



House of Representatives

General Assembly

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Substitute House Bill No. 6613

House of Representatives, April 4, 2013

The Committee on Insurance and Real Estate reported through REP. MEGNA of the 97th Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

AN ACT CONCERNING CHANGES TO THE STANDARD VALUATION LAW AND THE USE OF THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS' VALUATION MANUAL.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Section 38a-78 of the general statutes is repealed and the
2 following is substituted in lieu thereof (*Effective October 1, 2013*):

3 (a) The commissioner shall annually value, or cause to be valued,
4 the reserve liabilities, hereinafter called reserves, for all outstanding
5 life insurance policies and annuity and pure endowment contracts of
6 every life insurance company doing business in this state, except that
7 in the case of an alien company, the valuation shall be limited to its
8 United States business. [, and may certify the amount of any such
9 reserves, specifying the mortality table or tables, rate or rates of
10 interest, and methods, including net level premium method or other,
11 used in the calculation of such reserves.] In calculating such reserves,
12 [he] the commissioner may use group methods and approximate
13 averages for fractions of a year or otherwise. In lieu of the valuation of

14 the reserves [herein] required of any foreign or alien company, [he] the
15 commissioner may accept [any] a valuation made, or caused to be
16 made, by the insurance [supervisory] regulatory official of any state or
17 other jurisdiction when such valuation complies with the minimum
18 standard [herein] provided [and if the official of such state or
19 jurisdiction accepts as sufficient and valid for all legal purposes the
20 certificate of valuation of the commissioner when such certificate states
21 the valuation to have been made in a specified manner according to
22 which the aggregate reserves would be at least as large as if they had
23 been computed in the manner prescribed by the law of that state or
24 jurisdiction] in this section.

25 (b) (1) Every life insurance company doing business in this state
26 shall annually submit the opinion of a qualified actuary as to whether
27 the reserves and related actuarial items held in support of the policies
28 and contracts specified by the commissioner by [regulation]
29 regulations adopted in accordance with the provisions of chapter 54
30 are computed appropriately, are based on assumptions [which] that
31 satisfy contractual provisions, are consistent with prior reported
32 amounts and comply with applicable laws of this state. The
33 commissioner [by regulation] shall define by regulation the specifics of
34 [this] such opinion and add any other items deemed to be necessary to
35 its scope. For the purposes of this section, "qualified actuary" means a
36 member in good standing of the American Academy of Actuaries who
37 meets the requirements set forth in regulations adopted in accordance
38 with the provisions of chapter 54.

39 (2) (A) Unless exempted by regulations adopted in accordance with
40 the provisions of chapter 54, every life insurance company shall also
41 include in the opinion required under subdivision (1) of this
42 subsection an opinion of the same qualified actuary as to whether the
43 reserves and related actuarial items held by the company in support of
44 such policies and contracts, when considered in light of the assets held
45 by the company with respect to the reserves and related actuarial
46 items, including, but not limited to, the investment earnings on the
47 assets and the considerations anticipated to be received and retained

48 under such policies and contracts, make adequate provision for the
49 company's obligations under such policies and contracts, including,
50 but not limited to, the benefits under and expenses associated with
51 such policies and contracts.

52 (B) Every qualified actuary that provides an opinion under this
53 subsection shall prepare and provide to the life insurance company a
54 memorandum that supports such opinion. If a life insurance company
55 fails to provide a supporting memorandum at the request of the
56 commissioner or the commissioner determines that a supporting
57 memorandum provided by a life insurance company fails to meet the
58 standards prescribed by the commissioner or is otherwise
59 unacceptable to the commissioner, the commissioner may engage the
60 services by employment or by contract of a qualified actuary, at such
61 company's expense, to review such opinion and the basis for such
62 opinion and to prepare the supporting memorandum required under
63 this subdivision. The commissioner shall adopt regulations, in
64 accordance with the provisions of chapter 54, to specify (i) the form
65 and substance of and standards for the supporting memorandum, and
66 (ii) the time period for a life insurance company to provide a
67 supporting memorandum after the commissioner has requested such
68 memorandum.

