

1 SB169
2 164284-6
3 By Senator Blackwell
4 RFD: Banking and Insurance
5 First Read: 09-FEB-16

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8 SYNOPSIS: Under existing law, certain life insurance
9 policies are required to contain provisions
10 providing an appropriate minimum cash value.

11 This bill would revise the Standard
12 Nonforfeiture Law for Life Insurance to provide
13 consistent minimum cash value requirements for
14 various new life insurance products; to provide a
15 more appropriate allowance for acquisition
16 expenses; to remove the exemption for group life
17 insurance products; and to provide for an effective
18 date.

19 Under existing law, the reserves of life
20 insurance companies are determined according to the
21 Standard Valuation Law.

22 This bill would provide further for the
23 regulation of life insurance by amending the
24 Standard Valuation Law to make Alabama's law
25 substantially similar to the current version of the
26 model Standard Valuation Law developed by the
27 National Association of Insurance Commissioners.

1
2 A BILL
3 TO BE ENTITLED
4 AN ACT
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6 To add Article 3 to Chapter 15 of Title 27, Code of
7 Alabama 1975, and to add Chapter 36A of Title 27, Code of
8 Alabama 1975, relating to the State Insurance Code and the
9 regulation of insurance by the State Insurance Department; to
10 further provide for the regulation of life insurance by
11 reenacting with changes and recodifying the Standard
12 Nonforfeiture Law for Life Insurance to provide consistent
13 minimum cash value requirements for various new life insurance
14 products, to provide a more appropriate allowance for
15 acquisition expenses, to remove the exemption for group life
16 insurance products, to reenact with changes the Standard
17 Valuation Law to make the law substantially similar to the
18 model Standard Valuation Law of the National Association of
19 Insurance Commissioners; and to repeal Sections 27-15-28 and
20 27-36-7, Code of Alabama 1975.

21 BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

22 Section 1. Article 3 is added to Chapter 15 of Title
23 27, Code of Alabama 1975, to read as follows:

24 Article 3. Standard Nonforfeiture Law for Life
25 Insurance.

26 §27-15-70. Title. This article shall be known as the
27 Standard Nonforfeiture Law for Life Insurance.

1 §27-15-71. Definitions. For the purposes of this
2 article, the following terms shall have the following
3 meanings:

4 (1) NAIC. The National Association of Insurance
5 Commissioners.

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

9 §27-15-72. Nonforfeiture Benefits.

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

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

1 alternative paid-up nonforfeiture benefit which provides a
2 greater amount or longer period of death benefits or, if
3 applicable, a greater amount or earlier payment of endowment
4 benefits.

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

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

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

26 (5) In the case of policies which cause, on a basis
27 guaranteed in the policy, unscheduled changes in benefits or

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

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

1 for which such values and benefits are consecutively shown in
2 the policy.

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

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

10 §27-15-73. Computation of Cash Surrender Value.

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

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

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

25 (b) Provided, however, that for any policy issued on
26 or after the operative date of Section 27-15-78, as defined
27 therein, which provides supplemental life insurance or annuity

1 benefits at the option of the insured and for an identifiable
2 additional premium by rider or supplemental policy provision,
3 the cash surrender value referred to in subsection (a) shall
4 be an amount not less than the sum of the cash surrender value
5 as defined in subsection (a) for an otherwise similar policy
6 issued at the same age without such rider or supplemental
7 policy provision and the cash surrender value as defined in
8 subsection (a) for a policy which provides only the benefits
9 otherwise provided by the rider or supplemental policy
10 provision.

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

24 (d) Any cash surrender value available within 30
25 days after any policy anniversary under any policy paid up by
26 completion of all premium payments or any policy continued
27 under any paid-up nonforfeiture benefits, whether or not

1 required by Section 27-15-72, shall be an amount not less than
2 the present value, on the anniversary, of the future
3 guaranteed benefits provided for by the policy, including any
4 existing paid-up additions, decreased by any indebtedness to
5 the insurer on account of or secured by the policy.

6 §27-15-74. Computation of Paid-Up Nonforfeiture
7 Benefits. Any paid-up nonforfeiture benefit available under
8 the policy in the event of default in the premium payment due
9 on any policy anniversary shall be such that its present value
10 as of such anniversary shall be at least equal to the cash
11 surrender value then provided for by the policy or, if none is
12 provided for, that cash surrender value which would have been
13 required by this article in the absence of the condition that
14 premiums shall have been paid for at least a specified period.

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

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

25 a. The then present value of the future guaranteed
26 benefits provided for by the policy.

1 b. Two percent of the amount of the insurance if the
2 insurance be uniform in amount, or of the equivalent uniform
3 amount, as defined in this article, if the amount of insurance
4 varies with the duration of the policy.

5 c. Forty percent of the adjusted premium for the
6 first policy year.

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

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

20 (b) In the case of a policy providing an amount of
21 insurance varying with the duration of the policy, the
22 equivalent level amount for the purpose of this section shall
23 be deemed to be the level amount of insurance provided by an
24 otherwise similar policy, containing the same endowment
25 benefit or benefits, if any, issued at the same age and for
26 the same term, the amount of which does not vary with duration
27 and the benefits under which have the same present value at

1 the inception of the insurance as the benefits under the
2 policy.

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

19 (d) Except as otherwise provided in Sections
20 27-15-76 and 27-15-77, all adjusted premiums and present
21 values referred to in this article for all policies of
22 ordinary insurance, shall be calculated on the basis of the
23 Commissioners 1941 Standard Ordinary Mortality Table, provided
24 that for any category of ordinary insurance issued on female
25 risks, adjusted premiums and present values may be calculated
26 according to any age not more than three years younger than
27 the actual age of the insured and such calculations for all

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

16 §27-15-76. Calculation of Adjusted Premiums -
17 Ordinary Policies.

18 (a) This section shall not apply to ordinary
19 policies issued on or after the operative date of Section
20 27-15-78, as defined therein.

21 (b) In the case of ordinary policies issued on or
22 after the operative date of this section, all adjusted
23 premiums and present values referred to in this article shall
24 be calculated on the basis of the Commissioners 1958 Standard
25 Ordinary Mortality Table, provided that, for any category of
26 ordinary insurance issued on female risks, adjusted premiums
27 and present values may be calculated according to an age not

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

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

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

17 §27-15-77. Calculation of Adjusted Premiums -
18 Industrial Policies.

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

22 (b) The adjusted premiums and present values
23 referred to in this article for all policies of industrial
24 insurance shall be calculated on the basis of the
25 Commissioners 1961 Standard Industrial Mortality Table. All
26 calculations shall be made on the basis of the rate of
27 interest specified in the policy for calculating cash

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

19 §27-15-78. Calculations of Adjusted Premiums by the
20 Nonforfeiture Net Level Premium Method.

