

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

**500.719 Morbidity standards; rules; structure of valuation net premiums; valuation of health insurance policies and certificates for which tabular morbidity standards not specified; maximum interest rate for contract reserves; termination rates; adjustment of morbidity standard on aggregate basis; minimum reserve; application of certain reserve adjustments; offset of negative reserves against positive reserves; total contract reserve not less than zero.**

Sec. 719.

(1) Minimum standards with respect to morbidity are those set forth in rules promulgated pursuant to this chapter. Valuation net premiums used under each health insurance policy or certificate shall have a structure consistent with the gross premium structure at the date of issuance of the policy or certificate as this relates to advancing age of the insured, contract duration, and period for which gross premiums have been calculated.

(2) Health insurance policies and certificates for which tabular morbidity standards are not specified in rules promulgated pursuant to this chapter shall be valued using tables established for reserve purposes by a qualified actuary and acceptable to the commissioner.

(3) The maximum interest rate for contract reserves is that rate specified in section 733.

(4) Termination rates used in the computation of reserves shall be on the basis of mortality as specified in section 735 except that under policies or certificates for which premium rates are not guaranteed, and where the effects of insurer underwriting are specifically used by policy or certificate duration in the valuation morbidity standard, or for return of premium or other deferred cash benefits, total termination rates may be used at ages and durations where these exceed specified mortality table rates, but not in excess of the lesser of the following:

(a) 80% of the total termination rate used in the calculation of the gross premiums.

(b) 8%.

(5) If a morbidity standard specified in rules promulgated pursuant to this chapter is on an aggregate basis, the morbidity standard may be adjusted to reflect the effect of insurer underwriting by policy or certificate duration. The adjustments shall be appropriate to the underwriting and be acceptable to the commissioner.

(6) For health insurance, except for long-term care insurance and return of premium or other deferred cash benefits, the minimum reserve is the reserve calculated on the 2-year full preliminary term method where the terminal reserve is zero at the first and second year anniversary of the policy or certificate. For long-term care insurance, the minimum reserve is the reserve calculated on the 1-year full preliminary term method. For health insurance, except for return of premium or other deferred cash benefits, the preliminary term method may be applied only in relation to the date of issue of a policy or certificate. For return of premium or other deferred cash benefits issued on or after the effective date of this chapter, the minimum reserve is the reserve, calculated as of the date of issue of the return of premium or other deferred cash benefits, set forth as follows:

(a) On the 1-year preliminary term method if such benefits are provided at any time before the twentieth anniversary.

(b) On the 2-year preliminary term method if such benefits are only provided on or after the twentieth anniversary.

(7) Reserve adjustments made after issuance of the health insurance policy or certificate as a result of rate increases, revisions in assumptions, or for other reasons are to be applied immediately as of the effective date of adoption of the adjusted basis.

(8) Negative reserves on any benefit may be offset against positive reserves for other benefits in the same health insurance policy or certificate, but the total contract reserve with respect to all benefits combined shall not be less than zero.

**History:** Add. 1994, Act 148, Imd. Eff. June 7, 1994

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