

**ORDER OF THE OFFICE OF THE COMMISSIONER OF INSURANCE AMENDING
AND CREATING A RULE**

To amend Ins 2.81(2) and (3)(a);

To create Ins 2.81(3)(cm) and (i) and (4)(c) and (5)(e), Wis. Adm. Code,

Relating to use of the 2001 CSO Preferred Class Structure Mortality Table in determining reserve liabilities.

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, Stats.

2. Statutory authority:

ss. 600.01 (2), 600.13, 601.41 (3), 601.42, 623.04, 623.06, and 632.43, Stats.

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

The proposed rule is promulgated under the commissioner's authority to prescribe valuation of reserve liabilities and accounting standards and reporting for insurers.

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 ss. Ins 2.80 and ch. 50, Wis. Adm. Code.

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

Existing provisions establish mortality tables to be used by insurers to calculate minimum reserves and requirements related to testing and reporting of actuarial information. The proposed rules will allow insurers, meeting prescribed conditions, to use the 2001 CSO Preferred Class Structure Mortality Table as adopted by the National Association of Insurance Commissioners (NAIC) at the September, 2006, national meeting and published in the NAIC Proceedings (Third Quarter 2006), in determining minimum reserves on policies written after January 1, 2007. The table will allow insurers to reflect differences in mortality between preferred and standard lives in establishing reserve liabilities to more precisely fit the characteristics of outstanding policies. The proposed rule will increase the ability of insurers and the commissioner to monitor financial status by reference to required reports as well as the financial examination process.

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:

There are no federal regulations which address use of mortality tables to establish reserve liabilities for insurers doing business in Wisconsin.

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

Illinois: Adoption of the NAIC model regulation permitting the recognition of preferred mortality tables for use in determining minimum reserve liabilities of insurers is under consideration.

Iowa: Iowa Adm. Code 191-94.3, permits the use for purposes of reserve valuation, under prescribed conditions, of the 2001 CSO Preferred Class Structure Mortality Table, adopting the NAIC model regulation.

Michigan: Mich. Comp. Laws, s. 500.838a, permits the use for purposes of reserve valuation, under prescribed conditions, of the 2001 CSO Preferred Class Structure Mortality Table, adopting the NAIC model regulation.

Minnesota: Minn. Stat. Ch. 61A.257, effective August 1, 2007, adopts the NAIC model regulation permitting the recognition of preferred mortality tables for use in determining minimum reserve liabilities of insurers.

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 National Association of Insurance Commissioners (NAIC) adopted a model regulation permitting the recognition of preferred mortality tables for use in determining minimum reserve liabilities at the September, 2006, national meeting and published in the NAIC proceedings (Third Quarter 2006). The model allows insurers, meeting prescribed conditions, to use the 2001 CSO Preferred Class Structure Mortality Table to reflect differences in mortality between preferred and standard lives in determining reserves to more precisely fit the characteristics of outstanding policies, and enhance the ability of insurers and regulators to monitor financial status. The proposed rule has been recommended by the NAIC and has been, or is in the process of being, adopted by a significant number of states.

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:

This rule relates to insurer determination of minimum reserves, and there is no significant effect on small business.

10. See the attached Private Sector Fiscal Analysis.

11. A description of the Effect on Small Business:

This rule will have little or no effect on small businesses.

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:

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The rule changes are:

SECTION 1. Section Ins 2.81(2) and (3)(a) are amended to read:

Ins 2.81(2) PURPOSE. The purpose of this section is to recognize, permit and prescribe the use of: the 2001 commissioners' standard ordinary CSO mortality table in accordance with s. 623.06 (2) (am) 3., Stats., standard valuation law, and s. 632.43 (6m) (e) 3. f., Stats., standard nonforfeiture law for life insurance; ~~and to recognize, permit, and prescribe the use of the 2001 CSO mortality table in s. Ins 2.20 unisex nonforfeiture values in certain life insurance policies, s. Ins 2.35 smoker and nonsmoker mortality tables for minimum reserve liabilities and minimum nonforfeiture benefits, and s. Ins 2.80 valuation of life insurance policies;~~ mortality tables that reflect differences in mortality between preferred and standard lives in determining minimum reserve liabilities in accordance with s. 623.06 (2) (am) 3., Stats., standard valuation law, and s. Ins. 2.80 valuation of life insurance policies.

