

Minnesota Attorney General: Administrative Rules Proceedings

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Version 3
August 20, 2018

SF-00006-04

STATE OF MINNESOTA

Office Memorandum

DEPARTMENT : of Commerce

PHONE : 296-5689

DATE : December 16, 1986

TO : Martha Casserly

FROM : Richard G. Gomsrud

RECEIVED
DEC 18 1986
ATTORNEY GENERAL
ADMINISTRATIVE AGENCIES

SUBJECT :

Enclosed please find a copy of the Statement of Need and Reasonableness on Universal Life Insurance which the insurance industry finally did.

Does it look okay? If so, where do we proceed from here?

1-5-87
- reviewed SNR
- close call - borderline
- but OK, I guess

1-14-87-
cfw/D. Gomsrud -
- told him I wasn't overjoyed with ~~the~~ SNR, but it was OK (close call)
- he will republish & resend rule to us

mjc

SF-00006-03

STATE OF MINNESOTA

DEPARTMENT ATTORNEY GENERAL - Administration **Office Memorandum**

TO: MICHAEL A. HATCH, Commissioner of Commerce
ATTN: RICHARD G. GOMSRUD, Department Counsel

DATE: 8-19-86

FROM: MARTHA J. CASSERLY
Special Assistant
Attorney General

PHONE: 296-4692

SUBJECT: Department of Commerce Universal Life Insurance Rule

The above-captioned rule has not been approved by the Attorney General for the following two reasons:

1. The Statement of Need and Reasonableness is insufficient because for several subparts the Statement merely restates the rule, without explaining or justifying the rule. Consequently, the record fails to demonstrate a rational basis for the need for and reasonableness of the proposed rule. Minn. Stat. § 14.56. See also Minn. Rule pt. 2000.0400, subpt. 1(G) (1985). Specifically, the following parts of the rule have not been adequately justified in the Statement of Need and Reasonableness:

Minn. Rule pt. 2747.0030
Minn. Rule pt. 2747.0035
Minn. Rule pt. 2747.0040

To overcome this deficiency, a new Statement of Need and Reasonableness must be prepared. In addition, to comply with Minn. Stat.§ 14.23, a supplemental Notice of Intent to Adopt Rules Without a Public Hearing must be published in the State Register and sent to all persons on the agency mailing list. This supplemental notice may reference the earlier Notice of Intent to Adopt and must state that the Statement of Need and Reasonableness has been amended and is available to the public for an additional 30 days in accordance with Minn. Stat. § 14.23.

2. Minn. Rule pt. 2747.0025, subp. 7 provides one method of calculating the death benefit if the insurance policy misstates the age or sex and further provides that "the commissioner may approve other methods that are deemed satisfactory." (Emphasis added.) The underscored language is not approved by the Attorney General because it is impermissibly vague and provides the agency unbridled discretion. The underscored language does not give the reader any notice under what circumstances other methods may be satisfactory. Further, the underscored language appears to attempt to allow the agency to circumvent the APA by ad hoc rulemaking.

To overcome this deficiency, the underscored language must be deleted, or a specific criteria delineated upon which the commissioner will authorize other methods.

After agency action, the rule may be resubmitted to the Attorney General for review. Upon resubmission, the following documents must be submitted:

1. The new Statement of Need and Reasonablenss.

2. The Supplemental Notice of Intent to Adopt the rule as published in the State Register and mailed to persons on the agency rulemaking list.

3. Affidavit of mailing the supplemental notice.

4. Four copies of the modified rule approved as to form by the revisor of statutes.

5. Supplemental findings of fact and conclusion and order adopting the rule.

Also, please include a memorandum specifying that the rule is being resubmitted and refer to our file number 1295 so that we may obtain our initial file in this matter. If you have any questions concerning the issues raised in this memorandum, do not hesitate to call me.

MJC:tt

cc: Duane Harves
Maryann Hruby
Paul Marinac

STATE OF MINNESOTA
DEPARTMENT OF COMMERCE

In the Matter of the Proposed
Rules Governing
Universal Life Insurance

STATEMENT OF NEED
AND REASONABLENESS
OF PROPOSED RULES

STATEMENT OF NEED AND AUTHORITY

The proposed rules set forth the requirements and conditions under which insurers may issue universal life insurance policies in the State of Minnesota. The proposed rules follow a model rule for regulation of universal life insurance policies adopted by the National Association of Insurance Commissioners (NAIC) in December, 1983. The rules are proposed by the Commerce Commissioner of Minnesota to implement the provisions of Minnesota Statutes § 61A.03.

The proposed rules establish guidelines for the review and approval of universal life insurance policy forms by the Commerce Commissioner. These guidelines include mandatory policy provisions and disclosure requirements protective of the purchasers of universal life insurance policies.

The proposed rules are also necessary to permit meaningful application of the standard valuation law, Minnesota Statutes § 61A.25, to universal life insurance policies. Under the standard valuation law, modified valuation net premiums are defined as uniform percentages of policy premiums. In universal life insurance policies, although the policyholder may pay premiums in a fixed amount and on a regular basis, the policyholder is not required to do so. Also, the standard valuation law, in specifying the expense allowance to be used in the computation of the policy reserves ("Commissioners Reserve

Valuation Method" or "CRVM Reserves"), requires a divisor which is defined as "an annuity of one per annum payable on the first and each subsequent anniversary on which a premium falls due". Since no premiums ever fall due under the terms of universal life insurance policies, the annuity factor is always zero. The proposed rules resolve these problems in applying the standard valuation law to the computation of policy reserves for the universal life insurance policies.

Finally, the proposed rules are necessary to permit Minnesota domiciled insurers to properly compute their universal life insurance policy reserve deductions for Federal Income Tax purposes.

The Commerce Department considers the proposed rules necessary and reasonable in order to establish standards concerning:

(a.) the establishment and maintenance of reserve liabilities,

(b.) minimum cash surrender values and minimum paid-up nonforfeiture values,

(c.) mandatory policy provisions,

(d.) reports to be used in connection with any advertising, solicitation, negotiation, or procurement of the product,

(e.) annual reports which keep the policyowner advised of the status of the policy, and

(f.) specifications for required filings with, and reports for the Commissioner regarding sales, issuance, and administration of these policies.

FACTS ESTABLISHING REASONABLENESS

The purpose of these rules is to supplement existing regulation of traditional life insurance policies to regulate the development and issuance of universal life insurance policies. The proposed rules reasonably comply with the specifications and requirements of Minnesota Statutes § 45.023.

Part 2747.0005 Definitions.

Subpart 1. Definitions. This subpart defines terms applicable to universal life insurance policies, and clarifies their usage in the rules.

Subpart 2. Cash Surrender Value. This subpart indicates that cash surrender value means the net cash surrender value of the policy plus any amounts outstanding as policy loans.

Subpart 3. Commissioner. This subpart defines "Commissioner" to mean the Commissioner of the Department of Commerce of Minnesota.

Subpart 4. Fixed Premium Universal Life Insurance Policy. This subpart defines a fixed premium universal life insurance policy as a policy that is not a flexible premium universal life insurance policy.

Subpart 5. Flexible Premium Universal Life Insurance Policy. This subpart defines a flexible premium universal life insurance policy as a policy where the owner may vary either the timing of one or more premium payments or the amount of insurance or both.

Subpart 6. Interest-Indexed Universal Life Insurance Policy. This subpart defines an interest-indexed universal life insurance policy as any universal life insurance policy where interest credits are linked to an external referent (index).

Subpart 7. Net Cash Surrender Value. This subpart defines net cash surrender value as the maximum amount payable to the policyowner if he/she were to surrender his/her policy.

Subpart 8. Policy Value. This subpart defines the policy value as the amount to which separately identified interest credits, mortality charges, expenses, or other charges are made under the universal life insurance policy.

Subpart 9. Universal Life Insurance Policy. This subpart defines a universal life insurance policy as any individual life insurance policy which has separately identified interest credits (other than dividend accumulations, premium deposit funds, or other supplementary accounts), mortality charges, and expense charges, as a part of the policy. A universal life insurance policy may also contain other credits or charges such as cost of benefits provided by rider.

Part 2747.0010 Scope.

The scope of the proposed rules encompasses the requirements for all individual universal life insurance policies except those policies defined under 4 MCAR S 1.9402(O). The proposed rules establish standards for issuance and sale of individual universal life insurance policies.

Part 2747.0015 Valuation.

Subpart 1. Requirements. This subpart contains definitions for the CRVM Reserves for both fixed and flexible premium universal life insurance policies. These definitions are necessary to limit the application of the proposed rules to appropriate policies.

Under the current standard valuation law and without the proposed rules, there might be an interpretation that the universal life insurance policies have no "right" to an expense allowance in the determination of the CRVM Reserves.

The proposed rules provide for a reasonable expense allowance in the computation of CRVM Reserves. This expense allowance will vary in proportion to the ratio of the policy value to the guaranteed maturity fund. In effect, the higher the level of premium payments on the policy, the larger the expense allowance. This is consistent with the standard valuation law, Minnesota Statutes § 61A.25, as it relates to fixed premium traditional policies.

Subpart 2. Alternative Minimum Reserves. This subpart provides for an alternative minimum reserve calculated by a method consistent with the current standard valuation law for traditional policies. The subpart recognizes the flexibility of the universal life insurance policy by using the guaranteed maturity premium in the calculation of the reserves.

Part 2747.0020 Nonforfeiture.

Subpart 1. Minimum Cash Surrender Values For Flexible Premium Universal Life Insurance Policies. This subpart states that the minimum cash surrender values for flexible premium universal life insurance policies will be determined separately for the basic policy and for any benefits and riders for which premiums are paid separately.

The minimum cash values for flexible premium universal life insurance policies are premiums paid, minus allowable expense charges, accumulated at interest. An additional expense charge, often referred to as a surrender charge, may be deducted from the accumulated premiums.

Allowable expense charges include charges for mortality, charges against the premiums, when paid, and charges against the accumulated premiums. Charges against the paid premiums include a percentage of each premium, while charges against the accumulated premiums include a monthly flat amount per policy or a monthly amount per thousand of insurance. Other allowable expense charges include service charges originating from a policyholders' request for special services, such as furnishing an illustration of future benefits or processing a partial withdrawal.

Expense charges against the paid or accumulated premiums will not be limited if the charge in the first year is not larger than the average annual charge assessed in policy years two through twenty. Practically, this means that these charges will be allowed without limit if they are essentially level for each policy year. If, however, the charge is greater in the first year than the average renewal charge, the excess of the first year charge over the renewal charge is subject to limitation. This limitation is equal to the amount of the initial expense allowance applicable to a traditional fixed premium endowment policy, see Minnesota Statutes § 61A.25.

The limit of the surrender charge is referred to in the rules as the "unamortized unused initial expense allowance". Breaking this into its components, "initial expense allowance" is the same initial expense allowance mentioned previously. The "unused" portion is the difference between the initial expense allowance and the excess of first year expense charges over the average renewal charges. The unused initial expense allowance is reduced each policy year by actuarial factors. What remains is called the "unamortized" amount and is available to be used as a surrender charge.

Increases in face amount are treated similarly to new issues, with an additional expense allowance (based on the amount of the increase and the insured's attained age) available for expenses.

Subpart 2. Minimum Cash Surrender Values For Fixed Premium Universal Life Policies. This subpart states that the minimum cash surrender values for fixed premium universal life insurance policies will be determined separately for the basic policy and for any benefits and riders for which

premiums are paid separately. The minimum cash values for fixed premium universal life insurance policies are calculated in a more traditional manner than cash values for flexible premium universal life insurance policies. For fixed premium policies, the present value of future adjusted premiums (as described in Minnesota Statutes § 61A.25) are subtracted from the present value of future guaranteed benefits.

Future guaranteed benefits are determined by projecting the policy value using all guarantees in the policy. Projected policy values are then used to determine future death benefits and/or endowment benefits, if applicable.

Present values are calculated according to actuarial formulas, using interest and mortality rates established by law.

In addition to the present value of future adjusted premiums, the present value of premiums pertaining to guarantees or policy changes made after issue may also be deducted from the present value of future benefits.

Subpart 3. Minimum Paid-up Nonforfeiture Benefits. This subpart states that if the universal life insurance policy offers paid-up nonforfeiture benefits (known as reduced paid-up insurance), the present value of such benefits must be greater or equal to the current cash surrender value.

For flexible premium universal life insurance policies, present values are determined using the interest and mortality rates guaranteed in the policy. For fixed premium universal life insurance policies, present values are determined according to interest and mortality rates established by law.

The insurer may offer other nonforfeiture benefits, such as extended term insurance, upon request. The alternative benefit must be actuarially equivalent to the paid-up benefit.

Part 2747.0025 Mandatory Policy Provisions.

Subpart 1. Periodic Disclosure to Policyowner. This subpart requires that the policy contain a provision stating that the policyowner be sent, at least annually, a report of the current status of the policy, at no cost to the policyowner. This report must be current to within three months of the date of mailing. Specific requirements for the annual report are discussed in part 2747.0035.

Subpart 2. Illustrative Reports. This subpart requires that the policy contain a provision stating that upon a policyowners' request, an illustrative report will be provided. Minimum requirements for the report are contained in part 2747.0030. The insurer may charge the policyowner a reasonable fee for the report.

Subpart 3. Policy Guarantees. This subpart states that the policy must reflect minimum interest credits and maximum mortality and expense charges. Nonguaranteed credits and charges may not be included in the policy.

Subpart 4. Calculation of Cash Surrender Values. This subpart explains what is included in the calculation of cash surrender values.

Subpart 5. Changes in Basic Coverage. If the policy allows the policyowner to change the basic coverage, any limitation on the amount or timing of the change must be stated in the policy. Also, if the policyowner has the right to increase coverage, the policy must state whether or not a new period of contestability or suicide is applicable for the additional amount of coverage.

Subpart 6. Grace Period and Lapse. This subpart states that the policy must provide for written notice to be sent to the policyowners' last known address at least 30 days prior to termination of coverage. The policy must contain a grace period of at least 30 days after the policy lapses. Unless the policy states otherwise, the policy will lapse on the day on which the net cash surrender value first equals zero.

Subpart 7. Misstatement of Age or Sex. This subpart states the procedure to use if a question arises over the amount of death benefit which should be paid if the insured misstates his or her age or sex. The death benefit will be the amount that would be purchased by the most recent mortality charge at the correct age or sex. The Commissioner may approve other methods.

