

**ADOPTED REGULATION OF THE
COMMISSIONER OF INSURANCE**

LCB File No. R093-14

Effective June 28, 2016

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

AUTHORITY: §§1-7, NRS 679B.130, 681B.120 and 688A.325.

A REGULATION relating to insurance; amending provisions relating to 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.

Legislative Counsel’s Digest:

Existing law authorizes the Commissioner of Insurance to adopt by regulation certain mortality tables adopted by the National Association of Insurance Commissioners to establish minimum reserve liabilities for certain policies of life insurance. (NRS 679B.130, 681B.120, 688A.325) Under existing regulations, the Commissioner has adopted by reference the *Recognition of the 2001 CSO Mortality Table for Use in Determining Minimum Reserve Liabilities and Nonforfeiture Benefits Model Regulation* adopted by the National Association of Insurance Commissioners and thereby authorized its use by insurers as the minimum standard of valuation for certain policies of insurance. (NAC 688A.350) Existing regulations define the *2001 CSO Mortality Table* as “the mortality table, consisting of separate rates of mortality for male and female lives.” (NAC 688A.325) Existing regulations also define the *2001 CSO Preferred Class Structure Mortality Table* as “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.” (NAC 688A.327) Under existing regulations, an insurer who satisfies certain requirements, including providing proof satisfactory to the Commissioner of Insurance that 20 percent or more of the business to be valued under a policy of insurance is in one or more of the preferred classes described in the *2001 CSO Preferred Class Structure Mortality Table*, may elect to use that mortality table in lieu of the *2001 CSO Mortality Table* to determine minimum reserves. (NAC 688A.353)

Section 1 of this regulation prohibits the use of the *2001 CSO Preferred Class Structure Mortality Table* in certain circumstances. **Sections 3-5** of this regulation amend provisions relating to obtaining copies of the *2001 CSO Mortality Table*, the *2001 CSO Preferred Class Structure Mortality Table* and the *Recognition of the 2001 CSO Mortality Table for Use in Determining Minimum Reserve Liabilities and Nonforfeiture Benefits Model Regulation*. **Section**

6 of this regulation provides for the use of the *2001 CSO Preferred Class Structure Mortality Table* in lieu of the *2001 CSO Mortality Table* in certain circumstances.

Section 1. Chapter 688A of NAC is hereby amended by adding thereto a new section to read as follows:

1. An insurer shall not use the 2001 CSO Preferred Class Structure Mortality Table for the valuation of policies issued before January 1, 2008, in any financial statement required by statute in which the insurer reports, with respect to any policy or portion of a policy coinsured:

(a) In cases where the mode of payment of the reinsurance premium is less frequent than the mode of payment of the policy premium, a reserve credit that exceeds, by more than Y, the gross reserve calculated before reinsurance. As used in this paragraph, Y is the amount of the gross reinsurance premium that:

(1) Provides coverage for the period from the next policy premium due date to the earlier of the end of the policy year and the next reinsurance premium due date; and

(2) Would be refunded to the ceding entity upon the termination of the policy.

(b) In cases where the mode of payment of the reinsurance premium is more frequent than the mode of payment of the policy premium, a reserve credit that is less than the gross reserve, calculated before reinsurance, by an amount that is less than Z. As used in this paragraph, Z is the amount of the gross reinsurance premium that the ceding entity would need to pay the assuming company to provide reinsurance coverage from the period of the next reinsurance premium due date to the next policy premium due date minus any liability established for the proportionate amount not remitted to the insurer.

2. An insurer may estimate and adjust its accounting on an aggregate basis to meet the conditions to use the 2001 CSO Preferred Class Structure Mortality Table set forth in this section and NAC 688A.355 and 688A.357.

3. For the purposes of subsection 1, the reserve:

(a) For the mean reserve method is defined as the mean reserve minus the deferred premium asset; and

(b) For the mid-terminal reserve method includes the unearned premium reserve.

Sec. 2. NAC 688A.320 is hereby amended to read as follows:

688A.320 As used in NAC 688A.320 to 688A.363, inclusive, **and section 1 of this regulation**, unless the context otherwise requires, the words and terms defined in NAC 688A.325, 688A.327 and 688A.330 have the meanings ascribed to them in those sections.