69 (3) The commissioner may adopt regulations, in accordance with the
70 provisions of chapter 54, to provide for a transition period for a life
71 insurance company to establish any higher reserves that the qualified
72 actuary may deem necessary in order to render the opinion required
73 under this subsection.

74 (4) Every opinion required under this subsection shall:

75 [(2) The opinion shall be] (A) Be submitted with the annual
76 statement reflecting the valuation of such [reserve liabilities] reserves
77 for each year ending on or after December 31, 1991; [.]

78 [(3) The opinion shall apply] (B) Apply to all business in force
79 including individual and group health insurance plans, in form and

80 substance acceptable to the commissioner as specified by regulation; [.]
81 and

82 [(4) The opinion shall be] (C) Be based on standards adopted from
83 time to time by the [actuarial standards board] Actuarial Standards
84 Board and on such additional standards as the commissioner may [by
85 regulation] prescribe by regulations adopted in accordance with the
86 provisions of chapter 54.

87 (5) In the case of an opinion required to be submitted by a foreign or
88 alien company, the commissioner may accept the opinion filed by that
89 company with the insurance [supervisory] regulatory official of
90 another state if the commissioner determines that the opinion
91 reasonably meets the requirements applicable to a company domiciled
92 in this state.

93 [(6) For the purposes of this section, "qualified actuary" means a
94 member in good standing of the American Academy of Actuaries who
95 meets the requirements set forth in regulations the commissioner may
96 prescribe.]

97 [(7)] (6) Except in cases of fraud or wilful misconduct, the qualified
98 actuary shall not be liable for damages to any person, other than the
99 insurance company and the commissioner, for any act, error, omission,
100 decision or conduct with respect to the actuary's opinion.

101 [(8) Disciplinary action by the commissioner against the company or
102 the qualified actuary shall be as defined in such regulations by the
103 commissioner.

104 (9) A memorandum, in form and substance acceptable to the
105 commissioner as specified by regulation, shall be prepared to support
106 each actuarial opinion.

107 (10) If the insurance company fails to provide a supporting
108 memorandum at the request of the commissioner within a period
109 specified by regulation or the commissioner determines that the
110 supporting memorandum provided by the insurance company fails to

111 meet the standards prescribed by the regulations or is otherwise
112 unacceptable to the commissioner, the commissioner may engage a
113 qualified actuary at the expense of the company to review the opinion
114 and the basis for the opinion and prepare such supporting
115 memorandum as is required by the commissioner.

116 (11) Any memorandum in support of the opinion, and any other
117 material provided by the company to the commissioner in connection
118 therewith, shall be kept confidential by the commissioner and shall not
119 be made public and shall not be subject to subpoena, other than for the
120 purpose of defending an action seeking damages from any person by
121 reason of any action required by this section or by regulations adopted
122 under this section provided the memorandum or other material may
123 otherwise be released by the commissioner (A) with the written
124 consent of the company or (B) upon the request of the American
125 Academy of Actuaries stating that the memorandum or other material
126 is required for the purpose of professional disciplinary proceedings
127 and setting forth procedures satisfactory to the commissioner for
128 preserving the confidentiality of the memorandum or other material.
129 Once any portion of the confidential memorandum is referred to by
130 the company in its marketing or is referred to before any governmental
131 agency other than a state insurance department or is released by the
132 company to the news media, all portions of the confidential
133 memorandum shall no longer be confidential.

134 (12) Any regulation adopted by the commissioner under the
135 provisions of this subsection shall be adopted in accordance with the
136 provisions of chapter 54.

137 (c) (1) Every life insurance company, except as exempted by or
138 pursuant to regulation, shall annually include in the opinion required
139 by subdivision (1) of subsection (b) of this section, an opinion of the
140 same qualified actuary as to whether the reserves and related actuarial
141 items held in support of the policies and contracts specified by the
142 commissioner by regulation, when considered in light of the assets
143 held by the company with respect to the reserves and related actuarial

144 items, including but not limited to the investment earnings on the
145 assets and the considerations anticipated to be received and retained
146 under the policies and contracts, make adequate provision for the
147 company's obligations under the policies and contracts, including but
148 not limited to the benefits under and expenses associated with the
149 policies and contracts.

