

## **ORDER AMENDING AND CREATING A RULE**

### **Office of the Commissioner of Insurance**

**Rule No.** Agency 145 – Ins 2.13 (6) (d) 2., 2.30 (2) (f) to (j), 2.30 (3) (c), 2.30 (cm), and 2.30 (3m), Wis. Adm. Code.

The Commissioner of Insurance proposes an order to amend ss. Ins 2.13 (6) (d) 2. and 2.30 (3) (c); to repeal and recreate s. Ins 2.30 (2); and to create ss. Ins 2.30 (3) (cm), 2.30 (3m), and 2.30 (cm) relating to 2012 Individual Annuity Reserving Mortality Table and Affecting Small Business.

The statement of scope for this rule SS: 086-14, was approved by the Governor on August 18, 2014, published in Register No. 705, on September 14, 2014, and approved by the Commissioner on September 26, 2014. The proposed rule was approved by the Governor on April 22, 2015 to submit to the legislature, and submitted to the legislature on April 23, 2015.

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### **ANALYSIS PREPARED BY THE OFFICE OF THE COMMISSIONER OF INSURANCE (OCI)**

**1. Statutes interpreted:**

ss. 600.01, 601.41 (3), 601.42, 623.06, and 632.43, Wis. Stats.

**2. Statutory authority:**

ss. 601.41 (3), 601.42 (3), and 623.06 (2a) (b) and (4m), Wis. Stats.

**3. Explanation of OCI's authority to promulgate the proposed rule under these statutes:**

The Commissioner has the general authority to promulgate rules necessary to administer and enforce chs. 600 to 655, Wis. Stat., and as provided under ss. 227.11 (2) (a) and 601.41 (3), Wis. Stat. Further, under ss. 623.06 (2a) (b) and (4m), Wis. Stat., the Commissioner has specific authority to determine the minimum standard for the valuation of individual annuity and pure endowment contracts by establishing mortality tables to be used by insurers to calculate minimum reserves and requirements related to the testing and reporting of actuarial information.

**4. Related statutes or rules:**

The proposed rule relates to existing rules prescribing valuation of liabilities, non-forfeiture values, and actuarial reporting and analysis under ss. 601.42, 623.06 and 632.43, Stats., and s. Ins 2.80 and Ins ch. 50, Wis. Adm. Code.

**5. The plain language analysis and summary of the proposed rule:**

The proposed rule would provide life insurers with the option to use the 2012 Individual Annuity Reserving Mortality Table (2012 IAR Table) when determining the minimum standard of valuation for individual annuity and pure endowment contracts issued on or after January 1, 2015, while requiring use of the 2012 IAR Table for contracts issued on or after January 1, 2016. The proposed rule would modernize an outdated table that risks leaving insurers with an insufficient level of reserves. The 2012 IAR Table is comprised of a basic experience table with margins (2012 IAM Period Table) and a projection scale. The addition of a projection scale to the 2012 IAR Table allows the Table to remain up-to-date over a longer period of time because it allows the Table to adjust by considering the most accurate statistics during each valuation year.

**6. Summary of and preliminary comparison with any existing or proposed federal regulation that is intended to address the activities to be regulated by the proposed rule:**

The office is unaware of any proposed or existing federal regulation that is intended to address the activities to be regulated by this proposed rule.

**7. Comparison of similar rules in adjacent states as found by OCI:**

**Illinois:** 50 Ill. Adm. Code 935 was adopted on June 20, 2014 and becomes effective January 1, 2015. This rule closely resembles Wisconsin's proposed rule by adopting the 2012 IAR Table in determining the minimum standard of valuation of annuity and pure endowment contracts.

**Iowa:** 191 IAC 43.1 to 43.7 closely resembles Wisconsin's proposed rule and incorporates the 2012 IAR Table for determining the minimum standard of valuation for annuity and pure endowment contracts.

**Minnesota:** ch. 2752 closely resembles Wisconsin's proposed rule and incorporates the 2012 IAR Table for determining the minimum standard of valuation for annuity and pure endowment contracts.