Ins 2.81(3)(a) "2001 CSO mortality table" means that mortality table, consisting of separate rates of mortality for male and female lives, developed by the American Academy of Actuaries CSO Task Force from the valuation basic mortality table developed by the Society of Actuaries Individual Life Insurance Valuation Mortality Task Force, and adopted by the NAIC in December 2002. The 2001 CSO mortality table is included in the Proceedings of the NAIC (2nd Quarter 2002) and is supplemented by the 2001 CSO preferred class structure mortality table and may be obtained from the office. 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.

Note: The 2001 CSO mortality table may be obtained from the website of the Office of the Commissioner of Insurance (www.oci.wi.gov) or by writing to the Office.

SECTION 2. Section Ins 2.81(3)(cm) and (i), (4)(c) and (5)(e) are created to read:

Ins 2.81(3) (cm) "2001 CSO preferred class structure mortality table" means mortality tables with separate rates for super preferred nonsmokers, preferred nonsmokers, residual standard nonsmokers, preferred smokers, and residual standard smoker splits of the 2001 CSO nonsmoker and smoker tables as adopted by

the NAIC at the September, 2006 national meeting and published in the Proceedings of the NAIC (3rd Quarter 2006). Unless the context indicates otherwise, the “2001 CSO preferred class structure mortality table” includes both the ultimate form of that table and the select and ultimate form of that table. It includes both the smoker and nonsmoker mortality tables. It includes both the male and female mortality tables and the gender composite mortality tables. It also includes both the age -nearest-birthday and age-last-birthday bases of the mortality table.

Note: The 2001 CSO preferred class structure mortality table may be obtained from the website of the Office of the Commissioner of Insurance (www.oci.wi.gov) or by writing to the Office.

Ins 2.81(3) (i) “Statistical agent” means an entity with proven systems for protecting the confidentiality of individual insured and insurer information, demonstrated resources for and history of ongoing electronic communications and data transfer ensuring data integrity with insurers, which are its members or subscribers, and a history of and means for aggregation of data and accurate promulgation of the experience modifications in a timely manner.

Ins 2.81(4) (c) At the election of the insurer, for each calendar year of issue, for any one or more specified plans of insurance and subject to satisfying the conditions stated in this paragraph and sub. (5) (e), the 2001 CSO preferred class structure mortality table may be elected in place of the smoker mortality table found in the 2001 CSO mortality table or the nonsmoker mortality table found in the 2001 CSO mortality table or both as the minimum valuation standard for policies issued on or after January 1, 2007. No such election may be made until the insurer demonstrates to the commissioner in a form acceptable to the commissioner that at least 20% of the business to be valued on this table is in one or more of the preferred classes. A table from the 2001 CSO preferred class structure mortality table used in place of a 2001 CSO mortality table, pursuant to the requirements of this section, will be treated as part of the 2001 CSO mortality table only for purposes of reserve valuation.

Ins 2.81(5) (e) The following conditions are applicable for plans of insurance using the 2001 CSO preferred class structure mortality table:

1. For each plan of insurance with separate rates for preferred and standard nonsmoker lives, an insurer may use the super preferred nonsmoker, preferred nonsmoker, and residual standard nonsmoker tables to substitute for the nonsmoker mortality table found in the 2001 CSO mortality table to determine minimum reserves. At the time of election and annually thereafter, except for business valued under the residual standard nonsmoker table, the appointed actuary shall certify that both of the following are true:

- a. The present value of death benefits over the next 10 years after the valuation date, using the anticipated mortality experience without recognition of mortality improvement beyond the valuation date for each class, is less than the present value of death benefits using the valuation basic table corresponding to the valuation table being used for that class, and

- b. The present value of death benefits over the future life of the contracts, using anticipated mortality experience without recognition of mortality improvement beyond the valuation date

for each class, is less than the present value of death benefits using the valuation basic table corresponding to the valuation table being used for that class.