21 (a) This section shall apply to all policies issued
22 on or after the operative date of this section as defined
23 herein. Except as provided in subsection (g), the adjusted
24 premiums for any policy shall be calculated on an annual basis
25 and shall be such uniform percentage of the respective
26 premiums specified in the policy for each policy year,
27 excluding extra premiums on a substandard policy and also

1 excluding any uniform annual contract charge or policy fee
2 specified in the policy in a statement of the method to be
3 used in calculating the cash surrender values and paid-up
4 nonforfeiture benefits, that the present value, at the date of
5 issue of the policy, of all adjusted premiums shall be equal
6 to the sum of:

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

9 (2) 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.

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

23 (b) The nonforfeiture net level premium shall be
24 equal to the present value, at the date of issue of the
25 policy, of the guaranteed benefits provided for by the policy
26 divided by the present value, at the date of issue of the
27 policy, of an annuity of one percent per annum, payable on the

1 date of issue of the policy and on each anniversary of such
2 policy on which a premium falls due.

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

15 (d) Except as otherwise provided in subsection (g),
16 the recalculated future adjusted premiums for any such policy
17 shall be the uniform percentage of the respective future
18 premiums specified in the policy for each policy year,
19 excluding extra premiums on a substandard policy and also
20 excluding any uniform annual contract charge or policy fee
21 specified in the policy in a statement of the method to be
22 used in calculating the cash surrender values and paid-up
23 nonforfeiture benefits, that the present value, at the time of
24 change to the newly defined benefits or premiums, of all such
25 future adjusted premiums shall be equal to the excess of the
26 sum of (1) the then present value of the then future
27 guaranteed benefits provided for by the policy and (2) the

1 additional expense allowance, if any, over the then cash
2 surrender value, if any, or present value of any paid-up
3 nonforfeiture benefit under the policy.

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

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

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

16 (f) The recalculated nonforfeiture net level premium
17 shall be equal to the result obtained by dividing (1) by (2)
18 where (1) equals the sum of (i) the nonforfeiture net level
19 premium applicable prior to the change times the present value
20 of an annuity of one percent per annum payable on each
21 anniversary of the policy on or subsequent to the date of the
22 change on which a premium would have fallen due had the change
23 not occurred and (ii) the present value of the increase in
24 future guaranteed benefits provided for by the policy, and (2)
25 equals the present value of an annuity of one percent per
26 annum payable on each anniversary of the policy on or
27 subsequent to the date of change on which a premium falls due.

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

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

25 (1) At the option of the insurer, calculations for
26 all policies issued in a particular calendar year may be made
27 on the basis of a rate of interest not exceeding the

1 nonforfeiture interest rate, as defined in this section, for
2 policies issued in the immediately preceding calendar year.

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

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

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

23 (5) For insurance issued on a substandard basis, the
24 calculation of any such adjusted premiums and present values
25 may be based on appropriate modifications of the
26 aforementioned tables.

1 (6)a. For policies issued prior to the operative
2 date of the valuation manual, any Commissioners Standard
3 ordinary 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 1980
7 Standard Ordinary Mortality Table with or without 10-year
8 select mortality factors or for the Commissioners 1980
9 Extended Term Insurance Table.

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

24 (7)a. For policies issued prior to the operative
25 date of the valuation manual, any Commissioners Standard
26 industrial mortality tables, adopted after 1980 by the NAIC,
27 that are approved by regulation promulgated by the

1 commissioner for use in determining the minimum nonforfeiture
2 standard may be substituted for the Commissioners 1961
3 Standard Industrial Mortality Table or the Commissioners 1961
4 Industrial Extended Term Insurance Table.

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

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

20 (1) For policies issued prior to the operative date
21 of the valuation manual, the nonforfeiture interest rate per
22 annum for any policy issued in a particular calendar year
23 shall be equal to 125 percent of the calendar year statutory
24 valuation interest rate for such policy as defined in the
25 standard valuation law, rounded to the nearest one-quarter of
26 one percent, provided, however, that the nonforfeiture
27 interest rate shall not be less than four percent.

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

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

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

19 §27-15-79. Nonforfeiture Benefits for Indeterminate
20 Premium Plans. In the case of any plan of life insurance which
21 provides for future premium determination, the amounts of
22 which are to be determined by the insurer based on the
23 estimates of future experience, or, in the case of any plan of
24 life insurance which is of such a nature that minimum values
25 cannot be determined by the methods described in Section
26 27-15-72, 27-15-73, 27-15-74, 27-15-75, 27-15-76, 27-15-77, or
27 27-15-78, then:

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

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

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

15 §27-15-80. Proration of Values; Net Value of Paid-up
16 Additions. Any cash surrender value and any paid-up
17 nonforfeiture benefit available under the policy in the event
18 of default in a premium payment due at any time other than on
19 the policy anniversary shall be calculated with allowance for
20 the lapse of time and the payment of fractional premiums
21 beyond the last preceding policy anniversary. All values
22 referred to in Sections 27-15-73, 27-15-74, 27-15-75,
23 27-15-76, 27-15-77, and 27-15-78 may be calculated on the
24 assumption that any death benefit is payable at the end of the
25 policy year of death. The net value of any paid-up additions,
26 other than paid-up term additions, shall not be less than the
27 amounts used to provide such additions. Notwithstanding the

1 provisions of Section 27-15-73, additional benefits payable as
2 follows shall be disregarded in ascertaining cash surrender
3 values and nonforfeiture benefits required by this article,
4 and no such additional benefits shall be required to be
5 included in any paid-up nonforfeiture benefits:

6 (1) In the event of death or dismemberment by
7 accident or accidental means.

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

9 (3) As reversionary annuity or deferred reversionary
10 annuity benefits.

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

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

20 (6) As other policy benefits additional to life
21 insurance and endowment benefits, and premiums for all such
22 additional benefits.

23 §27-15-81. Consistency of Progression of Cash
24 Surrender Values with Increasing Policy Duration.

25 (a) This section, in addition to all other
26 applicable sections of this article, shall apply to all
27 policies issued on or after January 1, 1985. Any cash

1 surrender value available under the policy in the event of
2 default in a premium payment due on any policy anniversary
3 shall be in an amount which does not differ by more than
4 two-tenths of one percent of either the amount of insurance,
5 if the insurance be uniform in amount, or the average amount
6 of insurance at the beginning of each of the first 10 policy
7 years, from the sum of:

8 (1) The greater of zero and the basic cash value
9 hereinafter specified.

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

13 (b) The basic cash value shall be equal to the
14 present value, on such anniversary, of the future guaranteed
15 benefits which would have been provided for by the policy,
16 excluding any existing paid-up additions and before deduction
17 of any indebtedness to the insurer, if there had been no
18 default, less the then present value of the nonforfeiture
19 factors, as defined in this article, corresponding to premiums
20 which would have fallen due on and after such anniversary;
21 provided, however, that the effects on the basic cash value of
22 supplemental life insurance or annuity benefits or of family
23 coverage, as described in Section 27-15-73 or 27-15-75,
24 whichever is applicable, shall be the same as are the effects
25 specified in Section 27-15-73 or 27-15-75, whichever is
26 applicable, on the cash surrender values defined in that
27 section.