150 (2) The commissioner may provide by regulation for a transition
151 period for establishing any higher reserves which the qualified actuary
152 may deem necessary in order to render the opinion required by this
153 section.]

154 (c) (1) (A) Except as provided in subparagraphs (C) to (E), inclusive,
155 of this subdivision, any memorandum submitted pursuant to
156 subparagraph (B) of subdivision (2) of subsection (b) of this section
157 and all documents, materials or other information in the possession or
158 control of the Insurance Department relating to such memorandum
159 shall (i) be confidential by law and privileged, (ii) not be subject to
160 disclosure under section 1-210, (iii) not be subject to subpoena, and (iv)
161 not be subject to discovery or admissible in evidence in any civil action
162 in this state. The commissioner may use such memorandum,
163 documents, materials or other information in the furtherance of any
164 regulatory or legal action brought as part of the commissioner's official
165 duties.

166 (B) Neither the commissioner nor any person who receives such
167 memorandum or documents, materials or other information relating to
168 such memorandum while acting under the authority of the
169 commissioner shall be permitted or required to testify in any civil
170 action concerning such memorandum, documents, materials or other
171 information.

172 (C) A supporting memorandum submitted pursuant to
173 subparagraph (B) of subdivision (2) of subsection (b) of this section
174 and any documents, materials or other information in the possession
175 or control of the Insurance Department relating to such memorandum
176 may be subject to subpoena for the purpose of defending an action for

177 damages from the qualified actuary who prepared such memorandum
178 by reason of an action required by this section or any regulations
179 adopted thereunder.

180 (D) The commissioner may release such memorandum or
181 documents, materials or other information in the possession or control
182 of the Insurance Department relating to such memorandum (i) with
183 the written consent of the life insurance company, or (ii) to the
184 American Academy of Actuaries upon request from said academy that
185 such memorandum, documents, materials or other information are
186 required for the purpose of professional disciplinary proceedings and
187 such request sets forth procedures satisfactory to the commissioner for
188 preserving the confidentiality of the memorandum and documents,
189 materials or other information relating to such memorandum.

190 (E) If any portion of such memorandum is (i) cited by the life
191 insurance company in such company's marketing, (ii) cited by such
192 company before a governmental agency other than a state insurance
193 department, or (iii) released by such company to the news media, all
194 portions of the memorandum shall no longer be confidential.

195 (2) To assist the commissioner in the performance of the
196 commissioner's duties, the commissioner may:

197 (A) Share documents, materials or other information, including
198 documents, materials or other information deemed confidential and
199 privileged pursuant to subdivision (1) of this subsection, with (i) other
200 state, federal and international regulatory officials, (ii) the National
201 Association of Insurance Commissioners and its affiliates and
202 subsidiaries, and (iii) state, federal and international law enforcement
203 officials, provided the recipient of any such documents, materials or
204 other information agrees in writing, to maintain the confidentiality and
205 privileged status of any such documents, materials and other
206 information;

207 (B) Receive documents, materials or other information, including
208 confidential and privileged documents, materials or other information,

209 from (i) the National Association of Insurance Commissioners or its
210 affiliates or subsidiaries, and (ii) regulatory and law enforcement
211 officials of other states or jurisdictions. The commissioner shall
212 maintain as confidential and privileged any documents, materials or
213 other information received with notice or the understanding that such
214 documents, materials or other information are confidential and
215 privileged under the laws of the jurisdiction that is the source of the
216 documents, materials or other information; and

217 (C) Enter into written agreements governing the sharing and use of
218 documents, materials and other information that are consistent with
219 the provisions of this subdivision and subdivision (1) of this
220 subsection.

221 (3) No waiver of any applicable privilege or claims of confidentiality
222 in any documents, materials or other information shall occur as a
223 result of disclosure to the commissioner or sharing authorized under
224 this subsection.

