

Regulatory Analysis Form

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 INDEPENDENT REGULATORY
 REVIEW COMMISSION

IRRC Number: 2578

(1) Agency

Insurance Department

(2) I.D. Number (Governor's Office Use)

11-236

(3) Short Title

Recognition of the 2001 CSO Mortality Table for Use in Determining Minimum Reserve Liabilities and Nonforfeiture Benefits and the 2001 CSO Preferred Class Structure Mortality Table for Use in Determining Minimum Reserve Liabilities

(4) PA Code Cite

31 Pa. Code, Chapter 84d, §§84d.1-84d.6

(5) Agency Contacts & Telephone Numbers

Primary Contact: Peter J. Salvatore, Regulatory Coordinator, 1326 Strawberry Square, Harrisburg, PA 17120, (717) 787-4429
 Secondary Contact:

(6) Type of Rulemaking (check one)

- Proposed Rulemaking
- Final Order Adopting Regulation
- Final Order, Proposed Rulemaking Omitted

(7) Is a 120-Day Emergency Certification Attached?

- No
- Yes: By the Attorney General
- Yes: By the Governor

(8) Briefly explain the regulation in clear and nontechnical language.

Chapter 84d establishes the 2001 CSO Mortality Table as the minimum valuation standard for use in calculating reserve liabilities. The final-omitted rulemaking adds the 2001 CSO Preferred Class Structure Mortality Table as a mortality table that may be used, at the option of the insurer, instead of the 2001 CSO Mortality Table, as the minimum valuation standard.

(9) State the statutory authority for the regulation and any relevant state or federal court decision.

Sections 206, 506, 1501 and 1502 of The Administrative Code of 1929 (71 P.S. §§ 66, 186, 411, 412); section 301(c)(1) of the Insurance Department Act of 1921 (40 P.S. §71 (c)(1)); and 31 Pa. Code §§84c.5(a) and (b) (relating to basic reserves minimum standard; and deficiency reserves minimum standard).

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(10) Is the regulation mandated by any federal or state law or court order, or federal regulation? If yes, cite the specific law, case or regulation, and any deadlines for action.

No.

(11) Explain the compelling public interest that justifies the regulation. What is the problem it addresses?

The 2001 CSO Mortality Table does not distinguish between preferred and standard risks in determining minimum valuation standards. The final-omitted rulemaking will permit, at the option of the insurer, the use of a mortality table that does distinguish between preferred and standard risks. The reserve liabilities using the 2001 CSO Preferred Class Structure Mortality Table will likely be reduced for preferred lives. Generally, lower reserves enable an insurer to charge customers lower premiums.

(12) State the public health, safety, environmental or general welfare risks associated with nonregulation.

If an insurer is required to maintain excessive reserves, generally, the added cost to the insurer results in higher premium charges.

(13) Describe who will benefit from the regulation. (Quantify the benefits as completely as possible and approximate the number of people who will benefit.)

Residents of this Commonwealth who purchase life insurance contracts will benefit from the rulemaking because, generally, premium charges could be reduced.

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(14) Describe who will be adversely affected by the regulation. (Quantify the adverse effects as completely as possible and approximate the number of people who will be adversely affected.)

Since the use of the 2001 CSO Preferred Class Structure Mortality Table is optional, insurers will likely not use the table unless it will reduce reserves. Therefore, there are no parties that will be adversely affected by the amendment to the regulation.

(15) List the persons, groups or entities that will be required to comply with the regulation. (Approximate the number of people who will be required to comply.)

All life insurance companies will have the option to use the 2001 CSO Preferred Class Structure Mortality Table as the minimum valuation standard.

(16) Describe the communications with and input from the public in the development and drafting of the regulation. List the persons and/or groups who were involved, if applicable.

The insurance industry, working together with the National Association of Insurance Commissioners, developed this regulation, therefore, outreach to the industry was not necessary.

(17) Provide a specific estimate of the costs and/or savings to the regulated community associated with compliance, including any legal, accounting or consulting procedures which may be required.

Use of the 2001 CSO Preferred Class Structure Mortality Table by an insurer will likely reduce reserve requirements, but it is difficult to assess what affect such use of the additional tables will have on each specific company's reserves. There should be no additional costs to the regulated community associated with compliance with these amendments to the regulation.

