthday and  
9 age-last-birthday bases of the mortality tables.

10 (b) "2001 CSO mortality table (F)" means that mortality table  
11 consisting of the rates of mortality for female lives from the  
12 2001 CSO mortality table.

13 (c) "2001 CSO mortality table (M)" means that mortality table  
14 consisting of the rates of mortality for male lives from the 2001  
15 CSO mortality table.

16 (d) "Composite mortality tables" means mortality tables with  
17 rates of mortality that do not distinguish between smokers and  
18 nonsmokers.

19 (e) "NAIC" means the national association of insurance  
20 commissioners.

21 (f) "Smoker and nonsmoker mortality tables" means mortality  
22 tables with separate rates of mortality for smokers and  
23 nonsmokers.

24 (2) In addition to the other requirements of this act, a life  
25 insurer shall use appendix A-830 of the NAIC accounting practices  
26 and procedures manual for the valuation of life insurance  
27 policies. Any supplements[, replacements,] or changes to appendix A-830  
of the

House Bill No. 5931 (H-1) as amended June 9, 2004  
as amended June 29, 2004

1 NAIC accounting practices and procedures manual that are adopted  
2 by the NAIC shall [only take effect if] adopted by the commissioner by  
rules  
3 promulgated pursuant to the administrative procedures act of  
4 1969, 1969 PA 306, MCL 24.201 to 24.328. This section does not  
5 expand the applicability of appendix A-830 of the NAIC accounting  
6 practices and procedures manual to include life insurance  
7 policies [otherwise exempt under ] appendix A-830 of the NAIC  
8 accounting practices and procedures manual.

9 (3) At the election of an insurer for each plan of insurance  
10 and subject to this section, the 2001 CSO mortality table may be  
11 used as the minimum standard for policies issued on or after  
12 <<July 1, 2004>> and before January 1, 2009 to which sections  
13 834(1)(I) and 4060(5)(f) are applicable. If an insurer elects to  
14 use the 2001 CSO mortality table, it shall do so for both  
15 valuation and nonforfeiture purposes. Subject to this section,  
16 the 2001 CSO mortality table shall be used in determining minimum  
17 standards for policies issued on or after January 1, 2009 to  
18 which sections 834(1)(I) and 4060(5)(f) are applicable.

19 (4) For plans of insurance without separate rates for smokers  
20 and nonsmokers, the composite mortality tables shall be used.  
21 For each plan of insurance with separate rates for smokers and  
22 nonsmokers, an insurer may use any of the following:

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

26 (b) Smoker and nonsmoker mortality tables to determine the  
27 valuation net premiums and additional minimum reserves, if any,

## House Bill No. 5931 (H-1) as amended June 9, 2004

1 required by section 834 and composite mortality tables to  
2 determine the basic minimum reserve liabilities, minimum cash  
3 surrender values, and amounts of paid-up nonforfeiture benefits.

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

7 (5) An insurer may, at the option of the insurer for each  
8 plan of insurance, use the 2001 CSO mortality table in its  
9 ultimate or select and ultimate form for the purpose of  
10 determining minimum reserve liabilities, minimum cash surrender  
11 values, and amounts of paid-up nonforfeiture benefits for each  
12 plan of insurance.

13 (6) If the 2001 CSO mortality table is the minimum reserve  
14 standard for any plan for an insurer, the actuarial opinion in  
15 the annual statement filed with the commissioner shall be  
16 completed pursuant to section 830a. An insurer that does  
17 business in this state and in no other state may be exempted from  
18 this subsection by the commissioner.

19 [(7) In valuing life insurance policies pursuant to appendix  
20 A-830 of the NAIC accounting practices and procedures manual, all of the  
21 following apply:]

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

26 (b) All calculations under the contract segmentation method  
27 are made using the 2001 CSO mortality rate, and, if elected, the

1 optional minimum mortality standard for deficiency reserves. The  
2 value of " $q_{x+k+t-1}$ " is the valuation mortality rate for  
3 deficiency reserves in policy year  $k+t$ , but using the unmodified  
4 select mortality rates if modified select mortality rates are  
5 used in the computation of deficiency reserves.

