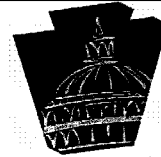


# Regulatory Analysis Form

(Completed by Promulgating Agency)



# IRRC

Independent Regulatory Review Commission

## SECTION I: PROFILE

(1) Agency:

**Insurance Department**

(2) Agency Number:

Identification Number: 11-247

IRRC Number: 2868

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(3) Short Title:

**Valuation of Life Insurance Policies**

(4) PA Code Cite:

**31 Pa. Code Chapter 84c**

(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)

**This final-form rulemaking amends § 84c.5. (relating to general requirements for basic reserves and premium deficiency reserves) to include amendments made to Model Regulation 830 by the National Association of Insurance Commissioners (NAIC) to remove restrictions on an insurer's use of mortality adjustment factors. These amendments were proposed in conjunction with amendments to Chapters 84b and 84d 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: \_\_\_\_\_
- B. The date or dates on which public meetings or hearings will be held: January 1, 2011
- C. The expected date of promulgation of the proposed regulation as a final-form regulation: March 1, 2011
- D. The expected effective date of the final-form regulation: March 1, 2011
- E. The date by which compliance with the final-form regulation will be required: \_\_\_\_\_
- F. The date by which required permits, licenses or other approvals must be obtained: \_\_\_\_\_

(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 and 1502 of The Administrative Code of 1929 (71 P.S. §§ 66, 186, 411 and 412) and section 301 of The Insurance Department Act of 1921(40 P.S. § 71).**

(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.

**Since this final-form rulemaking concerns the solvency requirements applied to insurers, the public will benefit from a financially sound insurance industry that has the ability to fulfill its contractual obligations under life insurance policies.**

(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**

## Regulatory Analysis Form

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

**There will be no adverse effects. As required by current regulation, the appointed actuary will continue to opine as to whether the mortality rates resulting from the application of the X factors meet the requirements for deficiency reserves.**

(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 and fraternal benefit societies doing business in the Commonwealth.**

## Regulatory Analysis Form

### **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.

**It is not possible to assess what effect the deletion of the restrictions on the mortality adjustment factors (X factors) in the deficiency reserve calculation will have on each specific company's reserves. However, the revised calculations may reduce an insurer's reserve requirements. 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 material 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>	\$	\$	\$	\$	\$	\$
Regulated Community						
Local Government						
State Government						
<b>Total Savings</b>						
<b>COSTS:</b>						
Regulated Community						
Local Government						
State Government						
<b>Total Costs</b>						
<b>REVENUE LOSSES:</b>						
Regulated Community						
Local Government						
State Government						
<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

## Regulatory Analysis Form

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

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

(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 nonregulatory alternatives were considered because the standards for calculation of deficiency reserves are currently established by regulation. Therefore, amendment to Chapter 84c is necessary to maintain consistency with NAIC standards and nonregulatory alternatives are not feasible.**

(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.**

## Regulatory Analysis Form

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

No.

(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

(Pursuant to Commonwealth Documents Law)

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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. 11-247

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

BY: 

Robert L Pratter  
Acting 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

NOV - 8 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 FINAL FORM RULEMAKING

INSURANCE DEPARTMENT

31 Pa. Code, Chapter 84c, Sections 84c.5

VALUATION OF LIFE INSURANCE POLICIES

## **PREAMBLE**

The Insurance Department (Department) amends Chapter 84c (relating to valuation of life insurance policies), to read as set forth in Annex A, under the authority of sections 206, 506, 1501 and 1502 of The Administrative Code of 1929 (71 P. S. §§ 66, 186, 411 and 412) and section 301(c) of The Insurance Department Act of 1921 (40 P. S. § 71(c)).

### ***Purpose***

The purpose of this final-form rulemaking is to amend § 84c.5. (relating to General requirements for basic reserves and premium deficiency reserves) to include amendments made to Model Regulation 830 by the National Association of Insurance Commissioners (NAIC) to remove restrictions on mortality adjustment factors. These amendments were proposed in conjunction with amendments to Chapters 84b and 84d of Title 31 of the Pennsylvania code.

### ***Comments and Response***

Notice of proposed rulemaking was published on September 4, 2010, in the Pennsylvania Bulletin at 40 Pa.B. 5069 with a 30-day comment period. One comment in support of the amendments was received from the Insurance Federation of Pennsylvania, Inc. (IFP). On November 3, 2010, the Independent Regulatory Review Commission (IRRC) indicated that it did not have any comments objections, comments, or recommendations regarding on this regulation.

