

1 Introduced by Committee on Commerce and Economic Development

2 Date:

3 Subject: Insurance; life; standard valuation; principle-based; nonforfeiture

4 Statement of purpose of bill as introduced: This bill proposes to establish a  
5 principle-based valuation for life insurance reserves and to update Vermont's  
6 standard nonforfeiture law for life insurance policies, as required for  
7 accreditation by the National Association of Insurance Commissioners.

8 An act relating to principle-based valuation for life insurance reserves and a  
9 standard nonforfeiture law for life insurance policies

10 It is hereby enacted by the General Assembly of the State of Vermont:

11 \* \* \* Standard Valuation Law for Life Insurance \* \* \*

12 Sec. 1. 8 V.S.A. chapter 103 subchapter 4a is added to read:

13 Subchapter 4a. Standard Valuation Law

14 § 3791. TITLE

15 This subchapter shall be known as the Standard Valuation Law.

16 § 3791a. DEFINITIONS

17 As used in this subchapter:

18 (1) “Accident and health insurance” means contracts that incorporate  
19 morbidity risk and provide protection against economic loss resulting from  
20 accident, sickness, or medical conditions and as may be specified in the

1 Valuation Manual.

2 (2) “Appointed actuary” means a qualified actuary who is appointed in  
3 accordance with the Valuation Manual to prepare the actuarial opinion  
4 required in subsection 3791c(b) of this subchapter.

5 (3) “Company” means an entity that:

6 (A) has written, issued, or reinsured life insurance contracts, accident  
7 and health insurance contracts, or deposit-type contracts in this State and has at  
8 least one such policy in force or on claim; or

9 (B) has written, issued, or reinsured life insurance contracts, accident  
10 and health insurance contracts, or deposit-type contracts in any state and is  
11 required to hold a certificate of authority to write life insurance, accident and  
12 health insurance, or deposit-type contracts in this State.

13 (4) “Deposit-type contract” means contracts that do not incorporate  
14 mortality or morbidity risks and as may be specified in the Valuation Manual.

15 (5) “Life insurance” means contracts that incorporate mortality risk,  
16 including annuity and pure endowment contracts, and as may be specified in  
17 the Valuation Manual.

18 (6) “NAIC” means the National Association of Insurance  
19 Commissioners.

20 (7) “Policyholder behavior” means any action a policyholder, contract  
21 holder, or any other person with the right to elect options, such as a certificate

1 holder, may take under a policy or contract subject to this subchapter  
2 including, lapse, withdrawal, transfer, deposit, premium payment, loan,  
3 annuitization, or benefit elections prescribed by the policy or contract but  
4 excluding events of mortality or morbidity that result in benefits prescribed in  
5 their essential aspects by the terms of the policy or contract.

6 (8) “Principle-based valuation” means a reserve valuation that uses one  
7 or more methods or one or more assumptions determined by the insurer and is  
8 required to comply with section 3791o of this subchapter as specified in the  
9 Valuation Manual.

10 (9) “Qualified actuary” means an individual who is qualified to sign the  
11 applicable statement of actuarial opinion in accordance with the American  
12 Academy of Actuaries qualification standards for actuaries signing such  
13 statements and who meets the requirements specified in the Valuation Manual.

14 (10) “Tail risk” means a risk that occurs either where the frequency of  
15 low probability events is higher than expected under a normal probability  
16 distribution or where there are observed events of very significant size or  
17 magnitude.

18 (11) “Valuation Manual” means the manual of valuation instructions  
19 adopted by the NAIC as specified in this subchapter or as subsequently  
20 amended.

21 § 3791b. RESERVE VALUATION

1       (a)(1) Policies and contracts issued prior to the operative date of the  
2       Valuation Manual. The Commissioner shall annually value, or cause to be  
3       valued, the reserve liabilities, hereinafter called reserves, for all outstanding  
4       life insurance policies and annuity and pure endowment contracts of every life  
5       company doing business in this State issued on or after the effective date of  
6       July 1, 1968 and prior to the operative date of the Valuation Manual. In  
7       calculating reserves, the Commissioner may use group methods and  
8       approximate averages for fractions of a year or otherwise. In making a  
9       valuation, the Commissioner may use the Department’s actuary or employ an  
10       actuary for that purpose, and the reasonable compensation and expenses of the  
11       actuary, at a rate approved by the Commissioner, upon demand by the  
12       Commissioner supported by an itemized statement of such compensation and  
13       expenses, shall be paid by the insurer. In lieu of the valuation of the reserves  
14       required of a foreign or alien company, the Commissioner may accept a  
15       valuation made, or caused to be made, by the insurance supervisory official of  
16       any state or other jurisdiction when the valuation complies with the minimum  
17       standard provided in this subchapter.

18       (2) The provisions set forth in sections 3791d, 3791e, 3791f, 3791g,  
19       3791h, 3791i, 3791j, 3791k, 3791l, and 3791m of this subchapter shall apply  
20       to all policies and contracts, as appropriate, subject to this subchapter issued on  
21       or after July 1, 1968 and prior to the operative date of the Valuation Manual

1 and the provisions set forth in sections 3791n and 3791o of this subchapter  
2 shall not apply to any such policies and contracts.

3 (3) The minimum standard for the valuation of policies and contracts  
4 issued prior to July 1, 1968 shall be that provided by the laws in effect  
5 immediately prior to that date.

6 (b)(1) Policies and contracts issued on or after the operative date of the  
7 Valuation Manual. The Commissioner shall annually value, or cause to be  
8 valued, the reserve liabilities, hereinafter called reserves, for all outstanding  
9 life insurance contracts, annuity and pure endowment contracts, accident and  
10 health contracts, and deposit-type contracts of every company issued on or  
11 after the operative date of the Valuation Manual. In making a valuation, the  
12 Commissioner may use the Department’s actuary or employ an actuary for that  
13 purpose, and the reasonable compensation and expenses of the actuary, at a  
14 rate approved by the Commissioner, upon demand by the Commissioner  
15 supported by an itemized statement of such compensation and expenses, shall  
16 be paid by the insurer. In lieu of the valuation of the reserves required of a  
17 foreign or alien company, the Commissioner may accept a valuation made, or  
18 caused to be made, by the insurance supervisory official of any state or other  
19 jurisdiction when the valuation complies with the minimum standard provided  
20 in this subchapter.

21 (2) The provisions set forth in sections 3791n and 3791o of this

1 subchapter shall apply to all policies and contracts issued on or after the  
2 operative date of the Valuation Manual.

3 § 3791c. ACTUARIAL OPINION OF RESERVES

4 (a) Actuarial Opinion of Reserves after the Operative Date of the Valuation  
5 Manual; General. Every company with outstanding life insurance contracts,  
6 accident and health insurance contracts, or deposit-type contracts in this State  
7 and subject to regulation by the Commissioner shall annually submit the  
8 opinion of the appointed actuary as to whether the reserves and related  
9 actuarial items held in support of the policies and contracts are computed  
10 appropriately, are based on assumptions that satisfy contractual provisions, are  
11 consistent with prior reported amounts, and comply with applicable laws of  
12 this State. The Valuation Manual will prescribe the specifics of this opinion,  
13 including any items deemed to be necessary to its scope.

14 (b) Actuarial analysis of reserves and assets supporting reserves. Every  
15 company with outstanding life insurance contracts, accident and health  
16 insurance contracts, or deposit-type contracts in this State and subject to  
17 regulation by the Commissioner, except as exempted in the Valuation Manual,  
18 shall also annually include in the opinion required by subsection (a) of this  
19 section, an opinion of the same appointed actuary as to whether the reserves  
20 and related actuarial items held in support of the policies and contracts  
21 specified in the Valuation Manual, when considered in light of the assets held

1 by the company with respect to the reserves and related actuarial items,  
2 including the investment earnings on the assets and the considerations  
3 anticipated to be received and retained under the policies and contracts, make  
4 adequate provision for the company’s obligations under the policies and  
5 contracts, including the benefits under and expenses associated with the  
6 policies and contracts.

7 (c)(1) Requirements for opinions subject to this section. Each opinion  
8 required by this section, in a form and substance as specified in the Valuation  
9 Manual, and acceptable to the Commissioner, shall be prepared to support each  
10 actuarial opinion.

11 (2) If the company fails to provide a supporting memorandum at the  
12 request of the Commissioner within a period specified in the Valuation Manual  
13 or the Commissioner determines that the supporting memorandum provided by  
14 the company fails to meet the standards prescribed by the Valuation Manual or  
15 is otherwise unacceptable to the Commissioner, the Commissioner may engage  
16 a qualified actuary at the expense of the company to review the opinion and the  
17 basis for the opinion and prepare the supporting memorandum required by the  
18 Commissioner.

19 (d)(1) Requirement for all opinions subject to this section. Every opinion  
20 shall be in form and substance as specified in the Valuation Manual and  
21 acceptable to the Commissioner.

1           (2) The opinion shall be submitted with the annual statement reflecting  
2           the valuation of such reserve liabilities for each year ending on or after the  
3           operative date of the Valuation Manual.

4           (3) The opinion shall apply to all policies and contracts subject to  
5           subsection (b) of this section, plus other actuarial liabilities as may be specified  
6           in the Valuation Manual.

7           (4) The opinion shall be based on standards adopted from time to time  
8           by the Actuarial Standards Board or its successor, and on such additional  
9           standards as may be prescribed in the Valuation Manual.

10           (5) In the case of an opinion required to be submitted by a foreign or  
11           alien company, the Commissioner may accept the opinion filed by that  
12           company with the insurance supervisory official of another state if the  
13           Commissioner determines that the opinion reasonably meets the requirements  
14           applicable to a company domiciled in this State.

15           (6) Except in cases of fraud or willful misconduct, the appointed actuary  
16           shall not be liable for damages to any person, other than the company and the  
17           Commissioner, for any act, error, omission, decision, or conduct with respect  
18           to the appointed actuary's opinion.

19           (7) Disciplinary action by the Commissioner against the company or the  
20           appointed actuary shall be defined in rules adopted by the Commissioner.

21           § 3791d. COMPUTATION OF MINIMUM STANDARD



1        Except as provided in sections 3791e, 3791f, and 3791m of this subchapter,  
2        the minimum standard for the valuation of policies and contracts issued prior  
3        to the effective date of this subchapter shall be that provided by the laws in  
4        effect immediately prior to that date. Except as otherwise provided in  
5        sections 3791e, 3791f, and 3791m of this subchapter, the minimum standard  
6        for the valuation of all policies and contracts issued on or after July 1, 1968  
7        shall be the Commissioners reserve valuation methods defined in  
8        sections 3791g, 3791h, 3791k, and 3791m of this subchapter, three and one-  
9        half percent interest, or in the case of life insurance policies and contracts,  
10       other than annuity and pure endowment contracts, issued on or after April 12,  
11       1973, four percent interest for policies issued prior to January 1, 1980, five and  
12       one-half percent interest for single premium life insurance policies and four  
13       and one-half percent interest, and for all other policies issued on and after  
14       January 1, 1980, and the following tables:

15            (1) For ordinary policies of life insurance issued on the standard basis,  
16        excluding any disability and accidental death benefits in the policies: the  
17        Commissioners 1941 Standard Ordinary Mortality Table for policies issued  
18        prior to the operative date of section 3766 of this chapter, the Commissioners  
19        1958 Standard Ordinary Mortality Table for policies issued on or after the  
20        operative date of section 3766 of this chapter and prior to the operative date of  
21        section 3768 of this chapter provided that for any category of policies issued

1 on female risks, all modified net premiums and present values referred to in  
2 this subchapter may be calculated according to an age not more than six years  
3 younger than the actual age of the insured; and for policies issued on or after  
4 the operative date of section 3768 of this chapter:

5 (A) the Commissioners 1980 Standard Ordinary Mortality Table;

6 (B) at the election of the company for any one or more specified  
7 plans of life insurance, the Commissioners 1980 Standard Ordinary Mortality  
8 Table with Ten-Year Select Mortality Factors; or

9 (C) any ordinary mortality table, adopted after 1980 by the NAIC,  
10 that is approved by rule adopted by the Commissioner for use in determining  
11 the minimum standard of valuation for such policies.