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

9 (d) For purposes of general calculation requirements for basic  
10 reserves and premium deficiency reserves, the 2001 CSO mortality  
11 table is the minimum standard for deficiency reserves. If select  
12 mortality rates are used, they may be multiplied by X percent for  
13 durations in the first segment, subject to the conditions set  
14 forth in appendix A-830 of the NAIC accounting practices and  
15 procedures manual. In demonstrating compliance with those  
16 conditions, the demonstrations may not combine the results of  
17 tests that utilize the 1980 CSO mortality table with those tests  
18 that utilize the 2001 CSO mortality table, unless the combination  
19 is explicitly required by regulation or is necessary to be in  
20 compliance with relevant actuarial standards of practice.

21 (e) When determining minimum value for policies with  
22 guaranteed nonlevel gross premiums or guaranteed nonlevel  
23 benefits, other than universal life policies, the valuation  
24 mortality table used in determining the tabular cost of insurance  
25 shall be the ultimate mortality rates in the 2001 CSO mortality  
26 table.

27 (f) When determining the optional exemption for yearly

House Bill No. 5931 as amended June 29, 2004

1 renewable term reinsurance for policies with guaranteed nonlevel  
2 gross premiums or guaranteed nonlevel benefits, other than  
3 universal life policies, the calculations shall use the maximum  
4 valuation interest rate and the ultimate mortality rates in the  
5 2001 CSO mortality table.

6 (g) When determining the optional exemption for  
7 attained-age-based yearly renewable term life insurance policies  
8 with guaranteed nonlevel gross premiums or guaranteed nonlevel  
9 benefits, other than universal life policies, the calculations  
10 shall use the maximum valuation interest rate and the ultimate  
11 mortality rates in the 2001 CSO mortality table.

12 (h) When determining the exemption from unitary reserves for  
13 certain n-year renewable term life insurance policies with  
14 guaranteed nonlevel gross premiums or guaranteed nonlevel  
15 benefits, other than universal life policies, the calculations  
16 shall use the ultimate mortality rates in the 2001 CSO mortality  
17 table.

18 (i) For flexible premium and fixed premium universal life  
19 insurance policies that contain provisions resulting in the  
20 ability of a policyowner to keep a policy in force over a  
21 secondary guarantee period, the 1-year valuation premium for  
22 purposes of identifying policies with a secondary guarantee shall  
23 be calculated using the ultimate mortality rates in the 2001 CSO  
24 mortality table.

25 (8) For any ordinary life insurance policy delivered or  
26 issued for delivery in this state on or after <<July 1, 2004>>  
27 that uses the same premium rates and charges for male and female

1 lives or is issued in circumstances where applicable law does not  
2 permit distinctions on the basis of gender, a mortality table  
3 that is a blend of the 2001 CSO mortality table (M) and the 2001  
4 CSO mortality table (F) may, at the option of the insurer for  
5 each plan of insurance, be substituted for the 2001 CSO mortality  
6 table for use in determining minimum cash surrender value and  
7 amounts of paid-up nonforfeiture benefits. No change in minimum  
8 valuation standards is implied by this subsection.

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

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

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

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

1 essentially in compliance with subsection (8):

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

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

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

25       (d) That if the policy has become paid up by completion of  
26 all premium payments or if it is continued under any paid-up  
27 nonforfeiture benefit which became effective on or after the

1 third policy anniversary in the case of ordinary insurance or the  
2 fifth policy anniversary in the case of industrial insurance, the  
3 company will pay, upon surrender of the policy within 30 days  
4 after any policy anniversary, a cash surrender value of an amount  
5 specified in this section.