Subpart 8. Maturity Date. This subpart states that if a policy provides for a maturity date, end date, or similar date, then the policy must also contain a statement in close proximity to that date which states that it is possible that coverage may not continue to the maturity date even if scheduled premiums are paid in a timely manner, if this is the case.

Part 2747.0030 Disclosure Requirements.

Subpart 1. Disclosure Requirements. This subpart states the disclosure requirements in connection with any advertising, solicitation, negotiation, or procurement of a universal life insurance policy.

Part 2747.0035 Periodic Disclosure to Policyowner.

Subpart 1. Requirements. The subpart sets forth the minimum requirements for periodic reports to owners of universal life insurance policies.

Part 2747.0040 Interest-Indexed Universal Life Insurance Policies.

Subpart 1. Initial Filing Requirements. This subpart sets forth the filing requirements for interest-indexed universal life insurance policies.

Subpart 2. Additional Filing Requirements. This subpart sets forth additional reporting requirements for insurers issuing interest-indexed universal life insurance policies.

Subpart 3. Statement of Actuarial Opinion for Interest-Indexed Universal Life Insurance Policies. This subpart requires companies issuing interest-indexed universal life insurance policies to provide the Commerce Commissioner with an annual actuarial opinion relating to insurance and investment cash flows.

SMALL BUSINESS CONSIDERATIONS

Minnesota Statutes § 14.115 requires that the impact of proposed rules on small businesses be considered in the development of those rules. Specifically, the statute, at subdivision 2, requires that less stringent compliance standards and reporting requirements for small businesses be considered. The statute also requires that methods designed to reduce the impact of the rules on small businesses be incorporated into the rules if they are feasible and consistent with the statutory objectives associated with the rules.

Despite the lack of comments, the Department considered whether the provisions of the rules might be modified to accommodate the interests of small businesses.

Each of the methods described at Minnesota Statutes § 14.115, subdivision 2 (a) - (e) was considered in proposing the rules. The provisions contained in the proposed rules are thought to have no effect on small businesses.

Cal File No. ~~1273~~ 05.0004, 0110

RULE REVIEW CHECKLIST

DATE RULE RECEIVED 8-5-86
DATE FOR REVIEW 8-14
DATE DUE 8-19

Adopted w/a hearing _____
Adopted w/o hearing ✓
Temporary rule _____

Approved _____ Disapproved 8-19-86 mjC Returned to Agency _____

Resubmitted _____ Due _____
Approved _____ Disapproved _____ Returned to Agency _____

Date filed w/Secretary of State _____ Revisor approved 8-7-86
disapproved _____

✓ Rule as Adopted

___ Rule as Proposed See S. R. 5-19-86

✓ Order Adopting 7-28-86 Date combined w/FF

✓ Notice of Intent to Solicit Outside Opinion comments

✓ Order for rulemaking
_____ date of Hearing

NA Certificate of Board's Authorizing Resolution

✓ Notice of rulemaking small biz stmt.
7 Sufficiency

✓ Affidavit of Mailing Notice or rulemaking
5-2-86 At least 30 days prior to hearing/adoption

✓ Mailing list Certificate

✓ Publication in State Register
5-19-86 At least 30/20 days prior to hearing/adoption

NA Hearing Examiner's Report

✓ Chief Hearing Examiner's Report(s)
_____ Approving H.E.'s Report
_____ Approving agency action

✓ Agency's Findings of Fact combined w/order adopt

NA LCRAR Report or agency Affidavit

___ Certificate of Board's Resolution Adopting Rules

✓ Order Approving Incorporation by Reference

✓ Statement of Need and Reasonableness

NA Petition for Adoption of a Rule

✓ Record (includes transcript or tape, exhibits, comments received by agency, requests for a hearing, and other relevant materials)

✓ Certificate of Compliance w/Rulemaking Procedures

✓ Affidavit of Mailing Notice of Submission to Attorney General

NA Notice of Submission to the Attorney General

STATE OF MINNESOTA
DEPARTMENT OF COMMERCE

In the Matter of the Proposed
Rules Governing
Universal Life Insurance

STATEMENT OF NEED
AND REASONABLENESS
OF PROPOSED RULES

STATEMENT OF NEED AND AUTHORITY

The proposed rules set forth the requirements and conditions under which insurers may issue universal life insurance policies in the State of Minnesota. The proposed rules follow a model rule for regulation of universal life insurance policies adopted by the National Association of Insurance Commissioners (NAIC) in December, 1983. The rules are proposed by the Commerce Commissioner of Minnesota to implement the provisions of Minnesota Statutes § 61A.03.

The proposed rules establish guidelines for the review and approval of universal life insurance policy forms by the Commerce Commissioner. These guidelines include mandatory policy provisions and disclosure requirements protective of the purchasers of universal life insurance policies.

The proposed rules are also necessary to permit meaningful application of the standard valuation law, Minnesota Statutes § 61A.25, to universal life insurance policies. Under the standard valuation law, modified valuation net premiums are defined as uniform percentages of policy premiums. In universal life insurance policies, although the policyholder may pay premiums in a fixed amount and on a regular basis, the policyholder is not required to do so. Also, the standard valuation law, in specifying the expense allowance to be used in the computation of the policy reserves ("Commissioners Reserve Valuation Method" or "CRVM Reserves"), requires a divisor which is defined as "an annuity of one per annum payable on the first and each subsequent anniversary on which a premium falls due". Since no premiums ever fall due under the terms of universal life insurance policies, the annuity factor is always zero. The proposed rules resolve these problems

in applying the standard valuation law to the computation of policy reserves for the universal life insurance policies.

Finally, the proposed rules are necessary to permit Minnesota domiciled insurers to properly compute their universal life insurance policy reserve deductions for Federal Income Tax purposes.

The Commerce Department considers the proposed rules necessary and reasonable in order to establish standards concerning:

(a.) the establishment and maintenance of reserve liabilities,
(b.) minimum cash surrender values and minimum paid-up nonforfeiture values,
(c.) mandatory policy provisions,
(d.) reports to be used in connection with any advertising, solicitation, negotiation, or procurement of the product,
(e.) annual reports which keep the policyowner advised of the status of the policy, and
(f.) specifications for required filings with, and reports for the Commissioner regarding sales, issuance, and administration of these policies.

FACTS ESTABLISHING REASONABLENESS

The purpose of these rules is to supplement existing regulation of traditional life insurance policies to regulate the development and issuance of universal life insurance policies. The proposed rules reasonably comply with the specifications and requirements of Minnesota Statutes § 45.023.

Part 2747.0005 Definitions.

Subpart 1. Definitions. This subpart defines terms applicable to universal life insurance policies, and clarifies their usage in the rules.

Subpart 2. Case Surrender Value. This subpart indicates that cash surrender value means the net cash surrender value of the policy plus any amounts outstanding as policy loans.

Subpart 3. Commissioner. This subpart defines "Commissioner" to mean the Commissioner of the Department of Commerce of Minnesota.

Subpart 4. Fixed Premium Universal Life Insurance Policy. This subpart defines a fixed premium universal life insurance policy as a policy that is not a flexible premium universal life insurance policy.

Subpart 5. Flexible Premium Universal Life Insurance Policy. This subpart defines a flexible premium universal life insurance policy as a policy where the owner may vary either the timing of one or more premium payments or the amount of insurance or both.

Subpart 6. Interest-Indexed Universal Life Insurance Policy. This subpart defines an interest-indexed universal life insurance policy as any universal life insurance policy where interest credits are linked to an external referent (index).

Subpart 7. Net Cash Surrender Value. This subpart defines net cash surrender value as the maximum amount payable to the policyowner if he/she were to surrender his/her policy.

Subpart 8. Policy Value. This subpart defines the policy value as the amount to which separately identified interest credits, mortality charges, expenses, or other charges are made under the universal life insurance policy.

Subpart 9. Universal Life Insurance Policy. This subpart defines a universal life insurance policy as any individual life insurance policy which has separately identified interest credits (other than dividend accumulations, premium deposit funds, or other supplementary accounts), mortality charges, and expense charges, as a part of the policy. A universal life insurance policy may also contain other credits or charges such as cost of benefits provided by rider.

Part 2747.0010 Scope.

The scope of the proposed rules encompasses the requirements for all individual universal life insurance policies except those policies defined under 4 MCAR S 1.9402(0). The proposed rules establish standards for issuance and sale of individual universal life insurance policies.

Part 2747.0015 Valuation.

Subpart 1. Requirements. This subpart contains definitions for the CRVM Reserves for both fixed and flexible premium universal life insurance policies. These definitions are necessary to limit the application of the proposed rules to appropriate policies.

Under the current standard valuation law and without the proposed rules, there might be an interpretation that the universal life insurance policies have no "right" to an expense allowance in the determination of the CRVM Reserves.

The proposed rules provide for a reasonable expense allowance in the computation of CRVM Reserves. This expense allowance will vary in proportion to the ratio of the policy value to the guaranteed maturity fund. In effect, the higher the level of premium payments on the policy, the larger the expense allowance. This is consis-

tent with the standard valuation law, Minnesota Statutes § 61A.25, as it relates to fixed premium traditional policies.

Subpart 2. Alternative Minimum Reserves. This subpart provides for an alternative minimum reserve calculated by a method consistent with the current standard valuation law for traditional policies. The subpart recognizes the flexibility of the universal life insurance policy by using the guaranteed maturity premium in the calculation of the reserves.

Part 2747.0020 Nonforfeiture.

Subpart 1. Minimum Cash Surrender Values For Flexible Premium Universal Life Insurance Policies. This subpart states that the minimum cash surrender values for flexible premium universal life insurance policies will be determined separately for the basic policy and for any benefits and riders for which premiums are paid separately.

The minimum cash values for flexible premium universal life insurance policies are premiums paid, minus allowable expense charges, accumulated at interest. An additional expense charge, often referred to as a surrender charge, may be deducted from the accumulated premiums.

Allowable expense charges include charges for mortality, charges against the premiums, when paid, and charges against the accumulated premiums. Charges against the paid premiums include a percentage of each premium, while charges against the accumulated premiums include a monthly flat amount per policy or a monthly amount per thousand of insurance. Other allowable expense charges include service charges originating from a policyholders' request for special services, such as furnishing an illustration of future benefits or processing a partial withdrawal.

Expense charges against the paid or accumulated premiums will not be limited if the charge in the first year is not larger than the average annual charge assessed in policy years two through twenty. Practically, this means that these charges will be allowed without limit if they are essentially level for each policy year. If, however, the charge is greater in the first year than the average renewal charge, the excess of the first year charge over the renewal charge is subject to limitation. This limitation is equal to the amount of the initial expense allowance applicable to a traditional fixed premium endowment policy, see Minnesota Statutes § 61A.25.

The limit of the surrender charge is referred to in the rules as the "unamortized unused initial expense allowance". Breaking this into its components, "initial expense allowance" is the same initial expense allowance mentioned previously. The "unused" portion is the difference between the initial expense allowance and the excess of first year expense charges over the average renewal charges. The unused initial expense allowance is reduced each policy year by actuarial factors. What remains is called the "unamortized" amount and is available to be used as a surrender charge.

Increases in face amount are treated similarly to new issues, with an additional expense allowance (based on the amount of the increase and the insured's attained age) available for expenses.

Subpart 2. Minimum Cash Surrender Values For Fixed Premium Universal Life Policies. This subpart states that the minimum cash surrender values for fixed premium universal life insurance policies will be determined separately for the basic policy and for any benefits and riders for which premiums are paid separately. The minimum cash values for fixed premium universal life insurance policies are calculated in a more traditional manner than cash values for flexible premium universal life insurance policies. For

fixed premium policies, the present value of future adjusted premiums (as described in Minnesota Statutes § 61A.25) are subtracted from the present value of future guaranteed benefits.

Future guaranteed benefits are determined by projecting the policy value using all guarantees in the policy. Projected policy values are then used to determine future death benefits and/or endowment benefits, if applicable.

Present values are calculated according to actuarial formulas, using interest and mortality rates established by law.

In addition to the present value of future adjusted premiums, the present value of premiums pertaining to guarantees or policy changes made after issue may also be deducted from the present value of future benefits.

Subpart 3. Minimum Paid-up Nonforfeiture Benefits. This subpart states that if the universal life insurance policy offers paid-up nonforfeiture benefits (known as reduced paid-up insurance), the present value of such benefits must be greater or equal to the current cash surrender value.

For flexible premium universal life insurance policies, present values are determined using the interest and mortality rates guaranteed in the policy. For fixed premium universal life insurance policies, present values are determined according to interest and mortality rates established by law. The insurer may offer other nonforfeiture benefits, such as extended term insurance, upon request. The alternative benefit must be actuarially equivalent to the paid-up benefit.

Part 2747.0025 Mandatory Policy Provisions.

Subpart 1. Periodic Disclosure to Policyowner. This subpart requires that the policy contain a provision stating that the

policyowner be sent, at least annually, a report of the current status of the policy, at no cost to the policyowner. This report must be current to within three months of the date of mailing. Specific requirements for the annual report are discussed in Part 2747.0035.

Subpart 2. Illustrative Reports. This subpart requires that the policy contain a provision stating that upon a policyowners' request, an illustrative report will be provided. Minimum requirements for the report are contained in Part 2747.0030. The insurer may charge the policyowner a reasonable fee for the report.

Subpart 3. Policy Guarantees. This subpart states that the policy must reflect minimum interest credits and maximum mortality and expense charges. Nonguaranteed credits and charges may not be included in the policy.

Subpart 4. Calculation of Cash Surrender Values. This subpart explains what is included in the calculation of cash surrender values.

Subpart 5. Changes in Basic Coverage. If the policy allows the policyowner to change the basic coverage, any limitation on the amount or timing of the change must be stated in the policy. Also, if the policyowner has the right to increase coverage, the policy must state whether or not a new period of contestability or suicide is applicable for the additional amount of coverage.

Subpart 6. Grace Period and Lapse. This subpart states that the policy must provide for written notice to be sent to the policyowners' last known address at least 30 days prior to termination of coverage. The policy must contain a grace period of at least 30 days after the policy lapses. Unless the policy states otherwise, the policy will lapse on the day on which the net cash surrender value first equals zero.

