

1 HB552
2 164284-3
3 By Representatives Johnson (K), Hill (M), Faulkner and
4 Williams (JD)
5 RFD: Insurance
6 First Read: 23-APR-15

1 ENGROSSED

2
3
4 A BILL
5 TO BE ENTITLED
6 AN ACT
7

8 To add Article 3 to Chapter 15 of Title 27, Code of
9 Alabama 1975, and to add Chapter 36A of Title 27, Code of
10 Alabama 1975, relating to the State Insurance Code and the
11 regulation of insurance by the State Insurance Department; to
12 further provide for the regulation of life insurance by
13 reenacting with changes and recodifying the Standard
14 Nonforfeiture Law for Life Insurance to provide consistent
15 minimum cash value requirements for various new life insurance
16 products, to provide a more appropriate allowance for
17 acquisition expenses, to remove the exemption for group life
18 insurance products, to reenact with changes the Standard
19 Valuation Law to make the law substantially similar to the
20 model Standard Valuation Law of the National Association of
21 Insurance Commissioners; and to repeal Sections 27-15-28 and
22 27-36-7, Code of Alabama 1975.

23 BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

24 Section 1. Article 3 is added to Chapter 15 of Title
25 27, Code of Alabama 1975, to read as follows:

26 Article 3. Standard Nonforfeiture Law for Life
27 Insurance.

1 §27-15-70. Title. This article shall be known as the
2 Standard Nonforfeiture Law for Life Insurance.

3 §27-15-71. Definitions. For the purposes of this
4 article, the following terms shall have the following
5 meanings:

6 (1) NAIC. The National Association of Insurance
7 Commissioners.

8 (2) OPERATIVE DATE OF THE VALUATION MANUAL. The
9 January 1 of the first calendar year that the valuation manual
10 as defined in Chapter 36A is effective.

11 §27-15-72. Nonforfeiture Benefits.

12 (a) In the case of policies issued on or after
13 January 1, 1972, no policy of life insurance, except as set
14 forth in Section 27-15-82, shall be delivered or issued for
15 delivery in this state unless it shall contain in substance
16 the following provisions, or corresponding provisions which,
17 in the opinion of the commissioner, are at least as favorable
18 to the defaulting or surrendering policyholder as are the
19 minimum requirements specified in this section and are
20 essentially in compliance with Section 27-15-81:

21 (1) That, in the event of default in any premium
22 payment, the insurer will grant, upon proper request not later
23 than 60 days after the due date of the premium in default, a
24 paid-up nonforfeiture benefit on a plan stipulated in the
25 policy, effective as of such due date, of such amount as may
26 be specified in this article. In lieu of such stipulated
27 paid-up nonforfeiture benefit, the insurer may substitute,

1 upon proper request not later than 60 days after the due date
2 of the premium in default, an actuarially equivalent
3 alternative paid-up nonforfeiture benefit which provides a
4 greater amount or longer period of death benefits or, if
5 applicable, a greater amount or earlier payment of endowment
6 benefits.

7 (2) That, upon surrender of the policy within 60
8 days after the due date of any premium payment in default
9 after premiums have been paid for at least three full years in
10 the case of ordinary insurance or five full years in the case
11 of industrial insurance, the insurer will pay, in lieu of any
12 paid-up nonforfeiture benefit, a cash surrender value of such
13 amount as may be specified in this article.

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

19 (4) That, if the policy shall have become paid up by
20 completion of all premium payments, or if it is continued
21 under any paid-up nonforfeiture benefit which became effective
22 on, or after, the third policy anniversary in the case of
23 ordinary insurance or the fifth policy anniversary in the case
24 of industrial insurance, the insurer will pay, upon surrender
25 of the policy within 30 days after any policy anniversary, a
26 cash surrender value of such amount as may be specified in
27 this article.

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

19 (6) A statement that the cash surrender values and
20 the paid-up nonforfeiture benefits available under the policy
21 are not less than the minimum values and benefits required by
22 or pursuant to the insurance laws of this state; an
23 explanation of the manner in which the cash surrender values
24 and the paid-up nonforfeiture benefits are altered by the
25 existence of any paid-up additions credited to the policy or
26 any indebtedness to the insurer on the policy; and a statement
27 of the method to be used in calculating the cash surrender

1 value, and paid-up nonforfeiture benefit available under the
2 policy on any policy anniversary beyond the last anniversary
3 for which such values and benefits are consecutively shown in
4 the policy.

5 (b) Any of the provisions, or portions thereof, set
6 forth in subdivisions (1) through (6) of subsection (a) which
7 are not applicable by reason of the plan of insurance may, to
8 the extent inapplicable, be omitted from the policy.

9 (c) The insurer shall reserve the right to defer the
10 payment of any cash surrender value for a period of six months
11 after demand therefor with surrender of the policy.

12 §27-15-73. Computation of Cash Surrender Value.

13 (a) Any cash surrender value available under the
14 policy in the event of default in the premium payment due on
15 any policy anniversary, whether or not required by Section
16 27-15-72, shall be an amount not less than the excess, if any,
17 of the present value on such anniversary of the future
18 guaranteed benefits which would have been provided for by the
19 policy, including any existing paid-up additions if there had
20 been no default, over the sum of:

21 (1) The then present value of the adjusted premium
22 as defined in Sections 27-15-75, 27-15-76, 27-15-77, and
23 27-15-78, corresponding to premiums which would have fallen
24 due on and after such anniversary.

25 (2) The amount of any indebtedness to the insurer on
26 account of or secured by the policy.

1 (b) Provided, however, that for any policy issued on
2 or after the operative date of Section 27-15-78, as defined
3 therein, which provides supplemental life insurance or annuity
4 benefits at the option of the insured and for an identifiable
5 additional premium by rider or supplemental policy provision,
6 the cash surrender value referred to in subsection (a) shall
7 be an amount not less than the sum of the cash surrender value
8 as defined in subsection (a) for an otherwise similar policy
9 issued at the same age without such rider or supplemental
10 policy provision and the cash surrender value as defined in
11 subsection (a) for a policy which provides only the benefits
12 otherwise provided by the rider or supplemental policy
13 provision.

14 (c) Provided, further, that for any family policy
15 issued on or after the operative date of Section 27-15-78, as
16 defined therein, which defines a primary insured and provides
17 term insurance on the life of the spouse of the primary
18 insured expiring before the spouse's age 71, the cash
19 surrender value referred to in subsection (a) shall be an
20 amount not less than the sum of the cash surrender value as
21 defined in subsection (a) for an otherwise similar policy
22 issued at the same age without term insurance on the life of
23 the spouse and the cash surrender value as defined in
24 subsection (a) for a policy which provides only the benefits
25 otherwise provided by term insurance on the life of the
26 spouse.

1 (d) Any cash surrender value available within 30
2 days after any policy anniversary under any policy paid up by
3 completion of all premium payments or any policy continued
4 under any paid-up nonforfeiture benefits, whether or not
5 required by Section 27-15-72, shall be an amount not less than
6 the present value, on the anniversary, of the future
7 guaranteed benefits provided for by the policy, including any
8 existing paid-up additions, decreased by any indebtedness to
9 the insurer on account of or secured by the policy.

10 §27-15-74. Computation of Paid-Up Nonforfeiture
11 Benefits. Any paid-up nonforfeiture benefit available under
12 the policy in the event of default in the premium payment due
13 on any policy anniversary shall be such that its present value
14 as of such anniversary shall be at least equal to the cash
15 surrender value then provided for by the policy or, if none is
16 provided for, that cash surrender value which would have been
17 required by this article in the absence of the condition that
18 premiums shall have been paid for at least a specified period.

19 §27-15-75. Calculation of Adjusted Premiums.

20 (a) (1) This section shall not apply to policies
21 issued on or after the operative date of Section 27-15-78, as
22 defined therein. Except as provided in subsection (c), the
23 adjusted premiums for any policy shall be calculated on an
24 annual basis and shall be such uniform percentage of the
25 respective premiums specified in the policy for each policy
26 year, excluding extra premiums on a substandard policy, that

1 the present value at the date of issue of the policy, of all
2 such adjusted premiums shall be equal to the sum of:

3 a. The then present value of the future guaranteed
4 benefits provided for by the policy.

5 b. Two percent of the amount of the insurance if the
6 insurance be uniform in amount, or of the equivalent uniform
7 amount, as defined in this article, if the amount of insurance
8 varies with the duration of the policy.

9 c. Forty percent of the adjusted premium for the
10 first policy year.

11 d. Twenty-five percent of either the adjusted
12 premium for the first policy year or the adjusted premium for
13 a whole life policy of the same uniform or equivalent uniform
14 amount with uniform premiums for the whole of life issued at
15 the same age for the same amount of insurance, whichever is
16 less.

17 (2) Provided, however, that in applying the
18 percentages specified in paragraphs c. and d. of subdivision
19 (1), no adjusted premiums shall be deemed to exceed four
20 percent of the amount of insurance or level amount equivalent.
21 The date of issue of a policy for the purpose of this section
22 shall be the date as of which the rated age of the insured is
23 determined.

24 (b) In the case of a policy providing an amount of
25 insurance varying with the duration of the policy, the
26 equivalent level amount for the purpose of this section shall
27 be deemed to be the level amount of insurance provided by an

1 otherwise similar policy, containing the same endowment
2 benefit or benefits, if any, issued at the same age and for
3 the same term, the amount of which does not vary with duration
4 and the benefits under which have the same present value at
5 the inception of the insurance as the benefits under the
6 policy.

7 (c) The adjusted premiums for any policy providing
8 term insurance benefits by rider or supplemental policy
9 provision shall be equal to: (i) The adjusted premiums for an
10 otherwise similar policy issued at the same age without such
11 term insurance benefits, increased, during the period for
12 which premiums for such term insurance benefits are payable,
13 by (ii) the adjusted premiums for such term insurance. The
14 foregoing items (i) and (ii) are to be calculated separately
15 and as specified in subsections (a) and (b) except that, for
16 the purposes of paragraphs b., c., and d. of subdivision (1)
17 of subsection (a), the amount of insurance or equivalent
18 uniform amount of insurance used in the calculation of the
19 adjusted premiums referred to in subdivision (2) of subsection
20 (a) shall be equal to the excess of the corresponding amount
21 determined for the entire policy over the amount used in the
22 calculation of the adjusted premiums in item (i).

23 (d) Except as otherwise provided in Sections
24 27-15-76 and 27-15-77, all adjusted premiums and present
25 values referred to in this article for all policies of
26 ordinary insurance, shall be calculated on the basis of the
27 Commissioners 1941 Standard Ordinary Mortality Table, provided

1 that for any category of ordinary insurance issued on female
2 risks, adjusted premiums and present values may be calculated
3 according to any age not more than three years younger than
4 the actual age of the insured and such calculations for all
5 policies of industrial insurance shall be made on the basis of
6 the 1941 Standard Industrial Mortality Table. All calculations
7 shall be made on the basis of the rate of interest, not
8 exceeding three and one-half percent per annum, specified in
9 the policy for calculating cash surrender values and paid-up
10 nonforfeiture benefits. Provided, however, that in calculating
11 the present value of any paid-up term insurance with
12 accompanying pure endowment, if any, offered as a
13 nonforfeiture benefit, the rates of mortality assumed may be
14 not more than 130 percent of the rates of mortality according
15 to the applicable table. Provided, further, that for insurance
16 issued on a substandard basis, the calculation of any adjusted
17 premiums and present values may be based on such other table
18 of mortality as may be specified by the company and approved
19 by the commissioner.

