

**ADOPTED REGULATION OF THE
COMMISSIONER OF INSURANCE**

LCB File No. R031-08

Effective August 26, 2008

EXPLANATION – Matter in *italics* is new; matter in brackets ~~[omitted material]~~ is material to be omitted.

AUTHORITY: §§1-11, NRS 681B.120 and 688A.325.

A REGULATION relating to insurance; providing for the use of certain mortality tables adopted by the National Association of Insurance Commissioners to establish minimum reserve liabilities for certain policies of life insurance; and providing other matters properly relating thereto.

Section 1. Chapter 688A of NAC is hereby amended by adding thereto the provisions set forth as sections 2 to 10, inclusive, of this regulation.

Sec. 2. *As used in NAC 688A.350 and sections 2 to 10, inclusive, of this regulation, unless the context otherwise requires, the words and terms defined in sections 3, 4 and 5 of this regulation have the meanings ascribed to them in those sections.*

Sec. 3. *1. “2001 CSO Mortality Table” means the mortality table, consisting of separate rates of mortality for male and female lives, developed by the CSO Task Force of the American Academy of Actuaries from the 2001 Valuation Basic Mortality Table developed by the Individual Life Insurance Valuation Mortality Task Force of the Society of Actuaries and adopted by the National Association of Insurance Commissioners in December 2002. The 2001 CSO Mortality Table is set forth in the Proceedings of the NAIC (2nd Quarter 2002) and supplemented by the 2001 CSO Preferred Class Structure Mortality Table.*

2. Unless the context otherwise requires, the 2001 CSO Mortality Table includes both the ultimate form of that table and the select and ultimate form of that table, 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. The mortality tables in the 2001 CSO Mortality Table include:

(a) A table which consists of the rates of mortality for female lives from the 2001 CSO Mortality Table;

(b) A table which consists of the rates of mortality for male lives from the 2001 CSO Mortality Table;

(c) Composite mortality tables, which consist of rates of mortality that do not distinguish between smokers and nonsmokers; and

(d) Smoker and nonsmoker mortality tables, which consist of separate rates of mortality for smokers and nonsmokers.

3. A copy of the 2001 CSO Mortality Table may be obtained from the Insurance Products and Services Division of the National Association of Insurance Commissioners, 2301 McGee Street, Suite 800, Kansas City, Missouri 64108-2662, by telephone at (816) 783-8300 or on the Internet at http://www.naic.org/store_home.htm, for the price of \$180.

Sec. 4. 1. “2001 CSO Preferred Class Structure Mortality Table” means the mortality table with separate rates of mortality for super preferred nonsmokers, preferred nonsmokers, residual standard nonsmokers, preferred smokers and residual standard smokers which are splits of the 2001 CSO nonsmoker and smoker mortality tables as adopted by the National Association of Insurance Commissioners at the September 2006 national meeting and published in the Proceedings of the NAIC (3rd Quarter 2006).

2. Unless the context otherwise requires, 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, both the smoker and nonsmoker mortality tables, 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.

3. A copy of the 2001 CSO Preferred Class Structure Mortality Table may be obtained from the Insurance Products and Services Division of the National Association of Insurance Commissioners, 2301 McGee Street, Suite 800, Kansas City, Missouri 64108-2662, by telephone at (816) 783-8300 or on the Internet at http://www.naic.org/store_home.htm, for the price of \$200.

Sec. 5. “CSO” means Commissioners Standard Ordinary.

Sec. 6. 1. Except as otherwise provided in subsection 2, at the election of the insurer, for each calendar year of issue and for any one or more specified plans of insurance, an insurer who satisfies the requirements of sections 7 to 10, inclusive, of this regulation may use the 2001 CSO Preferred Class Structure Mortality Table in lieu of the smoker and nonsmoker mortality tables in the 2001 CSO Mortality Table as the minimum valuation standard for policies of life insurance issued on or after January 1, 2008.

2. An insurer may make the election described in subsection 1 only if the insurer provides proof satisfactory to the Commissioner that 20 percent or more of the business to be valued pursuant to the 2001 CSO Preferred Class Structure Mortality Table is in one or more of the preferred classes.

