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MEMORANDUM

TO: Interstate Insurance Product Regulation Commission

FROM: Product Standards Committee

DATE: March 28, 2008

SUBJECT: Mortality Table Change Standards

Recommendation: The Product Standards Committee (“PSC”) recommends adoption of the Mortality Table Change Standards as proposed. There may be occasion in the future for a company to replace the applicable mortality table in a filing originally approved by the IIPRC. In addition, the PSC continues to support the exclusion of these standards from the “mix and match” process because such a change represents a critical substantive amendment of a state-approved form, which is outside of the mix and match concept.

Issue: The Industry Advisory Committee (“IAC”) stated to the Management Committee that the Mortality Table Change Standards should not be adopted unless Appendix A were amended to make the mix and match process available for these standards. The IAC has asked for more information about the PSC’s recommendations.

Background: Beginning January 1, 2009, insurers are required to use the 2001 Commissioners Standard Ordinary Mortality Table (2001 CSO) as a minimum valuation and nonforfeiture standard for all ordinary life insurance policies. As this date is not far into the future, one would expect that all life filings submitted to the Commission would use 2001 CSO as the minimum standard. Also, one would expect that by now most companies would have filed new products with the individual states to replace the older products with values based on the 1980 CSO.

Nevertheless, during the development of Appendix A to the product filing rule,¹ the IAC approached the PSC with the idea of updating the older state-filed products by changing the mortality basis through a Commission-approved filing. The PSC decided not to include standards for this concept in the appendix, for the reasons detailed below.

On a parallel track to the Appendix A drafting process, the Mortality Table Change Standards were developed at the NAIC level and then recommended by the PSC for adoption. The

¹ The product filing rule is the adopted Operating Procedure for the Filing and Approval of Product Filings. Appendix A to the product filing rule is a list of filing types approved by the Commission that can be used with state approved forms.

Management Committee approved these standards on February 25. Consistent with its original determination, the PSC does not support mixing and matching the Mortality Table Change Standards with state-approved forms. No amendment to Appendix A is anticipated, especially given the extensive consideration undertaken during six months preceding its adoption.

The IAC has expressed that the only immediate purpose for these standards was to allow the change of the minimum standard from 1980 CSO to 2001 CSO for previously filed state forms. Hence, the IAC believes there is no need for the Mortality Table Change Standards if they are not available for that purpose.

- Why does the PSC not support mix and match for these standards?

When developing the standards at issue, the NAIC Interstate Compact National Standards Working Group team determined that a change of mortality table can only be accomplished by replacing the applicable pages of the base policy. If the mortality table were changed by means of a rider or endorsement, the result would be a policy that would contain two sets of cash values because one set would be in the state-filed base policy and the other set would be in the Commission-filed rider or endorsement. The regulators believe this scenario would be misleading to consumers. Therefore, the working group concluded, and the PSC agrees, that the only way to avoid this result would be to require replacement pages so that the policy would only contain a single set of correct cash value pages.

Replacement pages are not within the mix and match concept. Filing replacement pages for state filed forms with the compact would amount to a substantive modification within a state-approved form, which is beyond the scope of the mix and match process and may be beyond the Commission's authority. The mix and match process was envisioned as a temporary procedure by which companies can add to or combine state-approved forms with Commission-approved products until a full suite of uniform standards is available through the Commission.

During consideration of these standards, the PSC further observed that it would be very burdensome, if not virtually impossible, for the Commission reviewer to verify compliance with the applicable state nonforfeiture laws without being able to access and review all state forms whose pages were to be replaced.

It is also not clear what form number would appear on the replacement pages if the Commission accepted them. Lastly but very importantly, should there ever be a consumer complaint, it is not clear what standard would be used to judge compliance with the applicable laws.

Conclusion: For these reasons, the PSC continues to believe it would not be appropriate to seek amendment of Appendix A to include the Mortality Table Change Standards. Despite this, the PSC recommends adoption of these standards so that they are available going forward.