20 §27-15-76. Calculation of Adjusted Premiums -
21 Ordinary Policies.

22 (a) This section shall not apply to ordinary
23 policies issued on or after the operative date of Section
24 27-15-78, as defined therein.

25 (b) In the case of ordinary policies issued on or
26 after the operative date of this section, all adjusted
27 premiums and present values referred to in this article shall

1 be calculated on the basis of the Commissioners 1958 Standard
2 Ordinary Mortality Table, provided that, for any category of
3 ordinary insurance issued on female risks, adjusted premiums
4 and present values may be calculated according to an age not
5 more than three years younger than the actual age of the
6 insured and provided that, for any category of ordinary
7 insurance issued on female risks on or after July 30, 1979,
8 adjusted premiums and present values may be calculated
9 according to an age not more than six years younger than the
10 actual age of the insured.

11 (c) In calculating the present value of any paid-up
12 term insurance with accompanying pure endowment, if any,
13 offered as a nonforfeiture benefit, the rates of mortality
14 assumed in the case of ordinary policies may not be more than
15 those shown in the Commissioners 1958 Extended Term Insurance
16 Table.

17 (d) For insurance issued on a substandard basis, the
18 calculation of any adjusted premiums and present values may be
19 based on such other table of mortality as may be specified by
20 the insurer and approved by the commissioner.

21 §27-15-77. Calculation of Adjusted Premiums -
22 Industrial Policies.

23 (a) This section shall not apply to industrial
24 policies to be issued on or after the operative date of
25 Section 27-15-78, as defined therein.

26 (b) The adjusted premiums and present values
27 referred to in this article for all policies of industrial

1 insurance shall be calculated on the basis of the
2 Commissioners 1961 Standard Industrial Mortality Table. All
3 calculations shall be made on the basis of the rate of
4 interest specified in the policy for calculating cash
5 surrender values and paid-up nonforfeiture benefits; provided,
6 that such rate of interest shall not exceed three and one-half
7 percent per annum; provided further, that a rate of interest
8 not exceeding four percent per annum may be used for policies
9 issued on or after August 23, 1976, and prior to July 30,
10 1979, and a rate of interest not exceeding five and one-half
11 percent per annum may be used for policies issued on or after
12 July 30, 1979; provided, however, that, in calculating the
13 present value of any paid-up term insurance with accompanying
14 pure endowment, if any, offered as a nonforfeiture benefit,
15 the rates of mortality assumed in the case of industrial
16 policies, may not be more than those shown in the
17 Commissioners 1961 Industrial Extended Term Insurance Table;
18 provided further, that, for insurance issued on a substandard
19 basis, the calculation of any such adjusted premiums and
20 present values may be based on such other table of mortality
21 as may be specified by the insurer and approved by the
22 commissioner.

23 §27-15-78. Calculations of Adjusted Premiums by the
24 Nonforfeiture Net Level Premium Method.

25 (a) This section shall apply to all policies issued
26 on or after the operative date of this section as defined
27 herein. Except as provided in subsection (g), the adjusted

1 premiums for any policy shall be calculated on an annual basis
2 and shall be such uniform percentage of the respective
3 premiums specified in the policy for each policy year,
4 excluding extra premiums on a substandard policy and also
5 excluding any uniform annual contract charge or policy fee
6 specified in the policy in a statement of the method to be
7 used in calculating the cash surrender values and paid-up
8 nonforfeiture benefits, that the present value, at the date of
9 issue of the policy, of all adjusted premiums shall be equal
10 to the sum of:

11 (1) The then present value of the future guaranteed
12 benefits provided for by the policy.

13 (2) One percent of either the amount of insurance,
14 if the insurance be uniform in amount, or the average amount
15 of insurance at the beginning of each of the first 10 policy
16 years.

17 (3) One hundred twenty-five percent of the
18 nonforfeiture net level premium, as hereinafter defined;
19 provided, however, that in applying the percentage specified
20 in this subdivision, no nonforfeiture net level premium shall
21 be deemed to exceed four percent of either the amount of
22 insurance, if the insurance be uniform in amount, or the
23 average amount of insurance at the beginning of each of the
24 first 10 policy years. The date of issue of a policy for the
25 purpose of this section shall be the date as of which the
26 rated age of the insured is determined.

1 (b) The nonforfeiture net level premium shall be
2 equal to the present value, at the date of issue of the
3 policy, of the guaranteed benefits provided for by the policy
4 divided by the present value, at the date of issue of the
5 policy, of an annuity of one percent per annum, payable on the
6 date of issue of the policy and on each anniversary of such
7 policy on which a premium falls due.

8 (c) In the case of policies which cause, on a basis
9 guaranteed in the policy, unscheduled changes in benefits or
10 premiums or which provide an option for changes in benefits or
11 premiums other than a change to a new policy, the adjusted
12 premiums and present values shall initially be calculated on
13 the assumption that future benefits and premiums do not change
14 from those stipulated at the date of issue of the policy. At
15 the time of any such change in the benefits or premiums, the
16 future adjusted premiums, nonforfeiture net level premiums and
17 present values shall be recalculated on the assumption that
18 future benefits and premiums do not change from those
19 stipulated by the policy immediately after the change.

20 (d) Except as otherwise provided in subsection (g),
21 the recalculated future adjusted premiums for any such policy
22 shall be the uniform percentage of the respective future
23 premiums specified in the policy for each policy year,
24 excluding extra premiums on a substandard policy and also
25 excluding any uniform annual contract charge or policy fee
26 specified in the policy in a statement of the method to be
27 used in calculating the cash surrender values and paid-up

1 nonforfeiture benefits, that the present value, at the time of
2 change to the newly defined benefits or premiums, of all such
3 future adjusted premiums shall be equal to the excess of the
4 sum of (1) the then present value of the then future
5 guaranteed benefits provided for by the policy and (2) the
6 additional expense allowance, if any, over the then cash
7 surrender value, if any, or present value of any paid-up
8 nonforfeiture benefit under the policy.

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

12 (1) One percent of the excess, if positive, of the
13 average amount of insurance at the beginning of each of the
14 first 10 policy years subsequent to the change over the
15 average amount of insurance prior to the change at the
16 beginning of each of the first 10 policy years subsequent to
17 the time of the most recent previous change, or, if there has
18 been no previous change, the date of issue of the policy.

19 (2) One hundred twenty-five percent of the increase,
20 if positive, in the nonforfeiture net level premium.

21 (f) The recalculated nonforfeiture net level premium
22 shall be equal to the result obtained by dividing (1) by (2)
23 where (1) equals the sum of (i) the nonforfeiture net level
24 premium applicable prior to the change times the present value
25 of an annuity of one percent per annum payable on each
26 anniversary of the policy on or subsequent to the date of the
27 change on which a premium would have fallen due had the change

1 not occurred and (ii) the present value of the increase in
2 future guaranteed benefits provided for by the policy, and (2)
3 equals the present value of an annuity of one percent per
4 annum payable on each anniversary of the policy on or
5 subsequent to the date of change on which a premium falls due.

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

16 (h) All adjusted premiums and present values
17 referred to in this article shall, for all policies of
18 ordinary insurance, be calculated on the basis of the
19 Commissioners 1980 Standard Ordinary Mortality Table or, at
20 the election of the insurer for any one or more specified
21 plans of life insurance, the Commissioners 1980 Standard
22 Ordinary Mortality Table with 10-year select mortality
23 factors; shall, for all policies of industrial insurance, be
24 calculated on the basis of the Commissioners 1961 Standard
25 Industrial Mortality Table; and shall, for all policies issued
26 in a particular calendar year, be calculated on the basis of a
27 rate of interest not exceeding the nonforfeiture interest

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

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

8 (2) Under any paid-up nonforfeiture benefit,
9 including any paid-up dividend additions, any cash surrender
10 value available, whether or not required by Section 27-15-72,
11 shall be calculated on the basis of the mortality table and
12 rate of interest used in determining the amount of such
13 paid-up nonforfeiture benefit and paid-up dividend additions,
14 if any.

15 (3) An insurer may calculate the amount of any
16 guaranteed paid-up nonforfeiture benefit, including any
17 paid-up additions, under the policy on the basis of an
18 interest rate no lower than that specified in the policy for
19 calculating cash surrender values.

20 (4) In calculating the present value of any paid-up
21 term insurance with accompanying pure endowment, if any,
22 offered as a nonforfeiture benefit, the rates of mortality
23 assumed may be not more than those shown in the Commissioners
24 1980 Extended Term Insurance Table for policies of ordinary
25 insurance and not more than the Commissioners 1961 Industrial
26 Extended Term Insurance Table for policies of industrial
27 insurance.

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

5 (6)a. For policies issued prior to the operative
6 date of the valuation manual, any Commissioners Standard
7 ordinary mortality tables, adopted after 1980 by the NAIC,
8 that are approved by regulation promulgated by the
9 commissioner for use in determining the minimum nonforfeiture
10 standard may be substituted for the Commissioners 1980
11 Standard Ordinary Mortality Table with or without 10-year
12 select mortality factors or for the Commissioners 1980
13 Extended Term Insurance Table.

14 b. For policies issued on or after the operative
15 date of the valuation manual, the valuation manual shall
16 provide the Commissioners Standard mortality table for use in
17 determining the minimum nonforfeiture standard that may be
18 substituted for the Commissioners 1980 Standard Ordinary
19 Mortality Table with or without Ten-Year Select Mortality
20 Factors or for the Commissioners 1980 Extended Term Insurance
21 Table. If the commissioner approves by regulation any
22 Commissioners Standard ordinary mortality table adopted by the
23 NAIC for use in determining the minimum nonforfeiture standard
24 for policies issued on or after the operative date of the
25 valuation manual then that minimum nonforfeiture standard
26 supersedes the minimum nonforfeiture standard provided by the
27 valuation manual.

1 (7)a. For policies issued prior to the operative
2 date of the valuation manual, any Commissioners Standard
3 industrial mortality tables, adopted after 1980 by the NAIC,
4 that are approved by regulation promulgated by the
5 commissioner for use in determining the minimum nonforfeiture
6 standard may be substituted for the Commissioners 1961
7 Standard Industrial Mortality Table or the Commissioners 1961
8 Industrial Extended Term Insurance Table.

9 b. For policies issued on or after the operative
10 date of the valuation manual, the valuation manual shall
11 provide the Commissioners Standard mortality table for use in
12 determining the minimum nonforfeiture standard that may be
13 substituted for the Commissioners 1961 Standard Industrial
14 Mortality Table or the Commissioners 1961 Industrial Extended
15 Term Insurance Table. If the commissioner approves by
16 regulation any Commissioners Standard industrial mortality
17 table adopted by the NAIC for use in determining the minimum
18 nonforfeiture standard for policies issued on or after the
19 operative date of the valuation manual then that minimum
20 nonforfeiture standard supersedes the minimum nonforfeiture
21 standard provided by the valuation manual.

