

#11-246 Insurance Department #2867  
Recognition of the 2001 CSO Mortality  
Table and the 2001 CSO Preferred Class  
Structure Mortality Table For Use in  
Determining Minimum Reserve  
Liabilities

This regulation includes an attached  
Draft Model Regulation from the  
National Association of Insurance  
Commissioners that was not included in  
the original delivery on August 24, 2010.

# Regulatory Analysis Form

(Completed by Promulgating Agency)



# IRRC

Independent Regulatory Review Commission

## SECTION I: PROFILE

(1) Agency:

**Insurance Department**

(2) Agency Number:

Identification Number: 11-246

IRRC Number:

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IRRC  
2000 AUG 24 P 12: 25

2867

(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**

(5) Agency Contacts (List Telephone Number, Address, Fax Number and Email Address):

Primary Contact:

**Peter J. Salvatore, Regulatory Coordinator, 1326 Strawberry Square, Harrisburg, PA 17120, (717) 787-4429.**

Secondary Contact:

(6) Primary Contact for Public Comments (List Telephone Number, Address, Fax Number and Email Address) – Complete if different from #5:

(All Comments will appear on IRRC'S website)

(7) Type of Rulemaking (check applicable box):

Proposed Regulation

Final Regulation

Final Omitted Regulation

Emergency Certification Regulation;

Certification by the Governor

Certification by the Attorney General

## Regulatory Analysis Form

(8) Briefly explain the regulation in clear and nontechnical language. (100 words or less)

**The proposed rulemaking updates Chapter 84d to include amendments made by the NAIC to Model Regulation 815, entitled "Model Regulation Permitting the Recognition of Preferred Mortality Tables for Use in Determining Minimum Reserve Liabilities." That regulation recognizes, permits, and prescribes the use of mortality tables that reflect differences in mortality between preferred and standard lives in determining minimum reserve liabilities. These amendments are proposed in conjunction with proposed amendments to Chapters 84b and 84c of Title 31 of the Pennsylvania Code. All three sets of amendments should be promulgated simultaneously in order to effectively implement the requirements set forth by the amendments to the NAIC models.**

(9) Include a schedule for review of the regulation including:

- A. The date by which the agency must receive public comments:      \_\_09/28/10\_\_
- B. The date or dates on which public meetings or hearings  
will be held:      \_\_N/A\_\_
- C. The expected date of promulgation of the proposed  
regulation as a final-form regulation:      \_\_03/01/11\_\_
- D. The expected effective date of the final-form regulation:      \_\_07/01/11\_\_
- E. The date by which compliance with the final-form  
regulation will be required:      \_\_07/01/11\_\_
- F. The date by which required permits, licenses or other  
approvals must be obtained:      \_\_N/A\_\_

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

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

## Regulatory Analysis Form

### SECTION II: STATEMENT OF NEED

(11) State the statutory authority for the regulation. Include specific statutory citation.

**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)), section 410F(e)(8)(F) of The Insurance Company Law (40 P. S. § 510.1(e)(8)(F)), and the Unfair Insurance Practices Act (40 P. S. § § 1171.1—1171.15). See also, 31 Pa. Code §§84c.5(a) and (b) (relating to basic reserves minimum standard; and deficiency reserves minimum standard).**

(12) Is the regulation mandated by any federal or state law or court order, or federal regulation? Are there any relevant state or federal court decisions? If yes, cite the specific law, case or regulation as well as, any deadlines for action.

**No. However, this amendment will maintain consistency of this regulation with the NAIC model.**

(13) State why the regulation is needed. Explain the compelling public interest that justifies the regulation. 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. Specifically, the amendments provide a company the option of substituting the 2001 CSO Preferred Class Structure Mortality Table for the 2001 CSO Smoker or Nonsmoker Mortality Table for policies issued on or after January 1, 2004 and prior to January 1, 2007, with the consent of the Commissioner under certain conditions set forth in the regulation. Since the 2001 CSO Preferred Class Structure Mortality Table distinguishes between preferred and standard risks, the reserve liabilities calculated using this table will likely be reduced for preferred lives. Generally, lower reserves enable an insurer to charge customers lower premiums. Conversely, if an insurer is required to maintain redundant reserves, generally, the added cost to the insurer results in higher premium charges.**

## Regulatory Analysis Form

(14) If scientific data, studies, references are used to justify this regulation, please submit material with the regulatory package. Please provide full citation and/or links to internet source.