12 (2) For industrial life insurance policies issued on the standard basis,  
13 excluding any disability and accidental death benefits in the policies: the 1941  
14 Standard Industrial Mortality Table for policies issued prior to the operative  
15 date of section 3767 of this chapter, and for policies issued on or after the  
16 operative date of section 3767 of this chapter, the Commissioners 1961  
17 Standard Industrial Mortality Table or any industrial mortality table adopted  
18 after 1980 by the NAIC that is approved by rule adopted by the Commissioner  
19 for use in determining the minimum standard of valuation for the policies.

20 (3) For individual annuity and pure endowment contracts, excluding any  
21 disability and accidental death benefits in the policies: the 1937 Standard

1 Annuity Mortality Table, or at the option of the company, the Annuity  
2 Mortality Table for 1949, Ultimate, or any modification of either of these  
3 tables approved by the Commissioner.

4 (4) For group annuity and pure endowment contracts, excluding any  
5 disability and accidental death benefits in the policies: the Group Annuity  
6 Mortality Table for 1951, a modification of the table approved by the  
7 Commissioner, or at the option of the company, any of the tables or  
8 modifications of tables specified for individual annuity and pure endowment  
9 contracts.

10 (5) For total and permanent disability benefits in or supplementary to  
11 ordinary policies or contracts: for policies or contracts issued on or after  
12 January 1, 1966, the tables of Period 2 disablement rates and the 1930 to 1950  
13 termination rates of the 1952 Disability Study of the Society of Actuaries, with  
14 due regard to the type of benefit or any tables of disablement rates and  
15 termination rates adopted after 1980 by the NAIC, that are approved by rule  
16 adopted by the Commissioner for use in determining the minimum standard of  
17 valuation for those policies; for policies or contracts issued on or after  
18 January 1, 1961, and prior to January 1, 1966, either those tables or, at the  
19 option of the company, the Class 3 Disability Table of 1926; and for policies  
20 issued prior to January 1, 1961, the Class 3 Disability Table of 1926. Any  
21 such table shall, for active lives, be combined with a mortality table permitted

1 for calculating the reserves for life insurance policies.

2 (6) For accidental death benefits in or supplementary to policies issued  
3 on or after January 1, 1966: the 1959 Accidental Death Benefits Table or any  
4 accidental death benefits table adopted after 1980 by the NAIC approved by  
5 rule adopted by the Commissioner for use in determining the minimum  
6 standard of valuation for those policies, for policies issued on or after  
7 January 1, 1961, and prior to January 1, 1966, either that table or, at the option  
8 of the company, the Inter-Company Double Indemnity Mortality Table; and for  
9 policies issued prior to January 1, 1961, the Inter-Company Double Indemnity  
10 Mortality Table. Either table shall be combined with a mortality table for  
11 calculating the reserves for life insurance policies.

12 (7) For group life insurance, life insurance issued on the substandard  
13 basis and other special benefits: tables approved by the Commissioner.

14 § 3791e. COMPUTATION OF MINIMUM STANDARD FOR ANNUITIES

15 (a) Except as provided in 3791f of this section, the minimum standard of  
16 valuation for individual annuity and pure endowment contracts issued on or  
17 after the effective date of this section and for annuities and pure endowments  
18 purchased on or after the operative date under group annuity and pure  
19 endowment contracts, shall be the Commissioners reserve valuation methods  
20 defined in §§ 3791g and 3791h of this subchapter and the following tables and  
21 interest rates:

1           (1) for individual annuity and pure endowment contracts issued prior to  
2           January 1, 1980, excluding any disability and accidental death benefits in those  
3           contracts: the 1971 Individual Annuity Mortality Table, or any modification of  
4           this table approved by the Commissioner, and six percent interest for single  
5           premium immediate annuity contracts and four percent interest for all other  
6           individual annuity and pure endowment contracts;

7           (2) for individual single premium immediate annuity contracts issued on  
8           or after January 1, 1980, excluding any disability and accidental death benefits  
9           in those contracts: the 1971 Individual Annuity Mortality Table or any  
10           individual annuity mortality table adopted after 1980 by the NAIC that is  
11           approved by rule adopted by the Commissioner for use in determining the  
12           minimum standard of valuation for these contracts, or any modification of  
13           these tables approved by the Commissioner, and seven and one-half percent  
14           interest;

15           (3) for individual annuity and pure endowment contracts issued on or  
16           after January 1, 1980, other than single premium immediate annuity contracts,  
17           excluding any disability and accidental death benefits in those contracts: the  
18           1971 Individual Annuity Mortality Table or any individual annuity mortality  
19           table adopted after 1980 by the NAIC, that is approved by rule adopted by the  
20           Commissioner for use in determining the minimum standard of valuation for  
21           those contracts, or any modification of these tables approved by the

1 Commissioner, and five and one-half percent interest for single premium  
2 deferred annuity and pure endowment contracts and four and one-half percent  
3 interest for all other individual annuity and pure endowment contracts;

4 (4) for annuities and pure endowments purchased prior to January 1,  
5 1980, under group annuity and pure endowment contracts, excluding any  
6 disability and accidental death benefits purchased under those contracts: the  
7 1971 Group Annuity Mortality Table or any modification of this table  
8 approved by the Commissioner, and six percent interest; and

9 (5) for annuities and pure endowments purchased on or after January 1,  
10 1980, under group annuity and pure endowment contracts, excluding any  
11 disability and accidental death benefits purchased under those contracts: the  
12 1971 Group Annuity Mortality Table, or any group annuity mortality table  
13 adopted after 1980 by the NAIC approved by rule adopted by the  
14 Commissioner for use in determining the minimum standard of valuation for  
15 annuities and pure endowments, or any modification of these tables approved  
16 by the Commissioner, and seven and one-half percent interest;

17 (b) After April 12, 1973, any company may file with the Commissioner a  
18 written notice of its election to comply with the provisions of this section after  
19 a specified date before January 1, 1979, which shall be the operative date of  
20 this section for that company. If a company makes no election, the operative  
21 date of this section for that company shall be January 1, 1979.

1     § 3791f. COMPUTATION OF MINIMUM STANDARD BY CALENDAR

2             YEAR OF ISSUE

3             (a) The interest rates used in determining the minimum standard for the  
4     valuation of the following shall be the calendar year statutory valuation  
5     interest rates as defined in this section:

6             (1) Life insurance policies issued in a particular calendar year, on or  
7     after the operative date of section 3768 of this chapter;

8             (2) Individual annuity and pure endowment contracts issued in a  
9     particular calendar year on or after January 1, 1984;

10            (3) Annuities and pure endowments purchased in a particular calendar  
11    year on or after January 1, 1984 under group annuity and pure endowment  
12    contracts; and

13            (4) The net increase, if any, in a particular calendar year after January 1,  
14    1984 in amounts held under guaranteed interest contracts.

15            (b) The calendar year statutory valuation interest rates, I, shall be  
16    determined as follows and the results rounded to the nearer one-quarter of one  
17    percent:

18            (1) For life insurance:

19                     $I = .03 + W(R1 - .03) + W/2(R2 - .09);$

1           (2) For single premium immediate annuities and for annuity benefits  
2           involving life contingencies arising from other annuities with cash settlement  
3           options and from guaranteed interest contracts with cash settlement options:

4                           
$$I = .03 + W(R - .03)$$

5           where R1 is the lesser of R and .09;

6                           R2 is the greater of R and .09;

7                           R is the reference interest rate defined in this section; and

8                           W is the weighting factor defined in this section;

9           (3) For other annuities with cash settlement options and guaranteed  
10           interest contracts with cash settlement options, valued on an issue year basis,  
11           except as stated in subdivision (2) of this section, the formula for life insurance  
12           stated in subdivision (1) of this section shall apply to annuities and guaranteed  
13           interest contracts with guarantee durations in excess of 10 years and the  
14           formula for single premium immediate annuities stated in subdivision (2) of  
15           this section shall apply to annuities and guaranteed interest contracts with  
16           guarantee duration of 10 years or less;

17           (4) For other annuities with no cash settlement options and for  
18           guaranteed interest contracts with no cash settlement options, the formula for  
19           single premium immediate annuities stated in subdivision (2) of this section  
20           shall apply;



1           (5) For other annuities with cash settlement options and guaranteed  
2           interest contracts with cash settlement options, valued on a change in fund  
3           basis, the formula for single premium immediate annuities stated in this section  
4           shall apply.

5           (6) Notwithstanding any provisions to the contrary in this subsection (b),  
6           if the calendar year statutory valuation interest rate for any life insurance  
7           policies issued in any calendar year determined without reference to this  
8           sentence differs from the corresponding actual rate for similar policies issued  
9           in the immediately preceding calendar year by less than one-half of one  
10          percent, the calendar year statutory valuation interest rate for such life  
11          insurance policies shall be equal to the corresponding actual rate for the  
12          immediately preceding calendar year. For purposes of applying the  
13          immediately preceding sentence, the calendar year statutory valuation interest  
14          rate for life insurance policies issued in a calendar year shall be determined for  
15          1980 (using the reference interest rate defined for 1979) and shall be  
16          determined for each subsequent calendar year regardless of when section 3768  
17          of this chapter becomes operative.