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(18) Provide a specific estimate of the costs and/or savings to local governments associated with compliance, including any legal, accounting or consulting procedures which may be required.

There are no costs or savings to local governments associated with this rulemaking.

(19) Provide a specific estimate of the costs and/or savings to state government associated with the implementation of the regulation, including any legal, accounting, or consulting procedures which may be required.

There are no costs or savings associated to state government associated with this rulemaking. The extent of the valuation analysis performed by the Department is not affected by the insurer's choice of mortality table used in the calculation of reserves.

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(20) In the table below, provide an estimate of the fiscal savings and costs associated with implementation and compliance for the regulated community, local government, and state government for the current year and five subsequent years. N/A

	Current FY Year	FY +1 Year	FY +2 Year	FY +3 Year	FY +4 Year	FY +5 Year
SAVINGS:	\$	\$	\$	\$	\$	\$
Regulated Community						
Local Government						
State Government						
Total Savings						
COSTS:						
Regulated Community						
Local Government						
State Government						
Total Costs						
REVENUE LOSSES:						
Regulated Community						
Local Government						
State Government						
Total Revenue Losses						

(20a) Explain how the cost estimates listed above were derived.

N/A.

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(20b) Provide the past three year expenditure history for programs affected by the regulation.
N/A.

Program	FY -3	FY -2	FY -1	Current FY

(21) Using the cost-benefit information provided above, explain how the benefits of the regulation outweigh the adverse effects and costs.

No costs or adverse effects are anticipated as a result of this regulation.

(22) Describe the nonregulatory alternatives considered and the costs associated with those alternatives. Provide the reasons for their dismissal.

No other nonregulatory alternatives were considered. The amendment of Chapter 84d is necessary to revise the minimum valuation standards of the chapter.

(23) Describe alternative regulatory schemes considered and the costs associated with those schemes. Provide the reasons for their dismissal.

A separate, free-standing regulation recognizing the additional mortality tables was considered, but amending the existing regulation would allow the Department to implement the additional mortality tables in the most efficient and timely manner.

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(24) Are there any provisions that are more stringent than federal standards? If yes, identify the specific provisions and the compelling Pennsylvania interest that demands stronger regulation.

No.

(25) How does this regulation compare with those of other states? Will the regulation put Pennsylvania at a competitive disadvantage with other states?

The rulemaking will not put Pennsylvania at a competitive disadvantage with other states.

(26) Will the regulation affect existing or proposed regulations of the promulgating agency or other state agencies? If yes, explain and provide specific citations.

No.

(27) Will any public hearings or informational meetings be scheduled? Please provide the dates, times, and locations, if available.

No public hearings or informational meetings are anticipated.

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(28) Will the regulation change existing reporting, record keeping, or other paperwork requirements? Describe the changes and attach copies of forms or reports which will be required as a result of implementation, if available.

The rulemaking does not change existing reporting, record keeping or other paperwork requirements.

(29) Please list any special provisions which have been developed to meet the particular needs of affected groups or persons including, but not limited to, minorities, elderly, small businesses, and farmers.

The rulemaking will have no effect on special needs of affected parties.

(30) What is the anticipated effective date of the regulation; the date by which compliance with the regulation will be required; and the date by which any required permits, licenses or other approvals must be obtained?

The rulemaking will take effect upon approval of the final-omitted regulation by the Legislative Standing Committees, the Office of the Attorney General, and the Independent Regulatory Review Commission with the optional use of the 2001 CSO Preferred Class Structure Mortality Table that applies to policies issued on or after January 1, 2007.

(31) Provide the schedule for continual review of the regulation.

The Department reviews each of its regulations for continued effectiveness on a triennial basis.

CDL-1

FACE SHEET
FOR FILING DOCUMENTS
WITH THE LEGISLATIVE REFERENCE
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(Pursuant to Commonwealth Documents Law)

2578

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FINANCIAL COMMISSION

DO NOT WRITE IN THIS SPACE

Copy below is hereby approved as to form and legality. Attorney General

By _____
(Deputy Attorney General)

Date of Approval

→ Check if applicable.
Copy not approved. Objections
attached.

