

HOUSE BILL No. 5932

November 6, 2014, Introduced by Rep. Lund and referred to the Committee on Insurance.

A bill to amend 1956 PA 218, entitled "The insurance code of 1956," by amending sections 102, 830, 830a, 834, 836, 838, 3930, 4060, and 4061 (MCL 500.102, 500.830, 500.830a, 500.834, 500.836, 500.838, 500.3930, 500.4060, and 500.4061), section 102 as amended by 2000 PA 252, section 830 as amended by 1994 PA 228, section 830a as added by 1994 PA 226, sections 834 and 4060 as amended and section 838 as added by 2004 PA 236, section 836 as amended by 1986 PA 12, section 3930 as added by 1992 PA 84, and section 4061 as added by 1993 PA 349, and by adding sections 836a and 836b.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1 Sec. 102. ~~(1) "Commissioner" as~~ **AS** used in this act:

2 **(A) "COMMISSIONER"** means the ~~commissioner of the office of~~

1 ~~financial and insurance services.~~**DIRECTOR.**

2 (B) ~~(2) "Department" as used in this act means the office of~~
 3 ~~financial and insurance services.~~**DEPARTMENT OF INSURANCE AND**
 4 **FINANCIAL SERVICES.**

5 (C) "DIRECTOR" MEANS, UNLESS THE CONTEXT CLEARLY IMPLIES A
 6 DIFFERENT MEANING, THE DIRECTOR OF THE DEPARTMENT.

7 (D) "OFFICE OF FINANCIAL AND INSURANCE REGULATION" AND
 8 "OFFICE OF FINANCIAL AND INSURANCE SERVICES" MEAN THE DEPARTMENT.

9 Sec. 830. (1) The ~~commissioner~~**DIRECTOR** shall annually value
 10 ~~, or cause to be valued,~~ the reserve liabilities, hereinafter
 11 called reserves, for all outstanding life insurance policies and
 12 annuity and pure endowment contracts of every life insurer doing
 13 business in this state **ISSUED BEFORE THE OPERATIVE DATE OF THE**
 14 **VALUATION MANUAL**, except that for an alien insurer, the valuation
 15 ~~shall be~~**IS** limited to its United States' business. ~~, and may~~
 16 ~~certify the amount of the reserves, specifying the mortality~~
 17 ~~table or tables, rate or rates of interest, and methods, net~~
 18 ~~level premium method or other, used in the calculation of the~~
 19 ~~reserves.~~In calculating the reserves, the ~~commissioner~~**DIRECTOR**
 20 may use group methods and approximate averages for fractions of a
 21 year or otherwise. ~~In lieu~~**INSTEAD** of the valuation of the
 22 reserves required in this section of any foreign or alien
 23 insurer, the ~~commissioner~~**DIRECTOR** may accept any valuation made
 24 ~~, or caused to be made,~~ by the insurance supervisory official of
 25 any state or other jurisdiction, if the valuation complies with
 26 the minimum standard provided in this section. ~~, and if the~~
 27 ~~official of that state or jurisdiction accepts as sufficient and~~

1 ~~valid for all legal purposes the certificate of valuation of the~~
 2 ~~commissioner, which certificate states the valuation to have been~~
 3 ~~made in a specified manner according to which the aggregate~~
 4 ~~reserves would be at least as large as if they had been computed~~
 5 ~~in the manner prescribed by the law of that state or~~
 6 ~~jurisdiction.~~

7 (2) **THE DIRECTOR SHALL ANNUALLY VALUE THE RESERVE**
 8 **LIABILITIES HEREINAFTER CALLED RESERVES FOR ALL OUTSTANDING LIFE**
 9 **INSURANCE CONTRACTS, ANNUITY AND PURE ENDOWMENT CONTRACTS,**
 10 **ACCIDENT AND HEALTH CONTRACTS, AND DEPOSIT-TYPE CONTRACTS OF**
 11 **EVERY COMPANY ISSUED ON OR AFTER THE OPERATIVE DATE OF THE**
 12 **VALUATION MANUAL. INSTEAD OF THE VALUATION OF THE RESERVES**
 13 **REQUIRED OF A FOREIGN OR ALIEN COMPANY, THE DIRECTOR MAY ACCEPT A**
 14 **VALUATION MADE BY THE INSURANCE SUPERVISORY OFFICIAL OF ANY STATE**
 15 **OR OTHER JURISDICTION IF THE VALUATION COMPLIES WITH THE MINIMUM**
 16 **STANDARD PROVIDED IN THIS SECTION.**

17 (3) ~~(2)~~ Except as otherwise provided in this subsection, the
 18 insurer shall pay to the ~~commissioner,~~ **DIRECTOR**, as compensation
 19 for the valuation, 1 cent for each thousand dollars insured,
 20 under policies insuring residents of ~~these~~ **THE** United States, or
 21 issued by an insurer organized under the laws of this state. For
 22 annual valuations ~~on or after January 1, 1988,~~ **DECEMBER 31, 1987,**
 23 the valuation fee imposed under this section ~~shall~~ **DOES** not apply
 24 to contracts of reinsurance. A valuation fee under this
 25 subsection ~~shall~~ **DOES** not apply to an annual valuation of a
 26 domestic insurer ~~on or after January 1, 1988.~~ **DECEMBER 31, 1987.**
 27 For annual valuations for the 1994 calendar year, the valuation

1 fee imposed under this subsection for alien insurers ~~shall be~~ **IS**
 2 .67 cent for each thousand dollars insured. ~~On and after January~~
 3 ~~1, 1995,~~ **AFTER DECEMBER 31, 1994**, the valuation fee imposed under
 4 this subsection ~~shall~~ **DOES** not apply to alien insurers.

5 (4) ~~(3)~~ An insurer that ~~at any time shall have~~ **HAS** adopted
 6 ~~any~~ **A** standard of valuation producing greater aggregate reserves
 7 than those calculated according to the minimum standard provided
 8 in this section may, with the approval of the ~~commissioner,~~
 9 **DIRECTOR**, adopt ~~any~~ **A** lower standard of valuation, but not lower
 10 than the minimum provided in this section.

11 (5) ~~(4)~~ ~~Every~~ **A** foreign cooperative or assessment insurer
 12 shall ~~have~~ **VALUE** its business ~~valued~~ and shall maintain reserves
 13 ~~in accordance with~~ **UNDER** the standards ~~currently~~ required of
 14 domestic insurers transacting similar insurance ~~by~~ **UNDER** this
 15 ~~act.~~ **SECTION.**

16 (6) **AS USED IN THIS SECTION:**

17 (A) "ACCIDENT AND HEALTH INSURANCE" MEANS CONTRACTS THAT
 18 INCORPORATE MORBIDITY RISK AND PROVIDE PROTECTION AGAINST
 19 ECONOMIC LOSS RESULTING FROM ACCIDENT, SICKNESS, OR MEDICAL
 20 CONDITIONS AND AS MAY BE SPECIFIED IN THE VALUATION MANUAL.

21 (B) "COMPANY" MEANS AN ENTITY THAT HAS WRITTEN, ISSUED, OR
 22 REINSURED LIFE INSURANCE CONTRACTS, ACCIDENT AND HEALTH INSURANCE
 23 CONTRACTS, OR DEPOSIT-TYPE CONTRACTS IN THIS STATE AND HAS AT
 24 LEAST 1 LIFE INSURANCE, ACCIDENT AND HEALTH INSURANCE, OR
 25 DEPOSIT-TYPE POLICY IN FORCE OR ON CLAIM, OR THAT HAS WRITTEN,
 26 ISSUED, OR REINSURED LIFE INSURANCE CONTRACTS, ACCIDENT AND
 27 HEALTH INSURANCE CONTRACTS, OR DEPOSIT-TYPE CONTRACTS IN ANY

1 STATE AND IS REQUIRED TO HOLD A CERTIFICATE OF AUTHORITY TO WRITE
2 LIFE INSURANCE, ACCIDENT AND HEALTH INSURANCE, OR DEPOSIT-TYPE
3 CONTRACTS IN THIS STATE.

4 (C) "DEPOSIT-TYPE CONTRACT" MEANS A CONTRACT THAT DOES NOT
5 INCORPORATE MORTALITY OR MORBIDITY RISKS AND AS MAY BE SPECIFIED
6 IN THE VALUATION MANUAL.

7 (D) "LIFE INSURANCE" MEANS A CONTRACT THAT INCORPORATES
8 MORTALITY RISK, INCLUDING ANNUITY AND PURE ENDOWMENT CONTRACTS,
9 AND AS MAY BE SPECIFIED IN THE VALUATION MANUAL.

10 (E) "NAIC" MEANS THE NATIONAL ASSOCIATION OF INSURANCE
11 COMMISSIONERS.

12 (F) "VALUATION MANUAL" MEANS THE MANUAL OF VALUATION
13 INSTRUCTIONS ADOPTED BY THE NAIC AS DESCRIBED IN SECTION 836B.

14 Sec. 830a. (1) ~~Every~~**A** life insurance company doing business
15 in this state shall annually submit to the ~~commissioner~~**DIRECTOR**
16 the opinion of a qualified actuary as to whether the reserves and
17 related actuarial items held in support of the policies and
18 contracts specified by the ~~commissioner~~**DIRECTOR** by rule are
19 computed appropriately, are based on assumptions that satisfy
20 contractual provisions, are consistent with prior reported
21 amounts, and comply with applicable laws of this state. The
22 actuarial opinion required by this section ~~shall~~**MUST** be
23 submitted in a form prescribed by the ~~commissioner~~**DIRECTOR** and
24 may include any other items that the ~~commissioner~~**DIRECTOR**
25 considers necessary.

26 (2) ~~Every~~**A** life insurance company, except as exempted by or
27 ~~pursuant to~~**UNDER** rule, shall also annually include in the

1 opinion required by subsection (1) an opinion of the same
2 qualified actuary as to whether the reserves and related
3 actuarial items held in support of the policies and contracts
4 specified by the ~~commissioner~~**DIRECTOR** by rule, when considered
5 in light of the assets held by the company with respect to the
6 reserves and related actuarial items, including, but not limited
7 to, the investment earnings on the assets and the considerations
8 anticipated to be received and retained under the policies and
9 contracts, make adequate provision for the company's obligations
10 under the policies and contracts, including, but not limited to,
11 the benefits under and expenses associated with the policies and
12 contracts. By order, the ~~commissioner~~**DIRECTOR** may provide for a
13 transition period for establishing any higher reserves that the
14 qualified actuary may consider necessary ~~in order~~ to render the
15 opinion required by this subsection.

16 (3) ~~Each~~**ALL OF THE FOLLOWING APPLY TO AN** opinion required
17 by subsection (2): ~~shall be governed by the following:~~

18 (a) A memorandum ~~shall~~**MUST** be prepared to support each
19 actuarial opinion that ~~shall be~~**IS** in form and substance
20 acceptable to the ~~commissioner~~**DIRECTOR**.

21 (b) If the insurance company ~~fails to~~**DOES NOT** provide a
22 supporting memorandum within the period of time requested by the
23 ~~commissioner~~**DIRECTOR** or the ~~commissioner~~**DIRECTOR** determines
24 that the supporting memorandum provided by the insurer ~~fails to~~
25 **DOES NOT** meet the standards prescribed by applicable laws or
26 rules or is otherwise unacceptable to the ~~commissioner~~**DIRECTOR**,
27 the ~~commissioner~~**DIRECTOR** may engage a qualified actuary at the

1 expense of the company to review the opinion and the basis for
2 the opinion and prepare a supporting memorandum as is required by
3 the ~~commissioner~~**DIRECTOR**.

4 (4) ~~Each~~**ALL OF THE FOLLOWING APPLY TO AN** opinion required
5 by this section: ~~shall be governed by the following~~.

6 (a) The opinion shall ~~shall~~**MUST** be submitted with the annual
7 statement reflecting the valuation of the reserve liabilities for
8 each year ending on or after December 31, 1994.

9 (b) The opinion shall ~~apply~~**APPLIES** to all business in force
10 including individual and group disability insurance plans in form
11 and substance acceptable to the ~~commissioner~~**DIRECTOR**.

12 (c) The opinion shall ~~shall~~**MUST** be based on standards as the
13 ~~commissioner~~**DIRECTOR** may prescribe by rule.

14 (d) For an opinion required to be submitted by a foreign or
15 alien insurer, the ~~commissioner~~**DIRECTOR** may accept the opinion
16 filed by ~~that~~**THE FOREIGN OR ALIEN** insurer with the insurance
17 supervisory official of another state if the ~~commissioner~~
18 **DIRECTOR** determines that the opinion reasonably meets the
19 requirements applicable to a company domiciled in this state.

20 (e) ~~Any~~**A** memorandum in support of the opinion, and any
21 other material provided by the insurer to the ~~commissioner~~
22 **DIRECTOR** in connection with it, shall be kept confidential by the
23 ~~commissioner~~**DIRECTOR**, shall not be made public, and ~~shall~~**IS**
24 not ~~be~~ subject to subpoena, other than for the purpose of
25 defending an action seeking damages from ~~any~~**A** person by reason
26 of ~~any~~**AN** action required by this section or by rules promulgated
27 under this section. However, the **DIRECTOR MAY RELEASE THE**

1 memorandum or other material ~~may be released by the commissioner~~
2 in any of the following instances:

3 (i) With the written consent of the insurer.

4 (ii) To the american academy of actuaries if the memorandum
5 or other material is required for the purpose of professional
6 disciplinary proceedings and the request ~~sets forth~~ **DESCRIBES**
7 procedures satisfactory to the ~~commissioner~~ **DIRECTOR** for
8 preserving the confidentiality of the memorandum or other
9 material.

10 (iii) If any portion of the confidential memorandum is cited
11 by the insurer in its marketing or is cited before any
12 governmental agency other than a state insurance regulatory
13 agency or is released by the insurer to the news media. ~~In this~~
14 ~~event, all portions of the~~ **A** confidential memorandum ~~shall no~~
15 ~~longer be~~ **CITED AS DESCRIBED UNDER THIS SUBPARAGRAPH IS NOT**
16 confidential.

17 (5) Except ~~in cases of~~ **FOR** fraud or willful misconduct, the
18 qualified actuary ~~shall~~ **IS** not ~~be~~ liable for damages to ~~any~~ **A**
19 person other than the insurance company and the ~~commissioner~~
20 **DIRECTOR** for ~~any~~ **AN** act, error, omission, decision, or conduct
21 with respect to the actuary's opinion. Disciplinary action by the
22 ~~commissioner~~ **DIRECTOR** against the insurer or the qualified
23 actuary shall be defined in rules by the ~~commissioner~~ **DIRECTOR**.

24 (6) For purposes of this section, "qualified actuary" means
25 a member of either the american academy of actuaries or the
26 society of actuaries who also meets any other criteria
27 established by the ~~commissioner~~ **DIRECTOR** by rule.

1 (7) The ~~commissioner~~**DIRECTOR** shall not accept as a
2 qualified actuary or accept an actuarial opinion prepared in
3 whole or in part by an individual who has done any of the
4 following:

5 (a) Been convicted of fraud, bribery, a violation of ~~chapter~~
6 ~~96 of title 18 of the United States Code, 18 U.S.C. 18 USC~~ 1961
7 to 1968, or any dishonest conduct or practices under federal or
8 state law.

9 (b) ~~Been found to have violated~~**VIOLATED** the insurance laws
10 of this state with respect to any previous reports submitted
11 under this section.

