

**THE INSURANCE CODE OF 1956 (EXCERPT)**  
**Act 218 of 1956**  
Chapter 8  
**ASSETS AND LIABILITIES**

**500.808 Stock or mutual insurers; unearned premium reserves, pro rata basis, computation.**

Sec. 808.

Every insurer doing business in this state shall establish and maintain an unearned premium reserve on a pro rata basis on all unexpired policies and contracts except for those policies and contracts for which a different basis is specified in this act. A liability shall be set forth for the unearned pro rata portion of the aggregate premiums on all such unexpired risks as ascertained in a manner approved by the commissioner. In the case of perpetual risks or policies of fire insurance, the whole amount of the deposit or premium collected shall be included as unearned. On all unexpired trip risk insurance the entire premium received shall be included as unearned.

**History:** 1956, Act 218, Eff. Jan. 1, 1957 ;-- Am. 1961, Act 153, Eff. Sept. 8, 1961 ;-- Am. 1962, Act 51, Eff. Mar. 28, 1963 ;-- Am. 1969, Act 318, Eff. Mar. 20, 1970

**Popular Name:** Act 218

**500.810 Reserves; computation; additional reserves; plan to restore compliance; effect of noncompliance; examination of reserve practices and investment incomes.**

Sec. 810.

(1) Each insurer transacting business in this state, at all times, shall maintain reserves in an amount estimated in the aggregate to provide for the payment of all losses and claims incurred, whether reported, or unreported, which are unpaid and for which the insurer may be liable and to provide for the expenses of adjustment or settlement of losses and claims. The reserves shall be computed in accordance with rules promulgated by the commissioner, after due notice and hearing, based upon reasonable consideration of the ascertained experience and the character of those kinds of business, for the purpose of adequately protecting the insureds and securing the solvency of the insurer.

(2) If the loss and loss expense experience of the insurer or the anticipated loss expense experience of the insurer as determined by an actuarial evaluation shows the reserves, calculated in accordance with the rules, to be inadequate, the commissioner shall require the insurer to maintain additional reserves. Within 30 business days after notification by the commissioner that its reserves have been determined to be in noncompliance with the requirements of subsection (1), the insurer shall file a plan to restore compliance. The commissioner, upon written request by the insurer, may grant a period of time within which to restore compliance. The period of time may be granted only if the commissioner is satisfied the insurer is safe, reliable, and entitled to public confidence and the commissioner approves the plan filed by the insurer for restoring compliance within the time granted. If the plan is not approved by the commissioner, or if the plan is approved but at the end of 1 year the insurer is not in compliance with the requirements of this section, the commissioner may grant additional time to comply, or the commissioner may suspend, revoke, or limit the certificate of authority of the insurer pursuant to section 436.

(3) The commissioner shall annually examine the reserve practices and investment incomes of medical malpractice, products liability, and municipal liability insurers licensed to do business in this state.

**History:** Add. 1969, Act 318, Eff. Mar. 20, 1970 ;-- Am. 1976, Act 307, Imd. Eff. Oct. 28, 1976 ;-- Am. 1978, Act 506, Imd. Eff. Dec. 13, 1978 ;-- Am. 1986, Act 173, Imd. Eff. July 7, 1986

**Popular Name:** Act 218

**Admin Rule:** R 500.1231 et seq. of the Michigan Administrative Code.

**500.811 Repealed. 1994, Act 148, Imd. Eff. June 7, 1994.**

**Compiler's Notes:** The repealed section pertained to outstanding disability policies and benefits reserves.  
**Popular Name:** Act 218

**500.812 Repealed. 1969, Act 318, Eff. Mar. 20, 1970.**

**Compiler's Notes:** The repealed section pertained to liability or workmen's compensation and automobile insurers' reserve for claims.  
**Popular Name:** Act 218

**500.813 Repealed. 1992, Act 182, Imd. Eff. Oct. 1, 1992.**

**Compiler's Notes:** The repealed section pertained to the annual report filed by the commissioner with the legislature.  
**Popular Name:** Act 218

**500.814 Certification of loss reserves.**

Sec. 814.

The commissioner may require an insurer writing liability insurance, other than homeowners, farmowners, and commercial multiperil, to certify the loss reserves of the insurer by an actuary approved by the commissioner.

**History:** Add. 1986, Act 173, Imd. Eff. July 7, 1986  
**Popular Name:** Act 218

**500.814a Statement of actuarial opinion; filing requirements; confidentiality; Michigan automobile insurance placement facility not property and casualty insurer.**

Sec. 814a.

(1) Every property and casualty insurer doing business in this state, unless exempted by the commissioner, shall annually file with the commissioner the opinion of an appointed actuary which shall be entitled statement of actuarial opinion. This statement shall be filed pursuant to the same instructions issued by the commissioner for the filing of annual statements.

(2) Every property and casualty insurer domiciled in this state that is required to file a statement of actuarial opinion under subsection (1) shall annually file with the commissioner an actuarial opinion summary, written by the insurer's appointed actuary. This actuarial opinion summary shall be filed pursuant to the same instructions issued by the commissioner for the filing of annual statements and shall be considered as a document supporting the statement of actuarial opinion required in subsection (1).

(3) A property and casualty insurer not domiciled in this state that is required to file a statement of actuarial opinion under subsection (1) shall provide an actuarial opinion summary described in subsection (2) upon the commissioner's request.

(4) An actuarial report and underlying workpapers shall be prepared to support each statement of actuarial opinion. If the property and casualty insurer fails to provide this actuarial report or workpapers at the commissioner's request, the commissioner may engage a qualified actuary at the expense of the insurer to review the statement of actuarial opinion and the basis for the opinion and prepare the actuarial report or workpapers.

(5) The statement of actuarial opinion shall be filed with the annual statement in accordance with section 438 and shall be treated as a public document.

(6) Documents, materials, or other information in the possession or control of the office of financial and insurance regulation that are considered an actuarial report, workpapers, or actuarial opinion summary provided in support of the statement of actuarial opinion, and any other material provided by the insurer to the commissioner in connection with the actuarial report, workpapers, or actuarial opinion summary, is confidential and privileged and is not subject to the freedom of information act, 1976 PA 442, MCL 15.231 to 15.246, subpoena, or to discovery and is not admissible in evidence in any private civil action. This subsection does not do either of the following:

(a) Limit the commissioner's authority to release the documents for the purpose of professional disciplinary proceedings if the commissioner is satisfied that the confidentiality of the documents will be preserved.

(b) Limit the commissioner's authority to use the documents, materials, or other information in furtherance of any regulatory or legal action brought as part of the commissioner's official duties.

(7) Neither the commissioner nor any person who received documents, materials, or other information while acting under the commissioner's authority shall be permitted or required to testify in any private civil action concerning any confidential documents, materials, or information subject to subsection (6).

(8) In order to assist in the performance of the commissioner's duties, the commissioner may do any of the following:

(a) Share documents, materials, or other information, including the confidential and privileged documents, materials, or information subject to subsection (6) with any other state, federal, or international regulatory agencies, with the national association of insurance commissioners and its affiliates and subsidiaries, and with state, federal, and international law enforcement authorities, provided that the recipient agrees to maintain the confidentiality and privileged status of the document, material, or other information and has the legal authority to maintain confidentiality.

(b) Receive documents, materials, or information, including otherwise confidential and privileged documents, materials, or information, from the national association of insurance commissioners and its affiliates and subsidiaries, and from regulatory and law enforcement officials of other foreign or domestic jurisdictions, and shall maintain as confidential or privileged any document, material, or information received with notice or the understanding that it is confidential or privileged under the laws of the jurisdiction that is the source of the document, material, or information.

(9) Any applicable privilege or claim of confidentiality is not waived by the disclosing or sharing of documents, materials, or information as permitted by this section.

(10) For purposes of this section, the Michigan automobile insurance placement facility created under chapter 33 is not a property and casualty insurer.

**History:** Add. 2009, Act 198, Eff. Jan. 1, 2010

**Popular Name:** Act 218

### **500.815 Computation of unearned premium reserve on mortgage guaranty insurance.**

Sec. 815.

The unearned premium reserve on mortgage guaranty insurance shall be computed in accordance with section 808, except that on policies covering a risk period of more than 1 year the unearned premium reserve shall be computed in accordance with rules promulgated by the commissioner.

**History:** Add. 1972, Act 345, Imd. Eff. Jan. 9, 1973

**Popular Name:** Act 218

**Admin Rule:** R 500.1231 et seq. of the Michigan Administrative Code.

### **500.815a Establishment of contingency reserve by mortgage guaranty insurer.**

Sec. 815a.

In addition to the capital, surplus and reserves specified in sections 410, 810 and 815, a mortgage guaranty insurer shall establish a contingency reserve, which shall be reported as a liability in the insurer's financial statements. The amount of the reserve shall be computed in accordance with rules prescribed by the commissioner.

**History:** Add. 1972, Act 345, Imd. Eff. Jan. 9, 1973  
**Popular Name:** Act 218  
**Admin Rule:** R 500.1231 et seq. of the Michigan Administrative Code.

