

SENATE BILL No. 666

September 25, 2001, Introduced by Senators BULLARD, GARCIA, MILLER, DUNASKISS, LELAND and SHUGARS and referred to the Committee on Financial Services.

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

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1 Sec. 834. (1) Except as otherwise provided in sections 835,
2 836, and 837, the minimum standard for the valuation of policies
3 and contracts described in subsection (8) shall be the
4 commissioner's reserve valuation methods defined in subsections
5 (2), (3), and (6), 5% interest for group annuity and pure endow-
6 ment contracts, provided that prior notice of any revaluation of
7 reserves with respect to group annuity and pure endowment con-
8 tracts is given to the commissioner in the same manner as is
9 required before a revaluation of reserves under section 832(2),
10 and 3-1/2% interest for all other of those policies and

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

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

1 association of insurance commissioners that is approved by a rule
2 promulgated by the commissioner for use in determining the mini-
3 mum standard of valuation for those policies.

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

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

21 (IV) For group annuity and pure endowment contracts, exclud-
22 ing any disability and accidental death benefits in those
23 policies: the group annuity mortality table for 1951, any modi-
24 fication of that table approved by the commissioner, or, at the
25 COMPANY'S option, ~~of the company,~~ any of the tables or modifi-
26 cations of tables specified for individual annuity and pure
27 endowment contracts.

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

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

1 combined with a mortality table permitted for calculating the
2 reserves for life insurance policies.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

23 Enacting section 1. Enacting section 2 of 1995 PA 274 is
24 repealed.