

State of Arizona  
Senate  
Fifty-first Legislature  
First Regular Session  
2013

**CHAPTER 42**  
**SENATE BILL 1149**

AN ACT

AMENDING SECTIONS 20-510, 20-696.01, 20-696.02, 20-696.04 AND 20-1231.01,  
ARIZONA REVISED STATUTES; RELATING TO INSURANCE.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Section 20-510, Arizona Revised Statutes, is amended to  
3 read:

4 20-510. Standard valuation law; operative date; definitions

5 A. This section may be cited as the standard valuation law.

6 B. FOR THE PURPOSES OF THIS SECTION, THE FOLLOWING DEFINITIONS APPLY  
7 ON OR AFTER THE OPERATIVE DATE OF THE VALUATION MANUAL:

8 1. "ACCIDENT AND HEALTH INSURANCE" MEANS CONTRACTS THAT INCORPORATE  
9 MORBIDITY RISK AND PROVIDE PROTECTION AGAINST ECONOMIC LOSS RESULTING FROM  
10 ACCIDENT, SICKNESS OR MEDICAL CONDITIONS AND AS MAY BE SPECIFIED IN THE  
11 VALUATION MANUAL.

12 2. "APPOINTED ACTUARY" MEANS A QUALIFIED ACTUARY WHO IS APPOINTED IN  
13 ACCORDANCE WITH THE VALUATION MANUAL TO PREPARE THE ACTUARIAL OPINION  
14 REQUIRED IN SUBSECTION F OF THIS SECTION.

15 3. "COMPANY" MEANS AN ENTITY THAT EITHER:

16 (a) HAS WRITTEN, ISSUED OR REINSURED LIFE INSURANCE CONTRACTS,  
17 ACCIDENT AND HEALTH INSURANCE CONTRACTS OR DEPOSIT-TYPE CONTRACTS IN THIS  
18 STATE AND THAT HAS AT LEAST ONE SUCH POLICY IN FORCE OR ON CLAIM.

19 (b) HAS WRITTEN, ISSUED OR REINSURED LIFE INSURANCE CONTRACTS,  
20 ACCIDENT AND HEALTH INSURANCE CONTRACTS OR DEPOSIT-TYPE CONTRACTS IN ANY  
21 STATE AND THAT IS REQUIRED TO HOLD A CERTIFICATE OF AUTHORITY TO WRITE LIFE  
22 INSURANCE, ACCIDENT AND HEALTH INSURANCE OR DEPOSIT-TYPE CONTRACTS IN THIS  
23 STATE.

24 4. "DEPOSIT-TYPE CONTRACT" MEANS CONTRACTS THAT DO NOT INCORPORATE  
25 MORTALITY OR MORBIDITY RISKS AND AS MAY BE SPECIFIED IN THE VALUATION MANUAL.

26 5. "LIFE INSURANCE" MEANS CONTRACTS THAT INCORPORATE MORTALITY RISK,  
27 INCLUDING ANNUITY AND PURE ENDOWMENT CONTRACTS, AND AS MAY BE SPECIFIED IN  
28 THE VALUATION MANUAL.

29 6. "POLICYHOLDER BEHAVIOR" MEANS ANY ACTION A POLICYHOLDER, A CONTRACT  
30 HOLDER OR ANY OTHER PERSON WITH THE RIGHT TO ELECT OPTIONS, SUCH AS A  
31 CERTIFICATE HOLDER, MAY TAKE UNDER A POLICY OR CONTRACT SUBJECT TO THIS  
32 SECTION, INCLUDING LAPSE, WITHDRAWAL, TRANSFER, DEPOSIT, PREMIUM PAYMENT,  
33 LOAN, ANNUITIZATION OR BENEFIT ELECTIONS PRESCRIBED BY THE POLICY OR CONTRACT  
34 BUT EXCLUDING EVENTS OF MORTALITY OR MORBIDITY THAT RESULT IN BENEFITS  
35 PRESCRIBED IN THEIR ESSENTIAL ASPECTS BY THE TERMS OF THE POLICY OR CONTRACT.

36 7. "PRINCIPLE-BASED VALUATION" MEANS A RESERVE VALUATION THAT USES ONE  
37 OR MORE METHODS OR ONE OR MORE ASSUMPTIONS DETERMINED BY THE INSURER AND THAT  
38 IS REQUIRED TO COMPLY WITH SUBSECTION S OF THIS SECTION AS SPECIFIED IN THE  
39 VALUATION MANUAL.

40 8. "QUALIFIED ACTUARY" MEANS AN INDIVIDUAL WHO IS QUALIFIED TO SIGN  
41 THE APPLICABLE STATEMENT OF ACTUARIAL OPINION IN ACCORDANCE WITH THE AMERICAN  
42 ACADEMY OF ACTUARIES QUALIFICATION STANDARDS FOR ACTUARIES SIGNING THOSE  
43 STATEMENTS AND WHO MEETS THE REQUIREMENTS SPECIFIED IN THE VALUATION MANUAL.

44 9. "RESERVES" MEANS RESERVE LIABILITIES.

45 10. "TAIL RISK" MEANS A RISK THAT OCCURS EITHER WHERE THE FREQUENCY OF  
46 LOW PROBABILITY EVENTS IS HIGHER THAN EXPECTED UNDER A NORMAL PROBABILITY

1 DISTRIBUTION OR WHERE THERE ARE OBSERVED EVENTS OF VERY SIGNIFICANT SIZE OR  
2 MAGNITUDE.

3 11. "VALUATION MANUAL" MEANS THE MANUAL OF VALUATION INSTRUCTIONS  
4 ADOPTED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS AS SPECIFIED  
5 IN THIS SECTION.

6 C. THE FOLLOWING APPLY TO RESERVE VALUATION FOR POLICIES AND CONTRACTS  
7 ISSUED BEFORE THE OPERATIVE DATE OF THE VALUATION MANUAL:

8 ~~B-~~ 1. The director shall annually value, or cause to be valued, the  
9 reserves for all outstanding life insurance policies and annuity and pure  
10 endowment contracts of every life insurance company doing business in this  
11 state ~~and may certify the amount of any of these reserves, specifying the~~  
12 ~~mortality table or tables, rate or rates of interest and methods (net level~~  
13 ~~premium method or other) used in the calculation of the reserves. In~~  
14 ~~calculating the reserves, the director may use group methods and may~~  
15 ~~approximate averages for fractions of a year or otherwise. The director may~~  
16 ~~accept the insurer's calculation of the reserves.~~ THAT ARE ISSUED BEFORE THE  
17 OPERATIVE DATE OF THE VALUATION MANUAL. IN CALCULATING RESERVES, THE  
18 DIRECTOR MAY USE GROUP METHODS AND APPROXIMATE AVERAGES FOR FRACTIONS OF A  
19 YEAR OR OTHERWISE. In lieu of the valuation of the reserves required ~~by this~~  
20 ~~section~~ of ~~any~~ A foreign or alien insurer, the director may accept ~~any~~ A  
21 valuation made, or caused to be made, by the insurance supervisory official  
22 of any state or other jurisdiction if the valuation complies with the minimum  
23 standard provided by this section, ~~and if the official of that state or~~  
24 ~~jurisdiction accepts as sufficient and valid for all legal purposes the~~  
25 ~~certificate of valuation of the director if the certificate states the~~  
26 ~~valuation to have been made in a specified manner according to which the~~  
27 ~~aggregate reserves would be at least as large as if they had been computed in~~  
28 ~~the manner prescribed by the law of that state or jurisdiction.~~

29 2. SUBSECTIONS G, H, I, J, K, L, M, N, O, P AND Q OF THIS SECTION  
30 APPLY TO ALL POLICIES AND CONTRACTS, AS APPROPRIATE, SUBJECT TO THIS SECTION  
31 ISSUED ON OR AFTER THE OPERATIVE DATE OF SECTION 20-1231 AND BEFORE THE  
32 OPERATIVE DATE OF THE VALUATION MANUAL AND SUBSECTIONS R, S AND T OF THIS  
33 SECTION DO NOT APPLY TO THOSE POLICIES AND CONTRACTS.

34 3. THE MINIMUM STANDARD FOR THE VALUATION OF POLICIES AND CONTRACTS  
35 ISSUED BEFORE THE OPERATIVE DATE OF SECTION 20-1231 IS THE STANDARD PROVIDED  
36 BY THE LAWS IN EFFECT IMMEDIATELY BEFORE THAT DATE.

37 D. THE FOLLOWING APPLY TO RESERVE VALUATION FOR POLICIES AND CONTRACTS  
38 ISSUED ON OR AFTER THE OPERATIVE DATE OF THE VALUATION MANUAL:

39 1. THE DIRECTOR SHALL ANNUALLY VALUE, OR CAUSE TO BE VALUED, THE  
40 RESERVES FOR ALL OUTSTANDING LIFE INSURANCE CONTRACTS, ANNUITY AND PURE  
41 ENDOWMENT CONTRACTS, ACCIDENT AND HEALTH CONTRACTS AND DEPOSIT-TYPE CONTRACTS  
42 OF EVERY COMPANY ISSUED ON OR AFTER THE OPERATIVE DATE OF THE VALUATION  
43 MANUAL. IN LIEU OF THE VALUATION OF THE RESERVES REQUIRED OF A FOREIGN OR  
44 ALIEN COMPANY, THE DIRECTOR MAY ACCEPT A VALUATION MADE, OR CAUSED TO BE  
45 MADE, BY THE INSURANCE SUPERVISORY OFFICIAL OF ANY STATE OR OTHER

1 JURISDICTION IF THE VALUATION COMPLIES WITH THE MINIMUM STANDARD PROVIDED BY  
2 THIS SECTION.

3 2. SUBSECTIONS R, S AND T OF THIS SECTION APPLY TO ALL POLICIES AND  
4 CONTRACTS ISSUED ON OR AFTER THE OPERATIVE DATE OF THE VALUATION MANUAL.

5 E. THE FOLLOWING APPLY TO ACTUARIAL OPINION OF RESERVES BEFORE THE  
6 OPERATIVE DATE OF THE VALUATION MANUAL:

7 ~~C. 1. Beginning from and after December 31, 1996,~~ Every life  
8 insurance company doing business in this state shall annually submit the  
9 opinion of a qualified actuary. The opinion shall state whether the reserves  
10 and related actuarial items that are held in support of the policies and  
11 contracts specified by the director are computed appropriately, are based on  
12 assumptions that satisfy contractual provisions, are consistent with prior  
13 reported amounts and comply with the applicable laws of this state. The  
14 director shall define the specifics of this opinion and shall add any other  
15 items to the scope of the opinion as the director deems necessary. ~~+~~

16 ~~1. Unless exempted or pursuant to rule,~~

17 2. FOR ACTUARIAL ANALYSIS OF RESERVES AND ASSETS SUPPORTING RESERVES:

18 (a) Every life insurance company, UNLESS EXEMPTED BY RULE, shall  
19 annually include in the opinion ~~under~~ REQUIRED BY PARAGRAPH 1 OF this  
20 subsection an opinion of the same qualified actuary as to whether, if  
21 considered in light of the assets held by the company with respect to the  
22 reserves and related actuarial items, including but not limited to the  
23 investment earnings on the assets and the considerations anticipated to be  
24 received and retained under the policies and contracts, the reserves and  
25 related actuarial items held in support of the policies and contracts  
26 specified by the director make adequate provision for the company's  
27 obligations under the policies and contracts, including but not limited to  
28 the benefits under and expenses associated with the policies and contracts.

29 (b) The director may provide for a transition period for establishing  
30 any higher reserves that the qualified actuary may deem necessary in order to  
31 render the opinion required by this section.

32 3. The following apply to each opinion required by ~~this~~ paragraph 2 OF  
33 THIS SUBSECTION:

34 (a) The insurance company shall prepare a memorandum to support each  
35 actuarial opinion. The memorandum shall be in a form and substance specified  
36 by the director.

37 (b) If the insurance company fails to provide a supporting memorandum  
38 on the request of the director and in the period of time specified by rule or  
39 if the director determines that the supporting memorandum does not meet the  
40 standards prescribed by rule or is otherwise unacceptable, the director may  
41 engage a qualified actuary at the expense of the insurance company to review  
42 the opinion and the basis for the opinion and to prepare any supporting  
43 memorandum that the director requires.

44 ~~2-~~ 4. The following apply to ~~all opinions~~ EACH OPINION required by  
45 PARAGRAPH 1 OF this subsection:

1 (a) The ~~insurance~~ company shall submit the opinion with the annual  
2 statement reflecting the valuation of the reserves for each year ending on or  
3 after December 31, 1996.

4 (b) The opinion applies to all business in force, including individual  
5 and group health insurance plans, and shall be in a form and substance that  
6 the director specifies.

7 (c) The opinion shall be based on standards that are adopted from time  
8 to time by the actuarial standards board and on any other additional  
9 standards that the director prescribes.

10 (d) If an opinion is required to be submitted by an alien or foreign  
11 company, the director may accept the opinion that is filed by that company  
12 with the insurance supervisory official of another state if the director  
13 determines that the opinion reasonably meets the requirements applicable to a  
14 company domiciled in this state.

15 (e) EXCEPT IN CASES OF FRAUD OR WILFUL MISCONDUCT, the qualified  
16 actuary is not liable for damages to any person other than the director and  
17 the insurance company for any act, error, omission, decision or conduct with  
18 respect to the actuary's opinion, ~~unless the actuary engaged in fraud or~~  
19 ~~wilful misconduct.~~

20 (f) The director shall define by rule what disciplinary actions the  
21 director may take against an insurance company or qualified actuary.