6 (e) That for policies that cause on a basis guaranteed in the  
7 policy unscheduled changes in benefits or premiums, or that  
8 provide an option for changes in benefits or premiums other than  
9 a change to a new policy, a statement of the mortality table,  
10 interest rate, and method used in calculating cash surrender  
11 values and the paid-up nonforfeiture benefits available under the  
12 policy.

13 For all other policies, a statement of the mortality table  
14 and interest rate used in calculating the cash surrender values  
15 and the paid-up nonforfeiture benefits available under the  
16 policy, together with a table showing the cash surrender value,  
17 if any, and paid-up nonforfeiture benefit, if any, available  
18 under the policy on each policy anniversary either during the  
19 first 20 policy years or during the term of the policy, whichever  
20 is shorter. The values and benefits shall be calculated upon the  
21 assumption that there are no dividends or paid-up additions  
22 credited to the policy and that there is no indebtedness to the  
23 company on the policy.

24 (f) A statement that the cash surrender values and the  
25 paid-up nonforfeiture benefits available under the policy are not  
26 less than the minimum values and benefits required by or pursuant  
27 to the insurance law of the state in which the policy is

1 delivered; an explanation of the manner in which the cash  
2 surrender values and the paid-up nonforfeiture benefits are  
3 altered by the existence of any paid-up additions credited to the  
4 policy or any indebtedness to the company on the policy; if a  
5 detailed statement of the method of computation of the values and  
6 benefits shown in the policy is not stated in the policy, a  
7 statement that the method of computation has been filed with the  
8 insurance supervisory official of the state in which the policy  
9 is delivered; and a statement of the method to be used in  
10 calculating the cash surrender value and paid-up nonforfeiture  
11 benefit available under the policy on any policy anniversary  
12 beyond the last anniversary for which the values and benefits are  
13 consecutively shown in the policy.

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

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

20 (3) Any cash surrender value available under the policy in  
21 the event of default in a premium payment due on any policy  
22 anniversary, whether or not required by subsection (2), shall be  
23 an amount not less than the excess, if any, of the present value,  
24 on the anniversary, of the future guaranteed benefits that would  
25 have been provided for by the policy, including any existing  
26 paid-up additions, if there had been no default, over the sum of  
27 the then present value of the adjusted premiums as defined in

1 subsection (5), corresponding to premiums that would have fallen  
2 due on and after the anniversary, and the amount of any  
3 indebtedness to the company on the policy. However, for any  
4 policy issued on or after the operative date of paragraphs 9 to  
5 19 of subsection (5) that provides supplemental life insurance or  
6 annuity benefits at the option of the insured and for an  
7 identifiable additional premium by rider or supplemental policy  
8 provision, the cash surrender value shall be an amount not less  
9 than the sum of the cash surrender value for an otherwise similar  
10 policy issued at the same age without the rider or supplemental  
11 policy provision and the cash surrender value for a policy that  
12 provides only the benefits otherwise provided by the rider or  
13 supplemental policy provision.

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

24 Any cash surrender value available within 30 days after a  
25 policy anniversary under a policy paid up by completion of all  
26 premium payments or a policy continued under a paid-up  
27 nonforfeiture benefit, whether or not required by subsection (2),

1 shall be an amount not less than the present value, on the  
2 anniversary, of the future guaranteed benefits provided for by  
3 the policy, including any existing paid-up additions, decreased  
4 by any indebtedness to the company on the policy.

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

13 (5) Paragraphs 1 to 8 of this subsection shall not apply to  
14 policies issued on or after the operative date of paragraphs 9 to  
15 19 as defined in paragraph 19. Except as provided in the third  
16 paragraph of this subsection, the adjusted premiums for a policy  
17 shall be calculated on an annual basis and shall be a uniform  
18 percentage of the respective premiums specified in the policy for  
19 each policy year, excluding any extra premiums charged because of  
20 impairments or special hazards, so that the present value, at the  
21 date of issue of the policy, of all the adjusted premiums equals  
22 the sum of (I) the then present value of the future guaranteed  
23 benefits provided for by the policy; (II) 2% of the amount of  
24 insurance, if the insurance is uniform in amount, or of the  
25 equivalent uniform amount, as hereinafter defined, if the amount  
26 of insurance varies with duration of the policy; (III) 40% of the  
27 adjusted premium for the first policy year; (IV) 25% of either

