

SENATE BILL 573

C4, C3

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CF HB 770

By: **Senator Kelley**

Introduced and read first time: February 6, 2015

Assigned to: Finance

Committee Report: Favorable with amendments

Senate action: Adopted

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CHAPTER _____

1 AN ACT concerning

2 **Insurance – Standard Valuation Law and Reserve and Nonforfeiture**
3 **Requirements**

4 FOR the purpose of establishing certain requirements relating to the reserves and opinions
5 relating to the reserves for certain life insurance policies, accident and health
6 insurance contracts, and deposit-type contracts issued by certain companies on or
7 after the operative date of a certain valuation manual; clarifying the scope of certain
8 provisions of law relating to the reserve requirements and opinions relating to the
9 reserve requirements for certain policies, contracts, and benefit agreements required
10 before the operative date of the valuation manual; requiring certain companies to
11 submit annually a certain opinion relating to the reserves and related actuarial
12 items held in support of certain policies and contracts; requiring the valuation
13 manual to prescribe the contents of the opinion and certain other items; requiring
14 certain companies to include with the opinion an additional opinion of a certain
15 actuary, except under certain circumstances; requiring the obligations of a company
16 under certain policies and contracts to include certain benefits and expenses;
17 requiring a certain actuary to consider certain investment earnings and other
18 consideration in reviewing certain assets held by a certain company; requiring a
19 certain memorandum to be prepared to support a certain opinion; authorizing the
20 Maryland Insurance Commissioner to engage a certain actuary at the expense of a
21 certain company under certain circumstances; establishing certain requirements for
22 certain opinions; limiting the liability for damages of certain actuaries under certain
23 circumstances; requiring the Commissioner to adopt regulations to establish
24 disciplinary action against a certain company or certain actuary that violates certain
25 provisions of this Act; repealing certain provisions of law authorizing the

EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.

Underlining indicates amendments to bill.

~~Strike out~~ indicates matter stricken from the bill by amendment or deleted from the law by amendment.



1 Commissioner to certify the amount of certain reserves; altering the circumstances
2 under which the Commissioner may accept a certain valuation; requiring the
3 Commissioner to annually value or cause to be valued the reserves of certain policies
4 and contracts issued by a company on or after the operative date of the valuation
5 manual; establishing the minimum standard for valuation of the policies and
6 contracts; specifying the manner in which the operative date of the valuation manual
7 is determined; providing for the effective date of changes to the valuation manual;
8 requiring the valuation manual to specify certain minimum valuation standards, the
9 format for certain reports, certain other requirements, and certain data and the form
10 of the data that must be submitted under a certain provision of this Act; authorizing
11 a company, under certain circumstances, to comply with a minimum standard of
12 valuation prescribed by the Commissioner by regulation; authorizing the
13 Commissioner to rely on a certain opinion under certain circumstances; authorizing
14 the Commissioner to require a company to change any assumption or method used
15 by the company under certain circumstances; requiring a company to adjust the
16 company's reserves as required by the Commissioner; requiring a company, for
17 policies and contracts specified in the valuation manual, to establish reserves using
18 a certain principle-based valuation; establishing certain requirements for a
19 company that uses a principle-based valuation; requiring a company to submit
20 certain information as prescribed in the valuation manual; providing that certain
21 information of a company is confidential and privileged, is not subject to the
22 Maryland Public Information Act, and is not subject to subpoena or discovery or
23 admission in evidence in a certain civil action, subject to certain exceptions;
24 authorizing the Commissioner to share and use certain confidential information
25 under certain circumstances and to enter into agreements governing the sharing and
26 use of the information; authorizing the Commissioner to receive certain documents,
27 materials, data, and other information; providing that a certain privilege or claim of
28 confidentiality in confidential information is not waived as a result of a certain
29 disclosure or sharing of the confidential information; authorizing the Commissioner
30 to exempt a specific product form or product line of a certain company under certain
31 circumstances; authorizing the Commissioner to exempt a domestic company from
32 certain reserve requirements and certain information submission requirements
33 under certain circumstances; requiring a domestic company that meets the
34 requirements for exemption to compute reserves in accordance with certain
35 requirements and file a certain statement with the Commissioner before a certain
36 date each year; authorizing the Commissioner to reject the statement before a
37 certain date and require the domestic company to comply with the valuation manual
38 requirements; specifying the mortality tables that may be substituted for certain
39 other mortality tables to be used in determining the minimum nonforfeiture
40 standard for certain policies issued on or after the operative date of the valuation
41 manual; establishing the nonforfeiture interest rate for certain policies issued on or
42 after the operative date of the valuation manual; altering the nonforfeiture interest
43 rate for certain policies issued before the operative date of the valuation manual;
44 providing for the resolution of any conflict between Maryland law and the valuation
45 manual; making this Act subject to certain contingencies; requiring the
46 Commissioner to give certain notice to the Department of Legislative Services;
47 providing that this Act is null and void under certain circumstances; defining certain

1 terms; making certain conforming and clarifying changes; and generally relating to
2 the Maryland Standard Valuation Law and reserve and nonforfeiture requirements
3 for insurance policies and contracts issued in the State.

4 BY renumbering

5 Article – Insurance

6 Section 5–301

7 to be Section 5–301.1

8 Annotated Code of Maryland

9 (2011 Replacement Volume and 2014 Supplement)

10 BY repealing and reenacting, with amendments,

11 Article – Insurance

12 Section 5–201, 5–303, 5–304(b)(3), (c), (f), and (g), 5–305(c), (d), and (f), 5–306(f)(7),
13 and 16–309

14 Annotated Code of Maryland

15 (2011 Replacement Volume and 2014 Supplement)

16 BY adding to

17 Article – Insurance

18 Section 5–201.1, 5–301, and 5–313 through 5–317

19 Annotated Code of Maryland

20 (2011 Replacement Volume and 2014 Supplement)

21 BY repealing and reenacting, with amendments,

22 Article – Insurance

23 Section 5–301.1

24 Annotated Code of Maryland

25 (2011 Replacement Volume and 2014 Supplement)

26 (As enacted by Section 1 of this Act)

27 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF MARYLAND,

28 That Section(s) 5–301 of Article – Insurance of the Annotated Code of Maryland be
29 renumbered to be Section(s) 5–301.1.

30 SECTION 2. AND BE IT FURTHER ENACTED, That the Laws of Maryland read
31 as follows:

32 **Article – Insurance**

33 5–201.

34 (a) (1) In this section the following words have the meanings indicated.

35 **(2) “OPERATIVE DATE OF THE VALUATION MANUAL” HAS THE**
36 **MEANING STATED IN § 5–201.1 OF THIS SUBTITLE.**

1 **[(2)] (3)** “Opinion” means an opinion issued by a qualified actuary and
2 developed in accordance with the standards of practice of the Actuarial Standards Board.

3 **[(3)] (4)** “Qualified actuary” means a member in good standing of the
4 American Academy of Actuaries who meets the qualification standards of the Academy for
5 issuing an opinion required by this section.

6 **(B) THIS SECTION APPLIES TO RESERVE REQUIREMENTS AND OPINIONS**
7 **RELATING TO RESERVE REQUIREMENTS FOR POLICIES, CONTRACTS, AND BENEFIT**
8 **AGREEMENTS OF LIFE INSURERS, NONPROFIT HEALTH SERVICE PLANS, AND**
9 **FRATERNAL BENEFIT SOCIETIES REQUIRED BEFORE THE OPERATIVE DATE OF THE**
10 **VALUATION MANUAL.**

11 **[(b)] (C)** (1) In addition to the requirement of paragraph (2) of this
12 subsection, the aggregate reserves for all policies, contracts, and benefit agreements of a
13 life insurer may not be less than the aggregate reserves computed under Subtitle 3 of this
14 title.

15 (2) (i) The aggregate reserves for all policies, contracts, and benefit
16 agreements of a life insurer, nonprofit health service plan, or fraternal benefit society may
17 not be less than the aggregate reserves that a qualified actuary determines to be necessary
18 under subsection **[(d)] (E)** of this section.

19 (ii) By regulation, the Commissioner may provide for a transition
20 period to establish any higher reserves required by this paragraph.

21 **[(c)] (D)** Each life insurer, nonprofit health service plan, and fraternal benefit
22 society that does business in the State shall submit annually the opinion of a qualified
23 actuary as to whether the reserves and related actuarial items held in support of the life
24 insurer’s policies, contracts, and benefit agreements are:

25 (1) computed appropriately;

26 (2) based on assumptions that satisfy contractual provisions;

27 (3) consistent with prior reported amounts; and

28 (4) in compliance with applicable laws of the State.

29 **[(d)] (E)** (1) Except as exempted by regulations adopted by the
30 Commissioner, each life insurer, nonprofit health service plan, and fraternal benefit society
31 shall include with the opinion required by subsection **[(c)] (D)** of this section an additional
32 opinion of the same qualified actuary, stating whether the reserves and related actuarial
33 items that are held in support of the policies, contracts, and benefit agreements by the life
34 insurer, nonprofit health service plan, or fraternal benefit society are adequate to meet its

1 obligations under its policies, contracts, and benefit agreements, in light of the assets held
2 with respect to the reserves and related actuarial items.

3 (2) The obligations of a life insurer, nonprofit health service plan, or
4 fraternal benefit society under its policies, contracts, and benefit agreements include
5 benefits to be provided and associated expenses that may reasonably be expected.

6 (3) In reviewing the assets held by the life insurer, nonprofit health service
7 plan, or fraternal benefit society with respect to the reserves and related actuarial items,
8 the qualified actuary shall consider the expected investment earnings on the assets and
9 other consideration that the life insurer, nonprofit health service plan, or fraternal benefit
10 society expects to receive and retain under the policies, contracts, and benefit agreements.

11 ~~[(e)]~~ (F) (1) A memorandum acceptable to the Commissioner shall be
12 prepared to support each opinion required under this section.

13 (2) The supporting memorandum shall be in the form and contain the
14 information that is specified by regulation.

15 (3) The life insurer, nonprofit health service plan, or fraternal benefit
16 society shall:

17 (i) keep the supporting memorandum in its home office; and

18 (ii) on request, submit a copy of the memorandum to the
19 Commissioner.

20 (4) The Commissioner may engage a qualified actuary at the expense of the
21 life insurer, nonprofit health service plan, or fraternal benefit society to review each opinion
22 and prepare a supporting memorandum if:

23 (i) the life insurer, nonprofit health service plan, or fraternal benefit
24 society fails to provide a supporting memorandum within the period specified by regulation;
25 or

26 (ii) the Commissioner determines that the supporting memorandum
27 that the life insurer, nonprofit health service plan, or fraternal benefit society provides fails
28 to meet necessary standards or is unacceptable.

29 ~~[(f)]~~ (G) (1) Each opinion required by this section shall:

30 (i) be submitted with the annual statement required by this article
31 and reflect the valuation of the reserve liabilities of the life insurer, nonprofit health service
32 plan, or fraternal benefit society;

33 (ii) apply to all business in force, including individual and group
34 health insurance plans; and

1 (iii) be based on standards adopted by the Actuarial Standards
2 Board.