22 ~~(g) Any memorandum in support of an opinion and any other material~~  
23 ~~that the insurance company provides to the director are confidential, shall~~  
24 ~~not be made public and are not subject to subpoena. Any memorandum or other~~  
25 ~~material may be made public or subpoenaed for the purpose of defending an~~  
26 ~~action seeking damages from any person pursuant to any action that is~~  
27 ~~required by this subsection or by rules adopted pursuant to this subsection~~  
28 ~~if the memorandum or other material may otherwise be released by the director~~  
29 ~~with the written consent of the company or on request of the American academy~~  
30 ~~of actuaries for the purpose of professional disciplinary proceedings if the~~  
31 ~~academy sets forth procedures that are satisfactory to the director for~~  
32 ~~preserving the confidentiality of the memorandum or other material. Any~~  
33 ~~memorandum or other material is no longer confidential after an insurance~~  
34 ~~company cites any part of the memorandum in its marketing or before a~~  
35 ~~governmental agency other than the department or releases the memorandum to~~  
36 ~~the news media.~~

37 ~~3. For the purposes of this subsection, "qualified actuary" means a~~  
38 ~~member in good standing of the American academy of actuaries who meets the~~  
39 ~~requirements set forth by the director.~~

40 (g) EXCEPT AS PROVIDED IN SUBDIVISIONS (k), (l) AND (m) OF THIS  
41 PARAGRAPH, DOCUMENTS, MATERIALS OR OTHER INFORMATION IN THE POSSESSION OR  
42 CONTROL OF THE DEPARTMENT THAT ARE A MEMORANDUM IN SUPPORT OF THE OPINION,  
43 AND ANY OTHER MATERIAL PROVIDED BY THE COMPANY TO THE DIRECTOR IN CONNECTION  
44 WITH THE MEMORANDUM, ARE CONFIDENTIAL BY LAW AND PRIVILEGED AND ARE NOT  
45 SUBJECT TO PUBLIC RECORDS REQUESTS, ARE NOT SUBJECT TO SUBPOENA AND ARE NOT  
46 SUBJECT TO DISCOVERY OR ADMISSIBLE IN EVIDENCE IN ANY PRIVATE CIVIL ACTION.

1 THE DIRECTOR IS AUTHORIZED TO USE THE DOCUMENTS, MATERIALS OR OTHER  
2 INFORMATION IN THE FURTHERANCE OF ANY REGULATORY OR LEGAL ACTION BROUGHT AS  
3 PART OF THE DIRECTOR'S OFFICIAL DUTIES.

4 (h) THE DIRECTOR OR ANY PERSON WHO RECEIVED DOCUMENTS, MATERIALS OR  
5 OTHER INFORMATION WHILE ACTING UNDER THE AUTHORITY OF THE DIRECTOR IS NOT  
6 ALLOWED OR REQUIRED TO TESTIFY IN ANY PRIVATE CIVIL ACTION CONCERNING ANY  
7 CONFIDENTIAL DOCUMENTS, MATERIALS OR INFORMATION SUBJECT TO SUBDIVISION (g)  
8 OF THIS PARAGRAPH.

9 (i) IN ORDER TO ASSIST IN THE PERFORMANCE OF THE DIRECTOR'S DUTIES,  
10 THE DIRECTOR MAY:

11 (i) SHARE DOCUMENTS, MATERIALS OR OTHER INFORMATION, INCLUDING THE  
12 CONFIDENTIAL AND PRIVILEGED DOCUMENTS, MATERIALS OR INFORMATION SUBJECT TO  
13 SUBDIVISION (g) OF THIS PARAGRAPH, WITH OTHER STATE, FEDERAL AND  
14 INTERNATIONAL REGULATORY AGENCIES, WITH THE NATIONAL ASSOCIATION OF INSURANCE  
15 COMMISSIONERS AND ITS AFFILIATES AND SUBSIDIARIES, AND WITH STATE, FEDERAL  
16 AND INTERNATIONAL LAW ENFORCEMENT AUTHORITIES, IF THE RECIPIENT AGREES TO  
17 MAINTAIN THE CONFIDENTIALITY AND PRIVILEGED STATUS OF THE DOCUMENT, MATERIAL  
18 OR OTHER INFORMATION.

19 (ii) RECEIVE DOCUMENTS, MATERIALS OR INFORMATION, INCLUDING OTHERWISE  
20 CONFIDENTIAL AND PRIVILEGED DOCUMENTS, MATERIALS OR INFORMATION, FROM THE  
21 NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS AND ITS AFFILIATES AND  
22 SUBSIDIARIES, AND FROM REGULATORY AND LAW ENFORCEMENT OFFICIALS OF OTHER  
23 FOREIGN OR DOMESTIC JURISDICTIONS, AND SHALL MAINTAIN AS CONFIDENTIAL OR  
24 PRIVILEGED ANY DOCUMENT, MATERIAL OR INFORMATION RECEIVED WITH NOTICE OR THE  
25 UNDERSTANDING THAT IT IS CONFIDENTIAL OR PRIVILEGED UNDER THE LAWS OF THE  
26 JURISDICTION THAT IS THE SOURCE OF THE DOCUMENT, MATERIAL OR INFORMATION.

27 (iii) ENTER INTO AGREEMENTS GOVERNING SHARING AND USE OF INFORMATION  
28 CONSISTENT WITH SUBDIVISION (g) OF THIS PARAGRAPH AND THIS SUBDIVISION.

29 (j) NO WAIVER OF ANY APPLICABLE PRIVILEGE OR CLAIM OF CONFIDENTIALITY  
30 IN THE DOCUMENTS, MATERIALS OR INFORMATION SHALL OCCUR AS A RESULT OF  
31 DISCLOSURE TO THE DIRECTOR UNDER THIS SUBSECTION OR AS A RESULT OF SHARING AS  
32 AUTHORIZED IN SUBDIVISION (i) OF THIS PARAGRAPH.

33 (k) A MEMORANDUM IN SUPPORT OF THE OPINION, AND ANY OTHER MATERIAL  
34 PROVIDED BY THE COMPANY TO THE DIRECTOR IN CONNECTION WITH THE MEMORANDUM,  
35 MAY BE SUBJECT TO SUBPOENA FOR THE PURPOSE OF DEFENDING AN ACTION SEEKING  
36 DAMAGES FROM THE ACTUARY SUBMITTING THE MEMORANDUM BY REASON OF AN ACTION  
37 REQUIRED BY THIS SECTION OR BY RULES ADOPTED UNDER THIS SECTION.

38 (l) THE MEMORANDUM OR OTHER MATERIAL MAY OTHERWISE BE RELEASED BY THE  
39 DIRECTOR WITH THE WRITTEN CONSENT OF THE COMPANY OR TO THE AMERICAN ACADEMY  
40 OF ACTUARIES ON REQUEST STATING THAT THE MEMORANDUM OR OTHER MATERIAL IS  
41 REQUIRED FOR THE PURPOSE OF PROFESSIONAL DISCIPLINARY PROCEEDINGS AND SETTING  
42 FORTH PROCEDURES SATISFACTORY TO THE DIRECTOR FOR PRESERVING THE  
43 CONFIDENTIALITY OF THE MEMORANDUM OR OTHER MATERIAL.

44 (m) ONCE ANY PORTION OF THE CONFIDENTIAL MEMORANDUM IS CITED BY THE  
45 COMPANY IN ITS MARKETING, IS CITED BEFORE A GOVERNMENTAL AGENCY OTHER THAN A

1 STATE INSURANCE DEPARTMENT OR IS RELEASED BY THE COMPANY TO THE NEWS MEDIA,  
2 ALL PORTIONS OF THE CONFIDENTIAL MEMORANDUM ARE NO LONGER CONFIDENTIAL.

3 5. FOR THE PURPOSES OF THIS SUBSECTION, "QUALIFIED ACTUARY" MEANS A  
4 MEMBER IN GOOD STANDING OF THE AMERICAN ACADEMY OF ACTUARIES WHO MEETS THE  
5 REQUIREMENTS SET FORTH BY THE DIRECTOR.

6 F. THE FOLLOWING APPLY TO ACTUARIAL OPINION OF RESERVES AFTER THE  
7 OPERATIVE DATE OF THE VALUATION MANUAL:

8 1. EVERY COMPANY WITH OUTSTANDING LIFE INSURANCE CONTRACTS, ACCIDENT  
9 AND HEALTH INSURANCE CONTRACTS OR DEPOSIT-TYPE CONTRACTS IN THIS STATE AND  
10 SUBJECT TO REGULATION BY THE DIRECTOR SHALL ANNUALLY SUBMIT THE OPINION OF  
11 THE APPOINTED ACTUARY AS TO WHETHER THE RESERVES AND RELATED ACTUARIAL ITEMS  
12 HELD IN SUPPORT OF THE POLICIES AND CONTRACTS ARE COMPUTED APPROPRIATELY, ARE  
13 BASED ON ASSUMPTIONS THAT SATISFY CONTRACTUAL PROVISIONS, ARE CONSISTENT WITH  
14 PRIOR REPORTED AMOUNTS AND COMPLY WITH APPLICABLE LAWS OF THIS STATE. THE  
15 VALUATION MANUAL WILL PRESCRIBE THE SPECIFICS OF THIS OPINION INCLUDING ANY  
16 ITEMS DEEMED TO BE NECESSARY TO ITS SCOPE.

17 2. EVERY COMPANY WITH OUTSTANDING LIFE INSURANCE CONTRACTS, ACCIDENT  
18 AND HEALTH INSURANCE CONTRACTS OR DEPOSIT-TYPE CONTRACTS IN THIS STATE AND  
19 SUBJECT TO REGULATION BY THE DIRECTOR, EXCEPT AS EXEMPTED IN THE VALUATION  
20 MANUAL, SHALL ALSO ANNUALLY INCLUDE IN THE OPINION REQUIRED BY PARAGRAPH 1 OF  
21 THIS SUBSECTION AN OPINION OF THE SAME APPOINTED ACTUARY AS TO WHETHER THE  
22 RESERVES AND RELATED ACTUARIAL ITEMS HELD IN SUPPORT OF THE POLICIES AND  
23 CONTRACTS SPECIFIED IN THE VALUATION MANUAL, WHEN CONSIDERED IN LIGHT OF THE  
24 ASSETS HELD BY THE COMPANY WITH RESPECT TO THE RESERVES AND RELATED ACTUARIAL  
25 ITEMS, INCLUDING THE INVESTMENT EARNINGS ON THE ASSETS AND THE CONSIDERATIONS  
26 ANTICIPATED TO BE RECEIVED AND RETAINED UNDER THE POLICIES AND CONTRACTS,  
27 MAKE ADEQUATE PROVISION FOR THE COMPANY'S OBLIGATIONS UNDER THE POLICIES AND  
28 CONTRACTS, INCLUDING THE BENEFITS UNDER AND EXPENSES ASSOCIATED WITH THE  
29 POLICIES AND CONTRACTS.

30 3. THE FOLLOWING APPLY TO EACH OPINION REQUIRED BY PARAGRAPH 2 OF THIS  
31 SUBSECTION:

32 (a) A MEMORANDUM, IN FORM AND SUBSTANCE AS SPECIFIED IN THE VALUATION  
33 MANUAL, AND ACCEPTABLE TO THE DIRECTOR, SHALL BE PREPARED TO SUPPORT EACH  
34 ACTUARIAL OPINION.

35 (b) IF THE INSURANCE COMPANY FAILS TO PROVIDE A SUPPORTING MEMORANDUM  
36 AT THE REQUEST OF THE DIRECTOR WITHIN A PERIOD SPECIFIED IN THE VALUATION  
37 MANUAL OR THE DIRECTOR DETERMINES THAT THE SUPPORTING MEMORANDUM PROVIDED BY  
38 THE INSURANCE COMPANY FAILS TO MEET THE STANDARDS PRESCRIBED BY THE VALUATION  
39 MANUAL OR IS OTHERWISE UNACCEPTABLE TO THE DIRECTOR, THE DIRECTOR MAY ENGAGE  
40 A QUALIFIED ACTUARY AT THE EXPENSE OF THE COMPANY TO REVIEW THE OPINION AND  
41 THE BASIS FOR THE OPINION AND PREPARE THE SUPPORTING MEMORANDUM REQUIRED BY  
42 THE DIRECTOR.

1 4. THE FOLLOWING APPLY TO ALL OPINIONS SUBJECT TO THIS SUBSECTION:

2 (a) THE OPINION SHALL BE IN FORM AND SUBSTANCE AS SPECIFIED IN THE  
3 VALUATION MANUAL AND ACCEPTABLE TO THE DIRECTOR.

4 (b) THE OPINION SHALL BE SUBMITTED WITH THE ANNUAL STATEMENT  
5 REFLECTING THE VALUATION OF THE RESERVES FOR EACH YEAR ENDING ON OR AFTER THE  
6 OPERATIVE DATE OF THE VALUATION MANUAL.

7 (c) THE OPINION SHALL APPLY TO ALL POLICIES AND CONTRACTS SUBJECT TO  
8 THIS SUBSECTION, PLUS OTHER ACTUARIAL LIABILITIES AS MAY BE SPECIFIED IN THE  
9 VALUATION MANUAL.

10 (d) THE OPINION SHALL BE BASED ON STANDARDS ADOPTED FROM TIME TO TIME  
11 BY THE ACTUARIAL STANDARDS BOARD OR ITS SUCCESSOR, AND ON ANY ADDITIONAL  
12 STANDARDS AS MAY BE PRESCRIBED IN THE VALUATION MANUAL.

13 (e) IN THE CASE OF AN OPINION REQUIRED TO BE SUBMITTED BY A FOREIGN OR  
14 ALIEN COMPANY, THE DIRECTOR MAY ACCEPT THE OPINION FILED BY THAT COMPANY WITH  
15 THE INSURANCE SUPERVISORY OFFICIAL OF ANOTHER STATE IF THE DIRECTOR  
16 DETERMINES THAT THE OPINION REASONABLY MEETS THE REQUIREMENTS APPLICABLE TO A  
17 COMPANY DOMICILED IN THIS STATE.

18 (f) EXCEPT IN CASES OF FRAUD OR WILFUL MISCONDUCT, THE APPOINTED  
19 ACTUARY IS NOT LIABLE FOR DAMAGES TO ANY PERSON, OTHER THAN THE INSURANCE  
20 COMPANY AND THE DIRECTOR, FOR ANY ACT, ERROR, OMISSION, DECISION OR CONDUCT  
21 WITH RESPECT TO THE APPOINTED ACTUARY'S OPINION.

22 (g) DISCIPLINARY ACTION BY THE DIRECTOR AGAINST THE COMPANY OR THE  
23 APPOINTED ACTUARY SHALL BE DEFINED BY THE DIRECTOR IN RULE.

