THE INSURANCE CODE OF 1956 (EXCERPT)
Act 218 of 1956

CHAPTER 40

LIFE INSURANCE POLICIES AND ANNUITY CONTRACT (OTHER THAN INDUSTRIAL OR GROUP)

500.4000 Scope of chapter.

Sec. 4000. (1) This chapter applies to life insurance policies, other than reinsurance, group life insurance, group annuities, and industrial life insurance. However, sections 4004 (policy must contain entire contract), 4040 (supplementary benefits), 4048 (provisions required by laws of other states, countries), 4052 (preliminary term insurance), 4054 (insurer may hold proceeds; exemption from creditors), 4060 (standard nonforfeiture law), 4062 (loan value; deferment), and 4064 (computation of loan indebtedness) apply to industrial life insurance policies.

(2) This chapter applies to annuity contracts only to the extent provided in sections 4070, 4072 and 4073.

(3) This chapter applies to life insurance contracts on a variable basis. However, the commissioner may by rule prescribe appropriate modifications to sections 4022, 4024, 4026, 4028, 4060, 4062, and 4064 applicable to life insurance contracts on a variable basis. The commissioner may by rule set reasonable standards for life insurance contracts on a variable basis which do all of the following:

(a) Require insurers to establish and file with the commissioner standards for marketing life insurance on a variable basis.

(b) Define terms to be used.

(c) Prescribe conditions under which life insurance on a variable basis may be issued, redeemed, or exchanged for a nonvariable contract.

History: 1956, Act 218, Eff. Jan. 1, 1957;—Am. 1974, Act 225, Eff. Nov. 1, 1974;—Am. 1980, Act 58, Eff. Oct. 1, 1980.

Popular name: Act 218

Administrative rules: R 500.402 et seq. and R 500.841 et seq. of the Michigan Administrative Code.

500.4001 Universal life insurance; definitions.

Sec. 4001. As used in this chapter, the following definitions apply only to universal life insurance:

(a) "Cash surrender value" means the net cash surrender value plus any amounts outstanding as policy loans.

(b) "Fixed premium universal life insurance policy" means a universal life insurance policy other than a flexible premium universal life insurance policy.

(c) "Flexible premium universal life insurance policy" means a universal life insurance policy that permits the policyowner to vary, independently of each other, the amount or timing of 1 or more premium payments or the amount of insurance.

(d) "Interest-indexed universal life insurance policy" means any universal life insurance policy where the interest credits are linked to an external referent.

(e) "Net cash surrender value" means the maximum amount payable to the policyowner upon surrender.

(f) "Policy value" means the amount to which separately identified interest credits and mortality, expense, or other charges are made under a universal life insurance policy.

(g) "Universal life insurance" means any individual or group life insurance policy under the policy provisions of which separately identified interest credits, other than in connection with dividend accumulations, premium deposit funds, or other supplementary accounts, and mortality and expense charges are made to the policy. A universal life insurance policy may provide for other credits and charges, such as charges for the cost of benefits provided by rider.

History: Add. 1993, Act 349, Eff. Oct. 1, 1994.

Popular name: Act 218

500.4002 Life insurance policies; discrimination against living donors; prohibition; definitions.

Sec. 4002. (1) This section applies to life insurance policies or certificates delivered or issued for delivery after December 31, 2023.

(2) Unless there is an additional actuarial risk, as determined in accordance with sound actuarial principles as well as the individual's actual and reasonably anticipated experience, an insurer shall not do any of the following with respect to a life insurance policy or certificate based solely on the individual's status as a living donor:

(a) Deny coverage.
(b) Cancel coverage.
(c) Refuse to issue the policy or certificate.
(d) Determine the price or premium for the policy or certificate.
(e) Otherwise vary a term or condition of the policy or certificate.
(3) As used in this section:
(a) "Living donor" means an individual who is not deceased and has donated any of the following:
(*i*) All or part of an organ.
(*ii*) A tissue.
(b) "Organ" means a human kidney, liver, heart, lung, pancreas, esophagus, stomach, or small or large intestine, a portion of the gastrointestinal tract, or another part of the human body designated by the department by rule.
(c) "Tissue" means a portion of the human body other than an organ, including, but not limited to, an eye, skin, bone, bone marrow, a heart valve, a spermatozoon, an ova, an artery, a vein, a tendon, a ligament, blood, blood derivatives, a pituitary gland, or fluid.

History: Add. 2023, Act 192, Imd. Eff. Nov. 7, 2023.

Popular name: Act 218

500.4004 Entire contract.

Sec. 4004. Every policy of life insurance hereafter issued or delivered within this state by any life insurer doing business within this state shall contain the entire contract between the parties. And nothing shall be incorporated therein by reference to any constitution, bylaws, rules, application or other writing unless the same are endorsed upon or attached to the policy when issued.

History: 1956, Act 218, Eff. Jan. 1, 1957.

Popular name: Act 218

500.4008 Life insurance; provisions required; single premium policies.

Sec. 4008. (1) No policy of life insurance shall be issued in this state unless it contains the provisions set forth in sections 4010 through 4036.
(2) Any of such provisions or portion thereof relating to premiums not applicable to single premium policies, shall to that extent not be incorporated therein.

History: 1956, Act 218, Eff. Jan. 1, 1957.

Popular name: Act 218

500.4010 Premiums; payment; provision required.

Sec. 4010. There shall be a provision that all premiums shall be payable in advance, either at the home office of the company or to an agent of the company, upon delivery of a receipt signed by 1 or more of the officers who shall be named in the policy.

History: 1956, Act 218, Eff. Jan. 1, 1957.

Popular name: Act 218

500.4012 Life insurance policy; provision required.

Sec. 4012. Each life insurance policy shall contain the following provisions:
(a) A grace period of 1 month for the payment of every premium after the first year, which may be subject to an interest charge, during which month the insurance shall continue in force and which provision may contain a stipulation that if the insured dies during the month of the grace period, the overdue premium will be deducted in any settlement under the policy.
(b) That written notice shall be sent by the insurer to the policyowner's last known address at least 30 days prior to termination of coverage. This subdivision does not apply to an insurer that collects a majority of its annual premium in person.

History: 1956, Act 218, Eff. Jan. 1, 1955;—Am. 1993, Act 349, Eff. Oct. 1, 1994;—Am. 1994, Act 226, Eff. Oct. 1, 1994.

Popular name: Act 218

500.4014 Entire contract; incontestability; exceptions.

Sec. 4014. There shall be a provision that the policy, together with the application therefor, a copy of which application shall be endorsed upon or attached to the policy and made a part thereof, shall constitute the entire contract between the parties and shall be incontestable after it shall have been in force during the lifetime of the insured for 2 years from its date, except for non-payment of premiums and except for violations of the policy relating to naval and military services in time of war, and at the option of the company provisions relative to benefits in the event of total and permanent disability and provisions which grant additional insurance specifically against death by accident may also be excepted.

History: 1956, Act 218, Eff. Jan. 1, 1957.

Popular name: Act 218

500.4015 Policy of life insurance; mandatory notice as to cancellation of policy and refund of premium.

Sec. 4015. A policy of life insurance, other than group insurance, shall not be delivered or issued for delivery in this state unless the policy contains on the front page a notice, in substance printed or stamped made as a permanent part of the policy, that during a period of not less than 10 days after the date the policyholder receives the policy, the policyholder may cancel the policy and receive from the insurer a prompt refund of any premium paid for the policy, including a policy fee or other charge, by mailing or otherwise surrendering the policy to the insurer together with a written request for cancellation. If a policyholder or purchaser pursuant to such notice, returns the policy or contract to the company or association at its home or branch office or to the agent through whom it was purchased, it shall be void from the beginning and the parties shall be in the same position as if no policy or contract had been issued.

History: Add. 1978, Act 144, Eff. Aug. 10, 1978.

Popular name: Act 218

500.4016 Statements considered representations; provision required; electronic application; endorsement.

Sec. 4016. (1) Each life insurance policy shall contain a provision that all statements made by the insured, shall, in the absence of fraud, be considered representations and not warranties. The statement shall not avoid the policy unless the statement is contained in a written application and a copy of the application must be endorsed upon or attached to the policy when issued.

(2) An application obtained through electronic means is an application under subsection (1). The information contained in that application must be endorsed upon or attached to the policy.

History: 1956, Act 218, Eff. Jan. 1, 1957;—Am. 2014, Act 143, Eff. Mar. 31, 2015.

Popular name: Act 218

500.4018 Misstatement of age or sex; provisions required.

Sec. 4018. Each life insurance policy shall contain a provision that if there is a misstatement as to the age or sex of the insured in the policy, the amount payable or the death benefit under the policy shall be that which would be purchased by the most recent mortality charge or premium at the correct age or sex.