3 (2) The Commissioner may adopt regulations to establish additional
4 requirements for an opinion.

5 (3) For a foreign insurer or alien insurer, the Commissioner may accept an
6 opinion that the foreign insurer or alien insurer files with the insurance supervisory official
7 of another state if the Commissioner determines that the opinion reasonably meets the
8 requirements applicable to a life insurer, nonprofit health service plan, or fraternal benefit
9 society domiciled in this State.

10 **[(g)] (H)** (1) Except as provided in subsection **[(h)] (I)** of this section, the
11 Commissioner shall keep confidential and may not make public any memorandum or other
12 material that the life insurer, nonprofit health service plan, or fraternal benefit society
13 provides in connection with an opinion issued under this section.

14 (2) A memorandum or other material provided to the Commissioner is not
15 subject to a subpoena except for defending in a suit that:

16 (i) seeks damages from any person; and

17 (ii) is based on an action required by this section.

18 **[(h)] (I)** (1) The Commissioner may release a memorandum or other material
19 provided to the Commissioner:

20 (i) with the written consent of the life insurer, nonprofit health
21 service plan, or fraternal benefit society that provides the memorandum or material; or

22 (ii) to the American Academy of Actuaries, if the Academy:

23 1. requests the memorandum or other material for
24 professional disciplinary proceedings; and

25 2. sets forth procedures satisfactory to the Commissioner to
26 preserve the confidentiality of the memorandum or other material.

27 (2) All parts of a memorandum or other material are no longer confidential
28 if any part of the memorandum or material is:

29 (i) cited by the life insurer, nonprofit health service plan, or
30 fraternal benefit society in its marketing;

31 (ii) cited before a governmental unit other than a State insurance
32 department; or

1 (iii) released by the life insurer, nonprofit health service plan, or
2 fraternal benefit society to the news media.

3 [(i)] (J) Except for fraud, willful misconduct, or gross negligence, a qualified
4 actuary is not liable for damages to any person other than the life insurer, nonprofit health
5 service plan, fraternal benefit society, or the Commissioner for any act, error, omission,
6 decision, or conduct related to an opinion that the qualified actuary issues under this
7 section.

8 [(j)] (K) The Commissioner shall adopt regulations to establish disciplinary
9 action against a life insurer, nonprofit health service plan, fraternal benefit society, or
10 qualified actuary that violates this section.

11 **5-201.1.**

12 (A) (1) IN THIS SECTION THE FOLLOWING WORDS HAVE THE MEANINGS
13 INDICATED.

14 (2) "ACCIDENT AND HEALTH INSURANCE CONTRACT" MEANS A
15 CONTRACT, AS SPECIFIED IN THE VALUATION MANUAL, THAT:

16 (I) INCORPORATES MORBIDITY RISK; AND

17 (II) PROVIDES PROTECTION AGAINST ECONOMIC LOSS
18 RESULTING FROM ACCIDENT, SICKNESS, OR MEDICAL CONDITIONS.

19 (3) "APPOINTED ACTUARY" MEANS A QUALIFIED ACTUARY WHO IS
20 APPOINTED IN ACCORDANCE WITH THE VALUATION MANUAL TO ISSUE AN OPINION
21 REQUIRED BY THIS SECTION.

22 (4) "COMPANY" MEANS AN ENTITY THAT:

23 (I) 1. HAS WRITTEN, ISSUED, OR REINSURED LIFE
24 INSURANCE POLICIES, ACCIDENT AND HEALTH INSURANCE CONTRACTS, OR
25 DEPOSIT-TYPE CONTRACTS IN THE STATE; AND

26 2. HAS AT LEAST ONE OF THE POLICIES OR CONTRACTS
27 SPECIFIED IN ITEM 1 OF THIS ITEM IN FORCE OR ON CLAIM; OR

28 (II) 1. HAS WRITTEN, ISSUED, OR REINSURED LIFE
29 INSURANCE POLICIES, ACCIDENT AND HEALTH INSURANCE CONTRACTS, OR
30 DEPOSIT-TYPE CONTRACTS IN ANY STATE; AND

1 **2. IS REQUIRED TO HOLD A CERTIFICATE OF AUTHORITY**
2 **TO WRITE LIFE INSURANCE POLICIES, ACCIDENT AND HEALTH INSURANCE**
3 **CONTRACTS, OR DEPOSIT-TYPE CONTRACTS IN THIS STATE.**

4 **(5) “DEPOSIT-TYPE CONTRACT” MEANS A CONTRACT, AS SPECIFIED**
5 **IN THE VALUATION MANUAL, THAT DOES NOT INCORPORATE MORTALITY OR**
6 **MORBIDITY RISKS.**

7 **(6) (I) “LIFE INSURANCE POLICY” MEANS A POLICY, AS SPECIFIED**
8 **IN THE VALUATION MANUAL, THAT INCORPORATES MORTALITY RISK.**

9 **(II) “LIFE INSURANCE POLICY” INCLUDES:**

10 **1. AN ANNUITY CONTRACT; AND**

11 **2. A PURE ENDOWMENT CONTRACT.**

12 **(7) “OPERATIVE DATE OF THE VALUATION MANUAL” MEANS THE**
13 **DATE DETERMINED IN ACCORDANCE WITH § 5-313 OF THIS TITLE.**

14 **(8) “QUALIFIED ACTUARY” MEANS AN INDIVIDUAL WHO:**

15 **(I) IS QUALIFIED TO SIGN THE APPLICABLE STATEMENT OF**
16 **ACTUARIAL OPINION IN ACCORDANCE WITH THE AMERICAN ACADEMY OF**
17 **ACTUARIES QUALIFICATION STANDARDS FOR ACTUARIES SIGNING SUCH**
18 **STATEMENTS; AND**

19 **(II) MEETS THE REQUIREMENTS SPECIFIED IN THE VALUATION**
20 **MANUAL.**

21 **(9) “VALUATION MANUAL” MEANS THE MANUAL OF VALUATION**
22 **INSTRUCTIONS ADOPTED BY THE NATIONAL ASSOCIATION OF INSURANCE**
23 **COMMISSIONERS IN THE MANNER SPECIFIED IN § 5-313(B)(1) OF THIS TITLE.**

24 **(B) THIS SECTION APPLIES TO EACH COMPANY THAT, ON OR AFTER THE**
25 **OPERATIVE DATE OF THE VALUATION MANUAL:**

26 **(1) HAS OUTSTANDING LIFE INSURANCE POLICIES, ACCIDENT AND**
27 **HEALTH INSURANCE CONTRACTS, OR DEPOSIT-TYPE CONTRACTS IN THE STATE;**
28 **AND**

29 **(2) IS SUBJECT TO REGULATION BY THE COMMISSIONER.**

1 **(C) (1) A COMPANY SUBJECT TO THIS SECTION SHALL SUBMIT ANNUALLY**
2 **THE OPINION OF AN APPOINTED ACTUARY AS TO WHETHER THE RESERVES AND**
3 **RELATED ACTUARIAL ITEMS HELD IN SUPPORT OF THE COMPANY’S LIFE INSURANCE**
4 **POLICIES, ACCIDENT AND HEALTH INSURANCE CONTRACTS, AND DEPOSIT-TYPE**
5 **CONTRACTS ARE:**

6 **(I) COMPUTED APPROPRIATELY;**

7 **(II) BASED ON ASSUMPTIONS THAT SATISFY CONTRACTUAL**
8 **PROVISIONS;**

9 **(III) CONSISTENT WITH PRIOR REPORTED AMOUNTS; AND**

10 **(IV) IN COMPLIANCE WITH APPLICABLE LAWS OF THE STATE.**

11 **(2) THE VALUATION MANUAL SHALL PRESCRIBE THE CONTENTS OF**
12 **THE OPINION AND ANY OTHER ITEMS CONSIDERED NECESSARY TO THE SCOPE OF**
13 **THE OPINION.**

14 **(D) (1) EXCEPT AS EXEMPTED IN THE VALUATION MANUAL, A COMPANY**
15 **SUBJECT TO THIS SECTION SHALL INCLUDE WITH THE OPINION REQUIRED BY**
16 **SUBSECTION (C) OF THIS SECTION AN ADDITIONAL OPINION OF THE SAME**
17 **APPOINTED ACTUARY, STATING WHETHER THE RESERVES AND RELATED ACTUARIAL**
18 **ITEMS THAT ARE HELD IN SUPPORT OF THE COMPANY’S LIFE INSURANCE POLICIES,**
19 **ACCIDENT AND HEALTH INSURANCE CONTRACTS, AND DEPOSIT-TYPE CONTRACTS**
20 **ARE ADEQUATE TO MEET THE COMPANY’S OBLIGATIONS UNDER THE LIFE**
21 **INSURANCE POLICIES, ACCIDENT AND HEALTH INSURANCE CONTRACTS, AND**
22 **DEPOSIT-TYPE CONTRACTS, IN LIGHT OF THE ASSETS HELD WITH RESPECT TO THE**
23 **RESERVES AND RELATED ACTUARIAL ITEMS.**

24 **(2) THE OBLIGATIONS OF A COMPANY UNDER ITS LIFE INSURANCE**
25 **POLICIES, ACCIDENT AND HEALTH INSURANCE CONTRACTS, AND DEPOSIT-TYPE**
26 **CONTRACTS INCLUDE BENEFITS TO BE PROVIDED AND ASSOCIATED EXPENSES THAT**
27 **MAY REASONABLY BE EXPECTED.**

28 **(3) IN REVIEWING THE ASSETS HELD BY A COMPANY WITH RESPECT**
29 **TO THE RESERVES AND RELATED ACTUARIAL ITEMS, THE APPOINTED ACTUARY**
30 **SHALL CONSIDER THE EXPECTED INVESTMENT EARNINGS ON THE ASSETS AND**
31 **OTHER CONSIDERATION THAT THE COMPANY EXPECTS TO RECEIVE AND RETAIN**
32 **UNDER THE COMPANY’S LIFE INSURANCE POLICIES, ACCIDENT AND HEALTH**
33 **INSURANCE CONTRACTS, AND DEPOSIT-TYPE CONTRACTS.**

34 **(E) (1) A MEMORANDUM SHALL BE PREPARED TO SUPPORT EACH**
35 **OPINION REQUIRED UNDER THIS SECTION.**

1 **(2) THE SUPPORTING MEMORANDUM SHALL BE:**

2 **(I) IN THE FORM AND CONTAIN THE INFORMATION THAT IS**
3 **SPECIFIED IN THE VALUATION MANUAL; AND**

4 **(II) ACCEPTABLE TO THE COMMISSIONER.**

5 **(3) THE COMMISSIONER MAY ENGAGE A QUALIFIED ACTUARY AT THE**
6 **EXPENSE OF A COMPANY SUBJECT TO THIS SECTION TO REVIEW EACH OPINION AND**
7 **THE BASIS FOR THE OPINION AND PREPARE A SUPPORTING MEMORANDUM IF:**

