

HOUSE BILL No. 5931

May 20, 2004, Introduced by Reps. Robertson, Milosch, Voorhees, Shaffer, Wenke, Julian and Hune and referred to the Committee on Insurance.

A bill to amend 1956 PA 218, entitled
"The insurance code of 1956,"
by amending section 834 (MCL 500.834), as amended by 2000 PA
378.

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
10 section 832(2), and 3-1/2% interest for all other of those

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

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

1 national association of insurance commissioners that is approved
2 ~~by a rule promulgated~~ by the commissioner for use in
3 determining the minimum standard of valuation for those
4 policies.

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

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

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

1 contracts.

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

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

1 indemnity mortality table. A table shall be combined with a
2 mortality table permitted for calculating the reserves for life
3 insurance policies.

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

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

21 (g) A net level annual premium equal to the present value, at
22 the date of issue, of the future guaranteed benefits provided for
23 after the first policy year divided by the present value, at the
24 date of issue, of an annuity of 1 per annum payable on the first
25 and each subsequent anniversary of the policy on which a premium
26 falls due. However, the net level annual premium shall not
27 exceed the net level annual premium on the 19-year premium whole

1 life plan for insurance of the same amount at an age 1 year
2 higher than the age at issue of the policy.

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

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

1 comparison, the mortality and interest bases stated in subsection
2 (1) and section 836 shall be used.

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

18 (3) This subsection applies to all annuity and pure endowment
19 contracts other than group annuity and pure endowment contracts
20 purchased under a retirement plan or plan of deferred
21 compensation, established or maintained by an employer, including
22 a partnership or sole proprietorship, or by an employee
23 organization, or by both, other than a plan providing individual
24 retirement accounts or individual retirement annuities under
25 section 408 of the internal revenue code, **26 USC 408**. Without
26 action by the Michigan Legislature to adopt actuarial guideline
27 35, reserves according to the commissioner's annuity reserve

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

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

27 (5) Reserves for all policies and contracts issued prior to

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

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

1 used in calculating the reserve on the policy or contract, the
2 insurer may use the minimum valuation standards of mortality,
3 either at the time of issue or the time of valuation of the
4 policy or contract and the minimum valuation rate of interest at
5 time of issue or the time of valuation of the policy or contract,
6 so long as the minimum reserve required for the policy or
7 contract is the greater of either the reserve calculated
8 according to the mortality table, rate of interest, and method
9 actually used for the policy or contract, or the reserve
10 calculated by the method actually used for the policy or contract
11 using the minimum valuation standards of mortality and rate of
12 interest and replacing the valuation net premium by the actual
13 gross premium in each contract year for which the valuation net
14 premium exceeds the actual gross premium. The minimum valuation
15 standards of mortality and rate of interest referred to in this
16 subsection are those standards stated in subsection (1) and
17 section 836. However, for any life insurance policy issued on or
18 after January 1, 1986 for which the gross premium in the first
19 policy year exceeds that of the second year and for which no
20 comparable additional benefit is provided in the first year for
21 that excess and that provides an endowment benefit or a cash
22 surrender value or a combination of endowment benefit and cash
23 surrender value in an amount greater than the excess premium, the
24 provisions of this subsection shall be applied as if the method
25 actually used in calculating the reserve for that policy were the
26 method described in subsection (2), ignoring paragraph 2 of that
27 subsection. The minimum reserve at each policy anniversary of

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

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

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