History: 1956, Act 218, Eff. Jan. 1, 1957;—Am. 1993, Act 349, Eff. Oct. 1, 1994.

Popular name: Act 218

500.4020 Participation in surplus; provision required.

Sec. 4020. There shall be a provision that the policy shall participate in the surplus of the company, and that, beginning not later than the end of the fifth policy year, the company will determine and account for the portion of the divisible surplus accruing on the policy, and that the owner of the policy shall have the right to have the current dividend arising from such participation paid in cash, and that at periods of not more than 5 years such accounting and payment at the option of the policyholder shall be had. This provision shall not be required in non-participating policies.

History: 1956, Act 218, Eff. Jan. 1, 1957.

Popular name: Act 218

500.4022 Policy loans generally.

Sec. 4022. There shall be a provision that after 3 full year premiums have been paid, the company at any time, while the policy is in force, shall advance, on proper assignment of the policy and on the sole security thereof, subject to the approval of the insurance commissioner as herein provided, at a rate of interest not exceeding the rate specified in section 4023, a sum equal to, or at the option of the owner of the policy, less than the amount required by section 4062 under the conditions specified thereby; and that the company will deduct from the loan value any indebtedness not already deducted in determining the loan value and any unpaid balance of the premium for the current policy year, and may collect interest in advance on the loan to the end of the current policy year. It shall be further stipulated in the policy that failure to pay any advance or to pay interest shall not void the policy unless the total indebtedness thereon to the company equals or exceeds the loan value at the time of the failure and until 1 month after notice is mailed by the company to the last known address of the insured and of the assignee if any. A condition other than as provided in this section shall not be exacted as a prerequisite to any advance. This provision shall not be required in term insurances. The interest limit provided for in section 4023 shall also apply to loans on annuity contracts.

History: 1956, Act 218, Eff. Jan. 1, 1957;—Am. 1976, Act 405, Imd. Eff. Jan. 5, 1977;—Am. 1982, Act 427, Imd. Eff. Dec. 29, 1982.

Compiler's note: Section 2 of Act 405 of 1976 provides: "The amendments made by this act shall not impair the terms and conditions of any policy of life insurance in force before the effective date of this act."

Popular name: Act 218

500.4023 Policy loans; interest rates; notice; information; policy not to terminate as sole result of change in interest rate; applicability of section to insurance or annuity contract.

Sec. 4023. (1) As used in this section:

(a) "Policyholder" includes the owner of the policy or the person designated to pay premiums as shown on the records of the insurer.

(b) "Policy loan" includes any premium loan made under a policy to pay 1 or more premiums that were not paid to the insurer as the premiums became due.

(c) "Published monthly average" means the Moody's corporate bond yield average-monthly average corporates as published by Moody's investors service, inc., or in the event that the Moody's corporate bond yield average-monthly average corporates is no longer published, a substantially similar average as determined by the commissioner.

(2) Policies issued on or after the effective date of this section shall provide for policy loan interest rates by 1 of the following:

(a) A provision permitting a maximum interest rate of not more than 8% per annum.

(b) A provision permitting an adjustable maximum interest rate of not more than 18% per annum, which rate is established from time to time by the insurer as provided by this section.

(3) The rate of interest charged on a policy loan made under subsection (2)(b) shall not exceed the higher of the following:

(a) The published monthly average for the calendar month ending 2 months before the date on which the rate is determined.

(b) The rate used to compute the cash surrender values under the policy during the applicable period plus 1% per annum.

(4) If the maximum rate of interest is determined pursuant to subsection (2)(b), the policy shall contain a provision setting forth the frequency at which the rate is to be determined for that policy. The maximum rate of interest for a policy loan made under subsection (2)(b) shall be determined at least once every 12 months, but not more than once every 3 months. With respect to a policy loan made under subsection (2)(b), at the intervals specified in the policy:

(a) The interest rate being charged may be increased when an increase as determined under subsection (2)(b) would increase the rate by 1/2% or more per annum.

(b) The interest rate being charged shall be reduced when a reduction as determined under subsection (2)(b) would decrease that rate by 1/2% or more per annum.

(5) Each insurer which makes a policy loan under subsection (2)(b) shall do all of the following:

(a) Notify the policyholder at the time the loan is made of the initial rate of interest on the loan.

(b) Not less than 30 days before making a change in the interest rate pursuant to subsection (4), notify the policyholder of the change.

(c) Furnish to the policyholder the information provided in subsections (2) and (4).

(6) A policy shall not terminate in a policy year as the sole result of change in the interest rate during that policy year, and the insurer shall maintain coverage during that policy year until the time at which the policy would otherwise have terminated if there had not been a change during that policy year.

(7) This section shall not apply to any insurance or annuity contract issued before the effective date of this section unless the policyholder agrees in writing to the applicability of this section. Prior to the receipt of any policyholder's written agreement as to the applicability of this section, each insurer shall furnish to the policyholder written notice identifying all the changes in terms and conditions of the policy including information in subsections (2), (3), and (4). This written notice shall identify the benefits which may insure to the policyholder as a result of the applicability of this section.

History: Add. 1982, Act 427, Imd. Eff. Dec. 29, 1982.

Popular name: Act 218

500.4024 Nonforfeiture benefits; cash surrender values; provision required.

Sec. 4024. Each life insurance policy shall contain a provision for nonforfeiture benefits and cash surrender values in accordance with the requirements of section 4058, 4060, or 4061.

History: 1956, Act 218, Eff. Jan. 1, 1957;—Am. 1993, Act 349, Eff. Oct. 1, 1994.

Popular name: Act 218

500.4026 Table of loan values and options; provision required.

Sec. 4026. Except for universal life insurance policies, each life insurance policy shall contain a table showing in figures the loan values and the options available under the policies each year upon default in premium payments during at least the first 20 years of the policy. Universal life insurance policies shall clearly describe and illustrate calculations used to determine loan values and the options available under the policies upon default in premium payments.

History: 1956, Act 218, Eff. Jan. 1, 1957;—Am. 1993, Act 349, Eff. Oct. 1, 1994.

Popular name: Act 218

500.4028 Default in premium payments; reinstatement; provision required.

Sec. 4028. There shall be a provision that if, in event of default in premium payments, the value of the policy shall be applied to the purchase of other insurance, and if such insurance shall be in force and the original policy shall not have been surrendered to the company and canceled, the policy may be reinstated within 3 years from such default, upon evidence of insurability satisfactory to the company and payment of arrears of premiums with interest.

History: 1956, Act 218, Eff. Jan. 1, 1957.

Popular name: Act 218

500.4030 Settlement of claim upon death of insured; provision required.

Sec. 4030. There shall be a provision that when a policy shall become a claim by the death of the insured, settlement shall be made upon receipt of due proof of death, or not later than 2 months after receipt of such proof.

History: 1956, Act 218, Eff. Jan. 1, 1957.

Popular name: Act 218

500.4032 Table of installments; provision required.

Sec. 4032. There shall be a table showing the amounts of installments in which the policy may provide its proceeds may be payable.

History: 1956, Act 218, Eff. Jan. 1, 1957.

Popular name: Act 218

500.4036 Title required.

Sec. 4036. There shall be a title on the face and on the back of the policy correctly describing the same.

History: 1956, Act 218, Eff. Jan. 1, 1957.

Popular name: Act 218

500.4037 Universal life insurance policy; provisions required.

Sec. 4037. Each universal life insurance policy shall contain all of the following provisions:

(a) That the insurer will send to the policyholder without charge at least annually a report advising the policyholder as to the policy status. The end of the current report period shall be not more than 3 months prior to the date of the mailing of the report. The report shall include all of the following:

(*i*) The beginning and end of the current report period.

(*ii*) The policy value at the end of the previous report period and at the end of the current report period.

(*iii*) The total of all amounts, identifying each by type such as interest, mortality, expense, and riders, that have been credited or debited to the policy value during the current report period.

(*iv*) The current death benefit at the end of the current report period on each life covered by the policy.

(*v*) The net cash surrender value of the policy as of the end of the current report period.

(*vi*) The amount of outstanding loans, if any, as of the end of the current report period.

(*vii*) For fixed premium universal life insurance policies, if, assuming guaranteed interest, mortality, and expense loads and continued scheduled premium payments, the policy's net cash surrender value is such that it would not maintain insurance in force until the end of the next reporting period, a notice to this effect.

(*viii*) For flexible premium universal life insurance policies, if, assuming guaranteed interest, mortality, and expense loads, the policy's net cash surrender value will not maintain insurance in force until the end of the next reporting period unless further premium payments are made, a notice to this effect.

(b) An illustrative report that will be sent to the policyowner upon request. This report shall contain the same minimum requirements as those set forth in the universal life disclosure requirements in section 4038.