12 (c) ~~Has failed to~~**DID NOT** detect or disclose material
13 information in 1 or more previous reports filed under this
14 section.

15 (8) The ~~commissioner~~**DIRECTOR** may hold a public hearing
16 ~~pursuant to~~**UNDER** the administrative procedures act of 1969, ~~Act~~
17 ~~No. 306 of the Public Acts of 1969, being sections 1969 PA 306,~~
18 **MCL** 24.201 to 24.328, ~~of the Michigan Compiled Laws,~~ to determine
19 ~~whether~~**IF** an actuary is qualified. After considering the
20 evidence presented, the ~~commissioner~~**DIRECTOR** may find that the
21 actuary is not qualified for purposes of expressing his or her
22 opinion on reserves and related actuarial items as required by
23 this section, and may require the insurer to replace the actuary
24 with another actuary.

25 ~~— (9) This section shall take effect December 31, 1994.~~

26 (9) **EVERY COMPANY WITH OUTSTANDING LIFE INSURANCE CONTRACTS,**
27 **ACCIDENT AND HEALTH INSURANCE CONTRACTS, OR DEPOSIT-TYPE**

1 CONTRACTS IN THIS STATE AND SUBJECT TO REGULATION BY THE DIRECTOR
2 SHALL ANNUALLY SUBMIT THE OPINION OF THE APPOINTED ACTUARY AS TO
3 WHETHER THE RESERVES AND RELATED ACTUARIAL ITEMS HELD IN SUPPORT
4 OF THE POLICIES AND CONTRACTS ARE COMPUTED APPROPRIATELY, ARE
5 BASED ON ASSUMPTIONS THAT SATISFY CONTRACTUAL PROVISIONS, ARE
6 CONSISTENT WITH PRIOR REPORTED AMOUNTS, AND COMPLY WITH
7 APPLICABLE LAWS OF THIS STATE. THE VALUATION MANUAL MUST PROVIDE
8 THE SPECIFICS OF THIS OPINION, INCLUDING ANY ITEMS CONSIDERED
9 NECESSARY TO ITS SCOPE.

10 (10) EVERY COMPANY WITH OUTSTANDING LIFE INSURANCE
11 CONTRACTS, ACCIDENT AND HEALTH INSURANCE CONTRACTS, OR DEPOSIT-
12 TYPE CONTRACTS IN THIS STATE AND SUBJECT TO REGULATION BY THE
13 DIRECTOR, EXCEPT AS EXEMPTED IN THE VALUATION MANUAL, SHALL ALSO
14 ANNUALLY INCLUDE IN THE OPINION REQUIRED BY SUBSECTION (9) AN
15 OPINION OF THE SAME APPOINTED ACTUARY AS TO WHETHER THE RESERVES
16 AND RELATED ACTUARIAL ITEMS HELD IN SUPPORT OF THE POLICIES AND
17 CONTRACTS SPECIFIED IN THE VALUATION MANUAL, WHEN CONSIDERED IN
18 LIGHT OF THE ASSETS HELD BY THE COMPANY WITH RESPECT TO THE
19 RESERVES AND RELATED ACTUARIAL ITEMS, INCLUDING, BUT NOT LIMITED
20 TO, THE INVESTMENT EARNINGS ON THE ASSETS AND THE CONSIDERATIONS
21 ANTICIPATED TO BE RECEIVED AND RETAINED UNDER THE POLICIES AND
22 CONTRACTS, MAKE ADEQUATE PROVISIONS FOR THE COMPANY'S OBLIGATIONS
23 UNDER THE POLICIES AND CONTRACTS, INCLUDING, BUT NOT LIMITED TO,
24 THE BENEFITS UNDER AND EXPENSES ASSOCIATED WITH THE POLICIES AND
25 CONTRACTS.

26 (11) BOTH OF THE FOLLOWING APPLY TO AN OPINION REQUIRED
27 UNDER SUBSECTION (10):

1 (A) A MEMORANDUM, IN FORM AND SUBSTANCE AS SPECIFIED IN THE
2 VALUATION MANUAL, AND ACCEPTABLE TO THE DIRECTOR, SHALL BE
3 PREPARED TO SUPPORT EACH ACTUARIAL OPINION.

4 (B) IF AN INSURANCE COMPANY DOES NOT PROVIDE A SUPPORTING
5 MEMORANDUM AT THE REQUEST OF THE DIRECTOR WITHIN A PERIOD
6 SPECIFIED IN THE VALUATION MANUAL OR THE DIRECTOR DETERMINES THAT
7 THE SUPPORTING MEMORANDUM PROVIDED BY THE INSURANCE COMPANY DOES
8 NOT MEET THE STANDARDS PRESCRIBED BY THE VALUATION MANUAL OR IS
9 OTHERWISE UNACCEPTABLE TO THE DIRECTOR, THE DIRECTOR MAY ENGAGE A
10 QUALIFIED ACTUARY AT THE EXPENSE OF THE COMPANY TO REVIEW THE
11 OPINION AND THE BASIS FOR THE OPINION AND PREPARE THE SUPPORTING
12 MEMORANDUM REQUIRED BY THE DIRECTOR.

13 (12) ALL OF THE FOLLOWING APPLY TO AN OPINION REQUIRED UNDER
14 SUBSECTION (9) OR (10):

15 (A) THE OPINION MUST BE IN FORM AND SUBSTANCE AS SPECIFIED
16 IN THE VALUATION MANUAL AND ACCEPTABLE TO THE DIRECTOR.

17 (B) THE OPINION MUST BE SUBMITTED WITH THE ANNUAL STATEMENT
18 REFLECTING THE VALUATION OF THE RESERVE LIABILITIES FOR EACH YEAR
19 ENDING ON OR AFTER THE OPERATIVE DATE OF THE VALUATION MANUAL.

20 (C) THE OPINION APPLIES TO ALL POLICIES AND CONTRACTS
21 DESCRIBED IN SUBSECTION (10), AND TO OTHER ACTUARIAL LIABILITIES
22 AS MAY BE SPECIFIED IN THE VALUATION MANUAL.

23 (D) THE OPINION MUST BE BASED ON STANDARDS ADOPTED FROM TIME
24 TO TIME BY THE ACTUARIAL STANDARDS BOARD OR ITS SUCCESSOR, AND ON
25 SUCH ADDITIONAL STANDARDS AS MAY BE PRESCRIBED IN THE VALUATION
26 MANUAL.

27 (E) FOR AN OPINION REQUIRED TO BE SUBMITTED BY A FOREIGN OR

1 ALIEN COMPANY, THE DIRECTOR MAY ACCEPT THE OPINION FILED BY THE
2 FOREIGN OR ALIEN COMPANY WITH THE INSURANCE SUPERVISORY OFFICIAL
3 OF ANOTHER STATE IF THE DIRECTOR DETERMINES THAT THE OPINION
4 REASONABLY MEETS THE REQUIREMENTS APPLICABLE TO A COMPANY
5 DOMICILED IN THIS STATE.

6 (F) EXCEPT FOR FRAUD OR WILLFUL MISCONDUCT, THE APPOINTED
7 ACTUARY IS NOT LIABLE FOR DAMAGES TO A PERSON OTHER THAN THE
8 INSURANCE COMPANY AND THE DIRECTOR FOR AN ACT, ERROR, OMISSION,
9 OR DECISION, OR CONDUCT, WITH RESPECT TO THE APPOINTED ACTUARY'S
10 OPINION.

11 (G) THE DIRECTOR SHALL DETERMINE BY REGULATION DISCIPLINARY
12 ACTION AGAINST THE COMPANY OR THE APPOINTED ACTUARY.

13 (13) AS USED IN THIS SECTION:

14 (A) "ACCIDENT AND HEALTH INSURANCE" MEANS CONTRACTS THAT
15 INCORPORATE MORBIDITY RISK AND PROVIDE PROTECTION AGAINST
16 ECONOMIC LOSS RESULTING FROM ACCIDENT, SICKNESS, OR MEDICAL
17 CONDITIONS AND AS MAY BE SPECIFIED IN THE VALUATION MANUAL.

18 (B) "APPOINTED ACTUARY" MEANS A QUALIFIED ACTUARY WHO IS
19 APPOINTED IN ACCORDANCE WITH THE VALUATION MANUAL TO PREPARE THE
20 ACTUARIAL OPINION REQUIRED UNDER SUBSECTION (9) OR (10).

21 (C) "COMPANY" MEANS AN ENTITY THAT HAS WRITTEN, ISSUED, OR
22 REINSURED LIFE INSURANCE CONTRACTS, ACCIDENT AND HEALTH INSURANCE
23 CONTRACTS, OR DEPOSIT-TYPE CONTRACTS IN THIS STATE AND HAS AT
24 LEAST 1 POLICY IN FORCE OR ON CLAIM OR THAT HAS WRITTEN, ISSUED,
25 OR REINSURED LIFE INSURANCE CONTRACTS, ACCIDENT AND HEALTH
26 INSURANCE CONTRACTS, OR DEPOSIT-TYPE CONTRACTS IN ANY STATE AND
27 IS REQUIRED TO HOLD A CERTIFICATE OF AUTHORITY TO WRITE LIFE

1 INSURANCE, ACCIDENT AND HEALTH INSURANCE, OR DEPOSIT-TYPE
2 CONTRACTS IN THIS STATE.

3 (D) "DEPOSIT-TYPE CONTRACT" MEANS CONTRACTS THAT DO NOT
4 INCORPORATE MORTALITY OR MORBIDITY RISKS AND AS MAY BE SPECIFIED
5 IN THE VALUATION MANUAL.

6 (E) "LIFE INSURANCE" MEANS CONTRACTS THAT INCORPORATE
7 MORTALITY RISK, INCLUDING ANNUITY AND PURE ENDOWMENT CONTRACTS,
8 AND AS MAY BE SPECIFIED IN THE VALUATION MANUAL.

9 (F) "NAIC" MEANS THE NATIONAL ASSOCIATION OF INSURANCE
10 COMMISSIONERS.

11 (G) "QUALIFIED ACTUARY" MEANS AN INDIVIDUAL WHO IS QUALIFIED
12 TO SIGN AN APPLICABLE STATEMENT OF ACTUARIAL OPINION IN
13 ACCORDANCE WITH THE AMERICAN ACADEMY OF ACTUARIES QUALIFICATION
14 STANDARDS FOR ACTUARIES SIGNING STATEMENTS OF ACTUARIAL OPINION
15 AND WHO MEETS THE REQUIREMENTS SPECIFIED IN THE VALUATION MANUAL.

16 (H) "VALUATION MANUAL" MEANS THE MANUAL OF VALUATION
17 INSTRUCTIONS ADOPTED BY THE NAIC AS SPECIFIED IN SECTION 836B.

18 Sec. 834. (1) Except as otherwise provided in sections 835,
19 836, and 837, the minimum standard for the valuation of policies
20 and contracts described in subsection (8) ~~shall be~~ **IS** the
21 ~~commissioner's~~ **DIRECTOR'S** reserve valuation methods defined in
22 subsections (2), (3), and (6), 5% interest for group annuity and
23 pure endowment contracts, ~~provided that~~ **IF** prior notice of any
24 revaluation of reserves with respect to group annuity and pure
25 endowment contracts is given to the ~~commissioner~~ **DIRECTOR** in the
26 same manner as is required before a revaluation of reserves under
27 section 832(2), and 3-1/2% interest for all other of those

1 policies and contracts; or ~~in the case of FOR~~ policies and
2 contracts, other than annuity and pure endowment contracts,
3 issued ~~on or after October 21, 20,~~ 1974, 4% interest for those
4 policies issued before October 1, 1980, and 4-1/2% interest for
5 those policies issued ~~on or after October 1,~~ **SEPTEMBER 30,** 1980,
6 or ~~in the case of FOR~~ life insurance contracts, other than
7 annuity and pure endowment contracts, issued after December 31,
8 1994, 5-1/2% interest for single premium life insurance policies
9 and 4-1/2% interest for all other policies, and the following
10 tables:

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

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

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

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

24 (D) ~~(IV)~~—For group annuity and pure endowment contracts,
25 excluding any disability and accidental death benefits in those
26 policies: the group annuity mortality table for 1951, any
27 modification of that table approved by the ~~commissioner~~,

1 **DIRECTOR**, or, at the option of the company, any of the tables or
2 modifications of tables specified for individual annuity and pure
3 endowment contracts.

4 (E) ~~(V)~~—For total and permanent disability benefits in or
5 supplementary to ordinary policies or contracts: for policies or
6 contracts issued ~~on or after January 1, 1966,~~ **DECEMBER 31, 1965,**
7 the tables of period 2 disablement rates and the 1930 to 1950
8 termination rates of the 1952 disability study of the society of
9 actuaries, with due regard to the type of benefit or any tables
10 of disablement rates and termination rates adopted after 1980 by
11 the national association of insurance commissioners that are
12 approved by a rule promulgated by the ~~commissioner~~ **DIRECTOR** for
13 use in determining the minimum standard of valuation for those
14 policies; for policies or contracts issued ~~on or after January 1,~~
15 ~~1961,~~ **DECEMBER 31, 1960,** and before January 1, 1966, either those
16 tables or, at the option of the company, the class (3) disability
17 table, 1926; and for policies issued before January 1, 1961, the
18 class (3) disability table, 1926. For active lives, a table ~~shall~~
19 **MUST** be combined with a mortality table permitted for calculating
20 the reserves for life insurance policies.

21 (F) ~~(VI)~~—For accidental death benefits in or supplementary
22 to policies: for policies issued ~~on or after January 1, 1966,~~
23 **DECEMBER 31, 1965,** the 1959 accidental death benefits table or
24 any accidental death benefits table adopted after 1980 by the
25 national association of insurance commissioners that is approved
26 by a rule promulgated by the ~~commissioner~~ **DIRECTOR** for use in
27 determining the minimum standard of valuation for those policies;

1 for policies issued ~~on or after January 1, 1961,~~ **DECEMBER 31,**
 2 **1960,** and before January 1, 1966, 1 of the above tables or at the
 3 option of the insurer the intercompany double indemnity mortality
 4 table. A table ~~shall~~ **MUST** be combined with a mortality table
 5 permitted for calculating the reserves for life insurance
 6 policies.

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

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

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

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

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

9 However, for any life insurance policy issued ~~on or~~ after
 10 ~~January 1, 1986~~**DECEMBER 31, 1985** for which the contract premium
 11 in the first policy year exceeds that of the second year and for
 12 which no comparable additional benefit is provided in the first
 13 year for that excess and that provides an endowment benefit or a
 14 cash surrender value or a combination of endowment benefit and
 15 cash surrender value in an amount greater than the excess
 16 premium, the reserve according to the ~~commissioner's~~**DIRECTOR'S**
 17 reserve valuation method as of any policy anniversary occurring
 18 on or before the assumed ending date, defined as the first policy
 19 anniversary on which the sum of any endowment benefit and any
 20 cash surrender value then available is greater than the excess
 21 premium, ~~shall be,~~**IS**, except as otherwise provided in subsection
 22 (6), the greater of the reserve as of that policy anniversary
 23 calculated as described in paragraph 1 of this subsection and the
 24 reserve as of that policy anniversary calculated as described in
 25 that paragraph, but with the value defined in ~~(g)~~**SUBDIVISION (A)**
 26 being reduced by 15% of the amount of the excess first year
 27 premium; all present values of benefits and premiums being

1 determined without reference to premiums or benefits provided for
2 by the policy after the assumed ending date; the policy being
3 assumed to mature on that date as an endowment; and the cash
4 surrender value provided on that date being considered as an
5 endowment benefit. In making the above comparison, the mortality
6 and interest bases stated in subsection (1) and section 836 ~~shall~~
7 **MUST** be used.