Sec. 3. NAC 688A.325 is hereby amended to read as follows:

688A.325 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 *Proceedings of the NAIC (2nd Quarter 2002)*, which includes 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~~ *1100 Walnut Street, Suite ~~800,~~ 1500*, Kansas City, Missouri ~~64108-2662,~~ *64106-2197*, by telephone at (816) 783-8300 or on the Internet at ~~http://www.naic.org/store_home.htm,~~ <http://www.naic.org>, for the price of \$180.

Sec. 4. NAC 688A.327 is hereby amended to read as follows:

688A.327 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 *Proceedings of the NAIC (3rd Quarter 2006), which includes 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~~ *1100 Walnut* Street, Suite ~~800,~~ *1500*, Kansas City, Missouri ~~64108-2662,~~ *64106-2197*, by telephone at (816) 783-8300 or on the Internet at ~~http://www.naic.org/store_home.htm,~~ <http://www.naic.org>, for the price of ~~\$200,~~ *\$90*.

Sec. 5. NAC 688A.350 is hereby amended to read as follows:

1. For the purposes of NRS 681B.120 and 688A.325 and NAC 681B.161 and 688A.320 to 688A.363, inclusive, *and section 1 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. *The Commissioner will periodically review the publication adopted by reference in this subsection and any changes thereto and determine within 30 days after the review whether a change made to the publication is appropriate for application in this State. If the Commissioner does not disapprove a change to the publication within 30 days after the review, the change is deemed to be approved by the Commissioner.*

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~~ **1100 Walnut** Street, Suite ~~800,~~ **1500**, Kansas City, Missouri ~~64108-2662, for the price of \$50, and is available, free of charge,~~ **64106-2197, by telephone at (816) 783-8300 or** on the Internet at **www.naic.org** ~~†~~, **at no charge.**

Sec. 6. NAC 688A.353 is hereby amended to read as follows:

688A.353 1. Except as otherwise provided in subsection ~~2,~~ **3 and section 1 of this regulation**, 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 NAC 688A.355 to 688A.363, inclusive, 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. *For policies of life insurance issued on or after January 1, 2005, and before January 1, 2008, with the consent of the Commissioner and subject to the conditions of NAC 688A.355, 688A.357 and section 1 of this regulation, an insurer 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 the policies. In determining such consent, the Commissioner may rely on the consent of the insurance commissioner of the insurer's state of domicile.*

3. 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.

~~3.1~~ 4. 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. NAC 688A.357 is hereby amended to read as follows:

688A.357 ~~{For}~~ *Except as otherwise provided in section 1 of this regulation, 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.

LEGISLATIVE REVIEW OF ADOPTED REGULATIONS

INFORMATIONAL STATEMENT AS REQUIRED BY NRS 233B.066

LCB FILE NO. R093-14

The following statement is submitted by the State of Nevada, Department of Business and Industry, Division of Insurance (“Division”) for adopted amendments to Nevada Administrative Code (“NAC”) Chapter(s) 688A.

1. A clear and concise explanation of the need for the adopted regulation.

R093-14 sets forth standards for the use of mortality tables that reflect differences between preferred and standard lives in determining minimum reserve liabilities for life insurance. The National Association of Insurance Commissioners (“NAIC”) Financial Accreditation Standards requires the Model Regulation Permitting the Recognition of Preferred Mortality Tables for Use in Determining Minimum Reserve Liabilities (as reflected in R093-14) to be in place for Nevada to maintain its accreditation status. The revisions/amendments included in R093-14 are essential to maintain the accreditation status of Nevada and to ensure that all life insurance companies doing business in Nevada maintain appropriate reserves. R093-14 also updates contact information for the NAIC and the fees associated with obtaining copies of specific documents.

2. A description of how public comment was solicited, a summary of public response, and an explanation of how other interested persons may obtain a copy of the summary.