N/A

(15) Describe who and how many will be adversely affected by the regulation. How are they 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.**

## Regulatory Analysis Form

(16) 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 for policies issued on or after January 1, 2004 and prior to January 1, 2007 as the minimum valuation standard under the conditions articulated in the regulation.**

### **SECTION III: COST AND IMPACT ANALYSIS**

(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. Explain how the dollar estimates were derived.

**Use of the 2001 CSO Preferred Class Structure Mortality Table by an insurer may reduce reserve requirements, but it is not possible to assess what effect 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.**

(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. Explain how the dollar estimates were derived.

**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. Explain how the dollar estimates were derived.

**There are no costs or savings to state government associated with this rulemaking.**

## Regulatory Analysis Form

(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.

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

(20a) Provide the past three year expenditure history for programs affected by the regulation.

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

(21) Explain how the benefits of the regulation outweigh any cost and adverse effects.

## Regulatory Analysis Form

N/A

(22) Describe the communications with and input from the public and any advisory council/group in the development and drafting of the regulation. List the specific persons and/or groups who were involved.

**The insurance industry, working with the NAIC, provided input regarding the amendments to this regulation.**

(23) Include a description of any alternative regulatory provisions which have been considered and rejected and a statement that the least burdensome acceptable alternative has been selected.

**No other non-regulatory alternatives were considered because the standards are currently established by regulation. Therefore, amendment to Chapter 84d is necessary to revise the minimum valuation standards of the chapter and maintain consistency with the NAIC model.**

(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 regulations.

**No.**

(25) How does this regulation compare with those of other states? How will this affect Pennsylvania's ability to compete with other states?

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

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

**No.**



## Regulatory Analysis Form

(27) Submit a statement of legal, accounting or consulting procedures and additional reporting, recordkeeping or other paperwork, including copies of forms or reports, which will be required for implementation of the regulation and an explanation of measures which have been taken to minimize these requirements.

N/A

(28) 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.

N/A

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FACE SHEET  
FOR FILING DOCUMENTS  
WITH THE LEGISLATIVE REFERENCE  
BUREAU

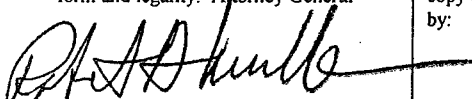
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Copy below is hereby approved as to  
form and legality. Attorney General



By \_\_\_\_\_  
(Deputy Attorney General)

**AUG 09 2010**

Date of Approval

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


Copy below is hereby certified to be a true and correct  
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Insurance Department

(AGENCY)

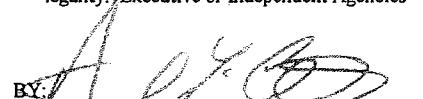
DOCUMENT/FISCAL NOTE NO. 11-246

DATE OF ADOPTION: \_\_\_\_\_

BY:   
Joel Ario  
Insurance Commissioner

TITLE: \_\_\_\_\_  
(EXECUTIVE OFFICER, CHAIRMAN OR  
SECRETARY)

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



Andrew C. Clark

**JUL 20 2010**

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 PROPOSED RULEMAKING

INSURANCE DEPARTMENT

31 Pa. Code, Chapter 84d Sections 84d.3a

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**

The Insurance Department (Department) proposes to amend Chapter 84d (relating to 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) to read as set forth in Annex A. The proposed rulemaking 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)), section 410F(e)(8)(F) of The Insurance Company Law (40 P. S. § 510.1(e)(8)(F)), and the Unfair Insurance Practices Act (40 P. S. §§ 1171.1—1171.15). See also, 31 Pa. Code §§84c.5(a) and (b) (relating to basic reserves minimum standard; and deficiency reserves minimum standard).