8 **(I) THE COMPANY FAILS TO PROVIDE A SUPPORTING**
9 **MEMORANDUM, AT THE REQUEST OF THE COMMISSIONER, WITHIN THE PERIOD**
10 **SPECIFIED IN THE VALUATION MANUAL; OR**

11 **(II) THE COMMISSIONER DETERMINES THAT THE SUPPORTING**
12 **MEMORANDUM THAT THE COMPANY PROVIDES FAILS TO MEET THE STANDARDS**
13 **PRESCRIBED BY THE VALUATION MANUAL OR IS OTHERWISE UNACCEPTABLE TO**
14 **THE COMMISSIONER.**

15 **(F) (1) EACH OPINION REQUIRED BY THIS SECTION SHALL:**

16 **(I) BE IN THE FORM AND CONTAIN THE INFORMATION THAT IS**
17 **SPECIFIED IN THE VALUATION MANUAL;**

18 **(II) BE ACCEPTABLE TO THE COMMISSIONER;**

19 **(III) BE SUBMITTED WITH THE ANNUAL STATEMENT REQUIRED**
20 **BY THIS ARTICLE;**

21 **(IV) REFLECT THE VALUATION OF THE RESERVE LIABILITIES OF**
22 **A COMPANY SUBJECT TO THIS SECTION FOR EACH YEAR ENDING ON OR AFTER THE**
23 **OPERATIVE DATE OF THE VALUATION MANUAL;**

24 **(V) APPLY TO ALL LIFE INSURANCE POLICIES, ACCIDENT AND**
25 **HEALTH INSURANCE CONTRACTS, AND DEPOSIT-TYPE CONTRACTS SUBJECT TO**
26 **SUBSECTION (D) OF THIS SECTION AND ANY OTHER ACTUARIAL LIABILITIES AS MAY**
27 **BE SPECIFIED IN THE VALUATION MANUAL; AND**

28 **(VI) BE BASED ON STANDARDS ADOPTED BY THE ACTUARIAL**
29 **STANDARDS BOARD AND ANY ADDITIONAL STANDARDS AS MAY BE PRESCRIBED IN**
30 **THE VALUATION MANUAL.**

1 **(2) FOR A FOREIGN COMPANY OR AN ALIEN COMPANY, THE**
2 **COMMISSIONER MAY ACCEPT AN OPINION THAT THE FOREIGN OR ALIEN COMPANY**
3 **FILES WITH THE INSURANCE SUPERVISORY OFFICIAL OF ANOTHER STATE IF THE**
4 **COMMISSIONER DETERMINES THAT THE OPINION REASONABLY MEETS THE**
5 **REQUIREMENTS APPLICABLE TO A COMPANY DOMICILED IN THIS STATE.**

6 **(G) EXCEPT FOR FRAUD OR WILLFUL MISCONDUCT, AN APPOINTED**
7 **ACTUARY IS NOT LIABLE FOR DAMAGES TO ANY PERSON OTHER THAN THE COMPANY**
8 **OR THE COMMISSIONER FOR ANY ACT, ERROR, OMISSION, DECISION, OR CONDUCT**
9 **RELATED TO THE APPOINTED ACTUARY’S OPINION.**

10 **(H) THE COMMISSIONER SHALL ADOPT REGULATIONS TO ESTABLISH**
11 **DISCIPLINARY ACTION AGAINST A COMPANY OR AN APPOINTED ACTUARY THAT**
12 **VIOLATES THIS SECTION.**

13 **5-301.**

14 **(A) IN THIS ~~SECTION~~ SUBTITLE THE FOLLOWING WORDS HAVE THE**
15 **MEANINGS INDICATED.**

16 **(B) “ACCIDENT AND HEALTH INSURANCE CONTRACT” HAS THE MEANING**
17 **STATED IN § 5-201.1(A) OF THIS TITLE.**

18 **(C) “APPOINTED ACTUARY” MEANS A QUALIFIED ACTUARY WHO IS**
19 **APPOINTED IN ACCORDANCE WITH THE VALUATION MANUAL TO PREPARE AN**
20 **OPINION REQUIRED BY § 5-201.1 OF THIS TITLE.**

21 **(D) “COMPANY” HAS THE MEANING STATED IN § 5-201.1(A) OF THIS TITLE.**

22 **(E) “DEPOSIT-TYPE CONTRACT” HAS THE MEANING STATED IN § 5-201.1(A)**
23 **OF THIS TITLE.**

24 **(F) “LIFE INSURANCE POLICY” HAS THE MEANING STATED IN §**
25 **5-201.1(A) OF THIS TITLE.**

26 **(G) “NAIC” MEANS THE NATIONAL ASSOCIATION OF INSURANCE**
27 **COMMISSIONERS.**

28 **(H) “OPERATIVE DATE OF THE VALUATION MANUAL” HAS THE MEANING**
29 **STATED IN § 5-201.1(A) OF THIS TITLE.**

30 **(I) (1) “POLICYHOLDER BEHAVIOR” MEANS ANY ACTION A**
31 **POLICYHOLDER, CONTRACT HOLDER, OR ANY OTHER PERSON WITH THE RIGHT TO**
32 **ELECT OPTIONS, INCLUDING A CERTIFICATE HOLDER, MAY TAKE UNDER A LIFE**

1 INSURANCE POLICY, AN ACCIDENT AND HEALTH INSURANCE CONTRACT, OR
2 A DEPOSIT-TYPE CONTRACT ISSUED ON OR AFTER THE OPERATIVE DATE OF THE
3 VALUATION MANUAL.

4 (2) "POLICYHOLDER BEHAVIOR" INCLUDES BEHAVIOR RELATING TO
5 LAPSE, WITHDRAWAL, TRANSFER, DEPOSIT, PREMIUM PAYMENT, LOAN,
6 ANNUITIZATION, ~~AND~~ OR BENEFIT ELECTIONS PRESCRIBED BY A LIFE INSURANCE
7 POLICY, AN ACCIDENT AND HEALTH INSURANCE CONTRACT, OR A DEPOSIT-TYPE
8 CONTRACT ISSUED ON OR AFTER THE OPERATIVE DATE OF THE VALUATION
9 MANUAL.

10 (3) "POLICYHOLDER BEHAVIOR" DOES NOT INCLUDE AN EVENT OF
11 MORTALITY OR MORBIDITY THAT RESULTS IN BENEFITS PRESCRIBED IN THEIR
12 ESSENTIAL ASPECTS BY THE TERMS OF A LIFE INSURANCE POLICY, AN ACCIDENT
13 AND HEALTH INSURANCE CONTRACT, OR A DEPOSIT-TYPE CONTRACT ISSUED ON OR
14 AFTER THE OPERATIVE DATE OF THE VALUATION MANUAL.

15 (J) "PRINCIPLE-BASED VALUATION" MEANS A RESERVE VALUATION THAT:

16 (1) USES ONE OR MORE METHODS OR ONE OR MORE ASSUMPTIONS
17 DETERMINED BY A COMPANY; AND

18 (2) MEETS THE REQUIREMENTS OF § 5-314 OF THIS SUBTITLE.

19 (K) "QUALIFIED ACTUARY" HAS THE MEANING STATED IN § 5-201.1(A) OF
20 THIS TITLE.

21 (L) "TAIL RISK" MEANS A RISK THAT OCCURS WHEN:

22 (1) THE FREQUENCY OF LOW PROBABILITY EVENTS IS HIGHER THAN
23 EXPECTED UNDER A NORMAL PROBABILITY DISTRIBUTION; OR

24 (2) EVENTS OF VERY SIGNIFICANT SIZE OR MAGNITUDE ARE
25 OBSERVED.

26 (M) "VALUATION MANUAL" HAS THE MEANING STATED IN § 5-201.1(A) OF
27 THIS TITLE.

28 5-301.1.

29 (a) (1) (i) Subject to subparagraph (ii) of this paragraph, the Commissioner
30 annually shall value or cause to be valued the reserves for all outstanding life insurance
31 policies, annuity contracts, and pure endowment contracts [of] ISSUED BY each life insurer

1 doing business in the State **BEFORE THE OPERATIVE DATE OF THE VALUATION**
2 **MANUAL.**

3 (ii) For an alien insurer, the valuation required by this [section]
4 **SUBSECTION** shall be limited to the alien insurer's United States business.

5 [(2) The Commissioner may certify the amount of reserves valued under
6 this section, specifying the mortality tables, rates of interest, and methods used to calculate
7 the reserves.

8 (b) (2) To calculate reserves under this [section] **SUBSECTION**, the
9 Commissioner may use group methods and approximate averages for fractions of a year or
10 otherwise.

11 [(c) (3) For a foreign insurer or alien insurer, instead of the valuation of
12 reserves required by [subsection (a) of this section] **PARAGRAPH (1) OF THIS**
13 **SUBSECTION**, the Commissioner may accept a valuation made or caused to be made by the
14 insurance supervisory official of another state or other jurisdiction if[:

15 (1) the valuation complies with the minimum standard under this
16 subtitle[; and

17 (2) the insurance supervisory official of the other state or other jurisdiction
18 accepts as sufficient and valid for all legal purposes the Commissioner's certificate of
19 valuation if the Commissioner's certificate states that the valuation is made in a specified
20 manner by which the aggregate reserves are at least as large as if they had been computed
21 as prescribed by the law of that state or jurisdiction].

22 [(d) (4) Subject to the approval of the Commissioner, an insurer that has
23 adopted a standard of valuation producing greater aggregate reserves than the aggregate
24 reserves calculated under the minimum standard provided in this subtitle may adopt a
25 lower standard of valuation if it is not lower than the minimum standard provided in this
26 subtitle.

27 **(B) (1) THE COMMISSIONER ANNUALLY SHALL VALUE OR CAUSE TO BE**
28 **VALUED THE RESERVES FOR ALL OUTSTANDING LIFE INSURANCE POLICIES,**
29 **ACCIDENT AND HEALTH INSURANCE CONTRACTS, AND DEPOSIT-TYPE CONTRACTS**
30 **ISSUED BY A COMPANY ON OR AFTER THE OPERATIVE DATE OF THE VALUATION**
31 **MANUAL.**

32 **(2) FOR A FOREIGN COMPANY OR AN ALIEN COMPANY, INSTEAD OF**
33 **THE VALUATION OF RESERVES REQUIRED BY PARAGRAPH (1) OF THIS SUBSECTION,**
34 **THE COMMISSIONER MAY ACCEPT A VALUATION MADE OR CAUSED TO BE MADE BY**
35 **THE INSURANCE SUPERVISORY OFFICIAL OF ANOTHER STATE IF THE VALUATION**
36 **COMPLIES WITH THE MINIMUM STANDARD UNDER THIS SUBTITLE.**

1 5–303.