18          (c) The weighting factors referred to in the formulas stated above are given  
19          in the following tables:

20                   (1) Weighting Factors for Life Insurance:

21                   Guarantee Duration

Weighting

<u>(Years)</u>	<u>Factors</u>
<u>10 or less</u>	<u>.50</u>
<u>More than 10, but not more than 20</u>	<u>.45</u>
<u>More than 20</u>	<u>.35</u>

For life insurance, the guarantee 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 which are guaranteed in the original policy;

(2) 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: .80

(3) Weighting factors for other annuities and for guaranteed interest contracts, except as stated in subdivision (2) of this section, shall be as specified in tables (A), (B), and (C) of this section, according to the rules and definitions in (D), (E), and (F) of this section:

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

<u>Guarantee Duration</u>	<u>Weighting Factor</u>
	<u>for Plan Type</u>

<u>(Years)</u>	<u>A</u>	<u>B</u>	<u>C</u>
<u>5 or less:</u>	<u>.80</u>	<u>.60</u>	<u>.50</u>
<u>More than 5, but not more</u>			
<u>than 10:</u>	<u>.75</u>	<u>.60</u>	<u>.50</u>
<u>More than 10, but not more</u>			
<u>than 20:</u>	<u>.65</u>	<u>.50</u>	<u>.45</u>
<u>More than 20:</u>	<u>.45</u>	<u>.35</u>	<u>.35</u>

(B) For annuities and guaranteed interest contracts valued on a change in fund basis, the factors shown in subdivision (A) increased by:

	<u>Plan Type</u>		
	<u>A</u>	<u>B</u>	<u>C</u>
	<u>.15</u>	<u>.25</u>	<u>.05</u>

(C) For annuities and guaranteed interest contracts valued on an issue year basis (other than those with no cash settlement options) which do not guarantee interest on considerations received more than one year after issue or purchase and for annuities and guaranteed interest contracts valued on a change in fund basis which do not guarantee interest rates on consideration received more than 12 months beyond the valuation date, the factors shown in subdivision (A) or derived in subdivision (B) increased by:

	<u>Plan Type</u>		
	<u>A</u>	<u>B</u>	<u>C</u>
	<hr/>		
	<u>.05</u>	<u>.05</u>	<u>.05</u>

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

13           (E) As used in the above tables:

14                   (i) Plan Type A means that at any time the policyholder may  
15 withdraw funds only:

16                           (I) with an adjustment to reflect changes in interest rates or  
17 asset values since receipt of the funds by the insurance company;

18                           (II) without such adjustment but in installments over five years  
19 or more;

20                           (III) as an immediate life annuity; or

21                           (IV) no withdrawal permitted.

1                   (ii) Plan Type B means that, before expiration of the interest rate  
2 guarantee, the policyholder may withdraw funds only:

3                   (I) with an adjustment to reflect changes in interest rates or  
4 asset values since receipt of the funds by the insurance company;

5                   (II) without such adjustment but in installments over five years  
6 or more; or

7                   (III) no withdrawal permitted.

8                   (IV) At the end of interest rate guarantee, funds may be  
9 withdrawn without such adjustment in a single sum or installments over less  
10 than five years.

11                   (iii) Plan Type C means a policyholder may withdraw funds  
12 before expiration of interest rate guarantee in a single sum or installments over  
13 less than five years either:

14                   (I) without adjustment to reflect changes in interest rates or  
15 asset values since receipt of the funds by the insurance company; or

16                   (II) subject only to a fixed surrender charge stipulated in the  
17 contract as a percentage of the fund.

18                   (F) A company may elect to value guaranteed interest contracts with  
19 cash settlement options and annuities with cash settlement options on either an  
20 issue year basis or on a change in fund basis. Guaranteed interest contracts  
21 with no cash settlement options and other annuities with no cash settlement

1 options must be valued on an issue year basis. As used in this section, an issue  
2 year basis of valuation refers to a valuation basis under which the interest rate  
3 used to determine the minimum valuation standard for the entire duration of  
4 the annuity or guaranteed interest contract is the calendar year valuation  
5 interest rate for the year of issue or year of purchase of the annuity or  
6 guaranteed interest contract, and the change in fund basis of valuation refers to  
7 a valuation basis under which the interest rate used to determine the minimum  
8 valuation standard applicable to each change in the fund held under the annuity  
9 or guaranteed interest contract is the calendar year valuation interest rate for  
10 the year of the change in the fund.

11 (d) The Reference Interest Rate referred to in subsection (b) of this section  
12 shall be defined as follows:

13 (1) For life insurance, the lesser of the average over a period of 36  
14 months and the average over a period of 12 months, ending on June 30 of the  
15 calendar year next preceding the year of issue, of the monthly average of the  
16 composite yield on seasoned corporate bonds, as published by Moody's  
17 Investors Service, Inc.

18 (2) For single premium immediate annuities and for annuity benefits  
19 involving life contingencies arising from other annuities with cash settlement  
20 options and guaranteed interest contracts with cash settlement options, the  
21 average over a period of 12 months, ending on June 30 of the calendar year of

1 issue or year of purchase, of the monthly average of the composite yield on  
2 seasoned corporate bonds, as published by Moody’s Investors Service, Inc.

3 (3) For other annuities with cash settlement options and guaranteed  
4 interest contracts with cash settlement options, valued on a year of issue basis,  
5 except as stated in subdivision (2) of this subsection, with guarantee duration  
6 in excess of 10 years, the lesser of the average over a period of 36 months and  
7 the average over a period of 12 months, ending on June 30 of the calendar year  
8 of issue or purchase, of the monthly average of the composite yield on  
9 seasoned corporate bonds, as published by Moody’s Investors Services, Inc.

10 (4) For other annuities with cash settlement options and guaranteed  
11 interest contracts with cash settlement options, valued on a year of issue basis,  
12 except as stated in subdivision (2), with guaranteed duration of 10 years or  
13 less, the average over a period of 12 months, ending on June 30 of the calendar  
14 year of issue or purchase, of the monthly average of the composite yield on  
15 seasoned corporate bonds, as published by Moody’s Investors Services, Inc.

16 (5) For other annuities with no cash settlement options and for  
17 guaranteed interest contracts with no cash settlement options, the average over  
18 a period of 12 months, ending on June 30 of the calendar year of issue or  
19 purchase, of the monthly average of the composite yield on seasoned corporate  
20 bonds, as published by Moody’s Investors Service, Inc.

1           (6) For other annuities with cash settlement options and guaranteed  
2           interest contracts with cash settlement options, valued on a change in fund  
3           basis, except as stated in subdivision (2), the average over a period of 12  
4           months, ending on June 30 of the calendar year of the change in the fund, of  
5           the monthly average of the composite yield on seasoned corporate bonds, as  
6           published by Moody’s Investors Service, Inc.

7           (7) Alternative Method for Determining Reference Interest Rates. In the  
8           event that the monthly average of the composite yield on seasoned corporate  
9           bonds is no longer published by Moody’s Investors Service, Inc., or in the  
10           event that the NAIC determines that the monthly average of the composite  
11           yield on seasoned corporate bonds as published by Moody’s Investors Service,  
12           Inc. is no longer appropriate for the determination of the reference interest rate,  
13           then an alternative method for determination of the reference interest rate  
14           adopted by the NAIC and approved by rule adopted by the Commissioner may  
15           be substituted.

16           § 3791g. RESERVE VALUATION METHOD-LIFE INSURANCE AND  
17           ENDOWMENT BENEFITS

18           (a) Except as otherwise provided in sections 3791g, 3791h, and 3791m of  
19           this subchapter, reserves according to the Commissioners reserve valuation  
20           method, for the life insurance and endowment benefits of policies providing  
21           for a uniform amount of insurance and requiring the payment of uniform



1 premiums shall be the excess, if any, of the present value, at the date of  
2 valuation, of the future guaranteed benefits provided for by those policies, over  
3 the then present value of any future modified net premiums therefor. The  
4 modified net premiums for a policy shall be the uniform percentage of the  
5 respective contract premiums for the benefits such that the present value, at the  
6 date of issue of the policy, of all modified net premiums shall be equal to the  
7 sum of the then present value of the benefits provided for by the policy and the  
8 excess of subdivision (1) over subdivision (2) of this subsection, as follows:

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

16 (2) A net one-year term premium for the benefits provided for in the  
17 first policy year.

18 (b) For a life insurance policy issued on or after January 1, 1997, for which  
19 the contract premium in the first policy year exceeds that of the second year  
20 and for which no comparable additional benefit is provided in the first year for  
21 the excess and which provides an endowment benefit or a cash surrender value

1 or a combination in an amount greater than the excess premium, the reserve  
2 according to the Commissioners reserve valuation method as of any policy  
3 anniversary occurring on or before the assumed ending date defined as the first  
4 policy anniversary on which the sum of any endowment benefit and any cash  
5 surrender value then available is greater than the excess premium shall, except  
6 as otherwise provided in section 3791k of this subchapter, be the greater of the  
7 reserve as of the policy anniversary calculated as described in subsection (a)  
8 and the reserve as of the policy anniversary calculated as described in  
9 subsection (a) of this section, but with:

10 (1) The value defined in subsection (a) of this section being reduced by  
11 15 percent of the amount of such excess first year premium.

12 (2) All present values of benefits and premiums being determined  
13 without reference to premiums or benefits provided for by the policy after the  
14 assumed ending date.

15 (3) The policy being assumed to mature on that date as an endowment.

16 (4) The cash surrender value provided on that date being considered as  
17 an endowment benefit. In making the above comparison, the mortality and  
18 interest bases stated in sections 3791d and 3791e of this subchapter shall be  
19 used.

20 (c) Reserves according to the Commissioners reserve valuation method  
21 shall be calculated by a method consistent with the principles of the preceding

1 subsections of this section for:

2 (1) life insurance policies providing for a varying amount of insurance  
3 or requiring the payment of varying premiums;

4 (2) group annuity and pure endowment contracts purchased under a  
5 retirement plan or plan of deferred compensation, established or maintained by  
6 an employer, including a partnership or sole proprietorship, or by an employee  
7 organization, or by both, other than a plan providing individual retirement  
8 accounts or individual retirement annuities under Section 408 of the Internal  
9 Revenue Code, as may be amended;

10 (3) disability and accidental death benefits in all policies and  
11 contracts; and

12 (4) all other benefits, except life insurance and endowment benefits in  
13 life insurance policies and benefits provided by all other annuity and pure  
14 endowment contracts.

15 § 3791h. RESERVE VALUATION METHOD-ANNUITY AND PURE

16 ENDOWMENT BENEFITS

17 (a) This section shall apply to all annuity and pure endowment contracts  
18 other than group annuity and pure endowment contracts purchased under a  
19 retirement plan or plan of deferred compensation, established or maintained by  
20 an employer, including a partnership or sole proprietorship, or by an employee  
21 organization, or by both, other than a plan providing individual retirement

1 accounts or individual retirement annuities under Section 408 of the Internal  
2 Revenue Code, as may be amended.

3 (b) Reserves according to the Commissioners annuity reserve method for  
4 benefits under annuity or pure endowment contracts, excluding any disability  
5 and accidental death benefits in the contracts, shall be the greatest of the  
6 respective excesses of the present values, at the date of valuation, of the future  
7 guaranteed benefits, including guaranteed nonforfeiture benefits, provided for  
8 by the contracts at the end of each respective contract year, over the present  
9 value, at the date of valuation, of any future valuation considerations derived  
10 from future gross considerations, required by the terms of the contract, that  
11 become payable prior to the end of the respective contract year. The future  
12 guaranteed benefits shall be determined by using the mortality table, if any,  
13 and the interest rate, or rates, specified in the contracts for determining  
14 guaranteed benefits. The valuation considerations are the portions of the  
15 respective gross considerations applied under the terms of the contracts to  
16 determine nonforfeiture values.