**Michigan:** Has not yet taken action to adopt the 2012 IAR Table.

**8. A summary of the factual data and analytical methodologies that OCI used in support of the proposed rule and how any related findings support the regulatory approach chosen for the proposed rule:**

The existing requirements are contained primarily in ss. 623.06 (2a) (b) and (4m), Wis. Stat., s. Ins 2.30 (3), and Subch. V of Ch. 50, Wis. Adm. Code. These provisions establish that mortality tables are to be used by insurers to calculate minimum reserves and establish requirements related to testing and reporting of actuarial information. Current rules require insurers to use the Annuity 2000 Mortality Table as adopted by the National Association of Insurance Commissioners (NAIC). The proposed rule will require insurers to use the 2012 IAR Table as adopted by the NAIC in December 2012 for calculating the minimum reserves on contracts written on or after January 1, 2015. The proposed rule is being considered as it has been recommended by the NAIC and

is in the process of being adopted by other states. Further, not adopting the 2012 IAR Table may place domestic insurers at a competitive disadvantage compared to insurers from states where the table has been adopted.

**9. Any analysis and supporting documentation that OCI used in support of OCI's determination of the rule's effect on small businesses under s. 227.114:**

The proposed rule would have an impact on life insurers, however, based on revenue and ownership structure, very few, if any, life insurers meet the definition of small businesses. In addition, many of the potential implementation and compliance costs are mitigated by other factors contained in the proposed rule. Therefore, any economic impact on small businesses posed by the proposed rule would not be significant.

**10. See the attached Private Sector Fiscal Analysis.**

This rule change will have no significant effect on the private sector regulated by OCI.

**11. A description of the Effect on Small Business:**

This rule will have little or no effect on small business since very few, if any, life insurers meet the definition of a small business. In addition, many of the implementation and compliance costs are mitigated by other factors contained in the proposed rule. First, insurers already have the systems in place perform the calculations, they primarily just need to substitute in new numbers and equations. Moreover, the 2012 IAR Table will only apply to contracts issued on or after January 1, 2015, which provides insurers with the opportunity to minimize any economic impact by adjusting their products. Finally, with a majority of states on the verge of adopting the 2012 IAR Table, insurers will be able to avoid excess federal taxes on reserves held in excess of the current federally recognized mortality table.

**12. Agency contact person:**

A copy of the full text of the proposed rule changes, analysis and fiscal estimate may be obtained from the Web site at: <http://oci.wi.gov/ocirules.htm> or by contacting Inger Williams, OCI Services Section, at:

Phone: (608) 264-8110  
Email: [inger.williams@wisconsin.gov](mailto:inger.williams@wisconsin.gov)  
Address: 125 South Webster St – 2<sup>nd</sup> Floor, Madison WI 53703-3474  
Mail: PO Box 7873, Madison, WI 53707-7873

**13. Place where comments are to be submitted and deadline for submission:**

The deadline for submitting comments is 4:00 p.m. on the 14<sup>th</sup> day after the date for the hearing stated in the Notice of Hearing.

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**The proposed rule changes are:**

**SECTION 1. Ins 2.13 (6) (d) 2. is amended to read:**

**2.** To the extent that the level of benefits may be affected by mortality results, the insurer shall determine the mortality factor from the ~~1983 Table A~~ 1983 Table 'a', as defined in s. Ins ~~2.30 (2) (a)~~ 2.30 (2) (b), or any modification of that table not having a higher mortality rate at any age.

**SECTION 2. Ins 2.30 (2) is repealed and recreated to read:**

**Ins 2.30 (2) (a)** "1983 GAM table" means those male and female group annuity mortality tables adopted for the valuation of group annuity and pure endowment contracts in December of 1983 by the NAIC and published on pages 414-415, NAIC proceedings, vol. I, 1984.

**(b)** "1983 table 'a'" means that mortality table adopted for the valuation of individual annuity and pure endowment contracts in June of 1982 by the NAIC and published on page 454, NAIC proceedings, vol. II 1982.

**(c)** "1994 GAR table" means the group annuity reserving table adopted for the valuation of group annuity and pure endowment contracts in December of 1996 by the NAIC as published on pages 866 and 867, vol. XLVII, transactions, society of actuaries, 1995.