**500.816 Repealed. 1969, Act 318, Eff. Mar. 20, 1970.**

**Compiler's Notes:** The repealed section pertained to liability or workmen's compensation and automobile insurers' reserve for claims.  
**Popular Name:** Act 218

**500.817 Repealed. 1966, Act 221, Imd. Eff. July 11, 1966.**

**Compiler's Notes:** The repealed section pertained to unearned premium reserve of title insurers.  
**Popular Name:** Act 218

**500.818, 500.822 Repealed. 1969, Act 318, Eff. Mar. 20, 1970.**

**Compiler's Notes:** The repealed sections pertained to unearned premium reserve of reciprocal and mutual insurers.  
**Popular Name:** Act 218

**500.830 Life insurance policies and annuity and pure endowment contracts; life insurance contracts, annuity and pure endowment contracts, accident and health contracts, and deposit-type contracts; annual valuation of reserves; limitation; valuation fee; adopting lower standard of valuation; valuation of business of foreign cooperative or assessment insurer; definitions.**

Sec. 830.

(1) The director shall annually value the reserve liabilities, hereinafter called reserves, for all outstanding life insurance policies and annuity and pure endowment contracts of every life insurer doing business in this state issued before the operative date of the valuation manual, except that for an alien insurer, the valuation is limited to its United States' business. In calculating the reserves, the director may use group methods and approximate averages for fractions of a year or otherwise. Instead of the valuation of the reserves required in this section of any foreign or alien insurer, the director may accept any valuation made by the insurance supervisory official of any state or other jurisdiction, if the valuation complies with the minimum standard provided in this section.

(2) The director shall annually value the reserve liabilities hereinafter called reserves for all outstanding life insurance contracts, annuity and pure endowment contracts, accident and health contracts, and deposit-type contracts of every company issued on or after the operative date of the valuation manual. On the election of a company, for a contract acquired by the company through a business acquisition or reinsurance transaction after the effective date of the amendatory act that added section 836a, regardless of when the contract was issued, the director shall annually value the reserves for the contract. Instead of the valuation of the reserves required of a foreign or alien company, the director may accept a valuation made by the insurance supervisory official of any state or other jurisdiction if the valuation complies with the minimum standard provided in this section.

(3) Except as otherwise provided in this subsection, the insurer shall pay to the director, as compensation for the valuation, 1 cent for each thousand dollars insured, under policies insuring residents of the United States, or issued by an insurer organized under the laws of this state. For annual valuations after December 31, 1987, the valuation fee imposed under this section does not apply to contracts of reinsurance. A valuation fee under this subsection

does not apply to an annual valuation of a domestic insurer after December 31, 1987. For annual valuations for the 1994 calendar year, the valuation fee imposed under this subsection for alien insurers is .67 cent for each thousand dollars insured. After December 31, 1994, the valuation fee imposed under this subsection does not apply to alien insurers.

(4) An insurer that has adopted a standard of valuation producing greater aggregate reserves than those calculated according to the minimum standard provided in this section may, with the approval of the director, adopt a lower standard of valuation, but not lower than the minimum provided in this section.

(5) A foreign cooperative or assessment insurer shall value its business and shall maintain reserves under the standards required of domestic insurers transacting similar insurance under this section.

(6) As used in this section:

(a) "Accident and health insurance" means contracts that incorporate morbidity risk and provide protection against economic loss resulting from accident, sickness, or medical conditions and as may be specified in the valuation manual.

(b) "Company" means an entity that has written, issued, or reinsured life insurance contracts, accident and health insurance contracts, or deposit-type contracts in this state and has at least 1 life insurance, accident and health insurance, or deposit-type policy in force or on claim, or that has written, issued, or reinsured life insurance contracts, accident and health insurance contracts, or deposit-type contracts in any state and is required to hold a certificate of authority to write life insurance, accident and health insurance, or deposit-type contracts in this state.

(c) "Deposit-type contract" means a contract that does not incorporate mortality or morbidity risks and as may be specified in the valuation manual.

(d) "Life insurance" means a contract that incorporates mortality risk, including annuity and pure endowment contracts, and as may be specified in the valuation manual.

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

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

**History:** 1956, Act 218, Eff. Jan. 1, 1957 ;-- Am. 1961, Act 226, Eff. Sept. 8, 1961 ;-- Am. 1987, Act 261, Imd. Eff. Dec. 28, 1987 ;-- Am. 1992, Act 2, Imd. Eff. Jan. 31, 1992 ;-- Am. 1994, Act 228, Imd. Eff. June 30, 1994 ;-- Am. 2014, Act 571, Eff. Mar. 31, 2015

**Popular Name:** Act 218

**500.830a Life insurance; actuarial opinion; form; submission to director; liability of actuary; â€œqualified actuaryâ€ defined; limitation; public hearing; company with outstanding life insurance contracts, accident and health insurance contracts, or deposit-type contracts; actuarial opinion; requirements; definitions.**

Sec. 830a.

(1) A life insurance company doing business in this state shall annually submit to the director the opinion of a qualified actuary as to whether the reserves and related actuarial items held in support of the policies and contracts specified by the director by rule are computed appropriately, are based on assumptions that satisfy contractual provisions, are consistent with prior reported amounts, and comply with applicable laws of this state. The actuarial opinion required by this section must be submitted in a form prescribed by the director and may include any other items that the director considers necessary.

(2) A life insurance company, except as exempted by or under rule, shall also annually include in the opinion required by subsection (1) an opinion of the same qualified actuary as to whether the reserves and related actuarial items held in support of the policies and contracts specified by the director by rule, when considered in light of the assets held by the company with respect to the reserves and related actuarial items, including, but not limited to, the investment earnings on the assets and the considerations anticipated to be received and retained under the policies and contracts, make adequate provision for the company's obligations under the policies and contracts, including, but not limited to, the benefits under and expenses associated with the policies and contracts. By order, the director may provide for a transition period for establishing any higher reserves that the qualified actuary may consider necessary to render the opinion required by this subsection.

(3) All of the following apply to an opinion required by subsection (2):

(a) A memorandum must be prepared to support each actuarial opinion that is in form and substance acceptable to the director.

(b) If the insurance company does not provide a supporting memorandum within the period of time requested by the director or the director determines that the supporting memorandum provided by the insurer does not meet the standards prescribed by applicable laws or rules or is otherwise unacceptable to the director, the director may engage a qualified actuary at the expense of the company to review the opinion and the basis for the opinion and

prepare a supporting memorandum as is required by the director.

(4) All of the following apply to an opinion required by this section:

(a) The opinion must be submitted with the annual statement reflecting the valuation of the reserve liabilities for each year ending on or after December 31, 1994.

(b) The opinion applies to all business in force including individual and group disability insurance plans in form and substance acceptable to the director.

(c) The opinion must be based on standards as the director may prescribe by rule.

(d) For an opinion required to be submitted by a foreign or alien insurer, the director may accept the opinion filed by the foreign or alien insurer with the insurance supervisory official of another state if the director determines that the opinion reasonably meets the requirements applicable to a company domiciled in this state.

(e) A memorandum in support of the opinion, and any other material provided by the insurer to the director in connection with it, shall be kept confidential by the director, shall not be made public, and is not subject to subpoena, other than for the purpose of defending an action seeking damages from a person by reason of an action required by this section or by rules promulgated under this section. However, the director may release the memorandum or other material in any of the following instances:

(i) With the written consent of the insurer.

(ii) To the American academy of actuaries if the memorandum or other material is required for the purpose of professional disciplinary proceedings and the request describes procedures satisfactory to the director for preserving the confidentiality of the memorandum or other material.

(iii) If any portion of the confidential memorandum is cited by the insurer in its marketing or is cited before any governmental agency other than a state insurance regulatory agency or is released by the insurer to the news media. A confidential memorandum cited as described under this subparagraph is not confidential.

(5) Except for fraud or willful misconduct, the qualified actuary is not liable for damages to a person other than the insurance company and the director for an act, error, omission, decision, or conduct with respect to the actuary's opinion. Disciplinary action by the director against the insurer or the qualified actuary shall be defined in rules by the director.

(6) For purposes of this section, "qualified actuary" means a member of either the american academy of actuaries or the society of actuaries who also meets any other criteria established by the director by rule.

(7) The director shall not accept as a qualified actuary or accept an actuarial opinion prepared in whole or in part by an individual who has done any of the following:

(a) Been convicted of fraud, bribery, a violation of 18 USC 1961 to 1968, or any dishonest conduct or practices under federal or state law.

(b) Violated the insurance laws of this state with respect to any previous reports submitted under this section.

(c) Did not detect or disclose material information in 1 or more previous reports filed under this section.

(8) The director may hold a public hearing under the administrative procedures act of 1969, 1969 PA 306, MCL 24.201 to 24.328, to determine if an actuary is qualified. After considering the evidence presented, the director may find that the actuary is not qualified for purposes of expressing his or her opinion on reserves and related actuarial items as required by this section, and may require the insurer to replace the actuary with another actuary.

(9) Every company with outstanding life insurance contracts, accident and health insurance contracts, or deposit-type contracts in this state and subject to regulation by the director shall annually submit the opinion of the appointed actuary as to whether the reserves and related actuarial items held in support of the policies and contracts are computed appropriately, are based on assumptions that satisfy contractual provisions, are consistent with prior reported amounts, and comply with applicable laws of this state. The valuation manual must provide the specifics of this opinion, including any items considered necessary to its scope.

