

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

500.834 Valuation of life insurance policies and contracts issued on and after operative date of standard nonforfeiture law; minimum standard; reserves; definitions.

Sec. 834. (1) Except as otherwise provided in sections 835, 835a, 836, and 837, the minimum standard for the valuation of policies and contracts described in subsection (8) is the commissioner's reserve valuation methods defined in subsections (2), (3), and (6), 5% interest for group annuity and pure endowment contracts if prior notice of any revaluation of reserves with respect to group annuity and pure endowment contracts is given to the director in the same manner as is required before a revaluation of reserves under section 832(2), and 3-1/2% interest for all other of those policies and contracts; or for policies and contracts, other than annuity and pure endowment contracts, issued after October 20, 1974, 4% interest for those policies issued before October 1, 1980, and 4-1/2% interest for those policies issued after September 30, 1980, or for life insurance contracts, other than annuity and pure endowment contracts, issued after December 31, 1994, 5-1/2% interest for single premium life insurance policies and 4-1/2% interest for all other policies, and the following tables:

(a) For all ordinary policies of life insurance issued on the standard basis, excluding any disability and accidental death benefits in those policies: the Commissioner's 1941 Standard Ordinary Mortality Table, for policies issued before the operative date of paragraph 5 of section 4060(5); and the Commissioner's 1958 Standard Ordinary Mortality Table for policies issued on or after that operative date and before the operative date of paragraphs 9 to 18 of section 4060(5). For any category of those policies issued on female risks, all modified net premiums and present values referred to in this section may be calculated according to an age not more than 6 years younger than the actual age of the insured; and, for those policies issued on or after the operative date of paragraphs 9 to 18 of section 4060(5), the Commissioner's 1980 Standard Ordinary Mortality Table or, at the election of the company for any 1 or more specified plans of life insurance, the Commissioner's 1980 Standard Ordinary Mortality Table with 10-year select mortality factors or any ordinary mortality table adopted after 1980 by the National Association of Insurance Commissioners that is approved by a rule promulgated by the director for use in determining the minimum standard of valuation for those policies or the 2001 CSO mortality table under section 838.

(b) For all industrial life insurance policies issued on the standard basis, excluding any disability and accidental death benefits in those policies: the 1941 Standard Industrial Mortality Table for those policies issued before the operative date of paragraph 7 of section 4060(5); and for those policies issued on or after that operative date, the Commissioner's 1961 Standard Industrial Mortality Table or any industrial mortality table adopted after 1980 by the National Association of Insurance Commissioners that is approved by a rule promulgated by the director for use in determining the minimum standard of valuation for those policies.

(c) For individual annuity and pure endowment contracts, excluding any disability and accidental death benefits in those policies: the 1937 Standard Annuity Mortality Table or, at the option of the company, the annuity mortality table for 1949, ultimate, or any modification of either of those tables approved by the director.

(d) For group annuity and pure endowment contracts, excluding any disability and accidental death benefits in those policies: the Group Annuity Mortality Table for 1951, any modification of that table approved by the director, or, at the option of the company, any of the tables or modifications of tables specified for individual annuity and pure endowment contracts.

(e) For total and permanent disability benefits in or supplementary to ordinary policies or contracts: for policies or contracts issued after December 31, 1965, the tables of period 2 disablement rates and the 1930 to 1950 termination rates of the 1952 Disability Study of the Society of Actuaries, with due regard to the type of benefit or any tables of disablement rates and termination rates 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 standard of valuation for those policies; for policies or contracts issued after December 31, 1960, and before January 1, 1966, either those tables or, at the option of the company, the class (3) disability table, 1926; and for policies issued before January 1, 1961, the class (3) disability table, 1926. For active lives, a table must be combined with a mortality table permitted for calculating the reserves for life insurance policies.

(f) For accidental death benefits in or supplementary to policies: for policies issued after December 31, 1965, the 1959 Accidental Death Benefits Table or any accidental death benefits table adopted after 1980 by the National Association of Insurance Commissioners that is approved by a rule promulgated by the director for use in determining the minimum standard of valuation for those policies; for policies issued after December 31, 1960, and before January 1, 1966, 1 of the above tables or at the option of the insurer the

intercompany double indemnity mortality table. A table must be combined with a mortality table permitted for calculating the reserves for life insurance policies.