17 § 3791i. MINIMUM RESERVES

18 (a) In no event shall a company's aggregate reserves for all life insurance  
19 policies, excluding disability and accidental death benefits, issued on or after  
20 July 1, 1968 be less than the aggregate reserves calculated in accordance with  
21 the methods set forth in sections 3791g, 3791h, 3791k, and 3791l of this

1 subchapter and the mortality table or tables and rate or rates of interest used in  
2 calculating nonforfeiture benefits for the policies.

3 (b) In no event shall the aggregate reserves for all policies, contracts, and  
4 benefits be less than the aggregate reserves determined by the appointed  
5 actuary to be necessary to render the opinion required by § 3791c of this  
6 subchapter.

7 § 3791j. OPTIONAL RESERVE CALCULATION

8 (a) Reserves for policies and contracts issued prior to July 1, 1968 may be  
9 calculated, at the option of the company, according to any standards that  
10 produce greater aggregate reserves for all such policies and contracts than the  
11 minimum reserves required by the laws in effect immediately prior to that date.

12 (b) Reserves for any category of policies, contracts or benefits established  
13 by the Commissioner, issued on or after July 1, 1968 may be calculated, at the  
14 option of the company, according to any standards that produce greater  
15 aggregate reserves for the category than those calculated according to the  
16 minimum standard provided herein, but the rate or rates of interest used for  
17 policies and contracts, other than annuity and pure endowment contracts, shall  
18 not be greater than the corresponding rate or rates of interest used in  
19 calculating any nonforfeiture benefits provided in the policies or contracts.

20 (c) A company, which adopts at any time a standard of valuation producing  
21 greater aggregate reserves than those calculated according to the minimum

1 standard provided under this subchapter, may adopt a lower standard of  
2 valuation with the approval of the Commissioner, but not lower than the  
3 minimum provided herein; provided that, for the purposes of this section, the  
4 holding of additional reserves previously determined by the appointed actuary  
5 to be necessary to render the opinion required by section 3791c of this  
6 subchapter shall not be deemed to be the adoption of a higher standard of  
7 valuation.

8 § 3791k. RESERVE CALCULATION-VALUATION NET PREMIUM  
9 EXCEEDING THE GROSS PREMIUM CHARGED

10 (a) If in any contract year the gross premium charged by a company on a  
11 policy or contract is less than the valuation net premium for the policy or  
12 contract calculated by the method used in calculating the reserve but using the  
13 minimum valuation standards of mortality and rate of interest, the minimum  
14 reserve required for the policy or contract shall be the greater of either the  
15 reserve calculated according to the mortality table, rate of interest, and method  
16 actually used for the policy or contract, or the reserve calculated by the method  
17 actually used for the policy or contract but using the minimum valuation  
18 standards of mortality and rate of interest and replacing the valuation net  
19 premium by the actual gross premium in each contract year for which the  
20 valuation net premium exceeds the actual gross premium. The minimum

1 valuation standards of mortality and rate of interest referred to in this section  
2 are those standards stated in sections 3791d and 3791f of this subchapter.

3 (b) For a life insurance policy issued on or after January 1, 1987, for which  
4 the gross premium in the first policy year exceeds that of the second year and  
5 for which no comparable additional benefit is provided in the first year for the  
6 excess and which provides an endowment benefit or a cash surrender value or  
7 a combination in an amount greater than the excess premium, the provisions of  
8 this section shall be applied as if the method actually used in calculating the  
9 reserve for the policy were the method described in section 3791g of this  
10 subchapter, ignoring the section 3791g(b) of this subchapter. The minimum  
11 reserve at each policy anniversary of such a policy shall be the greater of the  
12 minimum reserve calculated in accordance with section 3791g of this  
13 subchapter, including the subsection (b) of that section, and the minimum  
14 reserve calculated in accordance with this section.

15 § 3791i. RESERVE CALCULATION-INDETERMINATE PREMIUM

16 PLANS

17 (a) In the case of a plan of life insurance that provides for future premium  
18 determination, the amounts of which are to be determined by the company  
19 based on then estimates of future experience, or in the case of a plan of life  
20 insurance or annuity that is of such a nature that the minimum reserves cannot  
21 be determined by the methods described in sections 3791g, 3791h, and 3791k

1 of this subchapter, the reserves that are held under the plan shall:

2 (1) be appropriate in relation to the benefits and the pattern of premiums  
3 for that plan; and

4 (2) be computed by a method that is consistent with the principles of this  
5 Standard Valuation Law, as determined by rules adopted by the Commissioner.

6 (b) Notwithstanding any other laws to the contrary, a policy, contract, or  
7 certificate providing life insurance under such a plan shall be affirmatively  
8 approved by the Commissioner before it can be marketed, issued, delivered, or  
9 used in this State.

10 § 3791m. MINIMUM STANDARD FOR ACCIDENT AND HEALTH

11 INSURANCE CONTRACTS

12 For accident and health insurance contracts issued on or after the operative  
13 date of the Valuation Manual, the standard prescribed in the Valuation Manual  
14 is the minimum standard of valuation required under subsection 3791b(b) of  
15 this subchapter. For disability, accident and sickness, accident and health  
16 insurance contracts issued on or after July 1, 1968 and prior to the operative  
17 date of the Valuation Manual the minimum standard of valuation is the  
18 standard adopted by the Commissioner by rule.

19 § 3791n. VALUATION MANUAL FOR POLICIES ISSUED ON OR

20 AFTER THE OPERATIVE DATE OF THE VALUATION

21 MANUAL



1       (a) For policies issued on or after the operative date of the Valuation  
2       Manual, the standard prescribed in the Valuation Manual is the minimum  
3       standard of valuation required under subsection 3791b(b) of this subchapter,  
4       except as provided under subsection (e) or (g) of this section.

5       (b) The operative date of the Valuation Manual is January 1 of the first  
6       calendar year following the first July 1 as of which all of the following have  
7       occurred:

8               (1) the Valuation Manual has been adopted by the NAIC by an  
9               affirmative vote of at least 42 members, or three-fourths of the members  
10              voting, whichever is greater;

11              (2) the Standard Valuation Law, as amended by the NAIC in 2009, or  
12              legislation including substantially similar terms and provisions, has been  
13              enacted by states representing greater than 75 percent of the direct premiums  
14              written as reported in the following annual statements submitted for 2008: life,  
15              accident and health annual statements; health annual statements; or fraternal  
16              annual statements;

17              (3) the Standard Valuation Law, as amended by the NAIC in 2009, or  
18              legislation including substantially similar terms and provisions, has been  
19              enacted by at least 42 of the following 55 jurisdictions: The 50 states of the  
20              United States, American Samoa, the American Virgin Islands, the District of  
21              Columbia, Guam, and Puerto Rico.

1        (c) Unless a change in the Valuation Manual specifies a later effective date,  
2        changes to the Valuation Manual shall be effective on January 1 following the  
3        date when the change to the Valuation Manual has been adopted by the NAIC  
4        by an affirmative vote representing:

5                (1) at least three-fourths of the members of the NAIC voting, but not  
6        less than a majority of the total membership, and

7                (2) members of the NAIC representing jurisdictions totaling greater than  
8        75 percent of the direct premiums written as reported in the following annual  
9        statements most recently available prior to the vote in subdivision (1) of this  
10       subsection: life, accident and health annual statements, health annual  
11       statements, or fraternal annual statements.

12        (d) The Valuation Manual must specify all of the following:

13                (1) Minimum valuation standards for and definitions of the policies or  
14        contracts subject to subsection 3791b(b) of this subchapter. Such minimum  
15        valuation standards shall be:

16                (A) The Commissioners reserve valuation method for life insurance  
17        contracts, other than annuity contracts, subject to subsection 3791b(b) of this  
18        subchapter;

19                (B) The Commissioners annuity reserve valuation method for annuity  
20        contracts subject to subsection 3791b(b) of this subchapter; and

21                (C) Minimum reserves for all other policies or contracts subject to

1 subsection 3791b(b) of this subchapter.

2 (2) Which policies or contracts or types of policies or contracts that are  
3 subject to the requirements of a principle-based valuation in subsection  
4 3791o(a) of this subchapter and the minimum valuation standards consistent  
5 with those requirements;

6 (3) For policies and contracts subject to a principle-based valuation  
7 under section 3791o of this subchapter:

8 (A) Requirements for the format of reports to the Commissioner  
9 under subdivision 3791o(b)(3) of this subchapter and which shall include  
10 information necessary to determine if the valuation is appropriate and in  
11 compliance with this subchapter;

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

14 (C) Procedures for corporate governance and oversight of the  
15 actuarial function, and a process for appropriate waiver or modification of such  
16 procedures.

17 (4) For policies not subject to a principle-based valuation § 3791o, the  
18 minimum valuation standard shall either:

19 (A) be consistent with the minimum standard of valuation prior to the  
20 operative date of the Valuation Manual; or

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

5           (5) Other requirements including those relating to reserve methods,  
6           models for measuring risk, generation of economic scenarios, assumptions,  
7           margins, use of company experience, risk measurement, disclosure,  
8           certifications, reports, actuarial opinions and memorandum, transition rules,  
9           and internal controls; and

10           (6) The data and form of the data required under section 3791p of this  
11           subchapter with whom the data must be submitted, and may specify other  
12           requirements including data analyses and reporting of analyses.

13           (e) In the absence of a specific valuation requirement or if a specific  
14           valuation requirement in the Valuation Manual is not, in the opinion of the  
15           Commissioner, in compliance with this subchapter, then the company shall,  
16           with respect to such requirements, comply with minimum valuation standards  
17           prescribed by the Commissioner by rule.

18           (f) The Commissioner may engage a qualified actuary, at the expense of the  
19           company, to perform an actuarial examination of the company and opine on  
20           the appropriateness of any reserve assumption or method used by the company,  
21           or to review and opine on a company's compliance with any requirement of

1 this subchapter. The Commissioner may rely upon the opinion, regarding  
2 provisions contained within this subchapter, of a qualified actuary engaged by  
3 the Commissioner of another state, district, or territory of the United States.  
4 As used in this subsection, the term “engage” includes employ or contract  
5 with.

6 (g) The Commissioner may require a company to change any assumption  
7 or method that in the opinion of the Commissioner is necessary in order to  
8 comply with the requirements of the Valuation Manual or this subchapter; and  
9 the company shall adjust the reserves as required by the Commissioner. The  
10 Commissioner may take other disciplinary action he or she deems appropriate.

11 § 3791o. REQUIREMENTS OF A PRINCIPLE-BASED VALUATION

12 (a) A company must establish reserves using a principle-based valuation  
13 that meets the following conditions for policies or contracts as specified in the  
14 Valuation Manual:

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

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

6           (3) Incorporate assumptions that are derived in one of the following  
7           manners:

8                   (A) The assumption is prescribed in the Valuation Manual.

9                   (B) For assumptions that are not prescribed, the assumptions shall:

10                           (i) be established using the company’s available experience, to  
11                           the extent it is relevant and statistically credible; or

12                           (ii) to the extent that company data is not available, relevant, or  
13                           statistically credible, be established using other relevant, statistically credible  
14                           experience.

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

18                   (b) A company using a principle-based valuation for one or more policies  
19                   or contracts subject to this section as specified in the Valuation Manual shall:

1           (1) Establish procedures for corporate governance and oversight of the  
2           actuarial valuation function consistent with those described in the Valuation  
3           Manual.

