UNIVERSAL LIFE INSURANCE MODEL REGULATION

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Section 1. Authority

This regulation is promulgated under the authority of Section [insert applicable section], of the Insurance Laws of [insert state], and is effective [insert date].

Section 2. Purpose

The purpose of this regulation is to supplement existing regulations on life insurance policies in order to

Section 3. Definitions

As used in this regulation:

A. “Cash surrender value” means the net cash surrender value plus any amounts outstanding as policy loans.

B. “Commissioner” means the Insurance Commissioner of this state.

Drafting Note: Insert the title of the chief insurance regulatory official wherever the term “commissioner” appears.

C. “Fixed premium universal life insurance policy” means a universal life insurance policy other than a flexible premium universal life insurance policy.

D. “Flexible premium universal life insurance policy” means a universal life insurance policy which permits the policyowner to vary, independently of each other, the amount or timing of one or more [illegible] indexed universal life insurance policy” means any universal life insurance policy [illegible] E. “Interest- where the interest credits are linked to an external referent.

Reserves by the net level premium method shall be equal to $(A) - (B)r$ where (A), (B) and “r” are as defined below:

(A) is the present value of all future guaranteed benefits at the date of valuation.

(B) is the quantity $\frac{PVFB}{a_x} a_{x+t}$

where PVFB is the present value of all benefits guaranteed at issue assuming future guaranteed maturity premiums are paid by the policyowner and taking into account all guarantees contained in the policy or declared by the insurer.

a_x and a_{x+t} are present values of an annuity of one per year payable on policy anniversaries beginning at ages x and x+t, respectively, and continuing until the highest attained age at which a premium may be paid under the policy. The letter “x” is defined as the issue age and the letter “t” is defined as the duration of the policy.

The guaranteed maturity premium for flexible premium universal life insurance policies shall be that level gross premium, paid at issue and periodically thereafter over the period during which premiums are allowed to be paid, which will mature the policy on the latest maturity date, if any, permitted under the policy (otherwise at the highest age in the valuation mortality table), for an amount which is in accordance with the policy structure.[1] The guaranteed maturity premium is calculated at issue based on all policy guarantees at issue (excluding guarantees linked to an external referent). The guaranteed maturity premium for fixed premium universal life insurance policies shall be the premium defined in the policy which at issue provides the minimum policy guarantees.[2]

The letter “r” is equal to one, unless the policy is a flexible premium policy and the policy value is less than the guaranteed maturity fund, in which case “r” is the ratio of the policy value to the guaranteed maturity fund.

The guaranteed maturity fund at any duration is that amount which, together with future guaranteed maturity premiums, will mature the policy based on all policy guarantees at issue.

(C) is the quantity $((a) - (b)) \frac{a_{x+t}}{a_x} r$ where (a) - (b) is as described in [insert reference to Section 4 of the Standard Valuation Law] for the plan of insurance defined at issue by the guaranteed maturity premiums and all guarantees contained in the policy or declared by the insurer.

a_{x+t} and a_x are defined in (B) above.

(D) is the sum of any additional quantities analogous to (C) which arise because of structural changes[3] in the policy, with each such quantity being determined on a basis consistent with that of (C) using the maturity date in effect at the time of the change.

Future guaranteed benefits are determined by (1) projecting the greater of the guaranteed maturity fund and the policy value, taking into account future guaranteed maturity premiums, if any, and using all guarantees of interest, mortality, expense deductions, etc., contained in the policy or declared by the insurer; and (2) taking into account any benefits guaranteed in the policy or by declaration which do not depend on the policy value.

All present values shall be determined using (i) an interest rate (or rates) specified by [insert reference to the Standard Valuation Law] for policies issued in the same year; (ii) the mortality rates specified by the [insert reference to the Standard Valuation Law] for policies issued in the same year or contained in such other table as may be approved by the Commissioner for this purpose; and (iii) any other tables needed to value supplementary benefits provided by a rider which is being valued together with the policy.