(10) Every company with outstanding life insurance contracts, accident and health insurance contracts, or deposit-type contracts in this state and subject to regulation by the director, except as exempted in the valuation manual, shall also annually include in the opinion required by subsection (9) an opinion of the same appointed actuary as to whether the reserves and related actuarial items held in support of the policies and contracts specified in the valuation manual, when considered in light of the assets held by the company with respect to the reserves and related actuarial items, including, but not limited to, the investment earnings on the assets and the considerations anticipated to be received and retained under the policies and contracts, make adequate provisions for the company's obligations under the policies and contracts, including, but not limited to, the benefits under and expenses associated with the policies and contracts.

(11) Both of the following apply to an opinion required under subsection (10):

(a) A memorandum, in form and substance as specified in the valuation manual, and acceptable to the director, shall be prepared to support each actuarial opinion.

(b) If an insurance company does not provide a supporting memorandum at the request of the director within a period specified in the valuation manual or the director determines that the supporting memorandum provided by the insurance company does not meet the standards prescribed by the valuation manual or is otherwise unacceptable to the director, the director may engage a qualified actuary at the expense of the company to review the opinion and the basis for the opinion and prepare the supporting memorandum required by the director.



(12) All of the following apply to an opinion required under subsection (9) or (10):

(a) The opinion must be in form and substance as specified in the valuation manual and acceptable to the director.

(b) The opinion must be submitted with the annual statement reflecting the valuation of the reserve liabilities for each year ending on or after the operative date of the valuation manual.

(c) The opinion applies to all policies and contracts described in subsection (10), and to other actuarial liabilities as may be specified in the valuation manual.

(d) The opinion must be based on standards adopted from time to time by the actuarial standards board or its successor, and on such additional standards as may be prescribed in the valuation manual.

(e) For an opinion required to be submitted by a foreign or alien company, the director may accept the opinion filed by the foreign or alien company with the insurance supervisory official of another state if the director determines that the opinion reasonably meets the requirements applicable to a company domiciled in this state.

(f) Except for fraud or willful misconduct, the appointed actuary is not liable for damages to a person other than the insurance company and the director for an act, error, omission, or decision, or conduct, with respect to the appointed actuary's opinion.

(g) The director shall determine by regulation disciplinary action against the company or the appointed actuary.

(13) As used in this section:

(a) "Accident and health insurance" means contracts that incorporate morbidity risk and provide protection against economic loss resulting from accident, sickness, or medical conditions and as may be specified in the valuation manual.

(b) "Appointed actuary" means a qualified actuary who is appointed in accordance with the valuation manual to prepare the actuarial opinion required under subsection (9) or (10).

(c) "Company" means an entity that has written, issued, or reinsured life insurance contracts, accident and health insurance contracts, or deposit-type contracts in this state and has at least 1 policy in force or on claim or that has written, issued, or reinsured life insurance contracts, accident and health insurance contracts, or deposit-type contracts in any state and is required to hold a certificate of authority to write life insurance, accident and health insurance, or deposit-type contracts in this state.

(d) "Deposit-type contract" means contracts that do not incorporate mortality or morbidity risks and as may be specified in the valuation manual.

(e) "Life insurance" means contracts that incorporate mortality risk, including annuity and pure endowment contracts, and as may be specified in the valuation manual.

(f) "NAIC" means the national association of insurance commissioners.

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

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

**History:** Add. 1994, Act 226, Imd. Eff. June 27, 1994 ;-- Am. 2014, Act 571, Eff. Mar. 31, 2015

**Popular Name:** Act 218

### **500.831 Domestic insurer's business in foreign country; variance of mortality standard.**

Sec. 831.

In case of insurance issued by a domestic insurer authorized to do business in a foreign country upon the lives of residents of that country, the commissioner may vary the mortality standard to a standard applicable to that country.

**History:** Add. 1961, Act 127, Eff. Sept. 8, 1961

**Popular Name:** Act 218

### **500.832 Valuation of life insurance policies and contracts issued before operative date of standard nonforfeiture law.**

Sec. 832.

(1) This section shall apply to only life insurance policies and contracts issued before the operative date of section 4060, the standard nonforfeiture law.

(2) Except as otherwise provided in section 835 for group annuity and pure endowment contracts issued before the operative date of section 4060, in valuing the policies to which this section applies, the rate of interest to be assumed shall, after and including the year 1896, be 4% per annum, and at the election of the insurer the rate of 4% shall be assumed any year before 1896, and the rate of mortality shall be that established by the "table of mortality based on American experience". Group life insurance policies may be valued on the basis of the American men ultimate table of mortality with interest at the rate of 3-1/2% per annum, except that the minimum standard for the valuation of annuities and pure endowments purchased under group annuity and pure endowment contracts shall be that provided in this section, but replacing the interest rates specified in this section by an interest rate of 5% per annum. However, at least 90 days before an insurer revalues reserves relative to annuities and pure endowments purchased under group annuity and pure endowment contracts in accordance with this subsection, the insurer shall give notice to the commissioner of its intent to do so in a form prescribed by the commissioner. The notice shall specify the amount of the reserves affected and the amount by which the reserves are proposed to be revalued. The notice shall also contain an actuarial certification that, after the proposed revaluation, the reserves will still be adequate to mature the obligations of the insurer on the policies and contracts for which the reserves were established. The certification shall be made by an actuary qualified to certify an annual statement described in section 438. Except as otherwise provided in section 834, all outstanding industrial life insurance policies issued on or after January 1, 1944 shall be valued on a basis of not less than the standard industrial table of mortality or the substandard industrial table of mortality with interest at the rate of 3-1/2% per annum. Upon written application of the insurer, the commissioner may vary the standards of mortality and interest required by this section. This section shall not permit the use of standards of mortality and interest or methods of producing aggregate reserves lower than those based upon the standard prescribed by this section. The policies shall be valued in accordance with the terms of the policy contracts. In each case in which the actual premium charged for an insurance is less than the net premium for the insurance, based upon the American experience table of mortality with interest at the rate of 4%, the insurer shall also be charged with the value of an annuity, the amount of which shall be equal to the difference between the premium charged and the net premium for the insurance based upon the American experience table with interest at the rate of 4% and the terms of which in years shall equal the number of future annual payments due on the insurance at the date of valuation.

**History:** 1956, Act 218, Eff. Jan. 1, 1957 ;-- Am. 1974, Act 302, Imd. Eff. Oct. 21, 1974 ;-- Am. 1980, Act 58, Eff. Oct. 1, 1980

**Popular Name:** Act 218

**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

### **500.835 Valuation of individual annuity and pure endowment contracts; minimum standard; notice of election to invoke section; failure to make election; definitions.**

Sec. 835.

(1) Except as provided in sections 835a and 836, the minimum standard for the valuation of all individual annuity and pure endowment contracts issued on or after the operative date of this section, as described in subsection (2), and for all annuities and pure endowments purchased on or after that operative date under group annuity and pure endowment contracts, must be the Commissioners Reserve Valuation Method described in section 834(2) and (3), and the following tables and interest rates:

(a) For individual annuity and pure endowment contracts issued before October 1, 1980, excluding any disability and accidental death benefits in these contracts, the standard must be the 1971 Individual Annuity Mortality Table, or a modification of this table approved by the director, and 6% interest for single premium immediate annuity contracts, and 4% interest for all other individual annuity and pure endowment contracts.

(b) Except as otherwise provided in this subdivision, for individual single premium immediate annuity contracts issued after September 30, 1980, excluding any disability and accidental death benefits in these contracts, the standard must be the 1971 Individual Annuity Mortality Table or any individual annuity 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 the contracts, or a modification of these tables approved by the director, and 7-1/2% interest. At the election of the insurer, the following tables may be used as the standard for individual single premium immediate annuity contracts, as applicable:

(i) For contracts issued after December 31, 1985, the 1983 Table a.

(ii) For contracts issued after December 31, 1998, the Annuity 2000 Table.

(iii) For contracts issued after December 31, 2014, the 2012 IAR Table.

(c) Except as otherwise provided in this subdivision, for individual annuity and pure endowment contracts issued after September 30, 1980 and before January 1, 2015, other than single premium immediate annuity contracts, excluding any disability and accidental death benefits in the contracts, the standard must be the 1971 Individual

Annuity Mortality Table or any individual annuity 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 such contracts, or a modification of these tables approved by the director, and 5-1/2% interest for single premium deferred annuity and pure endowment contracts, and 4-1/2% interest for all other such individual annuity and pure endowment contracts. At the election of the insurer, the following tables may be used as the standard for individual annuity and pure endowment contracts, other than single premium immediate annuities, as applicable:

- (i) For contracts issued after December 31, 1985, the 1983 Table a.
- (ii) For contracts issued after December 31, 1998, the Annuity 2000 Table.
- (iii) For contracts issued after December 31, 2014, the 2012 IAR Table.

(d) For all annuities and pure endowments purchased before October 1, 1980, under group annuity and pure endowment contracts, excluding any disability and accidental death benefits purchased under these contracts, the standard must be the 1971 Group Annuity Mortality Table, or a modification of these tables approved by the director, and 6% interest.

(e) Except as otherwise provided in this subdivision, For all annuities and pure endowments purchased after September 30, 1980 and before January 1, 2015, under group annuity and pure endowment contracts, excluding any disability and accidental death benefits purchased under these contracts, the standard must be the 1971 Group Annuity Mortality Table or any group annuity 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 such annuities and pure endowments, or a modification of these tables approved by the director, and 7-1/2% interest. At the election of the insurer, the following tables may be used as the standard for all annuities and pure endowments under group annuity and pure endowment contracts, as applicable:

- (i) For annuities and pure endowments purchased after December 31, 1985, the 1983 GAM Table.
- (ii) For annuities and pure endowments purchased after December 31, 1998, the 1994 GAR Table.