### ***Purpose***

Section 301(c)(1) of The Insurance Department Act of 1921 (40 P.S. §71(c)(1)) authorizes 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 the proposed rulemaking is to update Chapter 84d to include amendments made by the NAIC to Model Regulation 815, entitled "Model Regulation Permitting the Recognition of Preferred Mortality Tables for Use in Determining Minimum Reserve Liabilities." That regulation recognizes, permits, and prescribes the use of mortality tables that reflect differences in mortality between preferred and standards lives in determining minimum reserve liabilities. A copy of the copyrighted NAIC model regulation was provided to the Legislative Standing Committees, the Independent Regulatory Review Commission (IRRC), the Governor's Office of Policy and Planning, the Governor's Office of General Counsel and the Attorney General to assist in their analysis of this proposed rulemaking. Copies of NAIC model regulations are available to the general public by contacting the NAIC.

### ***Explanation of Regulatory Requirements***

The following is a description of the changes contained in the proposed rulemaking:

Section 84d.3a (relating to 2001 CSO Preferred Class Structure Mortality Table) is being amended to recognize that a company may substitute the 2001 CSO Preferred Class Structure Mortality Table for the 2001 CSO Smoker or Nonsmoker Mortality Table with the consent of the Commissioner if the conditions set forth in the remaining subsections of § 84d.3a are met. A new subsection, subsection (f), is being added to section 84d.3a. This subsection specifies two cases where a company is not permitted to use the 2001 CSO Preferred Class Structure Table for valuation of policies issued prior to January 1, 2007.

### ***Affected Parties***

The proposed 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.

### *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 adoption of this proposed rulemaking would 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 at election and annually thereafter a certification to the Commissioner that the conditions for use of the table are satisfied.

### *Effectiveness/Sunset Date*

The rulemaking will become effective \_\_\_\_\_ (Editor's Note: the rulemaking will become effective by the first of the month following 60 days from the publication date of this regulation in final form.). The Department continues to monitor the effectiveness of regulations on a triennial basis; therefore no sunset date has been assigned.

### *Contact Person*

Questions or comments regarding the proposed rulemaking may be addressed in writing to Peter J. Salvatore, Regulatory Coordinator, Insurance Department, 1326 Strawberry Square, Harrisburg, PA 17120, within 30 days following the publication of this notice in the *Pennsylvania Bulletin*. Questions and comments may also be e-mailed to [psalvatore@state.pa.us](mailto:psalvatore@state.pa.us) or faxed to (717) 705-3873.

Under the Regulatory Review Act (act) (71 P. S. §§ 745.1--745.15), the Department is required to write to all commentators, requesting whether or not they wish to receive a copy of

the final-form rulemaking. To better serve our stakeholders, the Department has made a determination that all commentators will receive a copy of the final-form rulemaking when it is made available to IRRC and the legislative standing committees.

***Regulatory Review***

Under section 5(a) of the act (71 P. S. § 745.5(a)), on August 24, 2010, the Department submitted a copy of this proposed rulemaking to IRRC and to the Chairpersons of the Senate Banking and Insurance Committee and the House Insurance Committee. In addition to the submitted proposed rulemaking, the Department has, as required by the act, provided IRRC and the committees with a copy of a detailed Regulatory Analysis Form prepared by the Department. A copy of that material is available to the public upon request.

IRRC will notify the Department of any objections to any portion of the proposed rulemaking within 30 days of the close of the public comment period. The notification shall specify the regulatory review criteria that have not been met by that portion. The act specifies detailed procedures for the Department, the Governor, and the General Assembly to review these objections before final publication of the regulations.

JOEL ARIO  
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.3a.	2001 CSO Preferred Class Structure Mortality Table.
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**§ 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. **For policies issued on and after January 1, 2004, and prior to January 1, 2007, these tables may be substituted as the minimum valuation standard with the consent of the Commissioner subject to the conditions of subsections (b) through (g) of this section. In determining consent, the Commissioner may rely on the consent of the chief insurance regulatory official of the company's state of domicile.** Prior to that election, the company shall 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 10 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 10 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.