1 (c) The nonforfeiture factor for each policy year
2 shall be an amount equal to a percentage of the adjusted
3 premium for the policy year, as defined in Section 27-15-75 or
4 27-15-78, whichever is applicable. Except as is required by
5 subsection (d), the percentage:

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

8 a. The fifth policy anniversary.

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

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

19 (d) Provided, that no basic cash value may be less
20 than the value which would be obtained if the adjusted
21 premiums for the policy, as defined in Section 27-15-78, were
22 substituted for the nonforfeiture factors in the calculation
23 of the basic cash value.

24 (e) All adjusted premiums and present values
25 referred to in this section shall for a particular policy be
26 calculated on the same mortality and interest bases as are
27 used in demonstrating the policy's compliance with the other

1 sections of this article. The cash surrender values referred
2 to in this section shall include any endowment benefits
3 provided for by the policy.

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

16 §27-15-82. Exceptions. This article shall not apply
17 to any of the following:

18 (1) Reinsurance.

19 (2) Group insurance.

20 (3) Pure endowment.

21 (4) Annuity or reversionary annuity contract.

22 (5) Variable life insurance contract.

23 (6) A term policy of uniform amount, which provides
24 no guaranteed nonforfeiture or endowment benefits, or renewal
25 thereof, of 20 years or less, expiring before age 71, for
26 which uniform premiums are payable during the entire term of
27 the policy.

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

12 (8) A policy, which provides no guaranteed
13 nonforfeiture or endowment benefits, for which no cash
14 surrender value, if any, or present value of any paid-up
15 nonforfeiture benefit, at the beginning of any policy year,
16 calculated as specified in Sections 27-15-73, 27-15-74,
17 27-15-75, 27-15-76, 27-15-77, and 27-15-78, exceeds two and
18 one-half percent of the amount of insurance at the beginning
19 of the same policy year.

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

23 §27-15-83. For purposes of determining the
24 applicability of this article, the age at expiry for a joint
25 term life insurance policy shall be the age at expiry of the
26 oldest life.

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

4 Chapter 36A. Standard Valuation Law.

5 §27-36A-1. Title.

6 This chapter shall be known as the Standard
7 Valuation Law.

8 §27-36A-2. Definitions.

9 For purposes of this chapter, the following
10 definitions shall apply on or after the operative date of the
11 valuation manual:

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

16 (2) APPOINTED ACTUARY. A qualified actuary who is
17 appointed in accordance with the valuation manual to prepare
18 the actuarial opinion required in subsection (b) of Section
19 27-36A-4.

20 (3) COMPANY. An entity, which (i) has written,
21 issued, or reinsured life insurance contracts, accident and
22 health insurance contracts, or deposit-type contracts in this
23 state and has at least one such policy in force or on claim or
24 (ii) has written, issued, or reinsured life insurance
25 contracts, accident and health insurance contracts, or
26 deposit-type contracts in any state and is required to hold a

1 certificate of authority to write life insurance, accident and
2 health insurance, or deposit-type contracts in this state.

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

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

9 (6) NAIC. The National Association of Insurance
10 Commissioners.

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

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

25 (9) QUALIFIED ACTUARY. An individual who is
26 qualified to sign the applicable statement of actuarial
27 opinion in accordance with the American Academy of Actuaries

1 qualification standards for actuaries signing such statements
2 and who meets the requirements specified in the valuation
3 manual.

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

8 (11) VALUATION MANUAL. The manual of valuation
9 instructions adopted by the NAIC as specified in this chapter
10 or as subsequently amended.

11 §27-36A-3. Reserve Valuation.

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

14 (1) The commissioner shall annually value, or cause
15 to be valued, the reserve liabilities, hereinafter called
16 reserves, for all outstanding life insurance policies and
17 annuity and pure endowment contracts of every life insurance
18 company doing business in this state issued on or after
19 January 1, 1972, and prior to the operative date of the
20 valuation manual. In calculating reserves, the commissioner
21 may use group methods and approximate averages for fractions
22 of a year or otherwise. In lieu of the valuation of the
23 reserves required of any foreign or alien insurer, the
24 commissioner may accept any valuation made, or caused to be
25 made, by the insurance supervisory official of any state or
26 other jurisdiction when valuation complies with the minimum
27 standard provided in this chapter.

1 (2) The provisions set forth in Sections 27-36A-5,
2 27-36A-6, 27-36A-7, 27-36A-8, 27-36A-9, 27-36A-10, 27-36A-11,
3 27-36A-12, 27-36A-13, and 27-36A-14 shall apply to all
4 policies and contracts, as appropriate, subject to this
5 chapter issued on or after January 1, 1972, and prior to the
6 operative date of the valuation manual and the provisions set
7 forth in Sections 27-36A-15 and 27-36A-16 shall not apply to
8 any such policies and contracts.

9 (3) The minimum standard for the valuation of
10 policies and contracts issued prior to January 1, 1972, shall
11 be that provided by the laws in effect immediately prior to
12 that date.

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

15 (1) The commissioner shall annually value, or cause
16 to be valued, the reserve liabilities, hereinafter called
17 reserves, for all outstanding life insurance contracts,
18 annuity and pure endowment contracts, accident and health
19 contracts, and deposit-type contracts of every company issued
20 on or after the operative date of the valuation manual. In
21 lieu of the valuation of the reserves required of a foreign or
22 alien company, the commissioner may accept a valuation made,
23 or caused to be made, by the insurance supervisory official of
24 any state or other jurisdiction when the valuation complies
25 with the minimum standard provided in this chapter.

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

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

5 (a) Actuarial Opinion prior to the Operative Date of
6 the Valuation Manual.

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

18 (2) Actuarial analysis of reserves and assets
19 supporting reserves.

20 a. Every life insurance company, except as exempted
21 pursuant to regulation, shall also annually include in the
22 opinion required by subdivision (1) an opinion of the same
23 qualified actuary as to whether the reserves and related
24 actuarial items held in support of the policies and contracts
25 specified by the commissioner by regulation when considered in
26 light of the assets held by the company with respect to the
27 reserves and related actuarial items, including, but not

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

7 b. The commissioner may provide by regulation for a
8 transition period for establishing higher reserves which the
9 qualified actuary may deem necessary in order to render the
10 opinion required by this section.

11 (3) Requirement for opinion under subdivision (2).
12 Each opinion required by subdivision (2) shall be governed by
13 the following provisions:

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

17 b. If the company fails to provide a supporting
18 memorandum at the request of the commissioner within a period
19 specified by regulation, or the commissioner determines that
20 the supporting memorandum provided by the company fails to
21 meet the standards prescribed by the regulation or is
22 otherwise unacceptable to the commissioner, the commissioner
23 may engage a qualified actuary at the expense of the company
24 to review the opinion and the basis for the opinion and the
25 actuary shall prepare the supporting memorandum as is required
26 by the commissioner.

1 (4) Requirement for all opinions subject to
2 subsection (a). Every opinion subject to subsection (a) shall
3 be governed by the following provisions:

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

7 b. The opinion shall apply to all business in force
8 including individual and group health insurance plans. The
9 form and substance shall comply with regulation of the
10 commissioner.