Copy below is hereby certified to be a true and correct copy of a document issued, prescribed or promulgated by:

Insurance Department

(AGENCY)

DOCUMENT/FISCAL NOTE NO. 11-236

DATE OF ADOPTION: _____

BY: M. Diane Koken
M. Diane Koken

Insurance Commissioner
TITLE: _____
(EXECUTIVE OFFICER, CHAIRMAN OR SECRETARY)

Copy below is hereby approved as to form and legality. Executive or Independent Agencies

BY: Andrew C. Clark
Andrew C. Clark

OCT 11 2006

DATE OF APPROVAL

(DEPUTY GENERAL COUNSEL)
(~~CHIEF COUNSEL, INDEPENDENT AGENCY~~)
(~~STRIKE INAPPLICABLE TITLE~~)

→ Check if applicable. No Attorney General approval or objection within 30 days after submission.

NOTICE OF FINAL-OMITTED RULEMAKING

INSURANCE DEPARTMENT

31 Pa. Code Chapter 84d
§§84d.1-84d.6

Recognition of the 2001 CSO Mortality Table for Use in Determining Minimum Reserve Liabilities and Nonforfeiture Benefits and the 2001 CSO Preferred Class Structure Mortality Table for Use in Determining Minimum Reserve Liabilities

PREAMBLE

By notice, the Insurance Department (Department) hereby amends Title 31 of the Pennsylvania Code, Chapter 84d, Recognition of the 2001 CSO Mortality Table for Use in Determining Minimum Reserve Liabilities and Nonforfeiture Benefits, as set forth in Annex A. The proposal is made under the authority of sections 206, 506, 1501, 1502 of The Administrative Code of 1929 (71 P.S. §§ 66, 186, 411, 412), section 301(c)(1) of The Insurance Department Act of 1921 (40 P.S. §71(c)(1)), and 31 Pa. Code §§84c.5(a) and (b) (relating to basic reserves minimum standard; and deficiency reserves minimum standard).

Notice of the proposed rulemaking is omitted in accordance with section 204(3) of the act of July 31, 1968 (P.L. 769, No. 240) known as the Commonwealth Documents Law (CDL) (45 P.S. § 1204(3)). Under Section 204(3) of the CDL, notice of proposed rulemaking may be omitted when the agency for good cause finds that public notice of its intention to amend an administrative regulation is, under the circumstances, impracticable and unnecessary.

Purpose

Section 301(c)(1) of The Insurance Department Act of 1921 (40 P.S. §71(c)(1)) and 31 Pa. Code §§84c.5(a) and (b) (relating to basic reserves minimum standard; and deficiency reserves minimum standard) authorize the Commissioner to promulgate regulations specifying new mortality tables adopted after 1980 by the National Association of Insurance Commissioners (NAIC) for use in determining minimum valuation standards. The purpose of this rulemaking is to amend Chapter 84d to specify the 2001 CSO Preferred Class Structure Mortality Table as a mortality table that may be used, at the option of the insurer, instead of the 2001 CSO Mortality Table, as the minimum valuation standard for policies issued on or after January 1, 2007.

The 2001 CSO Preferred Class Structure Mortality Table is a split of the 2001 CSO Mortality Table to separate preferred and standard tables. The table was adopted by the NAIC in September, 2006.

Explanation of regulatory requirements

The following is a description of the changes contained in the final-omitted rulemaking.

The heading of Chapter 84d is amended to read "Recognition of the 2001 CSO Mortality Table for Use in Determining Minimum Reserve Liabilities and Nonforfeiture Benefits and the 2001 CSO Preferred Class Structure Mortality Table for Use in Determining Minimum Reserve Liabilities."

Section 84d.2 (relating to definitions) is amended to add the definition of the 2001 CSO Preferred Class Structure Mortality Table and the definition of Statistical Agent. Various editorial changes were also made to clearly identify the applicable mortality tables.

Section 84d.3 (relating to 2001 CSO mortality table) is amended to clearly identify the applicable mortality table.

Section 84d.3a (relating to 2001 CSO preferred class structure mortality table) is amended to add a new provision that allows for the optional use of the 2001 CSO Preferred Class Structure Mortality Table as a minimum valuation standard. Conditions for the use of the table are established. In addition, a requirement for filing statistical reports is added.

Affected parties

This final-omitted rulemaking will apply to insurers issuing life insurance coverage in this Commonwealth.

