

**THE INSURANCE CODE OF 1956 (EXCERPT)**  
**Act 218 of 1956**

**500.4061 Flexible premium universal life insurance policies; provisions applicable to minimum cash surrender values; minimum paid-up nonforfeiture benefits.**

Sec. 4061.

(1) All of the following apply to the minimum cash surrender values for flexible premium universal life insurance policies:

(a) Minimum cash surrender values for flexible premium universal life insurance policies must be determined separately for the basic policy and any benefits and riders for which premiums are paid separately. For a basic policy and any benefits and riders for which premiums are not paid separately, all of the following requirements apply:

(i) All accumulations must be 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. 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 must be equal to the accumulation to that date of the premiums paid minus the accumulations to that date of all of the following minus any unamortized unused initial and additional expense allowances:

(A) The benefits charges.

(B) The averaged administrative expense charges for the first policy year and any insurance-increase years.

(C) Actual administrative expense charges for other years.

(D) Initial and additional acquisition expense charges not exceeding the initial or additional expense allowances, respectively.

(E) Any service charges actually made.

(F) Any deductions made for partial withdrawals.

(ii) Interest on the premiums and on all charges referred to in subparagraph (i) (A) through (F) must be accumulated from and to such dates as are consistent with the manner in which interest is credited in determining the policy value.

(iii) Service charges must exclude charges for cash surrender or election of a paid-up nonforfeiture benefit and 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.

(iv) Benefit charges must 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, the director 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.

(v) If the amount of insurance is subsequently increased on request of the policyowner or by the terms of the policy, an additional expense allowance and an unused additional expense allowance must be determined on a basis consistent with this subsection and with section 4060(5) paragraph 13 using the face amount and the latest maturity date permitted at that time under the policy.

(vi) The unamortized unused initial expense allowance during the policy year beginning on the policy anniversary at age  $x+t$ , where "x" is the same issue age, must be the unused initial expense allowance multiplied by

$\frac{ax+t}{ax}$

where  $ax+t$  and  $ax$  are present values of an annuity of 1 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 must be the unused additional expense allowance multiplied by a similar ratio of annuities, with a  $x$  replaced by an annuity beginning on the date as of which the additional expense allowance was determined.

(b) As used in this subsection:

(i) "Additional acquisition expense charges" means 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.

(ii) "Administrative expense charges" means 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.

(iii) "Averaged administrative expense charges" means those charges that would have been imposed in a year if the charge rate or rates for each transaction or period within that year had been equal to the arithmetic average of the corresponding charge rates that the policy states will be imposed in policy years 2 through 20 in determining the policy value.

(iv) "Initial acquisition expense charges" means 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.

(v) "Initial expense allowance" means the allowance provided by items (ii), (iii), and (iv) of section 4060(5) paragraph 1 or by items (ii) and (iii) of section 4060(5) paragraph 9, as applicable, 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.

(vi) "Insurance-increase year" means the year beginning on the date of increase in the amount of insurance by policyowner request or by the terms of the policy.

(vii) "Unused initial expense allowance" means the excess, if any, of the initial expense allowance over the initial acquisition expense charges.

(2) All of the following provisions apply to the minimum cash surrender values for fixed premium universal life insurance policies:

(a) The minimum cash surrender values must be determined separately for the basic policy and any benefits and riders for which premiums are paid separately. All of the following requirements apply to a basic policy and any benefits and riders for which premiums are not paid separately:

(i) The minimum cash surrender value before adjustment for indebtedness and dividend credits that is available on a date as of which interest is credited to the policy is equal to  $(A - B - C - D)$ .

(ii) Future guaranteed benefits are determined by both of the following:

(A) Projecting the policy value, taking into account future premiums, if any, and using all guarantees of interest, mortality, expense deductions, and other guarantees, that depend upon the policy value, contained in the policy or declared by the insurer.

(B) Taking into account any benefits guaranteed in the policy or by declaration that do not depend on the policy value.

(iii) All present values must be determined using an interest rate or rates specified by section 4060 for policies issued in the same year and the mortality rates specified by section 4060 for policies issued in the same year or contained in any other table as approved by the director for this purpose.

(b) As used in this subsection:

(i) "A" means the present value of all future guaranteed benefits.

(ii) "B" means the present value of future adjusted premiums. The adjusted premiums are calculated as described in section 4060(5) paragraphs 1 to 6 and 9, as applicable. If section 4060(5) paragraph 9 is applicable, the nonforfeiture net level premium is equal to the quantity

PVFB.

ax

(iii) "C" means the present value of any quantities analogous to the nonforfeiture net level premium that arise because of guarantees declared by the insurer after the issue date of the policy. Also, a x must 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. The types of quantities included in "C" are increased current interest rate credits guaranteed for a future period, decreased current mortality rate charges guaranteed for a future period, or decreased current expense charges guaranteed for a future period.

(iv) "D" means the sum of any quantities analogous to "B" which arise because of structural changes in the policy.

(v) "PVFB" equals 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.

(vi) "Structural changes" means those changes that are separate from the automatic workings of the policy. Structural changes usually would be initiated by the policy owner and include changes in the guaranteed benefits, changes in latest maturity date, or changes in allowable premium payment period.

(vii) "ax" equals the present value of an annuity of 1 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.

(3) All of the following apply to minimum paid-up nonforfeiture benefits:

(a) If a universal life insurance policy provides for the optional election of a paid-up nonforfeiture benefit, the present value of the paid-up nonforfeiture benefit must be at least equal to the cash surrender value provided for by the policy on the effective date of the election. The present value must be based on mortality and interest standards at least as favorable to the policyowner as 1 of the following:

(i) For a flexible premium universal life insurance policy, the mortality and interest bases guaranteed in the policy for determining the policy value.

(ii) For a fixed premium policy, the mortality and interest standards permitted for paid-up nonforfeiture benefits in section 4060.

(b) Instead of the paid-up nonforfeiture benefit, the insurer may substitute, on 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.

(c) Any secondary guarantees should be taken into consideration when computing minimum paid-up nonforfeiture benefits.

(d) A charge may be made at the surrender of the policy if the result after the deduction of the charge is not less than the minimum cash surrender value required by this section.

(e) To preserve equity between policies on a premium paying basis and on a paid-up basis, present values must comply with subsection (1) for flexible premium universal life insurance policies and with subsection (2) for fixed premium universal life insurance policies.

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