8 Reserves according to the ~~commissioner's~~ **DIRECTOR'S** reserve
9 valuation method for ~~(I)~~ life insurance policies providing for a
10 varying amount of insurance or requiring the payment of varying
11 premiums; ~~;~~ ~~(II)~~ group annuity and pure endowment contracts
12 purchased under a retirement plan or plan of deferred
13 compensation, established or maintained by an employer, including
14 a partnership or sole proprietorship, or by an employee
15 organization, or by both, other than a plan providing individual
16 retirement accounts or individual retirement annuities under
17 section 408 of the internal revenue code **OF 1986**, 26 USC 408; ~~;~~
18 ~~(III)~~ disability and accidental death benefits in all policies
19 and contracts; ~~;~~ and ~~(IV)~~ all other benefits, except life
20 insurance and endowment benefits in life insurance policies and
21 benefits provided by all other annuity and pure endowment
22 contracts, ~~shall~~ **MUST** be calculated by a method consistent with
23 the principles of this subsection.

24 (3) This subsection applies to all annuity and pure
25 endowment contracts other than group annuity and pure endowment
26 contracts purchased under a retirement plan or plan of deferred
27 compensation, established or maintained by an employer, including

1 a partnership or sole proprietorship, or by an employee
2 organization, or by both, other than a plan providing individual
3 retirement accounts or individual retirement annuities under
4 section 408 of the internal revenue code **OF 1986**, 26 USC 408.
5 Without action by the Michigan Legislature to adopt actuarial
6 guideline 35, reserves according to the ~~commissioner's~~**DIRECTOR'S**
7 annuity reserve method for benefits under annuity or pure
8 endowment contracts, excluding any disability and accidental
9 death benefits in those contracts, ~~shall~~**MUST** be the greatest of
10 the respective excesses of the present values, at the date of
11 valuation, of the future guaranteed benefits, including
12 guaranteed nonforfeiture benefits, provided for by those
13 contracts at the end of each respective contract year, over the
14 present value, at the date of valuation, of any future valuation
15 considerations derived from future gross considerations, required
16 by the terms of the contract, that become payable before the end
17 of that respective contract year. The future guaranteed benefits
18 ~~shall~~**MUST** be determined by using the mortality table, if any,
19 and the interest rate specified in those contracts for
20 determining guaranteed benefits. The valuation considerations are
21 the portions of the respective gross considerations applied under
22 the terms of the contracts to determine nonforfeiture values.

23 (4) An insurer's aggregate reserves for all life insurance
24 policies, excluding disability and accidental death benefits,
25 shall not be less than the aggregate reserves calculated in
26 accordance with the methods ~~set forth~~**DESCRIBED** in subsections
27 (2), (3), (6), and (7), and the mortality table or tables and

1 rate or rates of interest used in calculating nonforfeiture
2 benefits for the policies. The aggregate reserves for all
3 policies, contracts, and benefits shall not be less than the
4 aggregate reserves determined by the ~~qualified~~**APPOINTED** actuary
5 to be necessary to render the opinion required by section 830a.

6 (5) Reserves for all policies and contracts issued ~~prior to~~
7 **BEFORE** June 27, 1994 may be calculated, at the option of the
8 insurer, according to any standards that produce greater
9 aggregate reserves for all those policies and contracts than the
10 minimum reserves required by the laws in effect immediately
11 before June 27, 1994. Reserves for a category of policies,
12 contracts, or benefits as established by the ~~commissioner,~~
13 **DIRECTOR**, issued ~~on or~~ after June 27, ~~26~~, 1994, may be calculated
14 at the option of the insurer according to any standards that
15 produce greater aggregate reserves than those calculated
16 according to the minimum standard provided in this act. However,
17 the rate or rates of interest used for policies and contracts,
18 other than annuity and pure endowment contracts, ~~shall~~**MUST** not
19 be ~~higher~~**GREATER** than the corresponding rate or rates of
20 interest used in calculating any nonforfeiture benefits provided
21 for in those policies and contracts. ~~Any~~**AN** insurer that had
22 previously adopted any standard of valuation producing greater
23 aggregate reserves than those calculated according to the minimum
24 standard provided in this section and section 835 may, with the
25 ~~commissioner's~~**DIRECTOR'S** approval, adopt any lower standard of
26 valuation, but not lower than the minimum standard provided by
27 this section and section 835. However, for the purposes of this

1 section, the holding of additional reserves previously determined
2 by a ~~qualified~~ **AN APPOINTED** actuary to be necessary to render the
3 opinion required by section 830a ~~shall~~ **IS** not ~~be~~ considered to be
4 the adoption of a higher standard of valuation.

5 (6) If in any contract year the gross premium charged by a
6 ~~life~~ **AN** insurer on a policy or contract is less than the
7 valuation net premium for the policy or contract calculated by
8 the method used in calculating the reserve on the policy or
9 contract, the insurer may use the minimum valuation standards of
10 mortality, either at the time of issue or the time of valuation
11 of the policy or contract and the minimum valuation rate of
12 interest at time of issue or the time of valuation of the policy
13 or contract, ~~so long as~~ **IF** the minimum reserve required for the
14 policy or contract is the greater of either the reserve
15 calculated according to the mortality table, rate of interest,
16 and method actually used for the policy or contract, or the
17 reserve calculated by the method actually used for the policy or
18 contract using the minimum valuation standards of mortality and
19 rate of interest and replacing the valuation net premium by the
20 actual gross premium in each contract year for which the
21 valuation net premium exceeds the actual gross premium. The
22 minimum valuation standards of mortality and rate of interest
23 referred to in this subsection are those standards stated in
24 subsection (1) and section 836. However, for any life insurance
25 policy issued ~~on or after January 1, 1986~~ **DECEMBER 31, 1985** for
26 which the gross premium in the first policy year exceeds that of
27 the second year and for which no comparable additional benefit is

1 provided in the first year for that excess and that provides an
2 endowment benefit or a cash surrender value or a combination of
3 endowment benefit and cash surrender value in an amount greater
4 than the excess premium, ~~the provisions of this subsection shall~~
5 ~~be applied~~ **APPLIES** as if the method actually used in calculating
6 the reserve for that policy were the method described in
7 subsection (2), ignoring paragraph 2 of that subsection. The
8 minimum reserve at each policy anniversary of that policy ~~shall~~
9 **MUST** be the greater of the minimum reserve calculated in
10 accordance with subsection (2), including paragraph 2 of that
11 subsection, and the minimum reserve calculated in accordance with
12 this subsection.

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

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

1 contracts issued on or after the operative date of section 4060
2 and except as otherwise provided in section 837 for universal
3 life contracts.

4 (9) AS USED IN THIS SECTION:

5 (A) "APPOINTED ACTUARY" MEANS A QUALIFIED ACTUARY WHO IS
6 APPOINTED IN ACCORDANCE WITH THE VALUATION MANUAL TO PREPARE THE
7 ACTUARIAL OPINION REQUIRED IN SECTION 830A(9).

8 (B) "NAIC" MEANS THE NATIONAL ASSOCIATION OF INSURANCE
9 COMMISSIONERS.

10 (C) "QUALIFIED ACTUARY" MEANS AN INDIVIDUAL WHO IS QUALIFIED
11 TO SIGN THE APPLICABLE STATEMENT OF ACTUARIAL OPINION IN
12 ACCORDANCE WITH THE AMERICAN ACADEMY OF ACTUARIES QUALIFICATION
13 STANDARDS FOR ACTUARIES SIGNING STATEMENTS OF ACTUARIAL OPINIONS
14 AND WHO MEETS THE REQUIREMENTS SPECIFIED IN THE VALUATION MANUAL.

15 (D) "VALUATION MANUAL" MEANS THE MANUAL OF VALUATION
16 INSTRUCTIONS ADOPTED BY THE NAIC AS SPECIFIED IN SECTION 836B.

17 Sec. 836. (1) The calendar year statutory valuation interest
18 rates as defined in this section ~~shall be~~ **ARE** the interest rates
19 used in determining the minimum standard for the valuation of the
20 following:

21 (a) All life insurance policies issued in a particular
22 calendar year on or after the operative date of paragraphs 9 to
23 ~~19-18~~ of section 4060(5).

24 (b) All individual annuity and pure endowment contracts
25 issued in a calendar year ~~on or after January 1, 1983.~~ **DECEMBER**
26 **31, 1982.**

27 (c) All annuities and pure endowments purchased in a

1 calendar year ~~on or after January 1, 1983~~ **DECEMBER 31, 1982** under
 2 group annuity and pure endowment contracts.

3 (d) The net increase, if any, in a calendar year after
 4 January 1, 1983 in amounts held under guaranteed interest
 5 contracts.

6 (2) The calendar year statutory valuation interest rates, I,
 7 shall be determined as follows, and the results rounded to the
 8 nearer 0.25%:

9 (a) For life insurance,

$$10 \quad I = .03 + W (R_1 - .03) + \frac{W}{2} (R_2 - .09).$$

11

12 where R is the reference interest rate defined in this
 13 section, R_1 is the lesser of R and .09, R_2 is the greater of R and
 14 .09, and W is the weighting factor defined in this section.

15 (b) For single premium immediate annuities and for annuity
 16 benefits involving life contingencies arising from other
 17 annuities with cash settlement options and from guaranteed
 18 interest contracts with cash settlement options,

$$19 \quad I = .03 + W (R - .03)$$

20 where R is the reference interest rate defined in this
 21 section, R_1 is the lesser of R and .09, R_2 is the greater of R and
 22 .09, and W is the weighting factor defined in this section.

23 (c) For other annuities with cash settlement options and
 24 guaranteed interest contracts with cash settlement options,
 25 valued on an issue year basis, except as stated in subdivision

1 (b), the formula for life insurance stated in subdivision (a)
2 ~~shall apply~~ **APPLIES** to annuities and guaranteed interest
3 contracts with guaranteed durations in excess of 10 years and the
4 formula for single premium immediate annuities stated in
5 subdivision (b) ~~shall apply~~ **APPLIES** to annuities and guaranteed
6 interest contracts with guaranteed duration of 10 years or less.

7 (d) For other annuities with no cash settlement options and
8 for guaranteed interest contracts with no cash settlement
9 options, the formula for single premium immediate annuities
10 stated in subdivision (b) ~~shall apply~~ **APPLIES**.

11 (e) For other annuities with cash settlement options and
12 guaranteed interest contracts with cash settlement options,
13 valued on a change in fund basis, the formula for single premium
14 immediate annuities stated in subdivision (b) shall
15 ~~apply~~ **APPLIES**.

16 (3) However, if the calendar year statutory valuation
17 interest rate for any life insurance policies issued in any
18 calendar year determined without reference to this sentence
19 differs from the corresponding actual rate for similar policies
20 issued in the immediately preceding calendar year by less than
21 0.5%, the calendar year statutory valuation interest rate for
22 ~~such~~ **THE** life insurance policies ~~shall~~ **MUST** be equal to the
23 corresponding actual rate for the immediately preceding calendar
24 year. For purposes of applying the immediately preceding
25 sentence, the calendar year statutory valuation interest rate for
26 life insurance policies issued in a calendar year ~~shall~~ **MUST** be
27 determined for 1980 using the reference interest rate defined for

1 1979 and ~~shall~~**MUST** be determined for each subsequent calendar
 2 year regardless of when paragraphs 9 to ~~19~~**18** of section 4060(5)
 3 become operative.

4 (4) The weighting factors referred to in the formulas in
 5 subsection (2) are given in the following tables:

6 (a) The weighting factors for life insurance are:

7	Guaranteed	
8	Duration	Weighting
9	<u>(Years)</u>	<u>Factors</u>
10	10 or less	.50
11	more than 10, but not more than 20	.45
12	more than 20	.35

13 For life insurance, the guaranteed duration is the maximum
 14 number of years the life insurance can remain in force on a basis
 15 guaranteed in the policy or under options to convert to plans of
 16 life insurance with premium rates or nonforfeiture values, or
 17 both, ~~which~~**THAT** are guaranteed in the original policy.

18 (b) The weighting factor for single premium immediate
 19 annuities and for annuity benefits involving life contingencies
 20 arising from other annuities with cash settlement options and
 21 guaranteed interest contracts with cash settlement options is
 22 .80.

23 (c) The weighting factors for other annuities and for
 24 guaranteed interest contracts, except as stated in subdivision
 25 (b), are specified in subparagraphs (i), (ii), and (iii), according
 26 to the rules and definitions in subparagraphs (iv), (v), and (vi)

1 as follows:

2 (i) For annuities and guaranteed interest
 3 contracts valued on an issue year basis:

4 Guaranteed	Weighting Factor		
5 Duration	For Plan Type		
6 <u>(Years)</u>	<u>A</u>	<u>B</u>	<u>C</u>
7 5 or less:	.80	.60	.50
8 more than 5, but not more than 10:	.75	.60	.50
9 more than 10, but not more than 20:	.65	.50	.45
10 more than 20:	.45	.35	.35
11	Plan Type		
12	<u>A</u>	<u>B</u>	<u>C</u>

13 (ii) For annuities and guaranteed
 14 interest contracts valued on a change in fund
 15 basis, the factors shown in subparagraph (i)
 16 increased by:

	.15	.25	.05
17	Plan Type		
18	<u>A</u>	<u>B</u>	<u>C</u>

19 (iii) For annuities and guaranteed
 20 interest contracts valued on an issue year
 21 basis, other than those with no cash
 22 settlement options, ~~which~~ **THAT** do not guarantee
 23 interest on considerations received more than
 24 1 year after issue or purchase and for
 25 annuities and guaranteed interest contracts
 26 valued on a change in fund basis ~~which~~ **THAT**
 27 do not guarantee interest rates on
 28 considerations received more than 12 months

1 beyond the valuation date, the factors shown
 2 in subparagraph (i) or derived in subparagraph
 3 (ii) increased by: .05 .05 .05

4 (iv) For other annuities with cash settlement options and
 5 guaranteed interest contracts with cash settlement options, the
 6 guaranteed duration is the number of years for which the contract
 7 guarantees interest rates in excess of the calendar year
 8 statutory valuation interest rate for life insurance policies
 9 with guaranteed duration in excess of 20 years. For other
 10 annuities with no cash settlement options and for guaranteed
 11 interest contracts with no cash settlement options, the
 12 guaranteed duration is the number of years from the date of issue
 13 or date of purchase to the date annuity benefits are scheduled to
 14 commence.

15 (v) As used in subparagraphs (i) to (iii):

16 (A) "Plan Type A" means at any time **THE** policyholder may
 17 withdraw funds only with an adjustment to reflect changes in
 18 interest rates or asset values since receipt of the funds by the
 19 insurance company; without ~~such~~**THE** adjustment but in
 20 installments over 5 years or more; as an immediate life annuity;
 21 or no withdrawal permitted.