(2) After October 21, 1974, a company may file with the director a written notice of its election to invoke this section after a specified date before January 1, 1981, which must be the operative date of this section for the company. A company may elect a different operative date of this section for individual annuity and pure endowment contracts from that elected for group annuity and pure endowment contracts. If a company does not make an election, the operative date of this section for the company must be January 1, 1981.

(3) As used in this section:

- (a) "Annuity 2000 Table" means that term as defined in section 835a.
- (b) "1983 GAM Table" means that term as defined in section 835a.
- (c) "1983 Table a" means that term as defined in section 835a.
- (d) "1994 GAR Table" means that term as defined in section 835a.
- (e) "2012 IAR Table" means that term as defined in section 835a.

**History:** Add. 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. 2016, Act 558, Eff. Apr. 10, 2017

**Popular Name:** Act 218

**Admin Rule:** R 500.1241 of the Michigan Administrative Code.

**500.835a Individual annuity and pure endowment contracts purchased after December 31, 2014; annuities and pure endowments purchased after December 31, 2014 under group annuity and pure endowment contracts; valuation; tables and interest rates; definitions.**

Sec. 835a.

(1) Except as otherwise provided in section 836, the minimum standard for the valuation of all individual annuity and pure endowment contracts issued after December 31, 2014 and for all annuities and pure endowments purchased after December 31, 2014 under group annuity and pure endowment contracts must be the Commissioner's Reserve Valuation Method described in section 834(2) and (3), and the following tables and interest rates:

(a) For individual single premium immediate annuity contracts, excluding any disability and accidental death benefits in these contracts, the standard must be the 2012 IAR Table or any individual annuity mortality table adopted after 2015 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 such contracts, or a modification of these tables approved by the director, and an interest rate as determined by the methodology described in section 836.



(b) Except as otherwise provided in subdivision (d), for individual annuity and pure endowment contracts, other than single premium immediate annuity contracts, excluding any disability and accidental death benefits in the contracts, the standard must be the 2012 Individual Annuity Mortality Table or any individual annuity mortality table adopted after 2017 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 such contracts, or a modification of these tables approved by the director, and an interest rate as determined by the methodology described in section 836 for single premium deferred annuity and pure endowment contracts, and an interest rate as determined by the methodology described in section 836 for all other such individual annuity and pure endowment contracts.

(c) For all annuities and pure endowments purchased under group annuity and pure endowment contracts, excluding any disability and accidental death benefits purchased under these contracts, the standard must be the 1994 GAR Table, or any group annuity mortality table adopted after 2017 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 such annuities and pure endowments, or a modification of these tables approved by the director, and an interest rate as determined by the methodology described in section 836.

(d) For individual annuity and pure endowment contracts, the standard must be the 1983 Table a without projection only if the contract is based on life contingencies and is issued to fund periodic benefits arising from either of the following:

(i) Settlements of various forms of claims pertaining to court settlements, out of court settlements from tort actions, or settlements involving similar actions such as worker's compensation claims.

(ii) Settlement of long-term disability claims if a temporary or life annuity has been used instead of continuing disability payments.

(2) As used in this section:

(a) "Annuity 2000 Table" means the mortality table developed by the Society of Actuaries Committee on Life Insurance Research and shown on page 240 of volume XLVII of the Transactions of the Society of Actuaries.

(b) "Generational Mortality Table" means a mortality table containing a set of mortality rates that decrease for a given age from 1 year to the next based on a combination of a period table and a projection scale containing rates of mortality improvement.

(c) "Period table" means a table of mortality rates applicable to a given calendar year.

(d) "Projection Scale G2" means the table of annual rates, G2X, of mortality improvement by age for projecting future mortality rates beyond calendar year 2012 developed by the Society of Actuaries Committee on Life Insurance Research.

(e) "1983 GAM Table" means that mortality table developed by the Society of Actuaries Committee on Annuities and adopted as a recognized mortality table for annuities in December 1983 by the National Association of Insurance Commissioners.

(f) "1983 Table a" means the mortality table developed by the Society of Actuaries Committee to recommend a new mortality basis for individual annuity valuation and adopted as a recognized mortality table for annuities in June 1982 by the National Association of Insurance Commissioners.

(g) "1994 GAR Table" means the mortality table developed by the Society of Actuaries group annuity valuation table task force and published on pages 866-867 of volume XLVII of the Transactions of the Society of Actuaries, where the mortality rate for an individual of age  $x$  in year  $1994+n$ ,  $QX_{1994+N}$ , is determined as follows:

$$Qx_{1994+N} = Qx_{1994}(1-AAX)^N$$

where  $QX_{1994}$  is as specified in the 1994 GAR Table,  $n$  is the number of years that have elapsed since 1994, and  $AAX$  is as specified in the 1994 GAR Table.

(h) "2012 IAM Period Table" means the period table developed by the Society of Actuaries Committee on Life Insurance Research that contains loaded mortality rates for calendar year 2012.

(i) "2012 IAR Table" means the generational mortality table developed by the Society of Actuaries Committee on Life Insurance Research that contains rates derived from a combination of the 2012 IAM Period Table and Projection Scale G2, where mortality rates for an individual of age  $x$  in year  $2012+n$ ,  $QX_{2012+N}$ , are determined as follows, and the results rounded to the nearest one-thousandth:

$$Qx_{2012+N} = Qx_{2012}(1-G2X)^N$$

where  $QX_{2012}$  is as specified in the 2012 IAM Period Table,  $n$  is the number of years that have elapsed since 2012, and  $G2X$  is as specified in Projection Scale G2.

**History:** Add. 2016, Act 558, Eff. Apr. 10, 2017 ;-- Am. 2017, Act 67, Imd. Eff. June 30, 2017

**Popular Name:** Act 218

**500.836 Calendar year statutory valuation interest rates; use; determination; weighting factors; reference interest rate defined; alternative method for determination of reference interest rate; changes to policy or contract forms; computing reference interest rate for calendar year 1986.**

Sec. 836.

(1) The calendar year statutory valuation interest rates as defined in this section are the interest rates used in determining the minimum standard for the valuation of the following:

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

(b) All individual annuity and pure endowment contracts issued in a calendar year after December 31, 1982.

(c) All annuities and pure endowments purchased in a calendar year after December 31, 1982 under group annuity and pure endowment contracts.

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

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

(a) For life insurance,

$$I = .03 + W (R_1 - .03) + W (R_2 - .09).$$

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where R is the reference interest rate defined in this section, R<sub>1</sub> is the lesser of R and .09, R<sub>2</sub> is the greater of R and .09, and W is the weighting factor defined in this section.

(b) For single premium immediate annuities and for annuity benefits involving life contingencies arising from other annuities with cash settlement options and from guaranteed interest contracts with cash settlement options,  $I = .03 + W (R - .03)$  where R is the reference interest rate defined in this section, R<sub>1</sub> is the lesser of R and .09, R<sub>2</sub> is the greater of R and .09, and W is the weighting factor defined in this section.

(c) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on an issue year basis, except as stated in subdivision (b), the formula for life insurance stated in subdivision (a) applies to annuities and guaranteed interest contracts with guaranteed durations in excess of 10 years and the formula for single premium immediate annuities stated in subdivision (b) applies to annuities and guaranteed interest contracts with guaranteed duration of 10 years or less.

(d) For other annuities with no cash settlement options and for guaranteed interest contracts with no cash settlement options, the formula for single premium immediate annuities stated in subdivision (b) applies.

(e) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a change in fund basis, the formula for single premium immediate annuities stated in subdivision (b) applies.

(3) However, if the calendar year statutory valuation interest rate for any life insurance policies issued in any calendar year determined without reference to this sentence differs from the corresponding actual rate for similar policies issued in the immediately preceding calendar year by less than 0.5%, the calendar year statutory valuation interest rate for the life insurance policies must be equal to the corresponding actual rate for the immediately preceding calendar year. For purposes of applying the immediately preceding sentence, the calendar year statutory valuation interest rate for life insurance policies issued in a calendar year must be determined for 1980 using the reference interest rate defined for 1979 and must be determined for each subsequent calendar year regardless of when paragraphs 9 to 18 of section 4060(5) become operative.

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

(a) The weighting factors for life insurance are:

	Guaranteed Duration (Years)	Weighting Factors
10 or less		.50
more than 10, but not more than 20		.45
more than 20		.35

For life insurance, the guaranteed duration is the maximum number of years the life insurance can remain in force on a basis guaranteed in the policy or under options to convert to plans of life insurance with premium rates or nonforfeiture values, or both, that are guaranteed in the original policy.

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



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

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

Guaranteed	Weighting Factor For Plan Type		
Duration (Years)	A	B	C
5 or less:	.80	.60	.50
more than 5, but not more than 10:	.75	.60	.50
more than 10, but not more than 20:	.65	.50	.45
more than 20:	.45	.35	.35
	Plan Type		
	A	B	C

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

Plan Type		
A	B	C

(iii) For annuities and guaranteed interest contracts valued on an issue year basis, other than those with no cash settlement options, that do not guarantee interest on considerations received more than 1 year after issue or purchase and for annuities and guaranteed interest contracts valued on a change in fund basis that do not guarantee interest rates on considerations received more than 12 months beyond the valuation date, the factors shown in subparagraph (i) or derived in subparagraph (ii) increased by:

.05	.05	.05
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(iv) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, the guaranteed duration is the number of years for which the contract guarantees interest rates in excess of the calendar year statutory valuation interest rate for life insurance policies with guaranteed duration in excess of 20 years. For other annuities with no cash settlement options and for guaranteed interest contracts with no cash settlement options, the guaranteed duration is the number of years from the date of issue or date of purchase to the date annuity benefits are scheduled to commence.