225 (d) Except as otherwise provided in subsections (e), (f) and (l) of this
226 section, the minimum standard for the valuation of all such policies
227 and contracts issued prior to the effective date specified in accordance
228 with the provisions of subsection (h) of section 38-130e of the general
229 statutes, revision of 1958, revised to 1981, shall be that provided by the
230 laws in effect immediately prior to such date, except that the minimum
231 standard for the valuation of annuities and pure endowments
232 purchased prior to January 1, 1973, under group annuity and pure
233 endowment contracts shall be the 1971 Group Annuity Mortality
234 Table, or any modification of this table approved by the commissioner,
235 and an interest rate of five per cent per annum. Except as otherwise
236 provided in subsections (e), (f) and (l) of this section, the minimum
237 standard for the valuation of all such policies and contracts issued on
238 and after such effective date shall be the [commissioner's]
239 commissioners' reserve valuation methods defined in subsections (g),
240 (h) and (j) of this section, with four and one-half per cent interest [for
241 all other such policies and contracts,] and the following tables: (1) For

242 all ordinary policies of life insurance issued on the standard basis,
243 excluding any disability and accidental death benefits in such policies,
244 the Commissioners' 1958 Standard Ordinary Mortality Table for such
245 policies issued prior to the compliance date established by subdivision
246 (11) of subsection (e) of section 38a-439, provided that for any category
247 of such policies issued on female risks, all modified net premiums and
248 present values referred to in this section may be calculated according
249 to an age not more than six years younger than the actual age of the
250 insured and for such policies issued on or after the compliance date
251 established by subdivision (11) of subsection (e) of section 38a-439, (A)
252 the Commissioners' 1980 Standard Ordinary Mortality Table, or (B) at
253 the election of the company for any one or more specified plans of life
254 insurance, the Commissioners' 1980 Standard Ordinary Mortality
255 Table with ten-year select mortality factors, or (C) on or after January
256 1, 2005, until January 1, 2009, at the election of the company for any
257 one or more specified plans of life insurance issued on or after January
258 1, 2004, on the basis of the Commissioners' 2001 Standard Ordinary
259 Mortality Table, except that with respect to such plans issued before
260 April 1, 2005, such mortality table shall be used solely for the basis of
261 valuation and nonforfeiture and shall not be used to increase the
262 previously agreed required premium, or (D) issued on or after January
263 1, 2009, the Commissioners' 2001 Standard Ordinary Mortality Table,
264 or (E) any ordinary mortality table, adopted after 1980 by the National
265 Association of Insurance Commissioners, that is approved by
266 regulations adopted by the commissioner in accordance with the
267 provisions of chapter 54 for use in determining the minimum standard
268 of valuation for such policies; (2) for all industrial life insurance
269 policies issued on the standard basis, excluding any disability and
270 accidental death benefits in such policies, the Commissioners' 1961
271 Standard Industrial Mortality Table or any industrial mortality table,
272 adopted after 1980 by the National Association of Insurance
273 Commissioners, that is approved by regulations adopted by the
274 commissioner in accordance with the provisions of chapter 54 for use
275 in determining the minimum standard of valuation for such policies;
276 (3) for total and permanent disability benefits in or supplementary to

277 ordinary policies or contracts, the tables of period 2 disablement rates
278 and the 1930 to 1950 termination rates of the 1952 Disability Study of
279 the Society of Actuaries, with due regard to the type of benefit or any
280 tables of disablement rates and termination rates, adopted after 1980
281 by the National Association of Insurance Commissioners, that are
282 approved by regulations adopted by the commissioner in accordance
283 with the provisions of chapter 54 for use in determining the minimum
284 standard of valuation for such policies. These tables shall, for active
285 lives, be combined with a mortality table permitted for calculating the
286 reserves for life insurance policies; (4) for accidental death benefits in
287 or supplementary to policies, the 1959 Accidental Death Benefits Table
288 or any accidental death benefits table, adopted after 1980 by the
289 National Association of Insurance Commissioners, that is approved by
290 regulations adopted by the commissioner in accordance with the
291 provisions of chapter 54 for use in determining the minimum standard
292 of valuation for such policies. These tables shall be combined with a
293 mortality table permitted for calculating the reserves for life insurance
294 policies; and (5) for group life insurance, life insurance issued on the
295 substandard basis and other special benefits, such tables as may be
296 approved by the commissioner.

