

PRENEED LIFE INSURANCE MINIMUM STANDARDS FOR DETERMINING RESERVE LIABILITIES AND NONFORFEITURE VALUES MODEL REGULATION

Table of Contents

Section 1.	Authority
Section 2.	Scope
Section 3.	Purpose
Section 4.	Definitions
Section 5.	Minimum Valuation Mortality Standards
Section 6.	Minimum Valuation Interest Rate Standards
Section 7.	Minimum Valuation Method Standards
Section 8.	Transition Rules
Section 9.	Effective Date

Section 1. Authority

This regulation is promulgated by the commissioner of insurance pursuant to section [insert applicable reference to the Standard Valuation Law] of the [insert State] Insurance Statute.

Section 2. Scope

This rule applies to preneed insurance contracts, as defined in section 4 of this regulation, and to similar policies and certificates.

Drafting Note: The definition of preneed insurance is not well defined. The definition in this model regulation is based on policies used in the study that determined the 2001 CSO was inappropriate for determining reserves for policies used to fund funeral services and expenses. The commissioner shall have the authority to determine what constitutes similar policies and certificates.

Section 3. Purpose

The purpose of this regulation is to establish for preneed insurance products minimum mortality standards for reserves and nonforfeiture values, and to require the use of the 1980 Commissioners Standard Ordinary (CSO) Life Valuation Mortality Table for use in determining the minimum standard of valuation of reserves and the minimum standard nonforfeiture values for preneed insurance products.

Drafting Note: Research completed by the Deloitte University of Connecticut Actuarial Center and commissioned by the Society of Actuaries as a part of a study of preneed mortality determined that the 2001 CSO Mortality Table, currently recognized as the prevailing table for the purposes of calculating reserves and nonforfeiture values both on a statutory basis and on a tax basis, produced inadequate reserves for policies issued in support of a prearrangement agreement which provides goods and services at the time of an insured's death.

Section 4. Definitions

- A. The term "2001 CSO Mortality Table" means that mortality table, consisting of separate rates of mortality for male and female lives, developed by the American Academy of Actuaries CSO Task Force from the Valuation Basic Mortality Table developed by the Society of Actuaries Individual Life Insurance Valuation Mortality Task Force, and adopted by the NAIC in December 2002. The 2001 CSO Mortality Table is included in the *Proceedings of the NAIC (2nd Quarter 2002)*. Unless the context indicates otherwise, the "2001 CSO Mortality Table" includes both the ultimate form of that table and the select and ultimate form of that table and includes both the smoker and nonsmoker mortality tables and the composite mortality tables. It also includes both the age-nearest-birthday and age-last-birthday bases of the mortality tables.
- B. The term "Ultimate 1980 CSO" means the Commissioners' 1980 Standard Ordinary Life Valuation Mortality Tables (1980 CSO) without ten-year (10-year) selection factors, incorporated into the 1980 amendments to the NAIC Standard Valuation Law approved in December 1983.

- C. For the purposes of this regulation, preneed insurance is any life insurance policy or certificate that is issued in combination with, in support of, with an assignment to, or as a guarantee for a prearrangement agreement for goods and services to be provided at the time of and immediately following the death of the insured. Goods and services may include, but are not limited to embalming, cremation, body preparation, viewing or visitation, coffin or urn, memorial stone, and transportation of the deceased. The status of the policy or contract as preneed insurance is determined at the time of issue in accordance with the policy form filing.

Drafting Note: Many States already have a definition of preneed insurance, or preneed contract. Some might also be called prearrangement contract or prearrangement insurance; however, not all States have a definition for this type of insurance. We tried to specifically define what preneed insurance was for this legislation. It was not intended to redefine something already defined, only to clarify what insurance contracts and certificates would be subject to this regulation.

If a State already has a definition of preneed insurance and wants to incorporate that definition, then the State may insert the following as section 4C:

[C. The term “preneed insurance” shall include within its meaning life insurance as defined in [insert applicable reference to definition] of the [insert state] Insurance Statute.]

If existing definitions are not sufficiently precise to define preneed life insurance, below are some examples of definitions used by States that have already promulgated a definition for preneed insurance. States may incorporate some or all, in whole or in part, of the following definition(s) into this regulation:

[C. The term “preneed insurance” shall include within its meaning a life insurance policy, annuity contract, or other insurance contract issued by an insurance company which, whether by assignment or otherwise, has for a purpose, the funding of a preneed funeral contract or an insurance-funded funeral or burial agreement, the insured or annuitant being the person for whose service the funds were paid.] Used by North Carolina - Statute 90-210.60(4).