(c) Guarantees of minimum interest credits and maximum mortality and expense charges, all values and data shown in the policy are based on guarantees, figures based on nonguarantees are not included in the policy, minimum and maximum guarantees are in addition to any index guarantees, and if guaranteed credits or charges are also the current credits or charges, the amounts may be included in the policy if clearly labelled. The maturity date is not considered a guarantee for purposes of this section.

(d) At least a general description of the calculation of cash surrender values including all of the following information:

(*i*) The guaranteed maximum expense charges and loads.

(*ii*) Any limitation on the crediting of additional interest. Interest credits shall not remain conditional for a period longer than 12 months.

(*iii*) The guaranteed minimum rate or rates of interest.

(*iv*) The guaranteed maximum mortality charges.

(*v*) Any other guaranteed charges.

(*vi*) Any surrender or partial withdrawal charges.

(e) If the policyowner has the right to change the basic coverage, a statement of any limitation on the amount or timing of the change. If the policyowner has the right to increase the basic coverage, a statement as to whether a new period of contestability or suicide is applicable to the additional coverage.

(f) If a policy provides for a maturity date, end date, or similar date, then a statement, in close proximity to that date, that it is possible that coverage may not continue to the maturity date even if scheduled premiums are paid in a timely manner, if such is the case.

(g) That written notice shall be sent by the insurer to the policyowner's last known address at least 30 days prior to termination of coverage. A flexible premium universal life insurance policy shall provide for a grace period of at least 30 days after lapse with lapse occurring on that date on which the net cash surrender value first equals zero or as otherwise defined in the policy.

History: Add. 1993, Act 349, Eff. Oct. 1, 1994;—Am. 1994, Act 226, Eff. Oct. 1, 1994.

Popular name: Act 218

500.4038 "Policy cost factors" defined; initial disclosure; statement of policy information; delivery; extension of free-look period; furnishing statement at time of policy delivery.

Sec. 4038. (1) As used in this section, "policy cost factors" means those amounts that affect the price per thousand of life insurance coverage or other benefits. They include interest, mortality, expense charges, and fees, including any surrender or withdrawal charges, but not persistency assumptions.

(2) Unless a statement of policy information is provided pursuant to subsection (3), for initial disclosure in connection with any advertising, solicitation, or negotiation of a universal life insurance policy all of the following are required:

(a) Any statement of policy cost factors or benefits shall contain all of the following:

(*i*) The corresponding guaranteed policy cost factors or benefits, clearly identified.

(*ii*) A statement explaining the nonguaranteed nature of any current interest rates, charges, or other fees applied to the policy, including the insurer's rights to alter any of these factors.

(*iii*) Any limitation on the crediting of interest, including identification of those portions of the policy to which a specified interest rate shall be credited.

(b) Any illustration of the policy value shall be accompanied by the corresponding net cash surrender value.

(c) Any statement regarding the crediting of a specific current interest rate shall also contain the frequency and timing by which that rate is determined.

(d) If any statement refers to the policy being interest-indexed, the index shall be described. In addition, a description shall be given of the frequency and timing of determining the interest rate and of any adjustments made to the index in arriving at the interest rate credited under the policy.

(e) Any illustrated benefits based upon nonguaranteed interest, mortality, or expense factors shall be accompanied by a statement indicating that these benefits are not guaranteed.

(f) If the guaranteed cost factors or initial policy cost factor assumptions would result in policy values becoming exhausted before the policy's maturity date, that fact shall be disclosed, including notice that coverage will terminate under those circumstances.

(3) At the time the agent takes an application for a policy, except as provided in subsection (4), the agent shall furnish to the applicant a statement of policy information for the applicant in a format approved by the commissioner. The illustration of policy premium, death benefit, and cash value shall be shown for an interest rate no higher than the current interest rate actually being paid on the policy illustrated or to be issued and for the interest rate guaranteed in the policy. Interest rates higher than these shall not be illustrated. The commissioner shall issue guidelines for the statement of policy information.

(4) If the policy information for the applicant is not furnished at the time of application, it shall be delivered within 15 working days after the application is taken, but at least 5 days before delivery of the policy.

(5) If the policy is delivered sooner than 5 days after the policy information for the applicant, the free-look period shall be extended to 15 days. If the statement of policy information for applicant is not delivered at the time of application, the disclosure shall be accompanied by a statement that it is delivered for the express purpose of allowing comparison with other policies.

(6) For direct response solicitation methods, the statement of policy information for the applicant in compliance with the guidelines may be furnished at the time of delivery of the policy, if the purchaser is given an unconditional refund provision of at least 10 days.

History: Add. 1993, Act 349, Eff. Oct. 1, 1994;—Am. 1998, Act 107, Imd. Eff. June 3, 1998.

Popular name: Act 218

500.4040 Safeguard against lapse; special surrender value; optional provisions; supplemental contract.

Sec. 4040. (1) Any life insurer may include in its policy a provision intended to safeguard such life insurance against lapse, or provisions that shall provide a special surrender value therefor in the event that the insured thereunder shall, by reason of accidental bodily injury or disease, be unable to continue the premium payments thereon.

(2) A life insurance policy may also contain, or provide through contracts supplemental thereto, such provisions relating to accident and sickness insurance as are authorized under section 602(2) (accidental death, dismemberment, or loss of sight; certain benefits in event of total and permanent disability). No such supplemental contract shall be issued or delivered to any person in this state unless and until a copy of the form thereof has been submitted to and approved by the commissioner, under such reasonable rules and regulations as he shall make concerning the provisions in such contracts and their submission to and approval by him.

History: 1956, Act 218, Eff. Jan. 1, 1957.

Popular name: Act 218

500.4042 Liability limitation; aviation, military or naval service.

Sec. 4042. Nothing contained in this chapter shall be construed as prohibiting a life insurer from placing in its policies provisions limiting its liability with respect to:

(1) Death resulting from aviation other than as a fare-paying passenger on a regularly scheduled route between definitely established airports;

(2) Military or naval service;

Provided, That if the liability of the insurer is limited as herein provided, the liability shall in no event be fixed at an amount less than the reserve on the policy (including the reserve for any dividend additions thereto and excluding the reserve for any additional benefits in the event of death by accident or accidental means or for benefits in event of any type of disability), less any indebtedness on or secured by such policy.

History: 1956, Act 218, Eff. Jan. 1, 1957.

Popular name: Act 218

500.4046 Provisions prohibited; forfeiture of policy for failure to repay loan; limitation of actions; predating policy; settlement at maturity for less than full value.

Sec. 4046. No policy of life insurance other than industrial life insurance shall be issued or delivered in this state if it contain any of the following provisions:

(1) A provision for the forfeiture of the policy for failure to repay any loan on the policy or to pay interest on such loan while the total indebtedness on the policy is less than the loan value thereof; or any provision for forfeiture for failure to repay any such loan or to pay interest thereon, unless such provision contains a stipulation that no such forfeiture shall occur until at least 1 month after notice shall have been mailed by the insurer to the last known address of the insured and of the assignee, if any; or a provision contemplating any proposed benefit not essentially a part of the insurance contract or any connection of the insured with the

insurer other than that of policyholder;

(2) A provision limiting the time within which any action at law or in equity may be commenced to less than 6 years after the cause of action shall accrue;

(3) A provision by which the policy shall purport to be issued or to take effect as of a date more than 6 months before the application therefor was made, if thereby the premium on such policy or contract is reduced below the premium which would be payable thereon as determined by the nearest birthday of the insured at the time when such application was made. Nothing contained in this subdivision shall invalidate any contract made in violation of this subdivision. This subdivision shall not be construed to prohibit the exchange, alteration or conversion of policies of life insurance or annuity contracts as of the original date of such policies or contracts if the amount of insurance provided under the new policy does not exceed the amount of insurance under the original policy or the amount of insurance which the premium paid for the original policy or contract would have purchased if the new policy had been originally applied for, whichever is greater; nor to prohibit the exercise of any conversion privilege contained in any policy or contract;

(4) A provision for any mode of settlement at maturity of less value than the amount insured by the policy plus dividend additions, if any, less any indebtedness to the insurer on the policy and less any premium that may by the terms of the policy be deducted, payments to be made in accordance with the terms of the policy. This prohibition shall not apply to substandard policies.

History: 1956, Act 218, Eff. Jan. 1, 1957.

Popular name: Act 218

500.4047 Profit sharing, charter or founders and coupon policies; definitions; prohibitions, violations.

Sec. 4047. (1) As used in this section, "profit sharing policy" means any life insurance policy which by its terms represents that the policyholder will receive preferential treatment in the distribution of earnings or surplus of the insurance company with special advantages not available to persons holding other types of policies.

(2) "Charter policy" or "founders policy" means any life insurance policy which by its terms expressly provides that the policyholder will receive some preferential or discriminatory advantage or benefit not available to persons who purchase insurance from the company at future dates or under other circumstances.

(3) "Coupon policy" means any life insurance policy which includes a series of coupons payable at a specified future date if the insured person is living.