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

24 (1) For policies issued prior to the operative date
25 of the valuation manual, the nonforfeiture interest rate per
26 annum for any policy issued in a particular calendar year
27 shall be equal to 125 percent of the calendar year statutory

1 valuation interest rate for such policy as defined in the
2 standard valuation law, rounded to the nearest one-quarter of
3 one percent, provided, however, that the nonforfeiture
4 interest rate shall not be less than four percent.

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

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

16 (k) After the effective date of this section, any
17 insurer may file with the commissioner a written notice of its
18 election to comply with the provisions of this section after a
19 specified date before January 1, 1989, which shall be the
20 operative date of this section for the insurer. If an insurer
21 makes no such election, the operative date of this section for
22 the insurer shall be January 1, 1989.

23 §27-15-79. Nonforfeiture Benefits for Indeterminate
24 Premium Plans. In the case of any plan of life insurance which
25 provides for future premium determination, the amounts of
26 which are to be determined by the insurer based on the
27 estimates of future experience, or, in the case of any plan of

1 life insurance which is of such a nature that minimum values
2 cannot be determined by the methods described in Section
3 27-15-72, 27-15-73, 27-15-74, 27-15-75, 27-15-76, 27-15-77, or
4 27-15-78, then:

5 (1) The commissioner must be satisfied that the
6 benefits provided under the plan are substantially as
7 favorable to policyholders and insureds as the minimum
8 benefits otherwise required by Section 27-15-72, 27-15-73,
9 27-15-74, 27-15-75, 27-15-76, 27-15-77, or 27-15-78.

10 (2) The commissioner must be satisfied that the
11 benefits and the pattern of premiums of that plan are not such
12 as to mislead prospective policyholders or insureds.

13 (3) The cash surrender values and paid-up
14 nonforfeiture benefits provided by such plan must not be less
15 than the minimum values and benefits required for the plan
16 computed by a method consistent with the principles of this
17 standard nonforfeiture law for life insurance, as determined
18 by regulations promulgated by the commissioner.

19 §27-15-80. Proration of Values; Net Value of Paid-up
20 Additions. Any cash surrender value and any paid-up
21 nonforfeiture benefit available under the policy in the event
22 of default in a premium payment due at any time other than on
23 the policy anniversary shall be calculated with allowance for
24 the lapse of time and the payment of fractional premiums
25 beyond the last preceding policy anniversary. All values
26 referred to in Sections 27-15-73, 27-15-74, 27-15-75,
27 27-15-76, 27-15-77, and 27-15-78 may be calculated on the

1 assumption that any death benefit is payable at the end of the
2 policy year of death. The net value of any paid-up additions,
3 other than paid-up term additions, shall not be less than the
4 amounts used to provide such additions. Notwithstanding the
5 provisions of Section 27-15-73, additional benefits payable as
6 follows shall be disregarded in ascertaining cash surrender
7 values and nonforfeiture benefits required by this article,
8 and no such additional benefits shall be required to be
9 included in any paid-up nonforfeiture benefits:

10 (1) In the event of death or dismemberment by
11 accident or accidental means.

12 (2) In the event of total and permanent disability.

13 (3) As reversionary annuity or deferred reversionary
14 annuity benefits.

15 (4) As term insurance benefits provided by a rider
16 or supplemental policy provision to which, if issued as a
17 separate policy, this article would not apply.

18 (5) As term insurance on the life of a child or on
19 the lives of children provided in a policy on the life of a
20 parent of the child, if such term insurance expires before the
21 child's age is 26, is uniform in amount after the child's age
22 is one and has not become paid-up by reason of the death of
23 the parent of the child.

24 (6) As other policy benefits additional to life
25 insurance and endowment benefits, and premiums for all such
26 additional benefits.

1 §27-15-81. Consistency of Progression of Cash
2 Surrender Values with Increasing Policy Duration.

3 (a) This section, in addition to all other
4 applicable sections of this article, shall apply to all
5 policies issued on or after January 1, 1985. Any cash
6 surrender value available under the policy in the event of
7 default in a premium payment due on any policy anniversary
8 shall be in an amount which does not differ by more than
9 two-tenths of one percent of either the amount of insurance,
10 if the insurance be uniform in amount, or the average amount
11 of insurance at the beginning of each of the first 10 policy
12 years, from the sum of:

13 (1) The greater of zero and the basic cash value
14 hereinafter specified.

15 (2) The present value of any existing paid-up
16 additions, less the amount of any indebtedness to the insurer
17 on account of or secured by the policy.

18 (b) The basic cash value shall be equal to the
19 present value, on such anniversary, of the future guaranteed
20 benefits which would have been provided for by the policy,
21 excluding any existing paid-up additions and before deduction
22 of any indebtedness to the insurer, if there had been no
23 default, less the then present value of the nonforfeiture
24 factors, as defined in this article, corresponding to premiums
25 which would have fallen due on and after such anniversary;
26 provided, however, that the effects on the basic cash value of
27 supplemental life insurance or annuity benefits or of family

1 coverage, as described in Section 27-15-73 or 27-15-75,
2 whichever is applicable, shall be the same as are the effects
3 specified in Section 27-15-73 or 27-15-75, whichever is
4 applicable, on the cash surrender values defined in that
5 section.

6 (c) The nonforfeiture factor for each policy year
7 shall be an amount equal to a percentage of the adjusted
8 premium for the policy year, as defined in Section 27-15-75 or
9 27-15-78, whichever is applicable. Except as is required by
10 subsection (d), the percentage:

11 (1) Must be the same percentage for each policy year
12 between the second policy anniversary and the later of:

13 a. The fifth policy anniversary.

14 b. The first policy anniversary at which there is
15 available under the policy a cash surrender value in an
16 amount, before including any paid-up additions and before
17 deducting any indebtedness, of at least two-tenths of one
18 percent of either the amount of insurance, if the insurance be
19 uniform in amount, or the average amount of insurance at the
20 beginning of each of the first 10 policy years.

21 (2) Must be such that no percentage after the later
22 of the two policy anniversaries specified in subdivision (1)
23 may apply to fewer than five consecutive policy years.

24 (d) Provided, that no basic cash value may be less
25 than the value which would be obtained if the adjusted
26 premiums for the policy, as defined in Section 27-15-78, were

1 substituted for the nonforfeiture factors in the calculation
2 of the basic cash value.

3 (e) All adjusted premiums and present values
4 referred to in this section shall for a particular policy be
5 calculated on the same mortality and interest bases as are
6 used in demonstrating the policy's compliance with the other
7 sections of this article. The cash surrender values referred
8 to in this section shall include any endowment benefits
9 provided for by the policy.

10 (f) Any cash surrender value available other than in
11 the event of default in a premium payment due on a policy
12 anniversary, and the amount of any paid-up nonforfeiture
13 benefit available under the policy in the event of default in
14 a premium payment, shall be determined in manners consistent
15 with the manners specified for determining the analogous
16 minimum amounts in Sections 27-15-72, 27-15-73, 27-15-74,
17 27-15-78, and 27-15-80. The amounts of any cash surrender
18 values and of any paid-up nonforfeiture benefits granted in
19 connection with additional benefits such as those listed in
20 subdivisions (1) through (6) of Section 27-15-80 shall conform
21 with the principles of this section.

22 §27-15-82. Exceptions. This article shall not apply
23 to any of the following:

24 (1) Reinsurance.

25 (2) Group insurance.

26 (3) Pure endowment.

27 (4) Annuity or reversionary annuity contract.

1 (5) Variable life insurance contract.

2 (6) A term policy of uniform amount, which provides
3 no guaranteed nonforfeiture or endowment benefits, or renewal
4 thereof, of 20 years or less, expiring before age 71, for
5 which uniform premiums are payable during the entire term of
6 the policy.

7 (7) A term policy of decreasing amount, which
8 provides no guaranteed nonforfeiture or endowment benefits, on
9 which each adjusted premium, calculated as specified in
10 Sections 27-15-75, 27-15-76, 27-15-77, and 27-15-78, is less
11 than the adjusted premium so calculated on a term policy of
12 uniform amount, or renewal thereof, which provides no
13 guaranteed nonforfeiture or endowment benefits, issued at the
14 same age and for the same initial amount of insurance and for
15 a term of 20 years or less, expiring before age 71, for which
16 uniform premiums are payable during the entire term of the
17 policy.

18 (8) A policy, which provides no guaranteed
19 nonforfeiture or endowment benefits, for which no cash
20 surrender value, if any, or present value of any paid-up
21 nonforfeiture benefit, at the beginning of any policy year,
22 calculated as specified in Sections 27-15-73, 27-15-74,
23 27-15-75, 27-15-76, 27-15-77, and 27-15-78, exceeds two and
24 one-half percent of the amount of insurance at the beginning
25 of the same policy year.

1 (9) Benefits provided in the form of funeral or
2 monument merchandise and services under burial policies,
3 except to the extent provided in Section 27-17-13.

4 §27-15-83. For purposes of determining the
5 applicability of this article, the age at expiry for a joint
6 term life insurance policy shall be the age at expiry of the
7 oldest life.

8 Section 2. Chapter 36A is added to Title 27,
9 beginning with Section 27-36A-1 Code of Alabama 1975, to read
10 as follows:

11 Chapter 36A. Standard Valuation Law.

12 §27-36A-1. Title.

13 This chapter shall be known as the Standard
14 Valuation Law.

15 §27-36A-2. Definitions.

16 For purposes of this chapter, the following
17 definitions shall apply on or after the operative date of the
18 valuation manual:

19 (1) ACCIDENT AND HEALTH INSURANCE. Contracts that
20 incorporate morbidity risk and provide protection against
21 economic loss resulting from accident, sickness, or medical
22 conditions and as may be specified in the valuation manual.

23 (2) APPOINTED ACTUARY. A qualified actuary who is
24 appointed in accordance with the valuation manual to prepare
25 the actuarial opinion required in subsection (b) of Section
26 27-36A-4.

1 (3) COMPANY. An entity, which (i) has written,
2 issued, or reinsured life insurance contracts, accident and
3 health insurance contracts, or deposit-type contracts in this
4 state and has at least one such policy in force or on claim or
5 (ii) has written, issued, or reinsured life insurance
6 contracts, accident and health insurance contracts, or
7 deposit-type contracts in any state and is required to hold a
8 certificate of authority to write life insurance, accident and
9 health insurance, or deposit-type contracts in this state.

10 (4) DEPOSIT-TYPE CONTRACT. A contract that does not
11 incorporate mortality or morbidity risks and as may be
12 specified in the valuation manual.

13 (5) LIFE INSURANCE. Contracts that incorporate
14 mortality risk, including annuity and pure endowment
15 contracts, and as may be specified in the valuation manual.

16 (6) NAIC. The National Association of Insurance
17 Commissioners.

18 (7) POLICYHOLDER BEHAVIOR. Any action a
19 policyholder, contract holder, or any other person with the
20 right to elect options, such as a certificate holder, may take
21 under a policy or contract subject to this section including,
22 but not limited to, lapse, withdrawal, transfer, deposit,
23 premium payment, loan, annuitization, or benefit elections
24 prescribed by the policy or contract but excluding events of
25 mortality or morbidity that result in benefits prescribed in
26 their essential aspects by the terms of the policy or
27 contract.

1 (8) PRINCIPLE-BASED VALUATION. A reserve valuation
2 that uses one or more methods or one or more assumptions
3 determined by the insurer and is required to comply with
4 Section 27-36A-16 as specified in the valuation manual.