2 (A) Except as otherwise provided in §§ 5–305 and 5–306 of this subtitle for group
3 annuity contracts and pure endowment contracts issued before the operative date of the
4 Maryland Standard Nonforfeiture Law for Life Insurance[,]:

5 (1) §§ 5–304 through 5–312 of this subtitle apply only to policies and
6 contracts, **AS APPROPRIATE**, issued on or after that operative date **AND BEFORE THE**
7 **OPERATIVE DATE OF THE VALUATION MANUAL; AND**

8 (2) **§§ 5–313 AND 5–314 OF THIS SUBTITLE DO NOT APPLY TO THE**
9 **POLICIES AND CONTRACTS.**

10 (B) **SECTIONS 5–313 AND 5–314 OF THIS SUBTITLE APPLY TO ALL LIFE**
11 **INSURANCE POLICIES, ACCIDENT AND HEALTH INSURANCE CONTRACTS, AND**
12 **DEPOSIT–TYPE CONTRACTS ISSUED BY A COMPANY ON OR AFTER THE OPERATIVE**
13 **DATE OF THE VALUATION MANUAL.**

14 5–304.

15 (b) For an ordinary policy of life insurance issued on the standard basis, excluding
16 any disability and accidental death benefits in the policy, the applicable table for the
17 minimum standard for the valuation of the policy is:

18 (3) if the policy was issued on or after the operative date of § 16–309 of this
19 article:

20 (i) the Commissioners 1980 Standard Ordinary Mortality Table or,
21 at the election of the insurer for any one or more specified plans of life insurance, the
22 Commissioners 1980 Standard Ordinary Mortality Table with Ten–Year Select Mortality
23 Factors; or

24 (ii) any ordinary mortality table, adopted after 1980 by [the National
25 Association of Insurance Commissioners] **NAIC** and approved by a regulation of the
26 Commissioner for use in determining the minimum standard of valuation for the policy.

27 (c) For an industrial life insurance policy issued on the standard basis, excluding
28 any disability and accidental death benefits in the policy, the applicable table for the
29 minimum standard for the valuation of the policy is:

30 (1) if the policy was issued before the operative date of § 16–308(d) of this
31 article, the 1941 Standard Industrial Mortality Table; and

32 (2) if the policy was issued on or after the operative date of § 16–308(d) of
33 this article:

1 (i) the Commissioners 1961 Standard Industrial Mortality Table; or

2 (ii) any industrial mortality table, adopted after 1980 by [the
3 National Association of Insurance Commissioners] **NAIC** and approved by regulation of
4 the Commissioner for use in determining the minimum standard of valuation for the policy.

5 (f) (1) For total and permanent disability benefits in or supplementary to an
6 ordinary policy or contract, the applicable table for the minimum standard for the valuation
7 of the policy or contract is:

8 (i) if the policy or contract was issued on or before December 31,
9 1960, the Class (3) Disability Table (1926);

10 (ii) if the policy or contract was issued any time from January 1, 1961
11 to December 31, 1965, both inclusive:

12 1. the tables specified by item (i) of this paragraph; or

13 2. at the option of the insurer, the Class (3) Disability Table
14 (1926); and

15 (iii) if the policy or contract was issued on or after January 1, 1966:

16 1. the tables of Period 2 disablement rates and the 1930 to
17 1950 termination rates of the 1952 Disability Study of the Society of Actuaries, with due
18 regard to the type of benefit; or

19 2. any tables of disablement rates and termination rates
20 adopted after 1980 by [the National Association of Insurance Commissioners] **NAIC** and
21 approved by regulation of the Commissioner for use in determining the minimum standard
22 of valuation for the policy or contract.

23 (2) For active lives, the table used under this subsection shall be combined
24 with a mortality table allowed for calculating the reserves for life insurance policies.

25 (g) (1) For accidental death benefits in or supplementary to a policy, the
26 applicable table for the minimum standard for the valuation of the policy is:

27 (i) if the policy was issued on or before December 31, 1960, the
28 Intercompany Double Indemnity Mortality Table;

29 (ii) if the policy was issued any time from January 1, 1961 to
30 December 31, 1965, both inclusive:

31 1. a table specified by item (i) of this paragraph; or

1 (2) interest at:

2 (i) 5.5% per year for a single premium deferred annuity contract or
3 pure endowment contract; and

4 (ii) 4.5% per year for any other individual annuity contract or pure
5 endowment contract.

6 (f) For an annuity or pure endowment purchased on or after July 1, 1980, under
7 a group annuity contract or pure endowment contract, the applicable table and interest
8 rate for the minimum standard for the valuation of the contract are:

9 (1) (i) the 1971 Group Annuity Mortality Table;

10 (ii) a group annuity mortality table adopted after 1980 by [the
11 National Association of Insurance Commissioners] NAIC and approved by regulation of
12 the Commissioner for use in determining the minimum standard of valuation for the
13 annuity or pure endowment; or

14 (iii) a modification of a table specified in subitem (i) or (ii) of this item
15 approved by the Commissioner; and

16 (2) interest at 7.5% per year.

17 5-306.

18 (f) (7) If Moody's corporate bond yield average is no longer published by
19 Moody's Investors Service, Inc. or if [the National Association of Insurance Commissioners]
20 NAIC determines that Moody's corporate bond yield average is no longer appropriate to
21 determine the reference interest rate, the Commissioner shall approve by regulation an
22 alternative method adopted by [the National Association of Insurance Commissioners]
23 NAIC to determine the reference interest rate.

24 5-313.

25 (A) EXCEPT AS PROVIDED IN SUBSECTION (E) OR (G) OF THIS SECTION, FOR
26 LIFE INSURANCE POLICIES, ACCIDENT AND HEALTH INSURANCE CONTRACTS, AND
27 DEPOSIT-TYPE CONTRACTS ISSUED ON OR AFTER THE OPERATIVE DATE OF THE
28 VALUATION MANUAL, THE STANDARD PRESCRIBED IN THE VALUATION MANUAL IS
29 THE MINIMUM STANDARD OF VALUATION.

30 (B) THE OPERATIVE DATE OF THE VALUATION MANUAL IS JANUARY 1 OF
31 THE FIRST CALENDAR YEAR FOLLOWING THE FIRST JULY 1 AS OF WHICH ALL OF THE
32 FOLLOWING HAVE OCCURRED:

1 **(1) THE VALUATION MANUAL HAS BEEN ADOPTED BY NAIC BY AN**
2 **AFFIRMATIVE VOTE OF AT LEAST 42 MEMBERS OR 75% OF THE MEMBERS VOTING,**
3 **WHICHEVER IS GREATER;**

4 **(2) THE STANDARD VALUATION LAW, AS AMENDED BY NAIC IN 2009,**
5 **OR LEGISLATION INCLUDING SUBSTANTIALLY SIMILAR TERMS AND PROVISIONS,**
6 **HAS BEEN ENACTED BY STATES REPRESENTING GREATER THAN 75% OF THE DIRECT**
7 **PREMIUMS WRITTEN, AS REPORTED IN THE FOLLOWING ANNUAL STATEMENTS**
8 **SUBMITTED FOR 2008:**

9 **(I) LIFE, ACCIDENT, AND HEALTH ANNUAL STATEMENTS;**

10 **(II) HEALTH ANNUAL STATEMENTS; OR**

11 **(III) FRATERNAL ANNUAL STATEMENTS; AND**

12 **(3) THE STANDARD VALUATION LAW, AS AMENDED BY NAIC IN 2009,**
13 **OR LEGISLATION INCLUDING SUBSTANTIALLY SIMILAR TERMS AND PROVISIONS,**
14 **HAS BEEN ENACTED BY AT LEAST 42 OF THE FOLLOWING 55 JURISDICTIONS:**

15 **(I) THE 50 STATES OF THE UNITED STATES;**

16 **(II) AMERICAN SAMOA;**

17 **(III) THE U.S. VIRGIN ISLANDS;**

18 **(IV) THE DISTRICT OF COLUMBIA;**

19 **(V) GUAM; AND**

20 **(VI) PUERTO RICO.**

21 **(C) UNLESS A CHANGE IN THE VALUATION MANUAL SPECIFIES A LATER**
22 **EFFECTIVE DATE, CHANGES TO THE VALUATION MANUAL SHALL BE EFFECTIVE ON**
23 **JANUARY 1 FOLLOWING THE DATE WHEN THE CHANGE TO THE VALUATION MANUAL**
24 **HAS BEEN ADOPTED BY NAIC BY AN AFFIRMATIVE VOTE REPRESENTING:**

25 **(1) AT LEAST 75% OF THE MEMBERS OF NAIC VOTING, BUT NOT LESS**
26 **THAN A MAJORITY OF THE TOTAL MEMBERSHIP; AND**

27 **(2) MEMBERS OF NAIC REPRESENTING JURISDICTIONS TOTALING**
28 **GREATER THAN 75% OF THE DIRECT PREMIUMS WRITTEN, AS REPORTED IN THE**
29 **FOLLOWING ANNUAL STATEMENTS MOST RECENTLY AVAILABLE BEFORE THE VOTE**
30 **UNDER ITEM (1) OF THIS SUBSECTION:**

1 (I) LIFE, ACCIDENT, AND HEALTH ANNUAL STATEMENTS;

2 (II) HEALTH ANNUAL STATEMENTS; OR

3 (III) FRATERNAL ANNUAL STATEMENTS.

4 (D) (1) THE VALUATION MANUAL SHALL SPECIFY THE FOLLOWING:

5 (I) THE MINIMUM VALUATION STANDARDS FOR EACH TYPE OF
6 LIFE INSURANCE POLICY, ACCIDENT AND HEALTH INSURANCE CONTRACT, AND
7 DEPOSIT-TYPE CONTRACT ISSUED BY A COMPANY ON OR AFTER THE OPERATIVE
8 DATE OF THE VALUATION MANUAL;

9 (II) THE POLICIES AND CONTRACTS OR TYPES OF POLICIES AND
10 CONTRACTS THAT ARE SUBJECT TO THE REQUIREMENTS OF A PRINCIPLE-BASED
11 VALUATION UNDER § 5-314 OF THIS SUBTITLE AND THE MINIMUM VALUATION
12 STANDARDS CONSISTENT WITH THOSE REQUIREMENTS;

13 (III) FOR POLICIES AND CONTRACTS SUBJECT TO A
14 PRINCIPLE-BASED VALUATION UNDER § 5-314 OF THIS SUBTITLE:

15 1. REQUIREMENTS FOR THE FORMAT OF REPORTS TO
16 THE COMMISSIONER REQUIRED UNDER § 5-314(B)(1)(III) OF THIS SUBTITLE,
17 INCLUDING THE INFORMATION NECESSARY TO DETERMINE IF THE
18 PRINCIPLE-BASED VALUATION IS APPROPRIATE AND IN COMPLIANCE WITH THIS
19 SUBTITLE;

20 2. REQUIRED ASSUMPTIONS FOR RISKS OVER WHICH A
21 COMPANY DOES NOT HAVE SIGNIFICANT CONTROL OR INFLUENCE; AND

22 3. PROCEDURES FOR CORPORATE GOVERNANCE AND
23 OVERSIGHT OF THE ACTUARIAL FUNCTION AND A PROCESS FOR APPROPRIATE
24 WAIVER OR MODIFICATION OF THOSE PROCEDURES;

25 (IV) ANY OTHER REQUIREMENTS, INCLUDING REQUIREMENTS
26 RELATING TO RESERVE METHODS, MODELS FOR MEASURING RISK, GENERATION OF
27 ECONOMIC SCENARIOS, ASSUMPTIONS, MARGINS, USE OF COMPANY EXPERIENCE,
28 RISK MEASUREMENT, DISCLOSURE, CERTIFICATIONS, REPORTS, ACTUARIAL
29 OPINIONS AND MEMORANDA, TRANSITION RULES, AND INTERNAL CONTROLS; AND

30 (V) THE DATA AND THE FORM OF THE DATA REQUIRED UNDER §
31 5-315 OF THIS SUBTITLE, THE PERSON TO WHOM THE DATA MUST BE SUBMITTED,

1 AND ANY OTHER REQUIREMENTS CONSIDERED NECESSARY, INCLUDING
2 REQUIREMENTS RELATING TO DATA ANALYSIS AND REPORTING OF ANALYSES.