Fiscal impact

State Government

There will be no increase in cost to the Department due to the use of the new mortality table since the extent of the analysis performed by the Department is not affected by the mortality table used in the calculation of reserves.

General Public

It is possible that the cost of insurance will be reduced for consumers who purchase life insurance coverage due to improved mortality recognized by the 2001 CSO Preferred Class Structure Mortality Table.

Political Subdivisions

There will be no fiscal impact on political subdivisions as insurers will continue to maintain adequate reserves. Adequate reserves have the potential to minimize insurer insolvencies that could result in less erosion of the tax base since insurers pay premium taxes on premium income and pay salaries that are taxed.

Private Sector

The use of the 2001 CSO Preferred Class Structure Mortality Table generally will reduce the reserve liabilities of an insurance company. In addition, the use of the table is optional.

Paperwork

The final-omitted rulemaking will not impose additional paperwork on the Department. An insurance company that elects to use the 2001 CSO Preferred Class Structure Mortality Table as the minimum valuation standard will be required to submit an election and annually thereafter a certification to the Commissioner that the conditions for use of the table are satisfied.

Effectiveness/sunset date

The final-omitted rulemaking will become effective January 1, 2007. No sunset date has been assigned.

Contact Person

Questions or comments regarding the final-omitted rulemaking may be addressed in writing to Peter J. Salvatore, Regulatory Coordinator, Insurance Department, 1326 Strawberry Square, Harrisburg, PA 17120., Questions and comments may also be e-mailed to psalvatore@state.pa.us or faxed to (717) 772-1969.

Regulatory Review

Under section 5(a) of the Regulatory Review Act, Act 24 of 1997 (71 P.S. §745.5(a)), the Department submitted a copy of the regulations with the proposed rulemaking omitted on October 13, 2006, to the Independent Regulatory Review Commission (IRRC) and to the Chairpersons of the House Committee on Insurance and the Senate Committee on Banking and Insurance. On the same date, the regulations were submitted to the Office of Attorney General for review and approval under the Commonwealth Attorneys Act (71 P.S. §§ 732-101 - 732-506).

In accordance with section 5 (c) of the Regulatory Review Act, the regulations were (deemed) approved by the Senate Banking and Insurance Committee on _____, and (deemed) approved by the House Insurance Committee on _____. The Attorney General approved the regulation on _____. IRRC met on _____ and approved the regulation.

Findings

The Insurance Commissioner finds that:

- (1) There is good cause to amend Chapter 84d effective upon publication with the proposed rulemaking omitted. Deferral of the effective date of these regulations would be impractical and not serve the public interest. Under Section 204(3) of the CDL there is no purpose to be served by deferring the effective date.

(2) There is good cause to forego public notice of the intention to amend Chapter 84d because notice of the amendment under the circumstances is unnecessary and impractical (45 P.S. §1204(3)) for the following reasons:

(i) Section 301(c)(1) of The Insurance Department Act of 1921 (40 P.S. §71(c)(1)) allows any ordinary mortality table adopted after 1980 by the NAIC, which is approved by regulation promulgated by the Insurance Commissioner, to be used when determining the minimum standard of valuation for such policies

(ii) Public comment is unnecessary because the purpose of this regulation is to merely recognize a division within an existing and previously promulgated mortality table by preferred and standard categories. Because such tables have already been duly promulgated, because the life insurance industry is supportive of this division, and because the division will benefit both insurance companies (by requiring lower reserve levels) and insurance consumers (by possibly lowering insurance premiums), public notice of the intention to amend Chapter 84d is unnecessary and impractical.

(iii) In the interest of uniformity with the NAIC's adoption of the divided 2001 CSO Mortality Tables and the NAIC's intent to have these tables be available for the valuation of all life insurance policies issued on or after January 1, 2007, there is an immediacy for the need to promulgate this regulation prior to that date.

Order

The Insurance Commissioner, acting under the authority in Sections 206, 506, 1501 and 1502 of the Administrative Code of 1929, orders that:

(1) The Regulations of the Department at 31 Pa Code, Chapter 84d are amended as set forth in Annex A, with ellipses referring to the existing text of the regulations.

(2) The Department shall submit this order and Annex A to the Office of Attorney General and the Office of General Counsel for approval as to form and legality as required by law.

(3) The Department shall certify this order and Annex A and deposit them with the Legislative Reference Bureau as required by law.