5 (9) QUALIFIED ACTUARY. An individual who is
6 qualified to sign the applicable statement of actuarial
7 opinion in accordance with the American Academy of Actuaries
8 qualification standards for actuaries signing such statements
9 and who meets the requirements specified in the valuation
10 manual.

11 (10) TAIL RISK. A risk that occurs either where the
12 frequency of low probability events is higher than expected
13 under a normal probability distribution or where there are
14 observed events of very significant size or magnitude.

15 (11) VALUATION MANUAL. The manual of valuation
16 instructions adopted by the NAIC as specified in this chapter
17 or as subsequently amended.

18 §27-36A-3. Reserve Valuation.

19 (a) Policies and contracts issued prior to the
20 operative date of the valuation manual.

21 (1) The commissioner shall annually value, or cause
22 to be valued, the reserve liabilities, hereinafter called
23 reserves, for all outstanding life insurance policies and
24 annuity and pure endowment contracts of every life insurance
25 company doing business in this state issued on or after
26 January 1, 1972, and prior to the operative date of the
27 valuation manual. In calculating reserves, the commissioner

1 may use group methods and approximate averages for fractions
2 of a year or otherwise. In lieu of the valuation of the
3 reserves required of any foreign or alien insurer, the
4 commissioner may accept any valuation made, or caused to be
5 made, by the insurance supervisory official of any state or
6 other jurisdiction when valuation complies with the minimum
7 standard provided in this chapter.

8 (2) The provisions set forth in Sections 27-36A-5,
9 27-36A-6, 27-36A-7, 27-36A-8, 27-36A-9, 27-36A-10, 27-36A-11,
10 27-36A-12, 27-36A-13, and 27-36A-14 shall apply to all
11 policies and contracts, as appropriate, subject to this
12 chapter issued on or after January 1, 1972, and prior to the
13 operative date of the valuation manual and the provisions set
14 forth in Sections 27-36A-15 and 27-36A-16 shall not apply to
15 any such policies and contracts.

16 (3) The minimum standard for the valuation of
17 policies and contracts issued prior to January 1, 1972, shall
18 be that provided by the laws in effect immediately prior to
19 that date.

20 (b) Policies and contracts issued on or after the
21 operative date of the valuation manual.

22 (1) The commissioner shall annually value, or cause
23 to be valued, the reserve liabilities, hereinafter called
24 reserves, for all outstanding life insurance contracts,
25 annuity and pure endowment contracts, accident and health
26 contracts, and deposit-type contracts of every company issued
27 on or after the operative date of the valuation manual. In

1 lieu of the valuation of the reserves required of a foreign or
2 alien company, the commissioner may accept a valuation made,
3 or caused to be made, by the insurance supervisory official of
4 any state or other jurisdiction when the valuation complies
5 with the minimum standard provided in this chapter.

6 (2) The provisions set forth in Sections 27-36A-15
7 and 27-36A-16 shall apply to all policies and contracts issued
8 on or after the operative date of the valuation manual.

9 §27-36A-4. Actuarial Opinion of Reserves.

10 (a) Actuarial Opinion prior to the Operative Date of
11 the Valuation Manual.

12 (1) General. Every life insurance company doing
13 business in this state shall annually submit the opinion of a
14 qualified actuary as to whether the reserves and related
15 actuarial items held in support of the policies and contracts
16 specified by the commissioner by regulation are computed
17 appropriately, are based on assumptions which satisfy
18 contractual provisions, are consistent with prior reported
19 amounts, and comply with applicable laws of this state. The
20 commissioner, by regulation, shall define the specifics of
21 this opinion and add any other items deemed to be necessary to
22 its scope.

23 (2) Actuarial analysis of reserves and assets
24 supporting reserves.

25 a. Every life insurance company, except as exempted
26 pursuant to regulation, shall also annually include in the
27 opinion required by subdivision (1) an opinion of the same

1 qualified actuary as to whether the reserves and related
2 actuarial items held in support of the policies and contracts
3 specified by the commissioner by regulation when considered in
4 light of the assets held by the company with respect to the
5 reserves and related actuarial items, including, but not
6 limited to, the investment earnings on the assets and the
7 considerations anticipated to be received and retained under
8 the policies and contracts, make adequate provision for the
9 company's obligations under the policies and contracts,
10 including, but not limited to, the benefits under and expenses
11 associated with the policies and contracts.

12 b. The commissioner may provide by regulation for a
13 transition period for establishing higher reserves which the
14 qualified actuary may deem necessary in order to render the
15 opinion required by this section.

16 (3) Requirement for opinion under subdivision (2).
17 Each opinion required by subdivision (2) shall be governed by
18 the following provisions:

19 a. A memorandum, in form and substance acceptable to
20 the commissioner as specified by regulation, shall be prepared
21 to support each actuarial opinion.

22 b. If the company fails to provide a supporting
23 memorandum at the request of the commissioner within a period
24 specified by regulation, or the commissioner determines that
25 the supporting memorandum provided by the company fails to
26 meet the standards prescribed by the regulation or is
27 otherwise unacceptable to the commissioner, the commissioner

1 may engage a qualified actuary at the expense of the company
2 to review the opinion and the basis for the opinion and the
3 actuary shall prepare the supporting memorandum as is required
4 by the commissioner.

5 (4) Requirement for all opinions subject to
6 subsection (a). Every opinion subject to subsection (a) shall
7 be governed by the following provisions:

8 a. The opinion shall be submitted with the annual
9 statement reflecting the valuation of the reserve liabilities
10 for each year ending on or after December 31, 1996.

11 b. The opinion shall apply to all business in force
12 including individual and group health insurance plans. The
13 form and substance shall comply with regulation of the
14 commissioner.

15 c. The opinion shall be based on standards adopted
16 from time to time by the Actuarial Standards Board and on any
17 additional standards as the commissioner may by regulation
18 prescribe.

19 d. In the case of an opinion required to be
20 submitted by a foreign or alien company, the commissioner may
21 accept the opinion filed by that company with the insurance
22 supervisory official of another state if the commissioner
23 determines that the opinion reasonably meets the requirements
24 applicable to a company domiciled in this state.

25 e. For the purposes of this section, "qualified
26 actuary" means a member in good standing of the American

1 Academy of Actuaries who meets the requirements set forth in
2 the regulation.

3 f. Except in cases of fraud or willful misconduct,
4 the qualified actuary shall not be liable for damages to any
5 person, other than the company and the commissioner, for any
6 act, error, omission, decision, or conduct with respect to the
7 actuary's opinion.

8 g. Disciplinary action by the commissioner against
9 the company or the qualified actuary shall be defined by
10 regulation of the commissioner.

11 h. Except as provided in paragraphs l., m., and n.,
12 documents, materials, or other information in the possession
13 or control of the Department of Insurance that are a
14 memorandum in support of the opinion, and any other material
15 included by the company to the commissioner in connection with
16 the memorandum, shall be confidential by law and privileged,
17 shall not be subject to any open records, freedom of
18 information, sunshine or other public record disclosure laws,
19 and shall not be subject to subpoena, and shall not be subject
20 to discovery or admissible in evidence in any private or civil
21 action. However, the commissioner is authorized to use the
22 documents, materials, or other information in the furtherance
23 of any regulatory or legal action brought as a part of the
24 commissioner's official duties.

25 i. Neither the commissioner nor any person who
26 received documents, materials, or other information while
27 acting under the authority of the commissioner shall be

1 permitted or required to testify in any private civil action
2 concerning any confidential documents, materials, or
3 information subject to paragraph h.

4 j. In order to assist in the performance of the
5 commissioner's duties, the commissioner:

6 1. May share documents, materials, or other
7 information, including the confidential and privileged
8 documents, materials, or information subject to paragraph h.
9 with other state, federal, and international regulatory
10 agencies, with the NAIC and its affiliates and subsidiaries,
11 and with state, federal, and international law enforcement
12 authorities, provided that the recipient agrees to maintain
13 the confidentiality and privileged status of the document,
14 material, or other information.

15 2. May receive documents, materials, or information,
16 including otherwise confidential and privileged documents,
17 materials, or information, from the NAIC and its affiliates
18 and subsidiaries, and from regulatory and law enforcement
19 officials of other foreign or domestic jurisdictions, and
20 shall maintain as confidential or privileged any document,
21 material, or information received with notice or the
22 understanding that it is confidential or privileged under the
23 laws of the jurisdiction that is the source of the document,
24 material, or information.

25 3. May enter into agreements governing sharing and
26 use of information consistent with paragraphs h., i., and j.

1 k. No waiver of any applicable privilege or claim of
2 confidentiality in the documents, materials, or information
3 shall occur as a result of disclosure to the commissioner
4 under this section or as a result of sharing as authorized in
5 paragraph j.

6 l. A memorandum in support of the opinion, and any
7 other material provided by the company to the commissioner in
8 connection with the memorandum, may be subject to subpoena for
9 the purpose of defending an action seeking damages from the
10 actuary submitting the memorandum by reason of an action
11 required by this section or by regulations promulgated
12 hereunder.

13 m. The memorandum or other material may otherwise be
14 released by the commissioner: (i) with the written consent of
15 the company, or (ii) to the American Academy of Actuaries upon
16 request, stating that the memorandum or other material is
17 required for the purpose of professional disciplinary
18 proceedings and setting forth procedures satisfactory to the
19 commissioner for preserving the confidentiality of the
20 memorandum or other material.

21 n. Once any portion of the confidential memorandum
22 is cited by the company in its marketing or is cited before
23 any governmental agency other than a state insurance
24 department or is released by the company to the news media,
25 all portions of the confidential memorandum shall be no longer
26 confidential.

1 (b) Actuarial opinion of reserves after the
2 operative date of the valuation manual.

3 (1) General. Every company with outstanding life
4 insurance contracts, accident and health insurance contracts,
5 or deposit-type contracts in this state and subject to
6 regulation by the commissioner shall annually submit the
7 opinion of the qualified actuary as to whether the reserves
8 and related actuarial items held in support of the policies
9 and contracts are computed appropriately, are based on
10 assumptions that satisfy contractual provisions, are
11 consistent with prior reported amounts and comply with
12 applicable laws of this state. The valuation manual will
13 prescribe the specifics of this opinion including any items
14 deemed to be necessary to its scope.

15 (2) Actuarial analysis of reserves and assets
16 supporting reserves. Every company with outstanding life
17 insurance contracts, accident and health insurance contracts,
18 or deposit-type contracts in this state and subject to
19 regulation by the commissioner, except as exempted in the
20 valuation manual, shall also annually include in the opinion
21 required by subdivision (1) an opinion of the same actuary as
22 to whether the reserves and related actuarial items held in
23 support of the policies and contracts specified in the
24 valuation manual, when considered in light of the assets held
25 by the company with respect to the reserves and related
26 actuarial items, including, but not limited to, the investment
27 earnings on the assets and the considerations anticipated to

1 be received and retained under the policies and contracts,
2 make adequate provision for the company's obligations under
3 the policies and contracts, including, but not limited to, the
4 benefits under and expenses associated with the policies and
5 contracts.

6 (3) Requirements for opinions subject to subdivision
7 (2). Each opinion required by subdivision (2) shall be
8 governed by the following provisions:

9 a. A memorandum, in form and substance as specified
10 in the valuation manual, and acceptable to the commissioner,
11 shall be prepared to support each actuarial opinion.