[C. The term “preneed insurance” shall include within its meaning any agreement or contract whether funded by trust deposits or life insurance policies or annuities, which has for a purpose the furnishing or performance of funeral services or the furnishing or delivery of any personal property, merchandise, or services of any nature in connection with the final disposition of a dead human body.] Used by Illinois - Statute 215 ILCS 45/1.

[C. The term “preneed insurance” shall include within its meaning any written contract, agreement, or mutual understanding, any series or combination of contracts, agreements, or mutual understandings, or any security or other instrument which is convertible into a contract, agreement, or mutual understanding whereby it is agreed that, upon the death of the preneed contract beneficiary, a final resting place, merchandise, or services shall be provided or performed in connection with the final disposition of the preneed contract beneficiary’s body. Consideration for a preneed contract is funds or the assignment of life insurance benefits.] Used by Colorado - Statute 10-15-102(13)(a).

Section 5. Minimum Valuation Mortality Standards

For preneed insurance contracts, as defined in section 4C, and similar policies and contracts, the minimum mortality standard for determining reserve liabilities and nonforfeiture values for both male and female insureds shall be the Ultimate 1980 CSO.

Section 6. Minimum Valuation Interest Rate Standards

- A. The interest rates used in determining the minimum standard for valuation of preneed insurance shall be the calendar year statutory valuation interest rates as defined in [insert applicable reference of the Standard Valuation Law].
- B. The interest rates used in determining the minimum standard for nonforfeiture values for preneed insurance shall be the calendar year statutory nonforfeiture interest rates as defined in [insert applicable reference to the Standard Nonforfeiture Law].

Drafting Note: Section 6 may not be appropriate or necessary for some States because specific language in their versions of the Standard Valuation Law or the Standard Nonforfeiture Law or their specific statutes.

Section 7. Minimum Valuation Method Standards

- A. The method used in determining the standard for the minimum valuation of reserves of preneed insurance shall be the method defined in [insert applicable reference of the Standard Valuation Law].
- B. The method used in determining the standard for the minimum nonforfeiture values for preneed insurance shall be the method defined in [insert applicable reference to the Standard Nonforfeiture Law].

Drafting Note: Section 7 may not be appropriate or necessary for some States because specific language in their versions of the Standard Valuation Law or the Standard Nonforfeiture Law or their specific statutes.

Section 8. Transition Rules

- A. For preneed insurance policies issued on or after the effective date of this regulation and before January 1, 2012, the 2001 CSO may be used as the minimum standard for reserves and minimum standard for nonforfeiture benefits for both male and female insureds.
- B. If an insurer elects to use the 2001 CSO as a minimum standard for any policy issued on or after the effective date of this regulation and before January 1, 2012, the insurer shall provide, as a part of the actuarial opinion memorandum submitted in support of the company's asset adequacy testing, an annual written notification to the domiciliary commissioner. The notification shall include:
 - (1) A complete list of all preneed policy forms that use the 2001 CSO as a minimum standard;
 - (2) A certification signed by the appointed actuary stating that the reserve methodology employed by the company in determining reserves for the preneed policies issued after the effective date and using the 2001 CSO as a minimum standard, develops adequate reserves (For the purposes of this certification, the preneed insurance policies using the 2001 CSO as a minimum standard cannot be aggregated with any other policies.); and
 - (3) Supporting information regarding the adequacy of reserves for preneed insurance policies issued after the effective date of this regulation and using the 2001 CSO as a minimum standard for reserves.
- C. Preneed insurance policies issued on or after January 1, 2012, must use the Ultimate 1980 CSO in the calculation of minimum nonforfeiture values and minimum reserves.

Drafting Note: Section 8 provides a transition period for policy forms that use the 2001 CSO mortality as the minimum standard for nonforfeiture and reserves. It also contains provisions for demonstrating appropriate reserves are established for the policies issued using the 2001 CSO tables during the transition period. The intent of this section is to not create a burden for those companies whose current products use the 2001 CSO tables. It provides those companies time to file policy forms with the 1980 CSO tables as the minimum standard and have them reviewed and approved by the State regulatory departments.

Section 9. Effective Date

This rule is applicable to preneed insurance policies and certificates and similar contracts and certificates, as specified in section 2, issued on or after January 1, 2009.

Chronological Summary of Actions (all references are to the Proceedings of the NAIC)

2008 Proc. 1st Quarter 14-415, 14-418 to 14-419, 14-420 to 14-423, 14-501 to 14-503 (adopted)