3 (2) THE MINIMUM VALUATION STANDARDS REQUIRED UNDER
4 PARAGRAPH (1)(I) OF THIS SUBSECTION SHALL BE KNOWN AS:

5 (I) THE COMMISSIONERS RESERVE VALUATION METHOD FOR
6 LIFE INSURANCE POLICIES, OTHER THAN ANNUITY CONTRACTS;

7 (II) THE COMMISSIONERS ANNUITY RESERVE VALUATION
8 METHOD FOR ANNUITY CONTRACTS; AND

9 (III) MINIMUM RESERVES FOR ALL OTHER POLICIES OR
10 CONTRACTS.

11 (3) FOR POLICIES AND CONTRACTS NOT SUBJECT TO A
12 PRINCIPLE-BASED VALUATION UNDER § 5-314 OF THIS SUBTITLE, THE MINIMUM
13 VALUATION STANDARD SHALL:

14 (I) BE CONSISTENT WITH THE MINIMUM STANDARD OF
15 VALUATION BEFORE THE OPERATIVE DATE OF THE VALUATION MANUAL; OR

16 (II) DEVELOP RESERVES THAT QUANTIFY THE BENEFITS AND
17 GUARANTEES, AND THE FUNDING, ASSOCIATED WITH THE POLICIES AND
18 CONTRACTS AND THEIR RISKS AT A LEVEL OF CONSERVATISM THAT REFLECTS
19 CONDITIONS THAT INCLUDE UNFAVORABLE EVENTS THAT HAVE A REASONABLE
20 PROBABILITY OF OCCURRING.

21 (E) IN THE ABSENCE OF A SPECIFIC VALUATION REQUIREMENT, OR IF A
22 SPECIFIC VALUATION REQUIREMENT IN THE VALUATION MANUAL IS NOT, IN THE
23 OPINION OF THE COMMISSIONER, IN COMPLIANCE WITH THIS SUBTITLE, A
24 COMPANY, WITH RESPECT TO THE REQUIREMENT, SHALL COMPLY WITH THE
25 MINIMUM VALUATION STANDARD PRESCRIBED BY THE COMMISSIONER BY
26 REGULATION.

27 (F) (1) THE COMMISSIONER MAY ENGAGE A QUALIFIED ACTUARY AT THE
28 EXPENSE OF THE COMPANY TO:

29 (I) PERFORM AN ACTUARIAL EXAMINATION OF A COMPANY AND
30 OPINE ON THE APPROPRIATENESS OF ANY RESERVE ASSUMPTION OR METHOD USED
31 BY THE COMPANY; OR

32 (II) REVIEW AND OPINE ON A COMPANY'S COMPLIANCE WITH
33 ANY REQUIREMENT UNDER THIS SUBTITLE.

1 **(2) THE COMMISSIONER MAY RELY ON THE OPINION OF A QUALIFIED**
2 **ACTUARY ISSUED WHILE THE QUALIFIED ACTUARY WAS EMPLOYED BY OR UNDER**
3 **CONTRACT WITH THE INSURANCE SUPERVISORY OFFICIAL OF ANOTHER STATE.**

4 **(G) (1) THE COMMISSIONER MAY REQUIRE A COMPANY TO CHANGE ANY**
5 **ASSUMPTION OR METHOD USED BY THE COMPANY IF, IN THE OPINION OF THE**
6 **COMMISSIONER, THE CHANGE IS NECESSARY TO COMPLY WITH THE REQUIREMENTS**
7 **OF THE VALUATION MANUAL OR THIS SUBTITLE.**

8 **(2) THE COMPANY SHALL ADJUST THE COMPANY'S RESERVES AS**
9 **REQUIRED BY THE COMMISSIONER.**

10 **5-314.**

11 **(A) FOR POLICIES AND CONTRACTS SPECIFIED IN THE VALUATION MANUAL,**
12 **A COMPANY SHALL ESTABLISH RESERVES USING A PRINCIPLE-BASED VALUATION**
13 **THAT:**

14 **(1) QUANTIFIES THE BENEFITS AND GUARANTEES, AND THE**
15 **FUNDING, ASSOCIATED WITH THE POLICIES OR CONTRACTS AND THEIR RISKS AT A**
16 **LEVEL OF CONSERVATISM THAT REFLECTS CONDITIONS THAT INCLUDE**
17 **UNFAVORABLE EVENTS THAT HAVE A REASONABLE PROBABILITY OF OCCURRING**
18 **DURING THE LIFETIME OF THE POLICIES OR CONTRACTS;**

19 **(2) FOR POLICIES OR CONTRACTS WITH SIGNIFICANT TAIL RISK,**
20 **REFLECTS CONDITIONS APPROPRIATELY ADVERSE TO QUANTIFY THE TAIL RISK;**

21 **(3) INCORPORATES ASSUMPTIONS, RISK ANALYSIS METHODS AND**
22 **FINANCIAL MODELS, AND MANAGEMENT TECHNIQUES THAT ARE CONSISTENT WITH,**
23 **BUT NOT NECESSARILY IDENTICAL TO, THOSE USED WITHIN THE COMPANY'S**
24 **OVERALL RISK ASSESSMENT PROCESS, WHILE RECOGNIZING POTENTIAL**
25 **DIFFERENCES IN FINANCIAL REPORTING STRUCTURES AND ANY PRESCRIBED**
26 **ASSUMPTIONS OR METHODS;**

27 **(4) INCORPORATES ASSUMPTIONS THAT:**

28 **(I) ARE PRESCRIBED IN THE VALUATION MANUAL; OR**

29 **(II) IF NOT PRESCRIBED IN THE VALUATION MANUAL:**

30 **1. ARE ESTABLISHED USING THE COMPANY'S AVAILABLE**
31 **EXPERIENCE, TO THE EXTENT IT IS RELEVANT AND STATISTICALLY CREDIBLE; OR**

1 **2. TO THE EXTENT THAT COMPANY DATA IS NOT**
2 **AVAILABLE, RELEVANT, OR STATISTICALLY CREDIBLE, ARE ESTABLISHED USING**
3 **OTHER RELEVANT, STATISTICALLY CREDIBLE EXPERIENCE; AND**

4 **(5) PROVIDES MARGINS FOR UNCERTAINTY, INCLUDING ADVERSE**
5 **DEVIATION AND ESTIMATION ERROR, SUCH THAT THE GREATER THE UNCERTAINTY**
6 **THE LARGER THE MARGIN AND RESULTING RESERVE.**

7 **(B) (1) A COMPANY THAT USES A PRINCIPLE-BASED VALUATION FOR ONE**
8 **OR MORE POLICIES OR CONTRACTS SUBJECT TO THIS SECTION SHALL:**

9 **(I) ESTABLISH PROCEDURES FOR CORPORATE GOVERNANCE**
10 **AND OVERSIGHT OF THE ACTUARIAL VALUATION FUNCTION CONSISTENT WITH**
11 **THOSE DESCRIBED IN THE VALUATION MANUAL;**

12 **(II) PROVIDE TO THE COMMISSIONER AND THE BOARD OF**
13 **DIRECTORS OF THE COMPANY AN ANNUAL CERTIFICATION OF THE EFFECTIVENESS**
14 **OF THE COMPANY'S INTERNAL CONTROLS WITH RESPECT TO THE PRINCIPLE-BASED**
15 **VALUATION; AND**

16 **(III) DEVELOP, AND FILE WITH THE COMMISSIONER ON**
17 **REQUEST, A PRINCIPLE-BASED VALUATION REPORT THAT COMPLIES WITH**
18 **STANDARDS PRESCRIBED IN THE VALUATION MANUAL.**

19 **(2) THE INTERNAL CONTROLS UNDER PARAGRAPH (1)(II) OF THIS**
20 **SUBSECTION SHALL BE DESIGNED TO ENSURE THAT:**

21 **(I) ALL MATERIAL RISKS INHERENT IN THE LIABILITIES AND**
22 **ASSOCIATED ASSETS SUBJECT TO THE PRINCIPLE-BASED VALUATION ARE**
23 **INCLUDED IN THE PRINCIPLE-BASED VALUATION; AND**

24 **(II) PRINCIPLE-BASED VALUATIONS ARE MADE IN**
25 **ACCORDANCE WITH THE VALUATION MANUAL.**

26 **(3) THE ANNUAL CERTIFICATION REQUIRED UNDER PARAGRAPH**
27 **(1)(II) OF THIS SUBSECTION SHALL BE BASED ON THE INTERNAL CONTROLS IN**
28 **PLACE AS OF THE END OF THE PRECEDING CALENDAR YEAR.**

29 **(C) A PRINCIPLE-BASED VALUATION MAY INCLUDE A PRESCRIBED**
30 **FORMULAIC RESERVE COMPONENT.**

31 **5-315.**

1 A COMPANY SHALL SUBMIT THE MORTALITY DATA, MORBIDITY DATA,
2 POLICYHOLDER BEHAVIOR, EXPENSE EXPERIENCE, AND OTHER DATA AS
3 PRESCRIBED IN THE VALUATION MANUAL.