Subpart 7. Misstatement of Age or Sex. This subpart states the procedure to use if a question arises over the amount of death benefit which should be paid if the insured misstates his or her age or sex. The death benefit will be the amount that would be purchased by the most recent mortality charge at the correct age or sex. The Commissioner may approve other methods.

Subpart 8. Maturity Date. This subpart states that if a policy provides for a maturity date, end date, or similar date, then the policy must also contain a statement in close proximity to that date which states that it is possible that coverage may not continue to the maturity date even if scheduled premiums are paid in a timely manner, if this is the case.

Part 2747.0030 Disclosure Requirements.

Subpart 1. Disclosure Requirements. This subpart states the disclosure requirements in connection with any advertising, solicitation, negotiation, or procurement of a universal life insurance policy. The purpose of this subpart is to protect the policyholder by requiring adequate disclosure of required information during all phases of the solicitation process. Thus, the rule requires disclosure in all advertising, solicitation, negotiation and procurement of universal life policies.

Part 2747.0035 Periodic Disclosure to Policyowner.

Subpart 1. Requirements. The purpose of this subpart is to make certain the policyholder is kept informed of his or her policies values on a regular basis. This information will permit the policyowner to measure the performance of their policies and may serve as a reminder to review their insurance plan and make any desired changes. The subpart sets forth the minimum requirements for periodic reports to owners of universal life insurance poli-

cies. Reports must be furnished at least annually and must be mailed within three months following the close of the reporting period.

Part 2747.0040 Interest-Indexed Universal Life Insurance Policies.

Subpart 1. Initial Filing Requirements. This subpart sets the filing requirements for the filing of interest-indexed universal life insurance policies. These additional filing standards pertain to the interest-index feature and provide the information necessary to permit the Commerce Commissioner to review and approve or disapprove these policy forms.

Subpart 2. Additional Filing Requirements. This subpart requires insurers whose interest-indexed universal life insurance policies have been approved for sale by the Commissioner under Subpart 1 to keep the Commissioner informed of any proposed material changes in the insurers investment strategy or method of determining interest credits. This will permit the Commissioner the opportunity to review these proposed material changes prior to implementation. This will protect the purchaser of these policies by preventing insurers from unilaterally making changes which the Commissioner would not approve if considering the proposed changes as an initial filing under Subpart 1. In addition, whether or not material changes are made, all insurers must annually advise the Commissioner of the amount and type of assets backing these policies.

Subpart 3. Statement of Actuarial Opinion for Interest-Indexed Universal Life Insurance Policies. This subpart sets forth the minimum specifications for the actuarial opinion which must be furnished annually to the Commerce Commissioner by insurers whose interest-indexed universal life insurance policies have been approved under Subpart 1.

SMALL BUSINESS CONSIDERATIONS

Minnesota Statutes § 14.115 requires that the impact of proposed rules on small businesses be considered in the development of those rules. Specifically, the statute, at subdivision 2, requires that less stringent compliance standards and reporting requirements for small businesses be considered. The statute also requires that methods designed to reduce the impact of the rules on small businesses be incorporated into the rules if they are feasible and consistent with the statutory objectives associated with the rules.

Despite the lack of comments, the Department considered whether the provisions of the rules might be modified to accommodate the interests of small businesses.

Each of the methods described at Minnesota Statutes § 14.115, subdivision 2 (a) - (e) was considered in proposing the rules. The provisions contained in the proposed rules are thought to have no effect on small businesses.

PROPOSED LANGUAGE

Minn. Rule pt. 2747.0025, subp. 7

If there is a misstatement of age or sex in the policy, the proceeds payable shall be adjusted by the difference between the monthly deductions deducted, and the monthly deductions which should have been deducted, accumulated at the interest rates that were credited to the cash value from the date of issue of the policy; or the amount of the death benefit which would be purchased by the most recent mortality charge at the correct age or sex.

A9

Department of Commerce

Adopted Rules Relating to Universal Life Insurance

Rules as Adopted

2747.0005 DEFINITIONS.

Subpart 1. **Definitions.** As used in this chapter, the following terms have the meanings given them.

Subp. 2. **Cash surrender value.** "Cash surrender value" means the net cash surrender value plus any amounts outstanding as policy loans.

Subp. 3. **Commissioner.** "Commissioner" means the commissioner of the Department of Commerce of Minnesota.

Subp. 4. **Fixed premium universal life insurance policy.** "Fixed premium universal life insurance policy" means a universal life insurance policy other than a flexible premium universal life insurance policy.

Subp. 5. **Flexible premium universal life insurance policy.** "Flexible premium universal life insurance policy" means a universal life insurance policy that permits the policyowner to vary, independently of each other, the amount or timing of one or more premium payments or the amount of insurance.

Subp. 6. **Interest-indexed universal life insurance policy.** "Interest-indexed universal life insurance policy" means any universal life insurance policy where the interest credits are linked to an external referent.

Subp. 7. **Net cash surrender value.** "Net cash surrender value" means the maximum amount payable to the policyowner upon surrender.

Subp. 8. **Policy value.** "Policy value" means the amount to which separately identified interest credits and mortality, expense, or other charges are made under the universal life insurance policy.

Subp. 9. **Universal life insurance policy.** "Universal life

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insurance policy" means any individual life insurance policy under the provisions of which separately identified interest credits (other than in connection with dividend accumulations, premium deposit funds, or other supplementary accounts) and mortality and expense charges are made to the policy. A universal life insurance policy may provide for other credits and charges, such as charges for the cost of benefits provided by rider.

2747.0010 SCOPE.

This chapter encompasses individual universal life insurance policies except variable life insurance policies defined under part 2750.0100, subpart 14.

2747.0015 VALUATION.

Subpart 1. **Requirements.** The minimum valuation standard for universal life insurance policies shall be the commissioner's reserve valuation method, as described in this part for these policies, and the tables and interest rates specified in this part. The terminal reserve for the basic policy and any benefits or riders for which premiums are not paid separately as of any policy anniversary shall be equal to the net level premium reserves less (C) and less (D), where:

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

$$\frac{\text{PVFB}}{\ddot{a}_x}\,\ddot{a}_x + t,$$

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.

$\ddot{a}_x$ and $\ddot{a}_{x+t}$ are present values of an annuity of one per

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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. (x) is defined as the issue age and (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 that 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]

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

$$((a) - (b)) \frac{\ddot{a}_{x+t}}{\ddot{a}_x} r,$$

where (a) - (b) is as described in Minnesota Statutes, section 61A.25, 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.

$\ddot{a}_{x+t}$ and $\ddot{a}_x$ are defined in (B) above.

(D) is the sum of any additional quantities analogous

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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.

The guaranteed maturity premium, the guaranteed maturity fund, and (B) above shall be recalculated to reflect any structural changes in the policy. This recalculation shall be done in a manner consistent with the descriptions above.

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, and so forth, contained in the policy or declared by the insurer; and (2) taking into account any benefits guaranteed in the policy or by declaration that do not depend on the policy value.

Present values shall be determined using (i) an interest rate (or rates) specified by Minnesota Statutes, section 61A.25, for policies issued in the same year; (ii) the mortality rates specified by Minnesota Statutes, section 61A.25, 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 that is being valued together with the policy.

[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

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policies with large first year expense charges.

[3]Structural changes are those changes that are separate from the automatic workings of the policy. The changes usually would be initiated by the policyowner and include changes in the guaranteed benefits, changes in the latest maturity date, or changes in allowable premium payment period.

Subp. 2. **Alternative minimum reserves.** If, in any policy year, the guaranteed maturity premium on any universal life insurance policy is less than the valuation net premium for the policy, calculated by the valuation method actually used in calculating the reserve thereon but using the minimum valuation standards of mortality and rate of interest, the minimum reserve required for the contract shall be the greater of item A or B.

A. The reserve calculated according to the method, the mortality table, and the rate of interest actually used.

B. The reserve calculated according to the method actually used but using the minimum valuation standards of mortality and rate of interest and replacing the valuation net premium by the guaranteed maturity premium in each policy year for which the valuation net premium exceeds the guaranteed maturity premium.

For universal life insurance reserves on a net level premium basis, the valuation net premium is

$$\frac{\text{PVFB}}{\ddot{a}_x}$$

and for reserves on a commissioner's reserve valuation method, the valuation net premium is

$$\frac{\text{PVFB}}{\ddot{a}_x} + \frac{(a) - (b)}{\ddot{a}_x} .$$

2747.0020 NONFORFEITURE.

Subpart 1. **Minimum cash surrender values for flexible premium universal life insurance policies.** Minimum cash surrender values for flexible premium universal life insurance policies shall be determined separately for the basic policy and

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any benefits and riders for which premiums are paid separately. The following requirements pertain to a basic policy and any benefits and riders for which premiums are not paid separately.

The minimum cash surrender value (before adjustment for indebtedness and dividend credits) available on a date as of which interest is credited to the policy shall be equal to the accumulation to that date of the premiums paid minus the accumulations to that date of: (i) the benefit charges, (ii) the averaged administrative expense charges for the first policy year and any insurance-increase years, (iii) actual administrative expense charges for other years, (iv) initial and additional acquisition expense charges not exceeding the initial or additional expense allowances, respectively, (v) any service charges actually made (excluding charges for cash surrender or election of a paid-up nonforfeiture benefit) and (vi) any deductions made for partial withdrawals; all accumulations being at the actual rate or rates of interest at which interest credits have been made unconditionally to the policy (or have been made conditionally, but for which the conditions have since been met), and minus any unamortized unused initial and additional expense allowances.

Interest on the premiums and on charges referred to in items (i) to ~~(iv)~~ (vi) above shall be accumulated from and to these dates as are consistent with how interest is credited in determining the policy value.

The benefit charges shall include the charges made for mortality and any charges made for riders or supplementary benefits for which premiums are not paid separately. If benefit charges are substantially level by duration and develop low or no cash values, then the commissioner may require higher cash values unless the insurer provides adequate justification that the cash values are appropriate in relation to the policy's other characteristics.[4]

The administrative expense charges shall include charges per premium payment, charges per dollar of premium paid, periodic charges per thousand dollars of insurance, periodic per

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policy charges, and any other charges permitted by the policy to be imposed without regard to the policyowner's request for services.

The averaged administrative expense charges for any year shall be those that would have been imposed in that year if the charge rate or rates for each transaction or period within the year had been equal to the arithmetic average of the corresponding charge rates that the policy states will be imposed in policy years two through 20 in determining the policy value.

The initial acquisition expense charges shall be the excess of the expense charges, other than service charges, actually made in the first policy year over the averaged administrative expense charges for that year. Additional acquisition expense charges shall be the excess of the expense charges, other than service charges, actually made in an insurance-increase year over the averaged administrative expense charges for that year. An insurance-increase year shall be the year beginning on the date of increase in the amount of insurance by policyowner request (or by the terms of the policy).

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 Minnesota Statutes, section 61A.25, 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.

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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 Minnesota Statutes, section 61A.25, 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 issue age) shall be the unused initial expense allowance multiplied by:

$$\frac{\ddot{a}_{x+t}}{\ddot{a}_{x}}$$

where $\ddot{a}_{x+t}$ and $\ddot{a}_{x}$ are present values of an annuity of one per year payable on policy anniversaries beginning at ages x + t and x, respectively, and continuing until the highest attained age at which a premium may be paid under the policy, both on the mortality and interest bases guaranteed in the policy. An unamortized unused additional expense allowance shall be the unused additional expense allowance multiplied by a similar ratio of annuities, with $\ddot{a}_{x}$ replaced by an annuity beginning on the date as of which the additional expense allowance was determined.

[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 nonguaranteed current benefit charges because the 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.

Subp. 2. **Minimum cash surrender values for fixed premium universal life insurance policies.** For fixed premium universal

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life insurance policies, the minimum cash surrender values shall be determined separately for the basic policy and any benefits and riders for which premiums are paid separately. The following requirements pertain to a basic policy and any benefits and riders for which premiums are not paid separately.

The minimum cash surrender value (before adjustment for indebtedness and dividend credits) available on a date as of which interest is credited to the policy shall be equal to ((A) - (B) - (C) - (D)), where:

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

(B) is the present value of future adjusted premiums. The adjusted premiums are calculated as described in Minnesota Statutes, section 61A.25. If Minnesota Statutes, section 61A.25, is applicable, the nonforfeiture net level premium is equal to the quantity

$$\frac{\text{PVFB}}{\ddot{a}_x},$$

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

$\ddot{a}_x$ is the present value of an annuity of one per year payable on policy anniversaries beginning at age x and continuing until the highest attained age at which a premium may be paid under the policy.

(C) is the present value of any quantities analogous to the nonforfeiture net level premium which arise because of guarantees declared by the insurer after the issue date of the policy. $\ddot{a}_x$ shall be replaced by an annuity beginning on the date as of which the declaration became effective and payable until the end of the period covered by the declaration.

(D) is the sum of any quantities analogous to (B)

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which arise because of structural changes[3] in the policy.

Future guaranteed benefits are determined by (1) projecting the policy value, taking into account future 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 that do not depend on the policy value.

Present values shall be determined using: (i) an interest rate (or rates) specified by Minnesota Statutes, section 61A.25, for policies issued in the same year and (ii) the mortality rates specified by Minnesota Statutes, section 61A.25, for policies issued in the same year or contained in such other table as may be approved by the commissioner for this purpose.

[3]Structural changes are those changes that are separate from the automatic workings of the policy. The changes usually would be initiated by the policyowner and include changes in the guaranteed benefits, changes in the latest maturity date, or changes in allowable premium payment period.

Subp. 3. **Minimum paid-up nonforfeiture benefits.** If a universal life insurance policy provides for the optional election of a paid-up nonforfeiture benefit, it shall be such that its present value shall be at least equal to the cash surrender value provided for by the policy on the effective date of the election. The present value shall be based on mortality and interest standards at least as favorable to the policyowner as: (1) in the case of a flexible premium universal life insurance policy, the mortality and interest basis guaranteed in 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 Minnesota Statutes, section 61A.25. In lieu of the paid-up nonforfeiture benefit, the insurer may substitute, upon proper request not later than 60 days after the due date of the premium in default, an actuarially equivalent alternative paid-up nonforfeiture

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benefit that provides a greater amount or longer period of death benefits, or, if applicable, a greater amount or earlier payment of endowment benefits.