297 (e) Except as otherwise provided in subsection (f) of this section, the
298 minimum standard for the valuation of all individual annuity and
299 pure endowment contracts issued on or after the effective date as
300 specified in accordance with the provisions of subsection (h) of section
301 38-130e of the general statutes, revision of 1958, revised to 1981, and
302 for all annuities and pure endowments purchased on or after such
303 effective date under group annuity and pure endowment contracts,
304 shall be the [commissioners] commissioners' reserve valuation
305 methods defined in subsections (g) and (h) of this section and the
306 following tables and interest rates: (1) For individual single premium
307 immediate annuity contracts issued on or after such effective date,
308 excluding any disability and accidental death benefits in such
309 contracts, the 1971 Individual Annuity Mortality Table or any
310 individual annuity mortality table, adopted after 1980 by the National
311 Association of Insurance Commissioners, that is approved by

312 regulations adopted by the commissioner in accordance with the
313 provisions of chapter 54 for use in determining the minimum standard
314 of valuation for such contracts, or any modification of these tables
315 approved by the commissioner, and seven and one-half per cent
316 interest; (2) for individual annuity and pure endowment contracts
317 issued on or after such effective date, other than single premium
318 immediate annuity contracts, excluding any disability and accidental
319 death benefits in such contracts, the 1971 Individual Annuity Mortality
320 Table or any individual annuity mortality table, adopted after 1980 by
321 the National Association of Insurance Commissioners, that is
322 approved by regulations adopted by the commissioner in accordance
323 with the provisions of chapter 54 for use in determining the minimum
324 standard of valuation for such contract, or any modification of these
325 tables approved by the commissioner, and five and one-half per cent
326 interest for single premium deferred annuity and pure endowment
327 contracts and four and one-half per cent interest for all other such
328 annuity and pure endowment contracts; (3) for all annuities and pure
329 endowments purchased on or after such effective date under group
330 annuity and pure endowment contracts, excluding any disability and
331 accidental death benefits purchased under such contracts, the 1971
332 Group Annuity Mortality Table or any group annuity mortality table,
333 adopted after 1980 by the National Association of Insurance
334 Commissioners, that is approved by regulations adopted by the
335 commissioner in accordance with the provisions of chapter 54 for use
336 in determining the minimum standard of valuation for such annuities
337 and pure endowments, or any modification of these tables approved
338 by the commissioner, and seven and one-half per cent interest.

339 (f) (1) The interest rates used in determining the minimum standard
340 for the valuation of the following shall be the calendar year statutory
341 valuation interest rates as defined in this subsection: (A) [all life] Life
342 insurance policies issued in a particular calendar year, on or after the
343 compliance date established by subdivision (11) of subsection (e) of
344 section 38a-439; [] (B) [all] individual annuity and pure endowment
345 contracts issued in a particular calendar year on or after January 1,
346 1982; [] (C) [all] annuities and pure endowments purchased in a

364 guaranteed interest contracts with guarantee durations in excess of ten
365 years and the formula for single premium immediate annuities stated
366 in subparagraph (B) shall apply to annuities and guaranteed interest
367 contracts with guarantee durations of ten years or less.

368 (D) For other annuities with no cash settlement options and for
369 guaranteed interest contracts with no cash settlement options, the
370 formula for single premium immediate annuities stated in
371 subparagraph (B) shall apply.

372 (E) For other annuities with cash settlement options and guaranteed
373 interest contracts with cash settlement options, valued on a change in
374 fund basis, the formula for single premium immediate annuities stated
375 in subparagraph (B) shall apply.