4 **5-316.**

5 **(A) IN THIS SECTION, “CONFIDENTIAL INFORMATION” MEANS:**

6 **(1) A MEMORANDUM IN SUPPORT OF AN OPINION SUBMITTED UNDER**
7 **§ 5-201.1 OF THIS TITLE AND ANY DOCUMENTS, MATERIALS, AND OTHER**
8 **INFORMATION, INCLUDING ALL WORKING PAPERS AND COPIES OF ALL WORKING**
9 **PAPERS, CREATED, PRODUCED, OR OBTAINED BY OR DISCLOSED TO THE**
10 **COMMISSIONER OR ANY OTHER PERSON IN CONNECTION WITH THE MEMORANDUM;**

11 **(2) ANY DOCUMENTS, MATERIALS, AND OTHER INFORMATION,**
12 **INCLUDING ALL WORKING PAPERS AND COPIES OF ALL WORKING PAPERS, CREATED,**
13 **PRODUCED, OR OBTAINED BY OR DISCLOSED TO THE COMMISSIONER OR ANY OTHER**
14 **PERSON IN THE COURSE OF AN EXAMINATION MADE UNDER § 5-313(F) OF THIS**
15 **SUBTITLE;**

16 **(3) (I) ANY REPORTS, DOCUMENTS, MATERIALS, AND OTHER**
17 **INFORMATION DEVELOPED BY A COMPANY IN SUPPORT OF, OR IN CONNECTION**
18 **WITH, AN ANNUAL CERTIFICATION BY THE COMPANY UNDER § 5-314(B)(1)(II) OF**
19 **THIS SUBTITLE EVALUATING THE EFFECTIVENESS OF THE COMPANY’S INTERNAL**
20 **CONTROLS WITH RESPECT TO A PRINCIPLE-BASED VALUATION; AND**

21 **(II) ANY DOCUMENTS, MATERIALS, AND OTHER INFORMATION,**
22 **INCLUDING ALL WORKING PAPERS AND COPIES OF ALL WORKING PAPERS, CREATED,**
23 **PRODUCED, OR OBTAINED BY OR DISCLOSED TO THE COMMISSIONER OR ANY OTHER**
24 **PERSON IN CONNECTION WITH THE REPORTS, DOCUMENTS, MATERIALS, AND**
25 **INFORMATION SPECIFIED IN ITEM (I) OF THIS ITEM;**

26 **(4) A PRINCIPLE-BASED VALUATION REPORT DEVELOPED UNDER §**
27 **5-314(B)(1)(III) OF THIS SUBTITLE AND ANY DOCUMENTS, MATERIALS, AND OTHER**
28 **INFORMATION, INCLUDING ALL WORKING PAPERS AND COPIES OF ALL WORKING**
29 **PAPERS, CREATED, PRODUCED, OR OBTAINED BY OR DISCLOSED TO THE**
30 **COMMISSIONER OR ANY OTHER PERSON IN CONNECTION WITH THE**
31 **PRINCIPLE-BASED VALUATION REPORT; AND**

32 **(5) (I) ANY DOCUMENTS, MATERIALS, DATA, AND OTHER**
33 **INFORMATION SUBMITTED TO THE COMMISSIONER OR ANY OTHER PERSON BY A**
34 **COMPANY UNDER § 5-315 OF THIS SUBTITLE;**

1 **(II) ANY DOCUMENTS, MATERIALS, DATA, AND OTHER**
2 **INFORMATION, INCLUDING ALL WORKING PAPERS AND COPIES OF ALL WORKING**
3 **PAPERS, CREATED OR PRODUCED IN CONNECTION WITH THE DOCUMENTS,**
4 **MATERIALS, DATA, AND INFORMATION SPECIFIED IN ITEM (I) OF THIS ITEM THAT**
5 **INCLUDE ANY POTENTIALLY COMPANY-IDENTIFYING OR PERSONALLY**
6 **IDENTIFIABLE INFORMATION, THAT IS PROVIDED TO OR OBTAINED BY THE**
7 **COMMISSIONER OR ANY OTHER PERSON; AND**

8 **(III) ANY DOCUMENTS, MATERIALS, DATA, AND OTHER**
9 **INFORMATION, INCLUDING ALL WORKING PAPERS AND COPIES OF ALL WORKING**
10 **PAPERS, CREATED, PRODUCED, OR OBTAINED BY OR DISCLOSED TO THE**
11 **COMMISSIONER OR ANY OTHER PERSON IN CONNECTION WITH THE DOCUMENTS,**
12 **MATERIALS, DATA, AND OTHER INFORMATION SPECIFIED IN ITEMS (I) AND (II) OF**
13 **THIS ITEM.**

14 **(B) EXCEPT AS OTHERWISE PROVIDED IN THIS SECTION, A COMPANY'S**
15 **CONFIDENTIAL INFORMATION:**

16 **(1) IS CONFIDENTIAL AND PRIVILEGED;**

17 **(2) IS NOT SUBJECT TO TITLE 4 OF THE GENERAL PROVISIONS**
18 **ARTICLE; AND**

19 **(3) IS NOT SUBJECT TO SUBPOENA OR DISCOVERY OR ADMISSIBLE IN**
20 **EVIDENCE IN ANY PRIVATE CIVIL ACTION.**

21 **(C) (1) THE COMMISSIONER, AND ANY PERSON WHO RECEIVES**
22 **CONFIDENTIAL INFORMATION WHILE ACTING UNDER THE AUTHORITY OF THE**
23 **COMMISSIONER, MAY NOT TESTIFY OR BE REQUIRED TO TESTIFY IN ANY PRIVATE**
24 **CIVIL ACTION CONCERNING ANY CONFIDENTIAL INFORMATION.**

25 **(2) THE COMMISSIONER MAY USE CONFIDENTIAL INFORMATION OF A**
26 **COMPANY IN ANY REGULATORY OR LEGAL ACTION BROUGHT AGAINST THE**
27 **COMPANY AS A PART OF THE COMMISSIONER'S OFFICIAL DUTIES.**

28 **(D) IF AN EXAMINATION REPORT OR MATERIAL PREPARED IN CONNECTION**
29 **WITH AN EXAMINATION MADE UNDER TITLE 2, SUBTITLE 2 OF THIS ARTICLE IS NOT**
30 **PRIVATE AND CONFIDENTIAL INFORMATION UNDER TITLE 2, SUBTITLE 2 OF THIS**
31 **ARTICLE, AN EXAMINATION REPORT OR OTHER MATERIAL PREPARED IN**
32 **CONNECTION WITH AN EXAMINATION MADE UNDER § 5-313(F) OF THIS SUBTITLE IS**
33 **NOT "CONFIDENTIAL INFORMATION" TO THE SAME EXTENT AS IF THE EXAMINATION**
34 **REPORT OR OTHER MATERIAL HAD BEEN PREPARED UNDER TITLE 2, SUBTITLE 2**
35 **OF THIS ARTICLE.**

1 **(E) (1) SUBJECT TO PARAGRAPH (2) OF THIS SUBSECTION, TO ASSIST IN**
2 **THE PERFORMANCE OF THE COMMISSIONER'S DUTIES, THE COMMISSIONER MAY**
3 **SHARE CONFIDENTIAL INFORMATION SPECIFIED IN:**

4 **(I) SUBSECTION (A)(1) THROUGH (5) OF THIS SECTION WITH:**

5 **1. ANY STATE, FEDERAL, OR INTERNATIONAL**
6 **REGULATORY AGENCY AND THE EMPLOYEES, AGENTS, CONSULTANTS, AND**
7 **CONTRACTORS OF ANY STATE, FEDERAL, OR INTERNATIONAL REGULATORY**
8 **AGENCY; AND**

9 **2. NAIC AND THE EMPLOYEES, AGENTS, CONSULTANTS,**
10 **CONTRACTORS, AFFILIATES, AND SUBSIDIARIES OF NAIC; AND**

11 **(II) SUBSECTION (A)(1) AND (4) OF THIS SECTION WITH:**

12 **1. THE ACTUARIAL BOARD FOR COUNSELING AND**
13 **DISCIPLINE ON A REQUEST FROM THE ACTUARIAL BOARD STATING THAT THE**
14 **CONFIDENTIAL INFORMATION IS REQUIRED FOR THE PURPOSE OF PROFESSIONAL**
15 **DISCIPLINARY PROCEEDINGS; AND**

16 **2. ANY STATE, FEDERAL, OR INTERNATIONAL LAW**
17 **ENFORCEMENT OFFICIAL AND THE EMPLOYEES, AGENTS, CONSULTANTS, AND**
18 **CONTRACTORS OF ANY STATE, FEDERAL, OR INTERNATIONAL LAW ENFORCEMENT**
19 **OFFICIAL.**

20 **(2) CONFIDENTIAL INFORMATION MAY BE SHARED BY THE**
21 **COMMISSIONER UNDER PARAGRAPH (1) OF THIS SUBSECTION ONLY IF THE**
22 **RECIPIENT OF THE CONFIDENTIAL INFORMATION AGREES, AND HAS THE LEGAL**
23 **AUTHORITY TO AGREE, TO MAINTAIN THE CONFIDENTIALITY AND PRIVILEGED**
24 **STATUS OF ANY CONFIDENTIAL INFORMATION RECEIVED IN THE SAME MANNER AND**
25 **TO THE SAME EXTENT AS REQUIRED FOR THE COMMISSIONER.**

26 **(F) (1) THE COMMISSIONER MAY RECEIVE DOCUMENTS, MATERIALS,**
27 **DATA, AND OTHER INFORMATION, INCLUDING OTHERWISE CONFIDENTIAL OR**
28 **PRIVILEGED DOCUMENTS, MATERIALS, DATA, AND INFORMATION, FROM:**

29 **(I) NAIC AND THE EMPLOYEES, AGENTS, CONSULTANTS,**
30 **CONTRACTORS, AFFILIATES, AND SUBSIDIARIES OF NAIC;**

31 **(II) ANY STATE, FEDERAL, OR INTERNATIONAL REGULATORY**
32 **AGENCY OR LAW ENFORCEMENT OFFICIAL AND THE EMPLOYEES, AGENTS,**
33 **CONSULTANTS, AND CONTRACTORS OF THE REGULATORY AGENCY OR LAW**
34 **ENFORCEMENT OFFICIAL; AND**

1 (III) THE ACTUARIAL BOARD FOR COUNSELING AND
2 DISCIPLINE.

3 (2) THE COMMISSIONER SHALL MAINTAIN AS CONFIDENTIAL AND
4 PRIVILEGED ANY DOCUMENT, MATERIAL, DATA, OR OTHER INFORMATION RECEIVED
5 WITH NOTICE OR THE UNDERSTANDING THAT IT IS CONFIDENTIAL OR PRIVILEGED
6 UNDER THE LAWS OF THE JURISDICTION THAT IS THE SOURCE OF THE DOCUMENT,
7 MATERIAL, DATA, OR OTHER INFORMATION.

8 (G) THE COMMISSIONER MAY ENTER INTO AGREEMENTS GOVERNING THE
9 SHARING AND USE OF CONFIDENTIAL INFORMATION CONSISTENT WITH THIS
10 SECTION.

11 (H) (1) ANY APPLICABLE PRIVILEGE OR CLAIM OF CONFIDENTIALITY IN
12 CONFIDENTIAL INFORMATION IS NOT WAIVED AS A RESULT OF:

13 (I) THE DISCLOSURE OF THE CONFIDENTIAL INFORMATION TO
14 THE COMMISSIONER UNDER THIS SECTION; OR

15 (II) THE SHARING OF THE CONFIDENTIAL INFORMATION AS
16 AUTHORIZED UNDER SUBSECTION (E) OF THIS SECTION.

17 (2) A PRIVILEGE ESTABLISHED UNDER THE LAW OF ANOTHER STATE
18 THAT IS SUBSTANTIALLY SIMILAR TO THE PRIVILEGE ESTABLISHED UNDER THIS
19 SECTION SHALL BE AVAILABLE AND ENFORCED IN ANY PROCEEDING IN, AND IN ANY
20 COURT OF, THE STATE.