11 c. The opinion shall be based on standards adopted
12 from time to time by the Actuarial Standards Board and on any
13 additional standards as the commissioner may by regulation
14 prescribe.

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

21 e. For the purposes of this section, "qualified
22 actuary" means a member in good standing of the American
23 Academy of Actuaries who meets the requirements set forth in
24 the regulation.

25 f. Except in cases of fraud or willful misconduct,
26 the qualified actuary shall not be liable for damages to any
27 person, other than the company and the commissioner, for any

1 act, error, omission, decision, or conduct with respect to the
2 actuary's opinion.

3 g. Disciplinary action by the commissioner against
4 the company or the qualified actuary shall be defined by
5 regulation of the commissioner.

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

20 i. Neither the commissioner nor any person who
21 received documents, materials, or other information while
22 acting under the authority of the commissioner shall be
23 permitted or required to testify in any private civil action
24 concerning any confidential documents, materials, or
25 information subject to paragraph h.

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

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

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

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

22 k. No waiver of any applicable privilege or claim of
23 confidentiality in the documents, materials, or information
24 shall occur as a result of disclosure to the commissioner
25 under this section or as a result of sharing as authorized in
26 paragraph j.

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

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

16 n. Once any portion of the confidential memorandum
17 is cited by the company in its marketing or is cited before
18 any governmental agency other than a state insurance
19 department or is released by the company to the news media,
20 all portions of the confidential memorandum shall be no longer
21 confidential.

22 (b) Actuarial opinion of reserves after the
23 operative date of the valuation manual.

24 (1) General. Every company with outstanding life
25 insurance contracts, accident and health insurance contracts,
26 or deposit-type contracts in this state and subject to
27 regulation by the commissioner shall annually submit the

1 opinion of the qualified actuary as to whether the reserves
2 and related actuarial items held in support of the policies
3 and contracts are computed appropriately, are based on
4 assumptions that satisfy contractual provisions, are
5 consistent with prior reported amounts and comply with
6 applicable laws of this state. The valuation manual will
7 prescribe the specifics of this opinion including any items
8 deemed to be necessary to its scope.

9 (2) Actuarial analysis of reserves and assets
10 supporting reserves. Every company with outstanding life
11 insurance contracts, accident and health insurance contracts,
12 or deposit-type contracts in this state and subject to
13 regulation by the commissioner, except as exempted in the
14 valuation manual, shall also annually include in the opinion
15 required by subdivision (1) an opinion of the same actuary as
16 to whether the reserves and related actuarial items held in
17 support of the policies and contracts specified in the
18 valuation manual, when considered in light of the assets held
19 by the company with respect to the reserves and related
20 actuarial items, including, but not limited to, the investment
21 earnings on the assets and the considerations anticipated to
22 be received and retained under the policies and contracts,
23 make adequate provision for the company's obligations under
24 the policies and contracts, including, but not limited to, the
25 benefits under and expenses associated with the policies and
26 contracts.

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

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

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

17 (4) Requirement for all opinions subject to
18 subsection (b). Every opinion subject to subsection (b) shall
19 be governed by the following provisions:

20 a. The opinion shall be in form and substance as
21 specified in the valuation manual and acceptable to the
22 commissioner.

23 b. The opinion shall be submitted with the annual
24 statement reflecting the valuation of such reserve liabilities
25 for each year ending on or after the operative date of the
26 valuation manual.

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

4 d. The opinion shall be based on standards adopted
5 from time to time by the Actuarial Standards Board or its
6 successor, and on such additional standards as may be
7 prescribed in the valuation manual.

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

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

19 g. Disciplinary action by the commissioner against
20 the company or the qualified actuary shall be defined in
21 regulations by the commissioner.

22 §27-36A-5. Computation of Minimum Standard.

23 (a) Except as provided in Sections 27-36A-6,
24 27-36A-7 and 27-36A-14, the minimum standard for the valuation
25 of all the policies and contracts issued prior to May 28,
26 1996, shall be that provided by the laws in effect immediately
27 prior to May 28, 1996.

1 (b) Except as otherwise provided in Sections
2 27-36A-6, 27-36A-7, and 27-36A-14, the minimum standard for
3 the valuation of all policies and contracts issued on or after
4 May 28, 1996, shall be the commissioners reserve valuation
5 method defined in Sections 27-36A-8, 27-36A-9, 27-36A-12, and
6 27-36A-14, three and one-half percent interest, or, in the
7 case of life insurance policies and contracts, other than
8 annuity and pure endowment contracts, issued on or after
9 August 23, 1976, four percent interest for the policies issued
10 prior to July 30, 1979, and five and one-half percent interest
11 for single premium life insurance policies and four and
12 one-half percent interest for all other policies issued on or
13 after July 30, 1979, and the following tables:

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

26 a. The Commissioners 1980 Standard Ordinary
27 Mortality Table.

1 b. At the election of the company for any one or
2 more specified plans of life insurance, the Commissioners 1980
3 Standard Ordinary Mortality Table with 10-year select
4 mortality factors.

5 c. Any ordinary mortality table, adopted after 1980
6 by the NAIC, that is approved by regulation promulgated by the
7 commissioner for use in determining the minimum standard of
8 valuation for the policies.

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

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

23 (4) For group annuity and pure endowment contracts,
24 excluding any disability and accidental death benefits in the
25 policies: The Group Annuity Mortality Table For 1951, any
26 modification of the table approved by the commissioner or, at
27 the option of the company, any of the tables or modifications

1 of tables specified for individual annuity and pure endowment
2 contracts.

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

18 (6) For accidental death benefits in or
19 supplementary to policies issued on or after January 1, 1972:
20 The 1959 Accidental Death Benefits Table or any accidental
21 death benefits table adopted after 1980 by the NAIC that is
22 approved by regulation promulgated by the commissioner for use
23 in determining the minimum standard of valuation for the
24 policies; for policies issued prior to January 1, 1972, the
25 Inter-Company Double Indemnity Mortality Table. Either table
26 shall be combined with a mortality table permitted for
27 calculating the reserves for life insurance policies.

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

4 §27-36A-6. Computation of Minimum Standard for
5 Annuities.

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

12 (1) For individual annuity and pure endowment
13 contracts issued prior to July 30, 1979, excluding any
14 disability and accidental death benefits in the contracts: The
15 1971 Individual Annuity Mortality Table, or any modification
16 of this table approved by the commissioner, and six percent
17 interest for single premium immediate annuity contracts and
18 four percent interest for all other individual annuity and
19 pure endowment contracts.

20 (2) For individual single premium immediate annuity
21 contracts issued on or after July 30, 1979, excluding any
22 disability and accidental death benefits in the contracts: The
23 1971 Individual Annuity Mortality Table or any individual
24 annuity mortality table adopted after 1980 by the NAIC that is
25 approved by regulation promulgated by the commissioner for use
26 in determining the minimum standard of valuation for the

1 contracts, or any modification of these tables approved by the
2 commissioner, and seven and one-half percent interest.