2747.0025 MANDATORY POLICY PROVISIONS.

Subpart 1. **Periodic disclosure to policyowner.** The policy shall provide that the policyowner will be sent, without charge, at least annually, a report that will serve to keep the policyowner advised as to the status of the policy. The end of the current report period must be not more than three months previous to the date of the mailing of the report. Specific requirements of this report are detailed in part 2747.0035.

Subp. 2. **Illustrative reports.** The policy shall provide for an illustrative report that will be sent to the policyowner upon request. Minimum requirements of the report are the same as those in part 2747.0030. The insurer may charge the policyowner a reasonable fee for providing the report.

Subp. 3. **Policy guarantees.** The policy shall provide guarantees of minimum interest credits and maximum mortality and expense charges. Values and data shown in the policy shall be based on guarantees. No figures based on nonguarantees shall be included in the policy.

Subp. 4. **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:

A. The guaranteed maximum expense charges and loads.

B. Any limitation on the crediting of additional interest. Interest credits shall not remain conditional for a period longer than 12 months.

C. The guaranteed minimum rate or rates of interest.

D. The guaranteed maximum mortality charges.

E. Any other guaranteed charges.

F. Any surrender or partial withdrawal charges.

The following information must be summarized on the policy data page: the guaranteed maximum expense charges and loads; any limitations on the crediting of additional interest; any

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other guaranteed charges; and any surrender or partial surrender charges.

Subp. 5. **Changes in basic coverage.** If the policyowner has the right to change the basic coverage, any limitation on the amount or timing of the 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 or suicide applies to the additional coverage.

Subp. 6. **Grace period and lapse.** The policy shall provide for written notice to be sent to the policyowner's last known address at least 30 days before termination of coverage.

A flexible premium policy shall provide for a grace period of at least 30 days (or as required by state statute) after lapse. Unless otherwise defined in the policy, lapse shall occur on that date on which the net cash surrender value first equals zero.

Subp. 7. **Misstatement of age or sex.** If there is a misstatement of age or sex in the policy, the amount of the death benefit shall be that which would be purchased by the most recent mortality charge at the correct age or sex. The commissioner may approve other methods that are deemed satisfactory.

Subp. 8. **Maturity date.** If a policy provides for a maturity date, end date, or similar date, then the policy shall also contain a statement, in close proximity to that date, that it is possible that coverage may not continue to the maturity date even if scheduled premiums are paid in a timely manner, if such is the case.

2747.0030 DISCLOSURE REQUIREMENTS.

In connection with any advertising, solicitation, negotiation, or procurement of a universal life insurance policy:

A. Any statement of policy cost factors or benefits shall contain:

(1) the corresponding guaranteed policy cost factors or benefits, clearly identified;

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(2) a statement explaining the nonguaranteed nature of any current interest rates, charges, or other fees applied to the policy, including the insurer's rights to alter any of these factors; and

(3) any limitations on the crediting of interest, including identification of those portions of the policy to which a specified interest rate shall be credited.

B. Any illustration of the policy value shall be accompanied by the corresponding net cash surrender value.

C. Any statement regarding the crediting of a specific current interest rate shall also contain the frequency and timing by which the rate is determined.

D. If any statement refers to the policy being interest-indexed, the index shall be described. In addition, a description shall be given of the frequency and timing of determining the interest rate and of any adjustments made to the index in arriving at the interest rate credited under the policy.

E. Any illustrated benefits based upon nonguaranteed interest, mortality, or expense factors shall be accompanied by a statement indicating that these benefits are not guaranteed.

F. If the guaranteed cost factors or initial policy cost factor assumptions would result in policy values becoming exhausted before the policy's maturity date, the fact shall be disclosed, including notice that coverage will terminate under such circumstances.

2747.0035 PERIODIC DISCLOSURE TO POLICYOWNER.

Subpart 1. **Requirements.** The policy shall provide that the policyowner will be sent, without charge, at least annually, a report that will serve to keep the policyowner advised of the status of the policy. The end of the current report period shall be not more than three months previous to the date of the mailing of the report. The report shall include the following:

A. The beginning and end of the current report period.

B. The policy value at the end of the previous report period and at the end of the current report period.

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C. The total amounts credited or debited to the policy value during the current report period, identifying each by type (for example, interest, mortality, expense, and riders).

D. The current death benefit at the end of the current report period on each life covered by the policy.

E. The net cash surrender value of the policy as of the end of the current report period.

F. The amount of outstanding loans, if any, as of the end of the current report period.

G. For fixed premium policies: If, assuming guaranteed interest, mortality, and expense loads and continued scheduled premium payments, the policy's net cash surrender value is such that it would not maintain insurance in force until the end of the next reporting period, a notice to this effect shall be included in the report.

H. For flexible premium policies: If, assuming guaranteed interest, mortality, and expense loads, the policy's net cash surrender value will not maintain insurance in force until the end of the next reporting period unless further premium payments are made, a notice to this effect shall be included in the report.

2747.0040 INTEREST-INDEXED UNIVERSAL LIFE INSURANCE POLICIES.

Subpart 1. **Initial filing requirements.** The following information shall be submitted in connection with any filing of interest-indexed universal life insurance policies (interest-indexed policies). The information received shall be treated confidentially to the extent permitted by law.

A. A description of how the interest credits are determined, including:

(1) a description of the index;

(2) the relationship between the value of the index and the actual interest rate to be credited;

(3) the frequency and timing of determining the interest rate; and

(4) the allocation of interest credits, if more

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than one rate of interest applies to different portions of the policy value.

B. The insurer's investment policy, that includes a description of the following:

(1) how the insurer addressed the reinvestment risks;

(2) how the insurer plans to address the risk of capital loss on cash outflows;

(3) how the insurer plans to address the risk that appropriate investments may not be available or not available in sufficient quantities;

(4) how the insurer plans to address the risk that the indexed interest rate may fall below the minimum contractual interest rate guaranteed in the policy;

(5) the amount and type of assets currently held for interest-indexed policies; and

(6) the amount and type of assets expected to be acquired in the future.

C. If policies are linked to an index for a specified period less than to the maturity date of the policy, a description of the method used (or currently contemplated) to determine interest credits upon the expiration of such period.

D. A description of any interest guarantee in addition to or in lieu of the index.

E. A description of any maximum premium limitations and the conditions under which they apply.

Subp. 2. **Additional filing requirements.** Annually, every insurer shall submit a statement of actuarial opinion by the insurer's actuary similar to the example contained in subpart 3.

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.

Prior to implementation, every domestic insurer shall submit a description of any material change in the insurer's investment strategy or method of determining the interest credits. A change is considered to be material if it would

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affect the form or definition of the index (for example, any change in the information supplied in subpart 1) or if it would significantly change the amount or type of assets held for interest-indexed policies.

Subp. 3. **Statement of actuarial opinion for interest-indexed universal life insurance policies.**

I, ..., am .....
(name) (position or relationship

..... for the XYZ Life Insurance Company (The to Insurer)

Insurer) in the state of .....
(State of Domicile of Insurer)

I am a member of the American Academy of Actuaries (or if not, state other qualifications to sign annual statement actuarial opinions).

I have examined the interest-indexed universal life insurance policies of the Insurer in force as of December 31, 19XX, encompassing ..... number of policies and $..... of insurance in force.

I have considered the provisions of the policies. I have considered any reinsurance agreements pertaining to such policies, the characteristics of the identified assets and the investment policy adopted by the Insurer as they affect future insurance and investment cash flows under such policies and related assets. My examination included such tests and calculations as I considered necessary to form an opinion concerning the insurance and investment cash flows arising from the policies and related assets.

I relied on the investment policy of the Insurer and on projected investment cash flows as provided by ....., Chief Investment Officer of the Insurer.[5]

The tests were conducted under various assumptions as to future interest rates, and particular attention was given to those provisions and characteristics that might cause future insurance and investment cash flows to vary with changes in the level of prevailing interest rates.

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In my opinion, the anticipated insurance and investment cash flows referred to above make good and sufficient provision for the contractual obligations of the Insurer under these insurance policies.

.....
Signature of Actuary

[5]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.

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

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STATE OF MINNESOTA
DEPARTMENT OF COMMERCE
ST. PAUL 55101

OFFICE OF THE COMMISSIONER

500 METRO SQUARE BUILDING
ST. PAUL, MN 55101

August 7, 1986

Martha Casserly
Special Assistant Attorney General
204 Administration Building
50 Sherburne Avenue
St. Paul, MN 55155

Re: Universal Life Insurance Rules

Dear Ms. Casserly:

As per our discussion of August 6, 1986 this is to advise you of a typographical error in the rules submitted to you.

On page 6, line 23 of the copy submitted to you there is a reference to "items (i) to (iv)". That reference should be "items (i) to (iv)". The Universal Life Insurance Rules are the National Association of Insurance Commissioners Model and are so described in the Statement of Need and Reasonableness. The reference in the Model is to six items as this should have been. The transposition of the two letters changing 6 to 4 was unfortunately not caught. There is no prejudice to anyone in correcting this as everyone presumed that the Model was being followed exactly. They'd be more surprised that only four of six items were specified.

The correction of this drafting error will have absolutely no negative effect on anyone.

Very truly yours,

Michael A. Hatch
Commissioner of Commerce

By:

Richard G. Gomsrud
Department Counsel

RGG/jd

RECEIVED
AUG 11 1986
ATTORNEY GENERAL
ADMINISTRATIVE AGENCIES

→ Dick Gumsrud

To: Marty
From: Paula 8-5-86
Re: Commerce Rules

Notice of Intent
- ~~proceed cite for authority to promulgate~~ + proceeding according to 14.22 - 14.28
- citation if hearing is necessary omitted - subcompl

(a) pg 6 - line 29 - unbridled discretion
fn 4 - pg 8 - line 27

(b) pg 12 - line 20

not setting forth NOR

~~(c) pg 14 line 26~~

not

d

(a) pg 12, line 20 - 2747.0025 subp 7 - unbridled discretion

(b) SNR - 0030, 35+40 - pg 11 - insuff

SF-00006-04

STATE OF MINNESOTA

Office Memorandum

DEPARTMENT : of Commerce

PHONE : 296-5689

DATE : August 4, 1986

TO : Judith Wehrwein

FROM : Richard G. Gomsrud RGG (JS)

SUBJECT : Universal Life Rules

RECEIVED
AUG 04 1986
ATTORNEY GENERAL
ADMINISTRATIVE AGENCIES

Enclosed please find the transmittal memo and materials in regard to the Universal Life Rules.

SF-00006-04

STATE OF MINNESOTA

Office Memorandum

DEPARTMENT : of Commerce

PHONE : 296-5689

DATE : August 4, 1986

TO : Judith Wehpweiner

FROM : Richard G. Gomsrud
Department Counsel

SUBJECT : Universal Life Rules

Enclosed are copies of the following materials regarding the above captioned rules (only those items with a circled number are enclosed):

1. Notice of Intent to Solicit Outside Opinion (2000.0400 subpart 1 B)
2. Written material received as a result of Notice to Solicit Outside Opinion (2000.0400 subpart 1 B)
3. Mailing List Certificate (2000.0400 subpart 1 E)
4. Statement of Need & Reasonableness (2000.0400 subpart 1 G)
5. Order for Notice of Intent to Adopt Rule Without Public Hearing (2000.0400 subpart 1 C)
6. Notice of Intent to Adopt Rule Without Public Hearing (2000.0400 subpart 2)
7. Affidavit of Mailing Notice of Intent to Adopt Rule Without Public Hearing (2000.0400 subpart 3)
8. Copy of Notice of Intent to Adopt Rule Without Public Hearing and rules as published in the State Register (2000.0400 subpart 4)
9. Written Comments on Rule (2000.0400 subpart 1 I)
10. Findings of Fact (if applicable) (2000.0400 subpart 1 F)
11. Affidavit of Mailing Notice of Submission to Attorney General (2000.0400 subpart 1 K); or

12. Affidavit that no request for Notice of Submission to Attorney General were received

13. Original and three copies of Rule as adopted (2000.0400 subpart 5)

14. Two copies of the Order Adopting Rule (2000.0400 subpart 6)

15. Certificate of Compliance With Rulemaking Procedure (2000.0400 subpart 1 J).

STATE OF MINNESOTA
DEPARTMENT OF COMMERCE

In the Matter of the Proposed Rules
Relating to Universal Life Insurance

FINDINGS OF FACT
AND CONCLUSIONS
AND ORDER ADOPTING
RULE WITHOUT A
PUBLIC HEARING

Notice of the Commissioner's intent to adopt the above-entitled rules without a public hearing was published in the State Register on December 9, 1985 and was sent by the United States mail to all persons on the list maintained by the Department of Commerce pursuant to Minnesota Statutes Section 14.14, subd. 1 (a), on December 6, 1985.

Subsequent to the publication of the Rules it was determined that there were a number of typographical errors in the Rules as published and certain other matters that required correction. Accordingly, Notice of Withdrawal of the Rules was published in the State Register Monday, May 19, 1986 at 10 S.R. 2311.

A new Notice of the Commissioner's intent to adopt the above entitled rules without a public hearing was published in the State Register on Monday, May 19, 1986 and was sent by the United States mail to all persons on the list maintained by the Department of Commerce pursuant to Minnesota Statutes Section 14.14, subd. 1 (a), on May 2, 1986.

All persons were given the opportunity to submit comments on the Rule for 30 days after notice of proposed rulemaking. Fewer than 25 requests for hearing within the 30 day comment period were received. One comment letter was received asking why the policy statement that was in the original Model Act was deleted by the Department. Because the omitted information was merely a policy statement and not a true rule the Department deemed it appropriate to omit the same from the proposed rule. No other comments were received by the Department. Based upon the comments and the evidence on the record I find that the rules as proposed are reasonable and necessary and that it is appropriate to adopt the rules in the form in which they were published.

NOW, THEREFORE, IT IS ORDERED that these rules identified as Rules Relating to Universal Life Insurance are adopted as published this 28th day of July 1986 pursuant to the authority vested in me by Minnesota Statutes Section 45.023 and 61A.03.