(4) This order shall take effect upon its publication in the *Pennsylvania Bulletin*.

M. DIANE KOKEN
Insurance Commissioner

CONTINUATION SHEET FOR FILING DOCUMENTS
WITH THE LEGISLATIVE REFERENCE BUREAU
Pursuant to Commonwealth Documents Law

ANNEX A

**TITLE 31. INSURANCE. PART VI. LIFE INSURANCE. CHAPTER 84d.
RECOGNITION OF THE 2001 CSO MORTALITY TABLE FOR USE IN
DETERMINING MINIMUM RESERVE LIABILITIES AND NONFORFEITURE
BENEFITS AND THE 2001 CSO PREFERRED CLASS STRUCTURE MORTALITY
TABLE FOR USE IN DETERMINING MINIMUM RESERVE LIABILITIES**

Sec.

84d.1.	Purpose.
84d.2.	Definitions.
84d.3.	2001 CSO Mortality Table.
84d.3a.	<u>2001 CSO Preferred Class Structure Mortality Table.</u>
84d.4.	Applicability of the 2001 CSO Mortality Table to Chapter 84c (relating to valuation of life insurance policies).
84d.5.	Gender-blended tables.
84d.6.	Permitted usage.

§ 84d.1. Purpose.

This chapter implements section 301(c)(1) of the act (40 P.S. § 71(c)(1)), section 410A(e)(8)(F) of the law (40 P.S. § 510.1(e)(8)(F)) and § 84c.5(a) and (b) (relating to general requirements for basic reserves and premium deficiency reserves) which authorize the Commissioner to promulgate regulations specifying tables adopted after 1980 by the NAIC for use in determining minimum nonforfeiture standards and minimum valuation standards.

§ 84d.2. Definitions.

The following words and terms, when used in this chapter, have the following meanings, unless the context clearly indicates otherwise:

Act – The Insurance Department Act of 1921 (40 P.S. §§ 1 – 324).

Actuarial Standards Board – The board established by the American Academy of Actuaries, or a successor thereto, to develop and promulgate standards of actuarial practice.

Commissioner – The Insurance Commissioner of the Commonwealth.

2001 CSO Composite Mortality Tables – The 2001 CSO [m]Mortality [t]Tables with rates of mortality that do not distinguish between smokers and nonsmokers.

Law – The Insurance Company Law of 1921 (40 P.S. §§ 341 – 991)

NAIC – The National Association of Insurance Commissioners.

2001 CSO Smoker and Nonsmoker Mortality Tables – The 2001 CSO [m]Mortality [t]Tables with separate rates of mortality for smokers and nonsmokers.

2001 CSO Mortality Table – The mortality table, consisting of separate rates of mortality for male and female lives, developed by the American Academy of Actuaries CSO Task Force from the Valuation Basic Mortality Table developed by the Society of Actuaries Individual Life Insurance Valuation Mortality Task Force, and adopted by the NAIC in December 2002. The 2001 CSO Mortality Table is included in the *Proceedings of the NAIC (2nd Quarter 2002)*. Unless the context indicates otherwise, the 2001 CSO Mortality Table includes both the ultimate form of that table and the select and ultimate form of that table and includes both the smoker and nonsmoker mortality tables and the composite mortality tables. It also includes both the age-nearest-birthday and age-last-birthday bases of the mortality tables.

2001 CSO Mortality Table (F) – The mortality table consisting of the rates of mortality for female lives from the 2001 CSO Mortality Table.

2001 CSO Mortality Table (M) – The mortality table consisting of the rates of mortality for male lives from the 2001 CSO Mortality Table.

2001 CSO Preferred Class Structure Mortality Table – The mortality tables with separate rates of mortality for Super Preferred Nonsmoker, Preferred Nonsmoker, Residual Standard Nonsmoker, Preferred Smoker and Residual Standard Smoker splits of the 2001 CSO Nonsmoker and Smoker Mortality Tables as adopted by the NAIC at the September 2006 meeting and published in the NAIC minutes for that meeting. Unless the context indicates otherwise, the 2001 CSO Preferred Class Structure Mortality Table includes both the ultimate form of that table and the select and ultimate form of that table. It includes both the male and female mortality tables. It also includes both the age-nearest-birthday and age-last-birthday bases of the mortality table.