4           (2) Provide to the Commissioner and its Board of Directors an annual  
5           certification of the effectiveness of the internal controls with respect to the  
6           principle-based valuation. Such controls shall be designed to ensure that all  
7           material risks inherent in the liabilities and associated assets subject to such  
8           valuation are included in the valuation, and that valuations are made in  
9           accordance with the Valuation Manual. The certification shall be based on  
10           the controls in place as of the end of the preceding calendar year.

11           (3) Develop and file with the Commissioner, upon request, a  
12           principle-based valuation report that complies with standards prescribed in  
13           the Valuation Manual.

14           (c) A principle-based valuation may include a prescribed formulaic reserve  
15           component.

16           § 3791p. EXPERIENCE REPORTING FOR POLICIES IN FORCE ON OR  
17           AFTER THE OPERATIVE DATE OF THE VALUATION  
18           MANUAL

19           A company shall submit mortality, morbidity, policyholder behavior, or  
20           expense experience and other data as prescribed in the Valuation Manual.

1     § 3791q. CONFIDENTIALITY

2           (a) As used in this subchapter, “confidential information” means:

3                 (1) a memorandum in support of an opinion submitted under § 3791c  
4                 of this subchapter and any other documents, materials, and information  
5                 including all working papers and copies thereof, created, produced, or  
6                 obtained by or disclosed to the Commissioner or any other person in  
7                 connection with such memorandum;

8                 (2) all documents, materials, and other information including all  
9                 working papers, and copies thereof, created, produced, or obtained by or  
10                disclosed to the Commissioner or any other person in the course of an  
11                examination made under subsection 3791h(f) of this subchapter; provided,  
12                however, that if an examination report or other material prepared in  
13                connection with an examination made under chapter 101, subchapter 7 of this  
14                title is not held as private and confidential information under such subchapter,  
15                an examination report or other material prepared in connection with an  
16                examination made under subsection 3791h(f) of this subchapter shall not be  
17                “confidential information” to the same extent as if such examination report or  
18                other material had been prepared under chapter 101, subchapter 7 of this title;

19                (3) any reports, documents, materials, and other information developed  
20                by a company in support of, or in connection with, an annual certification by  
21                the company under subdivision 3791o(b)(2) of this subchapter evaluating the



1 effectiveness of the company’s internal controls with respect to a  
2 principle-based valuation and any other documents, materials, and other  
3 information including all working papers, and copies thereof, created,  
4 produced, or obtained by or disclosed to the Commissioner or any other  
5 person in connection with such reports, documents, materials, and other  
6 information;

7 (4) any principle-based valuation report developed under  
8 subdivision 3791o(b)(3) of this subchapter and any other documents,  
9 materials, and other information including all working papers and copies  
10 thereof, created, produced, or obtained by or disclosed to the Commissioner  
11 or any other person in connection with such report; and

12 (5) any documents, materials, data, and other information submitted by  
13 a company under section 3791p of this subchapter—collectively, “experience  
14 data”—and any other documents, materials, data, and other information,  
15 including all working papers and copies thereof, created or produced in  
16 connection with such experience data, in each case that include any  
17 potentially company-identifying or personally identifiable information, that is  
18 provided to or obtained by the Commissioner, together with any experience  
19 data, and other experience materials, and any other documents, materials,  
20 data, and other information including all working papers and copies thereof,

1 created, produced, or obtained by or disclosed to the Commissioner or any  
2 other person in connection with such experience materials.

3 (b) Except as provided in this section, a company’s confidential  
4 information is confidential by law and privileged, and shall be exempt from  
5 public inspection and copying under the Public Records Act, shall not be  
6 subject to subpoena and shall not be subject to discovery or admissible in  
7 evidence in any private civil action; provided, however, that the Commissioner  
8 is authorized to use the confidential information in the furtherance of any  
9 regulatory or legal action brought against the company as a part of the  
10 Commissioner’s official duties.

11 (c) Neither the Commissioner nor any person who received confidential  
12 information while acting under the authority of the Commissioner shall be  
13 permitted or required to testify in any private civil action concerning any  
14 confidential information.

15 (d) In order to assist in the performance of the Commissioner’s duties, the  
16 Commissioner may share confidential information:

17 (1) with other state, federal, and international regulatory agencies and  
18 with the NAIC and its affiliates and subsidiaries; and

19 (2) in the case of confidential information specified in subdivisions  
20 (a)(1) and (a)(4) of this section only, with the Actuarial Board for Counseling  
21 and Discipline or its successor upon request stating that the confidential

1 information is required for the purpose of professional disciplinary  
2 proceedings and with State, federal, and international law enforcement  
3 officials; in the case of subdivisions (1) and (2) of this subsection (d),  
4 provided that such recipient agrees, and has the legal authority to agree, to  
5 maintain the confidentiality and privileged status of such documents,  
6 materials, data, and other information in the same manner and to the same  
7 extent as required for the Commissioner.

8 (e) The Commissioner may receive documents, materials, data, and other  
9 information, including otherwise confidential and privileged documents,  
10 materials, data, or information, from the NAIC and its affiliates and  
11 subsidiaries, from regulatory or law enforcement officials of other foreign or  
12 domestic jurisdictions and from the Actuarial Board for Counseling and  
13 Discipline, or its successor, and shall maintain as confidential or privileged  
14 any document, material, data, or other information received with notice or the  
15 understanding that it is confidential or privileged under the laws of the  
16 jurisdiction that is the source of the document, material, or other information.

17 (f) The Commissioner may enter into agreements governing sharing and  
18 use of information consistent with subsection (b) of this section.

19 (g) No waiver of any applicable privilege or claim of confidentiality in the  
20 confidential information shall occur as a result of disclosure to the

1 Commissioner under this section or as a result of sharing as authorized in  
2 subdivision (b)(3) of this section.

3 (h) A privilege established under the law of any state or jurisdiction that is  
4 substantially similar to the privilege established under this subsection (b) of  
5 this section shall be available and enforced in any proceeding in, and in any  
6 court of, this State.

7 (i) As used in this section, “regulatory agency,” “law enforcement  
8 agency,” and the NAIC include their employees, agents, consultants, and  
9 contractors.

10 (j) Notwithstanding any provision in this section to the contrary, any  
11 confidential information specified in subdivisions (a)(1) or (a)(4) of this  
12 section:

13 (1) may be subject to subpoena for the purpose of defending an action  
14 seeking damages from the appointed actuary submitting the related  
15 memorandum in support of an opinion submitted under section 3791c of this  
16 subchapter or principle-based valuation report developed under  
17 subdivision 3791o(b)(3) of this subchapter by reason of an action required by  
18 this subchapter or by rules adopted hereunder;

19 (2) may otherwise be released by the Commissioner with the written  
20 consent of the company; and

1           (3) once any portion of a memorandum in support of an opinion  
2           submitted under section 3791c of this subchapter or a principle-based  
3           valuation report developed under subdivision 3791o(b)(3) of this subchapter  
4           is cited by the company in its marketing or is publicly volunteered to or  
5           before a governmental agency other than a state insurance department or is  
6           released by the company to the news media, all portions of such  
7           memorandum or report shall no longer be confidential.

8           § 3791r. SINGLE STATE EXEMPTION

9           (a) The Commissioner may exempt specific product forms or product  
10           lines of a domestic company that is licensed and doing business only in  
11           Vermont from the requirements of section 3791n of this subchapter provided:

12           (1) the Commissioner has issued an exemption in writing to the  
13           company and has not subsequently revoked the exemption in writing; and

14           (2) the company computes reserves using assumptions and methods  
15           used prior to the operative date of the Valuation Manual in addition to any  
16           requirements established by rule adopted by the Commissioner.

17           (b) For any company granted an exemption under this section,  
18           sections 3791c, 3791d, 3791e, 3791f, 3791g, 3791h, 3791i, 3791j, 3791k,  
19           3791l, and 3791m shall be applicable. With respect to any company applying  
20           this exemption, any reference to section 3791n found in sections 3791c,

1 3791d, 3791e, 3791f, 3791g, 3791h, 3791i, 3791j, 3791k, 3791l and 3791m  
2 shall not be applicable.

3 \* \* \* Standard Nonforfeiture Law for Life Insurance \* \* \*

4 Sec. 2. 8 V.S.A. chapter 103, subchapter 3b is added to read:

5 Subchapter 3b. Standard Nonforfeiture Law for Life Insurance

6 § 3760. TITLE

7 This subchapter shall be known as the Standard Nonforfeiture Law for Life  
8 Insurance.

9 § 3761. DEFINITIONS

10 As used in this subchapter, “operative date of the Valuation Manual”  
11 means January 1 of the first calendar year that the Valuation Manual as  
12 defined in subchapter 4a of this chapter is effective.

13 § 3762. NONFORFEITURE BENEFITS

14 (a) In the case of policies issued on or after the effective date of this  
15 subchapter, as defined in section 3773 of this subchapter, a policy of life  
16 insurance, except as stated in section 3772 of this subchapter, shall not be  
17 delivered or issued for delivery in this State unless it contains in substance the  
18 following provisions, or corresponding provisions that, in the opinion of the  
19 Commissioner, are at least as favorable to the defaulting or surrendering  
20 policyholder as are the minimum requirements specified in this section and  
21 are essentially in compliance with section 3771 of this subchapter.

1           (1) In the event of default in any premium payment, the company shall  
2           grant, upon proper request not later than 60 days after the due date of the  
3           premium in default, a paid-up nonforfeiture benefit on a plan stipulated in the  
4           policy, effective as of the due date, of such amount as may be specified in this  
5           section. In lieu of the stipulated paid-up nonforfeiture benefit, the company  
6           may substitute, upon proper request not later than 60 days after the due date  
7           of the premium in default, an actuarially equivalent alternative paid-up  
8           nonforfeiture benefit that provides a greater amount or earlier payment of  
9           endowment benefits.

10           (2) Upon surrender of the policy within 60 days after the due date of  
11           any premium payment in default after premiums have been paid for at least  
12           three full years in the case of ordinary insurance or five full years in the case  
13           of industrial insurance, the company shall pay, in lieu of any paid-up  
14           nonforfeiture benefit, a cash surrender value of an amount as may be  
15           specified in this section.

16           (3) A specified paid-up nonforfeiture benefit shall become effective as  
17           specified in the policy unless the person entitled to make the election elects  
18           another available option not later than 60 days after the due date of the  
19           premium in default.

20           (4) If the policy becomes paid-up by completion of all premium  
21           payments or if it is continued under any paid-up nonforfeiture benefit that

1 became effective on or after the third policy anniversary in the case of  
2 ordinary insurance or the fifth policy anniversary in the case of industrial  
3 insurance, the company shall pay upon surrender of the policy within 30 days  
4 after any policy anniversary, a cash surrender value of an amount as may be  
5 specified in this section.