1 the adjusted premium for the first policy year or the adjusted  
2 premium for a whole life policy of the same uniform or equivalent  
3 uniform amount with uniform premiums for the whole of life issued  
4 at the same age for the same amount of insurance, whichever is  
5 less. In applying the percentages specified in items (III) and  
6 (IV) above, an adjusted premium shall not be considered to exceed  
7 4% of the amount of insurance or uniform amount equivalent  
8 thereto. The date of issue of a policy for the purpose of this  
9 subsection shall be the date as of which the rated age of the  
10 insured is determined.

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

25 The adjusted premiums for a policy providing term insurance  
26 benefits by rider or supplemental policy provision shall be equal  
27 to (a) the adjusted premiums for an otherwise similar policy

1 issued at the same age without the term insurance benefits,  
2 increased, during the period for which premiums for the term  
3 insurance benefits are payable, by (b) the adjusted premiums for  
4 that term insurance. Items (a) and (b) shall be calculated  
5 separately and as specified in the first 2 paragraphs of this  
6 subsection. However, for the purposes of items (II), (III), and  
7 (IV) of the first paragraph of this subsection, the amount of  
8 insurance or equivalent uniform amount of insurance used in the  
9 calculation of the adjusted premiums referred to in (b) shall be  
10 equal to the excess of the corresponding amount determined for  
11 the entire policy over the amount used in the calculation of the  
12 adjusted premiums in (a).

13       Except as otherwise provided in paragraph 5 of this  
14 subsection, for all policies of ordinary insurance, all adjusted  
15 premiums and present values referred to in this section shall be  
16 calculated on the basis of the commissioners 1941 standard  
17 ordinary mortality table. For a category of ordinary insurance  
18 issued on female risks, adjusted premiums and present values may  
19 be calculated according to an age not more than 3 years younger  
20 than the actual age of the insured. Except as otherwise provided  
21 in paragraph 7 of this subsection, the calculations for all  
22 policies of industrial insurance shall be made on the basis of  
23 the 1941 standard industrial mortality table. All calculations  
24 shall be made on the basis of the rate of interest, not exceeding  
25 3-1/2% per annum, specified in the policy for calculating cash  
26 surrender values and paid-up nonforfeiture benefits. In  
27 calculating the present value of any paid-up term insurance with

1 accompanying pure endowment, if any, offered as a nonforfeiture  
2 benefit, the rates of mortality assumed may be not more than 130%  
3 of the rates of mortality according to the applicable table. For  
4 insurance issued on a substandard basis, the calculation of  
5 adjusted premiums and present values may be based on another  
6 table of mortality as specified by the company and approved by  
7 the commissioner.

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

1 adjusted premiums and present values may be based on another  
2 table of mortality as specified by the company and approved by  
3 the commissioner.

4 After May 23, 1960, any company may file with the  
5 commissioner a written notice of its election to invoke the  
6 provisions of paragraph 5 after a specified date before January  
7 1, 1966. After the filing of the notice, then on the specified  
8 date, that shall be the operative date for the company, paragraph  
9 5 shall become operative with respect to the ordinary policies  
10 issued by the company and bearing a date of issue that is the  
11 same as or later than the specified date. If a company does not  
12 make an election, the operative date of paragraph 5 for the  
13 company shall be January 1, 1966.