22 (B) "Plan Type B" means before expiration of the interest
 23 rate guarantee, **THE** policyholder may withdraw funds only with an
 24 adjustment to reflect changes in interest rates or asset values
 25 since receipt of the funds by the insurance company; without ~~such~~
 26 **THE** adjustment but in installments over 5 years or more; or no

1 withdrawal permitted. At the end of interest rate guarantee,
2 funds may be withdrawn without ~~such~~**THE** adjustment in a single
3 sum or installments over less than 5 years.

4 (C) "Plan Type C" means **THE** policyholder may withdraw funds
5 before expiration of interest rate guarantee in a single sum or
6 installments over less than 5 years either without adjustment to
7 reflect changes in interest rates or asset values since receipt
8 of the funds by the insurance company or subject only to a fixed
9 surrender charge stipulated in the contract as a percentage of
10 the fund.

11 (vi) A company may elect to value guaranteed interest
12 contracts with cash settlement options and annuities with cash
13 settlement options on either an issue year basis or on a change
14 in fund basis. Guaranteed interest contracts with no cash
15 settlement options and other annuities with no cash settlement
16 options must be valued on an issue year basis. As used in this
17 section, an issue year basis of valuation refers to a valuation
18 basis under which the interest rate used to determine the minimum
19 valuation standard for the entire duration of the annuity or
20 guaranteed interest contract is the calendar year valuation
21 interest rate for the year of issue or year of purchase of the
22 annuity or guaranteed interest contract, and the change in fund
23 basis of valuation refers to a valuation basis under which the
24 interest rate used to determine the minimum valuation standard
25 applicable to each change in the fund held under the annuity or
26 guaranteed interest contract is the calendar year valuation
27 interest rate for the year of the change in the fund.

1 (5) As used in subsections (2) and (3), "the reference
2 interest rate" means:

3 (a) For all life insurance, the lesser of the average over a
4 period of 36 months and the average over a period of 12 months,
5 ending on June 30 of the calendar year next preceding the year of
6 issue, of Moody's corporate bond yield average - monthly average
7 corporates, as published by Moody's investors service, inc.

8 (b) For single premium immediate annuities and for annuity
9 benefits involving life contingencies arising from other
10 annuities with cash settlement options and guaranteed interest
11 contracts with cash settlement options, the average over a period
12 of 12 months, ending on June 30 of the calendar year of issue or
13 year of purchase or December 31 of the calendar year preceding
14 the year of issue or year of purchase, of Moody's corporate bond
15 yield average - monthly average corporates, as published by
16 Moody's investors service, inc. An insurer shall use the same
17 method of computing the reference interest rate under this
18 subdivision in all of its contracts. An insurer shall not change
19 its method of computing the reference interest rate under this
20 subdivision unless the insurer has notified and received approval
21 from the ~~commissioner~~-**DIRECTOR**.

22 (c) For other annuities with cash settlement options and
23 guaranteed interest contracts with cash settlement options,
24 valued on a year of issue basis, except as stated in subdivision
25 (b), with guaranteed duration in excess of 10 years, the lesser
26 of the average over a period of 36 months and the average over a
27 period of 12 months, ending on June 30 of the calendar year of

1 issue or purchase or December 31 of the calendar year preceding
2 the year of issue or year of purchase, of Moody's corporate bond
3 yield average - monthly average corporates, as published by
4 Moody's investors service, inc. An insurer shall use the same
5 method of computing the reference interest rate under this
6 subdivision in all of its contracts. An insurer shall not change
7 its method of computing the reference interest rate under this
8 subdivision unless the insurer has notified and received approval
9 from the ~~commissioner~~.**DIRECTOR.**

10 (d) For other annuities with cash settlement options and
11 guaranteed interest contracts with cash settlement options,
12 valued on a year of issue basis, except as stated in subdivision
13 (b), with guaranteed duration of 10 years or less, the average
14 over a period of 12 months, ending on June 30 of the calendar
15 year of issue or purchase or December 31 of the calendar year
16 preceding the year of issue or year of purchase, of Moody's
17 corporate bond yield average - monthly average corporates, as
18 published by Moody's investors service, inc. An insurer shall use
19 the same method of computing the reference interest rate under
20 this subdivision in all of its contracts. An insurer shall not
21 change its method of computing the reference interest rate under
22 this subdivision unless the insurer has notified and received
23 approval from the ~~commissioner~~.**DIRECTOR.**

24 (e) For other annuities with no cash settlement options and
25 for guaranteed interest contracts with no cash settlement
26 options, the average over a period of 12 months, ending on June
27 30 of the calendar year of issue or purchase or December 31 of

1 the calendar year preceding the year of issue or year of
2 purchase, of Moody's corporate bond yield average - monthly
3 average corporates, as published by Moody's investors service,
4 inc. An insurer shall use the same method of computing the
5 reference interest rate under this subdivision in all of its
6 contracts. An insurer shall not change its method of computing
7 the reference interest rate under this subdivision unless the
8 insurer has notified and received approval from the
9 ~~commissioner~~.**DIRECTOR**.

10 (f) For other annuities with cash settlement options and
11 guaranteed interest contracts with cash settlement options,
12 valued on a change in fund basis, except as stated in subdivision
13 (b), the average over a period of 12 months, ending on June 30 of
14 the calendar year of the change in the fund or December 31 of the
15 calendar year preceding the year of the change in the fund, of
16 Moody's corporate bond yield average - monthly average
17 corporates, as published by Moody's investors service, inc. An
18 insurer shall use the same method of computing the reference
19 interest rate under this subdivision in all of its contracts. An
20 insurer shall not change its method of computing the reference
21 interest rate under this subdivision unless the insurer has
22 notified and received approval from the ~~commissioner~~.**DIRECTOR**.

23 (6) ~~In the event that~~**IF** Moody's corporate bond yield
24 average - monthly average corporates is no longer published by
25 Moody's investors service, inc. or ~~in the event that~~**IF** the
26 national association of insurance commissioners determines that
27 Moody's corporate bond yield average - monthly average corporates

1 as published by Moody's investors service, inc. is no longer
2 appropriate for the determination of the reference interest rate,
3 then an alternative method for determination of the reference
4 interest rate, which is adopted by the national association of
5 insurance commissioners and approved by a rule promulgated by the
6 ~~commissioner~~, **DIRECTOR**, may be substituted.

7 (7) Any changes to policy or contract forms that are needed
8 because of changes in valuation rates ~~shall~~ **DO** not require
9 refiling with, or approval by, the ~~commissioner~~. **DIRECTOR**.

10 (8) An insurer may use December 31, 1985 for purposes of
11 computing the reference interest rate for the calendar year 1986
12 only.

13 **SEC. 836A. (1) THE DIRECTOR SHALL PROMULGATE REGULATIONS**
14 **CONTAINING THE MINIMUM STANDARDS APPLICABLE TO THE VALUATION OF**
15 **DISABILITY PLANS AND CONTRACTS ISSUED BEFORE THE DATE OF THE**
16 **VALUATION MANUAL. FOR ACCIDENT AND HEALTH INSURANCE CONTRACTS**
17 **ISSUED ON OR AFTER THE OPERATIVE DATE OF THE VALUATION MANUAL,**
18 **THE STANDARD PRESCRIBED IN THE VALUATION MANUAL IS THE MINIMUM**
19 **STANDARD OF VALUATION REQUIRED UNDER SECTION 830(2).**

20 (2) AS USED IN THIS SECTION, THE FOLLOWING DEFINITIONS APPLY
21 ON AND AFTER THE OPERATIVE DATE OF THE VALUATION MANUAL:

22 (A) "ACCIDENT AND HEALTH INSURANCE" MEANS CONTRACTS THAT
23 INCORPORATE MORBIDITY RISK AND PROVIDE PROTECTION AGAINST
24 ECONOMIC LOSS RESULTING FROM ACCIDENT, SICKNESS, OR MEDICAL
25 CONDITIONS AND AS MAY BE SPECIFIED IN THE VALUATION MANUAL.

26 (B) "NAIC" MEANS THE NATIONAL ASSOCIATION OF INSURANCE
27 COMMISSIONERS.

1 (C) "VALUATION MANUAL" MEANS THE MANUAL OF VALUATION
2 INSTRUCTIONS ADOPTED BY THE NAIC AS SPECIFIED IN SECTION 836B.

3 SEC. 836B. (1) ALL OF THE FOLLOWING APPLY TO THE VALUATION
4 MANUAL:

5 (A) EXCEPT AS OTHERWISE PROVIDED UNDER SUBDIVISION (E) OR
6 (G), FOR POLICIES ISSUED ON OR AFTER THE OPERATIVE DATE OF THE
7 VALUATION MANUAL AND, AT A COMPANY'S OPTION FOR INDIVIDUAL BLOCKS
8 OF BUSINESS, FOR POLICIES ISSUED BEFORE THE OPERATIVE DATE OF THE
9 VALUATION MANUAL, THE STANDARD PRESCRIBED IN THE VALUATION MANUAL
10 IS THE MINIMUM STANDARD OF VALUATION REQUIRED UNDER SECTION
11 830(2).

12 (B) THE OPERATIVE DATE OF THE VALUATION MANUAL IS JANUARY 1
13 OF THE FIRST CALENDAR YEAR FOLLOWING THE FIRST JULY 1 AS OF WHICH
14 ALL OF THE FOLLOWING HAVE OCCURRED:

15 (i) THE NAIC HAS ADOPTED THE VALUATION MANUAL BY A VOTE OF AT
16 LEAST 42 MEMBERS, OR 3/4 OF THE MEMBERS VOTING, WHICHEVER IS
17 GREATER.

18 (ii) THE STANDARD VALUATION LAW, AS AMENDED BY THE NAIC IN
19 2009, OR LEGISLATION INCLUDING SUBSTANTIALLY SIMILAR TERMS AND
20 PROVISIONS, HAS BEEN ENACTED BY STATES REPRESENTING GREATER THAN
21 75% OF THE DIRECT PREMIUMS WRITTEN AS REPORTED IN THE FOLLOWING
22 ANNUAL STATEMENTS SUBMITTED FOR 2008: LIFE, ACCIDENT, AND HEALTH
23 ANNUAL STATEMENTS; HEALTH ANNUAL STATEMENTS; OR FRATERNAL ANNUAL
24 STATEMENTS.

25 (iii) THE STANDARD VALUATION LAW, AS AMENDED BY THE NAIC IN
26 2009, OR LEGISLATION INCLUDING SUBSTANTIALLY SIMILAR TERMS AND
27 PROVISIONS, HAS BEEN ENACTED BY AT LEAST 42 OF THE FOLLOWING 55

1 JURISDICTIONS: THE 50 STATES OF THE UNITED STATES, AMERICAN
2 SAMOA, THE AMERICAN VIRGIN ISLANDS, THE DISTRICT OF COLUMBIA,
3 GUAM, AND PUERTO RICO.

4 (C) UNLESS A CHANGE IN THE VALUATION MANUAL SPECIFIES A
5 LATER EFFECTIVE DATE, A CHANGE TO THE VALUATION MANUAL IS
6 EFFECTIVE ON JANUARY 1 AFTER THE DATE THE NAIC ADOPTS THE CHANGE
7 TO THE VALUATION MANUAL BY A VOTE REPRESENTING BOTH OF THE
8 FOLLOWING:

9 (i) AT LEAST 3/4 OF THE MEMBERS OF THE NAIC, BUT NOT LESS
10 THAN A MAJORITY OF THE TOTAL MEMBERSHIP.

11 (ii) MEMBERS OF THE NAIC REPRESENTING JURISDICTIONS THAT
12 AMOUNT TO GREATER THAN 75% OF THE DIRECT PREMIUMS WRITTEN AS
13 REPORTED IN THE FOLLOWING ANNUAL STATEMENTS MOST RECENTLY
14 AVAILABLE BEFORE THE VOTE IN SUBPARAGRAPH (i): LIFE, ACCIDENT, AND
15 HEALTH ANNUAL STATEMENTS; HEALTH ANNUAL STATEMENTS; OR FRATERNAL
16 ANNUAL STATEMENTS.

17 (D) THE VALUATION MANUAL MUST SPECIFY ALL OF THE FOLLOWING:

18 (i) MINIMUM VALUATION STANDARDS FOR AND DEFINITIONS OF THE
19 POLICIES OR CONTRACTS SUBJECT TO SECTION 830(2). THE MINIMUM
20 VALUATION STANDARDS ARE ALL OF THE FOLLOWING:

21 (A) THE DIRECTOR'S RESERVE VALUATION METHOD FOR LIFE
22 INSURANCE CONTRACTS, OTHER THAN ANNUITY CONTRACTS, SUBJECT TO
23 SECTION 830(2).

24 (B) THE DIRECTOR'S ANNUITY RESERVE VALUATION METHOD FOR
25 ANNUITY CONTRACTS SUBJECT TO SECTION 830(2).

26 (C) MINIMUM RESERVES FOR ALL OTHER POLICIES OR CONTRACTS
27 SUBJECT TO SECTION 830(2).

1 (ii) THE POLICIES OR CONTRACTS OR TYPES OF POLICIES OR
2 CONTRACTS THAT ARE SUBJECT TO THE REQUIREMENTS OF A PRINCIPLE-
3 BASED VALUATION IN SUBSECTION (2) AND THE MINIMUM VALUATION
4 STANDARDS CONSISTENT WITH THOSE REQUIREMENTS.

5 (iii) FOR POLICIES AND CONTRACTS SUBJECT TO A PRINCIPLE-BASED
6 VALUATION UNDER SUBSECTION (2), ALL OF THE FOLLOWING APPLY:

7 (A) REQUIREMENTS FOR THE FORMAT OF REPORTS TO THE DIRECTOR
8 UNDER SUBSECTION (3) (C) AND THAT MUST INCLUDE INFORMATION
9 NECESSARY TO DETERMINE IF THE VALUATION IS APPROPRIATE AND IN
10 COMPLIANCE WITH THIS SECTION.

11 (B) ASSUMPTIONS MUST BE PRESCRIBED FOR RISKS OVER WHICH THE
12 COMPANY DOES NOT HAVE SIGNIFICANT CONTROL OR INFLUENCE.

13 (C) PROCEDURES FOR CORPORATE GOVERNANCE AND OVERSIGHT OF THE
14 ACTUARIAL FUNCTION, AND A PROCESS FOR APPROPRIATE WAIVER OR
15 MODIFICATION OF THE PROCEDURES.

16 (iv) FOR POLICIES THAT ARE NOT SUBJECT TO A PRINCIPLE-BASED
17 VALUATION UNDER SUBSECTIONS (2), (3), AND (4), THE MINIMUM
18 VALUATION STANDARD IS 1 OF THE FOLLOWING:

19 (A) THE STANDARD IS CONSISTENT WITH THE MINIMUM STANDARD OF
20 VALUATION BEFORE THE OPERATIVE DATE OF THE VALUATION MANUAL.

21 (B) THE STANDARD DEVELOPS RESERVES THAT QUANTIFY THE
22 BENEFITS AND GUARANTEES, AND THE FUNDING, ASSOCIATED WITH THE
23 CONTRACTS AND THEIR RISKS AT A LEVEL OF CONSERVATISM THAT
24 REFLECTS CONDITIONS THAT INCLUDE UNFAVORABLE EVENTS THAT HAVE A
25 REASONABLE PROBABILITY OF OCCURRING.