6 (5) If a policy causes, on a basis guaranteed in the policy, unscheduled  
7 changes in benefits or premiums, or provides an option for changes in  
8 benefits or premiums, other than a change to a new policy, the company shall  
9 provide the policyholder a statement of the mortality table, interest rate, and  
10 method used in calculating cash surrender values and the paid-up  
11 nonforfeiture benefits available under the policy. In the case of all other  
12 policies, a company shall provide to its policyholders a statement of the  
13 mortality table and interest rate used in calculating the cash surrender values  
14 and the paid-up nonforfeiture benefits available under the policy, together  
15 with a table showing the cash surrender value, if any, and paid-up  
16 nonforfeiture benefit, if any, available under the policy on each policy  
17 anniversary either during the first 20 policy years or during the term of the  
18 policy, whichever is shorter, such values and benefits to be calculated upon  
19 the assumption that there are no dividends or paid-up additions credited to the  
20 policy and that there is no indebtedness to the company on the policy.



1           (6) A company shall provide statement that the cash surrender values  
2           and the paid-up nonforfeiture benefits available under the policy are not less  
3           than the minimum values and benefits required by or pursuant to the insurance  
4           law of the state in which the policy is delivered; an explanation of the manner  
5           in which the cash surrender values and the paid-up nonforfeiture benefits are  
6           altered by the existence of any paid-up additions credited to the policy or any  
7           indebtedness to the company on the policy; if a detailed statement of the  
8           method of computation of the values and benefits shown in the policy is not  
9           stated therein, a statement that such method of computation has been filed with  
10           the insurance supervisory official of the state in which the policy is delivered;  
11           and a statement of the method to be used in calculating the cash surrender  
12           value and a paid-up nonforfeiture benefit available under the policy on any  
13           policy anniversary beyond the last anniversary for which values and benefits  
14           are consecutively shown in the policy.

15           (b) Any of the provisions in subsection (a) of this section, or portions  
16           thereof not applicable by reason of the plan of insurance may be omitted from  
17           the policy, to the extent inapplicable.

18           (c) The company shall reserve the right to defer the payment of any cash  
19           surrender value for a period of six months after demand therefor with surrender  
20           of the policy.

21           § 3763. COMPUTATION OF CASH SURRENDER VALUE

1       (a) Any cash surrender value available under the policy in the event of  
2       default in a premium payment due on any policy anniversary, whether or not  
3       required by section 3762 of this subchapter, shall be an amount not less than  
4       the excess, if any, of the present value, on the anniversary, of the future  
5       guaranteed benefits that would have been provided for by the policy, including  
6       any existing paid-up additions, if there had been no default, over the sum of:

7               (1) the then present value of the adjusted premiums as defined in  
8               sections 3765–3768 of this subchapter, corresponding to premiums which  
9               would have fallen due on and after the anniversary; and

10              (2) the amount of any indebtedness to the company on the policy.

11       (b) Notwithstanding subsection (a) of this section, for a policy issued on or  
12       after the operative date of section 3768 of this subchapter that provides  
13       supplemental life insurance or annuity benefits at the option of the insured and  
14       for an identifiable additional premium by rider or supplemental policy  
15       provision, the cash surrender value referred to in subsection (a) of this section  
16       shall be an amount not less than the sum of the cash surrender value for an  
17       otherwise similar policy issued at the same age without the rider or  
18       supplemental policy provision and the cash surrender value as defined in  
19       subsection (a) of this section for a policy which provides only the benefits  
20       otherwise provided by such rider or supplemental policy provision.

1       (c) For a family policy issued on or after the operative date of section 3768  
2       of this subchapter that defines a primary insured and provides term insurance  
3       on the life of the spouse of the primary insured expiring before the spouse  
4       turns 71 years of age, the cash surrender value referred to in subsection (a) of  
5       this section shall be an amount not less than the sum of the cash surrender  
6       value for an otherwise similar policy issued at the same age without term  
7       insurance on the life of the spouse and the cash surrender value as defined in  
8       subsection (a) of this section for a policy that provides only the benefits  
9       otherwise provided by term insurance on the life of the spouse.

10       (d) A cash surrender value available within 30 days after any policy  
11       anniversary under any policy paid up by completion of all premium payments  
12       or any policy continued under any paid-up nonforfeiture benefit, whether or  
13       not required under section 3762 of this subchapter, shall be an amount not less  
14       than the present value, on the anniversary, of the future guaranteed benefits  
15       provided for by the policy, including any existing paid-up additions, decreased  
16       by any indebtedness to the company on the policy.

17       § 3764. COMPUTATION OF PAID-UP NONFORFEITURE BENEFITS

18       A paid-up nonforfeiture benefit available under a policy in the event of  
19       default in a premium payment due on any policy anniversary shall be such that  
20       its present value as of the anniversary shall be at least equal to the cash  
21       surrender value then provided for by the policy or, if none is provided for, that

1 cash surrender value that would have been required under this subchapter in  
2 the absence of the condition that premiums shall have been paid for at least a  
3 specified period.

4 § 3765. CALCULATION OF ADJUSTED PREMIUMS

5 (a)(1) This section shall not apply to policies issued on or after the  
6 operative date of section 3768 of this subchapter. Except as provided in  
7 subsection (c) of this section, the adjusted premiums for any policy shall be  
8 calculated on an annual basis and shall be such uniform percentage of the  
9 respective premiums specified in the policy for each policy year, excluding  
10 amounts stated in the policy as extra premiums to cover impairments or special  
11 hazards, that the present value, at the date of issue of the policy, of all such  
12 adjusted premiums shall be equal to the sum of:

13 (A) the then present value of the future guaranteed benefits provided  
14 for by the policy;

15 (B) two percent of the amount of insurance, if the insurance be  
16 uniform in amount, or of the equivalent uniform amount, as hereinafter  
17 defined, if the amount of insurance varies with duration of the policy;

18 (C) 40 percent of the adjusted premium for the first policy year; and

19 (D) 25 percent of either the adjusted premium for the first policy year  
20 or the adjusted premium for a whole life policy of the same uniform or

1 equivalent uniform amount with uniform premiums for the whole of life issued  
2 at the same age for the same amount of insurance, whichever is less.

3 (2) In applying the percentages specified in subdivisions(a)(C) and (D)  
4 of this section, no adjusted premium shall be deemed to exceed four percent of  
5 the amount of insurance or level amount equivalent. The date of issue of a  
6 policy for the purpose of this section shall be the date as of which the rated age  
7 of the insured is determined.

8 (b) In the case of a policy providing an amount of insurance varying with  
9 duration of the policy, the equivalent level amount for the purpose of this  
10 section shall be deemed to be the level amount of insurance provided by an  
11 otherwise similar policy, containing the same endowment benefit or benefits, if  
12 any, issued at the same age and for the same term, the amount of which does  
13 not vary with duration and the benefits under which have the same present  
14 value at the inception of the insurance as the benefits under the policy.

15 (c)(1) The adjusted premiums for any policy providing term insurance  
16 benefits by rider or supplemental policy provision shall be equal to:

17 (A) the adjusted premiums for an otherwise similar policy issued at  
18 the same age without such term insurance benefits, increased, during the period  
19 for which premiums for such term insurance benefits are payable, by

20 (B) the adjusted premiums for such term insurance,

1           (2) Subdivisions (1)(A) and (B) of this subsection shall be calculated  
2           separately except that, for purposes of subdivisions (a)(1)(B)-(D) of this  
3           section, the amount of insurance or equivalent uniform amount of insurance  
4           used in the calculation of the adjusted premiums referred to in subsection  
5           (a)(1)(B) of this section shall be equal to the excess of the corresponding  
6           amount determined for the entire policy over the amount used in the  
7           calculation of the adjusted premiums in subdivision (1) of this subsection (c).

8           (d) Except as otherwise provided in sections 3766 and 3767, all adjusted  
9           premiums and present values referred to in this subchapter shall for all policies  
10           of ordinary insurance be calculated on the basis of the Commissioners' 1941  
11           Standard Ordinary Mortality Table, provided that for any category of ordinary  
12           insurance issued on female risks, adjusted premiums and present values may  
13           be calculated according to any age not more than three years younger than the  
14           actual age of the insured and such calculations for all policies of industrial  
15           insurance shall be made on the basis of the 1941 Standard Industrial Mortality  
16           Table. All calculations shall be made on the basis of the rate of interest, not  
17           exceeding three and one-half percent per annum, specified in the policy for  
18           calculating cash surrender values and paid-up nonforfeiture benefits. Provided,  
19           however, that in calculating the present value of any paid-up term insurance  
20           with accompanying pure endowment, if any, offered as a nonforfeiture benefit,  
21           the rates of mortality assumed may be not more than 130 percent of the rates of

1 mortality according to the applicable table. Provided, further, that for  
2 insurance issued on a substandard basis, the calculation of any adjusted  
3 premiums and present values may be based on such other table of mortality as  
4 may be specified by the company and approved by the Commissioner.

5 § 3766. CALCULATION OF ADJUSTED PREMIUMS; ORDINARY  
6 POLICIES

7 (a) This section does not apply to ordinary policies issued on or after the  
8 operative date of section 3768 of this subchapter. In the case of ordinary  
9 policies issued on or after the operative date of this section, all adjusted  
10 premiums and present values referred to in this subchapter shall be calculated  
11 on the basis of the Commissioners' 1958 Standard Ordinary Mortality Table  
12 and the rate of interest specified in the policy for calculating cash surrender  
13 values and paid-up nonforfeiture benefits, provided that such rate of interest  
14 shall not exceed three and one-half percent per annum, except that a rate of  
15 interest not exceeding four percent per annum may be used for policies issued  
16 on or after April 12, 1973, and prior to January 1, 1980, and a rate of interest  
17 not exceeding five and one-half percent per annum may be used for policies  
18 issued on or after January 1, 1980, except that for any single premium whole  
19 life or endowment insurance policy, a rate of interest not exceeding six and  
20 one-half percent per annum may be used, provided that for any category of  
21 ordinary insurance issued on female risks, adjusted premiums and present

1 values may be calculated according to an age not more than six years younger  
2 than the actual age of the insured. In calculating the present value of any paid-  
3 up term insurance with accompanying pure endowment, if any, offered as a  
4 nonforfeiture benefit, the rates of mortality assumed may not be more than  
5 those shown in the Commissioners' 1958 Extended Term Insurance Table. For  
6 insurance issued on a substandard basis, the calculation of any adjusted  
7 premiums and present values may be based on such other table of mortality as  
8 may be specified by the company and approved by the Commissioner.

9 (b) After the effective date of this section, any company may file with the  
10 Commissioner a written notice of its election to comply with the provisions of  
11 this section after a specified date before January 1, 1966. After the filing of  
12 such notice, upon the specified date (which shall be the operative date of this  
13 section for that company), this section shall become operative with respect to  
14 the ordinary policies thereafter issued by the company. If a company makes no  
15 election, the operative date of this section for the company shall be January 1,  
16 1966.