12 b. If the company fails to provide a supporting
13 memorandum at the request of the commissioner within a period
14 specified in the valuation manual or the commissioner
15 determines that the supporting memorandum provided by the
16 company fails to meet the standards prescribed by the
17 valuation manual or is otherwise unacceptable to the
18 commissioner, the commissioner may engage a qualified actuary
19 at the expense of the company to review the opinion and the
20 basis for the opinion and prepare the supporting memorandum
21 required by the commissioner.

22 (4) Requirement for all opinions subject to
23 subsection (b). Every opinion subject to subsection (b) shall
24 be governed by the following provisions:

25 a. The opinion shall be in form and substance as
26 specified in the valuation manual and acceptable to the
27 commissioner.

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

5 c. The opinion shall apply to all policies and
6 contracts subject to subdivision (2), plus other actuarial
7 liabilities as may be specified in the valuation manual.

8 d. The opinion shall be based on standards adopted
9 from time to time by the Actuarial Standards Board or its
10 successor, and on such additional standards as may be
11 prescribed in the valuation manual.

12 e. In the case of an opinion required to be
13 submitted by a foreign or alien company, the commissioner may
14 accept the opinion filed by that company with the insurance
15 supervisory official of another state if the commissioner
16 determines that the opinion reasonably meets the requirements
17 applicable to a company domiciled in this state.

18 f. Except in cases of fraud or willful misconduct,
19 the qualified actuary shall not be liable for damages to any
20 person, other than the company and the commissioner, for any
21 act, error, omission, decision, or conduct with respect to the
22 actuary's opinion.

23 g. Disciplinary action by the commissioner against
24 the company or the qualified actuary shall be defined in
25 regulations by the commissioner.

26 §27-36A-5. Computation of Minimum Standard.

1 (a) Except as provided in Sections 27-36A-6,
2 27-36A-7 and 27-36A-14, the minimum standard for the valuation
3 of all the policies and contracts issued prior to May 28,
4 1996, shall be that provided by the laws in effect immediately
5 prior to May 28, 1996.

6 (b) Except as otherwise provided in Sections
7 27-36A-6, 27-36A-7, and 27-36A-14, the minimum standard for
8 the valuation of all policies and contracts issued on or after
9 May 28, 1996, shall be the commissioners reserve valuation
10 method defined in Sections 27-36A-8, 27-36A-9, 27-36A-12, and
11 27-36A-14, three and one-half percent interest, or, in the
12 case of life insurance policies and contracts, other than
13 annuity and pure endowment contracts, issued on or after
14 August 23, 1976, four percent interest for the policies issued
15 prior to July 30, 1979, and five and one-half percent interest
16 for single premium life insurance policies and four and
17 one-half percent interest for all other policies issued on or
18 after July 30, 1979, and the following tables:

19 (1) For ordinary policies of life insurance issued
20 on the standard basis, excluding any disability and accidental
21 death benefits in the policies: The Commissioners 1958
22 Standard Ordinary Mortality Table for the policies issued on
23 or after the operative date of Section 27-15-76 and prior to
24 the operative date of Section 27-15-78, provided that for any
25 category of policies issued on female risks, all modified net
26 premiums and present values referred to in this section may be
27 calculated according to an age not more than six years younger

1 than the actual age of the insured; and for policies issued on
2 or after the operative date of Section 27-15-78, any of the
3 following:

4 a. The Commissioners 1980 Standard Ordinary
5 Mortality Table.

6 b. At the election of the company for any one or
7 more specified plans of life insurance, the Commissioners 1980
8 Standard Ordinary Mortality Table with 10-year select
9 mortality factors.

10 c. Any ordinary mortality table, adopted after 1980
11 by the NAIC, that is approved by regulation promulgated by the
12 commissioner for use in determining the minimum standard of
13 valuation for the policies.

14 (2) For industrial life insurance policies issued on
15 the standard basis, excluding any disability and accidental
16 death benefits in the policies: The Commissioners 1961
17 Standard Industrial Mortality Table or any industrial
18 mortality table adopted after 1980 by the NAIC that is
19 approved by regulation promulgated by the commissioner for use
20 in determining the minimum standard of valuation for the
21 policies.

22 (3) For individual annuity and pure endowment
23 contracts, excluding any disability and accidental death
24 benefits in the policies: The 1937 Standard Annuity Mortality
25 Table or, at the option of the company, the Annuity Mortality
26 Table For 1949, Ultimate, or any modification of either of
27 these tables approved by the commissioner.

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

8 (5) For total and permanent disability benefits in,
9 or supplementary to, ordinary policies or contracts: For
10 policies or contracts issued on or after January 1, 1972, the
11 tables of Period 2 disablement rates and the 1930 to 1950
12 termination rates of 1952 Disability Study of the Society of
13 Actuaries, with due regard to the type of benefit or any
14 tables of disablement rates and termination rates adopted
15 after 1980 by the NAIC that are approved by regulation
16 promulgated by the commissioner for use in determining the
17 minimum standard of valuation for the policies; for policies
18 or contracts issued prior to January 1, 1972, either of the
19 tables or, at the option of the company, the Class (3)
20 Disability Table (1926). Any table shall, for active lives, be
21 combined with a mortality table permitted for calculating the
22 reserve for life insurance policies.

23 (6) For accidental death benefits in or
24 supplementary to policies issued on or after January 1, 1972:
25 The 1959 Accidental Death Benefits Table or any accidental
26 death benefits table adopted after 1980 by the NAIC that is
27 approved by regulation promulgated by the commissioner for use

1 in determining the minimum standard of valuation for the
2 policies; for policies issued prior to January 1, 1972, the
3 Inter-Company Double Indemnity Mortality Table. Either table
4 shall be combined with a mortality table permitted for
5 calculating the reserves for life insurance policies.

6 (7) For group life insurance, life insurance issued
7 on the substandard basis, and other special benefits: The
8 tables as may be approved by the commissioner.

9 §27-36A-6. Computation of Minimum Standard for
10 Annuities.

11 (a) Except as provided in Section 27-36A-7, the
12 minimum standard of valuation for individual and group annuity
13 and pure endowment contracts issued on or after May 28, 1996,
14 shall be the commissioners reserve valuation methods defined
15 in Sections 27-36A-8 and 27-36A-9 and the following tables and
16 interest rates:

17 (1) For individual annuity and pure endowment
18 contracts issued prior to July 30, 1979, excluding any
19 disability and accidental death benefits in the contracts: The
20 1971 Individual Annuity Mortality Table, or any modification
21 of this table approved by the commissioner, and six percent
22 interest for single premium immediate annuity contracts and
23 four percent interest for all other individual annuity and
24 pure endowment contracts.

25 (2) For individual single premium immediate annuity
26 contracts issued on or after July 30, 1979, excluding any
27 disability and accidental death benefits in the contracts: The

1 1971 Individual Annuity Mortality Table or any individual
2 annuity mortality table adopted after 1980 by the NAIC that is
3 approved by regulation promulgated by the commissioner for use
4 in determining the minimum standard of valuation for the
5 contracts, or any modification of these tables approved by the
6 commissioner, and seven and one-half percent interest.

7 (3) For individual annuity and pure endowment
8 contracts issued on or after July 30, 1979, other than single
9 premium immediate annuity contracts, excluding any disability
10 and accidental death benefits in the contracts: The 1971
11 Individual Annuity Mortality Table or any individual annuity
12 mortality table adopted after 1980 by the NAIC that is
13 approved by regulation promulgated by the commissioner for use
14 in determining the minimum standard of valuation for the
15 contracts, or any modification of these tables approved by the
16 commissioner, and five and one-half percent interest for
17 single premium deferred annuity and pure endowment contracts
18 and four and one-half percent interest for all other
19 individual annuity and pure endowment contracts.

20 (4) For annuities and pure endowments purchased
21 prior to July 30, 1979, under group annuity and pure endowment
22 contracts, excluding any disability and accidental death
23 benefits purchased under the contracts: The 1971 Group Annuity
24 Mortality Table or any modification of this table approved by
25 the commissioner, and six percent interest.

26 (5) For annuities and pure endowments purchased on
27 or after July 30, 1979, under group annuity and pure endowment

1 contracts, excluding any disability and accidental death
2 benefits purchased under the contracts: The 1971 Group Annuity
3 Mortality Table or any group annuity mortality table adopted
4 after 1980 by the NAIC that is approved by regulation
5 promulgated by the commissioner for use in determining the
6 minimum standard of valuation for such annuities and pure
7 endowments, or any modification of these tables approved by
8 the commissioner, and seven and one-half percent interest.

9 (b) After August 23, 1976, any company may file with
10 the commissioner a written notice of its election to comply
11 with this section after a specified date but before January 1,
12 1980, which shall be the operative date of this section for
13 that company. If a company makes no election, the operative
14 date of this section for that company shall be January 1,
15 1980.

16 § 27-36A-7. Computation of Minimum Standard by
17 Calendar Year of Issue.

18 (a) The interest rates used in determining the
19 minimum standard for the valuation of the following shall be
20 the calendar year statutory valuation interest rates as
21 defined in this section:

22 (1) Life insurance policies issued in a particular
23 calendar year, on or after the operative date of Section
24 27-15-78.

25 (2) Individual annuity and pure endowment contracts
26 issued in a particular calendar year on or after January 1,
27 1982.

1 (3) Annuities and pure endowments purchased in a
2 particular calendar year on or after January 1, 1982, under
3 group annuity and pure endowment contracts.

4 (4) The net increase, if any, in a particular
5 calendar year after January 1, 1982, in amounts held under
6 guaranteed interest contracts.

7 (b) Calendar year statutory valuation interest
8 rates.

9 (1) The calendar year statutory valuation interest
10 rates, I , shall be determined as follows and the results
11 rounded to the nearest one-quarter of one percent ($1/4$ of 1%):

12 a. For life insurance:

$$13 I = .03 + W (R1 - .03) + W/2 (R2 - .09)$$

14 b. For single premium immediate annuities and for
15 annuity benefits involving life contingencies arising from
16 other annuities with cash settlement options and from
17 guaranteed interest contracts with cash settlement options:

$$18 I = .03 + W (R - .03)$$

19 where $R1$ is the lesser of R and $.09$, $R2$ is the
20 greater of R and $.09$, R is the reference interest rate defined
21 in this section, and W is the weighting factor defined in this
22 section.

23 c. For other annuities with cash settlement options
24 and guaranteed interest contracts with cash settlement
25 options, valued on an issue year basis, except as stated in
26 paragraph b., the formula for life insurance stated in
27 paragraph a. shall apply to annuities and guaranteed interest

1 contracts with guarantee durations in excess of 10 years and
2 the formula for single premium immediate annuities stated in
3 paragraph b. shall apply to annuities and guaranteed interest
4 contracts with guarantee duration of 10 years or less.

5 d. For other annuities with no cash settlement
6 options and for guaranteed interest contracts with no cash
7 settlement options, the formula for single premium immediate
8 annuities stated in paragraph b. shall apply.

9 e. For other annuities with cash settlement options
10 and guaranteed interest contracts with cash settlement
11 options, valued on a change in fund basis, the formula for
12 single premium immediate annuities stated in paragraph b.
13 shall apply.