26 (v) OTHER REQUIREMENTS, INCLUDING, BUT NOT LIMITED TO, THOSE
27 RELATING TO RESERVE METHODS, MODELS FOR MEASURING RISK,

1 GENERATION OF ECONOMIC SCENARIOS, ASSUMPTIONS, MARGINS, USE OF
2 COMPANY EXPERIENCE, RISK MEASUREMENT, DISCLOSURE, CERTIFICATIONS,
3 REPORTS, ACTUARIAL OPINIONS AND MEMORANDUMS, TRANSITION RULES,
4 AND INTERNAL CONTROLS.

5 (vi) THE DATA AND FORM OF THE DATA REQUIRED UNDER SUBSECTION
6 (5), TO WHOM THE DATA MUST BE SUBMITTED, AND MAY SPECIFY OTHER
7 REQUIREMENTS INCLUDING DATA ANALYSES AND REPORTING OF ANALYSES.

8 (E) IF THERE IS NOT A SPECIFIC VALUATION REQUIREMENT OR IF
9 THE DIRECTOR DETERMINES THAT A SPECIFIC VALUATION REQUIREMENT IN
10 THE VALUATION MANUAL DOES NOT COMPLY WITH THIS SECTION, THE
11 COMPANY SHALL, WITH RESPECT TO THE REQUIREMENT, COMPLY WITH
12 MINIMUM VALUATION STANDARDS PRESCRIBED BY THE DIRECTOR BY RULE.

13 (F) THE DIRECTOR MAY ENGAGE A QUALIFIED ACTUARY, AT THE
14 EXPENSE OF THE COMPANY, TO PERFORM AN ACTUARIAL EXAMINATION OF
15 THE COMPANY AND OPINE ON THE APPROPRIATENESS OF ANY RESERVE
16 ASSUMPTION OR METHOD USED BY THE COMPANY, OR TO REVIEW AND OPINE
17 ON A COMPANY'S COMPLIANCE WITH ANY REQUIREMENT OF THIS SECTION.
18 THE DIRECTOR MAY RELY UPON THE OPINION, REGARDING THIS SECTION,
19 OF A QUALIFIED ACTUARY ENGAGED BY THE COMMISSIONER OF ANOTHER
20 STATE, DISTRICT, OR TERRITORY OF THE UNITED STATES. AS USED IN
21 THIS SUBDIVISION, "ENGAGE" INCLUDES EMPLOYMENT AND CONTRACTING.

22 (G) THE DIRECTOR MAY REQUIRE A COMPANY TO CHANGE ANY
23 ASSUMPTION OR METHOD THAT THE DIRECTOR CONSIDERS NECESSARY TO
24 COMPLY WITH THE REQUIREMENTS OF THE VALUATION MANUAL OR THIS
25 SECTION, AND THE COMPANY SHALL ADJUST THE RESERVES AS REQUIRED BY
26 THE DIRECTOR.

27 (2) A COMPANY SHALL ESTABLISH RESERVES USING A PRINCIPLE-

1 BASED VALUATION THAT MEETS ALL OF THE FOLLOWING CONDITIONS FOR
2 POLICIES OR CONTRACTS AS SPECIFIED IN THE VALUATION MANUAL:

3 (A) QUANTIFY THE BENEFITS AND GUARANTEES, AND THE FUNDING,
4 ASSOCIATED WITH THE CONTRACTS AND THEIR RISKS AT A LEVEL OF
5 CONSERVATISM THAT REFLECTS CONDITIONS THAT INCLUDE UNFAVORABLE
6 EVENTS THAT HAVE A REASONABLE PROBABILITY OF OCCURRING DURING THE
7 LIFETIME OF THE CONTRACTS. FOR POLICES OR CONTRACTS WITH
8 SIGNIFICANT TAIL RISK, REFLECTS CONDITIONS APPROPRIATELY ADVERSE
9 TO QUANTIFY THE TAIL RISK.

10 (B) INCORPORATE ASSUMPTIONS, RISK ANALYSIS METHODS,
11 FINANCIAL MODELS, AND MANAGEMENT TECHNIQUES THAT ARE CONSISTENT
12 WITH, BUT NOT NECESSARILY IDENTICAL TO, THOSE USED WITHIN THE
13 COMPANY'S OVERALL RISK ASSESSMENT PROCESS, WHILE RECOGNIZING
14 POTENTIAL DIFFERENCES IN FINANCIAL REPORTING STRUCTURES AND ANY
15 PRESCRIBED ASSUMPTIONS OR METHODS.

16 (C) INCORPORATE ASSUMPTIONS THAT ARE DERIVED IN 1 OF THE
17 FOLLOWING MANNERS:

18 (i) THE ASSUMPTION IS PRESCRIBED IN THE VALUATION MANUAL.

19 (ii) FOR ASSUMPTIONS THAT ARE NOT PRESCRIBED IN THE VALUATION
20 MANUAL, THE ASSUMPTIONS MUST DO THE FOLLOWING, AS APPLICABLE:

21 (A) USE THE COMPANY'S AVAILABLE EXPERIENCE, TO THE EXTENT IT
22 IS RELEVANT AND STATISTICALLY CREDIBLE.

23 (B) TO THE EXTENT THAT COMPANY DATA ARE NOT AVAILABLE,
24 RELEVANT, OR STATISTICALLY CREDIBLE, USE OTHER RELEVANT AND
25 STATISTICALLY CREDIBLE EXPERIENCE.

26 (D) PROVIDE MARGINS FOR UNCERTAINTY, INCLUDING ADVERSE
27 DEVIATION AND ESTIMATION ERROR, SUCH THAT THE GREATER THE

1 UNCERTAINTY, THE LARGER THE MARGIN AND RESULTING RESERVE.

2 (3) A COMPANY THAT USES PRINCIPLE-BASED VALUATION FOR 1 OR
3 MORE POLICIES OR CONTRACTS SUBJECT TO THIS SECTION AS SPECIFIED
4 IN THE VALUATION MANUAL SHALL DO ALL OF THE FOLLOWING:

5 (A) ESTABLISH PROCEDURES FOR CORPORATE GOVERNANCE AND
6 OVERSIGHT OF THE ACTUARIAL VALUATION FUNCTION CONSISTENT WITH
7 THOSE DESCRIBED IN THE VALUATION MANUAL.

8 (B) PROVIDE TO THE DIRECTOR AND THE BOARD OF DIRECTORS AN
9 ANNUAL CERTIFICATION OF THE EFFECTIVENESS OF THE INTERNAL
10 CONTROLS WITH RESPECT TO THE PRINCIPLE-BASED VALUATION. THE
11 INTERNAL CONTROLS MUST BE DESIGNED TO ASSURE THAT ALL MATERIAL
12 RISKS INHERENT IN THE LIABILITIES AND ASSOCIATED ASSETS SUBJECT
13 TO THE VALUATION ARE INCLUDED IN THE VALUATION, AND THAT
14 VALUATIONS ARE MADE IN ACCORDANCE WITH THE VALUATION MANUAL. THE
15 CERTIFICATION MUST BE BASED ON THE CONTROLS IN PLACE AT THE END
16 OF THE PRECEDING CALENDAR YEAR.

17 (C) DEVELOP, AND FILE WITH THE DIRECTOR ON REQUEST, A
18 PRINCIPLE-BASED VALUATION REPORT THAT COMPLIES WITH STANDARDS
19 PRESCRIBED IN THE VALUATION MANUAL.

20 (4) A PRINCIPLE-BASED VALUATION MAY INCLUDE A PRESCRIBED
21 FORMULAIC RESERVE COMPONENT.

22 (5) A COMPANY SHALL SUBMIT MORTALITY, MORBIDITY,
23 POLICYHOLDER BEHAVIOR, OR EXPENSE EXPERIENCE AND OTHER DATA AS
24 PRESCRIBED IN THE VALUATION MANUAL.

25 (6) EXCEPT AS OTHERWISE PROVIDED IN THIS SECTION,
26 CONFIDENTIAL INFORMATION IS CONFIDENTIAL AND PRIVILEGED, IS NOT
27 SUBJECT TO DISCLOSURE UNDER THE FREEDOM OF INFORMATION ACT, 1976

1 PA 442, MCL 15.231 TO 15.246, IS NOT SUBJECT TO SUBPOENA, AND IS
2 NOT SUBJECT TO DISCOVERY OR ADMISSIBLE IN EVIDENCE IN A PRIVATE
3 CIVIL ACTION. HOWEVER, THE DIRECTOR MAY USE THE CONFIDENTIAL
4 INFORMATION IN THE FURTHERANCE OF ANY REGULATORY OR LEGAL ACTION
5 BROUGHT AS A PART OF THE DIRECTOR'S OFFICIAL DUTIES.

6 (7) THE DIRECTOR OR ANY PERSON WHO RECEIVED CONFIDENTIAL
7 INFORMATION WHILE ACTING UNDER THE AUTHORITY OF THE DIRECTOR
8 SHALL NOT TESTIFY IN A PRIVATE CIVIL ACTION CONCERNING
9 CONFIDENTIAL INFORMATION.

10 (8) THE DIRECTOR MAY DO ALL OF THE FOLLOWING:

11 (A) EXCEPT AS OTHERWISE PROVIDED IN THIS SUBDIVISION, SHARE
12 CONFIDENTIAL INFORMATION WITH OTHER STATE, FEDERAL, AND
13 INTERNATIONAL REGULATORY AGENCIES AND WITH THE NAIC AND ITS
14 AFFILIATES AND SUBSIDIARIES. THE DIRECTOR MAY ALSO SHARE
15 CONFIDENTIAL INFORMATION DESCRIBED IN SUBSECTION (18) (C) (i) AND
16 (iv) ONLY WITH THE ACTUARIAL BOARD FOR COUNSELING AND DISCIPLINE
17 OR ITS SUCCESSOR ON REQUEST FOR THE PURPOSE OF PROFESSIONAL
18 DISCIPLINARY PROCEEDINGS AND WITH STATE, FEDERAL, AND
19 INTERNATIONAL LAW ENFORCEMENT OFFICIALS. THE DIRECTOR SHALL NOT
20 SHARE CONFIDENTIAL INFORMATION UNLESS THE RECIPIENT AGREES IN
21 WRITING TO MAINTAIN THE CONFIDENTIALITY AND PRIVILEGED STATUS OF
22 THE CONFIDENTIAL INFORMATION AND HAS VERIFIED IN WRITING THE
23 LEGAL AUTHORITY TO MAINTAIN CONFIDENTIALITY.

24 (B) SUBJECT TO THIS SUBDIVISION, RECEIVE DOCUMENTS,
25 MATERIALS, DATA, OR INFORMATION FROM REGULATORY OR LAW
26 ENFORCEMENT OFFICIALS OF OTHER FOREIGN OR DOMESTIC JURISDICTIONS,
27 THE ACTUARIAL BOARD FOR COUNSELING AND DISCIPLINE OR ITS

1 SUCCESSOR, AND THE NAIC AND ITS AFFILIATES AND SUBSIDIARIES. THE
2 DIRECTOR SHALL MAINTAIN AS CONFIDENTIAL OR PRIVILEGED ANY
3 DOCUMENTS, MATERIALS, OR INFORMATION RECEIVED WITH NOTICE OR THE
4 UNDERSTANDING THAT IT IS CONFIDENTIAL OR PRIVILEGED UNDER THE
5 LAWS OF THE JURISDICTION THAT IS THE SOURCE OF THE DOCUMENT,
6 MATERIAL, OR INFORMATION.

7 (9) THE DIRECTOR MAY ENTER INTO WRITTEN AGREEMENTS GOVERNING
8 SHARING AND USE OF INFORMATION PROVIDED UNDER THIS SECTION.

9 (10) THE DISCLOSURE OR SHARING OF CONFIDENTIAL INFORMATION
10 TO THE DIRECTOR UNDER THIS SECTION IS NOT A WAIVER OF AN
11 APPLICABLE PRIVILEGE OR CLAIM OF CONFIDENTIALITY.

12 (11) A PRIVILEGE ESTABLISHED UNDER THE LAW OF ANY STATE OR
13 JURISDICTION THAT IS SUBSTANTIALLY SIMILAR TO THE PRIVILEGE
14 ESTABLISHED UNDER THIS SECTION APPLIES IN ANY PROCEEDING IN, AND
15 IN ANY COURT OF, THIS STATE.

16 (12) AS USED IN SUBSECTIONS (6) TO (10), "REGULATORY
17 AGENCY", "LAW ENFORCEMENT AGENCY", AND "NAIC" INCLUDE, BUT ARE
18 NOT LIMITED TO, THEIR EMPLOYEES, AGENTS, CONSULTANTS, AND
19 CONTRACTORS.

20 (13) NOTWITHSTANDING ANYTHING IN THIS SECTION TO THE
21 CONTRARY, ANY CONFIDENTIAL INFORMATION DESCRIBED IN SUBSECTION
22 (18) (C) (i) AND (iv) IS SUBJECT TO ALL OF THE FOLLOWING:

23 (A) THE CONFIDENTIAL INFORMATION IS SUBJECT TO SUBPOENA FOR
24 THE PURPOSE OF DEFENDING AN ACTION SEEKING DAMAGES FROM THE
25 APPOINTED ACTUARY SUBMITTING THE RELATED MEMORANDUM IN SUPPORT OF
26 AN OPINION SUBMITTED UNDER SECTION 830A OR PRINCIPLE-BASED
27 VALUATION REPORT DEVELOPED UNDER SUBSECTION (3) (C) BY REASON OF

1 AN ACTION REQUIRED BY SECTION 830A OR SUBSECTION (3)(C) OR BY
2 RULES PROMULGATED UNDER THIS SECTION.

3 (B) THE DIRECTOR MAY RELEASE THE CONFIDENTIAL INFORMATION
4 WITH THE WRITTEN CONSENT OF THE COMPANY.

5 (C) IF ANY PORTION OF A MEMORANDUM IN SUPPORT OF AN OPINION
6 SUBMITTED UNDER SECTION 830A OR A PRINCIPLE-BASED VALUATION
7 REPORT DEVELOPED UNDER SUBSECTION (3)(C) IS CITED BY THE COMPANY
8 IN ITS MARKETING, IS CITED BEFORE A GOVERNMENTAL AGENCY OTHER
9 THAN A STATE INSURANCE DEPARTMENT, OR IS RELEASED BY THE COMPANY
10 TO THE NEWS MEDIA, THE MEMORANDUM OR REPORT IS NOT CONFIDENTIAL.

11 (14) EXCEPT AS PROVIDED IN SUBSECTION (15), A DOMESTIC
12 COMPANY IS EXEMPT FROM THE REQUIREMENTS UNDER SUBSECTIONS (1) TO
13 (5) IF THE DOMESTIC COMPANY MEETS BOTH OF THE FOLLOWING
14 REQUIREMENTS:

15 (A) THE DOMESTIC COMPANY HAS LESS THAN \$500,000,000.00 OF
16 ORDINARY LIFE PREMIUMS AND, IF THE DOMESTIC COMPANY IS A MEMBER
17 OF A GROUP OF LIFE INSURERS, THE GROUP HAS COMBINED ORDINARY LIFE
18 PREMIUMS OF LESS THAN \$1,000,000,000.00.

19 (B) THE DOMESTIC COMPANY REPORTED TOTAL ADJUSTED CAPITAL OF
20 AT LEAST 450% OF THE AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL
21 IN THE MOST RECENT RISK-BASED CAPITAL REPORT AND THE APPOINTED
22 ACTUARY HAS PROVIDED AN UNQUALIFIED OPINION ON THE RESERVES.