(4) A "series of pure endowments" means any provision in a life insurance policy providing for a series of predetermined benefits maturing at specified dates if the insured is then living, any one of which series of benefits is less than the gross annual policy premium.

(5) No profit sharing, charter, founders or coupon policy or policy containing a series of pure endowments shall be issued or delivered in this state after the effective date of this section. Policies in force prior to the effective date shall not be affected.

(6) No sales material or oral presentations may be used if they represent a life insurance policy to be a profit sharing, charter, founders or coupon policy or a policy containing a series of pure endowments. Any violation hereof shall also constitute a violation of section 2064.

History: Add. 1969, Act 246, Eff. Jan. 1, 1971.

Popular name: Act 218

500.4048 Provisions required by laws of other states or counties.

Sec. 4048. The policies of a foreign or alien life insurer, may, if approved by the commissioner, contain any provision which the law of the state, territory, district or country under which the insurer is organized, prescribed shall be in such policies, when issued in this state, and the policies of a domestic life insurer, may when issued or delivered in any other state, territory, district or country, contain any provision required by the laws of the state, territory, district or country in which the same are issued, anything in this code to the contrary notwithstanding.

History: 1956, Act 218, Eff. Jan. 1, 1957.

Popular name: Act 218

500.4052 Preliminary term insurance on old policies; reserve.

Sec. 4052. Policies may be issued in this state providing for not more than 1 year preliminary term insurance by the incorporation therein of a clause on the face of the policy distinctly specifying that the first year's insurance is term insurance. If the premium charged for term insurance under a limited payment life preliminary term policy providing for the payment of all premiums thereon in less than 20 years from the date of the policy, or under an endowment preliminary term policy, exceeds that charged for life insurance under 20 pay life preliminary term policies of the same insurer at the same age, the reserve thereon at the end of any year, including the first, shall not be less than the reserve on a 20 pay life preliminary term policy issued in the same year and at the same age, together with an amount which shall be equivalent to the accumulation of a net level premium sufficient to provide for a pure endowment at the end of the premium payment period equal to the difference between the value at the end of such period for such 20 pay life preliminary term policy and the full reserve at such time of such a limited payment life or endowment policy: Provided, That this section shall apply to all policies issued subsequent to January 1, 1930, and prior to the operative date of section 4060 (standard nonforfeiture law).

History: 1956, Act 218, Eff. Jan. 1, 1957.

Popular name: Act 218

500.4054 Proceeds of policy; exemption from creditors.

Sec. 4054. (1) Any authorized life insurer shall have power to hold the proceeds of any life or endowment insurance or annuity contract issued by it (a) upon such terms and restrictions as to revocation by the insured and control by beneficiaries; (b) with such exemptions from legal process and the claims of creditors of beneficiaries other than the insured; and (c) upon such other terms and conditions, irrespective of the time and manner of payment of said proceeds, as shall have been agreed to in writing by such insurer and the insured or beneficiary.

(2) Such insurer shall not be required to segregate funds so held but may hold them as a part of its general corporate assets.

(3) Any life or endowment insurance or annuity contract issued by a domestic, foreign or alien insurer may provide that the proceeds thereof or payments thereunder shall not be subject to the claims of creditors of any beneficiary other than the insured or any legal process against any beneficiary other than the insured; and if the said contract so provides, the benefits accruing thereunder to such beneficiary other than the insured shall not be transferable nor subject to commutation or encumbrance, or to process.

History: 1956, Act 218, Eff. Jan. 1, 1957.

Popular name: Act 218

500.4058 Nonforfeiture benefits on old policies.

Sec. 4058. This section shall apply only to policies of life insurance other than industrial life insurance issued prior to the operative date of section 4060 (the standard nonforfeiture law).

The nonforfeiture benefit referred to in section 4024 shall be available to the owner of the policy in event of default in premium payments, after premiums shall have been paid for 3 years and shall be a stipulated form of insurance, the net value of which shall be at least equal to the reserve at the date of default on the policy and on any dividend additions thereto, specifying the mortality table and rate of interest adopted for computing such reserves, less a sum not more than 2 1/2% of the amount insured by the policy and of any existing dividend additions thereto, and less any existing indebtedness to the insurer on the policy. Such provision shall stipulate that the policy may be surrendered to the insurer at its home office within 1 month from date of default for a specified cash value at least equal to the sum which would otherwise be available for the purchase of insurance as aforesaid and may stipulate that the insurer may defer payment for not more than 6 months after the application therefor is made. This section shall not be applicable to term insurances of 20 years or less.

History: 1956, Act 218, Eff. Jan. 1, 1957.

Popular name: Act 218

500.4060 Standard nonforfeiture law for life insurance.

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

(2) Subject to subdivisions (g) and (h), for policies issued on and after the operative date of this section, as defined in subsection (10), a policy of life insurance, except as provided in subsection (9), may not be delivered or issued for delivery in this state unless it contains in substance all of the following provisions, or corresponding provisions that in the opinion of the director are at least as favorable to the defaulting or surrendering policyholder as are the minimum requirements specified in this subsection and are essentially in compliance with subsection (8):

(a) If there is a default in a premium payment, the company will grant, on proper request not later than 60 days after the due date of the premium in default, a paid-up nonforfeiture benefit on a plan stipulated in the policy, effective as of that due date, of an amount as specified in this section. Instead of the stipulated paid-up nonforfeiture benefit, the company may substitute, on proper request not later than 60 days after the due date of the premium in default, an actuarially equivalent alternative paid-up nonforfeiture benefit that provides a greater amount or longer period of death benefits or, if applicable, a greater amount or earlier payment of endowment benefits.

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

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

(d) If the policy has become paid up by completion of all premium payments or if it is continued under any paid-up nonforfeiture benefit that became effective on or after the third policy anniversary for ordinary insurance or the fifth policy anniversary for industrial insurance, the company will pay, upon surrender of the policy within 30 days after any policy anniversary, a cash surrender value of an amount specified in this section.

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

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

(f) A statement that the cash surrender values and the paid-up nonforfeiture benefits available under the policy are not less than the minimum values and benefits required by or under the insurance law of the state in which the policy is delivered; an explanation of the manner in which the cash surrender values and the paid-up nonforfeiture benefits are altered by the existence of any paid-up additions credited to the policy or any indebtedness to the company on the policy; if a detailed statement of the method of computation of the values and benefits shown in the policy is not stated in the policy, a statement that the method of computation has been filed with the insurance supervisory official of the state in which the policy is delivered; and a statement of the method to calculate the cash surrender value and paid-up nonforfeiture benefit available under the policy on any policy anniversary beyond the last anniversary for which the values and benefits are consecutively shown in the policy.

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

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

(3) A cash surrender value available under a policy if there is a default in a premium payment due on any policy anniversary, whether or not required by subsection (2), must be an amount not less than the excess, if any, of the present value, on the anniversary, of the future guaranteed benefits that would have been provided for by the policy, including any existing paid-up additions, if there had been no default, over the sum of the then present value of the adjusted premiums as defined in subsection (5), corresponding to premiums that would have fallen due on and after the anniversary, and the amount of any indebtedness to the company on the policy. However, for a policy issued on or after the operative date of paragraphs 9 to 18 of subsection (5) that provides supplemental life insurance or annuity benefits at the option of the insured and for an identifiable additional premium by rider or supplemental policy provision, the cash surrender value must be an amount not less than the sum of the cash surrender value for an otherwise similar policy issued at the same age without the rider or supplemental policy provision and the cash surrender value for a policy that provides only the benefits otherwise provided by the rider or supplemental policy provision.

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

A cash surrender value available within 30 days after a policy anniversary under a policy paid up by completion of all premium payments or a policy continued under a paid-up nonforfeiture benefit, whether or not required by subsection (2), must be an amount not less than the present value, on the anniversary, of the future guaranteed benefits provided for by the policy, including any existing paid-up additions, decreased by any indebtedness to the company on the policy.

(4) A paid-up nonforfeiture benefit available under a policy if there is a default in a premium payment due on a policy anniversary must be such that its present value as of the anniversary must at least equal the cash surrender value then provided for by the policy or, if the policy does not provide for a cash surrender value, that cash surrender value that would have been required by this section in the absence of the condition that premiums must have been paid for at least a specified period.