24 ~~D-~~ G. Except as otherwise provided in subsections ~~E, F and N~~ H, I, J  
25 AND Q of this section, the minimum standard for the valuation of all policies  
26 and contracts that were issued before the operative date of section 20-1231  
27 is that provided by the laws in effect immediately before January 1, 1955.  
28 Except as otherwise provided in subsections ~~E, F and N~~ H, I, J AND Q of this  
29 section, the minimum standard for the valuation of all policies and contracts  
30 that are issued on or after January 1, 1955 is the commissioners reserve  
31 valuation methods defined in subsections ~~H, I, L and N~~ K, L, O AND P of this  
32 section, three and one-half per cent interest or, in the case of LIFE  
33 INSURANCE policies and contracts, other than annuity and pure endowment  
34 contracts, that are issued on or after July 1, 1974, four per cent interest  
35 for those policies that are issued before January 1, 1979, five and one-half  
36 per cent interest for single premium life insurance policies and four and  
37 one-half per cent interest for all other policies that are issued on and  
38 after January 1, 1979, and the following tables:

39 1. For all ordinary policies of life insurance that are issued on the  
40 standard basis, excluding any disability and accidental death benefits in  
41 those policies, the commissioners 1941 standard ordinary mortality table for  
42 those policies issued before the operative date of section 20-1231,  
43 subsection F, paragraph 5, subdivision (b) and the commissioners 1958  
44 standard ordinary mortality table for those policies that are issued on or  
45 after the operative date of section 20-1231, subsection F, paragraph 5,  
46 subdivision (b) and before the operative date as provided in section



1 20-1231.01. If any category of these policies is issued on female risks,  
2 modified net premiums and present values referred to in this section may be  
3 calculated according to an age not more than six years younger than the  
4 actual age of the insured. For policies that are issued on or after the  
5 operative date of section 20-1231.01, the following tables may be used:

6 (a) The commissioners 1980 standard ordinary mortality table.

7 (b) At the election of the insurer for any one or more specified plans  
8 of life insurance, the commissioners 1980 standard ordinary mortality table  
9 with ten year select mortality factors.

10 (c) Any ordinary mortality table that is adopted after 1980 by the  
11 national association of insurance commissioners and that is approved by the  
12 director for use in determining the minimum standard of valuation for those  
13 policies.

14 2. For all industrial life insurance policies that are issued on the  
15 standard basis, excluding any disability and accidental death benefits in  
16 those policies, the 1941 standard industrial mortality table for those  
17 policies that are issued before the operative date of section 20-1231,  
18 subsection F, paragraph 5, subdivision (d) and for those policies that are  
19 issued on or after the operative date of section 20-1231, subsection F,  
20 paragraph 5, subdivision (d) the commissioners 1961 standard industrial  
21 mortality table or any industrial mortality table that is adopted after 1980  
22 by the national association of insurance commissioners and that is approved  
23 by the director for use in determining the minimum standard of valuation for  
24 those policies.

25 3. For individual annuity and pure endowment contracts, excluding any  
26 disability and accidental death benefits in those policies, the 1937 standard  
27 annuity mortality table or, at the option of the insurer, the annuity  
28 mortality table for 1949, ultimate, or any modification of either of these  
29 tables that the director approves.

30 4. For group annuity and pure endowment contracts, excluding any  
31 disability and accidental death benefits in those policies, the group annuity  
32 mortality table for 1951, any modification of the group annuity mortality  
33 table that is approved by the director or, at the option of the insurer, any  
34 of the tables or modifications of tables that are specified for individual  
35 annuity and pure endowment contracts.

36 5. For total and permanent disability benefits in or supplementary to  
37 ordinary policies or contracts:

38 (a) For policies or contracts that are issued on or after January 1,  
39 ~~1996~~ 1966, the tables of period 2 disablement rates and the 1930 to 1950  
40 termination rates of the 1952 disability study of the society of actuaries  
41 with due regard to the type of benefit or any tables of disablement rates and  
42 termination rates, adopted after 1980 by the national association of  
43 insurance commissioners, that are approved by the director for use in  
44 determining the minimum standard of valuation for those policies.

45 (b) For policies or contracts that are issued on or after January 1,  
46 1961 and before January 1, 1966, either of the tables that are specified in

1 subdivision (a) of this paragraph, or at the option of the insurer, the class  
2 three disability table (1926).

3 (c) For policies or contracts that are issued before January 1, 1961,  
4 the class three disability table (1926).

5 (d) For active lives, any table that is used pursuant to subdivision  
6 (a), (b) or (c) of this paragraph shall be combined with a mortality table  
7 that is ~~permitted~~ ALLOWED for calculating the reserves for life insurance  
8 policies.

9 6. For accidental death benefits in or supplementary to policies:

10 (a) For policies that are issued on or after January 1, 1966, the 1959  
11 accidental death benefits table or any accidental death benefits table that  
12 was adopted after 1980 by the national association of insurance commissioners  
13 and that the director approves for use in determining the minimum standard of  
14 valuation for those policies.

15 (b) For policies that are issued on or after January 1, 1961 and  
16 before January 1, 1966, either table provided by subdivision (a) of this  
17 paragraph or, at the option of the insurer, the intercompany double indemnity  
18 mortality table.

19 (c) For policies that are issued before January 1, 1961, the  
20 intercompany double indemnity mortality table.

21 (d) A table that is ~~permitted~~ ALLOWED under subdivision (a), (b) or  
22 (c) of this paragraph shall be combined with a mortality table that is  
23 ~~permitted~~ ALLOWED for calculating the reserves for life insurance policies.

24 7. For group life insurance, life insurance issued on the substandard  
25 basis and other special benefits, any tables that the director approves as  
26 sufficient with relation to the benefits provided by those policies.

27 ~~E.~~ H. Except as provided in subsection ~~F.~~ I of this section, the  
28 minimum standard for the valuation ~~of all~~ FOR individual annuity and pure  
29 endowment contracts ~~that are~~ issued on or after the operative date of this  
30 subsection and ~~all~~ annuities and pure endowments ~~that are~~ purchased on or  
31 after the operative date of this subsection under group annuity and pure  
32 endowment contracts shall be the commissioners reserve valuation methods  
33 defined in subsections ~~H.~~ K and ~~I.~~ L of this section and the following tables  
34 and interest rates:

35 1. For individual annuity and pure endowment contracts that are issued  
36 before January 1, 1979, excluding any disability and accidental death  
37 benefits in those contracts, the 1971 individual annuity mortality table or  
38 any modification of the table that the director approves, and six per cent  
39 interest for single premium immediate annuity contracts, and four per cent  
40 interest for all other individual annuity and pure endowment contracts.

41 2. For individual single premium immediate annuity contracts that are  
42 issued on or after January 1, 1979, excluding any disability and accidental  
43 death benefits in those contracts, the 1971 individual annuity mortality  
44 table or any individual annuity mortality table ~~that is~~ adopted after 1980 by  
45 the national association of insurance commissioners and that the director  
46 approves for use in determining the minimum standard valuation for those

1 contracts, or any modification of these tables that the director approves,  
2 and seven and one-half per cent interest.

3 3. For individual annuity and pure endowment contracts that are issued  
4 on or after January 1, 1979, other than single premium immediate annuity  
5 contracts and excluding any disability and accidental death benefits in those  
6 contracts, the 1971 individual annuity mortality table or any individual  
7 annuity mortality table that is adopted after 1980 by the national  
8 association of insurance commissioners and that the director approves for use  
9 in determining the minimum standard of valuation for those contracts, or any  
10 modification of these tables that the director approves, and five and  
11 one-half per cent interest for single premium deferred annuity and pure  
12 endowment contracts and four and one-half per cent interest for all other  
13 individual annuity and pure endowment contracts.

14 4. For all annuities and pure endowments that are purchased before  
15 January 1, 1979 under group annuity and pure endowment contracts, excluding  
16 any disability and accidental death benefits in those contracts, the 1971  
17 group annuity mortality table, or any modification of this table that the  
18 director approves, and six per cent interest.

19 5. For all annuities and pure endowments that are purchased on or  
20 after January 1, 1979 under group annuity and pure endowment contracts,  
21 excluding any disability and accidental death benefits that are purchased  
22 under those contracts, the 1971 group annuity mortality table or any group  
23 annuity mortality table that is adopted after 1980 by the national  
24 association of insurance commissioners and that the director approves for use  
25 in determining the minimum standard of valuation for those annuities and pure  
26 endowments, or any modification to these tables that the director approves,  
27 and seven and one-half per cent interest.

28 ~~F.~~ I. After July 1, 1974, any insurer may file with the director a  
29 written notice of its election to comply with subsection ~~E~~ H of this section  
30 on a specified date before January 1, 1979. ~~The date specified by the~~  
31 ~~insurer~~, WHICH shall be the operative date of subsection ~~E~~ H of this section  
32 for that insurer if the insurer elects a different operative date for  
33 individual annuity and pure endowment contracts from the date that is elected  
34 for group annuity and pure endowment contracts. If an insurer does not make  
35 an election pursuant to this subsection, the operative date of subsection ~~I~~  
36 L of this section shall be January 1, 1979.

37 ~~G.~~ J. The minimum standard by calendar year of issue shall be  
38 computed as follows:

39 1. The interest rates that are used in determining the minimum  
40 standard for the valuation of the following shall be the calendar year  
41 statutory valuation interest rates as defined in this subsection:

42 (a) All life insurance policies that are issued in a particular  
43 calendar year on or after the operative date of section 20-1231.01.

44 (b) All individual annuity and pure endowment contracts that are  
45 issued in a particular calendar year on or after January 1, 1983.

1 (c) All annuities and pure endowments that are purchased in a  
2 particular calendar year on or after January 1, 1983 under group annuity and  
3 pure endowment contracts.

4 (d) The net increase, if any, in a particular calendar year after  
5 January 1, 1983 in the amounts that are held under guaranteed interest  
6 contracts.

7 2. As used in this paragraph:

8 (a) R1 is the lesser of R and 0.09, R2 is the greater of R and 0.09, R  
9 is the reference interest rate defined in this subsection and W is the  
10 weighting factor defined in this subsection, the calendar year statutory  
11 valuation interest rates, or I, shall be determined as follows and the  
12 results shall be rounded to the nearer one-quarter of one per cent:

13 (i) For life insurance:

$$14 \quad I = .03 + W(R1 - .03) + W/2 (R2 - .09).$$

15 (ii) For single premium immediate annuities and for annuity benefits  
16 involving life contingencies arising from other annuities with cash  
17 settlement options and from guaranteed interest contracts with cash  
18 settlement options:

$$19 \quad I = .03 + W(R - .03).$$

20 (iii) Except pursuant to item (ii) of this subdivision, for other  
21 annuities with cash settlement options and guaranteed interest contracts with  
22 cash settlement options that are valued on an issue year basis, the formula  
23 for life insurance under item (i) of this subdivision applies to annuities  
24 and guaranteed interest contracts with guarantee durations of more than ten  
25 years and the formula for single premium immediate annuities under item (ii)  
26 of this subdivision applies to annuities and guaranteed interest contracts  
27 with guarantee durations of ten years or less.

28 (iv) For other annuities with no cash settlement options and  
29 guaranteed interest contracts with no cash settlement options, the formula  
30 for single premium immediate annuities under item (ii) of this subdivision  
31 applies.

32 (v) For other annuities with cash settlement options and guaranteed  
33 interest contracts with cash settlement options that are valued on a change  
34 in fund basis, the formula for single premium immediate annuities under item  
35 (ii) of this subdivision applies.

36 (b) If the calendar year statutory valuation interest rate for any  
37 life insurance policies issued in any calendar year determined without  
38 reference to this subdivision differs from the corresponding actual rate for  
39 similar policies issued in the immediately preceding calendar year by less  
40 than one-half of one per cent, the calendar year statutory valuation interest  
41 rate for those life insurance policies shall be equal to the corresponding  
42 actual rate for the immediately preceding calendar year. For the purposes of  
43 ~~this subdivision~~ APPLYING THE IMMEDIATELY PRECEDING SENTENCE, the calendar  
44 year statutory valuation interest rate for life insurance policies issued in  
45 a calendar year shall be determined for 1980 using the reference interest

1 rate defined in 1979 and shall be determined for each subsequent calendar  
 2 year regardless of the operative date of section 20-1231.01.

3 3. For the purposes of this subsection, the weighting factors REFERRED  
 4 TO IN THE FORMULAS STATED ABOVE are given in the following tables:

5 (a) Weighting factors for life insurance:

6 Guarantee		
7 Duration		Weighting
8 (Years)		Factors
9 Ten years or less		.50
10 More than ten years, but <del>less</del> NOT MORE than 20 years		.45
11 MORE THAN twenty years <del>or more</del>		.35

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

17 (c) The weighting factor for single premium immediate annuities and  
 18 for annuity benefits involving life contingencies arising from other  
 19 annuities with cash settlement options and guaranteed interest contracts with  
 20 cash settlement options: .80

21 (d) Except pursuant to subdivision (c) of this paragraph, weighting  
 22 factors for other annuities and for guaranteed interest ~~contracts~~ are as  
 23 specified and in accordance with this subdivision:

24 (i) For annuities and guaranteed interest contracts valued on an issue  
 25 year basis:

26 Guarantee		Weighting Factor		
27 Duration		for plan type		
28 (Years)		A	B	C
29 Five years or less		.80	.60	.50
30 More than five years, but not more than ten years		.75	.60	.50
31 More than ten years, but not more than twenty years		.65	.50	.45
32 More than twenty years		.45	.35	.35

33 (ii) For annuities and guaranteed interest contracts valued on a  
 34 change in fund basis, the factors listed in item (i) of this subdivision  
 35 increased by

		Plan type		
		A	B	C
		.15	.25	.05

36  
 37  
 38  
 39 (iii) For annuities and guaranteed interest contracts valued on an  
 40 issue year basis other than those with no cash settlement options that do not  
 41 guarantee interest on considerations received more than one year after issue  
 42 or purchase and for annuities and guaranteed interest contracts valued on a  
 43 change in fund basis that do not guarantee interest rates on considerations  
 44 received more than twelve months after the valuation date, the factors shown  
 45 in item (i) of this subdivision or derived in item (ii) of this subdivision  
 46 increased by

1				Plan type
2				A      B      C
3				.05   .05   .05

4            (iv) For other annuities with cash settlement options and guaranteed  
5 interest contracts with cash settlement options, the guarantee duration is  
6 the number of years for which the contract guarantees interest rates in  
7 excess of the calendar year statutory valuation interest rate for life  
8 insurance policies with guarantee duration of more than twenty years. For  
9 other annuities with no cash settlement options and for guaranteed interest  
10 contracts with no cash settlement options, the guarantee duration is the  
11 number of years from the date of issue or date of purchase to the date  
12 annuity benefits are scheduled to begin.