23 (15) A DOMESTIC COMPANY THAT MEETS THE REQUIREMENTS UNDER
24 SUBSECTION (14)(A) AND (B) MAY ELECT TO BE BOUND BY THE
25 REQUIREMENTS OF SUBSECTIONS (1) TO (5) FOR A CALENDAR YEAR. THE
26 ELECTION MUST BE IN WRITING AND FILED WITH THE DIRECTOR BY
27 FEBRUARY 1 OF THE YEAR FOLLOWING THE CALENDAR YEAR IN WHICH THE

1 COMPANY SEEKS AN EXEMPTION.

2 (16) FOR PURPOSES OF SUBSECTION (14), ORDINARY LIFE PREMIUMS
3 ARE MEASURED AS DIRECT PLUS REINSURANCE ASSUMED FROM AN
4 UNAFFILIATED COMPANY FROM THE PRIOR CALENDAR YEAR ANNUAL
5 STATEMENT.

6 (17) EXCEPT FOR A DOMESTIC COMPANY THAT MAKES AN ELECTION
7 UNDER SUBSECTION (15), FOR A DOMESTIC COMPANY THAT IS EXEMPT FROM
8 THE REQUIREMENTS OF SUBSECTIONS (1) TO (5) UNDER SUBSECTION (14),
9 SECTIONS 830A, 832, 834, 835, 836, AND 836A ARE APPLICABLE, AND A
10 REFERENCE TO THIS SECTION IN SECTIONS 830A, 834, AND 836A IS NOT
11 APPLICABLE.

12 (18) AS USED IN THIS SECTION:

13 (A) "ACCIDENT AND HEALTH INSURANCE" MEANS CONTRACTS THAT
14 INCORPORATE MORBIDITY RISK AND PROVIDE PROTECTION AGAINST
15 ECONOMIC LOSS RESULTING FROM ACCIDENT, SICKNESS, OR MEDICAL
16 CONDITIONS AND AS MAY BE SPECIFIED IN THE VALUATION MANUAL.

17 (B) "COMPANY" MEANS AN ENTITY THAT HAS WRITTEN, ISSUED, OR
18 REINSURED LIFE INSURANCE CONTRACTS, ACCIDENT AND HEALTH INSURANCE
19 CONTRACTS, OR DEPOSIT-TYPE CONTRACTS IN THIS STATE AND HAS AT
20 LEAST 1 POLICY IN FORCE OR ON CLAIM OR THAT HAS WRITTEN, ISSUED,
21 OR REINSURED LIFE INSURANCE CONTRACTS, ACCIDENT AND HEALTH
22 INSURANCE CONTRACTS, OR DEPOSIT-TYPE CONTRACTS IN ANY STATE AND
23 IS REQUIRED TO HOLD A CERTIFICATE OF AUTHORITY TO WRITE LIFE
24 INSURANCE, ACCIDENT AND HEALTH INSURANCE, OR DEPOSIT-TYPE
25 CONTRACTS IN THIS STATE.

26 (C) "CONFIDENTIAL INFORMATION" MEANS ALL OF THE FOLLOWING:

27 (i) A MEMORANDUM IN SUPPORT OF AN OPINION SUBMITTED UNDER

1 SECTION 830A AND ANY OTHER DOCUMENTS, MATERIALS, AND OTHER
2 INFORMATION, INCLUDING, BUT NOT LIMITED TO, ALL WORKING PAPERS,
3 AND COPIES OF WORKING PAPERS, CREATED, PRODUCED, OR OBTAINED BY
4 OR DISCLOSED TO THE DIRECTOR OR ANY OTHER PERSON IN CONNECTION
5 WITH THE MEMORANDUM.

6 (ii) ALL DOCUMENTS, MATERIALS, AND OTHER INFORMATION,
7 INCLUDING, BUT NOT LIMITED TO, ALL WORKING PAPERS, AND COPIES OF
8 WORKING PAPERS, CREATED, PRODUCED, OR OBTAINED BY OR DISCLOSED TO
9 THE DIRECTOR OR ANY OTHER PERSON IN THE COURSE OF AN EXAMINATION
10 MADE UNDER SUBSECTION (1) (F) IF AN EXAMINATION REPORT OR OTHER
11 MATERIAL PREPARED IN CONNECTION WITH AN EXAMINATION MADE UNDER
12 SECTION 222 IS NOT HELD AS PRIVATE AND CONFIDENTIAL INFORMATION
13 UNDER SECTION 222, AN EXAMINATION REPORT OR OTHER MATERIAL
14 PREPARED IN CONNECTION WITH AN EXAMINATION MADE UNDER SUBSECTION
15 (1) (F) IS NOT "CONFIDENTIAL INFORMATION" TO THE SAME EXTENT AS IF
16 THE EXAMINATION REPORT OR OTHER MATERIAL HAD BEEN PREPARED UNDER
17 SECTION 222.

18 (iii) ANY REPORTS, DOCUMENTS, MATERIALS, AND OTHER INFORMATION
19 DEVELOPED BY A COMPANY IN SUPPORT OF, OR IN CONNECTION WITH, AN
20 ANNUAL CERTIFICATION BY THE COMPANY UNDER SUBSECTION (3) (B)
21 EVALUATING THE EFFECTIVENESS OF THE COMPANY'S INTERNAL CONTROLS
22 WITH RESPECT TO A PRINCIPLE-BASED VALUATION AND ANY OTHER
23 DOCUMENTS, MATERIALS, AND OTHER INFORMATION, INCLUDING, BUT NOT
24 LIMITED TO, ALL WORKING PAPERS, AND COPIES OF WORKING PAPERS,
25 CREATED, PRODUCED, OR OBTAINED BY OR DISCLOSED TO THE DIRECTOR OR
26 ANY OTHER PERSON IN CONNECTION WITH SUCH REPORTS, DOCUMENTS,
27 MATERIALS, AND OTHER INFORMATION.

1 (iv) ANY PRINCIPLE-BASED VALUATION REPORT DEVELOPED UNDER
2 SUBSECTION (3)(C) AND ANY OTHER DOCUMENTS, MATERIALS, AND OTHER
3 INFORMATION, INCLUDING, BUT NOT LIMITED TO, ALL WORKING PAPERS,
4 AND COPIES OF WORKING PAPERS, CREATED, PRODUCED, OR OBTAINED BY
5 OR DISCLOSED TO THE DIRECTOR OR ANY OTHER PERSON IN CONNECTION
6 WITH THE REPORT.

7 (v) ANY DOCUMENTS, MATERIALS, DATA, AND OTHER INFORMATION
8 SUBMITTED BY A COMPANY UNDER SUBSECTION (5), COLLECTIVELY,
9 EXPERIENCE DATA, AND ANY OTHER DOCUMENTS, MATERIALS, DATA, AND
10 OTHER INFORMATION, INCLUDING, BUT NOT LIMITED TO, ALL WORKING
11 PAPERS, AND COPIES OF WORKING PAPERS, CREATED OR PRODUCED IN
12 CONNECTION WITH THE EXPERIENCE DATA, IN EACH CASE THAT INCLUDE
13 ANY POTENTIALLY COMPANY-IDENTIFYING OR PERSONALLY IDENTIFIABLE
14 INFORMATION, THAT IS PROVIDED TO OR OBTAINED BY THE DIRECTOR,
15 TOGETHER WITH ANY EXPERIENCE DATA, THE EXPERIENCE MATERIALS AND
16 ANY OTHER DOCUMENTS, MATERIALS, DATA, AND OTHER INFORMATION,
17 INCLUDING, BUT NOT LIMITED TO, ALL WORKING PAPERS, AND COPIES OF
18 WORKING PAPERS, CREATED, PRODUCED, OR OBTAINED BY OR DISCLOSED TO
19 THE DIRECTOR OR ANY OTHER PERSON IN CONNECTION WITH THE
20 EXPERIENCE MATERIALS.

21 (D) "DEPOSIT-TYPE CONTRACT" MEANS CONTRACTS THAT DO NOT
22 INCORPORATE MORTALITY OR MORBIDITY RISKS AND AS MAY BE SPECIFIED
23 IN THE VALUATION MANUAL.

24 (E) "LIFE INSURANCE" MEANS CONTRACTS THAT INCORPORATE
25 MORTALITY RISK, INCLUDING ANNUITY AND PURE ENDOWMENT CONTRACTS,
26 AND AS MAY BE SPECIFIED IN THE VALUATION MANUAL.

27 (F) "NAIC" MEANS THE NATIONAL ASSOCIATION OF INSURANCE

1 COMMISSIONERS.

2 (G) "POLICYHOLDER BEHAVIOR" MEANS ANY ACTION A POLICYHOLDER,
3 CONTRACT HOLDER, OR ANY OTHER PERSON WITH THE RIGHT TO ELECT
4 OPTIONS, SUCH AS A CERTIFICATE HOLDER, MAY TAKE UNDER A POLICY OR
5 CONTRACT SUBJECT TO THIS SECTION, INCLUDING, BUT NOT LIMITED TO,
6 LAPSE, WITHDRAWAL, TRANSFER, DEPOSIT, PREMIUM PAYMENT, LOAN,
7 ANNUITIZATION, OR BENEFIT ELECTIONS PRESCRIBED BY THE POLICY OR
8 CONTRACT BUT EXCLUDING EVENTS OF MORTALITY OR MORBIDITY THAT
9 RESULT IN BENEFITS PRESCRIBED IN THEIR ESSENTIAL ASPECTS BY THE
10 TERMS OF THE POLICY OR CONTRACT.

11 (H) "PRINCIPLE-BASED VALUATION" MEANS A RESERVE VALUATION
12 THAT USES 1 OR MORE METHODS OR 1 OR MORE ASSUMPTIONS DETERMINED
13 BY THE INSURER AND IS REQUIRED TO COMPLY WITH THIS SECTION AS
14 SPECIFIED IN THE VALUATION MANUAL.

15 (I) "QUALIFIED ACTUARY" MEANS AN INDIVIDUAL WHO IS QUALIFIED
16 TO SIGN THE APPLICABLE STATEMENT OF ACTUARIAL OPINION IN
17 ACCORDANCE WITH THE AMERICAN ACADEMY OF ACTUARIES QUALIFICATION
18 STANDARDS FOR ACTUARIES SIGNING SUCH STATEMENTS AND WHO MEETS THE
19 REQUIREMENTS SPECIFIED IN THE VALUATION MANUAL.

20 (J) "TAIL RISK" MEANS A RISK THAT OCCURS EITHER WHERE THE
21 FREQUENCY OF LOW PROBABILITY EVENTS IS HIGHER THAN EXPECTED UNDER
22 A NORMAL PROBABILITY DISTRIBUTION OR WHERE THERE ARE OBSERVED
23 EVENTS OF VERY SIGNIFICANT SIZE OR MAGNITUDE.

24 (K) "VALUATION MANUAL" MEANS THE MANUAL OF VALUATION
25 INSTRUCTIONS ADOPTED BY THE NAIC AS SPECIFIED IN THIS SECTION.

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

27 (a) "2001 CSO mortality table" means that mortality table,

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

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

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

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

21 (e) "NAIC" means the national association of insurance
22 commissioners.

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

26 (2) In addition to the other requirements of this act, a
27 life insurer shall use appendix A-830 of the NAIC accounting

1 practices and procedures manual for the valuation of life
 2 insurance policies. Any supplements, replacements, or changes to
 3 appendix A-830 of the NAIC accounting practices and procedures
 4 manual that are adopted by the NAIC ~~shall~~ only take effect if
 5 adopted by the ~~commissioner~~ **DIRECTOR** by rules promulgated
 6 ~~pursuant to~~ **UNDER** the administrative procedures act of 1969, 1969
 7 PA 306, MCL 24.201 to 24.328. This section does not expand the
 8 applicability of appendix A-830 of the NAIC accounting practices
 9 and procedures manual to include life insurance policies
 10 otherwise exempt under appendix A-830 of the NAIC accounting
 11 practices and procedures manual.

12 (3) At the election of an insurer for each plan of insurance
 13 and subject to this section, the 2001 CSO mortality table may be
 14 used as the minimum standard for policies issued on or after July
 15 1, 2004 and before January 1, 2009 to which sections ~~834(1)(I)~~
 16 **834(1)(A)** and 4060(5)(f) **AND (G)** are applicable. If an insurer
 17 elects to use the 2001 CSO mortality table, it shall do so for
 18 both valuation and nonforfeiture purposes. Subject to this
 19 section, the 2001 CSO mortality table ~~shall~~ **MUST** be used in
 20 determining minimum standards for policies issued on or after
 21 January 1, 2009 to which sections ~~834(1)(I)~~ **834(1)(A)** and
 22 4060(5)(f) **AND (G)** are applicable.

23 (4) For plans of insurance without separate rates for
 24 smokers and nonsmokers, the composite mortality tables ~~shall~~ **MUST**
 25 be used. For each plan of insurance with separate rates for
 26 smokers and nonsmokers, an insurer may use any of the following:

27 (a) Composite mortality tables to determine minimum reserve

1 liabilities, minimum cash surrender values, and amounts of paid-
2 up nonforfeiture benefits.

3 (b) Smoker and nonsmoker mortality tables to determine the
4 valuation net premiums and additional minimum reserves, if any,
5 required by section 834 and composite mortality tables to
6 determine the basic minimum reserve liabilities, minimum cash
7 surrender values, and amounts of paid-up nonforfeiture benefits.

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

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

17 (6) If the 2001 CSO mortality table is the minimum reserve
18 standard for any plan for an insurer, the actuarial opinion in
19 the annual statement filed with the ~~commissioner shall~~ **DIRECTOR**
20 **MUST** be completed ~~pursuant to~~ **UNDER** section 830a. ~~An~~ **THE DIRECTOR**
21 **MAY EXEMPT AN** insurer that does business in this state and in no
22 other state ~~may be exempted from this subsection. by the~~
23 ~~commissioner.~~

24 (7) In valuing life insurance policies pursuant to appendix
25 A-830 of the NAIC accounting practices and procedures manual, all
26 of the following apply:

27 (a) In determining the applicability to any universal life

1 policy, the net level reserve premium for the secondary guarantee
2 period is based on the ultimate mortality rates in the 2001 CSO
3 mortality table.

4 (b) All calculations under the contract segmentation method
5 are made using the 2001 CSO mortality rate, and, if elected, the
6 optional minimum mortality standard for deficiency reserves. The
7 value of " $q_{x+k+t-1}$ " is the valuation mortality rate for deficiency
8 reserves in policy year $k+t$, but using the unmodified select
9 mortality rates if modified select mortality rates are used in
10 the computation of deficiency reserves.

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

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

27 (e) When determining minimum value for policies with

1 guaranteed nonlevel gross premiums or guaranteed nonlevel
2 benefits, other than universal life policies, the valuation
3 mortality table used in determining the tabular cost of insurance
4 ~~shall be~~ **IS** the ultimate mortality rates in the 2001 CSO
5 mortality table.

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

12 (g) When determining the optional exemption for attained-
13 age-based yearly 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~~ **MUST** use the maximum valuation interest rate and the
17 ultimate mortality rates in the 2001 CSO mortality table.

18 (h) When determining the exemption from unitary reserves for
19 certain n-year renewable term life insurance policies with
20 guaranteed nonlevel gross premiums or guaranteed nonlevel
21 benefits, other than universal life policies, the calculations
22 ~~shall~~ **MUST** use the ultimate mortality rates in the 2001 CSO
23 mortality table.