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

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

(B) "Plan Type B" means before expiration of the interest rate guarantee, the policyholder may withdraw funds only with an adjustment to reflect changes in interest rates or asset values since receipt of the funds by the insurance company; without the adjustment but in installments over 5 years or more; or no withdrawal permitted. At the end of interest rate guarantee, funds may be withdrawn without the adjustment in a single sum or installments over less than 5 years.

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

(vi) A company may elect to value guaranteed interest contracts with cash settlement options and annuities with cash settlement options on either an issue year basis or on a change in fund basis. Guaranteed interest contracts with no cash settlement options and other annuities with no cash settlement options must be valued on an issue year basis. As used in this section, an issue year basis of valuation refers to a valuation basis under which the interest rate used to determine the minimum valuation standard for the entire duration of the annuity or guaranteed interest contract is the calendar year valuation interest rate for the year of issue or year of purchase of the annuity or guaranteed interest contract, and the change in fund basis of valuation refers to a valuation basis under which the interest rate used to determine the minimum valuation standard applicable to each change in the fund held under the annuity or guaranteed interest contract is the calendar year valuation interest rate for the year of the change in the fund.

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

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

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

(c) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a year of issue basis, except as stated in subdivision (b), with guaranteed duration in excess of 10 years, the lesser of the average over a period of 36 months and the average over a period of 12 months, ending on June 30 of the calendar year of issue or purchase or December 31 of the calendar year preceding the year of issue or year of purchase, of Moody's corporate bond yield average - monthly average corporates, as published by Moody's investors service, inc. An insurer shall use the same method of computing the reference interest rate under this subdivision in all of its contracts. An insurer shall not change its method of computing the reference interest rate under this subdivision unless the insurer has notified and received approval from the director.

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

(e) For other annuities with no cash settlement options and for guaranteed interest contracts with no cash settlement options, the average over a period of 12 months, ending on June 30 of the calendar year of issue or purchase or December 31 of the calendar year preceding the year of issue or year of purchase, of Moody's corporate bond yield average - monthly average corporates, as published by Moody's investors service, inc. An insurer shall use the same method of computing the reference interest rate under this subdivision in all of its contracts. An insurer shall not change its method of computing the reference interest rate under this subdivision unless the insurer has notified and received approval from the director.

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

(6) If Moody's corporate bond yield average - monthly average corporates is no longer published by Moody's investors service, inc. or if the national association of insurance commissioners determines that Moody's corporate bond yield average - monthly average corporates as published by Moody's investors service, inc. is no longer appropriate for the determination of the reference interest rate, then an alternative method for determination of the reference interest rate, which is adopted by the national association of insurance commissioners and approved by a rule promulgated by the director, may be substituted.

(7) Any changes to policy or contract forms that are needed because of changes in valuation rates do not require refiling with, or approval by, the director.

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

**History:** Add. 1982, Act 221, Imd. Eff. July 10, 1982 ;-- Am. 1986, Act 12, Imd. Eff. Mar. 3, 1986 ;-- Am. 2014, Act 571, Eff. Mar. 31, 2015

**Popular Name:** Act 218

**500.836a Valuation of disability plans and contracts issued before date of valuation manual; regulations; accidental and health insurance contracts; definitions.**

Sec. 836a.

(1) The director shall promulgate regulations containing the minimum standards applicable to the valuation of disability plans and contracts issued before the date of the valuation manual. For accident and health insurance contracts issued on or after the operative date of the valuation manual, the standard prescribed in the valuation manual is the minimum standard of valuation required under section 830(2).

(2) As used in this section, the following definitions apply on and after the operative date of the valuation manual:

(a) "Accident and health insurance" means contracts that incorporate morbidity risk and provide protection against economic loss resulting from accident, sickness, or medical conditions and as may be specified in the valuation manual.

(b) "NAIC" means the national association of insurance commissioners.

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

**History:** Add. 2014, Act 571, Eff. Mar. 31, 2015

**Popular Name:** Act 218

**500.836b Valuation manual; establishment of reserves using principle-based valuation; duties of company; confidential information; definitions.**

Sec. 836b.

(1) All of the following apply to the valuation manual:

(a) The operative date of the valuation manual is January 1 of the first calendar year following the first July 1 as of which all of the following have occurred:

(i) The NAIC has adopted the valuation manual by a vote of at least 42 members, or 3/4 of the members voting, whichever is greater.

(ii) The standard valuation law, as amended by the NAIC in 2009, or legislation including substantially similar terms and provisions, has been enacted by states representing greater than 75% of the direct premiums written as reported in the following annual statements submitted for 2008: life, accident, and health annual statements; health annual statements; or fraternal annual statements.

(iii) The standard valuation law, as amended by the NAIC in 2009, or legislation including substantially similar terms and provisions, has been enacted by at least 42 of the following 55 jurisdictions: the 50 states of the United States, American Samoa, the American Virgin Islands, the District of Columbia, Guam, and Puerto Rico.

(b) Unless a change in the valuation manual specifies a later effective date, a change to the valuation manual is effective on January 1 after the date the NAIC adopts the change to the valuation manual by a vote representing both of the following:

(i) At least 3/4 of the members of the NAIC, but not less than a majority of the total membership.

(ii) Members of the NAIC representing jurisdictions that amount to greater than 75% of the direct premiums written as reported in the following annual statements most recently available before the vote in subparagraph (i): life, accident, and health annual statements; health annual statements; or fraternal annual statements.

(c) The valuation manual must specify all of the following:

(i) Minimum valuation standards for and definitions of the policies or contracts subject to section 830(2). The minimum valuation standards are all of the following:

(A) The director's reserve valuation method for life insurance contracts, other than annuity contracts, subject to section 830(2).

(B) The director's annuity reserve valuation method for annuity contracts subject to section 830(2).

(C) Minimum reserves for all other policies or contracts subject to section 830(2).

(ii) The policies or contracts or types of policies or contracts that are subject to the requirements of a principle-based valuation under subsection (2) and the minimum valuation standards consistent with those requirements.

(iii) For policies and contracts subject to a principle-based valuation under subsection (2), all of the following apply:

(A) Requirements for the format of reports to the director under subsection (3)(c) and that must include information necessary to determine if the valuation is appropriate and in compliance with this section.

(B) Assumptions must be prescribed for risks over which the company does not have significant control or influence.

(C) Procedures for corporate governance and oversight of the actuarial function, and a process for appropriate

waiver or modification of the procedures.

(iv) For policies that are not subject to a principle-based valuation under subsections (2), (3), and (4), the minimum valuation standard is 1 of the following:

(A) The standard is consistent with the minimum standard of valuation before the operative date of the valuation manual.

(B) The standard develops reserves that quantify the benefits and guarantees, and the funding, associated with the contracts and their risks at a level of conservatism that reflects conditions that include unfavorable events that have a reasonable probability of occurring.

(v) Other requirements, including, but not limited to, those relating to reserve methods, models for measuring risk, generation of economic scenarios, assumptions, margins, use of company experience, risk measurement, disclosure, certifications, reports, actuarial opinions and memorandums, transition rules, and internal controls.

(vi) The data and form of the data required under subsection (5), to whom the data must be submitted, and may specify other requirements including data analyses and reporting of analyses.

(d) If there is not a specific valuation requirement or if the director determines that a specific valuation requirement in the valuation manual does not comply with this section, the company shall, with respect to the requirement, comply with minimum valuation standards prescribed by the director by rule.

(e) The director may engage a qualified actuary, at the expense of the company, to perform an actuarial examination of the company and opine on the appropriateness of any reserve assumption or method used by the company, or to review and opine on a company's compliance with any requirement of this section. The director may rely on the opinion, regarding this section, of a qualified actuary engaged by the commissioner of another state, district, or territory of the United States. As used in this subdivision, "engage" includes employment and contracting.

(f) The director may require a company to change any assumption or method that the director considers necessary to comply with the requirements of the valuation manual or this section, and the company shall adjust the reserves as required by the director.

(2) A company shall establish reserves using a principle-based valuation that meets all of the following conditions for policies or contracts as specified in the valuation manual:

(a) Quantify the benefits and guarantees, and the funding, associated with the contracts and their risks at a level of conservatism that reflects conditions that include unfavorable events that have a reasonable probability of occurring during the lifetime of the contracts. For policies or contracts with significant tail risk, reflects conditions appropriately adverse to quantify the tail risk.

(b) Incorporate assumptions, risk analysis methods, financial models, and management techniques that are consistent with, but not necessarily identical to, those used within the company's overall risk assessment process, while recognizing potential differences in financial reporting structures and any prescribed assumptions or methods.

(c) Incorporate assumptions that are derived in 1 of the following manners:

(i) The assumption is prescribed in the valuation manual.