13            (v) A company may elect to value guaranteed interest contracts with  
14 cash settlement options and annuities with cash settlement options on either  
15 an issue year basis or on a change in fund basis. Guaranteed interest  
16 contracts with no cash settlement options and other annuities with no cash  
17 settlement options shall be valued on an issue year basis. As used in this  
18 subsection, "issue year basis" means a valuation basis under which the  
19 interest rate used to determine the minimum valuation standard for the entire  
20 duration of the annuity or guaranteed interest contract is the calendar year  
21 valuation interest rate for the year of issue or year of purchase of the  
22 annuity or guaranteed interest contract and "change in fund basis" means a  
23 valuation basis under which the interest rate used to determine the minimum  
24 valuation standard applicable to each change in the fund held under the  
25 annuity or guaranteed interest contract is the calendar year valuation  
26 interest rate for the year of the change in the fund.

27            4. "Plan type" as used in paragraph 3, subdivision (d) of this  
28 subsection means:

29            (a) Plan type A: A policyholder may withdraw funds at any time only  
30 with an adjustment to reflect changes in interest rates or asset values since  
31 the insurance company received the funds, without an adjustment but in  
32 installments over a period of five years or more, as an immediate life  
33 annuity, or a policyholder may not withdraw funds.

34            (b) Plan type B: Before the interest rate guarantee expires, a  
35 policyholder may withdraw funds only with an adjustment to reflect changes in  
36 interest rates or asset values since the insurance company received the  
37 funds, without an adjustment but in installments over a period of five years  
38 or more, or a policyholder may not withdraw funds. At the end of the  
39 interest rate guarantee, a policyholder may withdraw funds without an  
40 adjustment in a single sum or in installments over a period of less than five  
41 years.

42            (c) Plan type C: A policyholder may withdraw funds before the  
43 interest rate guarantee expires in a single sum or in installments over a  
44 period of less than five years either without an adjustment to reflect  
45 changes in interest rates or asset values since the insurance company

1 received the funds or subject only to a fixed surrender charge that is  
2 stipulated in the contract as a percentage of the fund.

3 5. For the purposes of this subsection, "reference interest rate"  
4 means:

5 (a) For all life insurance, the lesser of the average over a period of  
6 thirty-six months and the average over a period of twelve months, ending on  
7 June 30 of the calendar year next preceding the year of issue, of the monthly  
8 average of the composite yield on seasoned corporate bonds, as published by  
9 Moody's investors service, incorporated.

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

17 (c) Except pursuant to subdivision (b) of this paragraph, for other  
18 annuities with cash settlement options and guaranteed interest contracts with  
19 cash settlement options that are valued on an issue year basis, with  
20 guarantee duration of more than ten years, the lesser of the average over a  
21 period of thirty-six months and the average over a period of twelve months,  
22 ending on June 30 of the calendar year of issue or purchase, of the monthly  
23 average of the composite yield on seasoned corporate bonds, as published by  
24 Moody's investors service, incorporated.

25 (d) Except pursuant to subdivision (b) of this paragraph, for other  
26 annuities with cash settlement options and guaranteed interest contracts with  
27 cash settlement options that are valued on a year of issue basis, with  
28 guaranteed duration of ten years or less, the average over a period of twelve  
29 months, ending on June 30 of the calendar year of issue or purchase, of the  
30 monthly average of the composite yield on seasoned corporate bonds, as  
31 published by Moody's investors service, incorporated.

32 (e) For other annuities with no cash settlement options and guaranteed  
33 interest contracts with no cash settlement options, the average over a period  
34 of twelve months, ending on June 30 of the calendar year of issue or  
35 purchase, of the monthly average of the composite yield on seasoned corporate  
36 bonds, as published by Moody's investors service, incorporated.

37 (f) Except pursuant to subdivision (b) of this paragraph, for other  
38 annuities with cash settlement options and guaranteed interest contracts with  
39 cash settlement options that are valued on a change in fund basis, the  
40 average over a period of twelve months, ending on June 30 of the calendar  
41 year of the change in the fund, of the monthly average of the composite yield  
42 on seasoned corporate bonds, as published by Moody's investors service,  
43 incorporated.

44 6. If Moody's investors service, incorporated no longer publishes the  
45 monthly average of the composite yield on seasoned corporate bonds or if the  
46 national association of insurance commissioners determines that the monthly

1 average of the composite yield on seasoned corporate bonds as published by  
2 Moody's investor service, incorporated is no longer appropriate for the  
3 determination of the reference interest rate, an alternative method for  
4 determination of the reference interest rate that the national association of  
5 insurance commissioners adopts and the director approves may be substituted.

6 ~~H.~~ K. The reserve valuation method for life insurance and endowment  
7 benefits shall be determined as follows:

8 1. Except as otherwise provided in subsections ~~I.~~ L, ~~and N~~ O AND Q of  
9 this section, reserves according to the commissioners reserve valuation  
10 method, for the life insurance and endowment benefits of policies providing  
11 for a uniform amount of insurance and requiring the payment of uniform  
12 premiums, are the excess, if any, of the present value, at the date of  
13 valuation, of the future guaranteed benefits provided for by those policies,  
14 over the present value of any future modified net premiums. The modified net  
15 premiums for any one policy shall be the uniform percentage of the respective  
16 contract premiums for the benefits that the present value, at the date of  
17 issue of the policy, of all the modified net premiums shall be equal to the  
18 sum of the then present value of the benefits provided for by the policy and  
19 the excess of subdivision (a) over subdivision (b) of this paragraph as  
20 follows:

21 (a) A net level annual premium equal to the present value, at the date  
22 of issue, of the benefits provided for after the first policy year, divided  
23 by the present value, at the date of issue, of an annuity of one per annum  
24 payable on the first and each subsequent anniversary of the policy on which a  
25 premium falls due, provided however that the net level annual premium shall  
26 not exceed the net level annual premium on the nineteen year premium whole  
27 life plan for insurance of the same amount at an age one year higher than the  
28 age at issue of such policy.

29 (b) A net one year term premium for the benefits that are provided for  
30 in the first policy year.

31 2. Any life insurance policy that is issued on or after January 1,  
32 1986 for which the contract premium in the first policy year exceeds that of  
33 the second year and for which no comparable additional benefit is provided in  
34 the first year for the excess and that provides an endowment benefit or a  
35 cash surrender value or a combination thereof in an amount greater than the  
36 excess premium, the reserve according to the commissioners reserve valuation  
37 method as of any policy anniversary occurring on or before the assumed ending  
38 date defined for the purposes of this paragraph as the first policy  
39 anniversary on which the sum of any endowment benefit and any cash surrender  
40 value then available is greater than the excess premium, except as otherwise  
41 provided in subsection ~~I.~~ O of this section, shall be the greater of the  
42 reserve as of the policy anniversary calculated as described in paragraph 1  
43 of this subsection and the reserve as of the policy anniversary calculated as  
44 described in that paragraph, but with:



1 (a) The value defined in paragraph 1, subdivision (a) of this  
2 subsection being reduced by fifteen per cent of the amount of the excess  
3 first year premium.

4 (b) All present values of benefits and premiums being determined  
5 without reference to premiums or benefits provided for by the policy after  
6 the assumed ending date.

7 (c) The policy being assumed to mature on the date as an endowment.

8 (d) The cash surrender value provided on the date being considered as  
9 an endowment benefit.

10 In making the above comparison the mortality and interest bases stated in  
11 subsections ~~E and~~ G AND J of this section shall be used.

12 3. Reserves according to the commissioners reserve valuation method  
13 for:

14 (a) Life insurance policies providing for a varying amount of  
15 insurance or requiring the payment of varying premiums.

16 (b) Group annuity and pure endowment contracts purchased under a  
17 retirement plan or plan of deferred compensation that is established or  
18 maintained by an employer, including a partnership or sole proprietorship, or  
19 by an employee organization, or by both, other than a plan providing  
20 individual retirement accounts or individual retirement annuities under  
21 section 408 of the internal revenue code, as amended.

22 (c) Disability and accidental death benefits in all policies and  
23 contracts.

24 (d) All other benefits, except life insurance and endowment benefits  
25 in life insurance policies and benefits provided by all other annuity and  
26 pure endowment contracts, shall be calculated by a method consistent with the  
27 principles of paragraphs 1 and 2 of this subsection.

28 ~~I.~~ L. The reserve valuation method for annuity and pure endowment  
29 benefits shall be determined as follows:

30 1. This subsection applies to all annuity and pure endowment contracts  
31 other than group annuity and pure endowment contracts purchased under a  
32 retirement plan or plan of deferred compensation that is established or  
33 maintained by an employer, including a partnership or sole proprietorship, or  
34 by an employee organization, or by both, other than a plan providing  
35 individual retirement accounts or individual retirement annuities under  
36 section 408 of the internal revenue code, as amended.

37 2. Reserves according to the commissioners annuity reserve method for  
38 benefits under annuity or pure endowment contracts, excluding any disability  
39 and accidental death benefits in those contracts, shall be the greatest of  
40 the respective excesses of the present values, at the date of valuation, of  
41 the future guaranteed benefits, including guaranteed nonforfeiture benefits  
42 that are provided for by the contracts at the end of each respective contract  
43 year, over the present value, at the date of valuation, of any future  
44 valuation considerations derived from future gross considerations, required  
45 by the terms of the contract, that become payable before the end of the  
46 respective contract year. The future guaranteed benefits shall be determined

1 by using the mortality table, if any, and the interest rate or rates  
2 specified in the contracts for determining guaranteed benefits. The  
3 valuation considerations are the portions of the respective gross  
4 considerations applied under the terms of the contracts to determine  
5 nonforfeiture values.

6 ~~J~~ M. A company's aggregate reserves for all life insurance policies,  
7 excluding disability and accidental death benefits, that are issued on or  
8 after the operative date of section 20-1231, shall not be less than the  
9 aggregate reserves calculated in accordance with the methods set forth in  
10 subsections ~~H, I, K, L, O~~ and ~~M~~ P of this section and the mortality table or  
11 tables and rate or rates of interest used in calculating nonforfeiture  
12 benefits for the policies. The aggregate reserves for all policies,  
13 contracts and benefits shall not be less than the aggregate reserves  
14 determined by the qualified actuary to be necessary to render the opinion  
15 required by subsection ~~G~~ E of this section.

16 ~~K~~ N. Optional reserves may be calculated as follows:

17 1. At the option of the insurer, reserves for all policies and  
18 contracts that are issued before the operative date of section 20-1231 may be  
19 calculated according to any standards that produce greater aggregate reserves  
20 for all the policies and contracts than the minimum reserves required by the  
21 laws in effect immediately before that date.

22 2. At the option of the insurer, reserves for any category of  
23 policies, contracts or benefits that the director establishes and that are  
24 issued on or after the operative date of section 20-1231 may be calculated  
25 according to any standards that produce greater aggregate reserves for that  
26 category than those calculated according to the minimum standard provided in  
27 this section, but the rate or rates of interest used for policies and  
28 contracts, other than annuity and pure endowment contracts, shall not be  
29 ~~higher~~ GREATER than the corresponding rate or rates of interest used in  
30 calculating any nonforfeiture benefits provided for in the policy or  
31 contract.

32 3. An insurer that at any time has adopted any standard of valuation  
33 producing greater aggregate reserves than those calculated according to the  
34 minimum standard provided by this section, with the director's approval, may  
35 adopt any lower standard of valuation, but not lower than the minimum  
36 provided by this section. For the purposes of this section, the holding of  
37 additional reserves previously determined by ~~a-qualified~~ THE APPOINTED  
38 actuary to be necessary to render the opinion required by subsection ~~G~~ E of  
39 this section shall not be deemed to be the adoption of a higher standard of  
40 valuation.

41 ~~L~~ O. Reserves when the valuation net premium exceeds the gross  
42 premium charged shall be calculated as follows:

43 1. If in any contract year the gross premium charged by ~~any life~~  
44 ~~insurer~~ A COMPANY on any policy or contract is less than the valuation net  
45 premium for the policy or contract calculated by the method used in  
46 calculating the reserve but using the minimum valuation standards of

1 mortality and rate of interest, the minimum reserve required for the policy  
2 or contract shall be the greater of either the reserve calculated according  
3 to the mortality table, rate of interest, and method actually used for the  
4 policy or contract, or the reserve calculated by the method actually used for  
5 the policy or contract but using the minimum valuation standards of mortality  
6 and rate of interest and replacing the valuation net premium by the actual  
7 gross premium in each contract year for which the valuation net premium  
8 exceeds the actual gross premium. The minimum valuation standards of  
9 mortality and rate of interest referred to in this subsection are those  
10 standards stated in subsections ~~D- G~~ and ~~G- J~~ of this section.

11 2. For any life insurance policy that is issued on or after January 1,  
12 1986, for which the gross premium in the first policy year exceeds that of  
13 the second year, ~~AND~~ for which no comparable additional benefit is provided  
14 in the first year for that excess and that provides an endowment benefit or a  
15 cash surrender value or a combination ~~of endowment benefit and cash surrender~~  
16 ~~value~~ in an amount greater than the excess premium, this subsection applies  
17 as if the method actually used in calculating the reserve for the policy was  
18 the method described in subsection ~~H- K~~, ~~paragraph~~ PARAGRAPHS 1 AND 3 of this  
19 section. The minimum reserve at each policy anniversary of ~~SUCH~~ a policy  
20 shall be the greater of the minimum reserve calculated in accordance with  
21 subsection ~~H- K~~ of this section, ~~INCLUDING PARAGRAPH 2 OF THAT SUBSECTION~~,  
22 and the minimum reserve calculated in accordance with this subsection.

23 ~~M- P.~~ P. If a plan of life insurance provides for future premium  
24 determination, the amounts of which are to be determined by the insurer based  
25 on then estimates of future experience, or if the minimum reserves of a plan  
26 of life insurance or annuity cannot be determined by the methods described in  
27 subsections ~~H, I and K~~, L AND O of this section, the reserves that are held  
28 under any plan must:

29 1. Be appropriate in relation to the benefits and the pattern of  
30 premiums for that plan.