24 (i) For flexible premium and fixed premium universal life
25 insurance policies that contain provisions resulting in the
26 ability of a policyowner to keep a policy in force over a
27 secondary guarantee period, the 1-year valuation premium for

1 purposes of identifying policies with a secondary guarantee ~~shall~~
2 ~~be~~**IS** calculated using the ultimate mortality rates in the 2001
3 CSO mortality table.

4 (8) For any ordinary life insurance policy delivered or
5 issued for delivery in this state on or after July 1, 2004 that
6 uses the same premium rates and charges for male and female lives
7 or is issued in circumstances where applicable law does not
8 permit distinctions on the basis of gender, a mortality table
9 that is a blend of the 2001 CSO mortality table (M) and the 2001
10 CSO mortality table (F) may, at the option of the insurer for
11 each plan of insurance, be substituted for the 2001 CSO mortality
12 table for use in determining minimum cash surrender value and
13 amounts of paid-up nonforfeiture benefits. No change in minimum
14 valuation standards is implied by this subsection.

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

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

22 Sec. 3930. (1) If long-term care benefits are provided
23 through the acceleration of benefits under group or individual
24 life policies or riders to those policies, policy reserves for
25 the benefits ~~shall~~**MUST** be determined in accordance with section
26 ~~834(1)(vii)~~**834(1)(G)**. Claim reserves ~~shall~~**MUST** also be
27 established if the policy or rider is in claim status.

1 (2) Reserves for policies and riders subject to subsection
2 (1) ~~shall~~**MUST** be based on the multiple decrement model utilizing
3 all relevant decrements except for voluntary termination rates.
4 Single decrement approximations may be used if the calculation
5 produces essentially similar reserves, if the reserve is clearly
6 more conservative, or if the reserve is immaterial. The
7 calculations may take into account the reduction in life
8 insurance benefits due to the payment of long-term care benefits.
9 However, ~~in no event shall~~ the reserves for the long-term care
10 benefit and the life insurance benefit **MUST NOT** be less than the
11 reserves for the life insurance benefit assuming no long-term
12 care benefit.

13 (3) In the development and calculation of reserves for
14 policies and riders subject to subsection (1), due regard ~~shall~~
15 **MUST** be given to the applicable policy provisions, marketing
16 methods, administrative procedures, and all other considerations
17 that have an impact on projected claim costs, including, but not
18 limited to, all of the following:

- 19 (a) Definition of insured events.
20 (b) Covered long-term care facilities.
21 (c) Existence of home convalescence care coverage.
22 (d) Definition of facilities.
23 (e) Existence or absence of barriers to eligibility.
24 (f) Premium waiver provision.
25 (g) Renewability.
26 (h) Ability to raise premiums.
27 (i) Marketing method.

- 1 (j) underwriting procedures.
- 2 (k) Claims adjustment procedures.
- 3 (l) Waiting period.
- 4 (m) Maximum benefit.
- 5 (n) Availability of eligible facilities.
- 6 (o) Margins in claim costs.
- 7 (p) Optional nature of benefit.
- 8 (q) Delay in eligibility for benefit.
- 9 (r) Inflation protection provisions.
- 10 (s) Guaranteed insurability option.

11 (4) Any applicable valuation morbidity table ~~shall~~**MUST** be
 12 certified as appropriate as a statutory valuation table by a
 13 member of the American academy of actuaries.

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

18 (2) ~~For~~**SUBJECT TO SUBDIVISIONS (G) AND (H), FOR** policies
 19 issued on and after the operative date of this section, as
 20 defined in subsection (10), a policy of life insurance, except as
 21 ~~stated~~**PROVIDED** in subsection (9), ~~shall~~**MAY** not be delivered or
 22 issued for delivery in this state unless it contains in substance
 23 **ALL OF** the following provisions, or corresponding provisions that
 24 in the opinion of the ~~commissioner~~**DIRECTOR** are at least as
 25 favorable to the defaulting or surrendering policyholder as are
 26 the minimum requirements specified in this subsection and are
 27 essentially in compliance with subsection (8):

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

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

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

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

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

6 (e) ~~That for~~ **FOR** policies that cause on a basis guaranteed
7 in the policy unscheduled changes in benefits or premiums, or
8 that provide an option for changes in benefits or premiums other
9 than a change to a new policy, a statement of the mortality
10 table, interest rate, and method used in calculating cash
11 surrender values and the paid-up nonforfeiture benefits available
12 under the 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~~ **MUST** be calculated ~~upon~~
21 **ON** the assumption that there are no dividends or paid-up
22 additions credited to the policy and that there is no
23 indebtedness to the company on the policy.

24 (f) A statement that the cash surrender values and the paid-
25 up nonforfeiture benefits available under the policy are not less
26 than the minimum values and benefits required by or ~~pursuant to~~
27 **UNDER** 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 ~~ealeulating~~ **CALCULATE** the cash surrender value and paid-up
11 nonforfeiture benefit available under the policy on any policy
12 anniversary beyond the last anniversary for which the values and
13 benefits are consecutively shown in the policy.

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

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

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

1 premiums as defined in subsection (5), corresponding to premiums
2 that would have fallen due on and after the anniversary, and the
3 amount of any indebtedness to the company on the policy. However,
4 for ~~any~~**A** policy issued on or after the operative date of
5 paragraphs 9 to ~~19~~**18** of subsection (5) that provides
6 supplemental life insurance or annuity benefits at the option of
7 the insured and for an identifiable additional premium by rider
8 or supplemental policy provision, the cash surrender value ~~shall~~
9 **MUST** be an amount not less than the sum of the cash surrender
10 value for an otherwise similar policy issued at the same age
11 without the rider or supplemental policy provision and the cash
12 surrender value for a policy that provides only the benefits
13 otherwise provided by the rider or supplemental policy provision.

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

24 ~~Any~~**A** 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~~**MUST** 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~~**A** paid-up nonforfeiture benefit available under ~~the~~
6 **A** policy ~~in the event of~~**IF THERE IS A** default in a premium
7 payment due on a policy anniversary ~~shall~~**MUST** be such that its
8 present value as of the anniversary ~~shall~~**MUST** at least equal the
9 cash surrender value then provided for by the policy or, if ~~none~~
10 ~~is provided for,~~**THE POLICY DOES NOT PROVIDE FOR A CASH SURRENDER**
11 **VALUE**, that cash surrender value that would have been required by
12 this section in the absence of the condition that premiums ~~shall~~
13 **MUST** have been paid for at least a specified period.

14 (5) Paragraphs 1 to 8 of this subsection ~~shall~~**DO** not apply
15 to policies issued on or after the operative date of paragraphs 9
16 to ~~19~~**18** as defined in paragraph ~~19~~**18**. Except as provided in
17 ~~the third~~ paragraph **3** of this subsection, the adjusted premiums
18 for a policy ~~shall~~**MUST** be calculated on an annual basis and
19 ~~shall~~**MUST** be a uniform percentage of the respective premiums
20 specified in the policy for each policy year, excluding any extra
21 premiums charged because of impairments or special hazards, so
22 that the present value, at the date of issue of the policy, of
23 all the adjusted premiums equals the sum of ~~(I)~~**(i)** the then
24 present value of the future guaranteed benefits provided for by
25 the policy; ~~(II)~~**(ii)** 2% of the amount of insurance, if the
26 insurance is uniform in amount, or of the equivalent uniform
27 amount, as hereinafter defined, if the amount of insurance varies

1 with duration of the policy; ~~(III)~~ **(iii)** 40% of the adjusted
2 premium for the first policy year; ~~(IV)~~ **(iv)** 25% of either the
3 adjusted premium for the first policy year or the adjusted
4 premium for a whole life policy of the same uniform or equivalent
5 uniform amount with uniform premiums for the whole of life issued
6 at the same age for the same amount of insurance, whichever is
7 less. In applying the percentages specified in items ~~(III)~~ **(iii)**
8 and ~~(IV)~~ **(iv)** above, an adjusted premium ~~shall~~ **MUST** not be
9 considered to exceed 4% of the amount of insurance or uniform
10 amount equivalent thereto. **TO THE AMOUNT OF INSURANCE.** The date
11 of issue of a policy for the purpose of this subsection ~~shall be~~
12 **IS** the date ~~as of which~~ **THAT** the rated age of the insured is
13 determined.

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

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

16 Except as otherwise provided in paragraph 5 of this
17 subsection, for all policies of ordinary insurance, all adjusted
18 premiums and present values referred to in this section ~~shall~~
19 **MUST** be calculated on the basis of the commissioners 1941
20 standard ordinary mortality table. For a category of ordinary
21 insurance issued on female risks, adjusted premiums and present
22 values may be calculated according to an age not more than 3
23 years younger than the actual age of the insured. Except as
24 otherwise provided in paragraph 7 of this subsection, the
25 calculations for all policies of industrial insurance ~~shall~~**MUST**
26 be made on the basis of the 1941 standard industrial mortality
27 table. All calculations ~~shall~~**MUST** be made on the basis of the

1 rate of interest, not exceeding 3-1/2% per annum, specified in
2 the policy for calculating cash surrender values and paid-up
3 nonforfeiture benefits. In calculating the present value of any
4 paid-up term insurance with accompanying pure endowment, if any,
5 offered as a nonforfeiture benefit, the rates of mortality
6 assumed may be not more than 130% of the rates of mortality
7 according to the applicable table. For insurance issued on a
8 substandard basis, the calculation of adjusted premiums and
9 present values may be based on another table of mortality as
10 specified by the company and approved by the
11 ~~commissioner~~. **DIRECTOR**.

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

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

18 For industrial policies issued on or after the operative
19 date of this paragraph, as defined in paragraph 8, all adjusted
20 premiums and present values referred to in this section ~~shall~~
21 **MUST** be calculated on the basis of the commissioners 1961
22 standard industrial mortality table and the rate of interest
23 specified in the policy for calculating cash surrender values and
24 paid-up nonforfeiture benefits. However, the rate of interest
25 ~~shall~~-**MAY** not exceed 3-1/2% per annum, except that a rate of
26 interest not exceeding 4% per annum may be used for policies
27 issued ~~on or~~ after October 21, ~~1974~~-**20**, 1974, and before October 1,

1 1980, and a rate of interest not exceeding 5-1/2% per annum may
 2 be used for policies issued ~~on or after October 1, 1980.~~
 3 **SEPTEMBER 30, 1980.** In calculating the present value of paid-up
 4 term insurance with accompanying pure endowment, if any, offered
 5 as a nonforfeiture benefit, the rates of mortality assumed may be
 6 not more than those shown in the commissioners 1961 industrial
 7 extended term insurance table. For insurance issued on a
 8 substandard basis, the calculation of adjusted premiums and
 9 present values may be based on another table of mortality as
 10 specified by the company and approved by the
 11 ~~commissioner.~~**DIRECTOR.**

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

22 Paragraphs 9 to ~~19~~**18** shall apply to all policies issued on
 23 or after the operative date of those paragraphs as defined in
 24 paragraph ~~19.~~**18.** Except as provided in paragraph 15, the
 25 adjusted premiums for any policy ~~shall~~**MUST** be calculated on an
 26 annual basis and ~~shall~~**MUST** be a uniform percentage of the
 27 respective premiums specified in the policy for each policy year,

1 excluding amounts payable as extra premiums to cover impairments
 2 or special hazards and also excluding any uniform annual contract
 3 charge or policy fee specified in the policy in a statement of
 4 the method ~~to be used in calculating~~ **THAT IS USED TO CALCULATE**
 5 the cash surrender values and paid-up nonforfeiture benefits, so
 6 that the present value, at the date of issue of the policy, of
 7 all adjusted premiums ~~shall be~~ **IS** equal to the sum of (i) the then
 8 present value of the future guaranteed benefits provided for by
 9 the policy; (ii) 1% of either the amount of insurance, if the
 10 insurance ~~be~~ **IS** uniform in amount, or the average amount of
 11 insurance at the beginning of each of the first 10 policy years;
 12 and (iii) 125% of the nonforfeiture net level premium as defined in
 13 this subsection. However, in applying the percentage specified in
 14 (iii), the nonforfeiture net level premium shall not be ~~deemed~~
 15 **CONSIDERED** to exceed 4% 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 The date of issue of a policy for the purpose of this subsection
 19 ~~shall be~~ **IS** the date ~~as of~~ **ON** which the rated age of the insured
 20 is determined.

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

27 For policies that cause on a basis guaranteed in the policy

1 unscheduled changes in benefits or premiums, or that provide an
2 option for changes in benefits or premiums other than a change to
3 a new policy, the adjusted premiums and present values initially
4 ~~shall~~**MUST** be calculated on the assumption that future benefits
5 and premiums will not change from those stipulated at the date of
6 issue of the policy. At the time of a change in the benefits or
7 premiums, the future adjusted premiums, nonforfeiture net level
8 premiums, and present values ~~shall~~**MUST** be recalculated on the
9 assumption that future benefits and premiums will not change from
10 those stipulated by the policy immediately after the change.

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

27 The additional expense allowance, at the time of the change

1 to the newly defined benefits or premiums, ~~shall be~~ **IS** the sum of
2 1% of the excess, if positive, of the average amount of insurance
3 at the beginning of each of the first 10 policy years after the
4 change over the average amount of insurance before the change at
5 the beginning of each of the first 10 policy years after the time
6 of the most recent previous change, or, if there has been no
7 previous change, the date of issue of the policy; and 125% of the
8 increase, if positive, in the nonforfeiture net level premium.

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

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

1 insurance on the standard basis.

2 All adjusted premiums and present values referred to in this
3 section for all policies of ordinary insurance ~~shall~~**MUST** be
4 calculated on the basis of the commissioners 1980 standard
5 ordinary mortality table or, at the election of the company for
6 any 1 or more specified plans of life insurance, the
7 commissioners 1980 standard ordinary mortality table with 10-year
8 select mortality factors. All adjusted premiums and present
9 values referred to in this section for all policies of industrial
10 insurance ~~shall~~**MUST** be calculated on the basis of the
11 commissioners 1961 standard industrial mortality table. All
12 adjusted premiums and present values referred to in this section
13 for all policies issued in a particular calendar year ~~shall~~**MUST**
14 be calculated on the basis of a rate of interest not exceeding
15 the nonforfeiture interest rate as defined in this subsection for
16 policies issued in that calendar year. However:

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

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

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

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

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

17 (f) ~~Any~~ **FOR A POLICY ISSUED BEFORE THE OPERATIVE DATE OF THE**
18 **VALUATION MANUAL, ANY COMMISSIONERS STANDARD** ordinary mortality
19 tables, adopted after 1980 by the national association of
20 insurance commissioners, that are approved by a rule promulgated
21 by the ~~commissioner~~ **DIRECTOR** for use in determining the minimum
22 nonforfeiture standard or as provided under section 838 may be
23 substituted for the commissioners 1980 standard ordinary
24 mortality table with or without 10-year select mortality factors
25 or for the commissioners 1980 extended term insurance table.

