

Life Actuarial (A) Task Force/ Health Actuarial (B) Task Force Amendment Proposal Form*

1. Identify yourself, your affiliation and a very brief description (title) of the issue.

Mary Bahna-Nolan, Joint American Academy of Actuaries Life Experience Committee and Society of Actuaries Preferred Mortality Oversight Group– adoption of new CSO tables

2. Identify the document, including the date if the document is “released for comment,” and the location in the document where the amendment is proposed:

Valuation Manual (June 18, 2015), VM-02 Section 5.A.

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted or changed by providing a red-line (turn on “track changes” in Word®) version of the verbiage. (You may do this through an attachment.)

See attached pages.

4. State the reason for the proposed amendment? (You may do this through an attachment.)

To adopt the 2017 CSO Tables for Nonforfeiture. The tables would be available for policies issued on or after January 1, 2017 and required for policies issued on or after January 1, 2020.

* This form is not intended for minor corrections, such as formatting, grammar, cross–references or spelling. Those types of changes do not require action by the entire group and may be submitted via letter or email to the NAIC staff support person for the NAIC group where the document originated.

NAIC Staff Comments:

Dates: Received	Reviewed by Staff	Distributed	Considered
Notes:			

VM-02 MINIMUM NONFORFEITURE MORTALITY AND INTEREST

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Section 1. Purpose

- A. The purpose of this VM-02 is to assign the appropriate Commissioners' Standard mortality table and interest rate for use in determining the minimum nonforfeiture standard for life insurance policies issued on and after the operative date of this Valuation Manual as authorized by applicable state requirements.

Section 2. Applicability

- A. Any state requirements shall supersede requirements of this VM-02 if conflicted.
- B. Requirements in this VM-02 apply to life insurance policies issued on and after the operative date of this Valuation Manual.

Section 3. Definitions

- A. Industrial Life Insurance is that form of life insurance written under policies under which premiums are payable monthly or more often, bearing the words "industrial policy" or "weekly premium policy" or words of similar import imprinted upon the policies as part of the descriptive matter, and issued by an insurer which, as to such industrial life insurance, is operating under a system of collecting a debit by its agent.
- B. Pre-Need – Any life insurance policy or certificate that is issued in combination with, in support of, with an assignment to, or as a guarantee for a prearrangement agreement for goods and services to be provided at the time of and immediately following the death of the insured. Goods and services may include, but are not limited to, embalming, cremation, body preparation, viewing or visitation, coffin or urn, memorial stone, and transportation of the deceased. The status of the policy or contract as preneed insurance is determined at the time of issue in accordance with the policy form filing. (Note: Preceding definition taken from Model 817.) The definition of pre-need shall be subject to that definition of pre-need in a particular state of issue if such definition is different in that state. [Note: To be completed.]
- C. Ordinary Life

Section 4. Interest

- A. The nonforfeiture interest rate for any life insurance policy issued in a particular calendar year beginning on and after the operative date of the Valuation Manual shall be equal to one hundred and twenty-five percent (125%) of the calendar year statutory valuation interest rate defined for the Net Premium Reserve in the Valuation Manual for a life insurance policy with nonforfeiture values, whether or not such sections apply to such policy for valuation purposes, rounded to the nearer one quarter of one percent (1/4 of 1%), provided, however, that the nonforfeiture interest rate shall not be less than 4.00%.

Guidance Note: For flexible premium universal life insurance policies as defined in section 3.D. of the Universal Life Insurance Model Regulation (NAIC Model 585), this is not intended to prevent an interest rate guarantee less than the nonforfeiture interest rate.

Section 5. Mortality

Guidance Note: As any new Commissioners' Standard tables are adopted in the future, language or paragraphs will need to be added here to define what business is to use which tables. This will need to be coordinated with the valuation requirements contained in other sections of the Valuation Manual. Because of the various implications to systems, form filings, and related issues (such as product tax issues), lead time is needed to implement new requirements without market disruption. Thus, it is recommended that the transition period referenced in the guidance note in Section 3.C.1.b of VM-20 be adopted; that is, that there be a transition period of about 4.5 years, that the table be adopted by July 1 of a given year, that it be permitted to be used starting Jan. 1 of the second following calendar year; that it be optional until Jan. 1 of the fifth following calendar year, thereafter mandatory.