376 (F) If the calendar year statutory valuation interest rate for any life
377 insurance policies issued in any calendar year determined without
378 reference to this subdivision differs from the corresponding actual rate
379 for similar policies issued in the immediately preceding calendar year
380 by less than one- half of one per cent, the calendar year statutory
381 valuation interest rate for such life insurance policies shall be equal to
382 the corresponding actual rate for the immediately preceding calendar
383 year. For purposes of applying the foregoing, the calendar year
384 statutory valuation interest rate for life insurance policies issued in a
385 calendar year shall be determined for 1980 using the reference interest
386 rate defined for 1979 and shall be determined for each subsequent
387 calendar year regardless of the compliance date established by
388 subdivision (11) of subsection (e) of section 38a-439;

389 (3) The weighting factors referred to in the formulas stated in
390 subdivision (2) of this subsection are given in the following tables:

391 (A) Weighting Factors For Life Insurance:

T10	Guarantee Duration	Weighting
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T11	(Years)	Factors
T12	10 or less	.50
T13	More than 10, but not more than 20	.45
T14	More than 20	.35

392 For life insurance, the guarantee duration is the maximum number of
 393 years the life insurance can remain in force on a basis guaranteed in
 394 the policy or under options to convert to plans of life insurance with
 395 premium rates or nonforfeiture values or both which are guaranteed in
 396 the original policy.

397 (B) Weighting factor for single premium immediate annuities and
 398 for annuity benefits involving life contingencies arising from other
 399 annuities with cash settlement options and guaranteed interest
 400 contracts with cash settlement options: .80

401 (C) Weighting factors for other annuities and for guaranteed interest
 402 contracts, except as stated in subparagraph (B), shall be as specified in
 403 tables (i), (ii) and (iii) according to the rules and definitions in (iv), (v)
 404 and (vi):

405 (i) For annuities and guaranteed interest contracts valued on an
 406 issue year basis:

T15	Guarantee Duration	Weighting Factor		
T16	(Years)	For Plan Type		
T17		A	B	C
T18	5 or less	.80	.60	.50
T19	More than 5, not more than 10	.75	.60	.50
T20	More than 10, not more than 20	.65	.50	.45
T21	More than 20	.45	.35	.35

407 (ii) For annuities and guaranteed interest contracts valued on a

408 change in fund basis, the factors shown in (i) increased by:

T22	Plan Type		
T23	A	B	C
T24	.15	.25	.05

409 (iii) For annuities and guaranteed interest contracts valued on an
 410 issue year basis, other than those with no cash settlement options, that
 411 do not guarantee interest on considerations received more than one
 412 year after issue or purchase and for annuities and guaranteed interest
 413 contracts valued on a change in fund basis [which] that do not
 414 guarantee interest rates on considerations received more than twelve
 415 months beyond the valuation date, the factors shown in (i) or derived
 416 in (ii) increased by:

T25	Plan Type		
T26	A	B	C
T27	.05	.05	.05

417 (iv) For other annuities with cash settlement options and guaranteed
 418 interest contracts with cash settlement options, the guarantee duration
 419 is the number of years for which the contract guarantees interest rates
 420 in excess of the calendar year statutory valuation interest rate for life
 421 insurance policies with guarantee duration in excess of twenty years.
 422 For other annuities with no cash settlement options and for guaranteed
 423 interest contracts with no cash settlement options, the guarantee
 424 duration is the number of years from the date of issue or date of
 425 purchase to the date annuity benefits are scheduled to commence.

426 (v) Plan type as used in the tables in subparagraph (C) is defined as
 427 follows:

428 a. Plan Type A: At any time policyholder may withdraw funds only:
429 (1) With an adjustment to reflect changes in interest rates or asset
430 values since receipt of the funds by the insurance company, or (2)
431 without such adjustment but in installments over five years or more, or
432 (3) as an immediate life annuity, or (4) no withdrawal permitted.