Drafting Note: To the extent that the insurer declares guarantees more favorable than those in the policy (contractual guarantees), such declared guarantees shall be applicable to the determination (t)-3.6.1 (bl)-2-11.3 (iT0 h:6 (e t)o)-3.6.1 eclu (r (uec)-8.7 2pre 17 2 h

Service charges shall include charges permitted by the policy to be imposed as the result of a policyowner's request for a service by the insurer (such as the furnishing of future benefit illustrations) or of special transactions.

The initial expense allowance shall be the allowance provided by [insert reference to Section 5 or 5cA of the Standard Nonforfeiture Law for Life Insurance] for a fixed premium, fixed benefit endowment policy with a face amount equal to the initial face amount of the flexible premium universal life insurance policy, with level premiums paid annually until the highest attained age at which a premium may be paid under the flexible premium universal life insurance policy, and maturing on the latest maturity date permitted under the policy, if any, otherwise at the highest age in the valuation mortality table. The unused initial expense allowance shall be the excess, if any, of the initial expense allowance over the initial acquisition expense charges as defined above.

If the amount of insurance is subsequently increased upon request of the policyowner (or by the terms of the policy), an additional expense allowance and an unused additional expense allowance shall be determined on a basis consistent with the above and with [Section 5cE of the Standard Nonforfeiture Law for Life Insurance], using the face amount and the latest maturity date permitted at that time under the policy.

The unamortized unused initial expense allowance during the policy year beginning on the policy anniversary at age x+t (where "x" is the same issue age) shall be the unused initial expense allowance multiplied by a_{x+t} where

The minimum cash surrender value (before adjustment for indebtedness and dividend credits) the policy for determining the policy value, or (2) in the case of a fixed premium policy the mortality and interest standards permitted for paid-up nonforfeiture benefits by [the Standard Nonforfeiture Law for Life Insurance, as amended in 1980]. In lieu of the paid-up nonforfeiture benefit, the insurer may substitute, upon proper request not later than sixty (60) days after the due date of the premium in default, an actuarially equivalent alternative paid-up nonforfeiture benefit which provides a greater amount or longer period of death benefits, or, if applicable, a greater amount or earlier payment of endowment benefits.

Drafting Note: it is possible that policies will have secondary guarantees. Such guarantees should be taken into consideration when computing minimum paid-up nonforfeiture benefits.

To preserve equity between policies on a premium paying basis and on a paid-up basis, present values must comply with Section 6A for flexible premium universal life insurance policies and with Section 6B for fixed premium policies.

Ever since the adoption of the original Standard Nonforfeiture Law (SNFL) in 1942, provision has been made for nonforfeiture calculations on the basis of substandard mortality. (See Sections 5-a, 5- and 5-

D. Calculation of Cash Surrender Values

The policy shall contain at least a general description of the calculation of cash surrender values including the following information:

(1) The guaranteed maximum expense charges and loads.

(2) Any limitation on the crediting of additional interest. Interest credits shall not remain conditional for a period longer than twenty-four months.

(3) The guaranteed minimum rate or rates of interest.

(4) The guaranteed maximum mortality charges.

(5) Any other guaranteed charges.

(6) Any surrender or partial withdrawal charges.

E. Changes in Basic Coverage

If the policyowner has the right to change the basic coverage, any limitation on the amount or timing of such change shall be stated in the policy. If the policyowner has the right to increase the basic coverage, the policy shall state whether a new period of contestability and/or suicide is applicable to the additional coverage.

F. Grace Period and Lapse

The policy shall provide for written notice to be sent to the policyowner's last known address at least thirty (30) days prior to termination of coverage.

A flexible premium policy shall provide for a grace period of at least thirty (30) days (or as required by state statute) after lapse. Unless otherwise defined in the policy, lapse shall occur

Section 8. Disclosure Requirements

Disclosure of information about the policy being applied for shall follow the standards in [insert citation to state equivalent of the Life Insurance Illustrations Model Regulation].