(5) Paragraphs 1 to 8 of this subsection do not apply to policies issued on or after the operative date of paragraphs 9 to 18 as defined in paragraph 18. Except as provided in paragraph 3 of this subsection, the adjusted premiums for a policy must be calculated on an annual basis and must be a uniform percentage of the respective premiums specified in the policy for each policy year, excluding any extra premiums charged because of impairments or special hazards, so that the present value, at the date of issue of the policy, of all the adjusted premiums equals the sum of (*i*) the then present value of the future guaranteed benefits provided for by the policy; (*ii*) 2% of the amount of insurance, if the insurance is uniform in amount, or of the equivalent uniform amount, as hereinafter defined, if the amount of insurance varies with duration of the policy; (*iii*) 40% of the adjusted premium for the first policy year; (*iv*) 25% of either the adjusted premium for the first policy year or the adjusted premium for a whole life policy of the same uniform or equivalent uniform amount with uniform premiums for the whole of life issued at the same age for the same amount of insurance, whichever is less. In applying the percentages specified in items (*iii*) and (*iv*) above, an adjusted premium must not be considered to exceed 4% of the amount of insurance or uniform amount equivalent to the amount of insurance. The date of issue of a policy for the purpose of this subsection is the date that the rated age of the insured is determined.

For a policy providing an amount of insurance varying with duration of the policy, the equivalent uniform amount of the policy for the purpose of this subsection is considered to be the uniform amount of insurance provided by an otherwise similar policy, containing the same endowment benefit or benefits, if any, issued at the same age and for the same term, the amount of which does not vary with duration and the benefits under which have the same present value at the date of issue as the benefits under the policy. However, for a policy providing a varying amount of insurance issued on the life of a child under age 10, the equivalent uniform amount may be computed as though the amount of insurance provided by the policy before the attainment of age 10 were the amount provided by the policy at age 10.

The adjusted premiums for a policy providing term insurance benefits by rider or supplemental policy provision must be equal to (a) the adjusted premiums for an otherwise similar policy issued at the same age without the term insurance benefits, increased, during the period for which premiums for the term insurance benefits are payable, by (b) the adjusted premiums for that term insurance. Items (a) and (b) must be calculated separately and as specified in the first 2 paragraphs of this subsection. However, for the purposes of items (*ii*), (*iii*), and (*iv*) of the first paragraph of this subsection, the amount of insurance or equivalent uniform amount of insurance used in the calculation of the adjusted premiums referred to in (b) must be equal to the excess of the corresponding amount determined for the entire policy over the amount used in the calculation of the adjusted premiums in (a).

Except as otherwise provided in paragraph 5 of this subsection, for all policies of ordinary insurance, all adjusted premiums and present values referred to in this section must be calculated on the basis of the commissioners 1941 standard ordinary mortality table. For a category of ordinary insurance issued on female risks, adjusted premiums and present values may be calculated according to an age not more than 3 years younger than the actual age of the insured. Except as otherwise provided in paragraph 7 of this subsection, the calculations for all policies of industrial insurance must be made on the basis of the 1941 standard industrial mortality table. All calculations must be made on the basis of the rate of interest, not exceeding 3-1/2% per annum, specified in the policy for calculating cash surrender values and paid-up nonforfeiture benefits. In calculating the present value of any paid-up term insurance with accompanying pure endowment, if any, offered as a nonforfeiture benefit, the rates of mortality assumed may be not more than 130% of the rates of mortality according to the applicable table. For insurance issued on a substandard basis, the calculation of adjusted premiums and present values may be based on another table of mortality as specified by the company and approved by the director.

For ordinary policies issued on or after the operative date of this paragraph, as defined in paragraph 6, all adjusted premiums and present values referred to in this section must be calculated on the basis of the commissioners 1958 standard ordinary mortality table and the rate of interest specified in the policy for calculating cash surrender values and paid-up nonforfeiture benefits. However, the rate of interest may not exceed 3-1/2% per annum, except that a rate of interest not exceeding 4% per annum may be used for policies issued on or after October 21, 1974, and before October 1, 1980, and a rate of interest not exceeding 5-1/2% per annum may be used for policies issued on or after October 1, 1980. For a category of ordinary insurance issued on female risks, adjusted premiums and present values may be calculated according to an age not more than 6 years younger than the actual age of the insured. In calculating the present value of a paid-up term insurance with accompanying pure endowment, if any, offered as a nonforfeiture benefit, the rates of mortality assumed may be not more than those shown in the commissioners 1958 extended term insurance table. For insurance issued on a substandard basis, the calculation of adjusted premiums and present values may be based on another table of mortality as specified by the company and approved by the director.

After May 23, 1960, a company may file with the director a written notice of its election to invoke paragraph 5 after a specified date before January 1, 1966. After the filing of the notice, then on the specified date, that is the operative date for the company, paragraph 5 is operative with respect to the ordinary policies issued by the company and bearing a date of issue that is the same as or later than the specified date. If a company does not make an election, the operative date of paragraph 5 for the company is January 1, 1966.

For industrial policies issued on or after the operative date of this paragraph, as defined in paragraph 8, all adjusted premiums and present values referred to in this section must be calculated on the basis of the commissioners 1961 standard industrial mortality table and the rate of interest specified in the policy for calculating cash surrender values and paid-up nonforfeiture benefits. However, the rate of interest may not exceed 3-1/2% per annum, except that a rate of interest not exceeding 4% per annum may be used for policies issued after October 20, 1974, and before October 1, 1980, and a rate of interest not exceeding 5-1/2% per annum may be used for policies issued after September 30, 1980. In calculating the present value of paid-up term insurance with accompanying pure endowment, if any, offered as a nonforfeiture benefit, the rates of mortality assumed may be not more than those shown in the commissioners 1961 industrial extended term insurance table. For insurance issued on a substandard basis, the calculation of adjusted premiums and present values may be based on another table of mortality as specified by the company and approved by the director.

After May 23, 1969, a company may file with the director a written notice of its election to invoke paragraph 7 after a specified date before January 1, 1968. After the filing of the notice, then on the specified date, which is the operative date for the company, paragraph 7 is operative with respect to the industrial policies issued by the company and that bear a date of issue the same as or later than the specified date. If a company does not make an election, the operative date of paragraph 7 for the company is January 1, 1968.

Paragraphs 9 to 18 apply to all policies issued on or after the operative date of those paragraphs as defined in paragraph 18. Except as provided in paragraph 15, the adjusted premiums for any policy must be calculated on an annual basis and must be a uniform percentage of the respective premiums specified in the policy for each policy year, excluding amounts payable as extra premiums to cover impairments or special hazards and also excluding any uniform annual contract charge or policy fee specified in the policy in a statement of the method that is used to calculate the cash surrender values and paid-up nonforfeiture benefits, so that the present value, at the date of issue of the policy, of all adjusted premiums is equal to the sum of (*i*) the then present value of the future guaranteed benefits provided for by the policy; (*ii*) 1% of either the amount of insurance, if the insurance is uniform in amount, or the average amount of insurance at the beginning of each of the first 10 policy years; and (*iii*) 125% of the nonforfeiture net level premium as defined in this subsection. However, in applying the percentage specified in (*iii*), the nonforfeiture net level premium shall not be considered to exceed 4% of either the amount of insurance, if the insurance is uniform in amount, or the average amount of insurance at the beginning of each of the first 10 policy years. The date of issue of a policy for the purpose of this subsection is the date on which the rated age of the insured is determined.

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

For policies that cause on a basis guaranteed in the policy unscheduled changes in benefits or premiums, or that provide an option for changes in benefits or premiums other than a change to a new policy, the adjusted premiums and present values initially must be calculated on the assumption that future benefits and premiums will not change from those stipulated at the date of issue of the policy. At the time of a change in the benefits or premiums, the future adjusted premiums, nonforfeiture net level premiums, and present values must be recalculated on the assumption that future benefits and premiums will not change from those stipulated by the policy immediately after the change.

Except as otherwise provided in paragraph 15 of this subsection, the recalculated future adjusted premiums is a uniform percentage of the respective future premiums specified in the policy for each policy year, excluding amounts payable as extra premiums to cover impairments and special hazards and excluding any uniform annual contract charge or policy fee specified in the policy in a statement of the method to calculate the cash surrender values and paid-up nonforfeiture benefits, so that the present value, at the time of change to the newly defined benefits or premiums, of all the future adjusted premiums is equal to the excess of the sum of the then present value of the then future guaranteed benefits provided for by the policy and the additional expense allowance, if any, over the then cash surrender value, if any, or present value of any paid-up nonforfeiture benefit under the policy.

The additional expense allowance, at the time of the change to the newly defined benefits or premiums, is the sum of 1% of the excess, if positive, of the average amount of insurance at the beginning of each of the first 10 policy years after the change over the average amount of insurance before the change at the beginning of each of the first 10 policy years after the time of the most recent previous change, or, if there has been no previous change, the date of issue of the policy; and 125% of the increase, if positive, in the nonforfeiture net level premium.