**(f) The use of the 2001 CSO Preferred Class Structure Table for the valuation of policies issued prior to January 1, 2007, is not permitted in any statutory financial statement in which a company reports, with respect to any policy or portion of a policy coinsured, either of the following cases:**

**(1) Where the mode of payment of the reinsurance premium is less frequent than the mode of payment of the policy premium, a reserve credit that exceeds, by more than the amount specified in this paragraph as Y, the gross reserve calculated before reinsurance. Y is the amount of the gross reinsurance premium that provides coverage for the period from the next policy premium due date to the earlier of the end of the policy year and the next reinsurance premium due date, and would be refunded to the ceding entity upon the termination of the policy.**

**(2) Where the mode of payment of the reinsurance premium is more frequent than the mode of payment of the policy premium, a reserve credit that is less than the gross reserve, calculated before reinsurance, by an amount that is less than the amount specified in this paragraph as Z. Z is the amount of the gross reinsurance premium that the ceding**

**entity would need to pay the assuming company to provide reinsurance coverage from the period of the next reinsurance premium due date to the next policy premium due date minus any liability established for the proportionate amount not remitted to the reinsurer.**

**(g) For purposes of the conditions set forth in subsection (f), both the reserve credit and the gross reserve before reinsurance for the mean reserve method are defined as the mean reserve minus the deferred premium asset, and for the mid-terminal reserve method must include the unearned premium reserve. A company may estimate and adjust its accounting on an aggregate basis in order to meet the conditions to use the 2001 CSO Preferred Class Structure Table.**



Draft: 6/12/09  
Revisions to Model 815  
Adopted by the Life and Health Actuarial Task Force, 6/12/09

**MODEL REGULATION PERMITTING THE RECOGNITION OF PREFERRED MORTALITY TABLES  
FOR USE IN DETERMINING MINIMUM RESERVE LIABILITIES**

**Table of Contents**

Section 1.	Authority
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Section 5.	Conditions
Section 6.	Separability
Section 7.	Effective Date

**Section 1. Authority**

This regulation is promulgated by the Commissioner of Insurance pursuant to Sections [insert applicable references to Section 4A(c) of the Standard Valuation Law and Sections [insert applicable references to Sections 5A and 5B of the Valuation of Life Insurance Model Regulation] of the [insert state] Insurance Regulations.

**Drafting Note:** The reference to the Valuation of Life Insurance Policies Model Regulation should be omitted by states that have not adopted that model.

**Section 2. Purpose**

The purpose of this regulation is to recognize, permit and prescribe the use of mortality tables that reflect differences in mortality between preferred and standard lives in determining minimum reserve liabilities in accordance with [insert applicable references to Section 4A(c) of the Standard Valuation Law and Sections [insert applicable references to Sections 5A and 5B of the Valuation of Life Insurance Model Regulation] of the [insert state] Insurance Regulations.

**Section 3. Definitions**

- A. "2001 CSO Mortality Table" means that 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)* and supplemented by the 2001 CSO Preferred Class Structure Mortality Table defined below in Subsection B. 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. Mortality tables in the 2001 CSO Mortality Table include the following:
  - (1) "2001 CSO Mortality Table (F)" means that mortality table consisting of the rates of mortality for female lives from the 2001 CSO Mortality Table.
  - (2) "2001 CSO Mortality Table (M)" means that mortality table consisting of the rates of mortality for male lives from the 2001 CSO Mortality Table.
  - (3) "Composite mortality tables" means mortality tables with rates of mortality that do not distinguish between smokers and nonsmokers.

- (4) "Smoker and nonsmoker mortality tables" means mortality tables with separate rates of mortality for smokers and nonsmokers.
- B. "2001 CSO Preferred Class Structure Mortality Table" means mortality tables with separate rates of mortality for super preferred nonsmokers, preferred nonsmokers, residual standard nonsmokers, preferred smokers, and residual standard smoker splits of the 2001 CSO Nonsmoker and Smoker Tables, as adopted by the NAIC at the September, 2006 national meeting and published in the *NAIC Proceedings {3<sup>rd</sup> Quarter 2006}*. 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 smoker and nonsmoker mortality tables. It includes both the male and female mortality tables and the gender composite mortality tables. It also includes both the age-nearest-birthday and age-last-birthday bases of the mortality table.
- C. "Statistical agent" means an entity with proven systems for protecting the confidentiality of individual insured and insurer information; demonstrated resources for and history of ongoing electronic communications and data transfer ensuring data integrity with insurers, 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.