17 § 3767. CALCULATION OF ADJUSTED PREMIUMS; INDUSTRIAL  
18 POLICIES

19 (a) This section does not apply to industrial policies issued on or after the  
20 operative date of section 3768 of this subchapter. In the case of industrial  
21 policies issued on or after the operative date of this section, all adjusted



1 premiums and present values referred to in this subchapter shall be calculated  
2 on the basis of the Commissioners' 1961 Standard Industrial Mortality Table  
3 and the rate of interest specified in the policy for calculating cash surrender  
4 values and paid-up nonforfeiture benefits provided that such rate of interest  
5 shall not exceed three and one-half percent per annum, except that a rate of  
6 interest not exceeding four percent per annum may be used for policies issued  
7 on or after April 12, 1973, and prior to January 1, 1980, and a rate of interest  
8 not exceeding five and one-half percent per annum may be used for policies  
9 issued on or after January 1, 1980, except that for any single premium whole  
10 life or endowment insurance policy, a rate of interest not exceeding six and  
11 one-half percent per annum may be used. In calculating the present value of  
12 any paid-up term insurance with accompanying pure endowment, if any,  
13 offered as a nonforfeiture benefit, the rates of mortality assumed may be not  
14 more than those shown in the Commissioners' 1961 Industrial Extended Term  
15 Insurance Table. For insurance issued on a substandard basis, the calculations  
16 of any such adjusted premiums and present values may be based on such other  
17 table of mortality as may be specified by the company and approved by the  
18 Commissioner.

19 (b) After the effective date of this section, any company may file with the  
20 Commissioner a written notice of its election to comply with the provisions of  
21 this section after a specified date before January 1, 1968. After the filing of

1 such notice, upon the specified date, which shall be the operative date of this  
2 section for that company, this section shall become operative with respect to  
3 the industrial policies thereafter issued by the company. If a company makes  
4 no election, the operative date of this section for the company shall be  
5 January 1, 1968.

6 § 3768. CALCULATIONS OF ADJUSTED PREMIUMS BY THE  
7 NONFORFEITURE NET LEVEL PREMIUM METHOD

8 (a)(1) This section shall apply to all policies issued on or after the operative  
9 date of this section. Except as provided in subsection (g) of this section, the  
10 adjusted premiums for any policy shall be calculated on an annual basis and  
11 shall be such uniform percentage of the respective premiums specified in the  
12 policy for each policy year, excluding amounts payable as extra premiums to  
13 cover impairments or special hazards and also excluding any uniform annual  
14 contract charge or policy fee specified in the policy in a statement of the  
15 method to be used in calculating the cash surrender values and paid-up  
16 nonforfeiture benefits, that the present value, at the date of issue of the policy,  
17 of all adjusted premiums shall be equal to the sum of:

18 (A) the then present value of the future guaranteed benefits provided  
19 for by the policy;

1           (B) one percent of either the amount of insurance, if the insurance be  
2           uniform in amount, or the average amount of insurance at the beginning of  
3           each of the first 10 policy years; and

4           (C) 125 percent of the nonforfeiture net level premium as defined in  
5           this section.

6           (2) In applying the percentage specified in subdivision (1)(C) of this  
7           subsection, no nonforfeiture net level premium shall be deemed to exceed four  
8           percent of either the amount of insurance, if the insurance be uniform in  
9           amount, or the average amount of insurance at the beginning of each of the  
10           first 10 policy years. The date of issue of a policy for the purpose of this  
11           section shall be the date as of which the rated age of the insured is determined.

12           (b) The nonforfeiture net level premium shall be equal to the present value,  
13           at the date of issue of the policy, of the guaranteed benefits provided for by the  
14           policy divided by the present value, at the date of issue of the policy, of an  
15           annuity of one per annum payable on the date of issue of the policy and on  
16           each anniversary of the policy on which a premium falls due.

17           (c) In the case of policies which cause, on a basis guaranteed in the policy,  
18           unscheduled changes in benefits or premiums, or which provide an option for  
19           changes in benefits or premiums, other than a change to a new policy, the  
20           adjusted premiums and present values shall be calculated initially on the  
21           assumption that future benefits and premiums do not change from those

1 stipulated at the date of issue of the policy. At the time of any change in the  
2 benefits or premiums, the future adjusted premiums, nonforfeiture net level  
3 premiums and present values shall be recalculated on the assumption that  
4 future benefits and premiums do not change from those stipulated by the policy  
5 immediately after the change.

6 (d) Except as otherwise provided in subsection (g) of this section, the  
7 recalculated future adjusted premiums for any policy shall be the uniform  
8 percentage of the respective future premiums specified in the policy for each  
9 policy year, excluding amounts payable as extra premiums to cover  
10 impairments and special hazards, and also excluding any uniform annual  
11 contract charge or policy fee specified in the policy in a statement of the  
12 method to be used in calculating the cash surrender values and paid-up  
13 nonforfeiture benefits, that the present value, at the time of change to the newly  
14 defined benefits or premiums, of all such future adjusted premiums shall be  
15 equal to the excess of:

16 (1) The sum of:

17 (A) the then present value of the then future guaranteed benefits  
18 provided for by the policy, and

19 (B) the additional expense allowance, if any, over

20 (2) the then cash surrender value, if any, or present value of any paid-up  
21 nonforfeiture benefit under this policy.

1       (e) The additional expense allowance, at the time of the change to the  
2       newly defined benefits or premiums, shall be the sum of:

3           (1) One percent of the excess, if positive, of the average amount of  
4       insurance at the beginning of each of the first 10 policy years subsequent to the  
5       change over the average amount of insurance prior to the change at the  
6       beginning of each of the first 10 policy years subsequent to the time of the  
7       most recent previous change, or, if there has been no previous change, the date  
8       of issue of the policy; and

9           (2) 125 percent of the increase, if positive, in the nonforfeiture net level  
10       premium.

11       (f) The recalculated nonforfeiture net level premium shall be equal to the  
12       result obtained by dividing the sum arrived at under subdivision (1) of this  
13       subsection by the value specified in subdivision (2) of this subsection.

14           (1) For purposes of this subsection, “sum” means:

15           (A) the nonforfeiture net level premium applicable prior to the  
16       change times the present value of an annuity of one per annum payable on each  
17       anniversary of the policy on or subsequent to the date of the change on which a  
18       premium would have fallen due had the change not occurred, plus

19           (B) the present value of the increase in future guaranteed benefits  
20       provided for by the policy.

1           (2) For purposes of this subsection, “value” means the present value of  
2           an annuity of one per annum payable on each anniversary of the policy on or  
3           subsequent to the date of change on which a premium falls due.

4           (g) Notwithstanding any other provisions of this section to the contrary, in  
5           the case of a policy issued on a substandard basis which provides reduced  
6           graded amounts of insurance so that, in each policy year, the policy has the  
7           same tabular mortality cost as an otherwise similar policy issued on the  
8           standard basis which provides higher uniform amount of insurance, adjusted  
9           premiums and present values for the substandard policy may be calculated as if  
10           it were issued to provide higher uniform amounts of insurance on the standard  
11           basis.

12           (h) All adjusted premiums and present values referred to in this subchapter  
13           shall for all policies of ordinary insurance be calculated on the basis of the  
14           Commissioners’ 1980 Standard Ordinary Mortality Table or, at the election of  
15           the company, for any one or more specified plans of life insurance, the  
16           Commissioners’ 1980 Standard Ordinary Mortality Table with Ten-Year  
17           Select Mortality Factors, shall for all policies of industrial insurance be  
18           calculated on the basis of the Commissioners’ 1961 Standard Industrial  
19           Mortality Table, and shall for all policies issued in a particular calendar year be  
20           calculated on the basis of a rate of interest not exceeding the nonforfeiture

1 interest rate as defined in this section, for policies issued in that calendar year,  
2 provided that:

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

7 (2) Under a paid-up nonforfeiture benefit, including any paid-up  
8 dividend additions, any cash surrender value available, whether or not required  
9 by section 3762 of this subchapter, shall be calculated on the basis of the  
10 mortality table and rate of interest used in determining the amount of such  
11 paid-up nonforfeiture benefit and paid-up dividend additions, if any.

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

16 (4) In calculating the present value of any paid-up term insurance with  
17 accompanying pure endowment, if any, offered as a nonforfeiture benefit, the  
18 rates of mortality assumed may be not more than those shown in the  
19 Commissioners' 1980 Extended Term Insurance Table for policies of ordinary  
20 insurance and not more than the Commissioners' 1961 Industrial Extended  
21 Term Insurance Table for policies of industrial insurance.

1           (5) For insurance issued on a substandard basis, the calculation of any  
2           adjusted premiums and present values may be based on appropriate  
3           modifications of the aforementioned tables.

4           (6)(A) For policies issued prior to the operative date of the Valuation  
5           Manual defined in subchapter 4a or this chapter, any Commissioners' Standard  
6           Ordinary Mortality Tables, adopted after 1980 by the National Association of  
7           Insurance Commissioners, approved by rule adopted by the Commissioner for  
8           use in determining the minimum nonforfeiture standard may be substituted for  
9           the Commissioners' 1980 Standard Ordinary Mortality Table with or without  
10           10-Year Select Mortality Factors or for the Commissioners' 1980 Extended  
11           Term Insurance Table.

12           (B) For policies issued on or after the operative date of the Valuation  
13           Manual the Valuation Manual shall provide the Commissioners' Standard  
14           Mortality Table for use in determining the minimum nonforfeiture standard  
15           that may be substituted for the Commissioners' 1980 Standard Ordinary  
16           Mortality Table with or without 10-Year Select Mortality Factors or for the  
17           Commissioners' 1980 Extended Term Insurance Table. If the Commissioner  
18           adopts by rule a Commissioners' Standard Ordinary Mortality Table adopted  
19           by the NAIC for use in determining the minimum nonforfeiture standard for  
20           policies issued on or after the operative date of the Valuation Manual then that



1 minimum nonforfeiture standard supersedes the minimum nonforfeiture  
2 standard provided by the Valuation Manual.

3 (7)(A) For policies issued prior to the operative date of the Valuation  
4 Manual, any Commissioners' Standard Industrial Mortality Tables, adopted  
5 after 1980 by the NAIC, approved by rule adopted by the Commissioner for  
6 use in determining the minimum nonforfeiture standard may be substituted for  
7 the Commissioners' 1961 Standard Industrial Mortality Table or the  
8 Commissioners' 1961 Industrial Extended Term Insurance Table.

9 (B) For policies issued on or after the operative date of the Valuation  
10 Manual the Valuation Manual shall provide the Commissioners' Standard  
11 Mortality Table for use in determining the minimum nonforfeiture standard  
12 that may be substituted for the Commissioners' 1961 Standard Industrial  
13 Mortality Table or the Commissioners' 1961 Industrial Extended Term  
14 Insurance Table. If the Commissioner adopts by rule a Commissioners'  
15 Standard Industrial Mortality Table adopted by the NAIC for use in  
16 determining the minimum nonforfeiture standard for policies issued on or after  
17 the operative date of the Valuation Manual then that minimum nonforfeiture  
18 standard supersedes the minimum nonforfeiture standard provided by the  
19 Valuation Manual.

20 (i) The nonforfeiture interest rate is defined as follows:

1           (1) For policies issued prior to the operative date of the Valuation  
2           Manual, the nonforfeiture interest rate per annum for any policy issued in a  
3           particular calendar year shall be equal to 125 percent of the calendar year  
4           statutory valuation interest rate for such policy as defined under subchapter 4a  
5           of this chapter, rounded to the nearer one quarter of one percent, provided the  
6           nonforfeiture interest rate shall not be less than four percent.