(a) A description of how public comment was solicited:

Public comment was solicited by e-mailing the proposed regulation, notice of workshop, notice of intent to act upon the regulation, and small business impact statement to persons on the Division’s mailing list requesting notification of proposed regulations. The documents were also made available on the website of the Division, <http://doi.nv.gov/>, mailed to the main library for each county in Nevada, and posted at the following locations:

Department of Business and Industry
Division of Insurance
1818 East College Parkway, Suite 103
Carson City, Nevada 89706

Department of Business and Industry
Division of Insurance
2501 East Sahara Avenue, Suite 302
Las Vegas, Nevada 89104

Legislative Building
401 South Carson Street
Carson City, Nevada 89701

Grant Sawyer Building
555 East Washington Avenue
Las Vegas, Nevada 89101

Blasdel Building
209 East Musser Street
Carson City, Nevada 89701

Capitol Building
101 North Carson Street
Carson City, Nevada 89701

Nevada Department of Employment,
 Training and Rehabilitation
 2800 E. Saint Louis Avenue
 Las Vegas, Nevada 89104

Public comment was also solicited at the workshop held on March 1, 2016, and at the hearing held on April 19, 2016. The public meetings took place at the offices of the Division, 1818 East College Parkway, Carson City, Nevada 89706, with simultaneous videoconferencing to the Bradley Building, 2501 East Sahara Avenue, Las Vegas, Nevada 89104.

- (b) A summary of the public response: None received.
- (c) An explanation of how other interested persons may obtain a copy of the summary: No public response was received.

3. The number of persons who:

- (a) Attended each hearing: 1 person from the Division of Insurance
- (b) Testified at each hearing: 1 person from the Division of Insurance
- (c) Submitted to the agency written statements: None

4. A list of names and contact information, including telephone number, business address, business telephone number, electronic mail address, and name of entity or organization represented, for each person identified above in #3 (b) and (c), as provided to the agency:

Name	Entity/Organization Represented	Business Address	Telephone No./ Business Telephone No.	E-Mail Address
Annette James	Division of Insurance	1818 E. College Parkway, Suite 103 Carson City, NV 89706	775-687-0700	

5. A description of how comment was solicited from affected businesses, a summary of their responses, and an explanation of how other interested persons may obtain a copy of the summary.

Comments were solicited from affected businesses in the same manner as they were solicited from the public. Please see the description, summary and explanation provided above in response to question #2.

6. If after consideration of public comment the regulation was adopted without changing any part of the proposed regulation, a summary of the reasons for adopting the regulation without change.

No public comments were received and no further revisions were proposed by the Division of Insurance.

7. (a) The estimated economic effect of the adopted regulation on the business which it is to regulate:

- (1) Both adverse and beneficial effects: This proposed regulation sets forth consistent national standards for carriers to establish and maintain appropriate life insurance reserves. All carriers licensed to do business in Nevada are already essentially in compliance with the provisions set forth in this regulation and have used the calculations to set necessary reserves. Uniformity across the States lessens carriers' administrative and operational burdens/expenses.
- (2) Both immediate and long-term effects: This proposed regulation sets forth consistent national standards for carriers to establish and maintain appropriate life insurance reserves. All carriers licensed to do business in Nevada are already essentially in compliance with the provisions set forth in this regulation and have used the calculations to set necessary reserves. Uniformity across the States lessens carriers' administrative and operational burdens/expenses.

(b) The estimated economic effect of the adopted regulation on the public:

- (1) Both adverse and beneficial effects: Uniformity across the States lessens carriers' administrative and operational burdens/expenses, the savings of which might be passed on to the consumer.
- (2) Both immediate and long-term effects: Uniformity across the States lessens carriers' administrative and operational burdens/expenses, the savings of which might be passed on to the consumer.

8. The estimated cost to the agency for enforcement of the adopted regulation. No cost.

9. A description of any regulations of other state or government agencies which the proposed regulation overlaps or duplicates, and a statement explaining why the duplication or overlapping is necessary. If the regulation overlaps or duplicates a federal regulation, the name of the regulating federal agency.

There are no other regulations in the state that overlap or duplicate the proposed amendments to the existing regulation.

10. If the regulation includes provisions that are more stringent than a federal regulation which regulates the same activity, a summary of those provisions.

There are no federal regulations that address the requirements in this proposed amendment to the existing regulation.

11. If the regulation establishes a new fee or increases an existing fee, the total annual amount the agency expects to collect and the manner in which the money will be used.

No new or additional fees are associated with this regulation.