31 2. Be computed by a method that is consistent with the principles of  
32 this ~~standard valuation law~~ SECTION, AS DETERMINED BY RULES ADOPTED BY THE  
33 DIRECTOR RELATED TO THE MINIMUM STANDARDS APPLICABLE TO THE VALUATION OF  
34 HEALTH PLANS.

35 ~~N. The director shall adopt rules relating to the minimum standards~~  
36 ~~applicable to the valuation of health plans.~~

37 ~~O. For the purposes of this section, "reserves" means reserve~~  
38 ~~liabilities.~~

39 Q. FOR ACCIDENT AND HEALTH INSURANCE CONTRACTS ISSUED ON OR AFTER THE  
40 OPERATIVE DATE OF THE VALUATION MANUAL, THE STANDARD PRESCRIBED IN THE  
41 VALUATION MANUAL IS THE MINIMUM STANDARD OF VALUATION REQUIRED UNDER  
42 SUBSECTION D, PARAGRAPH 1 OF THIS SECTION. FOR DISABILITY INSURANCE CONTRACTS  
43 ISSUED ON OR AFTER THE OPERATIVE DATE OF SECTION 20-1231 AND BEFORE THE  
44 OPERATIVE DATE OF THE VALUATION MANUAL, THE MINIMUM STANDARD OF VALUATION IS  
45 THE STANDARD ADOPTED BY THE DIRECTOR BY RULE.

1 R. THE FOLLOWING APPLY TO THE VALUATION MANUAL FOR POLICIES ISSUED ON  
2 OR AFTER THE OPERATIVE DATE OF THE VALUATION MANUAL:

3 1. FOR POLICIES ISSUED ON OR AFTER THE OPERATIVE DATE OF THE VALUATION  
4 MANUAL, THE STANDARD PRESCRIBED IN THE VALUATION MANUAL IS THE MINIMUM  
5 STANDARD OF VALUATION REQUIRED UNDER SUBSECTION D, PARAGRAPH 1 OF THIS  
6 SECTION, EXCEPT AS PROVIDED UNDER PARAGRAPH 5 OR 7 OF THIS SUBSECTION.

7 2. THE OPERATIVE DATE OF THE VALUATION MANUAL IS JANUARY 1 OF THE  
8 FIRST CALENDAR YEAR FOLLOWING THE FIRST JULY 1 AS OF WHICH ALL OF THE  
9 FOLLOWING HAVE OCCURRED:

10 (a) THE VALUATION MANUAL HAS BEEN ADOPTED BY THE NATIONAL ASSOCIATION  
11 OF INSURANCE COMMISSIONERS BY AN AFFIRMATIVE VOTE OF AT LEAST FORTY-TWO  
12 MEMBERS, OR THREE-FOURTHS OF THE MEMBERS VOTING, WHICHEVER IS GREATER.

13 (b) THE STANDARD VALUATION LAW, AS AMENDED BY THE NATIONAL ASSOCIATION  
14 OF INSURANCE COMMISSIONERS IN 2009, OR LEGISLATION INCLUDING SUBSTANTIALLY  
15 SIMILAR TERMS AND PROVISIONS, HAS BEEN ENACTED BY STATES REPRESENTING GREATER  
16 THAN SEVENTY-FIVE PER CENT OF THE DIRECT PREMIUMS WRITTEN AS REPORTED IN THE  
17 FOLLOWING ANNUAL STATEMENTS SUBMITTED FOR 2008: LIFE, ACCIDENT AND HEALTH  
18 ANNUAL STATEMENTS, HEALTH ANNUAL STATEMENTS, OR FRATERNAL ANNUAL STATEMENTS.

19 (c) THE STANDARD VALUATION LAW, AS AMENDED BY THE NATIONAL ASSOCIATION  
20 OF INSURANCE COMMISSIONERS IN 2009, OR LEGISLATION INCLUDING SUBSTANTIALLY  
21 SIMILAR TERMS AND PROVISIONS, HAS BEEN ENACTED BY AT LEAST FORTY-TWO OF THE  
22 FOLLOWING FIFTY-FIVE JURISDICTIONS:

23 (i) THE FIFTY STATES OF THE UNITED STATES.

24 (ii) AMERICAN SAMOA.

25 (iii) THE UNITED STATES VIRGIN ISLANDS.

26 (iv) THE DISTRICT OF COLUMBIA.

27 (v) GUAM.

28 (vi) THE COMMONWEALTH OF PUERTO RICO.

29 3. UNLESS A CHANGE IN THE VALUATION MANUAL SPECIFIES A LATER EFFECTIVE  
30 DATE, CHANGES TO THE VALUATION MANUAL SHALL BE EFFECTIVE ON JANUARY 1  
31 FOLLOWING THE DATE WHEN ALL OF THE FOLLOWING HAVE OCCURRED:

32 (a) THE CHANGE TO THE VALUATION MANUAL HAS BEEN ADOPTED BY THE  
33 NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS BY AN AFFIRMATIVE VOTE  
34 REPRESENTING THE FOLLOWING:

35 (i) AT LEAST THREE-FOURTHS OF THE MEMBERS OF THE NATIONAL ASSOCIATION  
36 OF INSURANCE COMMISSIONERS VOTING, BUT NOT LESS THAN A MAJORITY OF THE TOTAL  
37 MEMBERSHIP.

38 (ii) MEMBERS OF THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS  
39 REPRESENTING JURISDICTIONS TOTALING GREATER THAN SEVENTY-FIVE PER CENT OF THE  
40 DIRECT PREMIUMS WRITTEN AS REPORTED IN THE FOLLOWING ANNUAL STATEMENTS MOST  
41 RECENTLY AVAILABLE BEFORE THE VOTE IN ITEM (i) OF THIS SUBDIVISION: LIFE,  
42 ACCIDENT AND HEALTH ANNUAL STATEMENTS, HEALTH ANNUAL STATEMENTS, OR FRATERNAL  
43 ANNUAL STATEMENTS.

44 (b) THE VALUATION MANUAL BECOMES EFFECTIVE PURSUANT TO AN ORDER OF THE  
45 DIRECTOR.

46 4. THE VALUATION MANUAL MUST SPECIFY ALL OF THE FOLLOWING:

1 (a) MINIMUM VALUATION STANDARDS FOR AND DEFINITIONS OF THE POLICIES OR  
2 CONTRACTS SUBJECT TO SUBSECTION D, PARAGRAPH 1 OF THIS SECTION. THE MINIMUM  
3 VALUATION STANDARDS SHALL INCLUDE ALL OF THE FOLLOWING:

4 (i) THE DIRECTOR'S RESERVE VALUATION METHOD FOR LIFE INSURANCE  
5 CONTRACTS, OTHER THAN ANNUITY CONTRACTS, SUBJECT TO SUBSECTION D, PARAGRAPH 1  
6 OF THIS SECTION.

7 (ii) THE DIRECTOR'S ANNUITY RESERVE VALUATION METHOD FOR ANNUITY  
8 CONTRACTS SUBJECT TO SUBSECTION D, PARAGRAPH 1 OF THIS SECTION.

9 (iii) MINIMUM RESERVES FOR ALL OTHER POLICIES OR CONTRACTS SUBJECT TO  
10 SUBSECTION D OF THIS SECTION.

11 (b) WHICH POLICIES OR CONTRACTS OR TYPES OF POLICIES OR CONTRACTS THAT  
12 ARE SUBJECT TO THE REQUIREMENTS OF A PRINCIPLE-BASED VALUATION IN SUBSECTION  
13 S OF THIS SECTION AND THE MINIMUM VALUATION STANDARDS CONSISTENT WITH THOSE  
14 REQUIREMENTS.

15 (c) FOR POLICIES AND CONTRACTS SUBJECT TO A PRINCIPLE-BASED VALUATION  
16 UNDER SUBSECTION S OF THIS SECTION:

17 (i) REQUIREMENTS FOR THE FORMAT OF REPORTS TO THE DIRECTOR UNDER  
18 SUBSECTION T, PARAGRAPH 2 OF THIS SECTION AND THAT SHALL INCLUDE INFORMATION  
19 NECESSARY TO DETERMINE IF THE VALUATION IS APPROPRIATE AND IN COMPLIANCE WITH  
20 THIS SECTION.

21 (ii) ASSUMPTIONS SHALL BE PRESCRIBED FOR RISKS OVER WHICH THE COMPANY  
22 DOES NOT HAVE SIGNIFICANT CONTROL OR INFLUENCE.

23 (iii) PROCEDURES FOR CORPORATE GOVERNANCE AND OVERSIGHT OF THE  
24 ACTUARIAL FUNCTION AND A PROCESS FOR APPROPRIATE WAIVER OR MODIFICATION OF  
25 THE PROCEDURES.

26 (d) FOR POLICIES NOT SUBJECT TO A PRINCIPLE-BASED VALUATION UNDER  
27 SUBSECTION S OF THIS SECTION THE MINIMUM VALUATION STANDARD SHALL EITHER:

28 (i) BE CONSISTENT WITH THE MINIMUM STANDARD OF VALUATION BEFORE THE  
29 OPERATIVE DATE OF THE VALUATION MANUAL.

30 (ii) DEVELOP RESERVES THAT QUANTIFY THE BENEFITS AND GUARANTEES, AND  
31 THE FUNDING, ASSOCIATED WITH THE CONTRACTS AND THEIR RISKS AT A LEVEL OF  
32 CONSERVATISM THAT REFLECTS CONDITIONS THAT INCLUDE UNFAVORABLE EVENTS THAT  
33 HAVE A REASONABLE PROBABILITY OF OCCURRING.

34 (e) OTHER REQUIREMENTS, INCLUDING THOSE RELATING TO RESERVE METHODS,  
35 MODELS FOR MEASURING RISK, GENERATION OF ECONOMIC SCENARIOS, ASSUMPTIONS,  
36 MARGINS, USE OF COMPANY EXPERIENCE, RISK MEASUREMENT, DISCLOSURE,  
37 CERTIFICATIONS, REPORTS, ACTUARIAL OPINIONS AND MEMORANDUMS, TRANSITION RULES  
38 AND INTERNAL CONTROLS.

39 (f) THE DATA AND FORM OF THE DATA REQUIRED UNDER SUBSECTION T OF THIS  
40 SECTION, WITH WHOM THE DATA MUST BE SUBMITTED, AND OTHER REQUIREMENTS  
41 INCLUDING DATA ANALYSES AND REPORTING OF ANALYSES.

42 5. IN THE ABSENCE OF A SPECIFIC VALUATION REQUIREMENT OR IF A SPECIFIC  
43 VALUATION REQUIREMENT IN THE VALUATION MANUAL IS NOT, IN THE OPINION OF THE  
44 DIRECTOR, IN COMPLIANCE WITH THIS SECTION, THE COMPANY, WITH RESPECT TO THE  
45 REQUIREMENTS, SHALL COMPLY WITH MINIMUM VALUATION STANDARDS PRESCRIBED BY THE  
46 DIRECTOR BY RULE.

1           6. THE DIRECTOR MAY ENGAGE A QUALIFIED ACTUARY, AT THE EXPENSE OF THE  
2 COMPANY, TO PERFORM AN ACTUARIAL EXAMINATION OF THE COMPANY AND OPINE ON THE  
3 APPROPRIATENESS OF ANY RESERVE ASSUMPTION OR METHOD USED BY THE COMPANY, OR  
4 TO REVIEW AND OPINE ON A COMPANY'S COMPLIANCE WITH ANY REQUIREMENT OF THIS  
5 SECTION. THE DIRECTOR MAY RELY ON THE OPINION, REGARDING PROVISIONS  
6 CONTAINED IN THIS SECTION, OF A QUALIFIED ACTUARY ENGAGED BY THE DIRECTOR OF  
7 ANOTHER STATE, DISTRICT OR TERRITORY OF THE UNITED STATES. FOR THE PURPOSES  
8 OF THIS PARAGRAPH, ENGAGE INCLUDES EMPLOYMENT AND CONTRACTING.

9           7. THE DIRECTOR MAY REQUIRE A COMPANY TO CHANGE ANY ASSUMPTION OR  
10 METHOD THAT IN THE OPINION OF THE DIRECTOR IS NECESSARY IN ORDER TO COMPLY  
11 WITH THE REQUIREMENTS OF THE VALUATION MANUAL OR THIS SECTION, AND THE  
12 COMPANY SHALL ADJUST THE RESERVES AS REQUIRED BY THE DIRECTOR. THE DIRECTOR  
13 MAY TAKE OTHER DISCIPLINARY ACTION AS ALLOWED PURSUANT TO SECTION 20-152.

14           S. A COMPANY MUST ESTABLISH RESERVES USING A PRINCIPLE-BASED VALUATION  
15 THAT MEETS THE FOLLOWING CONDITIONS FOR POLICIES OR CONTRACTS AS SPECIFIED IN  
16 THE VALUATION MANUAL:

17           1. QUANTIFY THE BENEFITS AND GUARANTEES, AND THE FUNDING, ASSOCIATED  
18 WITH THE CONTRACTS AND THEIR RISKS AT A LEVEL OF CONSERVATISM THAT REFLECTS  
19 CONDITIONS THAT INCLUDE UNFAVORABLE EVENTS THAT HAVE A REASONABLE PROBABILITY  
20 OF OCCURRING DURING THE LIFETIME OF THE CONTRACTS, AND FOR POLICIES OR  
21 CONTRACTS WITH SIGNIFICANT TAIL RISK, THAT REFLECTS CONDITIONS APPROPRIATELY  
22 ADVERSE TO QUANTIFY THE TAIL RISK.

23           2. INCORPORATE ASSUMPTIONS, RISK ANALYSIS METHODS AND FINANCIAL MODELS  
24 AND MANAGEMENT TECHNIQUES THAT ARE CONSISTENT WITH, BUT NOT NECESSARILY  
25 IDENTICAL TO, THOSE UTILIZED WITHIN THE COMPANY'S OVERALL RISK ASSESSMENT  
26 PROCESS, WHILE RECOGNIZING POTENTIAL DIFFERENCES IN FINANCIAL REPORTING  
27 STRUCTURES AND ANY PRESCRIBED ASSUMPTIONS OR METHODS.

28           3. INCORPORATE ASSUMPTIONS THAT ARE DERIVED IN ONE OF THE FOLLOWING  
29 MANNERS:

30           (a) THE ASSUMPTION IS PRESCRIBED IN THE VALUATION MANUAL.