2. For each plan of insurance with separate rates for preferred and standard smoker lives, an insurer may use the preferred smoker and residual standard smoker tables to substitute for the smoker mortality table found in the 2001 CSO mortality table to determine minimum reserves. At the time of election and annually thereafter, for business valued under the preferred smoker table, the appointed actuary shall certify that both of the following are true:

- a. The present value of death benefits over the next 10 years after the valuation date, using the anticipated mortality experience without recognition of mortality improvement beyond the valuation date for each class, is less than the present value of death benefits using the preferred smoker valuation basic table corresponding to the valuation table being used for that class, and
- b. The present value of death benefits over the future life of the contracts, using anticipated mortality experience without recognition of mortality improvement beyond the valuation date for each class, is less than the present value of death benefits using the preferred smoker valuation basic table.

3. Unless exempted by the commissioner under s. 600.13, Stats., every insurer using the 2001 CSO preferred class structure mortality table shall annually file with the commissioner, with the NAIC, or with a statistical agent designated by the NAIC and acceptable to the commissioner, statistical reports showing mortality and such other information as the commissioner may deem necessary or expedient for the administration of the provisions of this section. The form of the reports shall be established by the commissioner or the commissioner may require the use of a form acceptable to the commissioner established by the NAIC or by a statistical agent designated by the NAIC.

Note: The form for the annual report required under Ins 2.81(5) (e) 3 may be obtained from the website of the Office of the Commissioner of Insurance (www.oci.wi.gov) or by writing to the office.

SECTION 3. INITIAL APPLICABILITY. These changes first apply to policies issued on January 1, 2007.

SECTION 4. EFFECTIVE DATE. These changes will take effect on the first day of the month after publication, as provided in s. 227.22(2)(intro.), Stats.

Dated at Madison, Wisconsin, this _____ day of November, 2007.

Sean Dilweg
Commissioner of Insurance

Office of the Commissioner of Insurance
Private Sector Fiscal Analysis

for Section Ins 2.81 relating to use of the 2001 CSO Preferred Class
Structure Mortality Table in determining reserve liabilities

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

FISCAL ESTIMATE WORKSHEET

Detailed Estimate of Annual Fiscal Effect

ORIGINAL UPDATED
 CORRECTED SUPPLEMENTAL

LRB Number	Amendment No. if Applicable
Bill Number	Administrative Rule Number INS 281

Subject
use of the 2001 CSO Preferred Class Structure Mortality Table in determining reserve liabilities

One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):
None

Annualized Costs:	Annualized Fiscal impact on State funds from:	
A. State Costs by Category	Increased Costs	Decreased Costs
State Operations - Salaries and Fringes	\$ 0	\$ -0
(FTE Position Changes)	(0 FTE)	(-0 FTE)
State Operations - Other Costs	0	-0
Local Assistance	0	-0
Aids to Individuals or Organizations	0	-0
TOTAL State Costs by Category	\$ 0	\$ -0
B. State Costs by Source of Funds	Increased Costs	Decreased Costs
GPR	\$ 0	\$ -0
FED	0	-0
PRO/PRS	0	-0
SEG/SEG-S	0	-0
C. State Revenues	Increased Rev.	Decreased Rev.
GPR Taxes	\$ 0	\$ -0
GPR Earned	0	-0
FED	0	-0
PRO/PRS	0	-0
SEG/SEG-S	0	-0
TOTAL State Revenues	\$ 0 None	\$ -0 None

NET ANNUALIZED FISCAL IMPACT

	<u>STATE</u>	<u>LOCAL</u>
NET CHANGE IN COSTS	\$ <u>None 0</u>	\$ <u>None 0</u>
NET CHANGE IN REVENUES	\$ <u>None 0</u>	\$ <u>None 0</u>

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