Section 9. Periodic Disclosure to Policyowner

A. Requirements

The policy shall provide that the policyowner will be sent, without charge, at least annually, a report which will serve to keep such policyowner advised of the status of the policy. The end of the current report period shall be not more than three (3) months previous to the date of the mailing of the report.

B. The report shall include the following:

(1) The beginning and end of the current report period;

(2) The policy value at the end of the previous report period and at the end of the current report period;

(3) The total amounts which have been credited or debited to the policy value during the current report period, identifying each by type (e.g., interest, mortality, expense and riders);

(4) The current death benefit at the end of the current report period on each life covered by the policy;

(5) The net cash surrender value of the policy as of the end of the current report period;

(6) The amount of outstanding loans, if any, as of the end of the current report period;

(7) For fixed premium policies:

(2) Annually, every insurer shall submit a description of the amount and type of assets currently held by the insurer with respect to its interest-indexed policies.

(3) Prior to implementation, every domestic insurer shall submit a description of any material change in the insurer's investment strateg9 (r42(s)-1.-3 (s)-1.3 (12)Tj /Tt7.9 (e)-

Signature of Actuary

Drafting Note: The American Academy of Actuaries has offered to prepare appropriate guidelines which will delineate the various responsibilities of the actuary in signing the Statement of Actuarial Opinion included in this regulation. Upon publication, these guidelines will become a part of the body of actuarial literature which describes Generally Accepted Actuarial Principles and Practice.

If the actuary has not examined the underlying records, but has relied upon listings and summaries of policies in force, an appropriate statement of such reliance should be included here.

Endnotes:

1. The maturity amount shall be the initial death benefit where the death benefit is level over the lifetime of the policy except for the existence of a minimum-death-benefit corridor, or shall be the specified amount where the death benefit equals a specified amount plus the policy value or cash surrender value except for the existence of a minimum-death-benefit corridor.

2. The Guaranteed Maturity Premium for both flexible and fixed premium policies shall be adjusted for death benefit corridors provided by the policy. The Guaranteed Maturity Premium may be less than the premium necessary to pay all charges. This can especially happen in the first year for policies with large first year expense charges.

3. Structural changes are those changes which are separate from the automatic workings of the policy. Such changes usually would be initiated by the policyholder and include changes in the guaranteed benefits, changes in latest maturity date, or changes in allowable premium payment period. For valuations on or after January 1, 1987, for fixed premium universal life policies with redetermination of all credits and charges no more frequently than annually, on policy anniversaries, structural changes also include changes in guaranteed benefits, or in fixed premiums, unanticipated by the guaranteed maturity premium for such policies at the date of issue, even if such changes arise from automatic workings of the policy. The recomputation of (B) above, for fixed premium universal life structural changes, shall exclude from PVFB, the present value of future guaranteed benefits, those guaranteed benefits which are funded by the excess of the insurer's declared guarantees of interest, mortality and expenses, over the guarantees contained in the policy at the date of issue.

4. Because this product is still developing, it is recommended that benefit charges not be restricted and regulatory treatment of cash values be limited to that contained in this section for several reasons. First, further restrictions would limit the development of the product. Second, added restrictions would discourage insurers from reducing non-guaranteed current benefit charges because such reductions could require reduced future benefit charges that could be financially unsound for the insurer. Third, market pressures will encourage insurers to limit benefit charges.

5. See footnote 3.

6. If the actuary does not choose to rely on an investment officer for the projected investment cash flows, this statement should be modified to show the extent of the actuary's reliance.

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

1984 Proc. I 6, 31, 376, 514, 515-526 (adopted).
1988 Proc. I 9, 19-20, 494, 599-600, 627 (adopted change to footnote 3).
1989 Proc. II 13, 23, 414-415, 428-429, 431-442 (amended to include consumer disclosure requirement).
1990 Proc. I 6, 27, 438-439, 450-451, 453-