31           (b) FOR ASSUMPTIONS THAT ARE NOT PRESCRIBED, THE ASSUMPTIONS SHALL  
32 EITHER:

33           (i) BE ESTABLISHED UTILIZING THE COMPANY'S AVAILABLE EXPERIENCE TO THE  
34 EXTENT IT IS RELEVANT AND STATISTICALLY CREDIBLE.

35           (ii) TO THE EXTENT THAT COMPANY DATA IS NOT AVAILABLE, RELEVANT OR  
36 STATISTICALLY CREDIBLE, BE ESTABLISHED UTILIZING OTHER RELEVANT,  
37 STATISTICALLY CREDIBLE EXPERIENCE.

38           4. PROVIDE MARGINS FOR UNCERTAINTY INCLUDING ADVERSE DEVIATION AND  
39 ESTIMATION ERROR, SUCH THAT THE GREATER THE UNCERTAINTY THE LARGER THE MARGIN  
40 AND RESULTING RESERVE.

41           T. A COMPANY USING A PRINCIPLE-BASED VALUATION FOR ONE OR MORE  
42 POLICIES OR CONTRACTS SUBJECT TO THIS SECTION AS SPECIFIED IN THE VALUATION  
43 MANUAL SHALL:

44           1. ESTABLISH PROCEDURES FOR CORPORATE GOVERNANCE AND OVERSIGHT OF THE  
45 ACTUARIAL VALUATION FUNCTION CONSISTENT WITH THOSE DESCRIBED IN THE VALUATION  
46 MANUAL.

1           2. PROVIDE TO THE DIRECTOR AND THE BOARD OF DIRECTORS AN ANNUAL  
2 CERTIFICATION OF THE EFFECTIVENESS OF THE INTERNAL CONTROLS WITH RESPECT TO  
3 THE PRINCIPLE-BASED VALUATION. THE CONTROLS SHALL BE DESIGNED TO ASSURE THAT  
4 ALL MATERIAL RISKS INHERENT IN THE LIABILITIES AND ASSOCIATED ASSETS SUBJECT  
5 TO THE VALUATION ARE INCLUDED IN THE VALUATION, AND THAT VALUATIONS ARE MADE  
6 IN ACCORDANCE WITH THE VALUATION MANUAL. THE CERTIFICATION SHALL BE BASED ON  
7 THE CONTROLS IN PLACE AS OF THE END OF THE PRECEDING CALENDAR YEAR.

8           3. DEVELOP, AND FILE WITH THE DIRECTOR ON REQUEST, A PRINCIPLE-BASED  
9 VALUATION REPORT THAT COMPLIES WITH STANDARDS PRESCRIBED IN THE VALUATION  
10 MANUAL. A PRINCIPLE-BASED VALUATION MAY INCLUDE A PRESCRIBED FORMULAIC  
11 RESERVE COMPONENT.

12           U. A COMPANY SHALL SUBMIT MORTALITY, MORBIDITY, POLICYHOLDER BEHAVIOR  
13 OR EXPENSE EXPERIENCE AND OTHER DATA AS PRESCRIBED IN THE VALUATION MANUAL.

14           V. THE FOLLOWING APPLY TO CONFIDENTIALITY:

15           1. FOR THE PURPOSES OF THIS SUBSECTION, "CONFIDENTIAL INFORMATION"  
16 MEANS:

17           (a) A MEMORANDUM IN SUPPORT OF AN OPINION SUBMITTED UNDER SUBSECTION F  
18 OF THIS SECTION AND ANY OTHER DOCUMENTS, MATERIALS AND OTHER INFORMATION,  
19 INCLUDING ALL WORKING PAPERS, AND COPIES THEREOF, CREATED, PRODUCED OR  
20 OBTAINED BY OR DISCLOSED TO THE DIRECTOR OR ANY OTHER PERSON IN CONNECTION  
21 WITH THE MEMORANDUM.

22           (b) ALL DOCUMENTS, MATERIALS AND OTHER INFORMATION, INCLUDING ALL  
23 WORKING PAPERS, AND COPIES THEREOF, CREATED, PRODUCED OR OBTAINED BY OR  
24 DISCLOSED TO THE DIRECTOR OR ANY OTHER PERSON IN THE COURSE OF AN EXAMINATION  
25 MADE UNDER SUBSECTION R OF THIS SECTION. IF AN EXAMINATION REPORT OR OTHER  
26 MATERIAL PREPARED IN CONNECTION WITH AN EXAMINATION MADE UNDER SECTION 20-156  
27 IS NOT HELD AS PRIVATE AND CONFIDENTIAL INFORMATION UNDER SECTION 20-156, AN  
28 EXAMINATION REPORT OR OTHER MATERIAL PREPARED IN CONNECTION WITH AN  
29 EXAMINATION MADE UNDER SUBSECTION R, PARAGRAPH 6 OF THIS SECTION IS NOT  
30 CONFIDENTIAL INFORMATION TO THE SAME EXTENT AS IF THE EXAMINATION REPORT OR  
31 OTHER MATERIAL HAD BEEN PREPARED UNDER SECTION 20-156.

32           (c) ANY REPORTS, DOCUMENTS, MATERIALS AND OTHER INFORMATION DEVELOPED  
33 BY A COMPANY IN SUPPORT OF OR IN CONNECTION WITH AN ANNUAL CERTIFICATION BY  
34 THE COMPANY UNDER SUBSECTION T, PARAGRAPH 2 OF THIS SECTION EVALUATING THE  
35 EFFECTIVENESS OF THE COMPANY'S INTERNAL CONTROLS WITH RESPECT TO A  
36 PRINCIPLE-BASED VALUATION AND ANY OTHER DOCUMENTS, MATERIALS AND OTHER  
37 INFORMATION, INCLUDING ALL WORKING PAPERS, AND COPIES THEREOF, CREATED,  
38 PRODUCED OR OBTAINED BY OR DISCLOSED TO THE DIRECTOR OR ANY OTHER PERSON IN  
39 CONNECTION WITH THE REPORTS, DOCUMENTS, MATERIALS AND OTHER INFORMATION.

40           (d) ANY PRINCIPLE-BASED VALUATION REPORT DEVELOPED UNDER SUBSECTION T,  
41 PARAGRAPH 3 OF THIS SECTION AND ANY OTHER DOCUMENTS, MATERIALS AND OTHER  
42 INFORMATION, INCLUDING ALL WORKING PAPERS, AND COPIES THEREOF, CREATED,  
43 PRODUCED OR OBTAINED BY OR DISCLOSED TO THE DIRECTOR OR ANY OTHER PERSON IN  
44 CONNECTION WITH THE REPORT.

45           (e) ANY DOCUMENTS, MATERIALS, DATA AND OTHER INFORMATION SUBMITTED BY  
46 A COMPANY UNDER SUBSECTION U OF THIS SECTION (COLLECTIVELY, "EXPERIENCE

1 DATA") AND ANY OTHER DOCUMENTS, MATERIALS, DATA AND OTHER INFORMATION,  
2 INCLUDING ALL WORKING PAPERS, AND COPIES THEREOF, CREATED OR PRODUCED IN  
3 CONNECTION WITH THE EXPERIENCE DATA, IN EACH CASE THAT INCLUDE ANY  
4 POTENTIALLY COMPANY-IDENTIFYING OR PERSONALLY IDENTIFIABLE INFORMATION THAT  
5 IS PROVIDED TO OR OBTAINED BY THE DIRECTOR (TOGETHER WITH ANY "EXPERIENCE  
6 DATA", THE "EXPERIENCE MATERIALS") AND ANY OTHER DOCUMENTS, MATERIALS, DATA  
7 AND OTHER INFORMATION, INCLUDING ALL WORKING PAPERS, AND COPIES THEREOF,  
8 CREATED, PRODUCED OR OBTAINED BY OR DISCLOSED TO THE DIRECTOR OR ANY OTHER  
9 PERSON IN CONNECTION WITH THE EXPERIENCE MATERIALS.

10 2. THE FOLLOWING APPLY TO THE PRIVILEGE FOR AND CONFIDENTIALITY OF  
11 CONFIDENTIAL INFORMATION:

12 (a) EXCEPT AS PROVIDED IN THIS SUBSECTION, A COMPANY'S CONFIDENTIAL  
13 INFORMATION IS CONFIDENTIAL BY LAW AND PRIVILEGED, AND IS NOT SUBJECT TO  
14 PUBLIC RECORDS REQUESTS OR SUBPOENAS AND SHALL NOT BE SUBJECT TO DISCOVERY OR  
15 ADMISSIBLE IN EVIDENCE IN ANY PRIVATE CIVIL ACTION. THE DIRECTOR IS  
16 AUTHORIZED TO USE THE CONFIDENTIAL INFORMATION IN THE FURTHERANCE OF ANY  
17 REGULATORY OR LEGAL ACTION BROUGHT AGAINST THE COMPANY AS A PART OF THE  
18 DIRECTOR'S OFFICIAL DUTIES.

19 (b) NEITHER THE DIRECTOR NOR ANY PERSON WHO RECEIVED CONFIDENTIAL  
20 INFORMATION WHILE ACTING UNDER THE AUTHORITY OF THE DIRECTOR SHALL BE ALLOWED  
21 OR REQUIRED TO TESTIFY IN ANY PRIVATE CIVIL ACTION CONCERNING ANY  
22 CONFIDENTIAL INFORMATION.

23 (c) IN ORDER TO ASSIST IN THE PERFORMANCE OF THE DIRECTOR'S DUTIES,  
24 THE DIRECTOR MAY SHARE CONFIDENTIAL INFORMATION:

25 (i) WITH OTHER STATE, FEDERAL AND INTERNATIONAL REGULATORY AGENCIES  
26 AND WITH THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS AND ITS  
27 AFFILIATES AND SUBSIDIARIES.

28 (ii) IN THE CASE OF CONFIDENTIAL INFORMATION SPECIFIED IN PARAGRAPH 1,  
29 SUBDIVISIONS (a) AND (d) OF THIS SUBSECTION ONLY, WITH THE ACTUARIAL BOARD  
30 FOR COUNSELING AND DISCIPLINE OR ITS SUCCESSOR ON REQUEST STATING THAT THE  
31 CONFIDENTIAL INFORMATION IS REQUIRED FOR THE PURPOSE OF PROFESSIONAL  
32 DISCIPLINARY PROCEEDINGS AND WITH STATE, FEDERAL AND INTERNATIONAL LAW  
33 ENFORCEMENT OFFICIALS.

34 (iii) IN THE CASE OF ITEMS (i) AND (ii) OF THIS SUBDIVISION, IF THE  
35 RECIPIENT AGREES, AND HAS THE LEGAL AUTHORITY TO AGREE, TO MAINTAIN THE  
36 CONFIDENTIALITY AND PRIVILEGED STATUS OF THE DOCUMENTS, MATERIALS, DATA AND  
37 OTHER INFORMATION IN THE SAME MANNER AND TO THE SAME EXTENT AS REQUIRED FOR  
38 THE DIRECTOR.

39 (d) THE DIRECTOR MAY RECEIVE DOCUMENTS, MATERIALS, DATA AND OTHER  
40 INFORMATION, INCLUDING OTHERWISE CONFIDENTIAL AND PRIVILEGED DOCUMENTS,  
41 MATERIALS, DATA OR INFORMATION, FROM THE NATIONAL ASSOCIATION OF INSURANCE  
42 COMMISSIONERS AND ITS AFFILIATES AND SUBSIDIARIES, FROM REGULATORY OR LAW  
43 ENFORCEMENT OFFICIALS OF OTHER FOREIGN OR DOMESTIC JURISDICTIONS AND FROM THE  
44 ACTUARIAL BOARD FOR COUNSELING AND DISCIPLINE OR ITS SUCCESSOR AND SHALL  
45 MAINTAIN AS CONFIDENTIAL OR PRIVILEGED ANY DOCUMENT, MATERIAL, DATA OR OTHER  
46 INFORMATION RECEIVED WITH NOTICE OR THE UNDERSTANDING THAT IT IS CONFIDENTIAL



1 OR PRIVILEGED UNDER THE LAWS OF THE JURISDICTION THAT IS THE SOURCE OF THE  
2 DOCUMENT, MATERIAL OR OTHER INFORMATION.

3 (e) THE DIRECTOR MAY ENTER INTO AGREEMENTS GOVERNING SHARING AND USE  
4 OF INFORMATION CONSISTENT WITH THIS PARAGRAPH.

5 (f) NO WAIVER OF ANY APPLICABLE PRIVILEGE OR CLAIM OF CONFIDENTIALITY  
6 IN THE CONFIDENTIAL INFORMATION SHALL OCCUR AS A RESULT OF DISCLOSURE TO THE  
7 DIRECTOR UNDER THIS SECTION OR AS A RESULT OF SHARING AS AUTHORIZED IN  
8 SUBDIVISION (c) OF THIS PARAGRAPH.

9 (g) PRIVILEGE ESTABLISHED UNDER THE LAW OF ANY STATE OR JURISDICTION  
10 THAT IS SUBSTANTIALLY SIMILAR TO THE PRIVILEGE ESTABLISHED UNDER THIS  
11 PARAGRAPH SHALL BE AVAILABLE AND ENFORCED IN ANY PROCEEDING IN AND IN ANY  
12 COURT OF THIS STATE.

13 3. NOTWITHSTANDING PARAGRAPH 2 OF THIS SUBSECTION, ANY CONFIDENTIAL  
14 INFORMATION SPECIFIED IN PARAGRAPH 1, SUBDIVISIONS (a) AND (d) OF THIS  
15 SUBSECTION:

16 (a) MAY BE SUBJECT TO SUBPOENA FOR THE PURPOSE OF DEFENDING AN ACTION  
17 SEEKING DAMAGES FROM THE APPOINTED ACTUARY SUBMITTING THE RELATED MEMORANDUM  
18 IN SUPPORT OF AN OPINION SUBMITTED UNDER SUBSECTION F, PARAGRAPH 1 OF THIS  
19 SECTION OR PRINCIPLE-BASED VALUATION REPORT DEVELOPED UNDER SUBSECTION T,  
20 PARAGRAPH 3 OF THIS SECTION BY REASON OF AN ACTION REQUIRED BY THIS SECTION  
21 OR BY RULES ADOPTED UNDER THIS SECTION.

22 (b) MAY OTHERWISE BE RELEASED BY THE DIRECTOR WITH THE WRITTEN CONSENT  
23 OF THE COMPANY.

