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

500.837 Definitions; valuation requirements for universal life insurance policies.

Sec. 837. (1) As used in this section:

(a) "A" means the present value of all future guaranteed benefits at the date of valuation.

(b) "B" means the quantity

PVFBa
a

(c) "C" is the quantity

((g)
-
(h)) (a) (r)
a

where (g) and (h) are the same as (g) and (h) as defined in section 834(2) 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.

(d) "D" is the sum of any additional quantities analogous to "C" that arise because of structural changes 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.

(e) "Guaranteed maturity fund at any duration" means that amount which, together with future guaranteed maturity premiums, will mature the policy based on all policy guarantees at issue.

(f) "Guaranteed maturity premium for fixed premium universal life insurance policies" shall be the premium defined in the policy that at issue provides the minimum policy guarantees.

(g) "Guaranteed maturity premium for flexible premium universal life insurance policies" means 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 for an amount that is in accordance with the policy structure. If there is no applicable latest maturity date, the highest age in the valuation mortality table shall be used.

(h) "Maturity amount" means the initial death benefit if the death benefit is level over the lifetime of the policy except for the existence of a minimum death benefit corridor, or means the specific amount if 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.

(i) "PVFB" means 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.

(j) "Structural changes" are those changes that are separate from the automatic workings of the policy. Such changes usually would be initiated by the policyholder and include changes in the guaranteed benefits, changes in latest maturity date, or changes in allowable premium payment period. For fixed premium universal life policies with redetermination of all credits and charges no more frequently than annually, on policy anniversaries, structural changes also include changes in guaranteed benefits, or in fixed premiums, unanticipated by the guaranteed maturity premium for such policies at the date of issue, even if such changes arise from automatic workings of the policy.

(k) The letter "r" is equal to 1, 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.

(*l*) The letter "t" means the duration of the policy.

(m) The letter "x" means the issue age.

(n) "a_x" and "a_{x+t}" are present values of an annuity of 1 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.

(2) All of the following are valuation requirements for universal life insurance policies:

(a) The minimum valuation standard for universal life insurance policies shall be the commissioner's reserve valuation method as described in this section and the tables and interest rates as specified in this section.

(b) 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 net level premium reserves shall be equal to (A-B)(r).

(c) 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 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.

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

(e) The recomputation of "B", for fixed premium universal life structural changes, shall exclude from "PVFB", the present value of future guaranteed benefits, those guaranteed benefits that are funded by the excess of the insurer's declared guarantees of interest, mortality and expenses, over the guarantees contained in the policy at the date of issue.

(f) Future guaranteed benefits shall be determined by both of the following:

(*i*) 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, etc., contained in the policy or declared by the insurer.

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

(g) To the extent that the insurer declares guarantees more favorable than the contractual guarantees in the policy, the declared guarantees shall be applicable to the determination of future guaranteed benefits.

(h) All present values shall be determined using all of the following:

(*i*) An interest rate or rates specified in section 834(1) for policies issued in the same year.

(*ii*) The mortality rates specified in section 834(1) for policies issued in the same year or contained in such other table as may be approved by the commissioner for this purpose.

(*iii*) Any other tables needed to value supplementary benefits provided by a rider that is being valued together with the policy.

(i) The mortality and interest bases for calculating present values are the minimum standards specified in section 834(1).

(j) 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 the following:

(*i*) The reserve calculated according to the method, the mortality table, and the rate of interest actually used.

(*ii*) 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.

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

$$\frac{PVFB}{a}$$

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

$$\frac{PVFB}{a} + \frac{(g)-(h)}{a} .$$

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