MICHAEL A. HATCH
Commissioner of Commerce

State of Minnesota
Department of Commerce

Notice of Intent to Solicit Outside Opinion Regarding Proposed Rules Relating to Universal Life Insurance, including the Impact of the Rules on Small Businesses

Notice is hereby given that the Department of Commerce is seeking information or opinions from persons outside the agency in preparing to promulgate new rules governing Universal Life Insurance. Promulgation of these rules is authorized by Minnesota Statutes, sections 45.023 and 62A.025.

Outside opinion is also being solicited as to how these rules will affect small businesses as defined by Minnesota Laws 1983, ch. 188, codified as Minnesota Statutes Section 14.115, subd. 1.

The Department of Commerce requests information and comments concerning the subject matter of these rules. Interested or affected persons or groups may submit statements of information or comment orally or in writing to: Robin Hanson, Department of Commerce, 500 Metro Square Building, St. Paul, MN 55101, (612) 296-3528.

All statements of information and comment shall be accepted until August 15, 1984. Any written material received by the Department of Commerce shall become part of the record in the event that the rules are promulgated.

Michael A. Hatch
Commissioner of Commerce

Transamerica Occidental Life Insurance Company
Transamerica Center
1150 South Olive
Los Angeles, California 90015

Law Department

(213) 742-3139



Official Insurer of the 1984 Olympics

August 13, 1984

Robin Hansen
Department of Commerce
500 Metro Square Building
St. Paul, Minnesota 55101

State of Minnesota
AUG 20 1984
Department of Commerce

Re: Universal Life Insurance

Dear Ms. Hansen:

Our Company has received notice that the Department of Commerce is seeking information or opinions regarding universal life insurance.

Transamerica Occidental Life Insurance Company strongly supports the Department's adoption of the NAIC "Model Regulation on Universal Life Insurance" which was adopted officially by the NAIC in December of 1983. The Model Regulation is the product of many months of work by both insurance department and industry personnel. It is also being adopted by many other states at this time, including Arkansas, Nebraska, and New Mexico.

Thank you very much for your consideration of this opinion. If I may be of assistance to you in this matter, please do not hesitate to contact me.

Very truly yours,

Diana M. Marchesi
Assistant Counsel

DMM:fa

STATE OF MINNESOTA
DEPARTMENT OF COMMERCE

In the Matter of the Proposed Rules Relating to Universal Life Insurance	ORDER FOR NOTICE OF INTENT TO ADOPT RULES WITHOUT PUBLIC HEARING

IT IS ORDERED this 25th day of April 1986 that Notice of Intent to Adopt Rules Without Public Hearing in the above-entitled matter be given to all persons who have registered their names with the Department of Commerce for that purpose and be published in the State Register.

Michael A. Hatch
Commissioner of Commerce

State of Minnesota
Department of Commerce

In the Matter of the Proposed Adoption of Rules Relating to Universal Life Insurance

Notice of Intent to Adopt Rules Without a Public Hearing

Notice is hereby given that the Department of Commerce proposes to adopt the above-entitled rules without a public hearing. The Commissioner of Commerce has determined that the proposed adoption of these rules will be noncontroversial in nature and has elected to follow the procedures set forth in Minnesota Statutes, Section 14.21.

Persons interested in these rules shall have 30 days to submit comments in support of or in opposition to the rules. Each comment should identify the portion of the proposed rule addressed, the reason for the comment, and any change proposed. The proposed rules may be modified if the modifications are supported by the data and views submitted to the Department and does not result in a substantial change.

No public hearing will be held unless twenty-five (25) or more persons make a written request for a hearing within the 30 day comment period. In the event a public hearing is required, the agency will proceed according to the provisions of Minnesota Statutes, Section 14.14, subd. 1.

Persons who wish to submit comments or a written request for a public hearing should submit them to Richard G. Gomsrud, Department Counsel, Department of Commerce, 500 Metro Square Building, St. Paul, MN 55101 telephone (612) 296-5689. Any person requesting a public hearing should state her or his name and address and is encouraged to identify the portion of the proposed rule addressed, the reason for the request and any change proposed and send this information to the above address.

Authority for the adoption of these rules is contained in Minnesota Statutes, Sections 45.023 and 61A.03. Additionally a Statement of Need and Reasonableness of each provision and identifying the data and information relied upon to support the proposed rules has been prepared and is available upon request.

Pursuant to Minnesota Laws 1983, chapter 188 codified as Minnesota Statute Section 14.115, subdivision 2, the impact on small business has been considered in the promulgation of the rules. Anyone wishing to present evidence or argument as to the rules' effect on small business may do so. The Department's position regarding the impact of the rules on small business is set forth in the Statement of Need and Reasonableness.

Upon adoption of the final rules without a public hearing, the proposed rules, this Notice, the Statement of Need and Reasonablenss, all written comments received, and the final Rules as Adopted will be delivered to the Attorney General for review as to form and legality, including the issue of substantial change. Persons who wish to be advised of the submission of this material to the Attorney General, or who wish to receive a copy of the final rules as proposed for adoption, should submit a written statement of such request to Richard G. Gomsrud, Department Counsel, Department of Commerce, 500 Metro Square Bldg., St. Paul, MN 55101.

A copy of the proposed rules is attached to this Notice. Copies of this Notice and proposed rules are available and may be obtained by contacting Richard G. Gomsrud at the above address.

Michael A. Hatch
Commissioner of Commerce

In the Matter of the Proposed Rules
Relating to Universal Life Insurance

STATE OF MINNESOTA)
) ss
COUNTY OF RAMSEY)

AFFIDAVIT OF
MAILING

Jane Schaub, being first duly sworn, deposes and says:

That on the 2nd day of May 1986, at the City of St. Paul, County of Ramsey, State of Minnesota, the attached Notice of Withdrawal and Notice of Intent to Adopt Without a Public Hearing was served by depositing in the State of Minnesota Central Mail System for United States mailing at said City of St. Paul, a copy properly prepared with first-class postage prepaid, on all persons and associations who have requested that their names be placed on file with the Minnesota Department of Commerce for the purpose of receiving notice of the proposed adoption of rules by the department.

Jane Schaub

Subscribed and sworn to before me
this 2nd day of May 1986.

Notary Public

RICHARD G. GOMSRUD
NOTARY PUBLIC—MINNESOTA
RAMSEY COUNTY
My Commission Expires Dec. 3, 1986

STATE OF MINNESOTA

DEPARTMENT OF COMMERCE
500 METRO SQUARE BUILDING
ST. PAUL, MN 55101

ATTENTION:
RULE RELATED MATERIAL

FIRST CLASS MAIL

State of Minnesota
Department of Commerce

In the matter of the Proposed Adoption of Rules Relating to Universal Life Insurance

Notice of Withdrawal

Notice is hearby given that the Department of Commerce withdraws the rules pertaining to Universal Life Insurance that were previously published in the State Register on December 9, 1985 at pages 1290 - 1297 (10 S.R. 1290-1297). A new version of the Universal Life Rules and a Notice of Intent to Adopt Rules Without a Public Hearing are being published in the same issue as this notice.

MICHAEL A. HATCH
Commissioner of Commerce

State of Minnesota
Department of Commerce

In the Matter of the Proposed Adoption of Rules Relating to Universal Life Insurance

Notice of Intent to Adopt Rules Without a Public Hearing

Notice is hereby given that the Department of Commerce proposes to adopt the above-entitled rules without a public hearing. The Commissioner of Commerce has determined that the proposed adoption of these rules will be noncontroversial in nature and has elected to follow the procedures set forth in Minnesota Statutes, Section 14.21.

Persons interested in these rules shall have 30 days to submit comments in support of or in opposition to the rules. Each comment should identify the portion of the proposed rule addressed, the reason for the comment, and any change proposed. The proposed rules may be modified if the modifications are supported by the data and views submitted to the Department and does not result in a substantial change.

No public hearing will be held unless twenty-five (25) or more persons make a written request for a hearing within the 30 day comment period. In the event a public hearing is required, the agency will proceed according to the provisions of Minnesota Statutes, Section 14.14, subd. 1.

Persons who wish to submit comments or a written request for a public hearing should submit them to Richard G. Gomsrud, Department Counsel, Department of Commerce, 500 Metro Square Building, St. Paul, MN 55101 telephone (612) 296-5689. Any person requesting a public hearing should state her or his name and address and is encouraged to identify the portion of the proposed rule addressed, the reason for the request and any change proposed and send this information to the above address.

Authority for the adoption of these rules is contained in Minnesota Statutes, Sections 45.023 and 61A.03. Additionally a Statement of Need and Reasonableness of each provision and identifying the data and information relied upon to support the proposed rules has been prepared and is available upon request.

Pursuant to Minnesota Laws 1983, chapter 188 codified as Minnesota Statute Section 14.115, subdivision 2, the impact on small business has been considered in the promulgation of the rules. Anyone wishing to present evidence or argument as to the rules' effect on small business may do so. The Department's position regarding the impact of the rules on small business is set forth in the Statement of Need and Reasonableness.

Upon adoption of the final rules without a public hearing, the proposed rules, this Notice, the Statement of Need and Reasonablenss, all written comments received, and the final Rules as Adopted will be delivered to the Attorney General for review as to form and legality, including the issue of substantial change. Persons who wish to be advised of the submission of this material to the Attorney General, or who wish to receive a copy of the final rules as proposed for adoption, should submit a written statement of such request to Richard G. Gomsrud, Department Counsel, Department of Commerce, 500 Metro Square Bldg., St. Paul, MN 55101.

A copy of the proposed rules is attached to this Notice. Copies of this Notice and proposed rules are available and may be obtained by contacting Richard G. Gomsrud at the above address.

Michael A. Hatch
Commissioner of Commerce

Department of Commerce

Proposed Rules Relating to Universal Life Insurance

Rules as Proposed (all new material)

2747.0005 DEFINITIONS.

Subpart 1. **Definitions.** As used in this chapter, the following terms have the meanings given them.

Subp. 2. **Cash surrender value.** "Cash surrender value" means the net cash surrender value plus any amounts outstanding as policy loans.

Subp. 3. **Commissioner.** "Commissioner" means the commissioner of the Department of Commerce of Minnesota.

Subp. 4. **Fixed premium universal life insurance policy.** "Fixed premium universal life insurance policy" means a universal life insurance policy other than a flexible premium universal life insurance policy.

Subp. 5. **Flexible premium universal life insurance policy.** "Flexible premium universal life insurance policy" means a universal life insurance policy that permits the policyowner to vary, independently of each other, the amount or timing of one or more premium payments or the amount of insurance.

Subp. 6. **Interest-indexed universal life insurance policy.** "Interest-indexed universal life insurance policy" means any universal life insurance policy where the interest credits are linked to an external referent.

Subp. 7. **Net cash surrender value.** "Net cash surrender value" means the maximum amount payable to the policyowner upon surrender.

Subp. 8. **Policy value.** "Policy value" means the amount to which separately identified interest credits and mortality, expense, or other charges are made under the universal life insurance policy.

Subp. 9. **Universal life insurance policy.** "Universal life

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insurance policy" means any individual life insurance policy under the provisions of which separately identified interest credits (other than in connection with dividend accumulations, premium deposit funds, or other supplementary accounts) and mortality and expense charges are made to the policy. A universal life insurance policy may provide for other credits and charges, such as charges for the cost of benefits provided by rider.

2747.0010 SCOPE.

This chapter encompasses individual universal life insurance policies except variable life insurance policies defined under part 2750.0100, subpart 14.

2747.0015 VALUATION.

Subpart 1. **Requirements.** The minimum valuation standard for universal life insurance policies shall be the commissioner's reserve valuation method, as described in this part for these policies, and the tables and interest rates specified in this part. The terminal reserve for the basic policy and any benefits or riders for which premiums are not paid separately as of any policy anniversary shall be equal to the net level premium reserves less (C) and less (D), where:

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

$$\frac{\text{PVFB}}{\ddot{a}_x}\,\ddot{a}_{x+t},$$

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.

$\ddot{a}_x$ and $\ddot{a}_{x+t}$ are present values of an annuity of one per

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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. (x) is defined as the issue age and (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 that 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]

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

$$((a) - (b)) \frac{\ddot{a}_{x+t}}{\ddot{a}_x} r,$$

where (a) - (b) is as described in Minnesota Statutes, section 61A.25, 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.

$\ddot{a}_{x+t}$ and $\ddot{a}_x$ are defined in (B) above.

(D) is the sum of any additional quantities analogous

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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.

The guaranteed maturity premium, the guaranteed maturity fund, and (B) above shall be recalculated to reflect any structural changes in the policy. This recalculation shall be done in a manner consistent with the descriptions above.

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, and so forth, contained in the policy or declared by the insurer; and (2) taking into account any benefits guaranteed in the policy or by declaration that do not depend on the policy value.

Present values shall be determined using (i) an interest rate (or rates) specified by Minnesota Statutes, section 61A.25, for policies issued in the same year; (ii) the mortality rates specified by Minnesota Statutes, section 61A.25, 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 that is being valued together with the policy.

[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

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policies with large first year expense charges.

[3]Structural changes are those changes that are separate from the automatic workings of the policy. The changes usually would be initiated by the policyowner and include changes in the guaranteed benefits, changes in the latest maturity date, or changes in allowable premium payment period.

Subp. 2. **Alternative minimum reserves.** If, in any policy year, the guaranteed maturity premium on any universal life insurance policy is less than the valuation net premium for the policy, calculated by the valuation method actually used in calculating the reserve thereon but using the minimum valuation standards of mortality and rate of interest, the minimum reserve required for the contract shall be the greater of item A or B.

A. The reserve calculated according to the method, the mortality table, and the rate of interest actually used.

B. The reserve calculated according to the method actually used but using the minimum valuation standards of mortality and rate of interest and replacing the valuation net premium by the guaranteed maturity premium in each policy year for which the valuation net premium exceeds the guaranteed maturity premium.

For universal life insurance reserves on a net level premium basis, the valuation net premium is

$$\frac{PVFB}{\ddot{a}_x}$$

and for reserves on a commissioner's reserve valuation method, the valuation net premium is

$$\frac{PVFB}{\ddot{a}_x} + \frac{(a) - (b)}{\ddot{a}_x} .$$

2747.0020 NONFORFEITURE.

Subpart 1. **Minimum cash surrender values for flexible premium universal life insurance policies.** Minimum cash surrender values for flexible premium universal life insurance policies shall be determined separately for the basic policy and

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any benefits and riders for which premiums are paid separately. The following requirements pertain to a basic policy and any benefits and riders for which premiums are not paid separately.