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

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

22 (5) For annuities and pure endowments purchased on
23 or after July 30, 1979, under group annuity and pure endowment
24 contracts, excluding any disability and accidental death
25 benefits purchased under the contracts: The 1971 Group Annuity
26 Mortality Table or any group annuity mortality table adopted
27 after 1980 by the NAIC that is approved by regulation

1 promulgated by the commissioner for use in determining the
2 minimum standard of valuation for such annuities and pure
3 endowments, or any modification of these tables approved by
4 the commissioner, and seven and one-half percent interest.

5 (b) After August 23, 1976, any company may file with
6 the commissioner a written notice of its election to comply
7 with this section after a specified date but before January 1,
8 1980, which shall be the operative date of this section for
9 that company. If a company makes no election, the operative
10 date of this section for that company shall be January 1,
11 1980.

12 § 27-36A-7. Computation of Minimum Standard by
13 Calendar Year of Issue.

14 (a) The interest rates used in determining the
15 minimum standard for the valuation of the following shall be
16 the calendar year statutory valuation interest rates as
17 defined in this section:

18 (1) Life insurance policies issued in a particular
19 calendar year, on or after the operative date of Section
20 27-15-78.

21 (2) Individual annuity and pure endowment contracts
22 issued in a particular calendar year on or after January 1,
23 1982.

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

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

4 (b) Calendar year statutory valuation interest
5 rates.

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

9 a. For life insurance:

10
$$I = .03 + W (R1 - .03) + W/2 (R2 - .09)$$

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

15
$$I = .03 + W (R - .03)$$

16 where R1 is the lesser of R and .09, R2 is the
17 greater of R and .09, R is the reference interest rate defined
18 in this section, and W is the weighting factor defined in this
19 section.

20 c. For other annuities with cash settlement options
21 and guaranteed interest contracts with cash settlement
22 options, valued on an issue year basis, except as stated in
23 paragraph b., the formula for life insurance stated in
24 paragraph a. shall apply to annuities and guaranteed interest
25 contracts with guarantee durations in excess of 10 years and
26 the formula for single premium immediate annuities stated in

1 paragraph b. shall apply to annuities and guaranteed interest
2 contracts with guarantee duration of 10 years or less.

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

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

12 (2) However, if the calendar year statutory
13 valuation interest rate for any life insurance policies issued
14 in any calendar year determined without reference to this
15 sentence differs from the corresponding actual rate for
16 similar policies issued in the immediately preceding calendar
17 year by less than one-half of one percent, the calendar year
18 statutory valuation interest rate for the life insurance
19 policies shall be equal to the corresponding actual rate for
20 the immediately preceding calendar year. For purposes of
21 applying the immediately preceding sentence, the calendar year
22 statutory valuation interest rate for life insurance policies
23 issued in a calendar year shall be determined for 1980, using
24 the reference interest rate defined for 1979, and shall be
25 determined for each subsequent calendar year regardless of
26 when Section 27-15-78 becomes operative.

27 (c) Weighting factors.

1 (1) The weighting factors referred to in the
2 formulas stated in subsection (b) are given in the following
3 tables:

4 a.1. Weighting Factors for Life Insurance:

5 Guarantee Duration	Weighting
6 <u>(Years)</u>	<u>Factors</u>
7 10 or less:	.50
8 More than 10, but not more	
9 than 20:	.45
10 More than 20:	.35

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

17 b. Weighting factor for single premium immediate
18 annuities and for annuity benefits involving life
19 contingencies arising from other annuities with cash
20 settlement options and guaranteed interest contracts with cash
21 settlement options: .80

22 c. Weighting factors for other annuities and for
23 guaranteed interest contracts, except as stated in paragraph

b., shall be as specified in subparagraphs 1., 2., and 3., according to the rules and definitions in subparagraphs 4., 5., and 6.:

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

	Weight-		
	ing Fac-		
	tor		
	for Plan		
	Type		
<u>(Years)</u>	<u>A</u>	<u>B</u>	<u>C</u>
5 or less:	.80	.60	.50
More than 5, but not more			
than 10:	.75	.60	.50
More than 10, but not more			
than 20:	.65	.50	.45
More than 20:	.45	.35	.35

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

	Plan Type		
	<u>A</u>	<u>B</u>	<u>C</u>

1 .15 .25 .05

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

11	Plan Type		
12	<u>A</u>	<u>B</u>	<u>C</u>
13	.05	.05	.05

14 4. For other annuities with cash settlement options
15 and guaranteed interest contracts with cash settlement
16 options, the guarantee duration is the number of years for
17 which the contract guarantees interest rates in excess of the
18 calendar year statutory valuation interest rate for life
19 insurance policies with guarantee duration in excess of 20
20 years. For other annuities with no cash settlement options and
21 for guaranteed interest contracts with no cash settlement
22 options, the guarantee duration is the number of years from

1 the date of issue or date of purchase to the date annuity
2 benefits are scheduled to commence.

3 5. Plan type as used in the above tables is defined
4 as follows:

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

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

19 Plan Type C: Policyholder may withdraw funds before
20 expiration of interest rate guarantee in a single sum or
21 installments over less than five years either (i) without
22 adjustment to reflect changes in interest rates or asset
23 values since receipt of the funds by the company or (ii)
24 subject only to a fixed surrender charge stipulated in the
25 contract as a percentage of the fund.

26 6. A company may elect to value guaranteed interest
27 contracts with cash settlement options and annuities with cash

1 settlement options on either an issue year basis or on a
2 change in fund basis. Guaranteed interest contracts with no
3 cash settlement options and other annuities with no cash
4 settlement options must be valued on an issue year basis. As
5 used in this section, an issue year basis of valuation refers
6 to a valuation basis under which the interest rate used to
7 determine the minimum valuation standard for the entire
8 duration of the annuity or guaranteed interest contract is the
9 calendar year valuation interest rate for the year of issue or
10 year of purchase of the annuity or guaranteed interest
11 contract, and the change in fund basis of valuation refers to
12 a valuation basis under which the interest rate used to
13 determine the minimum valuation standard applicable to each
14 change in the fund held under the annuity or guaranteed
15 interest contract is the calendar year valuation interest rate
16 for the year of the change in the fund.

17 (d) Reference interest rate. The reference interest
18 rate referred to in subsection (b) shall be defined as
19 follows:

20 (1) For life insurance, the lesser of the average
21 over a period of 36 months and the average over a period of 12
22 months, ending on June 30 of the calendar year next preceding
23 the year of issue, of the monthly average of the composite
24 yield on seasoned corporate bonds, as published by Moody's
25 Investors Service, Inc.

26 (2) For single premium immediate annuities and for
27 annuity benefits involving life contingencies arising from

1 other annuities with cash settlement options and guaranteed
2 interest contracts with cash settlement options, the average
3 over a period of 12 months, ending on June 30 of the calendar
4 year of issue or year of purchase, of the monthly average of
5 the composite yield on seasoned corporate bonds, as published
6 by Moody's Investors Service, Inc.