### ***Affected Parties***

This final-form 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 as a result of the adoption of the amendments to Chapter 84c. The Department currently reviews valuation filings submitted by domestic life insurance companies and fraternal benefit societies for compliance with the minimum standards of valuation.

### ***General Public***

It is possible that the cost of insurance will be reduced for consumers who purchase life insurance coverage due to these amendments to the requirements for the calculation of reserves.

### ***Political Subdivisions***

There will be no fiscal impact on political subdivisions as insurers will continue to maintain adequate reserves.

### *Private Sector*

This final-form rulemaking requires the appointed actuary to annually opine for all policies subject to this regulation as to whether the mortality rates resulting from the application of the X factors meet the requirements of this Chapter for deficiency reserves. This opinion must be supported by an actuarial report.

### *Paperwork*

The adoption of this final-form rulemaking would not impose additional paperwork on the Department.

### *Effectiveness/Sunset Date*

This rulemaking will become effective 60 days after publication in the *Pennsylvania Bulletin* as final-form rulemaking. The Department continues to monitor the effectiveness of regulations on a triennial basis; therefore, no sunset date has been assigned.

### *Contact Person*

Questions regarding this final-form rulemaking may be addressed in writing to Peter J. Salvatore, Regulatory Coordinator, Insurance Department, 1326 Strawberry Square, Harrisburg, PA 17120. Questions may also be e-mailed to [psalvatore@state.pa.us](mailto:psalvatore@state.pa.us) or faxed to (717) 705-3873.

### *Regulatory Review*

Under section 5(a) of the Regulatory Review Act (71 P.S. §745.5(a)), on November 9, 2010, the Department submitted a copy of this final-form rulemaking to the Independent Regulatory Review Commission (IRRC) and to the Chairpersons of the Senate Banking and Insurance Committee and the House Insurance Committee. In addition to the submitted rulemaking, the Department has, as required by the Regulatory Review 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.

In preparing these final-form regulations, the Department considered all comments received from IRRC, the Committees and the public. These final-form regulations were deemed approved by the House and Senate Committees on \_\_\_\_\_. Under section 5(g) of the Regulatory Review Act, the final-form regulations were approved, effective \_\_\_\_\_.

### *Findings*

The Commissioner finds that:

(1) Public notice of intention to adopt these final-form regulations was given under sections 201 and 202 of the act of July 31, 1968 (P.L. 769, No. 240) (45 P.S. §§ 1201 and 1202) and the

regulations thereunder, 1 Pa. Code §§ 7.1 and 7.2.

(2) The adoption of this final-form rulemaking in the manner provided in this order is necessary and appropriate for the administration and enforcement of the authorizing statutes.

***Order***

The Commissioner, acting under the authorizing statutes, orders that:

(a) The regulations of the Department, 31 Pa. Code, Chapter 84c, are amended as set forth in Annex A.

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

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

(d) The final-form regulations adopted by this order take effect 60 days after publication in the Pennsylvania Bulletin.

*Robert L. Pratter*  
*Acting 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 84c.  
VALUATION OF LIFE INSURANCE POLICIES**

Sec.

84c.5.	General requirements for basic reserves and premium deficiency reserves.
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**§ 84c.5. General requirements for basic reserves and premium deficiency reserves.**

\* \* \* \* \*

(b) *Deficiency reserves minimum standard.* Deficiency reserves, if any, are calculated for each policy as the excess, if greater than zero, of the quantity A over the basic reserve. The quantity A is obtained by recalculating the basic reserve for the policy using guaranteed gross premiums instead of net premiums when the guaranteed gross premiums are less than the corresponding net premiums. At the election of the company for any one or more specified plans of insurance, the quantity A and the corresponding net premiums used in the determination of quantity A may be based upon the 1980 CSO valuation tables (or any other valuation mortality table adopted by the NAIC after May 6, 2000, and promulgated by regulation by the Commissioner for the purpose of calculating deficiency reserves) with select mortality factors. If select mortality factors are elected, they may be one of the following:

- (1) The 10-year select mortality factors.
- (2) The select mortality factors in Appendix A.
- (3) For durations in the first segment, X% of the select mortality factors in Appendix A, subject to the following:
  - (i) X may vary by policy year, policy form, underwriting classification, issue age, or any other policy factor expected to affect mortality experience.
  - [(ii) X may not be less than 20%.  
(iii) X may not decrease in any successive policy years.]
  - (ii) [(iv)] X is such that, when using the valuation interest rate used for basic reserves, the actuarial present value of future death benefits, calculated using the mortality rates resulting from the application of X, is greater than or equal to the actuarial present value of future death benefits calculated using anticipated mortality experience without recognition of mortality improvement beyond the valuation date.