Statistical Agent – An entity with proven systems for protecting the confidentiality of individual insured and company information, demonstrated resources for and history of ongoing electronic communications and data transfer ensuring data integrity with insurance companies, which are its members or subscribers, and a history of and means for aggregation of data and accurate promulgation of the experience modifications in a timely manner.

§ 84d.3. 2001 CSO Mortality Table.

(a) At the election of the company for any one or more specified plans of insurance and subject to the conditions stated in this chapter, the 2001 CSO Mortality Table may be used as the minimum nonforfeiture standard and the minimum valuation standard for policies issued on or after January 1, 2004, and before the date specified in subsection (b). If the company elects to use the 2001 CSO Mortality Table, it shall do so for both nonforfeiture and valuation purposes.

(b) Subject to the conditions stated in this chapter, the 2001 CSO Mortality Table shall be used as the minimum nonforfeiture standard and the minimum valuation standard for policies issued on and after January 1, 2009.

(c) For each policy form with separate rates for smokers and nonsmokers a company may use the 2001 CSO Mortality Tables in one of the following ways:

(1) The 2001 CSO Composite Mortality Tables as the minimum nonforfeiture standard and the minimum valuation standard.

(2) The 2001 CSO Composite Mortality Tables as the minimum nonforfeiture standard and to determine the minimum reserves required by section 301 of the act (40 P.S. § 71) and the 2001 CSO Smoker and Nonsmoker Mortality Tables as the minimum valuation standard to determine the additional minimum reserves, if any, required by section 303 of the act (40 P.S. § 73).

(3) The 2001 CSO Smoker and Nonsmoker Mortality Tables as the minimum nonforfeiture standard and the minimum valuation standard.

(d) For each policy form without separate rates for smokers and nonsmokers the 2001 CSO Composite Mortality Tables shall be used as the minimum nonforfeiture standard and the minimum valuation standard.

(e) Subject to the restrictions of § 84d.4 (relating to applicability of the 2001 CSO Mortality Table to Chapter 84c (relating to valuation of life insurance policies)) and Chapter 84c, the 2001 CSO Mortality Table may, at the option of the company for each policy form, be used in its ultimate or select and ultimate form as the minimum nonforfeiture standard and the minimum valuation standard.

(f) When the 2001 CSO Mortality Table is the minimum reserve standard for any policy form for a company, the actuarial opinion in the annual statement filed with the Commissioner shall be based on an asset adequacy analysis as specified in Chapter 84b (relating to actuarial

opinion and memorandum). The Commissioner may exempt a company from this requirement if it only does business in this Commonwealth.

§ 84d.3a. 2001 CSO Preferred Class Structure Mortality Table

(a) At the election of the company, for each calendar year of issue, for any one or more specified plans of insurance and subject to satisfying the conditions stated in this chapter, the 2001 CSO Preferred Class Structure Mortality Table may be substituted in place of the 2001 CSO Smoker or Nonsmoker Mortality Table as the minimum valuation standard for policies issued on or after January 1, 2007. Prior to such election, the company must demonstrate to the satisfaction of the Commissioner that at least 20% of the business to be valued on this table is in one or more of the preferred classes.

(b) For each policy form with separate rates for preferred and standard nonsmokers, a company may use the Super Preferred Nonsmoker, Preferred Nonsmoker, and Residual Standard Nonsmoker Tables to substitute for the 2001 CSO Nonsmoker Mortality Tables as the minimum valuation standard. At the time of election and annually thereafter, except for business valued using the Residual Standard Nonsmoker Table, the company shall provide the Commissioner a certification from the appointed actuary of the following:

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

(2) For each class, the present value of death benefits over the future life of the contracts using anticipated mortality experience without recognition of mortality improvement beyond

the valuation date is less than the present value of death benefits using the valuation basic table corresponding to the valuation table used for that class.

(c) For each policy form with separate rates for preferred and standard smokers, a company may use the Preferred Smoker and Residual Standard Smoker Tables to substitute for the 2001 CSO Smoker Mortality Tables as the minimum valuation standard. At the time of election and annually thereafter for business valued using the Preferred Smoker Table, the company shall provide the Commissioner a certification from the appointed actuary of the following:

(1) The present value of death benefits over the next ten years after the valuation date using anticipated mortality experience without recognition of mortality improvement beyond the valuation date is less than the present value of death benefits using the valuation basic table corresponding to the Preferred Smoker Table.