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

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

24 (5) For other annuities with no cash settlement
25 options and for guaranteed interest contracts with no cash
26 settlement options, the average over a period of 12 months,
27 ending on June 30 of the calendar year of issue or purchase,

1 of the monthly average of the composite yield on seasoned
2 corporate bonds, as published by Moody's Investors Service,
3 Inc.

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

12 (e) Alternative Method for Determining Reference
13 Interest Rates. In the event that the monthly average of the
14 composite yield on seasoned corporate bonds is no longer
15 published by Moody's Investors Service, Inc., or in the event
16 that the NAIC determines that the monthly average of the
17 composite yield on seasoned corporate bonds, as published by
18 Moody's Investors Service, Inc., is no longer appropriate for
19 the determination of the reference interest rate, then an
20 alternative method for determination of the reference interest
21 rate, adopted by the NAIC and approved by regulation
22 promulgated by the commissioner, may be substituted.

23 § 27-36A-8. Reserve Valuation Method - Life
24 Insurance and Endowment Benefits.

25 (a) Except as otherwise provided in Sections
26 27-36A-9, 27-36A-12, and 27-36A-14, reserves according to the
27 commissioners reserve valuation method, for the life insurance

1 and endowment benefits of policies providing for a uniform
2 amount of insurance and requiring the payment of uniform
3 premiums, shall be the excess, if any, of the present value,
4 at the date of valuation, of the future guaranteed benefits
5 provided for by the policies over the then present value of
6 any future modified net premiums therefor. The modified net
7 premiums for a policy shall be the uniform percentage of the
8 respective contract premiums for the benefits, excluding extra
9 premiums on a substandard policy, that the present value, at
10 the date of issue of the policy, of all modified net premiums
11 shall be equal to the sum of the then present value of the
12 benefits provided for by the policy and the excess of
13 subdivision (1) over subdivision (2) as follows:

14 (1) A net level annual premium equal to the present
15 value, at the date of issue, of the benefits provided for
16 after the first policy year, divided by the present value, at
17 the date of issue, of an annuity of one percent per annum
18 payable on the first and each subsequent anniversary of the
19 policy on which a premium falls due; however, the net level
20 annual premium shall not exceed the net level annual premium
21 on the 19-year premium whole life plan for insurance of the
22 same amount at an age one year higher than the age at issue of
23 the policy.

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

26 (b) For a life insurance policy issued on or after
27 January 1, 1985, for which the contract premium in the first

1 policy year exceeds that of the second year and for which no
2 comparable additional benefit is provided in the first year
3 for the excess and which provides an endowment benefit or a
4 cash surrender value or a combination thereof in an amount
5 greater than the excess premium, the reserve according to the
6 commissioner's reserve valuation method on the policy
7 anniversary occurring on or before the assumed ending date
8 defined herein as the first policy anniversary on which the
9 sum of any endowment benefit and any cash surrender value then
10 available is greater than the excess premium shall, except as
11 otherwise provided in Section 27-36A-12, be the greater of the
12 reserve as of the policy anniversary calculated as described
13 in subsection (a) and the reserve as of the policy anniversary
14 calculated as described in subsection (a), but with (i) the
15 value defined in subdivision (1) of subsection (a) being
16 reduced by 15 percent of the amount of excess first year
17 premium, (ii) all present values of benefits and premiums
18 being determined without reference to premiums or benefits
19 provided for by the policy after the assumed ending date,
20 (iii) the policy being assumed to mature on the date as an
21 endowment, and (iv) the cash surrender value provided on the
22 date being considered as an endowment benefit. In making the
23 above comparison, the mortality and interest bases stated in
24 Sections 27-36A-5 and 27-36A-7 shall be used.

25 (c) Reserves according to the commissioners reserve
26 valuation method shall be calculated by a method consistent

1 with the principles of subsections (a) and (b) for all of the
2 following:

3 (1) Life insurance policies providing for a varying
4 amount of insurance or requiring the payment of varying
5 premiums.

6 (2) Group annuity and pure endowment contracts
7 purchased under a retirement plan or a plan of deferred
8 compensation, established or maintained by an employer,
9 including a partnership or sole proprietorship, or by an
10 employee organization, or by both, other than a plan providing
11 individual retirement accounts or individual retirement
12 annuities under Section 408 of the Internal Revenue Code, as
13 now or hereafter amended.

14 (3) Disability and accidental death benefits in all
15 policies and contracts.

16 (4) All other benefits, except life insurance and
17 endowment benefits in life insurance policies and benefits
18 provided by all other annuity and pure endowment contracts.

19 §27-36A-9. Reserve Valuation Method - Annuity and
20 Pure Endowment Benefits.

21 (a) This section shall apply to all annuity and pure
22 endowment contracts other than group annuity and pure
23 endowment contracts purchased under a retirement plan or plan
24 of deferred compensation, established or maintained by an
25 employer, including a partnership or sole proprietorship, or
26 by an employee organization, or by both, other than a plan
27 providing individual retirement accounts or individual

1 retirement annuities under Section 408 of the Internal Revenue
2 Code, as now or hereafter amended.

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

21 §27-36A-10. Minimum Reserves.

22 (a) In no event shall a company's aggregate reserves
23 for all life insurance policies, excluding disability and
24 accidental death benefits, issued on or after January 1, 1972,
25 be less than the aggregate reserves calculated in accordance
26 with the methods set forth in Sections 27-36A-8, 27-36A-9,
27 27-36A-12, and 27-36A-13 and the mortality table or tables and

1 rate or rates of interest used in calculating nonforfeiture
2 benefits for the policies.

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

7 §27-36A-11. Optional Reserve Calculation.

8 (a) Reserves for policies and contracts issued prior
9 to January 1, 1972, may be calculated, at the option of the
10 company, according to any standards which produce greater
11 aggregate reserves for all policies and contracts than the
12 minimum reserves required by the laws in effect immediately
13 prior to that date.

14 (b) Reserves for any category of policies,
15 contracts, or benefits issued on or after January 1, 1972, may
16 be calculated, at the option of the company, according to any
17 standards which produce greater aggregate reserves for the
18 category than those calculated according to the minimum
19 standard provided in this chapter, but the rate or rates of
20 interest used for policies and contracts, other than annuity
21 and pure endowment contracts, shall not be higher than the
22 corresponding rate or rates of interest used in calculating
23 any nonforfeiture benefits provided for therein.

24 (c) A company which at any time shall have adopted
25 any standard of valuation producing greater aggregate reserves
26 than those calculated according to the minimum standard
27 provided in this chapter, with the approval of the

1 commissioner, may adopt any lower standard of valuation, but
2 not lower than the minimum provided in this chapter; provided
3 that, for the purposes of this section, the holding of
4 additional reserves previously determined by the qualified
5 actuary to be necessary to render the opinion required by
6 Section 27-36A-4 shall not be deemed to be the adoption of a
7 higher standard of valuation.