433 b. Plan Type B: Before expiration of the interest rate guarantee,
434 policyholder may withdraw funds only: (1) With an adjustment to
435 reflect changes in interest rates or asset values since receipt of the
436 funds by the insurance company, or (2) without such adjustment but in
437 installments over five years or more, or (3) no withdrawal permitted.
438 At the end of the interest rate guarantee, funds may be withdrawn
439 without such adjustment in a single sum or installments over less than
440 five years.

441 c. Plan Type C: Policyholder may withdraw funds before expiration
442 of interest rate guarantee in a single sum or installments over less than
443 five years either: (1) Without adjustment to reflect changes in interest
444 rates or asset values since receipt of the funds by the insurance
445 company, or (2) subject only to a fixed surrender charge stipulated in
446 the contract as a percentage of the fund.

447 (vi) A company may elect to value guaranteed interest contracts
448 with cash settlement options and annuities with cash settlement
449 options on either an issue year basis or on a change in fund basis.
450 Guaranteed interest contracts with no cash settlement options and
451 other annuities with no cash settlement options must be valued on an
452 issue year basis. As used in this subsection, an issue year basis of
453 valuation refers to a valuation basis under which the interest rate used
454 to determine the minimum valuation standard for the entire duration
455 of the annuity or guaranteed interest contract is the calendar year
456 valuation interest rate for the year of issue or year of purchase of the
457 annuity or guaranteed interest contract. The change in fund basis of
458 valuation refers to a valuation basis under which the interest rate used
459 to determine the minimum valuation standard applicable to each
460 change in the fund held under the annuity or guaranteed interest

461 contract is the calendar year valuation interest rate for the year of the
462 change in fund;

463 (4) The reference interest rate referred to in subdivision (2) of this
464 subsection shall be defined as follows: [a.] (A) For all life insurance, the
465 lesser of the average over a period of thirty-six months and the average
466 over a period of twelve months, ending on June thirtieth of the
467 calendar year next preceding the year of issue, of [Moody's Corporate
468 Bond Yield Average-Monthly Average Corporates] the monthly
469 average of the composite yield on seasoned corporate bonds, as
470 published by Moody's Investors Service, Inc.; [b.] (B) for single
471 premium immediate annuities and for annuity benefits involving life
472 contingencies arising from other annuities with cash settlement
473 options and guaranteed interest contracts with cash settlement options,
474 the average over a period of twelve months, ending on June thirtieth of
475 the calendar year of issue or year of purchase of [Moody's Corporate
476 Bond Yield Average-Monthly Average Corporates] the monthly
477 average of the composite yield on seasoned corporate bonds, as
478 published by Moody's Investors Service, Inc.; [c.] (C) for other
479 annuities with cash settlement options and guaranteed interest
480 contracts with cash settlement options, valued on a year of issue basis,
481 except as stated in [b. above] subparagraph (B) of this subdivision,
482 with guarantee duration in excess of ten years, the lesser of the average
483 over a period of thirty-six months and the average over a period of
484 twelve months, ending on June thirtieth of the calendar year of issue or
485 purchase of [Moody's Corporate Bond Yield Average-Monthly
486 Average Corporates] the monthly average of the composite yield on
487 seasoned corporate bonds, as published by Moody's Investors Service,
488 Inc.; [d.] (D) for other annuities with cash settlement options and
489 guaranteed interest contracts with cash settlement options, valued on a
490 year of issue basis, except as stated in [b. above] subparagraph (B) of
491 this subdivision, with guarantee duration of ten years or less, the
492 average over a period of twelve months, ending on June thirtieth of the
493 calendar year of issue or purchase, of [Moody's Corporate Bond Yield
494 Average-Monthly Average Corporates] the monthly average of the
495 composite yield on seasoned corporate bonds, as published by

496 Moody's Investors Service, Inc.; [e.] (E) for other annuities with no cash
497 settlement options and for guaranteed interest contracts with no cash
498 settlement options, the average over a period of twelve months, ending
499 on June thirtieth of the calendar year of issue or purchase, of [Moody's
500 Corporate Bond Yield Average-Monthly Average Corporates] the
501 monthly average of the composite yield on seasoned corporate bonds,
502 as published by Moody's Investors Service, Inc.; [f.] (F) for other
503 annuities with cash settlement options and guaranteed interest
504 contracts with cash settlement options, valued on a change in fund
505 basis, except as stated in [b. above] subparagraph (B) of this
506 subdivision, the average over a period of twelve months, ending on
507 June thirtieth of the calendar year of the change in the fund, of
508 [Moody's Corporate Bond Yield Average-Monthly Average
509 Corporates] the monthly average of the composite yield on seasoned
510 corporate bonds, as published by Moody's Investors Service, Inc.