#### **Section 4. 2001 CSO Preferred Class Structure Table**

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 regulation, 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. For policies issued on or after [insert the effective date of adoption of the NAIC Model Regulation 814, Recognition of the 2001 CSO Mortality Table for Use in Determining Minimum Reserve Liabilities and Nonforfeiture Benefits], and prior to January 1, 2007, these tables may be substituted with the consent of the commissioner and subject to the conditions of Section 5. In determining such consent, the commissioner may rely on the consent of the commissioner of the company's state of domicile. No such election shall be made until the company demonstrates at least 20% of the business to be valued on this table is in one or more of the preferred classes. A table from the 2001 CSO Preferred Class Structure Mortality Table used in place of a 2001 CSO Mortality Table, pursuant to the requirements of this rule, will be treated as part of the 2001 CSO Mortality Table only for purposes of reserve valuation pursuant to the requirements of the NAIC model regulation, "Recognition of the 2001 CSO Mortality Table For Use In Determining Minimum Reserve Liabilities And Nonforfeiture Benefits Model Regulation."

#### **Section 5. Conditions**

- A. For each plan of insurance with separate rates for preferred and standard nonsmoker lives, an insurer may use the super preferred nonsmoker, preferred nonsmoker, and residual standard nonsmoker tables to substitute for the nonsmoker mortality table found in the 2001 CSO Mortality Table to determine minimum reserves. At the time of election and annually thereafter, except for business valued under the residual standard nonsmoker table, the appointed actuary shall certify that:
- (1) The present value of death benefits over the next ten years after the valuation date, using the anticipated mortality experience without recognition of mortality improvement beyond the valuation date for each class, is less than the present value of death benefits using the valuation basic table corresponding to the valuation table being used for that class.
  - (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 for each class, is less than the present value of death benefits using the valuation basic table corresponding to the valuation table being used for that class.
- B. For each plan of insurance with separate rates for preferred and standard smoker lives, an insurer may use the preferred smoker and residual standard smoker tables to substitute for the smoker mortality table found in the 2001 CSO Mortality Table to determine minimum reserves. At the time of election and annually thereafter, for business valued under the preferred smoker table, the appointed actuary shall certify that:

- (1) The present value of death benefits over the next ten years after the valuation date, using the anticipated mortality experience without recognition of mortality improvement beyond the valuation date for each class, is less than the present value of death benefits using the preferred smoker valuation basic table corresponding to the valuation table being used for that class.
  - (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 for each class, is less than the present value of death benefits using the preferred smoker valuation basic table.
- C. Unless exempted by the commissioner, every authorized insurer using the 2001 CSO Preferred Class Structure 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 regulation. 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.
- D. The use of the 2001 CSO Preferred Class Structure Table for the valuation of policies issued prior to January 1, 2007 shall not be permitted in any statutory financial statement in which a company reports, with respect to any policy or portion of a policy insured, either of the following:
- (1) In cases where the mode of payment of the reinsurance premium is less frequent than the mode of payment of the policy premium, a reserve credit that exceeds, by more than the amount specified in this paragraph as Y, the gross reserve calculated before reinsurance. Y is the amount of the gross reinsurance premium that (a) provides coverage for the period from the next policy premium due date to the earlier of the end of the policy year and the next reinsurance premium due date, and (b) would be refunded to the ceding entity upon the termination of the policy.
  - (2) In cases where the mode of payment of the reinsurance premium is more frequent than the mode of payment of the policy premium, a reserve credit that is less than the gross reserve, calculated before reinsurance, by an amount that is less than the amount specified in this paragraph as Z. Z is the amount of the gross reinsurance premium that the ceding entity would need to pay the assuming company to provide reinsurance coverage from the period of the next reinsurance premium due date to the next policy premium due date minus any liability established for the proportionate amount not remitted to the reinsurer.

For purposes of this condition, both the reserve credit and the gross reserve before reinsurance (i) for the mean reserve method shall be defined as the mean reserve minus the deferred premium asset, and (ii) for the mid-terminal reserve method shall include the unearned premium reserve. A company may estimate and adjust its accounting on an aggregate basis in order to meet the conditions to use the 2001 CSO Preferred Class Structure Table.

#### **Section 6. Separability**

If any provision of this regulation or its application to any person or circumstance is for any reason held to be invalid, the remainder of the regulation and the application of the provision to other persons or circumstances shall not be affected.

#### **Section 7. Effective Date**

The effective date of this regulation is January 1, 2007.