14 (2) However, if the calendar year statutory
15 valuation interest rate for any life insurance policies issued
16 in any calendar year determined without reference to this
17 sentence differs from the corresponding actual rate for
18 similar policies issued in the immediately preceding calendar
19 year by less than one-half of one percent, the calendar year
20 statutory valuation interest rate for the life insurance
21 policies shall be equal to the corresponding actual rate for
22 the immediately preceding calendar year. For purposes of
23 applying the immediately preceding sentence, the calendar year
24 statutory valuation interest rate for life insurance policies
25 issued in a calendar year shall be determined for 1980, using
26 the reference interest rate defined for 1979, and shall be

1 determined for each subsequent calendar year regardless of
2 when Section 27-15-78 becomes operative.

3 (c) Weighting factors.

4 (1) The weighting factors referred to in the
5 formulas stated in subsection (b) are given in the following
6 tables:

7 a.1. Weighting Factors for Life Insurance:

8	Guarantee Duration	Weighting
9	<u>(Years)</u>	<u>Factors</u>
10	10 or less:	.50
11	More than 10, but not more	
12	than 20:	.45
13	More than 20:	.35

14 2. For life insurance, the guarantee duration is the
15 maximum number of years the life insurance can remain in force
16 on a basis guaranteed in the policy or under options to
17 convert to plans of life insurance with premium rates or
18 nonforfeiture values or both which are guaranteed in the
19 original policy.

20 b. Weighting factor for single premium immediate
21 annuities and for annuity benefits involving life
22 contingencies arising from other annuities with cash

1 settlement options and guaranteed interest contracts with cash
2 settlement options: .80

3 c. Weighting factors for other annuities and for
4 guaranteed interest contracts, except as stated in paragraph
5 b., shall be as specified in subparagraphs 1., 2., and 3.,
6 according to the rules and definitions in subparagraphs 4.,
7 5., and 6.:

8 1. For annuities and guaranteed interest contracts
9 valued on an issue year basis:

10	Guarantee	Weight-		
		ing Fac-		
11	Duration	tor		
		for Plan		
12	<u>(Years)</u>	Type		
		<u>A</u>	<u>B</u>	<u>C</u>
13	5 or less:	.80	.60	.50
14	More than 5, but not more			
15	than 10:	.75	.60	.50
16	More than 10, but not more			
17	than 20:	.65	.50	.45
18	More than 20:	.45	.35	.35

1 2. For annuities and guaranteed interest contracts
2 valued on a change in fund basis, the factors shown in para-
3 graph 1. increased by:

	Plan Type		
	<u>A</u>	<u>B</u>	<u>C</u>
4			
5			
6	.15	.25	.05

7 3. For annuities and guaranteed interest contracts
8 valued on an issue year basis, other than those with no cash
9 settlement options, which do not guarantee interest on consid-
10 erations received more than one year after issue or purchase
11 and for annuities and guaranteed interest contracts valued on
12 a change in fund basis which do not guarantee interest rates
13 on considerations received more than 12 months beyond the val-
14 uation date, the factors shown in subparagraph 1. or derived
15 in subparagraph 2. increased by:

	Plan Type		
	<u>A</u>	<u>B</u>	<u>C</u>
16			
17			
18	.05	.05	.05

19 4. For other annuities with cash settlement options
20 and guaranteed interest contracts with cash settlement

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

10 5. Plan type as used in the above tables is defined
11 as follows:

12 Plan Type A: At any time policyholder may withdraw
13 funds only (i) with an adjustment to reflect changes in
14 interest rates or asset values since receipt of the funds by
15 the company, or (ii) without the adjustment but in
16 installments over five years or more, or (iii) as an immediate
17 life annuity, or (iv) no withdrawal permitted.

18 Plan Type B: Before expiration of the interest rate
19 guarantee, policyholder may withdraw funds only (i) with an
20 adjustment to reflect changes in interest rates or asset
21 values since receipt of the funds by the company, or (ii)
22 without the adjustment but in installments over five years or
23 more or (iii) no withdrawal permitted. At the end of interest
24 rate guarantee, funds may be withdrawn without the adjustment
25 in a single sum or installments over less than five years.

26 Plan Type C: Policyholder may withdraw funds before
27 expiration of interest rate guarantee in a single sum or

1 installments over less than five years either (i) without
2 adjustment to reflect changes in interest rates or asset
3 values since receipt of the funds by the company or (ii)
4 subject only to a fixed surrender charge stipulated in the
5 contract as a percentage of the fund.

6 6. A company may elect to value guaranteed interest
7 contracts with cash settlement options and annuities with cash
8 settlement options on either an issue year basis or on a
9 change in fund basis. Guaranteed interest contracts with no
10 cash settlement options and other annuities with no cash
11 settlement options must be valued on an issue year basis. As
12 used in this section, an issue year basis of valuation refers
13 to a valuation basis under which the interest rate used to
14 determine the minimum valuation standard for the entire
15 duration of the annuity or guaranteed interest contract is the
16 calendar year valuation interest rate for the year of issue or
17 year of purchase of the annuity or guaranteed interest
18 contract, and the change in fund basis of valuation refers to
19 a valuation basis under which the interest rate used to
20 determine the minimum valuation standard applicable to each
21 change in the fund held under the annuity or guaranteed
22 interest contract is the calendar year valuation interest rate
23 for the year of the change in the fund.

24 (d) Reference interest rate. The reference interest
25 rate referred to in subsection (b) shall be defined as
26 follows:

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

7 (2) For single premium immediate annuities and for
8 annuity benefits involving life contingencies arising from
9 other annuities with cash settlement options and guaranteed
10 interest contracts with cash settlement options, the average
11 over a period of 12 months, ending on June 30 of the calendar
12 year of issue or year of purchase, of the monthly average of
13 the composite yield on seasoned corporate bonds, as published
14 by Moody's Investors Service, Inc.

15 (3) For other annuities with cash settlement options
16 and guaranteed interest contracts with cash settlement
17 options, valued on a year of issue basis, except as stated in
18 subdivision (2), with guarantee duration in excess of 10
19 years, the lesser of the average over a period of 36 months
20 and the average over a period of 12 months, ending on June 30
21 of the calendar year of issue or purchase, of the monthly
22 average of the composite yield on seasoned corporate bonds, as
23 published by Moody's Investors Service, Inc.

24 (4) For other annuities with cash settlement options
25 and guaranteed interest contracts with cash settlement
26 options, valued on a year of issue basis, except as stated in
27 subdivision (2), with guarantee duration of 10 years or less,

1 the average over a period of 12 months, ending on June 30 of
2 the calendar year of issue or purchase, of the monthly average
3 of the composite yield on seasoned corporate bonds, as
4 published by Moody's Investors Service, Inc.

5 (5) For other annuities with no cash settlement
6 options and for guaranteed interest contracts with no cash
7 settlement options, the average over a period of 12 months,
8 ending on June 30 of the calendar year of issue or purchase,
9 of the monthly average of the composite yield on seasoned
10 corporate bonds, as published by Moody's Investors Service,
11 Inc.

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

20 (e) Alternative Method for Determining Reference
21 Interest Rates. In the event that the monthly average of the
22 composite yield on seasoned corporate bonds is no longer
23 published by Moody's Investors Service, Inc., or in the event
24 that the NAIC determines that the monthly average of the
25 composite yield on seasoned corporate bonds, as published by
26 Moody's Investors Service, Inc., is no longer appropriate for
27 the determination of the reference interest rate, then an

1 alternative method for determination of the reference interest
2 rate, adopted by the NAIC and approved by regulation
3 promulgated by the commissioner, may be substituted.

4 § 27-36A-8. Reserve Valuation Method - Life
5 Insurance and Endowment Benefits.

6 (a) Except as otherwise provided in Sections
7 27-36A-9, 27-36A-12, and 27-36A-14, reserves according to the
8 commissioners reserve valuation method, for the life insurance
9 and endowment benefits of policies providing for a uniform
10 amount of insurance and requiring the payment of uniform
11 premiums, shall be the excess, if any, of the present value,
12 at the date of valuation, of the future guaranteed benefits
13 provided for by the policies over the then present value of
14 any future modified net premiums therefor. The modified net
15 premiums for a policy shall be the uniform percentage of the
16 respective contract premiums for the benefits, excluding extra
17 premiums on a substandard policy, that the present value, at
18 the date of issue of the policy, of all modified net premiums
19 shall be equal to the sum of the then present value of the
20 benefits provided for by the policy and the excess of
21 subdivision (1) over subdivision (2) as follows:

22 (1) A net level annual premium equal to the present
23 value, at the date of issue, of the benefits provided for
24 after the first policy year, divided by the present value, at
25 the date of issue, of an annuity of one percent per annum
26 payable on the first and each subsequent anniversary of the
27 policy on which a premium falls due; however, the net level

1 annual premium shall not exceed the net level annual premium
2 on the 19-year premium whole life plan for insurance of the
3 same amount at an age one year higher than the age at issue of
4 the policy.

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

7 (b) For a life insurance policy issued on or after
8 January 1, 1985, for which the contract premium in the first
9 policy year exceeds that of the second year and for which no
10 comparable additional benefit is provided in the first year
11 for the excess and which provides an endowment benefit or a
12 cash surrender value or a combination thereof in an amount
13 greater than the excess premium, the reserve according to the
14 commissioner's reserve valuation method on the policy
15 anniversary occurring on or before the assumed ending date
16 defined herein as the first policy anniversary on which the
17 sum of any endowment benefit and any cash surrender value then
18 available is greater than the excess premium shall, except as
19 otherwise provided in Section 27-36A-12, be the greater of the
20 reserve as of the policy anniversary calculated as described
21 in subsection (a) and the reserve as of the policy anniversary
22 calculated as described in subsection (a), but with (i) the
23 value defined in subdivision (1) of subsection (a) being
24 reduced by 15 percent of the amount of excess first year
25 premium, (ii) all present values of benefits and premiums
26 being determined without reference to premiums or benefits
27 provided for by the policy after the assumed ending date,

1 (iii) the policy being assumed to mature on the date as an
2 endowment, and (iv) the cash surrender value provided on the
3 date being considered as an endowment benefit. In making the
4 above comparison, the mortality and interest bases stated in
5 Sections 27-36A-5 and 27-36A-7 shall be used.

6 (c) Reserves according to the commissioners reserve
7 valuation method shall be calculated by a method consistent
8 with the principles of subsections (a) and (b) for all of the
9 following:

10 (1) Life insurance policies providing for a varying
11 amount of insurance or requiring the payment of varying
12 premiums.

13 (2) Group annuity and pure endowment contracts
14 purchased under a retirement plan or a plan of deferred
15 compensation, established or maintained by an employer,
16 including a partnership or sole proprietorship, or by an
17 employee organization, or by both, other than a plan providing
18 individual retirement accounts or individual retirement
19 annuities under Section 408 of the Internal Revenue Code, as
20 now or hereafter amended.

21 (3) Disability and accidental death benefits in all
22 policies and contracts.

23 (4) All other benefits, except life insurance and
24 endowment benefits in life insurance policies and benefits
25 provided by all other annuity and pure endowment contracts.

26 §27-36A-9. Reserve Valuation Method - Annuity and
27 Pure Endowment Benefits.