3. A mortality table used pursuant to this section shall be deemed to be part of the 2001 CSO Mortality Table only for purposes of reserve valuation pursuant to the Recognition of the

2001 CSO Mortality Table for Use in Determining Minimum Reserve Liabilities and Nonforfeiture Benefits Model Regulation adopted by reference pursuant to NAC 688A.350.

Sec. 7. *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 in the 2001 CSO Preferred Class Structure Mortality Table in lieu of the nonsmoker mortality table in the 2001 CSO Mortality Table to determine minimum reserves. On the valuation date on which the insurer first uses the tables in the 2001 CSO Preferred Class Structure Mortality Table to determine minimum reserves, and annually thereafter, except for business valued under the residual standard nonsmoker table, the appointed actuary must certify that:*

1. The present value of death benefits over the 10-year period immediately following 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

2. 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.

Sec. 8. *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 in the 2001 CSO Preferred Class Structure Mortality Table in lieu of the smoker mortality table in the 2001 CSO Mortality Table to determine minimum reserves. On the valuation date on*

which the insurer first uses the tables in the 2001 CSO Preferred Class Structure Mortality Table to determine minimum reserves, and annually thereafter, for business valued under the preferred smoker table, the appointed actuary must certify that:

1. The present value of death benefits over the 10-year period immediately following 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

2. 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.

Sec. 9. *1. An insurer shall provide written notice to the Commissioner and the Life and Health Section of the Division of the intent of the insurer to use the 2001 CSO Preferred Class Structure Mortality Table to determine minimum reserves not later than 90 days before the first use by the insurer of the 2001 CSO Preferred Class Structure Mortality Table.*

2. The notice required by subsection 1 must include, without limitation, the date of valuation from which the insurer will use the 2001 CSO Preferred Class Structure Mortality Table and any additional information that the Commissioner determines is necessary.

Sec. 10. *An insurer who uses the 2001 CSO Preferred Class Structure Table to determine minimum reserves shall make the communications and disclosures required pursuant to Actuarial Guideline XLII which is set forth in the Accounting Practices and Procedures Manual adopted by the National Association of Insurance Commissioners and effective on*

January 1, 2001, and as amended by the National Association of Insurance Commissioners after that date. The communications and disclosures are required commencing on the first valuation date that the 2001 CSO Preferred Class Structure Table is used for any plan of insurance of the insurer, and annually thereafter.

Sec. 11. NAC 688A.350 is hereby amended to read as follows:

688A.350 1. For the purposes of NRS 681B.120 and 688A.325 and NAC 681B.161, *and sections 2 to 10, inclusive, of this regulation*, and except as otherwise provided in this section, the Commissioner hereby adopts by reference the *Recognition of the 2001 CSO Mortality Table for Use in Determining Minimum Reserve Liabilities and Nonforfeiture Benefits Model Regulation* as adopted by the National Association of Insurance Commissioners on December 8, 2002.

2. Any reference in the *Model Regulation* to:

(a) “Section 4A(c) of the Standard Valuation Law” shall be deemed a reference to “subparagraph (3) of paragraph (a) of subsection 2 of NRS 681B.120.”

(b) “Section 5cH(6) of the Standard Nonforfeiture Law for Life Insurance” shall be deemed a reference to “paragraph (f) of subsection 8 of NRS 688A.325.”

(c) The “Valuation of Life Insurance Policies Model Regulation” or “Valuation of Life Insurance Model Regulation” shall be deemed a reference to “NAC 681B.161.”

(d) “Section 8 of the NAIC Model Standard Valuation Law” shall be deemed a reference to “NRS 681B.150.”

(e) “Section 5A of the Actuarial Opinion and Memorandum Regulation” shall be deemed a reference to “NAC 681B.175.”

(f) An “unfair trade practices statute” shall be deemed a reference to “NRS 686A.100.”

3. A copy of the *Recognition of the 2001 CSO Mortality Table for Use in Determining Minimum Reserve Liabilities and Nonforfeiture Benefits Model Regulation* may be obtained from the Insurance Products and Services Division of the National Association of Insurance Commissioners, 2301 McGee Street, Suite 800, Kansas City, Missouri 64108-2662, for the price of \$50, and is available, free of charge, on the Internet at www.naic.org.