(2) The present value of death benefits over the future life of the contracts using anticipated mortality experience without recognition of mortality improvement beyond the valuation date is less than the present value of death benefits using the valuation basic table corresponding to the Preferred Smoker Table.

(d) When the 2001 CSO Preferred Class Structure Mortality Table is the minimum reserve standard for any policy form for a company, the actuarial opinion in the annual statement filed with the Commissioner shall be based on an asset adequacy analysis as specified in Chapter 84b (relating to actuarial opinion and memorandum). The Commissioner may exempt a company from this requirement if it only does business in this Commonwealth.

(e) Unless exempted by the Commissioner, every authorized company using the 2001 CSO Preferred Class Structure Mortality Table shall annually file with the Commissioner, with the NAIC, or with a statistical agent designated by the NAIC and acceptable to the Commissioner,

statistical reports showing mortality and such other information as the Commissioner may deem necessary or expedient for the administration of the provisions of this chapter. The form of the reports shall be established by the Commissioner or the Commissioner may require the use of a form established by the NAIC or by a statistical agent designated by the NAIC and acceptable to the Commissioner.

§ 84d.4. Applicability of the 2001 CSO Mortality Table to Chapter 84c (relating to valuation of life insurance policies).

(a) The 2001 CSO Mortality Table shall be used in applying Chapter 84c (relating to valuation of life insurance policies) in the following manner, subject to the transition dates for use of the 2001 CSO Mortality Table in § 84d.3(a) (relating to 2001 CSO Mortality Table) and § 84d.3(b).

(1) The net level reserve premium referenced in § 84c.2(b)(2)(ii) (relating to applicability) shall be based on the ultimate mortality rates in the 2001 CSO Mortality Table.

(2) All calculations in § 84c.4(b)(1) (relating to segmented and unitary reserve methods) shall be made using the 2001 CSO Mortality Table. The value of " $q_{x+k+t-1}$ " is the valuation mortality rate for deficiency reserves in policy year $k+t$, but using the unmodified select mortality rates if modified select mortality rates are used in the computation of deficiency reserves.

(3) The basic reserves minimum standard in § 84c.5(a) (relating to general requirements for basic reserves and premium deficiency reserves) shall be the 2001 CSO Mortality Table.

(4) The deficiency reserves minimum standard in § 84c.5(b) shall be the 2001 CSO Mortality Table. If select mortality rates are used, they may be multiplied by X% for durations in the first segment, subject to the conditions specified in § 84c.5(b)(3)(i)-(ix). In

demonstrating compliance with those conditions, the demonstrations may not combine the results of tests that utilize the 1980 CSO Mortality Table with those tests that utilize the 2001 CSO Mortality Table, unless the combination is explicitly required by regulation or necessary to be in compliance with relevant standards of practice as promulgated by the Actuarial Standards Board.

(5) The valuation mortality table used in determining the tabular cost of insurance in § 84c.6(c) (relating to minimum valuation standard for policies with guaranteed nonlevel gross premiums or guaranteed nonlevel benefits (other than universal life policies)) shall be the ultimate mortality rates in the 2001 CSO Mortality Table.

(6) The calculations specified in § 84c.6(e)(4) shall use the ultimate mortality rates in the 2001 CSO Mortality Table.

(7) The calculations specified in § 84c.6(f)(4) shall use the ultimate mortality rates in the 2001 CSO Mortality Table.

(8) The net premiums referenced in § 84c.6(g)(2) shall be calculated using the ultimate mortality rates in the 2001 CSO Mortality Table.

(9) The 1-year valuation premium in § 84c.7(a)(1)(ii) (relating to minimum valuation standard for universal life insurance policies that contain provisions resulting in the ability of a policy owner to keep a policy in force over a secondary guarantee period) shall be calculated using the ultimate mortality rates in the 2001 CSO Mortality Table.

(b) Nothing in this section expands the applicability of Chapter 84c to include life insurance policies exempted under § 84c.2(b).

§ 84d.5. Gender-blended tables.