8 §27-36A-12. Reserve Calculation - Valuation Net
9 Premium Exceeding the Gross Premium Charged.

10 (a) If in any contract year the gross premium
11 charged by a company on a policy or contract issued on or
12 after January 1, 1972, is less than the valuation net premium
13 for the policy or contract calculated by the method used in
14 calculating the reserve thereon, but using the minimum
15 valuation standards of mortality and rate of interest, the
16 minimum reserve required for the policy or contract shall be
17 the greater of either the reserve calculated according to the
18 mortality table, rate of interest, and method actually used
19 for the policy or contract, or the reserve calculated by the
20 method actually used for the policy or contract but using the
21 minimum valuation standards of mortality and rate of interest
22 and replacing the valuation net premium by the actual gross
23 premium in each contract year for which the valuation net
24 premium exceeds the actual gross premium. The minimum
25 valuation standards of mortality and rate of interest referred
26 to in this section are those standards stated in Sections
27 27-36A-5 and 27-36A-7.

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

16 §27-36A-13. Reserve Calculation - Indeterminate
17 Premium Plans. In the case of any plan of life insurance which
18 provides for future premium determination, the amounts of
19 which are to be determined by the company based on then
20 estimates of future experience, or in the case of any plan of
21 life insurance or annuity which is of a nature that the
22 minimum reserves cannot be determined by the methods described
23 in Sections 27-36A-8, 27-36A-9, and 27-36A-12, the reserves
24 which are held under any plan shall comply with both of the
25 following:

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

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

4 §27-36A-14. Minimum Standard for Accident and Health
5 Insurance Contracts.

6 (a) For accident and health insurance contracts
7 issued on or after the operative date of the valuation manual,
8 the standard prescribed in the valuation manual is the minimum
9 standard of valuation required under subsection (b) of Section
10 27-36A-3.

11 (b) For disability, accident and sickness, and
12 accident and health insurance contracts issued on or after
13 January 1, 1972, and prior to the operative date of the
14 valuation manual, the minimum standard of valuation is the
15 standard adopted by the commissioner by regulation.

16 §27-36A-15. Valuation Manual for Policies Issued On
17 or After the Operative Date of the Valuation Manual.

18 (a) For policies issued on or after the operative
19 date of the valuation manual, the standard prescribed in the
20 valuation manual is the minimum standard of valuation required
21 under subsection (b) of Section 27-36A-3, except as provided
22 under subsection (e) or (g) of this section, Section
23 27-36A-19, or Section 27-36A-20.

24 (b) The operative date of the valuation manual is
25 January 1 of the first calendar year following the first July
26 1 as of which all of the following have occurred:

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

4 (2) The Standard Valuation Law, as amended by the
5 NAIC in 2009, or legislation including substantially similar
6 terms and provisions, has been enacted by states representing
7 greater than 75 percent of the direct premiums written as
8 reported in the following annual statements submitted for
9 2008: Life, accident and health annual statements; health
10 annual statements; or fraternal annual statements.

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

17 (c) Unless a change in the valuation manual
18 specifies a later effective date, changes to the valuation
19 manual shall be effective on January 1 following the date when
20 both of the following have occurred:

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

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

26 b. Members of the NAIC representing jurisdictions
27 totaling greater than 75 percent of the direct premiums

1 written as reported in the following annual statements most
2 recently available prior to the vote in paragraph a.: Life,
3 accident, and health annual statements; health annual
4 statements; or fraternal annual statements.

5 (2) The change to the valuation manual becomes
6 effective pursuant to a regulation adopted by the
7 commissioner.

8 (d) The valuation manual must specify all of the
9 following:

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

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

16 b. The commissioners annuity reserve valuation
17 method for annuity contracts subject to subsection (b) of
18 Section 27-36A-3.

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

21 (2) Which policies or contracts or types of policies
22 or contracts that are subject to the requirements of a
23 principle-based valuation in subsection (a) of Section
24 27-36A-16 and the minimum valuation standards consistent with
25 those requirements.

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

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

6 b. Assumptions shall be prescribed for risks over
7 which the company does not have significant control or
8 influence.

9 c. Procedures for corporate governance and oversight
10 of the actuarial function, and a process for appropriate
11 waiver or modification of such procedures.

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

15 a. Be consistent with the minimum standard of
16 valuation prior to the operative date of the valuation manual.

17 b. Develop reserves that quantify the benefits and
18 guarantees, and the funding, associated with the contracts and
19 their risks at a level of conservatism that reflects
20 conditions that include unfavorable events that have a
21 reasonable probability of occurring.

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

1 (6) The data and form of the data required under
2 Section 27-36A-17, with whom the data must be submitted, and
3 may specify other requirements including data analyses and
4 reporting of analyses.

5 (e) In the absence of a specific valuation
6 requirement or if a specific valuation requirement in the
7 valuation manual is not, in the opinion of the commissioner,
8 in compliance with this section, then the company shall, with
9 respect to such requirements, comply with minimum valuation
10 standards prescribed by the commissioner by regulation.

11 (f) The commissioner may engage a qualified actuary,
12 at the expense of the company, to perform an actuarial
13 examination of the company and opine on the appropriateness of
14 any reserve assumption or method used by the company, or to
15 review and opine on a company's compliance with any
16 requirement set forth in this chapter. The commissioner may
17 rely upon the opinion, regarding provisions contained within
18 this chapter, of a qualified actuary engaged by the
19 commissioner of another state, district, or territory of the
20 United States. As used in this subsection, the term "engage"
21 includes employment and contracting.

22 (g) The commissioner may require a company to change
23 any assumption or method that in the opinion of the
24 commissioner is necessary in order to comply with the
25 requirements of the valuation manual or this chapter; and the
26 company shall adjust the reserves as required by the

1 commissioner. The commissioner may take other disciplinary
2 action as permitted pursuant to this title.

3 §27-36A-16. Requirements of a Principle-Based
4 Valuation.

5 (a) A company must establish reserves using a
6 principle-based valuation that meets the following conditions
7 for policies or contracts as specified in the valuation
8 manual:

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

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

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

24 a. The assumption is prescribed in the valuation
25 manual.

26 b. For assumptions that are not prescribed, the
27 assumptions shall either:

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

4 2. To the extent that company data is not available,
5 relevant, or statistically credible, be established utilizing
6 other relevant, statistically credible experience.

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

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

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

16 (2) Provide to the commissioner and the board of
17 directors an annual certification of the effectiveness of the
18 internal controls with respect to the principle-based
19 valuation. The controls shall be designed to assure that all
20 material risks inherent in the liabilities and associated
21 assets subject to such valuation are included in the
22 valuation, and that valuations are made in accordance with the
23 valuation manual. The certification shall be based on the
24 controls in place as of the end of the preceding calendar
25 year.

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

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

6 §27-36A-17. Experience Reporting for Policies In
7 Force On or After the Operative Date of the Valuation Manual.
8 A company shall submit mortality, morbidity, policyholder
9 behavior, or expense experience and other data as prescribed
10 in the valuation manual.

11 §27-36A-18. Confidentiality.