(g) For group life insurance, life insurance issued on the substandard basis, and other special benefits: any table approved by the director.

(2) Except as otherwise provided in subsections (3) and (6), reserves according to the Commissioner's Reserve Valuation Method, for the life insurance and endowment benefits of policies providing for a uniform amount of insurance and requiring the payment of uniform premiums, is the excess, if any, of the present value, at the date of valuation, of the future guaranteed benefits provided for by those policies over the then present value of any future modified net premiums for the policies. The modified net premiums for the policy is a uniform percentage of the respective contract premiums for the future guaranteed benefits so that the present value of all modified net premiums equals, at the date of issue of the policy, the sum of the then present value of these benefits provided for by the policy and the excess of subdivision (a) over subdivision (b), as follows:

(a) A net level annual premium equal to the present value, at the date of issue, of the future guaranteed benefits provided for after the first policy year divided by the present value, at the date of issue, of an annuity of 1 per annum payable on the first and each subsequent anniversary of the policy on which a premium falls due. However, the net level annual premium must not exceed the net level annual premium on the 19-year premium whole life plan for insurance of the same amount at an age 1 year higher than the age at issue of the policy.

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

However, for any life insurance policy issued after December 31, 1985 for which the contract premium in the first policy year exceeds that of the second year and for which no comparable additional benefit is provided in the first year for that excess and that provides an endowment benefit or a cash surrender value or a combination of endowment benefit and cash surrender value in an amount greater than the excess premium, the reserve according to the Commissioner's Reserve Valuation Method as of any policy anniversary occurring on or before the assumed ending date, defined as the first policy anniversary on which the sum of any endowment benefit and any cash surrender value then available is greater than the excess premium, is, except as otherwise provided in subsection (6), the greater of the reserve as of that policy anniversary calculated as described in paragraph 1 of this subsection and the reserve as of that policy anniversary calculated as described in that paragraph, but with the value defined in subdivision (a) being reduced by 15% of the amount of the excess first year premium; all present values of benefits and premiums being determined without reference to premiums or benefits provided for by the policy after the assumed ending date; the policy being assumed to mature on that date as an endowment; and the cash surrender value provided on that date being considered as an endowment benefit. In making the above comparison, the mortality and interest bases stated in subsection (1) and section 836 must be used.

Reserves according to the Commissioner's Reserve Valuation Method for life insurance policies providing for a varying amount of insurance or requiring the payment of varying premiums; group annuity and pure endowment contracts 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; disability and accidental death benefits in all policies and contracts; and all other benefits, except life insurance and endowment benefits in life insurance policies and benefits provided by all other annuity and pure endowment contracts, must be calculated by a method consistent with the principles of this subsection.

(3) This subsection applies to all annuity and pure endowment contracts other than group annuity and pure endowment contracts 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. Without action by the Michigan Legislature to adopt Actuarial Guideline 35, reserves according to the Commissioner's Annuity Reserve Method for benefits under annuity or pure endowment contracts, excluding any disability and accidental death benefits in those contracts, must be the greatest of the respective excesses of the present values, at the date of valuation, of the future guaranteed benefits, including guaranteed nonforfeiture benefits, provided for by those contracts at the end of each respective contract year, over the present value, at the date of valuation, of any future valuation considerations derived from future gross considerations, required by the terms of the contract, that become payable before the end of that respective contract year. The future guaranteed benefits must be determined by using the mortality table, if any, and the interest rate specified in those contracts for determining guaranteed benefits. The valuation considerations are the portions of the respective gross considerations applied under the

terms of the contracts to determine nonforfeiture values.

(4) An insurer's aggregate reserves for all life insurance policies, excluding disability and accidental death benefits, must not be less than the aggregate reserves calculated in accordance with the methods described in subsections (2), (3), (6), and (7), and the mortality table or tables and rate or rates of interest used in calculating nonforfeiture benefits for the policies. The aggregate reserves for all policies, contracts, and benefits must not be less than the aggregate reserves determined by the appointed actuary to be necessary to render the opinion required by section 830a.