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

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

All adjusted premiums and present values referred to in this section for all policies of ordinary insurance must be calculated on the basis of the commissioners 1980 standard ordinary mortality table or, at the election of the company for any 1 or more specified plans of life insurance, the commissioners 1980 standard ordinary mortality table with 10-year select mortality factors. All adjusted premiums and present values referred to in this section for all policies of industrial insurance must be calculated on the basis of the commissioners 1961 standard industrial mortality table. All adjusted premiums and present values referred to in this section for all policies issued in a particular calendar year must be calculated on the basis of a rate of interest not exceeding the nonforfeiture interest rate as defined in this subsection for policies issued in that calendar year. However:

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

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

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

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

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

(f) For a policy issued before the operative date of the valuation manual, any commissioners standard ordinary mortality tables, adopted after 1980 by the national association of insurance commissioners, that are approved by a rule promulgated by the director for use in determining the minimum nonforfeiture standard or as provided under section 838 may be substituted for the commissioners 1980 standard ordinary mortality table with or without 10-year select mortality factors or for the commissioners 1980 extended term insurance table.

(g) For policies issued on or after the operative date of the valuation manual, the valuation manual must provide the commissioners standard mortality table for use in determining the minimum nonforfeiture standard that may be substituted for the commissioners 1980 standard ordinary mortality table with or without

10-year select mortality factors or for the commissioners 1980 extended term insurance table. If the director approves by regulation any commissioners standard ordinary mortality table adopted by the national association of insurance commissioners for use in determining the minimum nonforfeiture standard for policies issued on or after the operative date of the valuation manual, the minimum nonforfeiture standard supersedes the minimum nonforfeiture standard provided by the valuation manual.

(h) For a policy issued before the operative date of the valuation manual, any commissioners standard industrial mortality tables, adopted after 1980 by the national association of insurance commissioners, that are approved by a rule promulgated by the director for use in determining the minimum nonforfeiture standard may be substituted for the commissioners 1961 standard industrial mortality table or the commissioners 1961 industrial extended term insurance table.

(i) For policies issued on or after the operative date of the valuation manual, the valuation manual must provide the commissioners standard mortality table for use in determining the minimum nonforfeiture standard that may be substituted for the commissioners 1961 standard industrial mortality table or the commissioners 1961 industrial extended term insurance table. If the director approves by regulation any commissioners standard industrial mortality table adopted by the national association of insurance commissioners for use in determining the minimum nonforfeiture standard for policies issued on or after the operative date of the valuation manual, the minimum nonforfeiture standard supersedes the minimum nonforfeiture standard provided by the valuation manual. The following applies to the nonforfeiture interest rate:

(*i*) Subject to this subparagraph, for a policy issued before the operative date of the valuation manual, the nonforfeiture interest rate per annum for a policy issued in a particular calendar year is equal to 125% of the calendar year statutory valuation interest rate for the policy as defined in the standard valuation law, rounded to the nearest 0.25%. The nonforfeiture interest rate under this subparagraph may not be less than 4%.

(*ii*) For policies issued on and after the operative date of the valuation manual, the nonforfeiture interest rate per annum for any policy issued in a particular calendar year is provided by the valuation manual.

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

After July 10, 1982, a company may file with the director a written notice of its election to comply with paragraphs 9 to 18 of this subsection at a specified date before January 1, 1989, that is the operative date of those paragraphs for that company. If a company does not make an election, the operative date of paragraphs 9 to 18 of this subsection for the company is January 1, 1989.

(6) For a plan of life insurance that provides for future premium determination, the amounts of which are to be determined by the insurance company based on then estimates of future experience, or for a plan of life insurance as to which the minimum values cannot be determined by the methods described in subsections (2) to (5), all of the following apply:

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

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

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

(7) A cash surrender value and paid-up nonforfeiture benefit, available under the policy if there is a default in a premium payment due at a time other than on the policy anniversary, must be calculated with allowance for the lapse of time and the payment of fractional premiums beyond the last preceding policy anniversary. All values referred to in subsections (3), (4), and (5) may be calculated on the assumption that a death benefit is payable at the end of the policy year of death. The net value of any paid-up additions, other than paid-up term additions, must be not less than the amounts used to provide the additions. Notwithstanding subsection (3), additional benefits payable in any of the following ways, and premiums for all these additional benefits, must be disregarded in ascertaining cash surrender values and nonforfeiture benefits required by this section, and the additional benefits are not required to be included in any paid-up nonforfeiture benefits:

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

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

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

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

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

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

(8) This subsection applies to all policies issued after December 31, 1985. Any cash surrender value available under the policy if there is a default in a premium payment due on any policy anniversary must be in an amount that does not differ by more than 0.2% of either the amount of insurance, if the insurance is uniform in amount, or the average amount of insurance at the beginning of each of the first 10 policy years from the sum of (a) the greater of zero and the basic cash value as specified in this subsection and (b) the present value of any existing paid-up additions less the amount of any indebtedness to the company under the policy.

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

The nonforfeiture factor for each policy year must be an amount equal to a percentage of the adjusted premium for the policy year, as defined in paragraphs 1 to 4 of subsection (5) or paragraphs 9 to 18 of subsection (5), whichever is applicable. The nonforfeiture factor:

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

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

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

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

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

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

(a) Reinsurance.

(b) Group insurance.

(c) Pure endowment.

(d) Annuity or reversionary annuity contract.

(e) A term policy of uniform amount that does not provide guaranteed nonforfeiture or endowment benefits, or renewal of guaranteed nonforfeiture or endowment benefits, of 20 years or less expiring before age 71, for which uniform premiums are payable during the entire term of the policy.

(f) A term policy of decreasing amount that does not provide guaranteed nonforfeiture or endowment benefits and on which each adjusted premium, calculated as specified in subsection (5), is less than the adjusted premium calculated under subsection (5), on a term policy of uniform amount, or the renewal of a term policy that does not provide guaranteed nonforfeiture or endowment benefits, issued at the same age and for the same initial amount of insurance and for a term of 20 years or less expiring before age 71, for which uniform premiums are payable during the entire term of the policy.

(g) A policy that does not provide guaranteed nonforfeiture or endowment benefits, for which no cash surrender value, if any, or present value of any paid-up nonforfeiture benefit, at the beginning of any policy year, calculated as specified in subsections (3) to (5), exceeds 2.5% of the amount of insurance at the beginning of the same policy year.

(h) A policy that is delivered outside this state through an agent or other representative of the company issuing the policy.

For purposes of determining the applicability of this section, the age at expiry for a joint term life insurance policy is the age at expiry of the oldest life.

(10) After July 30, 1943, a company may file with the director a written notice of its election to comply with this section after a specified date before January 1, 1948. After the filing of the notice, then on the specified date, that is the operative date for the company, this section is operative with respect to the policies thereafter issued by the company. If a company does not make an election, the operative date of this section for the company is January 1, 1948.

(11) As used in this section, "operative date of the valuation manual" means January 1 of the first calendar year that the valuation manual as that term is defined in section 836b is effective.

History: 1956, Act 218, Eff. Jan. 1, 1957;—Am. 1960, Act 153, Imd. Eff. May 23, 1960;—Am. 1961, Act 226, Eff. Sept. 8, 1961;—Am. 1963, Act 110, Eff. Sept. 6, 1963;—Am. 1974, Act 302, Imd. Eff. Oct. 21, 1974;—Am. 1980, Act 58, Eff. Oct. 1, 1980;—Am. 1982, Act 222, Imd. Eff. July 10, 1982;—Am. 1993, Act 349, Eff. Oct. 1, 1994;—Am. 2004, Act 236, Imd. Eff. July 21, 2004;—Am. 2014, Act 571, Eff. Mar. 31, 2015.

Popular name: Act 218

500.4061 Flexible premium universal life insurance policies; provisions applicable to minimum cash surrender values; minimum paid-up nonforfeiture benefits.

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

(a) Minimum cash surrender values for flexible premium universal life insurance policies must be determined separately for the basic policy and any benefits and riders for which premiums are paid separately. For a basic policy and any benefits and riders for which premiums are not paid separately, all of the following requirements apply:

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

(A) The benefits charges.

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

(C) Actual administrative expense charges for other years.

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

(E) Any service charges actually made.

(F) Any deductions made for partial withdrawals.

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

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

(*iv*) Benefit charges must include the charges made for mortality and any charges made for riders or supplementary benefits for which premiums are not paid separately. If benefit charges are substantially level by duration and develop low or no cash values, the director may require higher cash values unless the insurer provides adequate justification that the cash values are appropriate in relation to the policy's other characteristics.

(*v*) If the amount of insurance is subsequently increased on request of the policyowner or by the terms of the policy, an additional expense allowance and an unused additional expense allowance must be determined on a basis consistent with this subsection and with section 4060(5) paragraph 13 using the face amount and the latest maturity date permitted at that time under the policy.