7           (2) For policies issued on and after the operative date of the Valuation  
8           Manual, the nonforfeiture interest rate per annum for any policy issued in a  
9           particular calendar year shall be provided by the Valuation Manual.

10          (j) Notwithstanding any other provision of law to the contrary, any refiling  
11          of nonforfeiture values or their methods of computation for any previously  
12          approved policy form which involves only a change in the interest rate or  
13          mortality table used to compute nonforfeiture values shall not require refiling  
14          of any other provisions of that policy form.

15          (k) After the effective date of this section, any company may file with the  
16          Commissioner a written notice of its election to comply with the provision of  
17          this section after a specified date before January 1, 1989, which shall be the  
18          operative date of this section for the company. If a company makes no  
19          election, the operative date of this section for the company shall be January 1,  
20          1989.

1     § 3769. NONFORFEITURE BENEFITS FOR INDETERMINATE

2             PREMIUM PLANS

3             In the case of any plan of life insurance which provides for future premium  
4             determination, the amounts of which are to be determined by the insurance  
5             company based on estimates of future experience, or in the case of any plan of  
6             life insurance which is of such a nature that minimum values cannot be  
7             determined by the methods described in sections 3762–3768 of this  
8             subchapter:

9             (1) The Commissioner must be satisfied that the benefits provided under  
10            the plan are substantially as favorable to policyholders and insureds as the  
11            minimum benefits otherwise required by sections 3762–3768 of this  
12            subchapter.

13            (2) The Commissioner must be satisfied that the benefits and the pattern  
14            of premiums of that plan are not such as to mislead prospective policyholders  
15            or insureds.

16            (3) The cash surrender values and paid-up nonforfeiture benefits  
17            provided by such plan must not be less than the minimum values and benefits  
18            required for the plan computed by a method consistent with the principles of  
19            this Standard Nonforfeiture Law for Life Insurance, as determined by  
20            subchapter 4a of this chapter and any rules adopted thereunder.

1     § 3770. PRORATION OF VALUES; NET VALUE OF PAID-UP

2             ADDITIONS

3             Any cash surrender value and any paid-up nonforfeiture benefit available  
4             under a policy in the event of default in a premium payment due at any time  
5             other than on the policy anniversary shall be calculated with allowance for the  
6             lapse of time and the payment of fractional premiums beyond the last  
7             preceding policy anniversary. All values referred to in sections 3763–3768 of  
8             this subchapter may be calculated upon the assumption that any death benefit  
9             is payable at the end of the policy year of death. The net value of any paid-up  
10            additions, other than paid-up term additions, shall not be less than the amounts  
11            used to provide such additions. Notwithstanding the provisions of section  
12            3763 of this subchapter, additional benefits shall be disregarded in ascertaining  
13            cash surrender values and nonforfeiture benefits required under this  
14            subchapter, and no such additional benefits shall be required to be included in  
15            any paid-up nonforfeiture benefits. As used in this section, “additional  
16            benefits” means benefits payable:

17            (1) in the event of death or dismemberment by accident or accidental

18            means;

19            (2) in the event of total and permanent disability;

20            (3) as reversionary annuity or deferred reversionary annuity benefits;

1           (4) as term insurance benefits provided by a rider or supplemental policy  
2           provision to which, if issued as a separate policy, this subchapter would not  
3           apply;

4           (5) as term insurance in the life on a child or on the lives of children  
5           provided in a policy on the life of a parent of the child, if such term insurance  
6           expires before the child turns 26 years of age, is uniform in amount after the  
7           child's age is one year of age, and has not become paid-up by reason of the  
8           death of a parent of the child; or

9           (6) as other policy benefits additional to life insurance and endowment  
10           benefits, and premiums for all such additional benefits.

11           § 3771. CONSISTENCY OF PROGRESSION OF CASH SURRENDER

12                   VALUES WITH INCREASING POLICY DURATION

13           (a) This section, in addition to all other applicable sections of this chapter,  
14           shall apply to all policies issued on or after January 1, 1987. Any cash  
15           surrender value available under the policy in the event of default in a premium  
16           payment due on any policy anniversary shall be in an amount which does not  
17           differ by more than two tenths of one percent of either the amount of  
18           insurance, if the insurance be uniform in amount, or the average amount of  
19           insurance at the beginning of each of the first 10 policy years, from the sum of:

20                   (1) the greater of zero and the basic cash value specified in this  
21           section; and

1           (2) The present value of any existing paid-up additions less the amount  
2           of any indebtedness to the company under the policy.

3           (b) The basic cash value shall be equal to the present value, on such  
4           anniversary, of the future guaranteed benefits which would have been provided  
5           for by the policy, excluding any existing paid-up additions and before  
6           deduction of any indebtedness to the company, if there had been no default,  
7           less the then present value of the nonforfeiture factors, as defined in this  
8           subchapter, corresponding to premiums which would have fallen due on and  
9           after the anniversary. The effects on the basic cash value of supplemental life  
10           insurance or annuity benefits or of family coverage, as described in sections  
11           3763 or 3765 of this subchapter, whichever is applicable, shall be the same as  
12           the effects specified in those sections, as applicable, on the cash surrender  
13           values defined therein.

14           (c) The nonforfeiture factor for each policy year shall be an amount equal  
15           to a percentage of the adjusted premium for the policy year, as defined in  
16           section 3765 or section 3768 of this subchapter, as applicable, except that the  
17           percentage:

18           (1) must be the same percentage for each policy year between the  
19           second policy anniversary and the later of:

20           (A) the fifth policy anniversary; or

1           (B) the first policy anniversary at which there is available under the  
2           policy a cash surrender value in an amount, before including any paid-up  
3           additions and before deducting any indebtedness, of at least two tenths of one  
4           percent of either the amount of insurance, if the insurance be uniform in  
5           amount, or the average amount of insurance at the beginning of each of the  
6           first 10 policy years; and

7           (2) must be such that no percentage after the later of the two policy  
8           anniversaries specified in subsection (a) of this section may apply to fewer  
9           than five consecutive policy years.

10          (d) Basic cash value shall not be less than the value which would be  
11          obtained if the adjusted premiums for the policy, as defined in section 3768 of  
12          this subchapter, were substituted for the nonforfeiture factors in the calculation  
13          of the basic cash value.

14          (e) All adjusted premiums and present values referred to in this section  
15          shall for a particular policy be calculated on the same mortality and interest  
16          bases as are used in demonstrating the policy's compliance with the other  
17          sections of this subchapter. The cash surrender values referred to in this  
18          section shall include any endowment benefits provided for by the policy.

19          (f) A cash surrender value available other than in the event of default in a  
20          premium payment due on a policy anniversary, and the amount of any paid-up  
21          nonforfeiture benefit available under the policy in the event of default in a

1 premium payment shall be determined in manners consistent with the manners  
2 specified for determining the analogous minimum amounts in sections 3762,  
3 3763, 3764, 3768, and 3770 of this subchapter. The amounts of any cash  
4 surrender values and of any paid-up nonforfeiture benefits granted in  
5 connection with additional benefits such as those listed subsections 3770(a)–(f)  
6 of this subchapter shall conform with the principles of this section.

7 § 3772. EXCEPTIONS

8 (a) This subchapter shall not apply to:

9 (1) reinsurance;

10 (2) group insurance;

11 (3) pure endowment;

12 (4) an annuity or reversionary annuity contract;

13 (5) a term policy of uniform amount, which provides no guaranteed  
14 nonforfeiture or endowment benefits, or renewal thereof, of 20 years or less  
15 expiring before 71 years of age, for which uniform premiums are payable  
16 during the entire term of the policy;

17 (6) a term policy of decreasing amount, which provides no guaranteed  
18 nonforfeiture or endowment benefits, on which each adjusted premium,  
19 calculated as specified in sections 3765, 3766, 3767, 3768 of this subchapter, is  
20 less than the adjusted premium so calculated, on a term policy of uniform  
21 amount, or renewal thereof, that provides no guaranteed nonforfeiture or



1 endowment benefits, issued at the same age and for the same initial amount of  
2 insurance and for a term of 20 years or less expiring before 71 years of age, for  
3 which uniform premiums are payable during the entire term of the policy;

4 (7) a policy, which provides no guaranteed nonforfeiture or endowment  
5 benefits, for which no cash surrender value, if any, or present value of any  
6 paid-up nonforfeiture benefit, at the beginning of any policy year, calculated as  
7 specified in sections 3763, 3764, 3765, 3766, 3767, 3768 of this subchapter,  
8 exceeds two and one-half percent of the amount of insurance at the beginning  
9 of the same policy year; nor

10 (8) a policy delivered outside this State through an agent or other  
11 representative of the company issuing the policy.

12 (b) For purposes of determining the applicability of this subchapter, the age  
13 at expiry for a joint term life insurance policy shall be the age at expiry of the  
14 oldest life.

15 § 3773. EFFECTIVE DATE; APPLICABILITY

16 After the effective date of this subchapter, any company may file with the  
17 Commissioner a written notice of its election to comply with the provisions of  
18 this subchapter after a specified date before January 1, 1948. After the filing  
19 of such notice, then upon the specified date (which shall be the operative date  
20 for the company), this subchapter shall become operative with respect to the  
21 policies thereafter issued by the company. If a company makes no such

1 election, the operative date of this subchapter for the company shall be  
2 January 1, 1948.

3 \* \* \* Miscellaneous Banking Provisions \* \* \*

4 Sec. 3. 8 V.S.A. § 15(b) is amended to read:

5 (b) The Commissioner may, whether or not requested by any person, issue  
6 written advisory interpretations of ~~Part 5~~ Part 4 of this title and regulations  
7 issued under it, including interpretations of the applicability of any provision  
8 of this title and regulations issued under it. Such interpretations shall be  
9 presumed to be correct unless found to be clearly erroneous by a court of  
10 competent jurisdiction. The Commissioner may make public all or a portion of  
11 an advisory interpretation.

12 Sec. 4. 8 V.S.A. § 19(f) is amended to read:

13 (f) There is hereby created a fund to be known as the Financial Institution  
14 Supervision Fund for the purpose of providing the financial means for the  
15 Commissioner of Financial Regulation to administer ~~Parts 2, 5, and 6~~ 4, and 5  
16 of this title, 9 V.S.A. Parts 1 and 3, and Title 9A. All fees and assessments  
17 received by the Department pursuant to such administration shall be deposited  
18 in this Fund.

19 Sec. 5. 8 V.S.A. § 23(a) is amended to read:

1 (a) This section shall apply to all persons licensed, authorized<sub>1</sub> or  
2 registered, or required to be licensed, authorized<sub>2</sub> or registered, under Parts 2  
3 and § 4 of Title 8.

4 \* \* \* Repeal; Effective Date \* \* \*

5 Sec. 6. REPEAL

6 Title 8 chapter 103, subchapters 3 (standard nonforfeiture law for life  
7 insurance) and 4 (standard valuation law) are repealed.

8 Sec. 7. EFFECTIVE DATE

9 This act shall take effect on passage.