A. Ordinary Life Insurance Policies

1. For ordinary life insurance policies issued on or after the operative date of this Valuation Manual and prior to January 1, 2020, except as provided in paragraph B below, the minimum nonforfeiture standard shall be determined using the 2001 Commissioners Standard Ordinary Mortality Table as defined in Appendix M of this manual, and subject to the conditions defined in A-814 in Appendix A of this manual for using this mortality table for minimum nonforfeiture standards. The 2001 Commissioners Standard Ordinary Preferred Class Structure Tables shall not be used to determine the minimum nonforfeiture standard.
2. Subject to the conditions stated below, the 2017 CSO Mortality Table as defined in VM-M Section 1.H.,
 - a. may, at the election of the company for one or more specified plans of insurance issued on or after January 1, 2017, and
 - b. shall, for policies issued on or after January 1, 2020 to which Section 5cH(6) of the Standard Nonforfeiture Law for Life Insurance (NAIC Model #808) is applicable,
be used to determine minimum Nonforfeiture standards according to the Standard Nonforfeiture Law (NAIC Model #808) or the state's equivalent statute. The 2017 Commissioners Standard Ordinary Preferred Structure Tables shall not be used to determine the minimum nonforfeiture standard.

The following conditions shall apply with respect to the use of the 2017 CSO mortality table:

- (a) For each plan of insurance with separate rates for smokers and nonsmokers, an insurer may use:
 - (1) Composite mortality tables to determine minimum reserve liabilities and minimum cash surrender values and amounts of paid-up nonforfeiture benefits; or
 - (2) Smoker and nonsmoker mortality to determine minimum reserve liabilities and minimum cash surrender values and amounts of paid-up nonforfeiture benefits.
- (b) For plans of insurance without separate rates for smokers and nonsmokers, the composite mortality tables shall be used.
- (c) For the purpose of determining minimum cash surrender values and amounts of paid-up nonforfeiture benefits, the 2017 CSO Mortality Table may, at the option of the company for each plan of insurance, be used in its ultimate or select and ultimate form.
- (d) Gender-Blended Tables shall apply in the following circumstances:

For any ordinary life insurance policy delivered or issued for delivery that utilizes the same premium rates and charges for male and female lives or is issued in circumstances where applicable law does not permit distinctions on the basis of gender, a mortality table that is a blend of the 2017 CSO Mortality Table (M) and the 2017 CSO Mortality Table (F) may, at the option of the company for each plan of insurance, be substituted for the 2001 CSO Mortality Table for use in determining minimum cash surrender values and amounts of paid-up nonforfeiture benefits.

B. Pre-Need Life Insurance Policies

1. Pre-need life insurance policies issued on or after the operative date of this Valuation Manual shall have the minimum nonforfeiture standard computed based on the 1980 Commissioners Standard Ordinary Mortality Tables as defined in Appendix M.

C. Same Minimum Nonforfeiture Standard for Men and Women

1. For any ordinary life insurance policy that utilizes the same premium rates and charges for male and female lives or is issued in circumstances where applicable law does not permit distinctions on the basis of gender, the minimum nonforfeiture standard shall use the gender-blended mortality derived from the mortality table assigned in this VM-02 for use in determining the minimum nonforfeiture standard. Weights used to determine the gender-blended table shall follow those provided in the NAIC Model #811, *NAIC Procedure for Permitting Same Minimum Nonforfeiture Standards for Men and Women Insured Under 1980 CSO and CET Tables*. The company may choose from among the blended tables, as appropriate, developed by the American Academy of Actuaries CSO Task Force and adopted by the NAIC in December 2002 (preceding sentence taken from Model #814, section 7, B). These tables are defined in Appendix M under Gender Blended Tables.

D. Industrial Life Insurance

1. The minimum nonforfeiture standard values for Industrial Life Insurance policies shall be determined using the 1961 Industrial Standard Mortality Tables as defined in Appendix M.