14 For industrial policies issued on or after the operative date  
15 of this paragraph, as defined in paragraph 8, all adjusted  
16 premiums and present values referred to in this section shall be  
17 calculated on the basis of the commissioners 1961 standard  
18 industrial mortality table and the rate of interest specified in  
19 the policy for calculating cash surrender values and paid-up  
20 nonforfeiture benefits. However, the rate of interest shall not  
21 exceed 3-1/2% per annum, except that a rate of interest not  
22 exceeding 4% per annum may be used for policies issued on or  
23 after October 21, 1974, and before October 1, 1980, and a rate of  
24 interest not exceeding 5-1/2% per annum may be used for policies  
25 issued on or after October 1, 1980. In calculating the present  
26 value of paid-up term insurance with accompanying pure endowment,  
27 if any, offered as a nonforfeiture benefit, the rates of

1 mortality assumed may be not more than those shown in the  
2 commissioners 1961 industrial extended term insurance table. For  
3 insurance issued on a substandard basis, the calculation of  
4 adjusted premiums and present values may be based on another  
5 table of mortality as specified by the company and approved by  
6 the commissioner.

7 After May 23, 1969, a company may file with the commissioner  
8 a written notice of its election to invoke the provisions of  
9 paragraph 7 after a specified date before January 1, 1968. After  
10 the filing of the notice, then on the specified date, which shall  
11 be the operative date for the company, paragraph 7 shall become  
12 operative with respect to the industrial policies issued by the  
13 company and that bear a date of issue the same as or later than  
14 the specified date. If a company does not make an election, the  
15 operative date of paragraph 7 for the company shall be January 1,  
16 1968.

17 Paragraphs 9 to 19 shall apply to all policies issued on or  
18 after the operative date of those paragraphs as defined in  
19 paragraph 19. Except as provided in paragraph 15, the adjusted  
20 premiums for any policy shall be calculated on an annual basis  
21 and shall be a uniform percentage of the respective premiums  
22 specified in the policy for each policy year, excluding amounts  
23 payable as extra premiums to cover impairments or special hazards  
24 and also excluding any uniform annual contract charge or policy  
25 fee specified in the policy in a statement of the method to be  
26 used in calculating the cash surrender values and paid-up  
27 nonforfeiture benefits, so that the present value, at the date of

1 issue of the policy, of all adjusted premiums shall be equal to  
2 the sum of (i) the then present value of the future guaranteed  
3 benefits provided for by the policy; (ii) 1% of either the amount  
4 of insurance, if the insurance be uniform in amount, or the  
5 average amount of insurance at the beginning of each of the first  
6 10 policy years; and (iii) 125% of the nonforfeiture net level  
7 premium as defined in this subsection. However, in applying the  
8 percentage specified in (iii), the nonforfeiture net level  
9 premium shall not be deemed to exceed 4% of either the amount of  
10 insurance, if the insurance is uniform in amount, or the average  
11 amount of insurance at the beginning of each of the first 10  
12 policy years. The date of issue of a policy for the purpose of  
13 this subsection shall be the date as of which the rated age of  
14 the insured is determined.

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

21       For policies that cause on a basis guaranteed in the policy  
22 unscheduled changes in benefits or premiums, or that provide an  
23 option for changes in benefits or premiums other than a change to  
24 a new policy, the adjusted premiums and present values initially  
25 shall be calculated on the assumption that future benefits and  
26 premiums will not change from those stipulated at the date of  
27 issue of the policy. At the time of a change in the benefits or

1 premiums, the future adjusted premiums, nonforfeiture net level  
2 premiums, and present values shall be recalculated on the  
3 assumption that future benefits and premiums will not change from  
4 those stipulated by the policy immediately after the change.

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

20       The additional expense allowance, at the time of the change  
21 to the newly defined benefits or premiums, shall be the sum of 1%  
22 of the excess, if positive, of the average amount of insurance at  
23 the beginning of each of the first 10 policy years after the  
24 change over the average amount of insurance before the change at  
25 the beginning of each of the first 10 policy years after the time  
26 of the most recent previous change, or, if there has been no  
27 previous change, the date of issue of the policy; and 125% of the

1 increase, if positive, in the nonforfeiture net level premium.