**(d)** "2012 Individual Annuity Mortality Period Life Table" or "2012 IAM Period Table" means the Period Table containing loaded mortality rates for calendar year 2012. This table contains rates,  $qx_{2012}$ , developed by the society of actuaries committee on life

insurance research, and published in the 2012 proceedings of the NAIC, Fall Volume I, pages 149-150.

**(e)** “2012 IAR Table” means that generational mortality table developed by the society of actuaries committee on life insurance research and containing rates,  $qx_{2012+n}$ , derived from a combination of the 2012 IAM Period Table and Projection Scale G2, using the methodology stated in Section 3m.

**(f)** "Annuity 2000 mortality table" means those male and female mortality tables adopted for the valuation of individual annuity and pure endowment contracts in December of 1996 by the NAIC as published on page 240, vol. XLVII, transactions, society of actuaries, 1995.

**(g)** “Generational mortality table” means a mortality table containing a set of mortality rates that decrease for a given age from one year to the next based on a combination of a Period table and a projection scale containing rates of mortality improvement.

**(h)** “NAIC” means the national association of insurance commissioners.

**(i)** “Period table” means a table of mortality rates applicable to a given calendar year.

**(j)** “Projection Scale G2” or “Scale G2” is a table of annual rates,  $G2x$ , of mortality improvement by age for projecting future mortality rates beyond calendar year 2012. This table was developed by the society of actuaries committee on life insurance research, and published in the 2012 proceedings of the NAIC, Fall Volume I, pages 151-152.

**SECTION 3. Ins 2.30 (3) (c) is amended to read:**

**Ins 2.30 (3) (c)** Except as provided in par. (d) the annuity 2000 mortality table shall be used to determine the minimum standard of valuation for any individual annuity or pure endowment contract issued on or after January 1, 1999 but before January 1, 2015.

**SECTION 4. Ins 2.30 (3) (cm) is created to read:**

**Ins 2.30 (3) (cm)** Except as provided in par. (d) the 2012 IAR Table may be used to determine the minimum standard of valuation for any individual annuity or pure endowment contract issued on or after January 1, 2015. For any individual annuity or pure endowment contract issued on or after January 1, 2016, the 2012 IAR Table shall be used.

**SECTION 5. Ins 2.30 (3m) is created to read:**

**Ins 2.30 (3m)** APPLICATION OF THE 2012 IAR TABLE.

**(a)** In using the 2012 IAR Table, the mortality rate for a person age  $x$  in year  $(2012 + n)$  is calculated as follows:

$$q_x^{2012+n} = q_x^{2012} * (1 - G2_x)^n$$

**(b)** The resulting  $qx$  2012+n shall be rounded to three decimal places per 1,000, e.g., 0.741 deaths per 1,000. The rounding shall occur according to the formula in par. (a), starting at the 2012 period table rate.

**Note:** For example, for a male age 30,  $qx$  2012 = 0.741.

$qx$  2013 =  $0.741 * (1 - 0.010)^1 = 0.73359$ , which is rounded to 0.734.

$qx$  2014 =  $0.741 * (1 - 0.010)^2 = 0.7262541$ , which is rounded to 0.726.

**Note:** A method leading to incorrect rounding would be to calculate  $qx$  2014 as  $qx$  2013 \*  $(1 - 0.010)$ , or  $0.734 * 0.99 = 0.727$ . It is incorrect to use the already rounded  $qx$  2013 to calculate  $qx$  2014.

**SECTION 6. INITIAL APPLICABILITY.** This rule first applies to contracts issued on January 1, 2015 pursuant to emergency rule EmR1428.

**SECTION 7. EFFECTIVE DATE.** This rule shall take effect on the first day of the month after publication in the Wisconsin Administrative Register, as provided in s. 227.22 (2) (intro.), Stats.

## **Office of the Commissioner of Insurance Private Sector Fiscal Analysis**

for Section Ins 2.30 relating to 2012 Individual Annuity Reserving  
Mortality Table and Affecting Small Business

This rule change will have no significant effect on the private sector regulated by OCI.