24 (c) ONCE ANY PORTION OF A MEMORANDUM IN SUPPORT OF AN OPINION  
25 SUBMITTED UNDER SUBSECTION F, PARAGRAPH 1 OF THIS SECTION OR A  
26 PRINCIPLE-BASED VALUATION REPORT DEVELOPED UNDER SUBSECTION T, PARAGRAPH 3 OF  
27 THIS SECTION IS CITED BY THE COMPANY IN ITS MARKETING OR IS PUBLICLY  
28 VOLUNTEERED TO OR BEFORE A GOVERNMENTAL AGENCY OTHER THAN A STATE INSURANCE  
29 DEPARTMENT OR IS RELEASED BY THE COMPANY TO THE NEWS MEDIA, ALL PORTIONS OF  
30 THE MEMORANDUM OR REPORT ARE NO LONGER CONFIDENTIAL.

31 4. FOR THE PURPOSES OF THIS SUBSECTION, "REGULATORY AGENCY", "LAW  
32 ENFORCEMENT AGENCY" AND "NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS"  
33 INCLUDE THE EMPLOYEES, AGENTS, CONSULTANTS AND CONTRACTORS OF THOSE ENTITIES.

34 W. THE FOLLOWING APPLY TO SINGLE STATE EXEMPTION:

35 1. THE DIRECTOR MAY EXEMPT SPECIFIC PRODUCT FORMS OR PRODUCT LINES OF  
36 A DOMESTIC COMPANY THAT IS LICENSED AND DOING BUSINESS ONLY IN THIS STATE  
37 FROM THE REQUIREMENTS OF SUBSECTION R OF THIS SECTION IF:

38 (a) THE DIRECTOR HAS ISSUED AN EXEMPTION IN WRITING TO THE COMPANY AND  
39 HAS NOT SUBSEQUENTLY REVOKED THE EXEMPTION IN WRITING.

40 (b) THE COMPANY COMPUTES RESERVES USING ASSUMPTIONS AND METHODS USED  
41 BEFORE THE OPERATIVE DATE OF THE VALUATION MANUAL IN ADDITION TO ANY  
42 REQUIREMENTS ESTABLISHED BY THE DIRECTOR AND ADOPTED BY RULE.

43 2. FOR ANY COMPANY GRANTED AN EXEMPTION UNDER THIS SECTION,  
44 SUBSECTIONS D, E, F, G, H, I, J, K, L, M, N, O, P AND Q OF THIS SECTION  
45 APPLY. FOR ANY COMPANY APPLYING THIS EXEMPTION, ANY REFERENCE TO SUBSECTION

1 R FOUND IN SUBSECTIONS D, E, F, G, H, I, J, K, L, M, N, O, P AND Q OF THIS  
2 SECTION DOES NOT APPLY.

3 Sec. 2. Section 20-696.01, Arizona Revised Statutes, is amended to  
4 read:

5 20-696.01. Definitions

6 In this article, unless the context otherwise requires:

7 1. "Actuarial opinion" means the opinion of an appointed actuary  
8 regarding the adequacy of the reserves and related actuarial items that is  
9 based on an asset adequacy analysis conducted pursuant to section 20-696.03  
10 and that is based on presently accepted actuarial standards of practice.

11 2. "Actuarial standards board" means the board that is established by  
12 the American academy of actuaries to develop and promulgate actuarial  
13 standards of practice.

14 3. "Annual statement" means the statement that an insurer annually  
15 files with the director pursuant to section 20-223.

16 4. "Appointed actuary" means an individual who is appointed or  
17 retained pursuant to section 20-696.02, subsection D to provide the actuarial  
18 opinion and supporting memorandum prescribed by section 20-510, subsection  
19 ~~E~~ E OR F.

20 5. "Asset adequacy analysis" means an analysis that meets the  
21 standards and other requirements prescribed pursuant to section 20-696.02,  
22 subsection E.

23 6. "Company" means an insurer, fraternal benefit society or reinsurer  
24 that is subject to this article pursuant to section 20-696.

25 7. "Qualified actuary" means any individual who meets the requirements  
26 prescribed in section 20-696.02, subsection B.

27 Sec. 3. Section 20-696.02, Arizona Revised Statutes, is amended to  
28 read:

29 20-696.02. General requirements; statement of actuarial  
30 opinion; qualified actuary; appointed actuary;  
31 analysis

32 A. The following apply to the submission of statements of actuarial  
33 opinion:

34 1. Pursuant to section 20-696.03, a company shall include with or  
35 attach to page one of its annual statement the statement of actuarial opinion  
36 that is made by an appointed actuary and that states an opinion relating to  
37 reserves and related actuarial items held in support of policies and  
38 contracts.

39 2. On written request by the company, the director may grant an  
40 extension of the date for submission of the statement of actuarial opinion.

41 B. A qualified actuary is an individual who meets the following  
42 requirements:

- 43 1. Is a member in good standing of the American academy of actuaries.  
44 2. Is qualified to sign statements of actuarial opinion for life and  
45 health insurance company annual statements pursuant to the American academy  
46 of actuaries qualification standards for actuaries signing these statements.

1           3. Is familiar with the valuation requirements that are applicable to  
2 life and health insurance companies.

3           4. Has not been found by the director, after appropriate notice and  
4 hearing and without subsequent reinstatement as a qualified actuary, to have  
5 done any of the following:

6           (a) Violated any provision of or any obligation imposed by this title  
7 or other law in the course of the person's conduct as a qualified actuary.

8           (b) Been convicted of a fraudulent or dishonest practice.

9           (c) Demonstrated incompetence, lack of cooperation or  
10 untrustworthiness to act as a qualified actuary.

11           (d) Pursuant to this article, submitted to the director during the  
12 past five years an actuarial opinion or memorandum that the director rejected  
13 because it did not meet the requirements prescribed by this article,  
14 including standards prescribed by the actuarial standards board.

15           (e) Resigned or been removed as an actuary within the past five years  
16 as a result of acts or omissions that are indicated in any adverse report on  
17 examination or as a result of failure to adhere to generally acceptable  
18 actuarial standards.

19           5. Has notified the director of any action taken against the actuary  
20 by the director or commissioner of another state for an act that is  
21 prohibited under paragraph 4 of this subsection.

22           C. Notwithstanding subsection B, paragraph 4 of this section, for good  
23 cause shown the director may classify an individual as a qualified actuary.

24           D. An appointed actuary is a qualified actuary who is appointed or  
25 retained to prepare the statement of actuarial opinion that is required by  
26 this article, either directly by or by the authority of the board of  
27 directors through an executive officer of the company who shall not be the  
28 qualified actuary. The company shall give the director timely written notice  
29 of the name and title of the appointed actuary, the name of the firm if the  
30 actuary is a consulting actuary, and the manner of appointment or retention  
31 of each person who is appointed or retained by the company as an appointed  
32 actuary, and shall state that the person meets the requirements of subsection  
33 B of this section. After the company furnishes this notice, no further  
34 notice is required with respect to this person, except that the company shall  
35 give the director timely written notice if the actuary ceases to be appointed  
36 or retained as an appointed actuary or fails to meet the requirements  
37 prescribed in subsection B of this section. If a person who is appointed or  
38 retained as an appointed actuary replaces a previously appointed actuary, the  
39 notice shall state this and shall give the reasons for the replacement.

40           E. The asset adequacy analysis required by this article shall:

41           1. Conform to the actuarial standards of practice as promulgated by  
42 the actuarial standards board in effect on the effective date of this article  
43 and to any additional standards pursuant to this article that form the basis  
44 of the statement of actuarial opinion pursuant to this article.

45           2. Be based on methods of analysis as are deemed appropriate for these  
46 purposes by the actuarial standards board.

1 F. Liabilities shall be covered in the actuarial opinion as follows:

2 1. Pursuant to section 20-510, subsection ~~E~~ OR F, the statement of  
3 actuarial opinion applies to all in force business on the statement date,  
4 whether directly issued or assumed and regardless of when or where issued.

5 2. If the appointed actuary determines as the result of an asset  
6 adequacy analysis that a reserve should be held in addition to the aggregate  
7 reserve held by the company and calculated pursuant to the methods prescribed  
8 in section 20-510, the company shall establish the additional reserve.

9 3. Additional reserves that are established under paragraph 2 of this  
10 subsection and that are deemed unnecessary in subsequent years may be  
11 released. Any amounts released shall be disclosed in the actuarial opinion  
12 for the applicable year. The release of these reserves is not deemed an  
13 adoption of a lower standard of valuation.

14 Sec. 4. Section 20-696.04, Arizona Revised Statutes, is amended to  
15 read:

16 20-696.04. Description of actuarial memorandum including an  
17 asset adequacy analysis and regulatory asset  
18 adequacy issues summary

19 A. Pursuant to section 20-510, subsection ~~E~~ OR F, the appointed  
20 actuary shall prepare a memorandum to the company describing the analysis in  
21 support of the appointed actuary's opinion regarding the reserves.

22 B. The director may examine the memorandum pursuant to this section  
23 and shall return the memorandum to the company after the examination. The  
24 memorandum is not a record of the department and is not subject to automatic  
25 filing with the director.

26 C. The appointed actuary may rely on and include as a part of the  
27 memorandum other memoranda that are prepared and signed by other actuaries  
28 who are qualified pursuant to section 20-696.02, subsection B. The  
29 memorandum shall state that the appointed actuary relied on other qualified  
30 actuaries to prepare the memorandum.

31 D. If the director requests a memorandum and no such memorandum  
32 exists, or if the director finds that the analysis described in the  
33 memorandum fails to meet the standards of the actuarial standards board or  
34 the standards and requirements of this article, the director may designate a  
35 qualified actuary to review the opinion and prepare a supporting memorandum  
36 as is required for review. The company shall pay any reasonable and  
37 necessary expenses of the independent review. The director shall direct and  
38 control the review.

39 E. The reviewing actuary who is designated under subsection D of this  
40 section has the same status as an examiner for the purposes of obtaining data  
41 from the company. The director shall retain the work papers and  
42 documentation of the reviewing actuary. The director shall keep the work  
43 papers and documentation confidential. The reviewing actuary shall not be an  
44 employee of a consulting firm that is involved with the preparation of any  
45 prior actuarial memorandum or opinion for the insurer pursuant to this  
46 article during the current year or the preceding three years.

1 F. The appointed actuary shall prepare a regulatory asset adequacy  
2 issues summary pursuant to subsection H of this section. The regulatory  
3 asset adequacy issues summary shall be submitted no later than March 15 of  
4 the year following the year for which a statement of actuarial opinion based  
5 on asset adequacy is required. The director shall keep the regulatory asset  
6 adequacy issues summary confidential to the same extent and under the same  
7 conditions as the actuarial memorandum.

8 G. If an actuarial opinion is provided the memorandum shall  
9 demonstrate that the analysis was conducted pursuant to the standards for  
10 asset adequacy prescribed pursuant to section 20-696.03 and any additional  
11 standards prescribed pursuant to this article. The memorandum shall specify:

12 1. For reserves:

13 (a) Product descriptions, including market description, underwriting  
14 and other aspects of a risk profile and the specific risks the appointed  
15 actuary deems significant.

16 (b) Source of liability in force.

17 (c) Reserve method and basis.

18 (d) Investment reserves.

19 (e) Reinsurance arrangements.

20 (f) Identification of any explicit or implied guarantees made by the  
21 general account in support of benefits provided through a separate account or  
22 under a separate account policy or contract and the methods used by the  
23 appointed actuary to provide for the guarantees in the asset adequacy  
24 analysis.

25 (g) Documentation of assumptions, including documentation to allow an  
26 actuary reviewing the actuarial memorandum to form a conclusion about the  
27 reasonableness of the assumptions, to test reserves for the following:

28 (i) Base lapse rates and excess lapse rates.

29 (ii) Interest crediting rate strategy.

30 (iii) Mortality.

31 (iv) Policyholder dividend strategy.

32 (v) Competitor or market interest rate.

33 (vi) Annuitization rates.

34 (vii) Commissions and expenses.

35 (viii) Morbidity.

36 2. For assets:

37 (a) Portfolio descriptions, including a risk profile that discloses  
38 the quality, distribution and types of assets.

39 (b) Investment and disinvestment assumptions.

40 (c) Source of asset data.

41 (d) Asset valuation bases.

42 (e) Documentation of assumptions, including documentation to allow an  
43 actuary reviewing the actuarial memorandum to form a conclusion about the  
44 reasonableness of the assumptions, made for:

45 (i) Default costs.

46 (ii) Bond call function.

- 1 (iii) Mortgage prepayment function.
- 2 (iv) Determining market value for assets sold due to disinvestment  
3 strategy.
- 4 (v) Determining yield on assets acquired through the investment  
5 strategy.
- 6 3. For the analysis basis:
  - 7 (a) Methodology.
  - 8 (b) Rationale for inclusion or exclusion of different blocks of  
9 business and how pertinent risks were analyzed.
  - 10 (c) Rationale for degree of rigor in analyzing different blocks of  
11 business.
  - 12 (d) Criteria for determining asset adequacy.
  - 13 (e) Impact of federal income taxes and the method of treating  
14 reinsurance in the asset adequacy analysis.
- 15 4. A summary of material changes in methods, procedures or assumptions  
16 from a prior year's asset adequacy analysis.
- 17 5. A summary of results.
- 18 6. Conclusions.
- 19 H. The regulatory asset adequacy issues summary shall include:
  - 20 1. Descriptions of the scenarios tested, including whether those  
21 scenarios are stochastic or deterministic, and the sensitivity testing done  
22 relative to those scenarios. If negative ending surplus results under  
23 certain tests in the aggregate, the appointed actuary shall describe those  
24 tests and the amount of additional reserve as of the valuation date that, if  
25 held, would eliminate the negative aggregate surplus values. Ending surplus  
26 values shall be determined either by extending the projection period until  
27 the in force and associated assets and liabilities at the end of the  
28 projection period are immaterial or by adjusting the surplus amount at the  
29 end of the projection period by an amount that appropriately estimates the  
30 value that can reasonably be expected to arise from the assets and  
31 liabilities remaining in force.
  - 32 2. The extent to which the appointed actuary uses assumptions in the  
33 asset adequacy analysis that are materially different than the assumptions  
34 used in the previous asset adequacy analysis.
  - 35 3. The amount of reserves and the identity of the product lines that  
36 had been subjected to asset adequacy analysis in the prior opinion but that  
37 were not subject to analysis for the current opinion.
  - 38 4. Comments on any interim results that may be of significant concern  
39 to the appointed actuary.
  - 40 5. The methods used by the appointed actuary to recognize the impact  
41 of reinsurance on the company's cash flows, including both assets and  
42 liabilities, under each of the scenarios tested.
  - 43 6. The extent to which the appointed actuary is satisfied that all  
44 options, whether explicit or embedded, in any asset or liability and  
45 equity-like features in any investments are appropriately considered in the  
46 asset adequacy analysis.