2       The recalculated nonforfeiture net level premium shall be  
3 equal to the result obtained by dividing (a) by (b) where (a)  
4 equals the sum of (i) the nonforfeiture net level premium  
5 applicable before the change times the present value of an  
6 annuity of 1 per annum payable on each anniversary of the policy  
7 on or after the date of the change on which a premium would have  
8 fallen due had the change not occurred; and (ii) the present  
9 value of the increase in future guaranteed benefits provided for  
10 by the policy, and (b) equals the present value of an annuity of  
11 1 per annum payable on each anniversary of the policy on or after  
12 the date of change on which a premium falls due.

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

22       All adjusted premiums and present values referred to in this  
23 section for all policies of ordinary insurance shall be  
24 calculated on the basis of the commissioners 1980 standard  
25 ordinary mortality table or, at the election of the company for  
26 any 1 or more specified plans of life insurance, the  
27 commissioners 1980 standard ordinary mortality table with 10-year

1 select mortality factors. All adjusted premiums and present  
2 values referred to in this section for all policies of industrial  
3 insurance shall be calculated on the basis of the commissioners  
4 1961 standard industrial mortality table. All adjusted premiums  
5 and present values referred to in this section for all policies  
6 issued in a particular calendar year shall be calculated on the  
7 basis of a rate of interest not exceeding the nonforfeiture  
8 interest rate as defined in this subsection for policies issued  
9 in that calendar year. However:

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

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

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

26 (d) In calculating the present value of any paid-up term  
27 insurance with accompanying pure endowment, if any, offered as a

1 nonforfeiture benefit, the rates of mortality assumed may be not  
2 more than those shown in the commissioners 1980 extended term  
3 insurance table for policies of ordinary insurance and not more  
4 than the commissioners 1961 industrial extended term insurance  
5 table for policies of industrial insurance.

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

10 (f) Any ordinary mortality tables, adopted after 1980 by the  
11 national association of insurance commissioners, that are  
12 approved by a rule promulgated by the commissioner for use in  
13 determining the minimum nonforfeiture standard **or as provided**  
14 **under section 838** may be substituted for the commissioners 1980  
15 standard ordinary mortality table with or without 10-year select  
16 mortality factors or for the commissioners 1980 extended term  
17 insurance table.

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

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

1 nearest 0.25%.

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

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

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

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

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

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

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

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

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

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

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

4 (e) As term insurance on the life of a child or on the lives  
5 of children provided in a policy on the life of a parent of the  
6 child, if the term insurance expires before the child's age is  
7 26, is uniform in amount after the child's age is 1, and has not  
8 become paid-up by reason of the death of a parent of the child.

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

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

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

1 corresponding to premiums that would have fallen due on and after  
2 such anniversary. However, the effects on the basic cash value  
3 of supplemental life insurance or annuity benefits or of family  
4 coverage shall be the same as are the effects specified in  
5 subsection (3) or (5), whichever is applicable, on the cash  
6 surrender values.

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

11 The nonforfeiture factor:

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

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

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

1 value.

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

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

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

21 (a) Reinsurance.

22 (b) Group insurance.

23 (c) Pure endowment.

24 (d) Annuity or reversionary annuity contract.

25 (e) A term policy of uniform amount, which provides no  
26 guaranteed nonforfeiture or endowment benefits, or renewal  
27 thereof, of 20 years or less expiring before age 71, for which

1 uniform premiums are payable during the entire term of the  
2 policy.

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

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

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

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

24 (10) After July 30, 1943, a company may file with the  
25 commissioner a written notice of its election to comply with this  
26 section after a specified date before January 1, 1948. After the  
27 filing of the notice, then on the specified date, which shall be

House Bill No. 5931 as amended June 29, 2004

- 1 the operative date for the company, this section shall become
- 2 operative with respect to the policies thereafter issued by the
- 3 company. If a company does not make an election, the operative
- 4 date of this section for the company shall be January 1, 1948.

<<Enacting section 1. This amendatory act takes effect July 1, 2004.>>