The minimum cash surrender value (before adjustment for indebtedness and dividend credits) available on a date as of which interest is credited to the policy shall be equal to the accumulation to that date of the premiums paid minus the accumulations to that date of: (i) the benefit charges, (ii) the averaged administrative expense charges for the first policy year and any insurance-increase years, (iii) actual administrative expense charges for other years, (iv) initial and additional acquisition expense charges not exceeding the initial or additional expense allowances, respectively, (v) any service charges actually made (excluding charges for cash surrender or election of a paid-up nonforfeiture benefit) and (vi) any deductions made for partial withdrawals; all accumulations being at the actual rate or rates of interest at which interest credits have been made unconditionally to the policy (or have been made conditionally, but for which the conditions have since been met), and minus any unamortized unused initial and additional expense allowances.

Interest on the premiums and on charges referred to in items (i) to (iv) above shall be accumulated from and to these dates as are consistent with how interest is credited in determining the policy value.

The benefit charges shall include the charges made for mortality and any charges made for riders or supplementary benefits for which premiums are not paid separately. If benefit charges are substantially level by duration and develop low or no cash values, then the commissioner may require higher cash values unless the insurer provides adequate justification that the cash values are appropriate in relation to the policy's other characteristics.[4]

The administrative expense charges shall include charges per premium payment, charges per dollar of premium paid, periodic charges per thousand dollars of insurance, periodic per

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policy charges, and any other charges permitted by the policy to be imposed without regard to the policyowner's request for services.

The averaged administrative expense charges for any year shall be those that would have been imposed in that year if the charge rate or rates for each transaction or period within the year had been equal to the arithmetic average of the corresponding charge rates that the policy states will be imposed in policy years two through 20 in determining the policy value.

The initial acquisition expense charges shall be the excess of the expense charges, other than service charges, actually made in the first policy year over the averaged administrative expense charges for that year. Additional acquisition expense charges shall be the excess of the expense charges, other than service charges, actually made in an insurance-increase year over the averaged administrative expense charges for that year. An insurance-increase year shall be the year beginning on the date of increase in the amount of insurance by policyowner request (or by the terms of the policy).

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 Minnesota Statutes, section 61A.25, 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.

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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 Minnesota Statutes, section 61A.25, 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 issue age) shall be the unused initial expense allowance multiplied by:

$$\frac{\ddot{a}_{x+t}}{\ddot{a}_{x}}$$

where a_{x+t} and a_x are present values of an annuity of one per year payable on policy anniversaries beginning at ages x + t and x, respectively, and continuing until the highest attained age at which a premium may be paid under the policy, both on the mortality and interest bases guaranteed in the policy. An unamortized unused additional expense allowance shall be the unused additional expense allowance multiplied by a similar ratio of annuities, with $\ddot{a}_x$ replaced by an annuity beginning on the date as of which the additional expense allowance was determined.

[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 nonguaranteed current benefit charges because the 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.

Subp. 2. **Minimum cash surrender values for fixed premium universal life insurance policies.** For fixed premium universal

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life insurance policies, the minimum cash surrender values shall be determined separately for the basic policy and any benefits and riders for which premiums are paid separately. The following requirements pertain to a basic policy and any benefits and riders for which premiums are not paid separately.

The minimum cash surrender value (before adjustment for indebtedness and dividend credits) available on a date as of which interest is credited to the policy shall be equal to ((A) - (B) - (C) - (D)), where:

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

(B) is the present value of future adjusted premiums. The adjusted premiums are calculated as described in Minnesota Statutes, section 61A.25. If Minnesota Statutes, section 61A.25, is applicable, the nonforfeiture net level premium is equal to the quantity

$$\frac{\text{PVFB}}{\ddot{a}_x},$$

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

$\ddot{a}_x$ is the present value of an annuity of one per year payable on policy anniversaries beginning at age x and continuing until the highest attained age at which a premium may be paid under the policy.

(C) is the present value of any quantities analogous to the nonforfeiture net level premium which arise because of guarantees declared by the insurer after the issue date of the policy. $\ddot{a}_x$ shall be replaced by an annuity beginning on the date as of which the declaration became effective and payable until the end of the period covered by the declaration.

(D) is the sum of any quantities analogous to (B)

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which arise because of structural changes[3] in the policy.

Future guaranteed benefits are determined by (1) projecting the policy value, taking into account future 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 that do not depend on the policy value.

Present values shall be determined using: (i) an interest rate (or rates) specified by Minnesota Statutes, section 61A.25, for policies issued in the same year and (ii) the mortality rates specified by Minnesota Statutes, section 61A.25, for policies issued in the same year or contained in such other table as may be approved by the commissioner for this purpose.

[3]Structural changes are those changes that are separate from the automatic workings of the policy. The changes usually would be initiated by the policyowner and include changes in the guaranteed benefits, changes in the latest maturity date, or changes in allowable premium payment period.

Subp. 3. **Minimum paid-up nonforfeiture benefits.** If a universal life insurance policy provides for the optional election of a paid-up nonforfeiture benefit, it shall be such that its present value shall be at least equal to the cash surrender value provided for by the policy on the effective date of the election. The present value shall be based on mortality and interest standards at least as favorable to the policyowner as: (1) in the case of a flexible premium universal life insurance policy, the mortality and interest basis guaranteed in 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 Minnesota Statutes, section 61A.25. In lieu of the paid-up nonforfeiture benefit, the insurer may substitute, upon proper request not later than 60 days after the due date of the premium in default, an actuarially equivalent alternative paid-up nonforfeiture

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benefit that provides a greater amount or longer period of death benefits, or, if applicable, a greater amount or earlier payment of endowment benefits.

2747.0025 MANDATORY POLICY PROVISIONS.

Subpart 1. **Periodic disclosure to policyowner.** The policy shall provide that the policyowner will be sent, without charge, at least annually, a report that will serve to keep the policyowner advised as to the status of the policy. The end of the current report period must be not more than three months previous to the date of the mailing of the report. Specific requirements of this report are detailed in part 2747.0035.

Subp. 2. **Illustrative reports.** The policy shall provide for an illustrative report that will be sent to the policyowner upon request. Minimum requirements of the report are the same as those in part 2747.0030. The insurer may charge the policyowner a reasonable fee for providing the report.

Subp. 3. **Policy guarantees.** The policy shall provide guarantees of minimum interest credits and maximum mortality and expense charges. Values and data shown in the policy shall be based on guarantees. No figures based on nonguarantees shall be included in the policy.

Subp. 4. **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:

A. The guaranteed maximum expense charges and loads.

B. Any limitation on the crediting of additional interest. Interest credits shall not remain conditional for a period longer than 12 months.

C. The guaranteed minimum rate or rates of interest.

D. The guaranteed maximum mortality charges.

E. Any other guaranteed charges.

F. Any surrender or partial withdrawal charges.

The following information must be summarized on the policy data page: the guaranteed maximum expense charges and loads; any limitations on the crediting of additional interest; any

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other guaranteed charges; and any surrender or partial surrender charges.

Subp. 5. **Changes in basic coverage.** If the policyowner has the right to change the basic coverage, any limitation on the amount or timing of the 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 or suicide applies to the additional coverage.

Subp. 6. **Grace period and lapse.** The policy shall provide for written notice to be sent to the policyowner's last known address at least 30 days before termination of coverage.

A flexible premium policy shall provide for a grace period of at least 30 days (or as required by state statute) after lapse. Unless otherwise defined in the policy, lapse shall occur on that date on which the net cash surrender value first equals zero.

Subp. 7. **Misstatement of age or sex.** If there is a misstatement of age or sex in the policy, the amount of the death benefit shall be that which would be purchased by the most recent mortality charge at the correct age or sex. The commissioner may approve other methods that are deemed satisfactory.

Subp. 8. **Maturity date.** If a policy provides for a maturity date, end date, or similar date, then the policy shall also contain a statement, in close proximity to that date, that it is possible that coverage may not continue to the maturity date even if scheduled premiums are paid in a timely manner, if such is the case.

2747.0030 DISCLOSURE REQUIREMENTS.

In connection with any advertising, solicitation, negotiation, or procurement of a universal life insurance policy:

A. Any statement of policy cost factors or benefits shall contain:

(1) the corresponding guaranteed policy cost factors or benefits, clearly identified;

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(2) a statement explaining the nonguaranteed nature of any current interest rates, charges, or other fees applied to the policy, including the insurer's rights to alter any of these factors; and

(3) any limitations on the crediting of interest, including identification of those portions of the policy to which a specified interest rate shall be credited.

B. Any illustration of the policy value shall be accompanied by the corresponding net cash surrender value.

C. Any statement regarding the crediting of a specific current interest rate shall also contain the frequency and timing by which the rate is determined.

D. If any statement refers to the policy being interest-indexed, the index shall be described. In addition, a description shall be given of the frequency and timing of determining the interest rate and of any adjustments made to the index in arriving at the interest rate credited under the policy.

E. Any illustrated benefits based upon nonguaranteed interest, mortality, or expense factors shall be accompanied by a statement indicating that these benefits are not guaranteed.

F. If the guaranteed cost factors or initial policy cost factor assumptions would result in policy values becoming exhausted before the policy's maturity date, the fact shall be disclosed, including notice that coverage will terminate under such circumstances.

2747.0035 PERIODIC DISCLOSURE TO POLICYOWNER.

Subpart 1. **Requirements.** The policy shall provide that the policyowner will be sent, without charge, at least annually, a report that will serve to keep the policyowner advised of the status of the policy. The end of the current report period shall be not more than three months previous to the date of the mailing of the report. The report shall include the following:

A. The beginning and end of the current report period.

B. The policy value at the end of the previous report period and at the end of the current report period.

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C. The total amounts credited or debited to the policy value during the current report period, identifying each by type (for example, interest, mortality, expense, and riders).

D. The current death benefit at the end of the current report period on each life covered by the policy.

E. The net cash surrender value of the policy as of the end of the current report period.

F. The amount of outstanding loans, if any, as of the end of the current report period.

G. For fixed premium policies: If, assuming guaranteed interest, mortality, and expense loads and continued scheduled premium payments, the policy's net cash surrender value is such that it would not maintain insurance in force until the end of the next reporting period, a notice to this effect shall be included in the report.

H. For flexible premium policies: If, assuming guaranteed interest, mortality, and expense loads, the policy's net cash surrender value will not maintain insurance in force until the end of the next reporting period unless further premium payments are made, a notice to this effect shall be included in the report.

2747.0040 INTEREST-INDEXED UNIVERSAL LIFE INSURANCE POLICIES.

Subpart 1. **Initial filing requirements.** The following information shall be submitted in connection with any filing of interest-indexed universal life insurance policies (interest-indexed policies). The information received shall be treated confidentially to the extent permitted by law.

A. A description of how the interest credits are determined, including:

(1) a description of the index;

(2) the relationship between the value of the index and the actual interest rate to be credited;

(3) the frequency and timing of determining the interest rate; and

(4) the allocation of interest credits, if more

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than one rate of interest applies to different portions of the policy value.

B. The insurer's investment policy, that includes a description of the following:

(1) how the insurer addressed the reinvestment risks;

(2) how the insurer plans to address the risk of capital loss on cash outflows;

(3) how the insurer plans to address the risk that appropriate investments may not be available or not available in sufficient quantities;

(4) how the insurer plans to address the risk that the indexed interest rate may fall below the minimum contractual interest rate guaranteed in the policy;

(5) the amount and type of assets currently held for interest-indexed policies; and

(6) the amount and type of assets expected to be acquired in the future.

C. If policies are linked to an index for a specified period less than to the maturity date of the policy, a description of the method used (or currently contemplated) to determine interest credits upon the expiration of such period.

D. A description of any interest guarantee in addition to or in lieu of the index.

E. A description of any maximum premium limitations and the conditions under which they apply.

Subp. 2. **Additional filing requirements.** Annually, every insurer shall submit a statement of actuarial opinion by the insurer's actuary similar to the example contained in subpart 3.

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.

Prior to implementation, every domestic insurer shall submit a description of any material change in the insurer's investment strategy or method of determining the interest credits. A change is considered to be material if it would

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affect the form or definition of the index (for example, any change in the information supplied in subpart 1) or if it would significantly change the amount or type of assets held for interest-indexed policies.

Subp. 3. **Statement of actuarial opinion for interest-indexed universal life insurance policies.**

I, ..., am .....
(name) (position or relationship

..... for the XYZ Life Insurance Company (The to Insurer)

Insurer) in the state of .....
(State of Domicile of Insurer)

I am a member of the American Academy of Actuaries (or if not, state other qualifications to sign annual statement actuarial opinions).

I have examined the interest-indexed universal life insurance policies of the Insurer in force as of December 31, 19XX, encompassing ..... number of policies and $..... of insurance in force.

I have considered the provisions of the policies. I have considered any reinsurance agreements pertaining to such policies, the characteristics of the identified assets and the investment policy adopted by the Insurer as they affect future insurance and investment cash flows under such policies and related assets. My examination included such tests and calculations as I considered necessary to form an opinion concerning the insurance and investment cash flows arising from the policies and related assets.

I relied on the investment policy of the Insurer and on projected investment cash flows as provided by ....., Chief Investment Officer of the Insurer. 5

The tests were conducted under various assumptions as to future interest rates, and particular attention was given to those provisions and characteristics that might cause future insurance and investment cash flows to vary with changes in the level of prevailing interest rates.

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In my opinion, the anticipated insurance and investment cash flows referred to above make good and sufficient provision for the contractual obligations of the Insurer under these insurance policies.

.....
Signature of Actuary

[5]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.

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

APPROVED IN THE REVISOR OF STATUTES OFFICE BY:

STATE OF ~~MIN~~NESOTA

COUNTY OF RAMSEY

CERTIFICATE

In the Matter of the Proposed Rules
Relating to Universal Life Insurance

I hereby certify that the list of persons, associations, and other interested groups who have requested, pursuant to Minnesota Statutes, section 14.14, subd. 1a, that their names be placed on file with and maintained by the Department of Commerce for the purpose of receiving notice of the proposed adoption of rules is accurate and complete as of 12:00 P.M., this 2nd day of May 1986.