(iii) [(v)] X is such that the mortality rates resulting from the application of X are at least as great as the anticipated mortality experience, without recognition of mortality improvement beyond the valuation date, in each of the first 5 years after the valuation date.

(iv) [(vi)] The appointed actuary shall increase X at any valuation date when it is necessary to continue to meet all the requirements of paragraph (3).

(v) [(vii)] The appointed actuary may decrease X at any valuation date as long as X [does not decrease in any successive policy years and as long as it] continues to meet all the requirements of paragraph (3).

(vi) [(viii)] The appointed actuary shall specifically take into account the adverse effect on expected mortality and lapsation of any anticipated or actual increase in gross premiums.

(vii) [(ix)] If X is less than 100% at any duration for any policy, the following requirements shall be met:

(A) The appointed actuary shall annually prepare an actuarial opinion and memorandum for the company in conformance with § 84b.8 (relating to statement of actuarial opinion based on an asset adequacy analysis).

**(B) The appointed actuary shall disclose, in the Regulatory Asset Adequacy Issues Summary, the impact of the insufficiency of assets to support the payment of benefits and expenses and the establishment of statutory reserves during one or more interim periods.**

(C) [(B)] The appointed actuary shall annually opine for all policies subject to this chapter as to whether the mortality rates resulting from the application of X meet the requirements of paragraph (3). This opinion shall be supported by an actuarial report, subject to appropriate Actuarial Standards of Practice promulgated by the Actuarial Standards Board of the American Academy of Actuaries. The X factors shall reflect anticipated future mortality, without recognition of mortality improvement beyond the valuation date, taking into account relevant emerging experience.

(4) Any other table of select mortality factors adopted by the NAIC after May 6, 2000, and promulgated by regulation by the Commissioner for the purpose of calculating deficiency reserves.

\* \* \* \* \*

**Comments on the regulation listed below have been received from the following:**

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<i>Reg #</i>	<i>Regulation Title</i>
<i>11-247</i>	<i>Valuation of Life Insurance Policies</i>

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<i>Mr. Samuel R. Marshall</i>	Date Received	<i>10/7/2010</i>	Date Sent To Cmtes/IRRC	<i>10/12/2010</i>
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*President*

*Insurance Federation of Pennsylvania, Inc.*

*1600 Market St.*

*Philadelphia, PA 19103*

*Phone (215) 665-0505 X00000*

*Letter Co-Author*

*Email sammy1@ifpenn.org*

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November 9, 2010

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

Re: Insurance Department Final Regulation No. 11-247, Valuation of Life Insurance Policies

Dear Mr. Kaufman:

Pursuant to Section 5a(c) of the Regulatory Review Act, enclosed for your information and review is final regulation 31 Pa. Code, Chapter 84c, Valuation of Life Insurance Policies

The purpose of this final-form rulemaking is to amend § 84c.5. (relating to General requirements for basic reserves and premium deficiency reserves) to include amendments made to Model Regulation 830 by the National Association of Insurance Commissioners (NAIC) to remove restrictions on mortality adjustment factors.

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



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

I.D. NUMBER: 11-247  
 SUBJECT: VALUATION OF LIFE INSURANCE POLICIES  
 AGENCY: DEPARTMENT OF INSURANCE

**TYPE OF REGULATION**

- Proposed Regulation
- X 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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**FILING OF REGULATION**

DATE	SIGNATURE	DESIGNATION
11-9-10	<i>Bonnie G. Bruckbill</i>	HOUSE COMMITTEE ON INSURANCE
11-9-10	<i>Linda Hoff</i>	MAJORITY CHAIRMAN <u>REP. ANTHONY DELUCA</u>
11-9-10	<i>L. DeLuca</i>	SENATE COMMITTEE ON BANKING & INSURANCE
11-9-10	<i>W. Macki Powers</i>	MAJORITY CHAIRMAN <u>SEN. DONALD C. WHITE</u>
11/9/10	<i>K. Cooper</i>	INDEPENDENT REGULATORY REVIEW COMMISSION
_____	_____	ATTORNEY GENERAL
_____	_____	LEGISLATIVE REFERENCE BUREAU