21 (I) ANY CONFIDENTIAL INFORMATION SPECIFIED IN SUBSECTION (A)(1)
22 AND (4) OF THIS SECTION:

23 (1) IS SUBJECT TO SUBPOENA FOR DEFENDING IN AN ACTION THAT:

24 (I) SEEKS DAMAGES FROM THE APPOINTED ACTUARY
25 SUBMITTING THE RELATED MEMORANDUM IN SUPPORT OF AN OPINION SUBMITTED
26 UNDER § 5-201.1 OF THIS TITLE OR A PRINCIPLE-BASED VALUATION REPORT
27 DEVELOPED UNDER § 5-314(B)(1)(III) OF THIS SUBTITLE; AND

28 (II) IS BASED ON AN ACTION REQUIRED BY THIS SUBTITLE OR
29 REGULATIONS ADOPTED UNDER THIS SUBTITLE; AND

30 (2) MAY BE RELEASED BY THE COMMISSIONER WITH THE WRITTEN
31 CONSENT OF THE COMPANY.

1 **(J) ALL PARTS OF A MEMORANDUM IN SUPPORT OF AN OPINION SUBMITTED**
2 **UNDER § 5-201.1 OF THIS TITLE OR A PRINCIPLE-BASED VALUATION REPORT**
3 **DEVELOPED UNDER § 5-314(B)(1)(III) OF THIS SUBTITLE ARE NO LONGER**
4 **CONFIDENTIAL INFORMATION IF ANY PART OF THE MEMORANDUM OR REPORT IS:**

5 **(1) CITED BY THE COMPANY IN ITS MARKETING;**

6 **(2) PUBLICLY VOLUNTEERED TO OR BEFORE A GOVERNMENTAL UNIT**
7 **OTHER THAN A STATE INSURANCE DEPARTMENT; OR**

8 **(3) RELEASED BY THE COMPANY TO THE NEWS MEDIA.**

9 **5-317.**

10 **(A) THE COMMISSIONER MAY EXEMPT A SPECIFIC PRODUCT FORM OR**
11 **PRODUCT LINE OF A DOMESTIC COMPANY THAT HOLDS A CERTIFICATE OF**
12 **AUTHORITY ISSUED BY THE COMMISSIONER AND IS DOING BUSINESS ONLY IN THE**
13 **STATE FROM THE REQUIREMENTS OF § 5-313 OF THIS SUBTITLE IF:**

14 **(1) THE COMMISSIONER HAS ISSUED AN EXEMPTION IN WRITING TO**
15 **THE COMPANY;**

16 **(2) THE EXEMPTION HAS NOT BEEN REVOKED IN WRITING BY THE**
17 **COMMISSIONER; AND**

18 **(3) THE COMPANY COMPUTES RESERVES:**

19 **(I) USING ASSUMPTIONS AND METHODS USED BEFORE THE**
20 **OPERATIVE DATE OF THE VALUATION MANUAL; AND**

21 **(II) IN ACCORDANCE WITH ANY REQUIREMENTS ESTABLISHED**
22 **BY THE COMMISSIONER BY REGULATION.**

23 **(B) (1) A COMPANY THAT IS GRANTED AN EXEMPTION UNDER**
24 **SUBSECTION (A) OF THIS SECTION IS SUBJECT TO § 5-201 OF THIS TITLE AND §§**
25 **5-302 THROUGH 5-312 OF THIS SUBTITLE.**

26 **(2) WITH RESPECT TO A COMPANY THAT IS GRANTED AN EXEMPTION**
27 **UNDER SUBSECTION (A) OF THIS SECTION, ANY REFERENCE TO § 5-313 OF THIS**
28 **SUBTITLE FOUND IN § 5-201.1 OF THIS TITLE AND §§ 5-302 THROUGH 5-312 OF THIS**
29 **SUBTITLE IS NOT APPLICABLE.**

30 **(C) THE COMMISSIONER MAY EXEMPT A DOMESTIC COMPANY THAT HOLDS**
31 **A CERTIFICATE OF AUTHORITY ISSUED BY THE COMMISSIONER AND IS DOING**

1 BUSINESS IN THE STATE FROM THE REQUIREMENTS OF §§ 5-314 AND 5-315 OF THIS
2 SUBTITLE IF:

3 (1) THE DOMESTIC COMPANY HAS LESS THAN \$500,000,000 OF
4 ORDINARY LIFE PREMIUMS AND, IF THE DOMESTIC COMPANY IS A MEMBER OF A
5 GROUP OF LIFE INSURERS, THE GROUP HAS COMBINED ORDINARY LIFE PREMIUMS
6 OF LESS THAN \$1,000,000,000;

7 (2) (I) THE DOMESTIC COMPANY REPORTED TOTAL ADJUSTED
8 CAPITAL OF AT LEAST 450% OF THE AUTHORIZED CONTROL LEVEL RISK-BASED
9 CAPITAL IN THE MOST RECENT RISK-BASED CAPITAL REPORT; AND

10 (II) THE APPOINTED ACTUARY HAS PROVIDED AN UNQUALIFIED
11 OPINION ON THE RESERVES FOR THE PRIOR CALENDAR YEAR; AND

12 (3) ANY UNIVERSAL LIFE INSURANCE POLICIES WITH SECONDARY
13 GUARANTEES ISSUED OR ASSUMED BY THE DOMESTIC COMPANY WITH AN ISSUE
14 DATE ON OR AFTER THE OPERATIVE DATE OF THE VALUATION MANUAL DO NOT
15 EXCEED 5% OF THE TOTAL IN-FORCE RESERVES FOR THE DOMESTIC COMPANY.

16 (D) FOR PURPOSES OF SUBSECTION (C) OF THIS SECTION, ORDINARY LIFE
17 PREMIUMS ARE MEASURED AS DIRECT PREMIUM PLUS REINSURANCE ASSUMED
18 FROM AN UNAFFILIATED COMPANY, AS REPORTED IN THE ANNUAL STATEMENT FOR
19 THE PRIOR CALENDAR YEAR.

20 (E) (1) A DOMESTIC COMPANY THAT MEETS THE REQUIREMENTS OF
21 SUBSECTION (C) OF THIS SECTION SHALL:

22 (I) COMPUTE RESERVES:

23 1. USING ASSUMPTIONS AND METHODS USED BEFORE
24 THE OPERATIVE DATE OF THE VALUATION MANUAL; AND

25 2. IN ACCORDANCE WITH ANY REQUIREMENTS
26 ESTABLISHED BY THE COMMISSIONER IN REGULATION; AND

27 (II) FILE, BEFORE JULY 1 OF EACH YEAR, A STATEMENT WITH
28 THE COMMISSIONER CERTIFYING THAT THE DOMESTIC COMPANY MEETS THE
29 REQUIREMENTS OF SUBSECTION (C) OF THIS SECTION FOR THE CURRENT
30 CALENDAR YEAR BASED ON PREMIUMS AND OTHER VALUES FROM THE FINANCIAL
31 STATEMENTS FOR THE PRIOR CALENDAR YEAR.

32 (2) BEFORE SEPTEMBER 1 OF EACH YEAR, THE COMMISSIONER MAY
33 REJECT A STATEMENT FILED UNDER PARAGRAPH (1)(II) OF THIS SUBSECTION AND

1 REQUIRE A DOMESTIC COMPANY TO COMPLY WITH THE VALUATION MANUAL
2 REQUIREMENTS FOR LIFE INSURANCE RESERVES.

3 16-309.

4 (A) (1) IN THIS SECTION THE FOLLOWING WORDS HAVE THE MEANINGS
5 INDICATED.

6 (2) "OPERATIVE DATE OF THE VALUATION MANUAL" HAS THE
7 MEANING STATED IN § 5-201.1(A) OF THIS ARTICLE.

8 (3) "VALUATION MANUAL" HAS THE MEANING STATED IN § 5-201.1(A)
9 OF THIS ARTICLE.

10 [(a)] (B) This section applies to policies of life insurance issued:

11 (1) on or after January 1, 1989; or

12 (2) on or after an operative date that is before January 1, 1989, as specified
13 by the insurer if the insurer filed with the Commissioner written notice of an election to
14 comply with this section on a date before January 1, 1989.

15 [(b)] (C) (1) For purposes of this section, the date of issue of a policy is the
16 date as of which the rated age of the insured is determined.

17 (2) Except as provided in subsection (g) of this section, and subject to
18 paragraph (3) of this subsection, the adjusted premiums for a policy shall be calculated on
19 an annual basis and shall be a uniform percentage of the premiums specified in the policy
20 for each policy year so that the present value of the adjusted premiums shall equal the sum
21 of:

22 (i) the present value of the future guaranteed benefits, calculated
23 as of the date of issue, provided by the policy;

24 (ii) 1% of either:

25 1. the amount of insurance if the insurance is a uniform
26 amount; or

27 2. the average amount of insurance at the beginning of each
28 of the first 10 policy years; and

29 (iii) subject to paragraphs (4) and (5) of this subsection, 125% of the
30 nonforfeiture net level premium.

1 (3) In calculating adjusted premiums, any extra premium for impairments
2 or special hazards or any uniform annual contract charge or policy fee specified in the policy
3 in a statement of the method used to calculate cash surrender values and paid-up
4 nonforfeiture benefits is excluded.

5 (4) The nonforfeiture net level premium shall equal the present value of
6 the guaranteed benefits, calculated as of the date of issue, provided by the policy divided
7 by the present value of an annuity of 1 per year, calculated as of the date of issue, payable
8 on the date of issue of the policy and on each anniversary on which a premium is due.

9 (5) In applying the percentage specified in paragraph (2)(iii) of this
10 subsection, a nonforfeiture net level premium may not be considered to exceed 4% of:

- 11 (i) the amount of insurance if the insurance is a uniform amount; or
12 (ii) the average amount of insurance at the beginning of each of the
13 first 10 policy years.

14 **[(c)] (D)** (1) If a policy provides for unscheduled changes in benefits or
15 premiums on a basis guaranteed by the policy or provides an option for changes in benefits
16 or premiums, other than a change to a new policy, the adjusted premiums and present
17 values initially shall be calculated on the assumption that future benefits and premiums
18 will not change from those stipulated at the date of issue of the policy.

19 (2) When benefits or premiums are changed, the future adjusted
20 premiums, nonforfeiture net level premiums, and present values shall be recalculated as of
21 the date of the change in the policy in accordance with this section on the assumption that
22 future benefits and premiums will not change from those stipulated by the policy
23 immediately after the change.

24 **[(d)] (E)** (1) Except as provided in subsection **[(g)] (H)** of this section, the
25 future adjusted premiums recalculated under subsection **[(c)(2)] (D)(2)** of this section shall
26 be a uniform percentage of the future premiums specified in the policy for each policy year
27 so that the present value of the future adjusted premiums, calculated as of the time of the
28 change to the newly defined benefits or premiums, shall equal the remainder of:

29 (i) the sum of the present value of the future guaranteed benefits,
30 calculated as of the time of the change to the newly defined benefits or premiums, provided
31 by the policy and any additional expense allowance; less

32 (ii) any cash surrender value or the present value of any paid-up
33 nonforfeiture benefit under the policy, calculated as of the time of the change to the newly
34 defined benefits or premiums.