~~{4. The 2001 CSO Mortality Table is set forth in the Proceedings of the NAIC (2nd Quarter 2002). A copy of this publication may be obtained from the Insurance Products and Services Division of the National Association of Insurance Commissioners, 2301 McGee Street, Suite 800, Kansas City, Missouri 64108-2662, for the price of \$200.}~~

NOTICE OF ADOPTION OF PROPOSED REGULATION
LCB File No. R031-08

The Commissioner of Insurance adopted regulations assigned LCB File No. R031-08 which pertain to chapter 688A of the Nevada Administrative Code.

INFORMATIONAL STATEMENT

A workshop was held on May 1, 2008, and a hearing was held on May 13, 2008, at the offices of the Department of Business and Industry, Division of Insurance (“Division”), 788 Fairview Drive, Suite 300, Carson City, Nevada 89701, with simultaneous video-conferences conducted at the Bradley Building, 2501 E. Sahara Avenue, Real Estate Division Conference Room, 2nd Floor, Las Vegas, Nevada 89104, regarding the adoption of the regulation concerning the use of the 2001 CSO Preferred Class Structure Mortality Table in the determination of minimum reserves for life insurance policies.

Public comment was solicited by posting notice of the hearing in the following public locations: the Division’s Carson City and Las Vegas offices, Carson City Courthouse, Office of the Attorney General, the Donald W. Reynolds Press Center, Capitol Building Lobby, Capitol Building Press Room, Blasdel Building, Legislative Counsel Bureau, Nevada State Library, Carson City Library, Churchill County Library, Clark County District Library, Douglas County Library, Elko County Library, Esmeralda County Library, Eureka Branch Library, Humboldt County Library, Lander County Library, Lincoln County Library, Lyon County Library, Mineral County Library, Pershing County Library, Storey County Library, Tonopah Public Library, Washoe County Library, and White Pine County Library.

The Division maintains a general list of interested parties, comprised mainly of insurance companies, agencies and other persons regulated by the Division. These persons were notified of the hearing and that copies of the regulation could be obtained from or examined at the offices of the Division in Carson City.

The workshop was attended by one interested party in Carson City. Oral testimony, in the form of suggested changes to the existing regulation, was provided by Annette James, representing the Division, and John Mangan, representing the American Council of Life Insurers (“ACLI”).

The hearing was attended by one interested party in Las Vegas. During the hearing, oral testimony was provided by Annette James and Van Mouradian, representing the Division, and John Mangan, representing the ACLI.

The Life and Health staff believe that the recommended changes address the comments made at the workshop and hearing, as well as the written public comments received.

Based upon written comments and the testimony received, the proposed regulation, LCB File No. R031-08, is amended as follows:

1. Section 10 is amended as follows:

An insurer who uses the 2001 CSO Preferred Class Structure Table to determine minimum reserves shall make the communications and disclosures required pursuant to Actuarial Guideline XLII which is set forth in the Accounting Practices and Procedures Manual adopted by the National Association of Insurance Commissioners and effective on January 1, 2001, and as amended by the National Association of Insurance Commissioners after that date. The ~~[insurer shall make the]~~ communications and disclosures ***shall be required commencing with*** ~~[on]~~ the first valuation date that the 2001 CSO Preferred Class Structure Mortality Table is used for any plan of insurance of the insurer, and annually thereafter.

After considering the testimony given at the workshop and hearing, as well as the submitted written comments, the Commissioner has issued an order adopting the regulation, LCB File No. R031-08, as amended, as a permanent regulation of the Division.

The economic effects of the regulation are as follows:

(a) On the business it regulates: The carriers that decide to adopt the 2001 CSO Preferred Class Structure Mortality Table in accordance with this regulation will generally reduce reserve requirements because lower reserves may be required for better risks than are required under current reserve tables. The actual impact will vary by the mix of business and the extent to which company experience is used in determining reserve requirements. Insurance companies are also expected to incur additional costs related to the update of valuation systems and the refinement of modeling capabilities to accommodate the additional analysis of credible mortality experience.

(b) On the public: Consumers will not be directly affected. However, there is a potential for lower reserving requirements for some lines of business to result in lower premium rates for the consumer. However, there is no obvious tie-in to pricing so that the impact on the consumer is based purely on competitive forces.

The Division does not anticipate an additional cost for enforcing the regulation. The Division is not aware of any overlap or duplication of the regulation with any state, local or federal regulation.