(a) For any ordinary life insurance policy delivered or issued for delivery in this Commonwealth on and after January 1, 2004, that utilizes the same premium rates and charges for male and female lives or is issued in circumstances when applicable law does not permit distinctions on the basis of gender, a mortality table that is a blend of the 2001 CSO Mortality Table (M) and the 2001 CSO Mortality Table (F) may, at the option of the company for each policy form, be substituted for the 2001 CSO Mortality Table as the minimum nonforfeiture standard. The blended tables may not be used as the minimum valuation standard.

(b) If blended tables are used as the minimum nonforfeiture standard, the company shall choose from among the blended tables developed by the American Academy of Actuaries CSO Task Force and adopted by the NAIC in December 2002.

§ 84d.6. Permitted usage.

In and of itself, it is not a violation of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1-1171.15) for a company to determine nonforfeiture benefits for the same type of policy of life insurance on both a sex-distinct and sex-neutral basis.



**COMMONWEALTH OF PENNSYLVANIA
INSURANCE DEPARTMENT**

SPECIAL PROJECTS OFFICE
1326 Strawberry Square
Harrisburg, PA 17120

Phone: (717) 787-4429
Fax: (717) 772-1969
E-Mail: psalvatore@state.pa.us

October 13, 2006

Mr. Kim Kaufman
Executive Director
Independent Regulatory Review Comm.
333 Market Street
Harrisburg, PA 17101

Re: Insurance Department Final-Omitted Regulation No. 11-236, Recognition Of The 2001 CSO Mortality Table For Use In Determining Minimum Reserve Liabilities And Nonforfeiture Benefits And The 2001 CSO Preferred Class Structure Mortality Table For Use In Determining Minimum Reserve Liabilities

Dear Mr. Kaufman:

Pursuant to Section 5a(c) of the Regulatory Review Act, enclosed for your information and review is final-omitted regulation 31 Pa. Code, Chapter 84d, Recognition Of The 2001 CSO Mortality Table For Use In Determining Minimum Reserve Liabilities And Nonforfeiture Benefits And The 2001 CSO Preferred Class Structure Mortality Table For Use In Determining Minimum Reserve Liabilities.

The purpose of this rulemaking is to amend Chapter 84d to specify the 2001 CSO Preferred Class Structure Mortality Table as a mortality table that may be used, at the option of the insurer, instead of the 2001 CSO Mortality Table, as the minimum valuation standard for policies issued on or after January 1, 2007. The 2001 CSO Preferred Class Structure Mortality Table is a split of the 2001 CSO Mortality Table to separate preferred and standard tables. The table was adopted by the NAIC in September, 2006.

If you have any questions regarding this matter, please contact me at (717) 787-4429.

Sincerely yours,

A handwritten signature in blue ink that reads "Peter J. Salvatore".

Peter J. Salvatore
Regulatory Coordinator

**TRANSMITTAL SHEET FOR REGULATIONS SUBJECT TO THE
REGULATORY REVIEW ACT**

I.D. NUMBER: 11-236

SUBJECT: RECOGNITION OF THE 2001 CSO MORTALITY TABLE FOR USE IN DETERMINING MINIMUM RESERVE LIABILITIES AND NONFORFEITURE BENEFITS

AGENCY: DEPARTMENT OF INSURANCE

TYPE OF REGULATION

- Proposed Regulation
- Final Regulation
- Final Regulation with Notice of Proposed Rulemaking Omitted
- 120-day Emergency Certification of the Attorney General
- 120-day Emergency Certification of the Governor
- Delivery of Tolled Regulation
 - a. With Revisions
 - b. Without Revisions

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 INDEPENDENT REGULATORY
 REVIEW COMMISSION

FILING OF REGULATION

DATE	SIGNATURE	DESIGNATION
10/13/06	<i>M. Daphagan</i>	HOUSE COMMITTEE ON INSURANCE
10/13/06	<i>Diane Stein</i>	
10-13-06	<i>Amber Latthe</i>	SENATE COMMITTEE ON BANKING & INSURANCE
10-13-06	<i>Jackie Bachman</i>	
10-13-06	<i>Kathy Cooper</i>	INDEPENDENT REGULATORY REVIEW COMMISSION
10-13-06	<i>M. Mummert</i>	ATTORNEY GENERAL (for Final Omitted only)
		LEGISLATIVE REFERENCE BUREAU (for Proposed only)