1 (a) This section shall apply to all annuity and pure
2 endowment contracts other than group annuity and pure
3 endowment contracts purchased under a retirement plan or plan
4 of deferred compensation, established or maintained by an
5 employer, including a partnership or sole proprietorship, or
6 by an employee organization, or by both, other than a plan
7 providing individual retirement accounts or individual
8 retirement annuities under Section 408 of the Internal Revenue
9 Code, as now or hereafter amended.

10 (b) Reserves according to the commissioner's annuity
11 reserves method for benefits under annuity or pure endowment
12 contracts, excluding any disability and accidental death
13 benefits in the contracts, shall be the greatest of the
14 respective excesses of the present values, at the date of
15 valuation, of the future guaranteed benefits, including
16 guaranteed nonforfeiture benefits, provided for by the
17 contracts at the end of each respective contract year, over
18 the present value, at the date of valuation, of any future
19 valuation considerations derived from future gross
20 considerations, required by the terms of the contract, that
21 become payable prior to the end of the respective contract
22 year. The future guaranteed benefits shall be determined by
23 using the mortality table, if any, and the interest rate, or
24 rates, specified in the contracts for determining guaranteed
25 benefits. The valuation considerations are the portions of the
26 respective gross considerations applied under the terms of the
27 contracts to determine nonforfeiture values.

1 §27-36A-10. Minimum Reserves.

2 (a) In no event shall a company's aggregate reserves
3 for all life insurance policies, excluding disability and
4 accidental death benefits, issued on or after January 1, 1972,
5 be less than the aggregate reserves calculated in accordance
6 with the methods set forth in Sections 27-36A-8, 27-36A-9,
7 27-36A-12, and 27-36A-13 and the mortality table or tables and
8 rate or rates of interest used in calculating nonforfeiture
9 benefits for the policies.

10 (b) In no event shall the aggregate reserves for all
11 policies, contracts, and benefits be less than the aggregate
12 reserves determined by the qualified actuary to be necessary
13 to render the opinion required by Section 27-36A-4.

14 §27-36A-11. Optional Reserve Calculation.

15 (a) Reserves for policies and contracts issued prior
16 to January 1, 1972, may be calculated, at the option of the
17 company, according to any standards which produce greater
18 aggregate reserves for all policies and contracts than the
19 minimum reserves required by the laws in effect immediately
20 prior to that date.

21 (b) Reserves for any category of policies,
22 contracts, or benefits issued on or after January 1, 1972, may
23 be calculated, at the option of the company, according to any
24 standards which produce greater aggregate reserves for the
25 category than those calculated according to the minimum
26 standard provided in this chapter, but the rate or rates of
27 interest used for policies and contracts, other than annuity

1 and pure endowment contracts, shall not be higher than the
2 corresponding rate or rates of interest used in calculating
3 any nonforfeiture benefits provided for therein.

4 (c) A company which at any time shall have adopted
5 any standard of valuation producing greater aggregate reserves
6 than those calculated according to the minimum standard
7 provided in this chapter, with the approval of the
8 commissioner, may adopt any lower standard of valuation, but
9 not lower than the minimum provided in this chapter; provided
10 that, for the purposes of this section, the holding of
11 additional reserves previously determined by the qualified
12 actuary to be necessary to render the opinion required by
13 Section 27-36A-4 shall not be deemed to be the adoption of a
14 higher standard of valuation.

15 §27-36A-12. Reserve Calculation - Valuation Net
16 Premium Exceeding the Gross Premium Charged.

17 (a) If in any contract year the gross premium
18 charged by a company on a policy or contract issued on or
19 after January 1, 1972, is less than the valuation net premium
20 for the policy or contract calculated by the method used in
21 calculating the reserve thereon, but using the minimum
22 valuation standards of mortality and rate of interest, the
23 minimum reserve required for the policy or contract shall be
24 the greater of either the reserve calculated according to the
25 mortality table, rate of interest, and method actually used
26 for the policy or contract, or the reserve calculated by the
27 method actually used for the policy or contract but using the

1 minimum valuation standards of mortality and rate of interest
2 and replacing the valuation net premium by the actual gross
3 premium in each contract year for which the valuation net
4 premium exceeds the actual gross premium. The minimum
5 valuation standards of mortality and rate of interest referred
6 to in this section are those standards stated in Sections
7 27-36A-5 and 27-36A-7.

8 (b) For a life insurance policy issued on or after
9 January 1, 1985, for which the gross premium in the first
10 policy year exceeds that of the second year and for which no
11 comparable additional benefit is provided in the first year
12 for the excess, and which provides an endowment benefit or a
13 cash surrender value or a combination thereof in an amount
14 greater than excess premium, the provisions of subsection (a)
15 shall be applied as if the method actually used in calculating
16 the reserve for the policy were the method described in
17 Section 27-36A-8, but ignoring subsection (b) of Section
18 27-36A-8. The minimum reserve at each policy anniversary of
19 the policy shall be the greater of the minimum reserve
20 calculated in accordance with Section 27-36A-8, including
21 subsection (b) of Section 27-36A-8, and the minimum reserve
22 calculated in accordance with this section.

23 §27-36A-13. Reserve Calculation - Indeterminate
24 Premium Plans. In the case of any plan of life insurance which
25 provides for future premium determination, the amounts of
26 which are to be determined by the company based on then
27 estimates of future experience, or in the case of any plan of

1 life insurance or annuity which is of a nature that the
2 minimum reserves cannot be determined by the methods described
3 in Sections 27-36A-8, 27-36A-9, and 27-36A-12, the reserves
4 which are held under any plan shall comply with both of the
5 following:

6 (1) Be appropriate in relation to the benefits and
7 the pattern of premiums for that plan.

8 (2) Be computed by a method which is consistent with
9 the principles of this standard valuation law, as determined
10 by regulations promulgated by the commissioner.

11 §27-36A-14. Minimum Standard for Accident and Health
12 Insurance Contracts.

13 (a) For accident and health insurance contracts
14 issued on or after the operative date of the valuation manual,
15 the standard prescribed in the valuation manual is the minimum
16 standard of valuation required under subsection (b) of Section
17 27-36A-3.

18 (b) For disability, accident and sickness, and
19 accident and health insurance contracts issued on or after
20 January 1, 1972, and prior to the operative date of the
21 valuation manual, the minimum standard of valuation is the
22 standard adopted by the commissioner by regulation.

23 §27-36A-15. Valuation Manual for Policies Issued On
24 or After the Operative Date of the Valuation Manual.

25 (a) For policies issued on or after the operative
26 date of the valuation manual, the standard prescribed in the
27 valuation manual is the minimum standard of valuation required

1 under subsection (b) of Section 27-36A-3, except as provided
2 under subsection (e) or (g) of this section, Section
3 27-36A-19, or Section 27-36A-20.

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

7 (1) The valuation manual has been adopted by the
8 NAIC by an affirmative vote of at least 42 members, or
9 three-fourths of the members voting, whichever is greater.

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

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

23 (c) Unless a change in the valuation manual
24 specifies a later effective date, changes to the valuation
25 manual shall be effective on January 1 following the date when
26 both of the following have occurred:

1 (1) The change to the valuation manual has been
2 adopted by the NAIC by an affirmative vote representing both
3 of the following:

4 a. At least three-fourths of the members of the NAIC
5 voting, but not less than a majority of the total membership.

6 b. Members of the NAIC representing jurisdictions
7 totaling greater than 75 percent of the direct premiums
8 written as reported in the following annual statements most
9 recently available prior to the vote in paragraph a.: Life,
10 accident, and health annual statements; health annual
11 statements; or fraternal annual statements.

12 (2) The change to the valuation manual becomes
13 effective pursuant to a regulation adopted by the
14 commissioner.

15 (d) The valuation manual must specify all of the
16 following:

17 (1) Minimum valuation standards for and definitions
18 of the policies or contracts subject to subsection (b) of
19 Section 27-36A-3. The minimum valuation standards shall be:

20 a. The commissioners reserve valuation method for
21 life insurance contracts, other than annuity contracts,
22 subject to subsection (b) of Section 27-36A-3.

23 b. The commissioners annuity reserve valuation
24 method for annuity contracts subject to subsection (b) of
25 Section 27-36A-3.

26 c. Minimum reserves for all other policies or
27 contracts subject to subsection (b) of Section 27-36A-3.

1 (2) Which policies or contracts or types of policies
2 or contracts that are subject to the requirements of a
3 principle-based valuation in subsection (a) of Section
4 27-36A-16 and the minimum valuation standards consistent with
5 those requirements.

6 (3) For policies and contracts subject to a
7 principle-based valuation under Section 27-36A-16:

8 a. Requirements for the format of reports to the
9 commissioner under subdivision (3) of subsection (b) of
10 Section 27-36A-16 and which shall include information
11 necessary to determine if the valuation is appropriate and in
12 compliance with this chapter.

13 b. Assumptions shall be prescribed for risks over
14 which the company does not have significant control or
15 influence.

16 c. Procedures for corporate governance and oversight
17 of the actuarial function, and a process for appropriate
18 waiver or modification of such procedures.

19 (4) For policies not subject to a principle-based
20 valuation under Section 27-36A-16 the minimum valuation
21 standard shall either:

22 a. Be consistent with the minimum standard of
23 valuation prior to the operative date of the valuation manual.

24 b. Develop reserves that quantify the benefits and
25 guarantees, and the funding, associated with the contracts and
26 their risks at a level of conservatism that reflects

1 conditions that include unfavorable events that have a
2 reasonable probability of occurring.

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

9 (6) The data and form of the data required under
10 Section 27-36A-17, with whom the data must be submitted, and
11 may specify other requirements including data analyses and
12 reporting of analyses.

13 (e) In the absence of a specific valuation
14 requirement or if a specific valuation requirement in the
15 valuation manual is not, in the opinion of the commissioner,
16 in compliance with this section, then the company shall, with
17 respect to such requirements, comply with minimum valuation
18 standards prescribed by the commissioner by regulation.

19 (f) The commissioner may engage a qualified actuary,
20 at the expense of the company, to perform an actuarial
21 examination of the company and opine on the appropriateness of
22 any reserve assumption or method used by the company, or to
23 review and opine on a company's compliance with any
24 requirement set forth in this chapter. The commissioner may
25 rely upon the opinion, regarding provisions contained within
26 this chapter, of a qualified actuary engaged by the
27 commissioner of another state, district, or territory of the

1 United States. As used in this subsection, the term "engage"
2 includes employment and contracting.

3 (g) The commissioner may require a company to change
4 any assumption or method that in the opinion of the
5 commissioner is necessary in order to comply with the
6 requirements of the valuation manual or this chapter; and the
7 company shall adjust the reserves as required by the
8 commissioner. The commissioner may take other disciplinary
9 action as permitted pursuant to this title.

10 §27-36A-16. Requirements of a Principle-Based
11 Valuation.

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

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

23 (2) Incorporate assumptions, risk analysis methods
24 and financial models, and management techniques that are
25 consistent with, but not necessarily identical to, those
26 utilized within the company's overall risk assessment process,

1 while recognizing potential differences in financial reporting
2 structures and any prescribed assumptions or methods.

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

5 a. The assumption is prescribed in the valuation
6 manual.

7 b. For assumptions that are not prescribed, the
8 assumptions shall either:

9 1. Be established utilizing the company's available
10 experience, to the extent it is relevant and statistically
11 credible.

12 2. To the extent that company data is not available,
13 relevant, or statistically credible, be established utilizing
14 other relevant, statistically credible experience.