(ii) For assumptions that are not prescribed in the valuation manual, the assumptions must do the following, as applicable:

(A) Use the company's available experience, to the extent it is relevant and statistically credible.

(B) To the extent that company data are not available, relevant, or statistically credible, use other relevant and statistically credible experience.

(d) Provide margins for uncertainty, including adverse deviation and estimation error, such that the greater the uncertainty, the larger the margin and resulting reserve.

(3) A company that uses principle-based valuation for 1 or more policies or contracts subject to this section as specified in the valuation manual shall do all of the following:

(a) Establish procedures for corporate governance and oversight of the actuarial valuation function consistent with those described in the valuation manual.

(b) Provide to the director and the board of directors an annual certification of the effectiveness of the internal controls with respect to the principle-based valuation. The internal controls must be designed to assure that all material risks inherent in the liabilities and associated assets subject to the valuation are included in the valuation, and that valuations are made in accordance with the valuation manual. The certification must be based on the controls in place at the end of the preceding calendar year.

(c) Develop, and file with the director on request, a principle-based valuation report that complies with standards prescribed in the valuation manual.

(4) A principle-based valuation may include a prescribed formulaic reserve component.

(5) A company shall submit mortality, morbidity, policyholder behavior, or expense experience and other data as prescribed in the valuation manual.

(6) Except as otherwise provided in this section, confidential information is confidential and privileged, is not subject to disclosure under the freedom of information act, 1976 PA 442, MCL 15.231 to 15.246, is not subject to subpoena, and is not subject to discovery or admissible in evidence in a private civil action. However, the director may use the confidential information in the furtherance of any regulatory or legal action brought as a part of the

director's official duties.

(7) The director or any person who received confidential information while acting under the authority of the director shall not testify in a private civil action concerning confidential information.

(8) The director may do all of the following:

(a) Except as otherwise provided in this subdivision, share confidential information with other state, federal, and international regulatory agencies and with the NAIC and its affiliates and subsidiaries. The director may also share confidential information described in subsection (14)(c)(i) and (iv) only with the actuarial board for counseling and discipline or its successor on request for the purpose of professional disciplinary proceedings and with state, federal, and international law enforcement officials. The director shall not share confidential information unless the recipient agrees in writing to maintain the confidentiality and privileged status of the confidential information and has verified in writing the legal authority to maintain confidentiality.

(b) Subject to this subdivision, receive documents, materials, data, or information from regulatory or law enforcement officials of other foreign or domestic jurisdictions, the actuarial board for counseling and discipline or its successor, and the NAIC and its affiliates and subsidiaries. The director shall maintain as confidential or privileged any documents, materials, or information received with notice or the understanding that it is confidential or privileged under the laws of the jurisdiction that is the source of the document, material, or information.

(9) The director may enter into written agreements governing sharing and use of information provided under this section.

(10) The disclosure or sharing of confidential information to the director under this section is not a waiver of an applicable privilege or claim of confidentiality.

(11) A privilege established under the law of any state or jurisdiction that is substantially similar to the privilege established under this section applies in any proceeding in, and in any court of, this state.

(12) As used in subsections (6) to (10), "regulatory agency", "law enforcement agency", and "NAIC" include, but are not limited to, their employees, agents, consultants, and contractors.

(13) Notwithstanding anything in this section to the contrary, any confidential information described in subsection (14)(c)(i) and (iv) is subject to all of the following:

(a) The confidential information is subject to subpoena for the purpose of defending an action seeking damages from the appointed actuary submitting the related memorandum in support of an opinion submitted under section 830a or principle-based valuation report developed under subsection (3)(c) by reason of an action required by section 830a or subsection (3)(c) or by rules promulgated under this section.

(b) The director may release the confidential information with the written consent of the company.

(c) If any portion of a memorandum in support of an opinion submitted under section 830a or a principle-based valuation report developed under subsection (3)(c) is cited by the company in its marketing, is cited before a governmental agency other than a state insurance department, or is released by the company to the news media, the memorandum or report is not confidential.

(14) As used in this section:

(a) "Accident and health insurance" means contracts that incorporate morbidity risk and provide protection against economic loss resulting from accident, sickness, or medical conditions and as may be specified in the valuation manual.

(b) "Company" means an entity that has written, issued, or reinsured life insurance contracts, accident and health insurance contracts, or deposit-type contracts in this state and has at least 1 policy in force or on claim or that has written, issued, or reinsured life insurance contracts, accident and health insurance contracts, or deposit-type contracts in any state and is required to hold a certificate of authority to write life insurance, accident and health insurance, or deposit-type contracts in this state.

(c) "Confidential information" means all of the following:

(i) A memorandum in support of an opinion submitted under section 830a and any other documents, materials, and other information, including, but not limited to, all working papers, and copies of working papers, created, produced, or obtained by or disclosed to the director or any other person in connection with the memorandum.

(ii) All documents, materials, and other information, including, but not limited to, all working papers, and copies of working papers, created, produced, or obtained by or disclosed to the director or any other person in the course of an examination made under subsection (1)(e) if an examination report or other material prepared in connection with an examination made under section 222 is not held as private and confidential information under section 222, an examination report or other material prepared in connection with an examination made under subsection (1)(e) is not "confidential information" to the same extent as if the examination report or other material had been prepared under section 222.

(iii) Any reports, documents, materials, and other information developed by a company in support of, or in connection with, an annual certification by the company under subsection (3)(b) evaluating the effectiveness of the company's internal controls with respect to a principle-based valuation and any other documents, materials, and other information, including, but not limited to, all working papers, and copies of working papers, created, produced, or obtained by or disclosed to the director or any other person in connection with such reports, documents, materials, and other information.



(iv) Any principle-based valuation report developed under subsection (3)(c) and any other documents, materials, and other information, including, but not limited to, all working papers, and copies of working papers, created, produced, or obtained by or disclosed to the director or any other person in connection with the report.

(v) Any documents, materials, data, and other information submitted by a company under subsection (5), collectively, experience data, and any other documents, materials, data, and other information, including, but not limited to, all working papers, and copies of working papers, created or produced in connection with the experience data, in each case that include any potentially company-identifying or personally identifiable information, that is provided to or obtained by the director, together with any experience data, the experience materials and any other documents, materials, data, and other information, including, but not limited to, all working papers, and copies of working papers, created, produced, or obtained by or disclosed to the director or any other person in connection with the experience materials.

(d) "Deposit-type contract" means contracts that do not incorporate mortality or morbidity risks and as may be specified in the valuation manual.

(e) "Life insurance" means contracts that incorporate mortality risk, including annuity and pure endowment contracts, and as may be specified in the valuation manual.

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

(g) "Policyholder behavior" means any action a policyholder, contract holder, or any other person with the right to elect options, such as a certificate holder, may take under a policy or contract subject to this section, including, but not limited to, lapse, withdrawal, transfer, deposit, premium payment, loan, annuitization, or benefit elections prescribed by the policy or contract but excluding events of mortality or morbidity that result in benefits prescribed in their essential aspects by the terms of the policy or contract.

(h) "Principle-based valuation" means a reserve valuation that uses 1 or more methods or 1 or more assumptions determined by the insurer and is required to comply with this section as specified in the valuation manual.

(i) "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 such statements and who meets the requirements specified in the valuation manual.

(j) "Tail risk" means a risk that occurs either where the frequency of low probability events is higher than expected under a normal probability distribution or where there are observed events of very significant size or magnitude.

(k) "Valuation manual" means the manual of valuation instructions adopted by the NAIC as specified in this section.

**History:** Add. 2014, Act 571, Eff. Mar. 31, 2015 ;-- Am. 2016, Act 558, Eff. Apr. 10, 2017 ;-- Am. 2020, Act 15, Imd. Eff. Jan. 27, 2020  
**Popular Name:** Act 218

## 500.837 Definitions; valuation requirements for universal life insurance policies.

Sec. 837.

(1) As used in this section:

(a) "A" means the present value of all future guaranteed benefits at the date of valuation.

(b) "B" means the quantity

$\hat{A} \text{ PVFB}_{ax+t}.$

$\hat{A}_{ax} \quad \hat{A}$

(c) "C" is the quantity

$\hat{A} ((g) - (h)) (a \ x+t) (r)$

$\hat{A} \quad \hat{A}_{ax} \quad \hat{A}$

where (g) and (h) are the same as (g) and (h) as defined in section 834(2) for the plan of insurance defined at issue by the guaranteed maturity premiums and all guarantees contained in the policy or declared by the insurer.

(d) "D" is the sum of any additional quantities analogous to "C" that arise because of structural changes in the policy, with each such quantity being determined on a basis consistent with that of "C" using the maturity date in effect at the time of the change.

(e) "Guaranteed maturity fund at any duration" means that amount which, together with future guaranteed maturity premiums, will mature the policy based on all policy guarantees at issue.

(f) "Guaranteed maturity premium for fixed premium universal life insurance policies" shall be the premium defined in the policy that at issue provides the minimum policy guarantees.



(g) "Guaranteed maturity premium for flexible premium universal life insurance policies" means that level gross premium, paid at issue and periodically thereafter over the period during which premiums are allowed to be paid, which will mature the policy on the latest maturity date, if any, permitted under the policy for an amount that is in accordance with the policy structure. If there is no applicable latest maturity date, the highest age in the valuation mortality table shall be used.