35 (2) In recalculating future adjusted premiums, any extra premium for
36 impairments or special hazards or any uniform annual contract charge or policy fee

1 specified in the policy in a statement of the method used to calculate cash surrender values
2 and paid-up nonforfeiture benefits is excluded.

3 **[(e)] (F)** The additional expense allowance, calculated as of the time of the
4 change to the newly defined benefits or premiums, is the sum of:

5 (1) 1% of the remainder, if positive, of:

6 (i) the average amount of insurance at the beginning of each of the
7 first 10 policy years subsequent to the change; less

8 (ii) the average amount of insurance before the change at the
9 beginning of each of the first 10 policy years subsequent to the most recent previous change
10 or, if there has not been a previous change, subsequent to the date of issue of the policy;
11 and

12 (2) 125% of the increase, if positive, in the nonforfeiture net level premium.

13 **[(f)] (G)** The recalculated nonforfeiture net level premium equals the quotient
14 of:

15 (1) the sum of:

16 (i) the nonforfeiture net level premium applicable before the change
17 multiplied by the present value of an annuity of 1 per year payable on each anniversary of
18 the policy on or subsequent to the date of change on which a premium would have been due
19 had the change not occurred; and

20 (ii) the present value of the increase in future guaranteed benefits
21 provided by the policy; divided by

22 (2) the present value of an annuity of 1 per year payable on each
23 anniversary of the policy on or after the date of change on which a premium is due.

24 **[(g)] (H)** (1) This subsection applies only to policies issued on a substandard
25 basis that provide reduced graded amounts of insurance so that, in each policy year, the
26 policy has the same tabular mortality cost as an otherwise similar policy issued on a
27 standard basis that provides higher uniform amounts of insurance.

28 (2) Notwithstanding any other provision of this section, the adjusted
29 premiums and present values for a substandard policy subject to this subsection may be
30 calculated as if the policy was issued to provide the higher uniform amounts of insurance
31 on the standard basis.

32 **[(h)] (I)** (1) (i) For policies of ordinary life insurance, the adjusted
33 premiums and present values referred to in this subtitle shall be calculated based on:

1 1. the Commissioners 1980 Standard Ordinary Mortality
2 Table; or

3 2. at the election of the insurer for one or more specified life
4 insurance plans, the Commissioners 1980 Standard Ordinary Mortality Table with 10-year
5 select mortality factors.

6 (ii) For policies of industrial life insurance, the adjusted premiums
7 and present values referred to in this subtitle shall be calculated based on the
8 Commissioners 1961 Standard Industrial Mortality Table.

9 (2) Adjusted premiums and present values for policies issued in any
10 calendar year shall be calculated based on an interest rate that does not exceed the
11 nonforfeiture interest rate calculated under this section:

12 (i) for that calendar year; or

13 (ii) at the option of the insurer, for the immediately preceding
14 calendar year.

15 **[(i)] (J)** (1) Any cash surrender value available under a paid-up
16 nonforfeiture benefit, including any paid-up dividend additions, regardless of whether
17 required under § 16-303 of this subtitle, shall be calculated based on the mortality table
18 and interest rate used to determine the amount of the paid-up nonforfeiture benefit and
19 any paid-up dividend additions.

20 (2) An insurer may not calculate the amount of any guaranteed paid-up
21 nonforfeiture benefit including any paid-up additions under the policy based on an interest
22 rate lower than the rate specified in the policy for calculating cash surrender values.

23 (3) In calculating the present value of any paid-up term insurance with
24 any accompanying pure endowment offered as a nonforfeiture benefit, an insurer may not
25 assume a mortality rate greater than the mortality rates shown in:

26 (i) for policies of ordinary life insurance, the Commissioners 1980
27 Extended Term Insurance Table; and

28 (ii) for policies of industrial life insurance, the Commissioners 1961
29 Industrial Extended Term Insurance Table.

30 (4) The calculation of adjusted premiums and present values for insurance
31 issued on a substandard basis may be based on appropriate modifications of the tables
32 required under this section.

33 (5) **(I)** **[In] FOR POLICIES ISSUED BEFORE THE OPERATIVE DATE**
34 **OF THE VALUATION MANUAL, IN** determining the minimum nonforfeiture standard, an
35 insurer may substitute **[an] ANY COMMISSIONERS STANDARD** ordinary mortality table

1 adopted after 1980 by the National Association of Insurance Commissioners and approved
2 by regulation of the Commissioner for the Commissioners 1980 Standard Ordinary
3 Mortality Table, with or without 10-year select mortality factors or for the Commissioners
4 1980 Extended Term Insurance Table.

5 **(II) 1. SUBJECT TO SUBSUBPARAGRAPH 2 OF THIS**
6 **SUBPARAGRAPH, FOR POLICIES ISSUED ON OR AFTER THE OPERATIVE DATE OF THE**
7 **VALUATION MANUAL, THE VALUATION MANUAL SHALL PROVIDE THE**
8 **COMMISSIONERS STANDARD MORTALITY TABLE FOR USE IN DETERMINING THE**
9 **MINIMUM NONFORFEITURE STANDARD THAT MAY BE SUBSTITUTED FOR:**

10 **A. THE COMMISSIONERS 1980 STANDARD ORDINARY**
11 **MORTALITY TABLE, WITH OR WITHOUT 10-YEAR SELECT MORTALITY FACTORS; OR**

12 **B. THE COMMISSIONERS 1980 EXTENDED TERM**
13 **INSURANCE TABLE.**

14 **2. IF THE COMMISSIONER APPROVES BY REGULATION**
15 **ANY COMMISSIONERS STANDARD ORDINARY MORTALITY TABLE ADOPTED BY THE**
16 **NAIC FOR USE IN DETERMINING THE MINIMUM NONFORFEITURE STANDARD FOR**
17 **POLICIES ISSUED ON OR AFTER THE OPERATIVE DATE OF THE VALUATION MANUAL,**
18 **THE MINIMUM NONFORFEITURE STANDARD APPROVED BY THE COMMISSIONER**
19 **SUPERSEDES THE MINIMUM NONFORFEITURE STANDARD PROVIDED BY THE**
20 **VALUATION MANUAL.**

21 **(6) (I) [In] FOR POLICIES ISSUED BEFORE THE OPERATIVE DATE**
22 **OF THE VALUATION MANUAL, IN determining the minimum nonforfeiture standard, an**
23 **insurer may substitute [an] ANY COMMISSIONERS STANDARD industrial mortality table**
24 **adopted after 1980 by the National Association of Insurance Commissioners and approved**
25 **by regulation of the Commissioner for the Commissioners 1961 Standard Industrial**
26 **Mortality Table or for the Commissioners 1961 Industrial Extended Term Insurance Table.**

27 **(II) 1. SUBJECT TO SUBSUBPARAGRAPH 2 OF THIS**
28 **SUBPARAGRAPH, FOR POLICIES ISSUED ON OR AFTER THE OPERATIVE DATE OF THE**
29 **VALUATION MANUAL, THE VALUATION MANUAL SHALL PROVIDE THE**
30 **COMMISSIONERS STANDARD MORTALITY TABLE FOR USE IN DETERMINING THE**
31 **MINIMUM NONFORFEITURE STANDARD THAT MAY BE SUBSTITUTED FOR:**

32 **A. THE COMMISSIONERS 1961 STANDARD INDUSTRIAL**
33 **MORTALITY TABLE; OR**

34 **B. THE COMMISSIONERS 1961 INDUSTRIAL EXTENDED**
35 **TERM INSURANCE TABLE.**

1 **2. IF THE COMMISSIONER APPROVES BY REGULATION**
 2 **ANY COMMISSIONERS STANDARD INDUSTRIAL MORTALITY TABLE ADOPTED BY THE**
 3 **NAIC FOR USE IN DETERMINING THE MINIMUM NONFORFEITURE STANDARD FOR**
 4 **POLICIES ISSUED ON OR AFTER THE OPERATIVE DATE OF THE VALUATION MANUAL,**
 5 **THE MINIMUM NONFORFEITURE STANDARD APPROVED BY THE COMMISSIONER**
 6 **SUPERSEDES THE MINIMUM NONFORFEITURE STANDARD PROVIDED BY THE**
 7 **VALUATION MANUAL.**

8 (j) **(1) [The] FOR POLICIES ISSUED BEFORE THE OPERATIVE DATE OF**
 9 **THE VALUATION MANUAL, THE nonforfeiture interest rate per year for a policy issued**
 10 **during a calendar year shall equal THE GREATER OF:**

11 **(I) 4%; OR**

12 **(II) 125% of the calendar year statutory valuation interest rate for**
 13 **the policy, in accordance with the standard valuation law, set forth in Title 5, Subtitle 3 of**
 14 **this article, rounded to the nearest 0.25%.**

15 **(2) FOR POLICIES ISSUED ON OR AFTER THE OPERATIVE DATE OF THE**
 16 **VALUATION MANUAL, THE NONFORFEITURE INTEREST RATE PER YEAR FOR A**
 17 **POLICY ISSUED DURING A CALENDAR YEAR SHALL BE THE INTEREST RATE**
 18 **PROVIDED BY THE VALUATION MANUAL.**

19 (k) Notwithstanding any other provision of this article, an insurer that refiles
 20 nonforfeiture values or refiles the method of calculating nonforfeiture values for a policy
 21 form that has been previously approved need not refile any other provision of the policy
 22 form if the refileing only involves a change in the interest rate or mortality table used to
 23 calculate nonforfeiture values.

24 SECTION 3. AND BE IT FURTHER ENACTED, That, in the event of a conflict
 25 between Maryland law and the valuation manual, as defined in § 5–201.1(a) of the
 26 Insurance Article, as enacted by Section 2 of this Act, the conflict shall be resolved in favor
 27 of Maryland law.

28 SECTION ~~3~~ 4. AND BE IT FURTHER ENACTED, That:

29 (a) This Act is contingent on:

30 (1) the adoption of the valuation manual, as defined in § 5–201.1(a) of the
 31 Insurance Article, as enacted by Section 2 of this Act, in accordance with § 5–313(b)(1) of
 32 the Insurance Article, as enacted by Section 2 of this Act; and

33 (2) the occurrence of the events described in § 5–313(b)(2) and (3) of the
 34 Insurance Article, as enacted by Section 2 of this Act.

1 (b) The Maryland Insurance Commissioner shall notify the Department of
2 Legislative Services within 5 days after the contingencies under subsection (a) have been
3 met.

4 (c) If notice of the satisfaction of the contingencies under subsection (a) of this
5 section is not received by the Department on or before January 1, 2017, this Act shall be
6 null and void without the necessity of further action by the General Assembly.

7 SECTION ~~4~~ 5. AND BE IT FURTHER ENACTED, That, subject to Section 3 of this
8 Act, this Act shall take effect October 1, 2015.

Approved:

Governor.

President of the Senate.

Speaker of the House of Delegates.