26 **(G) FOR POLICIES ISSUED ON OR AFTER THE OPERATIVE DATE OF**
27 **THE VALUATION MANUAL, THE VALUATION MANUAL MUST PROVIDE THE**

1 COMMISSIONERS STANDARD MORTALITY TABLE FOR USE IN DETERMINING THE
2 MINIMUM NONFORFEITURE STANDARD THAT MAY BE SUBSTITUTED FOR THE
3 COMMISSIONERS 1980 STANDARD ORDINARY MORTALITY TABLE WITH OR
4 WITHOUT 10-YEAR SELECT MORTALITY FACTORS OR FOR THE COMMISSIONERS
5 1980 EXTENDED TERM INSURANCE TABLE. IF THE DIRECTOR APPROVES BY
6 REGULATION ANY COMMISSIONERS STANDARD ORDINARY MORTALITY TABLE
7 ADOPTED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8 FOR USE IN DETERMINING THE MINIMUM NONFORFEITURE STANDARD FOR
9 POLICIES ISSUED ON OR AFTER THE OPERATIVE DATE OF THE VALUATION
10 MANUAL, THE MINIMUM NONFORFEITURE STANDARD SUPERSEDES THE MINIMUM
11 NONFORFEITURE STANDARD PROVIDED BY THE VALUATION MANUAL.

12 (H) ~~(g) Any~~ FOR A POLICY ISSUED BEFORE THE OPERATIVE DATE OF
13 THE VALUATION MANUAL, ANY COMMISSIONERS STANDARD industrial
14 mortality tables, adopted after 1980 by the national association
15 of insurance commissioners, that are approved by a rule
16 promulgated by the ~~commissioner~~ DIRECTOR for use in determining
17 the minimum nonforfeiture standard may be substituted for the
18 commissioners 1961 standard industrial mortality table or the
19 commissioners 1961 industrial extended term insurance table.

20 (I) FOR POLICIES ISSUED ON OR AFTER THE OPERATIVE DATE OF
21 THE VALUATION MANUAL, THE VALUATION MANUAL MUST PROVIDE THE
22 COMMISSIONERS STANDARD MORTALITY TABLE FOR USE IN DETERMINING THE
23 MINIMUM NONFORFEITURE STANDARD THAT MAY BE SUBSTITUTED FOR THE
24 COMMISSIONERS 1961 STANDARD INDUSTRIAL MORTALITY TABLE OR THE
25 COMMISSIONERS 1961 INDUSTRIAL EXTENDED TERM INSURANCE TABLE. IF
26 THE DIRECTOR APPROVES BY REGULATION ANY COMMISSIONERS STANDARD
27 INDUSTRIAL MORTALITY TABLE ADOPTED BY THE NATIONAL ASSOCIATION OF

1 INSURANCE COMMISSIONERS FOR USE IN DETERMINING THE MINIMUM
 2 NONFORFEITURE STANDARD FOR POLICIES ISSUED ON OR AFTER THE
 3 OPERATIVE DATE OF THE VALUATION MANUAL, THE MINIMUM NONFORFEITURE
 4 STANDARD SUPERSEDES THE MINIMUM NONFORFEITURE STANDARD PROVIDED
 5 BY THE VALUATION MANUAL. The FOLLOWING APPLIES TO THE
 6 NONFORFEITURE INTEREST RATE:

7 (i) SUBJECT TO THIS SUBPARAGRAPH, FOR A POLICY ISSUED BEFORE
 8 THE OPERATIVE DATE OF THE VALUATION MANUAL, THE nonforfeiture
 9 interest rate per annum for ~~any~~A policy issued in a particular
 10 calendar year ~~shall be~~IS equal to 125% of the calendar year
 11 statutory valuation interest rate for ~~such~~THE policy as defined
 12 in the standard valuation law, rounded to the nearest 0.25%. THE
 13 NONFORFEITURE INTEREST RATE UNDER THIS SUBPARAGRAPH MAY NOT BE
 14 LESS THAN 4%.

15 (ii) FOR POLICIES ISSUED ON AND AFTER THE OPERATIVE DATE OF
 16 THE VALUATION MANUAL, THE NONFORFEITURE INTEREST RATE PER ANNUM
 17 FOR ANY POLICY ISSUED IN A PARTICULAR CALENDAR YEAR IS PROVIDED
 18 BY THE VALUATION MANUAL.

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

25 After July 10, 1982, ~~any~~A company may file with the
 26 ~~commissioner~~DIRECTOR a written notice of its election to comply
 27 with paragraphs 9 to ~~19~~18 of this subsection at a specified date

1 before January 1, 1989, ~~which shall be~~ **THAT IS** the operative date
 2 of those paragraphs for that company. If a company ~~makes no~~ **DOES**
 3 **NOT MAKE AN** election, the operative date of paragraphs 9 to ~~19-18~~
 4 of this subsection for the company ~~shall be~~ **IS** January 1, 1989.

5 (6) For ~~any~~ **A** plan of life insurance that provides for
 6 future premium determination, the amounts of which are to be
 7 determined by the insurance company based on then estimates of
 8 future experience, or for ~~any~~ **A** plan of life insurance ~~that is of~~
 9 ~~such a nature that~~ **AS TO WHICH THE** minimum values cannot be
 10 determined by the methods described in subsections (2) to (5),
 11 **ALL OF THE FOLLOWING APPLY:**

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

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

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

24 (7) ~~Any~~ **A** cash surrender value and paid-up nonforfeiture
 25 benefit, available under the policy ~~in the event of~~ **IF THERE IS A**
 26 default in a premium payment due at a time other than on the
 27 policy anniversary, ~~shall~~ **MUST** be calculated with allowance for

1 the lapse of time and the payment of fractional premiums beyond
2 the last preceding policy anniversary. All values referred to in
3 subsections (3), (4), and (5) may be calculated on the assumption
4 that a death benefit is payable at the end of the policy year of
5 death. The net value of any paid-up additions, other than paid-up
6 term additions, ~~shall~~**MUST** be not less than the amounts used to
7 provide the additions. Notwithstanding subsection (3), additional
8 benefits payable in any of the following ways, and premiums for
9 all these additional benefits, ~~shall~~**MUST** be disregarded in
10 ascertaining cash surrender values and nonforfeiture benefits
11 required by this section, and the additional benefits ~~shall~~**ARE**
12 not ~~be~~ required to be included in any paid-up nonforfeiture
13 benefits:

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

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

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

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

22 (e) As term insurance on the life of a child or on the lives
23 of children provided in a policy on the life of a parent of the
24 child, if the term insurance expires before the child's age is
25 26, is uniform in amount after the child's age is 1, and has not
26 become paid-up by reason of the death of a parent of the child.

27 (f) As other policy benefits additional to life insurance

1 and endowment benefits.

2 (8) This subsection ~~shall apply~~ **APPLIES** to all policies
3 issued ~~on or after January 1, 1986.~~ **DECEMBER 31, 1985**. Any cash
4 surrender value available under the policy ~~in the event of~~ **IF**
5 **THERE IS A** default in a premium payment due on any policy
6 anniversary ~~shall~~ **MUST** be in an amount that does not differ by
7 more than 0.2% of either the amount of insurance, if the
8 insurance is uniform in amount, or the average amount of
9 insurance at the beginning of each of the first 10 policy years
10 from the sum of (a) the greater of zero and the basic cash value
11 as specified in this subsection and (b) the present value of any
12 existing paid-up additions less the amount of any indebtedness to
13 the company under the policy.

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

26 The nonforfeiture factor for each policy year ~~shall~~ **MUST** be
27 an amount equal to a percentage of the adjusted premium for the

1 policy year, as defined in paragraphs 1 to 4 of subsection (5) or
2 paragraphs 9 to ~~19-18~~ of subsection (5), whichever is applicable.

3 The nonforfeiture factor:

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

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

15 However, the basic cash value may not be less than the value
16 that would be obtained if the adjusted premiums for the policy,
17 as defined in paragraphs 1 to 4 or paragraphs 9 to ~~19-18~~ of
18 subsection (5), whichever is applicable, were substituted for the
19 nonforfeiture factors in the calculation of the basic cash value.

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

27 Any cash surrender value available other than ~~in the event~~

1 ~~of~~ **IF THERE IS A** default in a premium payment due on a policy
 2 anniversary and the amount of any paid-up nonforfeiture benefit
 3 available under the policy ~~in the event of~~ **IF THERE IS A** default
 4 in a premium payment ~~shall~~ **MUST** be determined in manners
 5 consistent with the manners specified for determining the
 6 analogous minimum amounts in subsections (2), (3), (4), and (7)
 7 and paragraphs 9 to ~~19~~ **18** of subsection (5). The amounts of any
 8 cash surrender values and of any paid-up nonforfeiture benefits
 9 granted in connection with additional benefits such as those
 10 listed in subsection (7) ~~shall~~ **MUST** conform with the principles
 11 of this subsection.

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

13 (a) Reinsurance.

14 (b) Group insurance.

15 (c) Pure endowment.

16 (d) Annuity or reversionary annuity contract.

17 (e) A term policy of uniform amount ~~, which provides no~~ **THAT**
 18 **DOES NOT PROVIDE** guaranteed nonforfeiture or endowment benefits,
 19 or renewal thereof, ~~OF GUARANTEED NONFORFEITURE OR ENDOWMENT~~
 20 **BENEFITS**, of 20 years or less expiring before age 71, for which
 21 uniform premiums are payable during the entire term of the
 22 policy.

23 (f) A term policy of decreasing amount ~~, which provides no~~
 24 **THAT DOES NOT PROVIDE** guaranteed nonforfeiture or endowment
 25 benefits ~~, AND~~ on which each adjusted premium, calculated as
 26 specified in subsection (5), is less than the adjusted premium ~~so~~
 27 ~~calculated,~~ **CALCULATED UNDER SUBSECTION (5)**, on a term policy of

1 uniform amount, or ~~THE~~ renewal thereof, ~~which provides no~~ **OF A**
 2 **TERM POLICY THAT DOES NOT PROVIDE** guaranteed nonforfeiture or
 3 endowment benefits, issued at the same age and for the same
 4 initial amount of insurance and for a term of 20 years or less
 5 expiring before age 71, for which uniform premiums are payable
 6 during the entire term of the policy.

7 (g) A policy ~~, which provides no~~ **THAT DOES NOT PROVIDE**
 8 guaranteed nonforfeiture or endowment benefits, for which no cash
 9 surrender value, if any, or present value of any paid-up
 10 nonforfeiture benefit, at the beginning of any policy year,
 11 calculated as specified in subsections (3) to (5), exceeds 2.5%
 12 of the amount of insurance at the beginning of the same policy
 13 year.

14 (h) A policy that ~~shall be~~ **IS** delivered outside this state
 15 through an agent or other representative of the company issuing
 16 the policy.

17 For purposes of determining the applicability of this
 18 section, the age at expiry for a joint term life insurance policy
 19 ~~shall be~~ **IS** the age at expiry of the oldest life.

20 (10) After July 30, 1943, a company may file with the
 21 ~~commissioner~~ **DIRECTOR** a written notice of its election to comply
 22 with this section after a specified date before January 1, 1948.
 23 After the filing of the notice, then on the specified date, ~~which~~
 24 ~~shall be~~ **THAT IS** the operative date for the company, this section
 25 ~~shall become~~ **IS** operative with respect to the policies thereafter
 26 issued by the company. If a company does not make an election,
 27 the operative date of this section for the company ~~shall be~~ **IS**

1 January 1, 1948.

2 (11) AS USED IN THIS SECTION, "OPERATIVE DATE OF THE
3 VALUATION MANUAL" MEANS JANUARY 1 OF THE FIRST CALENDAR YEAR THAT
4 THE VALUATION MANUAL AS THAT TERM IS DEFINED IN SECTION 836B IS
5 EFFECTIVE.

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

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

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

25 (A) The benefits charges.

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

1 (C) Actual administrative expense charges for other years.

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

5 (E) Any service charges actually made.

6 (F) Any deductions made for partial withdrawals.

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

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

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

25 (v) If the amount of insurance is subsequently increased
26 ~~upon~~**ON** request of the policyowner or by the terms of the policy,
27 an additional expense allowance and an unused additional expense

1 allowance ~~shall~~**MUST** be determined on a basis consistent with
 2 this subsection and with section 4060(5) paragraph 13 using the
 3 face amount and the latest maturity date permitted at that time
 4 under the policy.

5 (vi) The unamortized unused initial expense allowance during
 6 the policy year beginning on the policy anniversary at age $x+t$,
 7 where " x " is the same issue age, ~~shall~~**MUST** be the unused initial
 8 expense allowance multiplied by

$$\frac{a_{x+t}}{a_x}$$

11 where a_{x+t} and a_x are present values of an annuity of 1 per
 12 year payable on policy anniversaries beginning at ages $x+t$ and x ,
 13 respectively, and continuing until the highest attained age at
 14 which a premium may be paid under the policy, both on the
 15 mortality and interest bases guaranteed in the policy. An
 16 unamortized unused additional expense allowance ~~shall~~**MUST** be the
 17 unused additional expense allowance multiplied by a similar ratio
 18 of annuities, with a_x replaced by an annuity beginning on the date
 19 as of which the additional expense allowance was determined.

20 (b) As used in this subsection:

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

25 (ii) "Administrative expense charges" means charges per
 26 premium payment, charges per dollar of premium paid, periodic

1 charges per thousand dollars of insurance, periodic per policy
2 charges, and any other charges permitted by the policy to be
3 imposed without regard to the policyowner's request for services.

4 (iii) "Averaged administrative expense charges" means those
5 charges that would have been imposed in a year if the charge rate
6 or rates for each transaction or period within that year had been
7 equal to the arithmetic average of the corresponding charge rates
8 that the policy states will be imposed in policy years 2 through
9 20 in determining the policy value.

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

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

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

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

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

7 (a) The minimum cash surrender values ~~shall~~**MUST** be
8 determined separately for the basic policy and any benefits and
9 riders for which premiums are paid separately. All of the
10 following requirements ~~pertain~~**APPLY** to a basic policy and any
11 benefits and riders for which premiums are not paid separately:

12 (i) The minimum cash surrender value before adjustment for
13 indebtedness and dividend credits that is available on a date as
14 of which interest is credited to the policy is equal to $(A - B -$
15 $C - D)$.

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

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

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

25 (iii) All present values ~~shall~~**MUST** be determined using an
26 interest rate or rates specified by section 4060 for policies
27 issued in the same year and the mortality rates specified by

1 section 4060 for policies issued in the same year or contained in
 2 such ~~ANY~~ other table as approved by the ~~commissioner~~ **DIRECTOR** for
 3 this purpose.

4 (b) As used in this subsection:

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

7 (ii) "B" means the present value of future adjusted premiums.
 8 The adjusted premiums are calculated as described in section
 9 4060(5) paragraphs 1 to 6 and 9, as applicable. If section
 10 4060(5) paragraph 9 is applicable, the nonforfeiture net level
 11 premium is equal to the quantity

$$\frac{\text{PVFB.}}{a_x}$$

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

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

26 (v) "PVFB" equals the present value of all benefits

1 guaranteed at issue assuming future premiums are paid by the
2 policyowner and all guarantees contained in the policy or
3 declared by the insurer.

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

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

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

15 (a) If a universal life insurance policy provides for the
16 optional election of a paid-up nonforfeiture benefit, ~~it shall be~~
17 ~~such that its~~ **THE** present value ~~shall~~ **OF THE PAID-UP**
18 **NONFORFEITURE BENEFIT MUST** be at least equal to the cash
19 surrender value provided for by the policy on the effective date
20 of the election. The present value ~~shall~~ **MUST** be based on
21 mortality and interest standards at least as favorable to the
22 policyowner as 1 of the following:

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

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

1 4060.

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

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

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

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