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PROPOSED RULES

Pursuant to Minn. Stat. of 1982, §§ 14.22, an agency may propose to adopt, amend, suspend or repeal rules without first holding a public hearing, as long as the agency determines that the rules will be noncontroversial in nature. The agency must first publish a notice of intent to adopt rules without a public hearing, together with the proposed rules, in the *State Register*. The notice must advise the public:

1. that they have 30 days in which to submit comment on the proposed rules;
2. that no public hearing will be held unless 25 or more persons make a written request for a hearing within the 30-day comment period;
3. of the manner in which persons shall request a hearing on the proposed rules; and
4. that the rule may be modified if the modifications are supported by the data and views submitted.

If, during the 30-day comment period, 25 or more persons submit to the agency a written request for a hearing of the proposed rules, the agency must proceed under the provisions of §§ 14.14-14.20, which state that if an agency decides to hold a public hearing, it must publish a notice of intent in the *State Register*.

Pursuant to Minn. Stat. §§ 14.29 and 14.30, agencies may propose emergency rules under certain circumstances. Proposed emergency rules are published in the *State Register* and, for at least 25 days thereafter, interested persons may submit data and views in writing to the proposing agency.

Department of Commerce

Proposed Rules Relating to Universal Life Insurance

Notice of Withdrawal

Notice is hereby given that the Department of Commerce withdraws the rules pertaining to Universal Life Insurance that were previously published in the *State Register* on December 9, 1985 at pages 1290-1297 (10 S.R. 1290-1297). A new version of the Universal Life Rules and a Notice of Intent to Adopt Rules Without a Public Hearing are being published in the same issue as this notice.

Michael A. Hatch
Commissioner of Commerce

Notice of Intent to Adopt Rules without a Public Hearing

Notice is hereby given that the Department of Commerce proposes to adopt the above-entitled rules without a public hearing. The Commissioner of Commerce has determined that the proposed adoption of these rules will be noncontroversial in nature and has elected to follow the procedures set forth in Minnesota Statutes, Section 14.21.

Persons interested in these rules shall have 30 days to submit comments in support of or in opposition to the rules. Each comment should identify the portion of the proposed rule addressed, the reason for the comment, and any change proposed. The proposed rules may be modified if the modifications are supported by the data and views submitted to the Department and does not result in a substantial change.

No public hearing will be held unless twenty-five (25) or more persons make a written request for a hearing within the 30 day comment period. In the event a public hearing is required, the agency will proceed according to the provisions of Minnesota Statutes, Section 14.14, subd. 1.

Persons who wish to submit comments or a written request for a public hearing should submit them to Richard G. Gomsrud, Department Counsel, Department of Commerce, 500 Metro Square Building, St. Paul, MN 55101 telephone (612) 296-5689. Any person requesting a public hearing should state her or his name and address and is encouraged to identify the portion of the proposed rule addressed, the reason for the request and any change proposed and send this information to the above address.

Authority for the adoption of these rules is contained in Minnesota Statutes, Sections 45.023 and 61A.03. Additionally a Statement of Need and Reasonableness of each provision and identifying the data and information relied upon to support the proposed rules has been prepared and is available upon request.

Pursuant to Minnesota Laws 1983, chapter 188 codified as Minnesota Statute Section 14.115, subdivision 2, the impact on small business has been considered in the promulgation of the rules. Anyone wishing to present evidence or argument as to the rules' effect on small business may do so. The Department's position regarding the impact of the rules on small business is set forth in the Statement of Need and Reasonableness.

KEY: PROPOSED RULES SECTION — Underlining indicates additions to existing rule language. ~~Strike outs~~ indicate deletions from existing rule language. If a proposed rule is totally new, it is designated "all new material." ADOPTED RULES SECTION — Underlining indicates additions to proposed rule language. ~~Strike outs~~ indicate deletions from proposed rule language.

Upon adoption of the final rules without a public hearing, the proposed rules, this Notice, the Statement of Need and Reasonableness, all written comments received, and the final Rules as Adopted will be delivered to the Attorney General for review as to form and legality, including the issue of substantial change. Persons who wish to be advised of the submission of this material to the Attorney General, or who wish to receive a copy of the final rules as proposed for adoption, should submit a written statement of such request to Richard G. Gomsrud, Department Counsel, Department of Commerce, 500 Metro Square Bldg., St. Paul, MN 55101.

A copy of the proposed rules is attached to this Notice. Copies of this Notice and proposed rules are available and may be obtained by contacting Richard G. Gomsrud at the above address.

Michael A. Hatch
Commissioner of Commerce

Rules as Proposed (all new material)

2747.0005 DEFINITIONS.

Subpart 1. **Definitions.** As used in this chapter, the following terms have the meanings given them.

Subp. 2. **Cash surrender value.** "Cash surrender value" means the net cash surrender value plus any amounts outstanding as policy loans.

Subp. 3. **Commissioner.** "Commissioner" means the commissioner of the Department of Commerce of Minnesota.

Subp. 4. **Fixed premium universal life insurance policy.** "Fixed premium universal life insurance policy" means a universal life insurance policy other than a flexible premium universal life insurance policy.

Subp. 5. **Flexible premium universal life insurance policy.** "Flexible premium universal life insurance policy" means a universal life insurance policy that permits the policyowner to vary, independently of each other, the amount or timing of one or more premium payments or the amount of insurance.

Subp. 6. **Interest-indexed universal life insurance policy.** "Interest-indexed universal life insurance policy" means any universal life insurance policy where the interest credits are linked to an external referent.

Subp. 7. **Net cash surrender value.** "Net cash surrender value" means the maximum amount payable to the policyowner upon surrender.

Subp. 8. **Policy value.** "Policy value" means the amount to which separately identified interest credits and mortality, expense, or other charges are made under the universal life insurance policy.

Subp. 9. **Universal life insurance policy.** "Universal life insurance policy" means any individual life insurance policy under the provisions of which separately identified interest credits (other than in connection with dividend accumulations, premium deposit funds, or other supplementary accounts) and mortality and expense charges are made to the policy. A universal life insurance policy may provide for other credits and charges, such as charges for the cost of benefits provided by rider.

2747.0010 SCOPE.

This chapter encompasses individual universal life insurance policies except variable life insurance policies defined under part 2750.0100, subpart 14.

2747.0015 VALUATION.

Subpart 1. **Requirements.** The minimum valuation standard for universal life insurance policies shall be the commissioner's reserve valuation method, as described in this part for these policies, and the tables and interest rates specified in this part. The terminal reserve for the basic policy and any benefits or riders for which premiums are not paid separately as of any policy anniversary shall be equal to the net level premium reserves less (C) and less (D), where:

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

$$\frac{\text{PVFB}}{\ddot{a}_x}\ \ddot{a}_{x+t},$$

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.

$\ddot{a}_x$ and $\ddot{a}_{x+t}$ 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. (x) is defined as the issue age and (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 that 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]

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

$$((a) - (b)) \frac{\ddot{a}_{x+t}}{\ddot{a}_x} r,$$

where (a) - (b) is as described in Minnesota Statutes, section 61A.25, 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.

$\ddot{a}_{x+t}$ $\ddot{a}_x$ 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.

The guaranteed maturity premium, the guaranteed maturity fund, and (B) above shall be recalculated to reflect any structural changes in the policy. This recalculation shall be done in a manner consistent with the descriptions above.

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, and so forth, contained in the policy or declared by the insurer; and (2) taking into account any benefits guaranteed in the policy or by declaration that do not depend on the policy value.

Present values shall be determined using (i) an interest rate (or rates) specified by Minnesota Statutes, section 61A.25, for policies issued in the same year; (ii) the mortality rates specified by Minnesota Statutes, section 61A.25, 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 that is being valued together with the policy.

[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 that are separate from the automatic workings of the policy. The changes usually would be initiated by the policyowner and include changes in the guaranteed benefits, changes in the latest maturity date, or changes in allowable premium payment period.

Subp. 2. **Alternative minimum reserves.** If, in any policy year, the guaranteed maturity premium on any universal life insurance policy is less than the valuation net premium for the policy, calculated by the valuation method actually used in calculating the reserve thereon but using the minimum valuation standards of mortality and rate of interest, the minimum reserve required for the contract shall be the greater of item A or B.

A. The reserve calculated according to the method, the mortality table, and the rate of interest actually used.

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B. The reserve calculated according to the method actually used but using the minimum valuation standards of mortality and rate of interest and replacing the valuation net premium by the guaranteed maturity premium in each policy year for which the valuation net premium exceeds the guaranteed maturity premium.

For universal life insurance reserves on a net level premium basis, the valuation net premium is

$$\frac{\text{PVFB}}{\ddot{a}_x}$$

and for reserves on a commissioner's reserve valuation method, the valuation net premium is

$$\frac{\text{PVFB}}{\ddot{a}_x} + \frac{\text{(a)} - \text{(b)}}{\ddot{a}_x}.$$

2747.0020 NONFORFEITURE.

Subpart 1. **Minimum cash surrender values for flexible premium universal life insurance policies.** Minimum cash surrender values for flexible premium universal life insurance policies shall be determined separately for the basic policy and any benefits and riders for which premiums are paid separately. The following requirements pertain to a basic policy and any benefits and riders for which premiums are not paid separately.

The minimum cash surrender value (before adjustment for indebtedness and dividend credits) available on a date as of which interest is credited to the policy shall be equal to the accumulation to that date of the premiums paid minus the accumulations to that date of: (i) the benefit charges, (ii) the averaged administrative expense charges for the first policy year and any insurance-increase years, (iii) actual administrative expense charges for other years, (iv) initial and additional acquisition expense charges not exceeding the initial or additional expense allowances, respectively, (v) any service charges actually made (excluding charges for cash surrender or election of a paid-up nonforfeiture benefit) and (vi) any deductions made for partial withdrawals; all accumulations being at the actual rate or rates of interest at which interest credits have been made unconditionally to the policy (or have been made conditionally, but for which the conditions have since been met), and minus any unamortized unused initial and additional expense allowances.

Interest on the premiums and on charges referred to in items (i) to (iv) above shall be accumulated from and to these dates as are consistent with how interest is credited in determining the policy value.

The benefit charges shall include the charges made for mortality and any charges made for riders or supplementary benefits for which premiums are not paid separately. If benefit charges are substantially level by duration and develop low or no cash values, then the commissioner may require higher cash values unless the insurer provides adequate justification that the cash values are appropriate in relation to the policy's other characteristics.[4]

The administrative expense charges shall include charges per premium payment, charges per dollar of premium paid, periodic charges per thousand dollars of insurance, periodic per policy charges, and any other charges permitted by the policy to be imposed without regard to the policyowner's request for services.

The averaged administrative expense charges for any year shall be those that would have been imposed in that year if the charge rate or rates for each transaction or period within the year had been equal to the arithmetic average of the corresponding charge rates that the policy states will be imposed in policy years two through 20 in determining the policy value.

The initial acquisition expense charges shall be the excess of the expense charges, other than service charges, actually made in the first policy year over the averaged administrative expense charges for that year. Additional acquisition expense charges shall be the excess of the expense charges, other than service charges, actually made in an insurance-increase year over the averaged administrative expense charges for that year. An insurance-increase year shall be the year beginning on the date of increase in the amount of insurance by policyowner request (or by the terms of the policy).

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 Minnesota Statutes, section 61A.25, 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 Minnesota Statutes, section 61A.25, 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 issue age) shall be the unused initial expense allowance multiplied by:

$$\frac{\ddot{a}_{x\,+\,t}}{\ddot{a}_{x}}$$

where $a_{x\,+\,t}$ and a_x are present values of an annuity of one per year payable on policy anniversaries beginning at ages x + t and x, respectively, and continuing until the highest attained age at which a premium may be paid under the policy, both on the mortality and interest bases guaranteed in the policy. An unamortized unused additional expense allowance shall be the unused additional expense allowance multiplied by a similar ratio of annuities, with $\ddot{a}_x$ replaced by an annuity beginning on the date as of which the additional expense allowance was determined.

[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 nonguaranteed current benefit charges because the 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.

Subp. 2. **Minimum cash surrender values for fixed premium universal life insurance policies.** For fixed premium universal life insurance policies, the minimum cash surrender values shall be determined separately for the basic policy and any benefits and riders for which premiums are paid separately. The following requirements pertain to a basic policy and any benefits and riders for which premiums are not paid separately.

The minimum cash surrender value (before adjustment for indebtedness and dividend credits) available on a date as of which interest is credited to the policy shall be equal to ((A) - (B) - (C) - (D)), where:

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

(B) is the present value of future adjusted premiums. The adjusted premiums are calculated as described in Minnesota Statutes, section 61A.25. If Minnesota Statutes, section 61A.25, is applicable, the nonforfeiture net level premium is equal to the quantity

$$\frac{\text{PVFB}}{\ddot{a}_{x}},$$

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

$\ddot{a}_x$ is the present value of an annuity of one per year payable on policy anniversaries beginning at age x and continuing until the highest attained age at which a premium may be paid under the policy.

(C) is the present value of any quantities analogous to the nonforfeiture net level premium which arise because of guarantees declared by the insurer after the issue date of the policy. If020x shall be replaced by an annuity beginning on the date as of which the declaration became effective and payable until the end of the period covered by the declaration.

(D) is the sum of any quantities analogous to (B) which arise because of structural changes[3] in the policy.

Future guaranteed benefits are determined by (1) projecting the policy value, taking into account future 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 that do not depend on the policy value.

Present values shall be determined using: (i) an interest rate (or rates) specified by Minnesota Statutes, section 61A.25, for policies issued in the same year and (ii) the mortality rates specified by Minnesota Statutes, section 61A.25, for policies issued in the same year or contained in such other table as may be approved by the commissioner for this purpose.

[3]Structural changes are those changes that are separate from the automatic workings of the policy. The changes usually would be initiated by the policyowner and include changes in the guaranteed benefits, changes in the latest maturity date, or changes in allowable premium payment period.