(h) "Maturity amount" means the initial death benefit if the death benefit is level over the lifetime of the policy except for the existence of a minimum death benefit corridor, or means the specific amount if the death benefit equals a specified amount plus the policy value or cash surrender value except for the existence of a minimum death benefit corridor.

(i) "PVFB" means the present value of all benefits guaranteed at issue assuming future guaranteed maturity premiums are paid by the policyowner and taking into account all guarantees contained in the policy or declared by the insurer.

(j) "Structural changes" are those changes that are separate from the automatic workings of the policy. Such changes usually would be initiated by the policyholder and include changes in the guaranteed benefits, changes in latest maturity date, or changes in allowable premium payment period. For fixed premium universal life policies with redetermination of all credits and charges no more frequently than annually, on policy anniversaries, structural changes also include changes in guaranteed benefits, or in fixed premiums, unanticipated by the guaranteed maturity premium for such policies at the date of issue, even if such changes arise from automatic workings of the policy.

(k) The letter "r" is equal to 1, unless the policy is a flexible premium policy and the policy value is less than the guaranteed maturity fund, in which case "r" is the ratio of the policy value to the guaranteed maturity fund.

(l) The letter "t" means the duration of the policy.

(m) The letter "x" means the issue age.

(n) "a x" and "ax+t" are present values of an annuity of 1 per year payable on policy anniversaries beginning at ages x and x+t, respectively, and continuing until the highest attained age at which a premium may be paid under the policy.

(2) All of the following are valuation requirements for universal life insurance policies:

(a) The minimum valuation standard for universal life insurance policies shall be the commissioner's reserve valuation method as described in this section and the tables and interest rates as specified in this section.

(b) The terminal reserve for the basic policy and any benefits or riders for which premiums are not paid separately as of any policy anniversary shall be equal to the net level premium reserves less "C" and less "D", where net level premium reserves shall be equal to  $(A-B)(r)$ .

(c) The guaranteed maturity premium is calculated at issue based on all policy guarantees at issue, excluding guarantees linked to an external referent. The guaranteed maturity premium for both flexible and fixed premium policies shall be adjusted for death benefit corridors provided by the policy. The guaranteed maturity premium may be less than the premium necessary to pay all charges.

(d) The guaranteed maturity premium, the guaranteed maturity fund, and "B" shall be recalculated to reflect any structural changes in the policy. This recalculation shall be done in a manner consistent with this section.

(e) The recomputation of "B", for fixed premium universal life structural changes, shall exclude from "PVFB", the present value of future guaranteed benefits, those guaranteed benefits that are funded by the excess of the insurer's declared guarantees of interest, mortality and expenses, over the guarantees contained in the policy at the date of issue.

(f) Future guaranteed benefits shall be determined by both of the following:

(i) Projecting the greater of the guaranteed maturity fund and the policy value, taking into account future guaranteed maturity premiums, if any, and using all guarantees of interest, mortality, expense deductions, etc., contained in the policy or declared by the insurer.

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

(g) To the extent that the insurer declares guarantees more favorable than the contractual guarantees in the policy, the declared guarantees shall be applicable to the determination of future guaranteed benefits.

(h) All present values shall be determined using all of the following:

(i) An interest rate or rates specified in section 834(1) for policies issued in the same year.

(ii) The mortality rates specified in section 834(1) for policies issued in the same year or contained in such other table as may be approved by the commissioner for this purpose.

(iii) Any other tables needed to value supplementary benefits provided by a rider that is being valued together with the policy.

(i) The mortality and interest bases for calculating present values are the minimum standards specified in section 834(1).

(j) If, in any policy year, the guaranteed maturity premium on any universal life insurance policy is less than the valuation net premium for the policy, calculated by the valuation method actually used in calculating the reserve thereon but using the minimum valuation standards of mortality and rate of interest, the minimum reserve required for the contract shall be the greater of the following:

- (i) The reserve calculated according to the method, the mortality table, and the rate of interest actually used.
- (ii) The reserve calculated according to the method actually used but using the minimum valuation standards of mortality and rate of interest and replacing the valuation net premium by the guaranteed maturity premium in each policy year for which the valuation net premium exceeds the guaranteed maturity premium.

(k) For universal life insurance reserves on a net level premium basis, the valuation net premium is

$PVFB \cdot \frac{1}{ax}$

and for reserves on a commissioner's reserve valuation method, the valuation net premium is

$PVFB + \frac{(g)-(h)}{ax}$

ax

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

**Popular Name:** Act 218

**500.838 Definitions; use of NAIC accounting practices and procedures manual; mortality table; separate rates for smokers and nonsmokers; determining minimum reserve liabilities, minimum cash surrender values, and amounts of paid-up nonforfeiture benefits; actuarial opinion; application of accounting practices and procedural manual; rates and charges based on gender; blended tables; basis as sex-distinct and sex-neutral.**

Sec. 838.

(1) As used in this section:

(a) "2001 CSO mortality table" means that mortality table, consisting of separate rates of mortality for male and female lives, developed by the American academy of actuaries CSO task force from the valuation basic mortality table developed by the society of actuaries individual life insurance valuation mortality task force and adopted by the NAIC in December 2002. Unless the context indicates otherwise, the 2001 CSO mortality table includes both the ultimate form of that table and the select and ultimate form of that table and includes both the smoker and nonsmoker mortality tables and the composite mortality tables. It also includes both the age-nearest-birthday and age-last-birthday bases of the mortality tables.

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

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

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

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

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

(2) In addition to the other requirements of this act, a life insurer shall use appendix A-830 of the NAIC accounting practices and procedures manual for the valuation of life insurance policies. Any supplements, replacements, or changes to appendix A-830 of the NAIC accounting practices and procedures manual that are adopted by the NAIC only take effect if adopted by the director by rules promulgated under the administrative procedures act of 1969, 1969 PA 306, MCL 24.201 to 24.328. This section does not expand the applicability of appendix A-830 of the NAIC accounting practices and procedures manual to include life insurance policies otherwise exempt under appendix A-830 of the NAIC accounting practices and procedures manual.

(3) At the election of an insurer for each plan of insurance and subject to this section, the 2001 CSO mortality table may be used as the minimum standard for policies issued on or after July 1, 2004 and before January 1, 2009 to which sections 834(1)(a) and 4060(5)(f) and (g) are applicable. If an insurer elects to use the 2001 CSO mortality table, it shall do so for both valuation and nonforfeiture purposes. Subject to this section, the 2001 CSO mortality table must be used in determining minimum standards for policies issued on or after January 1, 2009 to which sections 834(1)(a) and 4060(5)(f) and (g) are applicable.

(4) For plans of insurance without separate rates for smokers and nonsmokers, the composite mortality tables must be used. For each plan of insurance with separate rates for smokers and nonsmokers, an insurer may use any of the following:

(a) Composite mortality tables to determine minimum reserve liabilities, minimum cash surrender values, and amounts of paid-up nonforfeiture benefits.

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

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

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

(6) If the 2001 CSO mortality table is the minimum reserve standard for any plan for an insurer, the actuarial opinion in the annual statement filed with the director must be completed under section 830a. The director may exempt an insurer that does business in this state and in no other state from this subsection.

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

(a) In determining the applicability to any universal life policy, the net level reserve premium for the secondary guarantee period is based on the ultimate mortality rates in the 2001 CSO mortality table.

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

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

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

(e) When determining minimum value for policies with guaranteed nonlevel gross premiums or guaranteed nonlevel benefits, other than universal life policies, the valuation mortality table used in determining the tabular cost of insurance is the ultimate mortality rates in the 2001 CSO mortality table.

(f) When determining the optional exemption for yearly renewable term reinsurance for policies with guaranteed nonlevel gross premiums or guaranteed nonlevel benefits, other than universal life policies, the calculations must use the maximum valuation interest rate and the ultimate mortality rates in the 2001 CSO mortality table.

(g) When determining the optional exemption for attained-age-based yearly renewable term life insurance policies with guaranteed nonlevel gross premiums or guaranteed nonlevel benefits, other than universal life policies, the calculations must use the maximum valuation interest rate and the ultimate mortality rates in the 2001 CSO mortality table.

(h) When determining the exemption from unitary reserves for certain n-year renewable term life insurance policies with guaranteed nonlevel gross premiums or guaranteed nonlevel benefits, other than universal life policies, the calculations must use the ultimate mortality rates in the 2001 CSO mortality table.

(i) For flexible premium and fixed premium universal life insurance policies that contain provisions resulting in the ability of a policyowner to keep a policy in force over a secondary guarantee period, the 1-year valuation premium for purposes of identifying policies with a secondary guarantee is calculated using the ultimate mortality rates in the 2001 CSO mortality table.

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

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

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

**History:** Add. 2004, Act 236, Imd. Eff. July 21, 2004 ;-- Am. 2014, Act 571, Eff. Mar. 31, 2015

**Compiler's Notes:** Former MCL 500.838, which pertained to valuation of group life insurance policies, was repealed by Act 318 of 1969, Eff. Mar. 20, 1970.

**Popular Name:** Act 218

**500.838a Definitions; 2001 CSO preferred class structure mortality table.**

Sec. 838a.

(1) As used in this section:

(a) "2001 CSO mortality table" means that term as defined in section 838.