(*vi*) The unamortized unused initial expense allowance during the policy year beginning on the policy anniversary at age x+t, where "x" is the same issue age, must be the unused initial expense allowance multiplied by

$$\frac{ax+t}{ax}$$

where ax+t and a x are present values of an annuity of 1 per year payable on policy anniversaries beginning at ages x+t and x, respectively, and continuing until the highest attained age at which a premium may be paid under the policy, both on the mortality and interest bases guaranteed in the policy. An unamortized unused additional expense allowance must be the unused additional expense allowance multiplied by a similar ratio of annuities, with a x replaced by an annuity beginning on the date as of which the additional expense allowance was determined.

(b) As used in this subsection:

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

(*ii*) "Administrative expense charges" means charges per premium payment, charges per dollar of premium paid, periodic charges per thousand dollars of insurance, periodic per policy charges, and any other charges permitted by the policy to be imposed without regard to the policyowner's request for services.

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

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

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

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

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

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

(a) The minimum cash surrender values must be determined separately for the basic policy and any benefits and riders for which premiums are paid separately. All of the following requirements apply to a basic policy and any benefits and riders for which premiums are not paid separately:

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

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

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

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

(*iii*) All present values must be determined using an interest rate or rates specified by section 4060 for policies issued in the same year and the mortality rates specified by section 4060 for policies issued in the same year or contained in any other table as approved by the director for this purpose.

(b) As used in this subsection:

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

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

$$\frac{PVFB}{ax}.$$

(*iii*) "C" means the present value of any quantities analogous to the nonforfeiture net level premium that arise because of guarantees declared by the insurer after the issue date of the policy. Also, a x must be replaced by an annuity beginning on the date as of which the declaration became effective and payable until the end of the period covered by the declaration. The types of quantities included in "C" are increased current interest rate credits guaranteed for a future period, decreased current mortality rate charges guaranteed for a future period, or decreased current expense charges guaranteed for a future period.

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

(*v*) "PVFB" equals the present value of all benefits guaranteed at issue assuming future premiums are paid by the policyowner and all guarantees contained in the policy or declared by the insurer.

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

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

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

(a) If a universal life insurance policy provides for the optional election of a paid-up nonforfeiture benefit, the present value of the paid-up nonforfeiture benefit must be at least equal to the cash surrender value provided for by the policy on the effective date of the election. The present value must be based on mortality and interest standards at least as favorable to the policyowner as 1 of the following:

(*i*) For a flexible premium universal life insurance policy, the mortality and interest bases guaranteed in the policy for determining the policy value.

(*ii*) For a fixed premium policy, the mortality and interest standards permitted for paid-up nonforfeiture benefits in section 4060.

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

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

(d) A charge may be made at the surrender of the policy if the result after the deduction of the charge is not less than the minimum cash surrender value required by this section.

(e) To preserve equity between policies on a premium paying basis and on a paid-up basis, present values must comply with subsection (1) for flexible premium universal life insurance policies and with subsection (2) for fixed premium universal life insurance policies.

History: Add. 1993, Act 349, Eff. Oct. 1, 1994;—Am. 2014, Act 571, Eff. Mar. 31, 2015.

Popular name: Act 218

500.4062 Loan value; deferment.

Sec. 4062. (1) In the case of policies issued prior to the operative date of section 4060 (the standard nonforfeiture law), the loan value referred to in section 4022 shall be the reserve at the end of the current policy year on the policy and on any dividend additions thereto, specifying the mortality table and rate of interest adopted for computing such reserve less a sum not more than 2 1/2% of the amount insured by the policy and of any dividend additions thereto. Such policies may further provide that such loan may be deferred for not exceeding 6 months after the application therefor is made.

(2) In the case of policies issued on and after the operative date of section 4060 (the standard nonforfeiture law), the loan value referred to in section 4022 shall be the cash surrender value at the end of the current policy year as required by section 4060. The insurer shall reserve the right to defer such loan, except when made to pay premiums, for 6 months after application therefor is made.

History: 1956, Act 218, Eff. Jan. 1, 1957.

Popular name: Act 218

500.4064 Loan indebtedness; right to compound interest.

Sec. 4064. In ascertaining the indebtedness due upon any loan upon any policy of insurance issued in this state, the interest, if not paid when due, shall be added to the principal of such loan, and shall bear interest at the rate specified in the note or loan agreement.

History: 1956, Act 218, Eff. Jan. 1, 1957.

Popular name: Act 218

500.4070 Insurance and annuities on same life; automatic conversion of deferred annuity into paid-up annuity.

Sec. 4070. (1) Contracts may be issued in this state providing for both insurance and annuities on the same life, and sections 4008 to 4036 (standard provisions), 4042 (limitation of liability), 4046 (prohibited provisions), 4204 to 4238, 4242, and 4244 shall apply only to that part of the contracts providing for insurance.

(2) Except a contract subject to section 4060 (standard nonforfeiture law for life insurance) or section 4072 (standard nonforfeiture law for individual deferred annuities), every contract prescribed in subsection (1) providing for a deferred annuity on the life of the insured only, or a deferred annuity issued on a single life, unless paid for by a single premium, shall provide that in the event of the nonpayment of a premium after 3 full years of premiums have been paid, the annuity shall automatically become converted into a paid-up annuity for the proportion of the original annuity as the number of completed years of premiums paid bears to the total number of premiums required under the contract.

History: 1956, Act 218, Eff. Jan. 1, 1957;—Am. 1980, Act 58, Eff. Oct. 1, 1980.

Popular name: Act 218

500.4072 Standard nonforfeiture law for individual deferred annuities.

Sec. 4072. (1) This section shall be known as the standard nonforfeiture law for individual deferred annuities.

(2) This section does not apply to any reinsurance, group annuity purchased under a retirement plan or plan of deferred compensation established or maintained by an employer, including a partnership or sole proprietorship, or by an employee organization, or by both, other than a plan providing individual retirement accounts or individual retirement annuities under section 408 of the internal revenue code of 1986, 26 USC 408, premium deposit fund, variable annuity, investment annuity, immediate annuity, a deferred annuity contract after annuity payments have commenced, or reversionary annuity, or to a contract delivered outside this state through an agent or other representative of the company issuing the contract.

(3) Except as provided in subsection (2), a contract of annuity must not be delivered or issued for delivery in this state unless it contains in substance the following provisions, or corresponding provisions that in the director's opinion are at least as favorable to the contract holder, on cessation of payment of consideration under the contract:

(a) That on cessation of payment of consideration under a contract, or on the written request of the contract owner, the company shall grant a paid-up annuity benefit on a plan stipulated in the contract of a value specified in subsections (8), (9), (10), (11), and (13).

(b) If a contract provides for a lump sum settlement at maturity, or at any other time, that on surrender of the contract at or before the commencement of any annuity payments, the company shall pay in place of any paid-up annuity benefit, a cash surrender benefit of an amount specified in subsections (8), (9), (11), and (13). The company may reserve the right to defer the payment of the cash surrender benefit for a period of 6 months after demand for the payment with surrender of the contract if the company makes a written request to the director showing the necessity and equitability to all policyholders of the deferral and the director gives written approval.

(c) A statement of the mortality table, if any, and interest rates used in calculating any minimum paid-up annuity, cash surrender, or death benefits that are guaranteed under the contract, together with sufficient information to determine the amounts of the benefits.

(d) A statement that any paid-up annuity, cash surrender, or death benefits that may be available under the contract are not less than the minimum benefits required by law of the state in which the contract is delivered, and an explanation of the manner in which the benefits are altered by the existence of additional amounts credited by the company to the contract, indebtedness to the company on the contract, or prior withdrawals from or partial surrenders of the contract.

(4) Notwithstanding the requirements of subsection (3), a deferred annuity contract may provide that if considerations have not been received under a contract for a period of 2 full years and the portion of the paid-up annuity benefit at maturity on the plan stipulated in the contract arising from considerations paid before this period would be less than $20.00 monthly, the company may at its option terminate the contract by payment in cash of the then present value of that portion of the paid-up annuity benefit, calculated on the basis of the mortality table, if any, and interest rate specified in the contract for determining the paid-up annuity benefit. This payment relieves the company of further obligation under the contract.

(5) The minimum values as specified in subsections (8), (9), (10), (11), and (13) of any paid-up annuity, cash surrender, or death benefits available under an annuity contract must be based on the following:

(a) Until January 1, 2005 for contracts providing for flexible considerations, the minimum nonforfeiture amount at any time at or before the commencement of any annuity payments must be equal to an accumulation up to that time at a rate of interest of 1.5% per annum of percentages of the net considerations, as defined in subdivision (c), paid before that time, decreased by the sum of subparagraphs (*i*) and (*ii*), and increased by any existing additional amounts credited by the company to the contract:

(*i*) Prior withdrawals from or partial surrenders of the contract accumulated at a rate of interest of 1.5% per annum.

(*ii*) The amount of any indebtedness to the company on the contract, including interest due and accrued.

