Ohio Revised Code

Section 3903.723 Minimum standards for the valuation of policies.

Effective: September 4, 2014
Legislation: Senate Bill 140 - 130th General Assembly

(A) Using the mortality, morbidity, and interest rates as provided in divisions (B) to (H) of this section and in sections 3903.724, 3903.725, and 3903.727 of the Revised Code, the minimum standard for the valuation of policies and contracts shall be derived according to the commissioners reserve valuation methods defined in divisions (I) to (L) and (O) of this section and section 3903.727 of the Revised Code for policies and contracts issued on or after January 1, 1989.

(B) For ordinary life insurance policies, excluding disability and accidental death benefits, issued on the standard basis on or after January 1, 1989, the minimum standard for the valuation of policies and contracts shall be derived from the following:

(1) The commissioners 1980 standard ordinary mortality table;

(2) At the election of the company for any one or more specified plans of life insurance, the commissioners 1980 standard ordinary mortality table with ten-year select mortality factors;

(3) Any ordinary mortality table, adopted after 1980 by the national association of insurance commissioners, that is approved by rules adopted by the department of insurance for use in determining the minimum standard of valuation for such policies.

(C) For industrial life insurance policies, excluding disability and accidental death benefits, issued on the standard basis on or after January 1, 1989, the minimum standard for the valuation of policies shall be derived from the commissioners 1961 standard industrial mortality table or any industrial mortality table adopted after 1980 by the national association of insurance commissioners that is approved by rules adopted by the superintendent for use in determining the minimum standard of valuation for the policies.

(D) For all individual annuity and pure endowment contracts, excluding disability and accidental death benefits issued on or after January 1, 1989, the minimum standard for the valuation of contracts shall be derived from both of the following:

(1) The valuation interest rates as defined in section 3903.724 of the Revised Code;

(2) The 1971 individual annuity mortality table or any modification of that table approved by the superintendent. The superintendent may approve the use of any individual annuity mortality table adopted after 1980 by the national association of insurance commissioners, either as adopted or as modified by the superintendent, for determining the minimum standard for the valuation of such contracts.

(E) For group annuity and pure endowment contracts, excluding disability and accidental death benefits in the policies issued on or after January 1, 1989, the minimum standard for the valuation of contracts shall be derived from both of the following:

(1) The valuation interest rates as defined in section 3903.724 of the Revised Code;

(2) The 1971 group annuity mortality table, or any modification of that table approved by the superintendent. The superintendent may approve the use of any group annuity mortality table adopted after 1980 by the national association of insurance commissioners, either as adopted or as modified by the superintendent, for determining the minimum standard for the valuation of such contracts.

(F) For total and permanent disability benefits in or supplementary to ordinary policies and contracts issued:

(1) On and after January 1, 1989, the minimum standard for the valuation of policies and contracts shall be derived from the tables of period 2 disablement rates and the 1930 to 1950 termination rates of the 1952 disability study of the society of actuaries, with due regard for the type of benefit or any other table of disablement rates and termination rates adopted after 1980 by the national association of insurance commissioners for use in determining the minimum standard for the valuation of those policies.

Any such table shall, for active lives, be combined with a mortality table permitted for calculating the reserves for life insurance policies.

(2) The interest rate to be used in calculating minimum reserves for such benefits shall not exceed the applicable rate specified in section 3903.724 of the Revised Code for ordinary life insurance policies.

(G) For accidental death benefits in or supplementary to policies issued:

(1) On and after January 1, 1989, the minimum standard for the valuation of policies shall be derived from the 1959 accidental death benefits table or any accidental death benefits table adopted after 1980 by the national association of insurance commissioners for use in determining the minimum standard for the valuation of such accidental death benefits that is approved in rules adopted by the superintendent.

The table used shall be combined with a mortality table for calculating the reserves for life insurance policies.

(2) The interest rate to be used in calculating minimum reserves for such benefits shall not exceed the applicable rate specified in section 3903.724 of the Revised Code for ordinary life insurance policies.

