

# DEPARTMENT OF REGULATORY AGENCIES

## Division of Insurance

### 3 CCR 702-4

#### LIFE, ACCIDENT AND HEALTH

##### Proposed Regulation 4-1-15

#### PRENEED LIFE INSURANCE MINIMUM MORTALITY STANDARDS FOR DETERMINING RESERVE LIABILITIES AND NONFORFEITURE VALUES

Section 1	Authority
Section 2	Scope and Purpose
Section 3	Applicability
Section 4	Definitions
Section 5	Minimum Valuation Mortality Standards
Section 6	Transition Rules
Section 7	Severability
Section 8	Incorporated Materials
Section 9	Enforcement
Section 10	Effective Date

##### **Section 1 Authority**

This regulation is promulgated pursuant to the authority of the Commissioner under §§10-1-109(1), and 10-7-313.7, C.R.S.

##### **Section 2 Scope and 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 Commissioners' 1980 Standard Ordinary (CSO) Mortality Table for use in determining the minimum standard of valuation of reserves and the minimum standard nonforfeiture values for preneed insurance products. It is not the purpose of this regulation to change the minimum interest rate standards or the methods used in determining the minimum standards for reserves and nonforfeiture values for preneed insurance products.

##### **Section 3 Applicability**

This regulation shall apply to all preneed insurance contracts and to similar policies and certificates issued on or after January 1, 2009.

##### **Section 4 Definitions**

- 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 National Association of Insurance Commissioners (NAIC) in December 2002. The 2001 CSO Mortality Table is included in the *Proceedings of the NAIC (2nd Quarter 2002)*. This table may also be found in Appendix A of the *Final Report of the American Academy of Actuaries' Commissioners Standard Ordinary Task Force*, dated June 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. "Preneed contract" shall have the same meaning as defined in §10-15-102(13), C.R.S.
- C. "Preneed insurance," for purposes of this regulation, is any life insurance policy or certificate that is issued in combination with, in support of, with an assignment to, as a guarantee or consideration for a prearrangement agreement or preneed contract 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.
- D. "Ultimate 1980 CSO" means the Commissioners' 1980 Standard Ordinary Mortality Table (1980 CSO), without ten-year (10-year) selection factors, incorporated into the 1980 amendments to the NAIC Standard Valuation Law. Unless the context indicates otherwise, the "Ultimate 1980 CSO" includes variations of the 1980 CSO without ten-year (10-year) selection factors, approved by the NAIC, such as the smoker and nonsmoker versions and the composite version of the mortality tables.

## **Section 5 Minimum Valuation Mortality Standards**

For preneed insurance and similar policies and contracts, the minimum standard for mortality in the determination of reserve liabilities and nonforfeiture values shall be the Ultimate 1980 CSO.

## **Section 6 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 Mortality Table may be used as the minimum standard for reserves and minimum standard for nonforfeiture benefits.
- B. If an insurer elects to use the 2001 CSO Mortality Table as the minimum standard for any policy issued on or after the effective date of this regulation and before January 1, 2012, the insurer shall meet the following requirements:
  - 1. The insurer shall annually provide a certification signed by the appointed actuary stating that the reserve methodology employed by the company in determining reserves for the preneed insurance policies issued on or after the effective date of this regulation and using the 2001 CSO Mortality Table as the minimum standard, develops adequate reserves. The certification shall be provided with the annual statutory financial statement filed with the Commissioner along with the Statement of Actuarial Opinion. For the purposes of this certification, the preneed insurance policies using the 2001 CSO Mortality Table as the minimum standard cannot be aggregated with any other policies;
  - 2. The certification required in Paragraph 1 of this subsection shall be supported by information regarding the adequacy of reserves for preneed insurance policies issued on or after the effective date of this regulation and using the 2001 CSO Mortality Table as the minimum standard for reserves. The supporting information shall be included in an actuarial report or in the actuarial memorandum which documents the company's asset adequacy analysis in support of the Statement of Actuarial Opinion;
  - 3. The actuarial report in Paragraph 2 of this subsection or the actuarial memorandum shall include a complete list of all the preneed insurance policy forms that use the 2001 CSO Mortality Table as the minimum standard.
- C. Preneed insurance policies issued on or after January 1, 2012 shall use the Ultimate 1980 CSO as the minimum standard for mortality in the determination of reserve liabilities and nonforfeiture values.

**Section 7 Severability**

If any provision of this regulation or the application thereof to any person or circumstance is for any reason held to be invalid, the remainder of the regulation shall not be affected thereby.

**Section 8 Incorporated Materials**

The 2001 CSO Mortality Table and the Ultimate 1980 CSO adopted by the NAIC shall mean the 2001 CSO Mortality Table and the Ultimate 1980 CSO as adopted on the effective date of this regulation and does not include later amendments to or editions of the 2001 CSO Mortality Table or the Ultimate 1980 CSO. A copy of the 2001 CSO Mortality Table and the Ultimate 1980 CSO may be examined at any state publications depository library. For additional information regarding how the 2001 CSO Mortality Table and the Ultimate 1980 CSO may be obtained or examined contact Craig Chupp, Chief Actuary, Colorado Division of Insurance, 1560 Broadway, Suite 850, Denver, Colorado, 80202.

**Section 9 Enforcement**

Noncompliance with this regulation may result, after proper notice and hearing, in the imposition of any of the sanctions made available in the Colorado statutes pertaining to the business of insurance or other laws which include the imposition of fines, issuance of cease and desist orders, and/or suspensions or revocation of certificates of authority. Among others, the penalties provided for in §§10-3-109(3) and 10- 3-1108, C.R.S. may be applied.

**Section 10 Effective Date**

This regulation is effective January 1, 2009.