1           7. The name of the company for which the regulatory asset adequacy  
2 issues summary is being supplied.

3           8. The signature of the appointed actuary and the date of the  
4 signature.

5           I. The memorandum shall include the following statement:

6           Actuarial methods, considerations and analyses used in the  
7 preparation of this memorandum conform to the appropriate  
8 actuarial standards of practice as promulgated by the actuarial  
9 standards board that form the basis for this memorandum.

10          J. An appropriate allocation of assets in the amount of the interest  
11 maintenance reserve whether positive or negative, shall be used in any asset  
12 adequacy analysis. Analysis of risks regarding asset default may include an  
13 appropriate allocation of assets supporting the asset valuation reserve.  
14 These asset valuation reserve assets may not be applied for any other risks  
15 with respect to reserve adequacy. Analysis of these and other risks may  
16 include assets supporting other mandatory or voluntary reserves available to  
17 the extent not used for risk analysis and reserve support.

18          K. The amount of the assets used for the asset valuation reserve shall  
19 be disclosed in the table of reserves and liabilities of the opinion and in  
20 the memorandum. The method used for selecting particular assets or allocated  
21 portions of assets shall be disclosed in the memorandum.

22          L. The appointed actuary shall retain on file, for at least seven  
23 years, sufficient documentation to determine the procedures followed, the  
24 analyses performed, the bases for assumptions and the results obtained.

25          Sec. 5. Section 20-1231.01, Arizona Revised Statutes, is amended to  
26 read:

27          20-1231.01. Standard nonforfeiture law for life insurance:  
28                                   table for calculating adjusted premiums:  
29                                   definitions

30          Except as provided in paragraph 7 of this section, on a policy issued  
31 on or after the operative date as provided in this section:

32          1. The adjusted premiums for any policy shall be calculated on an  
33 annual basis and shall be such a uniform percentage of the respective  
34 premiums specified in the policy for each policy year, excluding amounts  
35 payable as extra premiums to cover impairments or special hazards and also  
36 excluding any uniform annual contract charge or policy fee specified in the  
37 policy in a statement of the method to be used in calculating the cash  
38 surrender values and paid-up nonforfeiture benefits, that the present value,  
39 at the date of issue of the policy, of all adjusted premiums shall be equal  
40 to the sum of:

41           (a) The then present value of the future guaranteed benefits provided  
42 for by the policy.

43           (b) One per cent of either the amount of insurance, if the insurance  
44 is uniform in amount, or the average amount of insurance at the beginning of  
45 each of the first ten policy years.

1 (c) One hundred twenty-five per cent of the nonforfeiture net level  
2 premium. In applying the percentage specified in subdivision (c) of this  
3 paragraph no nonforfeiture net level premium shall be deemed to exceed four  
4 per cent of either the amount of insurance, if the insurance is uniform in  
5 amount, or the average amount of insurance at the beginning of each of the  
6 first ten policy years. The date of issue of a policy for the purpose of  
7 this section is the date as of which the rated age of the insured is  
8 determined.

9 2. The nonforfeiture net level premium is equal to the present value,  
10 at the date of issue of the policy, of the guaranteed benefits provided for  
11 by the policy divided by the present value, at the date of issue of the  
12 policy, of an annuity of one per annum payable on the date of issue of the  
13 policy and on each anniversary of the policy on which a premium falls due.

14 3. In the case of policies ~~which~~ THAT cause on a basis guaranteed in  
15 the policy unscheduled changes in benefits or premiums, or ~~which~~ THAT provide  
16 an option for changes in benefits or premiums other than a change to a new  
17 policy, the adjusted premiums and present values shall initially be  
18 calculated on the assumption that future benefits and premiums do not change  
19 from those stipulated at the date of issue of the policy. At the time of  
20 such a change in the benefits or premiums, the future adjusted premiums,  
21 nonforfeiture net level premiums and present values shall be recalculated on  
22 the assumption that future benefits and premiums do not change from those  
23 stipulated by the policy immediately after the change.

24 4. Except as otherwise provided in paragraph 7 of this section, the  
25 recalculated future adjusted premiums for any such policy are the uniform  
26 percentage of the respective future premiums specified in the policy for each  
27 policy year, excluding amounts payable as extra premiums to cover impairments  
28 and special hazards and also excluding any uniform annual contract charge or  
29 policy fee specified in the policy in a statement of the method to be used in  
30 calculating the cash surrender values and paid-up nonforfeiture benefits,  
31 that the present value, at the time of change to the newly defined benefits  
32 or premiums, of all such future adjusted premiums shall be equal to the  
33 excess of the sum of the then present value of the then future guaranteed  
34 benefits provided for by the policy and the additional expense allowance, if  
35 any, over the then cash surrender value, if any, or present value of any  
36 paid-up nonforfeiture benefit under the policy.

37 5. The additional expense allowance, at the time of the change to the  
38 newly defined benefits or premiums, is the sum of:

39 (a) One per cent of the excess, if positive, of the average amount of  
40 insurance at the beginning of each of the first ten policy years subsequent  
41 to the change over the average amount of insurance prior to the change at the  
42 beginning of each of the first ten policy years subsequent to the time of the  
43 most recent previous change or, if there has been no previous change, the  
44 date of issue of the policy.

45 (b) One hundred twenty-five per cent of the increase, if positive, in  
46 the nonforfeiture net level premium.



1           6. The recalculated nonforfeiture net level premium is equal to the  
2 result obtained by dividing (a) by (b) where:

3           (a) (a) Equals the sum of:

4           (i) The nonforfeiture net level premium applicable prior to the change  
5 times the present value of an annuity of one per annum payable on each  
6 anniversary of the policy on or subsequent to the date of the change on which  
7 a premium would have fallen due had the change not occurred.

8           (ii) The present value of the increase in future guaranteed benefits  
9 provided for by the policy.

10          (b) (b) Equals the present value of an annuity of one per annum  
11 payable on each anniversary of the policy on or subsequent to the date of  
12 change on which a premium falls due.

13          7. Notwithstanding any other provisions of this section, in the case  
14 of a policy issued on a substandard basis ~~which~~ THAT provides reduced graded  
15 amounts of insurance so that, in each policy year, the policy has the same  
16 tabular mortality cost as an otherwise similar policy issued on the standard  
17 basis ~~which~~ THAT provides higher uniform amounts of insurance, adjusted  
18 premiums and present values for the substandard policy may be calculated as  
19 if it were issued to provide higher uniform amounts of insurance on the  
20 standard basis.

21          8. All adjusted premiums and present values referred to in this  
22 section shall, for all policies of ordinary insurance, be calculated on the  
23 basis of either the commissioners 1980 standard ordinary mortality table, or  
24 at the election of the insurer for any one or more specified plans of life  
25 insurance, the commissioners 1980 standard ordinary mortality table with ten  
26 year select mortality factors, for all policies of industrial insurance, be  
27 calculated on the basis of the commissioners 1961 standard industrial  
28 mortality table, and for all policies issued in a particular calendar year,  
29 be calculated on the basis of a rate of interest not exceeding the  
30 nonforfeiture interest rate for policies issued in that calendar year.  
31 However:

32          (a) At the option of the insurer, calculations for all policies issued  
33 in a particular calendar year may be made on the basis of a rate of interest  
34 not exceeding the nonforfeiture interest rate, as ~~defined~~ PRESCRIBED in this  
35 section, for policies issued in the immediately preceding calendar year.

36          (b) Under any paid-up nonforfeiture benefit, including any paid-up  
37 dividend additions, any cash surrender value available, whether or not  
38 required by section 20-1231, subsection B, shall be calculated on the basis  
39 of the mortality table and rate of interest used in determining the amount of  
40 such paid-up nonforfeiture benefit and paid-up dividend additions, if any.

41          (c) An insurer may calculate the amount of any guaranteed paid-up  
42 nonforfeiture benefit including any paid-up additions under the policy on the  
43 basis of an interest rate no lower than that specified in the policy for  
44 calculating cash surrender values.

45          (d) In calculating the present value of any paid-up term insurance  
46 with accompanying pure endowment, if any, offered as a nonforfeiture benefit,

1 the rates of mortality assumed may be not more than those shown in the  
2 commissioners 1980 extended term insurance table for policies of ordinary  
3 insurance and not more than the commissioners 1961 industrial extended term  
4 insurance table for policies of industrial insurance.

5 (e) For insurance issued on a substandard basis, the calculation of  
6 any such adjusted premiums and present values may be based on appropriate  
7 modifications of the tables prescribed in this section and section 20-1231.

8 (f) FOR POLICIES ISSUED BEFORE THE OPERATIVE DATE OF THE VALUATION  
9 MANUAL, any COMMISSIONERS STANDARD ordinary mortality tables, adopted after  
10 1980 by the national association of insurance commissioners, that are  
11 approved by the director for use in determining the minimum nonforfeiture  
12 standard may be substituted for the commissioners 1980 standard ordinary  
13 mortality table with or without ten year select mortality factors or for the  
14 commissioners 1980 extended term insurance table. FOR POLICIES ISSUED ON OR  
15 AFTER THE OPERATIVE DATE OF THE VALUATION MANUAL, THE VALUATION MANUAL SHALL  
16 PROVIDE THE COMMISSIONERS STANDARD MORTALITY TABLE FOR USE IN DETERMINING THE  
17 MINIMUM NONFORFEITURE STANDARD THAT MAY BE SUBSTITUTED FOR THE COMMISSIONERS  
18 1980 STANDARD ORDINARY MORTALITY TABLE WITH OR WITHOUT TEN-YEAR SELECT  
19 MORTALITY FACTORS OR FOR THE COMMISSIONERS 1980 EXTENDED TERM INSURANCE  
20 TABLE. IF THE DIRECTOR APPROVES BY RULE ANY COMMISSIONERS STANDARD ORDINARY  
21 MORTALITY TABLE ADOPTED BY THE NATIONAL ASSOCIATION OF INSURANCE  
22 COMMISSIONERS FOR USE IN DETERMINING THE MINIMUM NONFORFEITURE STANDARD FOR  
23 POLICIES ISSUED ON OR AFTER THE OPERATIVE DATE OF THE VALUATION MANUAL, THAT  
24 MINIMUM NONFORFEITURE STANDARD SUPERSEDES THE MINIMUM NONFORFEITURE STANDARD  
25 PROVIDED BY THE VALUATION MANUAL.

26 (g) FOR POLICIES ISSUED BEFORE THE OPERATIVE DATE OF THE VALUATION  
27 MANUAL, any industrial mortality tables, adopted after 1980 by the national  
28 association of insurance commissioners, that are approved by the director for  
29 use in determining the minimum nonforfeiture standard may be substituted for  
30 the commissioners 1961 standard industrial mortality table or the  
31 commissioners 1961 industrial extended term insurance table. FOR POLICIES  
32 ISSUED ON OR AFTER THE OPERATIVE DATE OF THE VALUATION MANUAL, THE VALUATION  
33 MANUAL SHALL PROVIDE THE COMMISSIONERS STANDARD MORTALITY TABLE FOR USE IN  
34 DETERMINING THE MINIMUM NONFORFEITURE STANDARD THAT MAY BE SUBSTITUTED FOR  
35 THE COMMISSIONERS 1961 STANDARD INDUSTRIAL MORTALITY TABLE OR THE  
36 COMMISSIONERS 1961 INDUSTRIAL EXTENDED TERM INSURANCE TABLE. IF THE DIRECTOR  
37 APPROVES BY RULE ANY COMMISSIONERS STANDARD INDUSTRIAL MORTALITY TABLE  
38 ADOPTED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS FOR USE IN  
39 DETERMINING THE MINIMUM NONFORFEITURE STANDARD FOR POLICIES ISSUED ON OR  
40 AFTER THE OPERATIVE DATE OF THE VALUATION MANUAL, THAT MINIMUM NONFORFEITURE  
41 STANDARD SUPERSEDES THE MINIMUM NONFORFEITURE STANDARD PROVIDED BY THE  
42 VALUATION MANUAL.

43 9. THE NONFORFEITURE INTEREST RATE IS AS FOLLOWS:

44 (a) FOR POLICIES ISSUED BEFORE THE OPERATIVE DATE OF THE VALUATION  
45 MANUAL, the nonforfeiture interest rate per annum for any policy issued in a  
46 particular calendar year shall be equal to one hundred twenty-five per cent

1 of the calendar year statutory valuation interest rate for such policy as  
2 defined in the standard valuation law, rounded to the nearer one-quarter of  
3 one per cent.

4 (b) FOR POLICIES ISSUED ON OR AFTER THE OPERATIVE DATE OF THE  
5 VALUATION MANUAL, THE NONFORFEITURE INTEREST RATE PER ANNUM FOR ANY POLICY  
6 ISSUED IN A PARTICULAR CALENDAR YEAR SHALL BE PROVIDED BY THE VALUATION  
7 MANUAL.

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

13 11. After July 24, 1982 any insurer may file with the director a  
14 written notice of its election to comply with the provisions of this section  
15 after a specified date before January 1, 1989, which is the operative date of  
16 this section for the insurer. If an insurer makes no such election, the  
17 operative date of this section for the insurer is January 1, 1989.

18 12. FOR THE PURPOSES OF THIS SECTION:

19 (a) "OPERATIVE DATE OF THE VALUATION MANUAL" HAS THE SAME MEANING  
20 PRESCRIBED IN SECTION 20-510, SUBSECTION R, PARAGRAPH 2.

21 (b) "VALUATION MANUAL" HAS THE SAME MEANING PRESCRIBED IN SECTION  
22 20-510, SUBSECTION B.

APPROVED BY THE GOVERNOR APRIL 4, 2013.

FILED IN THE OFFICE OF THE SECRETARY OF STATE APRIL 4, 2013.