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Subp. 3. **Minimum paid-up nonforfeiture benefits.** If a universal life insurance policy provides for the optional election of a paid-up nonforfeiture benefit, it shall be such that its present value shall be at least equal to the cash surrender value provided for by the policy on the effective date of the election. The present value shall be based on mortality and interest standards at least as favorable to the policyowner as: (1) in the case of a flexible premium universal life insurance policy, the mortality and interest basis guaranteed in 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 Minnesota Statutes, section 61A.25. In lieu of the paid-up nonforfeiture benefit, the insurer may substitute, upon proper request not later than 60 days after the due date of the premium in default, an actuarially equivalent alternative paid-up nonforfeiture benefit that provides a greater amount or longer period of death benefits, or, if applicable, a greater amount or earlier payment of endowment benefits.

2747.0025 MANDATORY POLICY PROVISIONS.

Subpart 1. **Periodic disclosure to policyowner.** The policy shall provide that the policyowner will be sent, without charge, at least annually, a report that will serve to keep the policyowner advised as to the status of the policy. The end of the current report period must be not more than three months previous to the date of the mailing of the report. Specific requirements of this report are detailed in part 2747.0035.

Subp. 2. **Illustrative reports.** The policy shall provide for an illustrative report that will be sent to the policyowner upon request. Minimum requirements of the report are the same as those in part 2747.0030. The insurer may charge the policyowner a reasonable fee for providing the report.

Subp. 3. **Policy guarantees.** The policy shall provide guarantees of minimum interest credits and maximum mortality and expense charges. Values and data shown in the policy shall be based on guarantees. No figures based on nonguarantees shall be included in the policy.

Subp. 4. **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:

A. The guaranteed maximum expense charges and loads.

B. Any limitation on the crediting of additional interest. Interest credits shall not remain conditional for a period longer than 12 months.

C. The guaranteed minimum rate or rates of interest.

D. The guaranteed maximum mortality charges.

E. Any other guaranteed charges.

F. Any surrender or partial withdrawal charges.

The following information must be summarized on the policy data page: the guaranteed maximum expense charges and loads; any limitations on the crediting of additional interest; any other guaranteed charges; and any surrender or partial surrender charges.

Subp. 5. **Changes in basic coverage.** If the policyowner has the right to change the basic coverage, any limitation on the amount or timing of the 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 or suicide applies to the additional coverage.

Subp. 6. **Grace period and lapse.** The policy shall provide for written notice to be sent to the policyowner's last known address at least 30 days before termination of coverage.

A flexible premium policy shall provide for a grace period of at least 30 days (or as required by state statute) after lapse. Unless otherwise defined in the policy, lapse shall occur on that date on which the net cash surrender value first equals zero.

Subp. 7. **Misstatement of age or sex.** If there is a misstatement of age or sex in the policy, the amount of the death benefit shall be that which would be purchased by the most recent mortality charge at the correct age or sex. The commissioner may approve other methods that are deemed satisfactory.

Subp. 8. **Maturity date.** If a policy provides for a maturity date, end date, or similar date, then the policy shall also contain a statement, in close proximity to that date, that it is possible that coverage may not continue to the maturity date even if scheduled premiums are paid in a timely manner, if such is the case.

2747.0030 DISCLOSURE REQUIREMENTS.

In connection with any advertising, solicitation, negotiation, or procurement of a universal life insurance policy:

A. Any statement of policy cost factors or benefits shall contain:

(1) the corresponding guaranteed policy cost factors or benefits, clearly identified;

(2) a statement explaining the nonguaranteed nature of any current interest rates, charges, or other fees applied to the policy, including the insurer's rights to alter any of these factors; and

(3) any limitations on the crediting of interest, including identification of those portions of the policy to which a specified interest rate shall be credited.

B. Any illustration of the policy value shall be accompanied by the corresponding net cash surrender value.

C. Any statement regarding the crediting of a specific current interest rate shall also contain the frequency and timing by which the rate is determined.

D. If any statement refers to the policy being interest-indexed, the index shall be described. In addition, a description shall be given of the frequency and timing of determining the interest rate and of any adjustments made to the index in arriving at the interest rate credited under the policy.

E. Any illustrated benefits based upon nonguaranteed interest, mortality, or expense factors shall be accompanied by a statement indicating that these benefits are not guaranteed.

F. If the guaranteed cost factors or initial policy cost factor assumptions would result in policy values becoming exhausted before the policy's maturity date, the fact shall be disclosed, including notice that coverage will terminate under such circumstances.

2747.0035 PERIODIC DISCLOSURE TO POLICYOWNER.

Subpart 1. **Requirements.** The policy shall provide that the policyowner will be sent, without charge, at least annually, a report that will serve to keep the policyowner advised of the status of the policy. The end of the current report period shall be not more than three months previous to the date of the mailing of the report. The report shall include the following:

A. The beginning and end of the current report period.

B. The policy value at the end of the previous report period and at the end of the current report period.

C. The total amounts credited or debited to the policy value during the current report period, identifying each by type (for example, interest, mortality, expense, and riders).

D. The current death benefit at the end of the current report period on each life covered by the policy.

E. The net cash surrender value of the policy as of the end of the current report period.

F. The amount of outstanding loans, if any, as of the end of the current report period.

G. For fixed premium policies: If, assuming guaranteed interest, mortality, and expense loads and continued scheduled premium payments, the policy's net cash surrender value is such that it would not maintain insurance in force until the end of the next reporting period, a notice to this effect shall be included in the report.

H. For flexible premium policies: If, assuming guaranteed interest, mortality, and expense loads, the policy's net cash surrender value will not maintain insurance in force until the end of the next reporting period unless further premium payments are made, a notice to this effect shall be included in the report.

2747.0040 INTEREST-INDEXED UNIVERSAL LIFE INSURANCE POLICIES.

Subpart 1. **Initial filing requirements.** The following information shall be submitted in connection with any filing of interest-indexed universal life insurance policies (interest-indexed policies). The information received shall be treated confidentially to the extent permitted by law.

A. A description of how the interest credits are determined, including:

(1) a description of the index;

(2) the relationship between the value of the index and the actual interest rate to be credited;

(3) the frequency and timing of determining the interest rate; and

(4) the allocation of interest credits, if more than one rate of interest applies to different portions of the policy value.

B. The insurer's investment policy, that includes a description of the following:

(1) how the insurer addressed the reinvestment risks;

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(2) how the insurer plans to address the risk of capital loss on cash outflows;

(3) how the insurer plans to address the risk that appropriate investments may not be available or not available in sufficient quantities;

(4) how the insurer plans to address the risk that the indexed interest rate may fall below the minimum contractual interest rate guaranteed in the policy;

(5) the amount and type of assets currently held for interest-indexed policies; and

(6) the amount and type of assets expected to be acquired in the future.

C. If policies are linked to an index for a specified period less than to the maturity date of the policy, a description of the method used (or currently contemplated) to determine interest credits upon the expiration of such period.

D. A description of any interest guarantee in addition to or in lieu of the index.

E. A description of any maximum premium limitations and the conditions under which they apply.

Subp. 2. **Additional filing requirements.** Annually, every insurer shall submit a statement of actuarial opinion by the insurer's actuary similar to the example contained in subpart 3.

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.

Prior to implementation, every domestic insurer shall submit a description of any material change in the insurer's investment strategy or method of determining the interest credits. A change is considered to be material if it would affect the form or definition of the index (for example, any change in the information supplied in subpart 1) or if it would significantly change the amount or type of assets held for interest-indexed policies.

Subp. 3. **Statement of actuarial opinion for interest-indexed universal life insurance policies.**

I, ... (name), am ..... (position or relationship to Insurer) for the XYZ Life Insurance Company (The Insurer) in the state of ..... (State of Domicile of Insurer)

I am a member of the American Academy of Actuaries (or if not, state other qualifications to sign annual statement actuarial opinions).

I have examined the interest-indexed universal life insurance policies of the Insurer in force as of December 31, 19XX, encompassing ..... number of policies and $ ..... of insurance in force.

I have considered the provisions of the policies. I have considered any reinsurance agreements pertaining to such policies, the characteristics of the identified assets and the investment policy adopted by the Insurer as they affect future insurance and investment cash flows under such policies and related assets. My examination included such tests and calculations as I considered necessary to form an opinion concerning the insurance and investment cash flows arising from the policies and related assets.

I relied on the investment policy of the Insurer and on projected investment cash flows as provided by ....., Chief Investment Officer of the Insurer.[5]

The tests were conducted under various assumptions as to future interest rates, and particular attention was given to those provisions and characteristics that might cause future insurance and investment cash flows to vary with changes in the level of prevailing interest rates.

In my opinion, the anticipated insurance and investment cash flows referred to above make good and sufficient provision for the contractual obligations of the Insurer under these insurance policies.

.....
Signature of Actuary

[5]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.

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

ADOPTED RULES

The adoption of a rule becomes effective after the requirements of Minn. Stat. § 14.14-14.28 have been met and five working days after the rule is published in *State Register*, unless a later date is required by statutes or specified in the rule.

If an adopted rule is identical to its proposed form as previously published, a notice of adoption and a citation to its previous *State Register* publication will be printed.

If an adopted rule differs from its proposed form, language which has been deleted will be printed with strikeouts and new language will be underlined. The rule's previous *State Register* publication will be cited.

An emergency rule becomes effective five working days after the approval of the Attorney General as specified in Minn. Stat. § 14.33 and upon the approval of the Revisor of Statutes as specified in § 14.36. Notice of approval by the Attorney General will be published as soon as practicable, and the adopted emergency rule will be published in the manner provided for adopted rules under § 14.18.

Department of Health

Adopted Rules Relating to Health, Morticians, Funeral Directors, Fees, and Licensing

The rule proposed and published at *State Register*, Volume 10, Number 39, pages 1965-1974, March 24, 1986 (10 S.R. 1965) is adopted with the following modifications:

Rule as Adopted

4610.2400 DEFINITIONS.

Subp. 13. **Transportation costs.** "Transportation costs" includes the vehicle used for the initial transfer of the deceased, funeral coach, funeral sedans, flower car, service/utility car, and the use of public transportation where needed~~, and others~~.

Higher Education Coordinating Board

Adopted Rules Relating to Financial Assistance

The rules proposed and published at *State Register*, Volume 10, Number 33, pages 1649-1954, February 10, 1986 (10 S.R. 1649) and Volume 10, Number 35, page 1757, February 24, 1986 (10 S.R. 1757) are adopted with the following modifications:

Rules as Adopted

4830.0600 AWARDS.

Subp. 1d. **Fact finding committee.** The fact finding committee of the board shall consist of the executive director of the board or a designee, one financial aid officer appointed by the board, and one student appointed by the board. The appointments will be for one year or until a successor is appointed. The board's representative will act as chairperson of the fact finding committee and will convene the committee as necessary. In the event the financial aid officer or the student is involved in any way in a case before the committee the one involved ~~one~~ must be replaced by an alternate appointed by the board.

4830.0700 METHOD OF PAYMENT.

Subp. 3. **School accounting requirements.** Schools shall maintain separate accounts for scholarship and grant-in-aid funds. Refunds to the board must be accompanied with a list stating the social security number, name, award type, amount of refund, term, and refund code for each student included in the refund. The refund must be made to the board within 30 days ~~of~~ from the end of the academic term, or 30 days from the date the school is notified of a student's withdrawal, whichever is less. Schools must provide evidence, prepared according to generally accepted accounting principles, that all awards have either been distributed or refunded to the board.

4830.2200 APPLICATION AND DISTRIBUTION OF FUNDS FOR GRANTS.

Subp. 5. **Unused funds.** The school must return funds which the school determines will not be used within 30 days ~~of~~ from the date of a request by the board. The board shall reallocate the funds to other participating schools requesting additional funds.

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JACKLYN V. KEMPER
Assistant Counsel

THE EQUITABLE

STATE OF MINNESOTA
JUN 20 1986
DEPARTMENT OF COMMERCE

June 17, 1986

Richard G. Gomsrud
Department Counsel
Minnesota Department of Commerce
500 Metro Square Building
St. Paul, Minnesota 55101

Re: Newly Proposed Rules 2747.0005 - 2747.0040
Universal Life Insurance Rules

Dear Mr. Gomsrud:

We have had the newest proposed universal life insurance regulation reviewed and find that, in general, it follows the NAIC Model.

We note, however, that Sections 1 and 2 of the NAIC Model stating the authority and purpose of the regulation are not included in the proposed regulation. This would seem to be an inadvertent omission.

We would like to see Section 2747.0025, Subpart 4B amended to extend the conditional period for interest credits to twenty-four months. We feel the twelve-month period is too restrictive. We would like to see this requirement conformed to the NAIC Model.

We note also, that the last sentence in Section 2747.0025, Subpart 4, regarding the information required to be summarized on the policy data page does not appear in the NAIC Model. Again, we urge conformity to the Model. If, however, this

sentence is retained, we would like to see "any limitations on the crediting of additional interest;" deleted therefrom.

We trust you will give serious consideration to our comments and suggestions before finalizing the proposed regulation.

Sincerely,

Jacklyn V. Kemper

Jacklyn V. Kemper

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JVK:id

STATE OF MINNESOTA
DEPARTMENT OF COMMERCE

In the Matter of the Proposed Adoption of Rules Relating to Universal Life Insurance	CERTIFICATE OF COMPLIANCE WITH RULEMAKING PROCEDURES

I, John C. Bjork, do hereby declare that I have examined the rules and all related documents and that, based on my examination and my personal familiarity with the applicable procedures, the Administrative Procedure Act, the rules of the Office of Administrative Hearings, and the rules of the Attorney General have been followed. Any exceptions are noted below.

John C. Bjork
Special Assistant Attorney General

Dated: July 31, 1986.

STATE OF MINNESOTA
DEPARTMENT OF COMMERCE

In the Matter of the Proposed Rules Relating to Universal Life Insurance

AFFIDAVIT RE NOTICE OF SUBMISSION TO THE ATTORNEY GENERAL

STATE OF MINNESOTA)
) ss.
COUNTY OF RAMSEY)

Richard G. Gomsrud, being first duly sworn, deposes and says:

That he is Department Counsel for the Department of Commerce.

That part of his duties is the promulgation and adoption of departmental rules, including those captioned above.

That to date, no person has requested notice of submission of the rules in the above-entitled matter to the Attorney General.

Richard G. Gomsrud
Department Counsel, Department of Commerce

Subscribed and sworn to before me this
25th day of July 1986.

Nancy I. Link

NANCY I. LINK
NOTARY PUBLIC-MINNESOTA
HENNEPIN COUNTY
MY COMMISSION EXPIRES DECEMBER 3, 1990