(H) For group life insurance, life insurance issued on the substandard basis and all other special benefits, such tables as may be approved by the superintendent.

(I) Except as otherwise provided in divisions (L) and (O) of this section and in section 3903.727 of the Revised Code, reserves according to the commissioners reserve valuation method for the life insurance and endowment benefits of policies providing for a uniform amount of insurance and requiring the payment of uniform premiums shall be the excess, if any, of the present value on the valuation date of the future guaranteed benefits over the then present value of any future modified net premiums therefor. The modified net premiums for a policy shall be the uniform percentage of the respective contract premiums for the benefits such that the present value, at the date of issue of the policy, of all modified net premiums shall be equal to the sum of the then present value of the benefits provided for by the policy and the excess of division (I)(1) over division (I)(2) of this section, as follows:

(1) A net level annual premium equal to the present value, at the date of issue, of such benefits provided for after the first policy year, divided by the present value, at the date of issue, of an annuity of one per annum payable on the first and each subsequent anniversary of the policy on which a premium falls due. However, the net level annual premium shall not exceed the net level annual premium on the nineteen-year premium whole life plan for insurance of the same amount at an age one year higher than the age at issue of the policy.

(2) A net one-year term premium for such benefits provided for in the first policy year.

(J) This division defines the commissioners reserve valuation method for all life insurance policies issued on or after January 1, 1989, that have a first year premium in excess of the premium for the second policy year and for which excess no comparable benefit is provided in the first year and that provide either an endowment benefit or cash surrender value, or a combination, in an amount greater than the excess premium. The reserve according to the commissioners reserve valuation method as of any policy anniversary occurring on or before the assumed ending date defined herein as the first policy anniversary on which the sum of any endowment benefit and any cash surrender value then available is greater than the excess premium shall, except as otherwise provided in division (O) of this section, be the greater of either of the following:

(1) The reserve as of the policy anniversary, with the policy anniversary being calculated as described in division (I) of this section;

(2) The reserve as of the policy anniversary calculated as described in division (I) of this section, but with:

(a) The value defined in division (I)(1) of this section being reduced by fifteen per cent of the amount of such excess first-year premium;

(b) All present values of benefits and premiums being determined without reference to premiums and benefits provided for by the policy after the assumed ending date;

(c) The policy being assumed to mature on the assumed ending date as an endowment;

(d) The cash surrender value provided on the assumed ending date being considered as an endowment benefit.

In making the above comparison, the mortality and interest bases stated in this section and in section 3903.724 of the Revised Code shall be used.

(K) Reserves according to the commissioners reserve valuation method shall be calculated by a method consistent with the principles of divisions (I) and (J) of this section for:

(1) Life insurance policies providing for a varying amount of life insurance or requiring payment of varying premiums;

(2) Group annuity and pure endowment contracts purchased under a retirement plan or plan of deferred compensation, established or maintained by an employer, including a partnership or sole proprietorship, or by an employee organization, or by both, other than a plan providing individual retirement accounts or individual retirement annuities under section 408 of the Internal Revenue Code of 1954, as amended;

(3) Disability and accidental death benefits in all policies and contracts;

(4) All other benefits, except life insurance and endowment benefits in life insurance policies and benefits provided by all other annuity and pure endowment contracts.

(L)(1) This division defines the commissioners annuity reserve valuation method for all annuity and pure endowment contracts other than group annuity and pure endowment contracts purchased under a retirement plan or plan of deferred compensation, established or maintained by an employer, including a partnership or sole proprietorship, or by an employee organization, or by both, other than a plan providing individual retirement accounts or individual retirement annuities under section 408 of the Internal Revenue Code of 1954, as amended.