(b) "2001 CSO preferred class structure mortality table" means mortality tables with separate rates of mortality for super preferred nonsmokers, preferred nonsmokers, residual standard nonsmokers, preferred smokers, and residual standard smoker splits of the 2001 CSO nonsmoker and smoker tables as adopted by the NAIC at the September 2006 national meeting and published in the "NAIC Proceedings" (3rd Quarter 2006). Unless the context indicates otherwise, the "2001 CSO preferred class structure mortality table" includes both the ultimate form of that table and the select and ultimate form of that table. It includes both the smoker and nonsmoker mortality tables. It includes both the male and female mortality tables and the gender composite mortality tables. It also includes both the age-nearest-birthday and age-last-birthday bases of the mortality table.

(c) "Director" means the director of the department of insurance and financial services.

(d) "NAIC" means the national association of insurance commissioners.

(e) "Smoker and nonsmoker mortality tables" means that term as defined in section 838.

(f) "Statistical agent" means an entity with proven systems for protecting the confidentiality of individual insured and insurer information; demonstrated resources for and history of ongoing electronic communications and data transfer ensuring data integrity with insurers that are its members or subscribers; and a history of and means for aggregation of data and accurate promulgation of the experience modifications in a timely manner.

(2) Subject to subsections (6) and (7), an insurer may substitute the 2001 CSO preferred class structure mortality table in place of the 2001 CSO smoker and nonsmoker mortality tables as the minimum valuation standard for policies issued after June 30, 2004 and before January 1, 2007. An insurer may, for each calendar year of issue for any 1 or more specified plans of insurance and subject to this section, substitute the 2001 CSO preferred class structure mortality table in place of the 2001 CSO smoker and nonsmoker mortality tables as the minimum valuation standard for policies issued on or after January 1, 2007. An insurer shall not elect the 2001 CSO preferred class structure mortality table until the insurer demonstrates that not less than 20% of the business valued on this table is in 1 or more of the preferred classes. A table from the 2001 CSO preferred class structure mortality table used in place of a 2001 CSO mortality table as provided in this section is treated as part of the 2001 CSO mortality table only for purposes of reserve valuation under section 838.

(3) For each plan of insurance with separate rates for preferred and standard nonsmoker lives, an insurer may use the super preferred nonsmoker, preferred nonsmoker, and residual standard nonsmoker tables to substitute for the nonsmoker mortality table found in the 2001 CSO mortality table to determine minimum reserves. At the time of election and annually thereafter, except for business valued under the residual standard nonsmoker table, the appointed actuary shall certify both of the following:

(a) That the present value of death benefits over the next 10 years after the valuation date, using the anticipated mortality experience without recognition of mortality improvement beyond the valuation date for each class, is less than the present value of death benefits using the valuation basic table corresponding to the valuation table being used for that class.

(b) That the present value of death benefits over the future life of the contracts, using anticipated mortality experience without recognition of mortality improvement beyond the valuation date for each class, is less than the present value of death benefits using the valuation basic table corresponding to the valuation table being used for that class.

(4) For each plan of insurance with separate rates for preferred and standard smoker lives, an insurer may use the preferred smoker and residual standard smoker tables to substitute for the smoker mortality table found in the 2001 CSO mortality table to determine minimum reserves. At the time of election and annually thereafter, for business valued under the preferred smoker table, the appointed actuary shall certify both of the following:

(a) That the present value of death benefits over the next 10 years after the valuation date, using the anticipated mortality experience without recognition of mortality improvement beyond the valuation date for each class, is less than the present value of death benefits using the preferred smoker valuation basic table corresponding to the valuation table being used for that class.

(b) That the present value of death benefits over the future life of the contracts, using anticipated mortality experience without recognition of mortality improvement beyond the valuation date for each class, is less than the present value of death benefits using the preferred smoker valuation basic table.

(5) Unless exempted by the director, every authorized insurer using the 2001 CSO preferred class structure mortality table shall file annually with the director, with the NAIC, or with a statistical agent designated by the

NAIC and acceptable to the director statistical reports showing mortality and other information as the director considers necessary or expedient for the administration of this section. The director shall establish the form of the reports under this subsection.

(6) The use of the 2001 CSO preferred class structure mortality table as the minimum valuation standard for policies issued after June 30, 2004 and before January 1, 2007 is subject to both of the following:

(a) The consent of the director. In determining consent, the director may rely on whether consent for the use of the 2001 CSO preferred class structure mortality table was given to the insurer by the commissioner of the insurer's state of domicile.

(b) The use is not permitted if the insurer reports in any statutory financial statement for a coinsured policy or portion of a policy coinsured, either of the following:

(i) If the mode of payment of the reinsurance premium is less frequent than the mode of payment of the policy premium, a reserve credit that exceeds by more than the amount specified in this subdivision as "Y", the gross reserve calculated before reinsurance. "Y" is the amount of the gross reinsurance premium that provides coverage for the period from the next policy premium due date to the earlier of the end of the policy year and the next reinsurance premium due date, and would be refunded to the ceding entity upon the termination of the policy.

(ii) If the mode of payment of the reinsurance premium is more frequent than the mode of payment of the policy premium, a reserve credit that is less than the gross reserve, calculated before reinsurance, by an amount that is less than the amount specified in this subdivision as "Z". "Z" is the amount of the gross reinsurance premium that the ceding entity would need to pay the assuming company to provide reinsurance coverage from the period of the next reinsurance premium due date to the next policy premium due date minus any liability established for the proportionate amount not remitted to the reinsurer.

(7) For purposes of (6)(b), the reserve for the mean reserve method is the mean reserve minus the deferred premium asset, and the reserve for the midterminal reserve method includes the unearned premium reserve. To satisfy subsection (6)(b), an insurer may estimate and adjust its accounting on an aggregate basis.

**History:** Add. 2006, Act 671, Imd. Eff. Jan. 10, 2007 ;-- Am. 2014, Act 392, Imd. Eff. Dec. 22, 2014

**Compiler's Notes:** Enacting section 1(2) of Act 671 of 2006 provides: "(2) Section 838a of the insurance code of 1956, 1956 PA 218, MCL 500.838a, as added by this amendatory act, applies on and after January 1, 2007."

**Popular Name:** Act 218

## **500.839 Capital notes.**

Sec. 839.

(1) A domestic insurer may issue capital notes under this section.

(2) A capital note issued by a domestic insurer may provide for interest payments at fixed or adjustable rates, for sinking fund payments, and for payments and redemptions of principal under the terms of the capital note.

(3) The issuance of a capital note is not subject to the commissioner's prior approval.

(4) A capital note shall be treated as a liability in the computation of statutory surplus and shall be reported as a liability on the domestic insurer's annual statement filed with the commissioner under section 438.

(5) In a liquidation proceeding pursuant to chapter 81, a capital note is a similar obligation under section 8142(1)(h).

(6) A capital note may be included in a domestic insurer's total adjusted capital. For a capital note to be so included, the commissioner may require the capital note to contain other features as the commissioner determines are adequate and appropriate to ensure that the insurer continues to be safe, reliable, and entitled to public confidence.

(7) As used in this section:

(a) "Capital note" means a debt instrument that complies with this section.

(b) "Total adjusted capital" means the sum of an insurer's statutory capital and surplus as determined under the annual statement filed with the commissioner under section 438.

**History:** Add. 1998, Act 457, Imd. Eff. Jan. 4, 1999

**Compiler's Notes:** Former MCL 500.839, which pertained to group life insurance premiums, rules, and regulations, was repealed by Act 318 of 1969, Eff. Mar. 20, 1970.

**Popular Name:** Act 218



**500.840 Repealed. 1969, Act 318, Eff. Mar. 20, 1970.**

**Compiler's Notes:** The repealed section pertained to stock in federal financing agency.  
**Popular Name:** Act 218

**500.841 Valuation of certain bonds or other evidences of debt.**

Sec. 841.

(1) Subject to subsection (2), all bonds or other evidences of debt having a fixed term and rate of interest held by an insurer, if amply secured and not in default as to principal or interest, may be valued as follows:

(a) If purchased at par, at the par value.

(b) If purchased above or below par, on the basis of the purchase price adjusted so as to bring the value to par at maturity and so as to yield in the meantime the effective rate of interest at which the purchase was made, or in lieu of such method, according to the accepted method of valuation as approved by the commissioner.

(2) The purchase price of a bond or evidence of debt under subsection (1) shall not be taken at a higher figure than the actual market value at the time of purchase, plus actual brokerage, transfer, postage, or express charges paid in the acquisition of the securities.

(3) The commissioner shall have full discretion in determining the method of calculating values under this section, but a method or valuation shall not be inconsistent with any applicable valuation or method used by insurers in general.

**History:** Add. 1992, Act 182, Imd. Eff. Oct. 1, 1992  
**Popular Name:** Act 218

**500.842 Valuation of certain securities, stocks, or shares.**

Sec. 842.

(1) Securities, other than those referred to in section 841, held by an insurer shall be valued, in the commissioner's discretion, at their market value, at their appraised value, or at prices determined by the commissioner as representing their fair market value.

(2) Preferred or guaranteed stocks or shares while paying full dividends may be carried at a fixed value in lieu of market value, at the commissioner's discretion and in accordance with a method of valuation as the commissioner may approve.

(3) Stock of a subsidiary corporation of an insurer shall not be valued at an amount in excess of the net value of the stock as based upon only those assets of the subsidiary that would be eligible under sections 910 through 947 for the direct investment of the insurer's funds.

**History:** Add. 1992, Act 182, Imd. Eff. Oct. 1, 1992  
**Popular Name:** Act 218