## PROJECT HISTORY

### MODEL REGULATION PERMITTING THE RECOGNITION OF PREFERRED MORTALITY TABLES FOR USE IN DETERMINING MINIMUM RESERVE LIABILITIES

**1. Description of the Project, Issues Addressed, etc.**

The project was to allow the 2001 CSO preferred mortality tables to be used with contracts based on the 2001 CSO and issued prior to January 1, 2007 with commissioner approval.

The proposed model regulation was expanded to include the use of 1980 CSO for determining minimum nonforfeiture benefits in addition to valuing reserves.

**2. Name of Group Responsible for Drafting the Model and States Participating**

The 2009 members of the Life and Health Actuarial Task Force are: Kansas (chair), South Carolina (Vice Chair), Alaska, Alabama, Arkansas, California, Connecticut, Florida, Hawaii, Minnesota, Missouri, Nebraska, New York, Ohio, Oklahoma, Texas and Utah.

**3. Project Authorized by What Charge and Date First Given to the Group**

The initial charge was given to the Task Force in November, 2008, by the Capital and Surplus Relief (EX) Working Group to consider the proposal from the American Council of Life Insurers. The proposal was rejected by the Executive Committee in January, 2009. At the 2009 Commissioner Conference the Task Force was again charged with reviewing the proposal.

**4. A General Description of the Drafting Process (e.g., drafted by a subgroup, interested parties, the full group, etc). Include any parties outside the members that participated**

The initial drafts were provided by the American Council of Life Insurers. A subgroup of the Task Force made changes and made a recommendation to the Task Force. The Task Force made several modifications.

**5. A General Description of the Due Process (e.g., exposure periods, public hearings, or any other means by which widespread input from industry, consumers and legislators was solicited)**

The subgroup discussed the proposal at public conference calls on this topic on the following dates: March 27, 2009; March 31, 2009; April 7, 2009; April 14, 2009; April 21, 2009; and April 28, 2009. The Task Force held a public conference call on this topic on May 4, 2009. Notice of each of these conference calls was posted on the NAIC's home page on the Internet and e-mailed to approximately 300 interested parties. Drafts of the document were released for comment on December 23, 2008 and May 4, 2009. Several memos and letters were submitted to the Task Force relative to this project. Most urged not including the deferred premium asset in the model regulation. Due to the urgency of the situation addressed by the proposed model regulation and with encouragement from interested parties, the Task Force voted unanimously to adopt the model regulation with amendments on June 3, 2009, without an additional 30-day exposure period.

**6. A Discussion of the Significant Issues (items of some controversy raised during the due process and the group's response)**

Issue #1 – Does the item provide relief without compromising regulatory objectives; The Task Force decided reserves for certain policies issued on a preferred basis may be overly conservative and that the reserves calculated under the 2001 CSO preferred mortality tables are adequate (assuming appropriate use of the tables) and therefore that this action may not compromise regulatory objectives.

Issue #2 – Accounting Treatment of the Reinsurance Deferred Premium Asset. Although the reserves for certain policies may be overly conservative, the Task Force decided some companies may already be addressing the overly conservative reserves through a questionable reinsurance accounting practice. For these companies, it would be ill-advised to allow them to further reduce reserves.

**7. Any Other Important Information (e.g., amending an accreditation standard).**

Although the Task Force adopted the model regulation without an additional 30-day exposure period for the revised transition rules, the model regulation is exposed for comment while awaiting action from the “A” Committee with comments forwarded to the “A” Committee staff support. The proposed model regulation is expected to have 30 days of exposure before being presented to the NAIC Executive and Plenary.

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August 24, 2010

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

RECEIVED  
IRRC  
2010 AUG 24 P 12:21

Re: Insurance Department Proposed Regulation No. 11-246, 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 5(a) of the Regulatory Review Act, enclosed for your information and review is proposed regulation 31 Pa. Code, Chapter 84d.

The purpose of the proposed rulemaking is to update Chapter 84d to include amendments made by the NAIC to Model Regulation 815, entitled "Model Regulation Permitting the Recognition of Preferred Mortality Tables for Use in Determining Minimum Reserve Liabilities."

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

Sincerely yours,

A handwritten signature in cursive script that reads "Peter J. Salvatore".

Peter J. Salvatore  
Regulatory Coordinator