(b) The minimum nonforfeiture amount at any time at or before the commencement of any annuity payments must be equal to an accumulation up to that time at rates of interest as provided in subsection (6) of the net considerations, as defined in subdivision (c), paid before that time, decreased by the sum of subparagraphs (*i*) to (*iv*):

(*i*) Prior withdrawals from or partial surrenders of the contract accumulated at rates of interest as provided in subsection (6).

(*ii*) An annual contract charge of $50.00, accumulated at rates of interest as provided in subsection (6).

(*iii*) Any premium tax paid by the company for the contract, accumulated at rates of interest as provided in subsection (6).

(*iv*) The amount of any indebtedness to the company on the contract, including interest due and accrued.

(c) The net consideration for a given contract year used to define the minimum nonforfeiture amount must be an amount equal to 87.5% of the gross considerations credited to the contract during that contract year.

(6) The interest rate used in determining minimum nonforfeiture amounts must be an annual rate of interest determined as the lesser of 3% per annum and the following, which must be specified in the contract if the interest rate will be reset:

(a) The 5-year constant maturity treasury rate reported by the Federal Reserve as of a date, or average over a period, rounded to the nearest 1/20 of 1%, specified in the contract no longer than 15 months before the contract issue date or redetermination date under subdivision (d).

(b) Reduced by 125 basis points.

(c) If the resulting interest rate is not less than 0.15%.

(d) The interest rate must apply for an initial period and may be redetermined for additional periods. The redetermination date, basis, and period, if any, must be stated in the contract. As used in this subdivision, "basis" means the date or average over a specified period that produces the value of the 5-year constant maturity treasury rate to be used at each redetermination date.

(7) During the period or term that a contract provides substantive participation in an equity indexed benefit, the contract may provide for an increase in the reduction described in subsection (6)(b) of up to an additional 100 basis points to reflect the value of the equity index benefit. The present value at the contract issue date, and at each redetermination date after the issue date, of the additional reduction must not exceed the market value of the benefit. The director may require a demonstration that the present value of the additional reduction does not exceed the market value of the benefit and, if the demonstration is unacceptable, may disallow or limit the additional reduction. The director may adopt rules to implement this subsection and to provide for further adjustments to the calculation of minimum nonforfeiture amounts for contracts that provide substantive participation in an equity index benefit and for other contracts that the director determines adjustments are justified.

(8) Any paid-up annuity benefit available under a contract must be such that its present value on the date annuity payments are to commence is at least equal to the minimum nonforfeiture amount on that date. This present value must be computed using the mortality table, if any, and the interest rate specified in the contract for determining the minimum paid-up annuity benefits guaranteed in the contract.

(9) For contracts that provide cash surrender benefits, the cash surrender benefits available before maturity must not be less than the present value as of the date of surrender of that portion of the maturity value of the paid-up annuity benefit that would be provided under the contract at maturity arising from considerations paid before the time of cash surrender reduced by the amount appropriate to reflect any prior withdrawals from or partial surrenders of the contract. The present value must be calculated on the basis of an interest rate not more than 1% higher than the interest rate specified in the contract for accumulating the net considerations to determine the maturity value, decreased by the amount of any indebtedness to the company on the contract, including interest due and accrued, and increased by any existing additional amounts credited by the company to the contract. However, a cash surrender benefit must not be less than the minimum nonforfeiture amount at that time. The death benefit under contracts that provide cash surrender benefits must be at least equal to the cash surrender benefit. Until January 1, 2005, as used in this subsection, "maturity value" means an accumulation up to the maturity date at the rate of interest guaranteed in the contract for accumulating the net considerations to determine the maturity value, but not less than 1.5% per annum, of the percentages of the net considerations, as defined in subsection (5), paid before that time, decreased by the sum of prior withdrawals from or partial surrenders of the contract accumulated at the rate of interest guaranteed in the

contract for accumulating net considerations to determine the maturity value but not less than 1.5% per annum and the amount of any indebtedness to the company on the contract, including interest due and accrued, and increased by excess interest previously credited by the company to the contract. As used in this subsection, the excess interest is the amount credited over and above the guaranteed interest.

(10) For contracts that do not provide cash surrender benefits, the present value of any paid-up annuity benefit available as a nonforfeiture option at any time before maturity must not be less than the present value of that portion of the maturity value of the paid-up annuity benefit provided under the contract arising from considerations paid before the contract is surrendered in exchange for, or changed to, a deferred paid-up annuity. The present value must be calculated for the period before the maturity date on the basis of the interest rate specified in the contract for accumulating the net considerations to determine the maturity value, and increased by any additional amounts credited by the company to the contract. For contracts that do not provide death benefits before the commencement of annuity payments, the present values must be calculated on the basis of the interest rate and the mortality table specified in the contract for determining the maturity value of the paid-up annuity benefit. However, the present value of a paid-up annuity benefit must not be less than the minimum nonforfeiture amount at that time.

(11) In determining the benefits calculated under subsections (9) and (10), for annuity contracts under which an election may be made to have annuity payments commence at optional maturity dates, the maturity date is considered to be the latest date for which election shall be permitted by the contract, but must not be later than the anniversary of the contract next following the annuitant's seventieth birthday, or the tenth anniversary of the contract, whichever is later.

(12) A contract that does not provide cash surrender benefits or does not provide death benefits at least equal to the minimum nonforfeiture amount before the commencement of annuity payments must include a statement in a prominent place in the contract that those benefits are not provided.

(13) Any paid-up annuity, cash surrender, or death benefits available at any time, other than on the contract anniversary under a contract with fixed scheduled considerations, must be calculated with allowance for the lapse of time and the payment of any scheduled considerations beyond the beginning of the contract year in which cessation of payment of considerations under the contract occurs.

(14) For a contract that provides, within the same contract by rider or supplemental contract provision, both annuity benefits and life insurance benefits that are in excess of the greater of cash surrender benefits or a return of the gross considerations with interest, the minimum nonforfeiture benefits must be equal to the sum of the minimum nonforfeiture benefits for the annuity portion and the minimum nonforfeiture benefits, if any, for the life insurance portion computed as if each portion were a separate contract. Notwithstanding subsections (8), (9), (10), (11), and (13), additional benefits payable for total and permanent disability, as reversionary annuity or deferred reversionary annuity benefits, or as other policy benefits additional to life insurance, endowment and annuity benefits, and considerations for all additional benefits described in this subsection, must be disregarded in ascertaining the minimum nonforfeiture amounts, paid-up annuity, cash surrender, and death benefits that may be required by this section. The inclusion of the additional benefits is not required in any paid-up benefits, unless the additional benefits separately would require minimum nonforfeiture amounts, paid-up annuity, cash surrender, and death benefits.

(15) Until January 1, 2005, an insurer may elect to proceed under subsection (5)(a) or (b). On and after January 1, 2005, an insurer shall proceed under subsection (5)(b).

History: Add. 1980, Act 58, Eff. Oct. 1, 1980;—Am. 1986, Act 11, Imd. Eff. Mar. 3, 1986;—Am. 1986, Act 318, Eff. June 1, 1987;—Am. 2002, Act 635, Imd. Eff. Dec. 23, 2002;—Am. 2003, Act 200, Imd. Eff. Nov. 14, 2003;—Am. 2022, Act 150, Eff. Mar. 29, 2023.

Popular name: Act 218

500.4073 Annuity policy or contract; notice of right to cancel and receive refund; effect of returning policy or contract; variable annuity contract; exceptions.

Sec. 4073. (1) Subject to subsection (2), an annuity contract shall not be delivered or issued for delivery in this state unless the contract contains on the front page a notice, in substance printed or stamped made as a permanent part of the policy, that during a period of not less than 10 days after the date the policyholder receives the policy, the policyholder may cancel the policy and receive from the insurer a prompt refund of any premium paid for the policy, including a policy fee or other charge, by mailing or otherwise surrendering the policy to the insurer together with a written request for cancellation. If a policyholder or purchaser pursuant to the notice, returns the policy or contract to the company or association at its home or branch office or to the agent through whom it was purchased, it is void from the beginning and the parties are in the same position as if no policy or contract had been issued.

(2) For a variable annuity contract, the refund under subsection (1) shall equal the sum of the following:

(a) The difference between the premiums paid, including any policy or contract fees or other charges, and the amounts allocated to any separate accounts under the policy or contract.

(b) The value of the amounts allocated to any separate accounts under the policy or contract on the date the returned policy is received by the insurer or its insurance producer.

(3) This section does not apply to policies or contracts issued to an employee in connection with the funding of a pension, annuity or profit-sharing plan, qualified or exempt under section 401, 403, 404, or 501 of the internal revenue code of 1986, 26 USC 401, 403, 404, and 501 if participation in the plan is a condition of employment.

History: Add. 1980, Act 58, Eff. Oct. 1, 1980;—Am. 2014, Act 143, Eff. Mar. 31, 2015.

Popular name: Act 218