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

14 (1) A memorandum in support of an opinion submitted
15 under Section 27-36A-4 and any other documents, materials, and
16 other information, including, but not limited to, all working
17 papers, and copies thereof, created, produced, or obtained by
18 or disclosed to the commissioner or any other person in
19 connection with such memorandum.

20 (2) All documents, materials, and other information,
21 including, but not limited to, all working papers, and copies
22 thereof, created, produced, or obtained by or disclosed to the
23 commissioner or any other person in the course of an
24 examination made under subsection (f) of Section 27-36A-15;
25 provided, however, that if an examination report or other
26 material prepared in connection with an examination made under
27 Chapter 2 is not held as private and confidential information

1 under Section 27-2-24, an examination report or other material
2 prepared in connection with an examination made under
3 subsection (f) of Section 27-36A-15 shall not be "confidential
4 information" to the same extent as if such examination report
5 or other material had been prepared under Chapter 2.

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

17 (4) Any principle-based valuation report developed
18 under subdivision (3) of subsection (b) of Section 27-36A-16
19 and any other documents, materials, and other information,
20 including, but not limited to, all working papers, and copies
21 thereof, created, produced, or obtained by or disclosed to the
22 commissioner or any other person in connection with such
23 report.

24 (5) Any documents, materials, data, and other
25 information submitted by a company under Section 27-36A-17,
26 collectively "experience data," and any other documents,
27 materials, data, and other information, including, but not

1 limited to, all working papers, and copies thereof, created or
2 produced in connection with such experience data, in each case
3 that includes any potentially company-identifying or
4 personally identifiable information, that is provided to or
5 obtained by the commissioner, together with any "experience
6 data," the "experience materials," and any other documents,
7 materials, data, and other information, including, but not
8 limited to, all working papers, and copies thereof, created,
9 produced, or obtained by or disclosed to the commissioner or
10 any other person in connection with such experience materials.

11 (b) Privilege for, and Confidentiality of,
12 Confidential Information.

13 (1) Except as provided in this section, a company's
14 confidential information is confidential by law and
15 privileged, shall not be subject to any open records, freedom
16 of information, sunshine or other public record disclosure
17 laws, and shall not be subject to subpoena, and shall not be
18 subject to discovery or admissible in evidence in any private
19 civil action. However, the commissioner is authorized to use
20 the confidential information in the furtherance of any
21 regulatory or legal action brought against the company as a
22 part of the commissioner's official duties.

23 (2) Neither the commissioner nor any person who
24 received confidential information while acting under the
25 authority of the commissioner shall be permitted or required
26 to testify in any private civil action concerning any
27 confidential information.

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

17 (4) The commissioner may receive documents,
18 materials, data, and other information, including otherwise
19 confidential and privileged documents, materials, data, or
20 information, from the NAIC and its affiliates and
21 subsidiaries, from regulatory or law enforcement officials of
22 other foreign or domestic jurisdictions, and from the
23 Actuarial Board for Counseling and Discipline or its successor
24 and shall maintain as confidential and privileged any
25 document, material, data, or other information received with
26 notice or the understanding that it is confidential or

1 privileged under the laws of the jurisdiction that is the
2 source of the document, material, or other information.

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

6 (6) No waiver of any applicable privilege or claim
7 of confidentiality in the confidential information shall occur
8 as a result of disclosure to the commissioner under this
9 section or as a result of sharing as authorized in subdivision
10 (3).

11 (7) A privilege established under the law of any
12 state or jurisdiction that is substantially similar to the
13 privilege established under this subsection shall be available
14 and enforced in any proceeding in, and in any court of, this
15 state.

16 (8) In this section, the terms "regulatory agency,"
17 "law enforcement agency," and the "NAIC" include, but are not
18 limited to, their employees, agents, consultants, and
19 contractors.

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

23 (1) May be subject to subpoena for the purpose of
24 defending an action seeking damages from the appointed actuary
25 submitting the related memorandum in support of an opinion
26 submitted under Section 27-36A-4 or principle-based valuation
27 report developed under subdivision (3) of subsection (b) of

1 Section 27-36A-16 by reason of an action required by this
2 chapter or by regulations promulgated hereunder.

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

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

14 §27-36A-19. Single State Exemption.

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

19 (1) The commissioner has issued an exemption in
20 writing to the company and has not subsequently revoked the
21 exemption in writing.

22 (2) The company computes reserves using assumptions
23 and methods used prior to the operative date of the valuation
24 manual in addition to any requirements established by the
25 commissioner and promulgated by regulation.

26 (b) For any company granted an exemption under this
27 section, Sections 27-36A-4(a), 27-36A-5, 27-36A-6, 27-36A-7,

1 27-36A-8, 27-36A-9, 27-36A-10, 27-36A-11, 27-36A-12,
2 27-36A-13, and 27-36A-14 shall be applicable. With respect to
3 any company applying this exemption, any reference to Section
4 27-36A-15 found in Sections 27-36A-4(b), 27-36A-5, 27-36A-6,
5 27-36A-7, 27-36A-8, 27-36A-9, 27-36A-10, 27-36A-11, 27-36A-12,
6 27-36A-13, and 27-36A-14 shall not be applicable.

7 §27-36A-20. Small company alternative valuation.

8 (a) A company calculating reserves under this
9 section shall calculate reserves for ordinary life insurance,
10 accident and health insurance contracts, credit life
11 contracts, group life contracts, annuities, or deposit-type
12 contracts in this state as if the policies were issued before
13 the operative date of the valuation manual. For such policies
14 issued after the operative date of the valuation manual, any
15 mortality and interest rates defined by the valuation manual
16 for net premium reserves shall be used. A company calculating
17 reserves under this section shall comply with Section
18 27-36A-4(a) instead of Section 27-36A-4(b) and meet all of the
19 following conditions:

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

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

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

1 (4) The appointed actuary has provided an
2 unqualified opinion on the reserves in accordance with Section
3 27-36A-4 for the prior calendar year.

4 (5) The company has provided a certification by a
5 qualified actuary that any universal life policy with a
6 secondary guarantee issued after the operative date of the
7 valuation manual meets the definition of a non-material
8 secondary guarantee universal life product as defined in the
9 valuation manual.

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

14 (c) An Alabama-domiciled company intending to
15 calculate reserves as described in this section must file a
16 statement with the commissioner prior to July 1 of each year
17 certifying that these conditions are met for the current
18 calendar year based on premiums and other values from the
19 prior financial statements. The commissioner may reject the
20 statement prior to September 1 if the commissioner
21 specifically identifies risk in the affected policies that
22 requires a principle-based valuation and require the company
23 to comply with the valuation manual requirements.

24 (d) A company that reports reserves using the
25 alternative valuation shall also be exempt from the
26 principle-based reserves corporate governance requirements,
27 certification of effectiveness of principle-based reserves

1 internal controls, and a principle-based reserves valuation
2 report.

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

6 Section 4. This act shall become effective on the
7 first day of January following its passage and approval by the
8 Governor, or its otherwise becoming law.