(5) Reserves for all policies and contracts issued before June 27, 1994 may be calculated, at the option of the insurer, according to any standards that produce greater aggregate reserves for all those policies and contracts than the minimum reserves required by the laws in effect immediately before June 27, 1994. Reserves for a category of policies, contracts, or benefits as established by the director, issued after June 26, 1994, may be calculated at the option of the insurer according to any standards that produce greater aggregate reserves than those calculated according to the minimum standard provided in this act. However, the rate or rates of interest used for policies and contracts, other than annuity and pure endowment contracts, must not be greater than the corresponding rate or rates of interest used in calculating any nonforfeiture benefits provided for in those policies and contracts. An insurer that had previously adopted any standard of valuation producing greater aggregate reserves than those calculated according to the minimum standard provided in this section and sections 835 and 835a may, with the director's approval, adopt any lower standard of valuation, but not lower than the minimum standard provided by this section and sections 835 and 835a. However, for the purposes of this section, the holding of additional reserves previously determined by an appointed actuary to be necessary to render the opinion required by section 830a is not considered to be the adoption of a higher standard of valuation.

(6) If in any contract year the gross premium charged by an insurer on a policy or contract is less than the valuation net premium for the policy or contract calculated by the method used in calculating the reserve on the policy or contract, the insurer may use the minimum valuation standards of mortality, either at the time of issue or the time of valuation of the policy or contract and the minimum valuation rate of interest at time of issue or the time of valuation of the policy or contract, if the minimum reserve required for the policy or contract is the greater of either the reserve calculated according to the mortality table, rate of interest, and method actually used for the policy or contract, or the reserve calculated by the method actually used for the policy or contract using the minimum valuation standards of mortality and rate of interest and replacing the valuation net premium by the actual gross premium in each contract year for which the valuation net premium exceeds the actual gross premium. The minimum valuation standards of mortality and rate of interest referred to in this subsection are those standards stated in subsection (1) and section 836. However, for any life insurance policy issued after December 31, 1985 for which the gross premium in the first policy year exceeds that of the second year and for which no comparable additional benefit is provided in the first year for that excess and that provides an endowment benefit or a cash surrender value or a combination of endowment benefit and cash surrender value in an amount greater than the excess premium, this subsection applies as if the method actually used in calculating the reserve for that policy were the method described in subsection (2), ignoring paragraph 2 of that subsection. The minimum reserve at each policy anniversary of that policy must be the greater of the minimum reserve calculated in accordance with subsection (2), including paragraph 2 of that subsection, and the minimum reserve calculated in accordance with this subsection.

(7) For any 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 any plan of life insurance or annuity that the minimum reserves cannot be determined by the methods described in subsections (2), (3), and (6), the reserves that are held under those plans must be appropriate in relation to the benefits and the pattern of premiums for that plan and computed by a method that is consistent with the principles of this standard valuation law, as determined by rules promulgated by the director.

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

(9) As used in this section:

(a) "Appointed actuary" means a qualified actuary who is appointed in accordance with the valuation manual to prepare the actuarial opinion required in section 830a(9).

(b) "NAIC" means the National Association of Insurance Commissioners.

(c) "Qualified actuary" means an individual who is qualified to sign the applicable statement of actuarial opinion in accordance with the American Academy of Actuaries qualification standards for actuaries signing statements of actuarial opinions and who meets the requirements specified in the valuation manual.

(d) "Valuation manual" means the manual of valuation instructions adopted by the NAIC as specified in section 836b.

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 221, Imd. Eff. July 10, 1982;—Am. 1993, Act 349, Eff. Oct. 1, 1994;—Am. 1994, Act 226, Imd. Eff. June 27, 1994;—Am. 1994, Act 443, Imd. Eff. Jan. 10, 1995;—Am. 1995, Act 274, Imd. Eff. Jan. 8, 1996;—Am. 2000, Act 378, Imd. Eff. Jan. 2, 2001;—Am. 2004, Act 236, Imd. Eff. July 21, 2004;—Am. 2014, Act 571, Eff. Mar. 31, 2015;—Am. 2016, Act 558, Eff. Apr. 10, 2017.

Popular name: Act 218