(2) Reserves for benefits under such contracts, excluding disability and accidental death benefits,

shall be the greatest of the respective excesses of the present values, at the date of valuation, of the future guaranteed benefits, including guaranteed nonforfeiture benefits, provided for by such contract at the end of each respective contract year, over the present value, at the date of valuation, of any future valuation considerations derived from future gross considerations required by the terms of the contract that become payable prior to the end of each such respective contract year. The future guaranteed benefits shall be determined by using the mortality table, if any, and the interest rate, or rates, specified in such contracts for determining guaranteed benefits. The valuation considerations are the portions of the respective gross considerations applied under the terms of such contracts to determine nonforfeiture values.

(M)(1) In no event shall a company's aggregate reserves for all life insurance policies, excluding disability and accidental death benefits issued on or after January 1, 1989, be less than the aggregate reserves calculated in accordance with the method set forth in divisions (I), (J), (K), (L), (O), and (P) of this section and the mortality table or tables and rate or rates of interest used in calculating nonforfeiture benefits for such policies.

(2) In no event shall the aggregate reserves for all policies, contracts, and benefits be less than the aggregate reserves determined by the appointed actuary to be necessary to render the opinion required by section 3903.722 of the Revised Code.

(N)(1) Reserves for policies and contracts issued prior to January 1, 1989, may be calculated, at the option of the company, according to any standards that produce greater aggregate reserves for all such policies and contracts than the minimum reserves required by the laws in effect immediately prior to that date.

(2) Reserves for any category of policies, contracts, or benefits as established by the superintendent, issued on or after January 1, 1989, may be calculated, at the option of the company, according to any standards that produce aggregate reserves for such category greater than those calculated according to the minimum standards provided in this section, but the rate or rates of interest used for policies and contracts, other than annuity and pure endowment contracts, shall not be higher than the corresponding rate or rates of interest used in calculating any nonforfeiture benefits provided for in such standards.

(3) A company, which adopts at any time a standard of valuation producing greater aggregate reserves than those calculated according to the minimum standard provided under sections 3903.72 to 3903.7211 of the Revised Code, may adopt a lower standard of valuation with the approval of the superintendent, but not lower than the minimum provided in these sections. However, for the purposes of this division, the holding of additional reserves previously determined by the appointed actuary to be necessary to render the opinion required by sections 3903.722 and 3903.726 of the Revised Code shall not be considered to be the adoption of a higher standard of valuation.

(O) If in any contract year the gross premium charged by a company on a policy or contract is less than the valuation net premium calculated by the method used in calculating the reserve for a policy or contract but using the minimum valuation standards of mortality and rate of interest, the minimum reserve required for such policy or contract shall be the greater of either the reserve calculated according to the mortality table, rate of interest, and method actually used for such policy or contract, or the reserve calculated by such method but using the minimum valuation standards of mortality and rate of interest and replacing the valuation net premium by the actual gross premium in each contract year for which the valuation net premium exceeds the actual gross premium. The minimum valuation standards of mortality and rate of interest referred to in this division are those required by divisions (A) to (H) of this section and section 3903.724 of the Revised Code.

For a life insurance policy issued on or after January 1, 1987, for which the gross premium in the first policy year exceeds that of the second year and for which no comparable additional benefit is provided in the first year for the excess and that provides an endowment benefit or a cash surrender value or a combination in an amount greater than the excess premium, the provisions of this division shall be applied as if the method used in calculating the reserve for such policy were the method defined in division (I) of this section. The minimum reserve for such policy, at each policy anniversary, shall be the greater of the minimum reserve calculated in accordance with division (J) of this section and in accordance with this division.

(P) In the case of a plan of life insurance that provides for future premium determination, the amounts of which are to be determined by the insurance company based on then estimates of future experience, or in the case of a life insurance or annuity that is of such a nature that the minimum reserves cannot be determined by the methods described in divisions (I), (J), (K), (L), and (O) of this section, the reserves to be held under the plan shall be appropriate in relation to the benefits and the pattern of premiums for that plan and shall be computed by a method that is consistent with the principles of this section as determined by rules adopted by the superintendent.

(Q) The superintendent shall adopt rules specifying minimum reserve standards for the valuation of individual and group health plans.