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

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

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

24 (2) Provide to the commissioner and the board of
25 directors an annual certification of the effectiveness of the
26 internal controls with respect to the principle-based
27 valuation. The controls shall be designed to assure that all

1 material risks inherent in the liabilities and associated
2 assets subject to such valuation are included in the
3 valuation, and that valuations are made in accordance with the
4 valuation manual. The certification shall be based on the
5 controls in place as of the end of the preceding calendar
6 year.

7 (3) Develop, and file with the commissioner upon
8 request, a principle-based valuation report that complies with
9 standards prescribed in the valuation manual.

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

12 §27-36A-17. Experience Reporting for Policies In
13 Force On or After the Operative Date of the Valuation Manual.
14 A company shall submit mortality, morbidity, policyholder
15 behavior, or expense experience and other data as prescribed
16 in the valuation manual.

17 §27-36A-18. Confidentiality.

18 (a) For purposes of this section, "confidential
19 information" shall mean all of the following:

20 (1) A memorandum in support of an opinion submitted
21 under Section 27-36A-4 and any other documents, materials, and
22 other information, including, but not limited to, all working
23 papers, and copies thereof, created, produced, or obtained by
24 or disclosed to the commissioner or any other person in
25 connection with such memorandum.

26 (2) All documents, materials, and other information,
27 including, but not limited to, all working papers, and copies

1 thereof, created, produced, or obtained by or disclosed to the
2 commissioner or any other person in the course of an
3 examination made under subsection (f) of Section 27-36A-15;
4 provided, however, that if an examination report or other
5 material prepared in connection with an examination made under
6 Chapter 2 is not held as private and confidential information
7 under Section 27-2-24, an examination report or other material
8 prepared in connection with an examination made under
9 subsection (f) of Section 27-36A-15 shall not be "confidential
10 information" to the same extent as if such examination report
11 or other material had been prepared under Chapter 2.

12 (3) Any reports, documents, materials, and other
13 information developed by a company in support of, or in
14 connection with, an annual certification by the company under
15 subdivision (2) of subsection (b) of Section 27-36A-16
16 evaluating the effectiveness of the company's internal
17 controls with respect to a principle-based valuation and any
18 other documents, materials, and other information, including,
19 but not limited to, all working papers, and copies thereof,
20 created, produced, or obtained by or disclosed to the
21 commissioner or any other person in connection with such
22 reports, documents, materials, and other information.

23 (4) Any principle-based valuation report developed
24 under subdivision (3) of subsection (b) of Section 27-36A-16
25 and any other documents, materials, and other information,
26 including, but not limited to, all working papers, and copies
27 thereof, created, produced, or obtained by or disclosed to the

1 commissioner or any other person in connection with such
2 report.

3 (5) Any documents, materials, data, and other
4 information submitted by a company under Section 27-36A-17,
5 collectively "experience data," and any other documents,
6 materials, data, and other information, including, but not
7 limited to, all working papers, and copies thereof, created or
8 produced in connection with such experience data, in each case
9 that includes any potentially company-identifying or
10 personally identifiable information, that is provided to or
11 obtained by the commissioner, together with any "experience
12 data," the "experience materials," and any other documents,
13 materials, data, and other information, including, but not
14 limited to, all working papers, and copies thereof, created,
15 produced, or obtained by or disclosed to the commissioner or
16 any other person in connection with such experience materials.

17 (b) Privilege for, and Confidentiality of,
18 Confidential Information.

19 (1) Except as provided in this section, a company's
20 confidential information is confidential by law and
21 privileged, shall not be subject to any open records, freedom
22 of information, sunshine or other public record disclosure
23 laws, and shall not be subject to subpoena, and shall not be
24 subject to discovery or admissible in evidence in any private
25 civil action. However, the commissioner is authorized to use
26 the confidential information in the furtherance of any

1 regulatory or legal action brought against the company as a
2 part of the commissioner's official duties.

3 (2) Neither the commissioner nor any person who
4 received confidential information while acting under the
5 authority of the commissioner shall be permitted or required
6 to testify in any private civil action concerning any
7 confidential information.

8 (3) In order to assist in the performance of the
9 commissioner's duties, the commissioner may share confidential
10 information (i) with other state, federal, and international
11 regulatory agencies and with the NAIC and its affiliates and
12 subsidiaries and (ii) in the case of confidential information
13 specified in subdivisions (1) and (4) of subsection (a) of
14 Section 27-36A-18 only, with the Actuarial Board for
15 Counseling and Discipline or its successor upon request
16 stating that the confidential information is required for the
17 purpose of professional disciplinary proceedings and with
18 state, federal, and international law enforcement officials;
19 in the case of (i) and (ii), provided that the recipient
20 agrees, and has the legal authority to agree, to maintain the
21 confidentiality and privileged status of the documents,
22 materials, data, and other information in the same manner and
23 to the same extent as required for the commissioner.

24 (4) The commissioner may receive documents,
25 materials, data, and other information, including otherwise
26 confidential and privileged documents, materials, data, or
27 information, from the NAIC and its affiliates and

1 subsidiaries, from regulatory or law enforcement officials of
2 other foreign or domestic jurisdictions, and from the
3 Actuarial Board for Counseling and Discipline or its successor
4 and shall maintain as confidential and privileged any
5 document, material, data, or other information received with
6 notice or the understanding that it is confidential or
7 privileged under the laws of the jurisdiction that is the
8 source of the document, material, or other information.

9 (5) The commissioner may enter into agreements
10 governing sharing and use of information consistent with this
11 subsection.

12 (6) No waiver of any applicable privilege or claim
13 of confidentiality in the confidential information shall occur
14 as a result of disclosure to the commissioner under this
15 section or as a result of sharing as authorized in subdivision
16 (3).

17 (7) A privilege established under the law of any
18 state or jurisdiction that is substantially similar to the
19 privilege established under this subsection shall be available
20 and enforced in any proceeding in, and in any court of, this
21 state.

22 (8) In this section, the terms "regulatory agency,"
23 "law enforcement agency," and the "NAIC" include, but are not
24 limited to, their employees, agents, consultants, and
25 contractors.

1 (c) Notwithstanding subsection (b), any confidential
2 information specified in subdivisions (1) and (4) of
3 subsection (a) of Section 27-36A-18:

4 (1) May be subject to subpoena for the purpose of
5 defending an action seeking damages from the appointed actuary
6 submitting the related memorandum in support of an opinion
7 submitted under Section 27-36A-4 or principle-based valuation
8 report developed under subdivision (3) of subsection (b) of
9 Section 27-36A-16 by reason of an action required by this
10 chapter or by regulations promulgated hereunder.

11 (2) May otherwise be released by the commissioner
12 with the written consent of the company.

13 (3) Once any portion of a memorandum in support of
14 an opinion submitted under Section 27-36A-4 or a
15 principle-based valuation report developed under subdivision
16 (3) of subsection (b) of Section 27-36A-16 is expressly cited
17 by the company in its marketing or is publicly volunteered to
18 or before a governmental agency other than a state insurance
19 department or is released by the company to the news media,
20 all portions of such memorandum or report shall no longer be
21 confidential.

22 §27-36A-19. Single State Exemption.

23 (a) The commissioner may exempt specific product
24 forms or product lines of a domestic company that is licensed
25 and doing business only in the State of Alabama from the
26 requirements of Section 27-36A-15 provided:

1 (1) The commissioner has issued an exemption in
2 writing to the company and has not subsequently revoked the
3 exemption in writing.

4 (2) The company computes reserves using assumptions
5 and methods used prior to the operative date of the valuation
6 manual in addition to any requirements established by the
7 commissioner and promulgated by regulation.

8 (b) For any company granted an exemption under this
9 section, Sections 27-36A-4, 27-36A-5, 27-36A-6, 27-36A-7,
10 27-36A-8, 27-36A-9, 27-36A-10, 27-36A-11, 27-36A-12,
11 27-36A-13, and 27-36A-14 shall be applicable. With respect to
12 any company applying this exemption, any reference to Section
13 27-36A-15 found in Sections 27-36A-4, 27-36A-5, 27-36A-6,
14 27-36A-7, 27-36A-8, 27-36A-9, 27-36A-10, 27-36A-11, 27-36A-12,
15 27-36A-13, and 27-36A-14 shall not be applicable.

16 §27-36A-20. Small company alternative valuation.

17 (a) A company subject to ~~the requirements of~~
18 ~~Sections 27-36A-15 and 27-36A-16~~ these requirements may hold
19 reserves based on the mortality and interest rates defined by
20 the valuation manual for net premium reserves and using the
21 methodology defined in ~~Sections 27-36A-8, 27-36A-10,~~
22 ~~27-36A-11, 27-36A-12, and 27-36A-13,~~ the applicable sections
23 for the affected policies or contracts as they apply to
24 ordinary life insurance, accident and health insurance
25 contracts, credit life contracts, group life contracts,
26 annuities, or deposit-type contracts in this state in lieu of

1 the reserves required by Sections 27-36A-15 and 27-36A-16,
2 provided all of the following conditions have been met:

3 (1) The company has less than three hundred million
4 dollars (\$300,000,000) of ordinary life premium.

5 (2) If the company is a member of a group of life
6 insurers, group has combined ordinary life premium of less
7 than six hundred million dollars (\$600,000,000).

8 (3) The company reported Total Adjusted Capital of
9 at least 450 percent of Authorized Control Level Risk Capital
10 in the risk-based capital report for the prior calendar year.

11 (4) The appointed actuary was provided an
12 unqualified opinion on the reserves in accordance with Section
13 27-36A-4 for the prior calendar year.

14 (5) The company has provided a certification by a
15 qualified actuary that any universal life policy with a
16 secondary guarantee issued after the operative date of the
17 valuation manual meets the definition of a non-material
18 secondary guarantee universal life product as defined in the
19 valuation manual.

20 (b) For purposes of subdivisions (1) and (2) of
21 subsection (a), ordinary life premium is measured as direct
22 premium plus reinsurance assumed from an unaffiliated company,
23 as reported in the prior calendar year annual statement.

24 (c) An Alabama-domiciled company intending to
25 calculate reserves as described in this section must file a
26 statement with the commissioner prior to July 1 of each year
27 certifying that these conditions are met for the current

1 calendar year based on premiums and other values from the
2 prior financial statements. The commissioner may reject the
3 statement prior to September 1 if the commissioner
4 specifically identifies risk in the affected policies that
5 requires a principle-based valuation and require the company
6 to comply with the valuation manual requirements for life
7 insurance reserves.

8 (d) A company that reports reserves using the
9 alternative valuation shall also be exempt from the
10 principle-based reserves corporate governance requirements,
11 certification of effectiveness of principle-based reserves
12 internal controls, and a principle-based reserves valuation
13 report.

14 Section 3. All laws or parts of laws which conflict
15 with this act are repealed. Sections 27-15-28 and 27-36-7,
16 Code of Alabama 1975, are expressly repealed.

17 Section 4. This act shall be effective January 1,
18 2016.

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House of Representatives

Read for the first time and re-
ferred to the House of Representa-
tives committee on Insurance 23-APR-15

Read for the second time and placed
on the calendar..... 07-MAY-15

Read for the third time and passed
as amended..... 26-MAY-15

Yeas 100, Nays 0, Abstains 0

Jeff Woodard
Clerk