511 (5) In the event that [Moody's Corporate Bond Yield Average-
512 Monthly Average Corporates] the monthly average of the composite
513 yield on seasoned corporate bonds is no longer published by Moody's
514 Investors Service, Inc., or in the event that the National Association of
515 Insurance Commissioners determines that [Moody's Corporate Bond
516 Yield Average-Monthly Average Corporates] the monthly average of
517 the composite yield on seasoned corporate bonds as published by
518 Moody's Investors Service, Inc. is no longer appropriate for the
519 determination of the reference interest rate, an alternative method for
520 determination of the reference interest rate, which is adopted by the
521 National Association of Insurance Commissioners and approved by
522 regulations adopted by the commissioner in accordance with the
523 provisions of chapter 54, may be substituted.

524 (g) Except as otherwise provided in subsections (h), (j) and (l) of this
525 section, reserves according to the [commissioner's] commissioners'
526 reserve valuation method, for the life insurance and endowment
527 benefits of policies providing for a uniform amount of insurance and
528 requiring the payment of uniform premiums shall be the excess, if any,
529 of the present value, at the date of valuation, of such future guaranteed

530 benefits provided for by such policies, over the then present value of
531 any future modified net premiums therefor. The modified net
532 premiums for any such policy shall be such uniform percentage of the
533 respective contract premiums for such benefits that the present value,
534 at the date of issue of the policy, of all such modified net premiums
535 shall be equal to the sum of the then present value of such benefits
536 provided for by the policy and the excess of subdivision (1) of this
537 subsection over subdivision (2) of this subsection, as follows: (1) A net
538 level annual premium equal to the present value, at the date of issue,
539 of such benefits provided for after the first policy year, divided by the
540 present value, at the date of issue, of an annuity of one per annum
541 payable on the first and each subsequent anniversary of such policy on
542 which a premium falls due; provided such net level annual premium
543 shall not exceed the net level annual premium on the nineteen-year
544 premium whole life plan for insurance of the same amount at an age
545 one year higher than the age at issue of such policy; [,] and (2) a net
546 one year term premium for such benefits provided for in the first
547 policy year provided that for any life insurance policy issued on or
548 after January 1, 1985, for which the contract premium in the first policy
549 year exceeds that of the second year and for which no comparable
550 additional benefit is provided in the first year for such excess and
551 which provides an endowment benefit or a cash surrender value or a
552 combination thereof in an amount greater than such excess premium,
553 the reserve according to the [commissioners] commissioners' reserve
554 valuation method as of any policy anniversary occurring on or before
555 the assumed ending date defined herein as the first policy anniversary
556 on which the sum of any endowment benefit and any cash surrender
557 value then available is greater than such excess premium shall, except
558 as otherwise provided in subsection (j) of this section, be the greater of
559 the reserve as of such policy anniversary calculated as described in this
560 subsection and the reserve as of such policy anniversary calculated as
561 described in this subsection but with the value defined in subdivision
562 (1) of this subsection being reduced by fifteen per cent of the amount of
563 such excess first year premium, all present values of benefits and
564 premiums being determined without reference to premiums or

565 benefits provided for by the policy after the assumed ending date, the
566 policy being assumed to mature on such date as an endowment, and
567 the cash surrender value provided on such date being considered as an
568 endowment benefit. In making the above comparison, the mortality
569 and interest bases stated in subsections (e) and (f) of this section shall
570 be used. Reserves according to the [commissioners] commissioners'
571 reserve valuation method for: (A) Life insurance policies providing for
572 a varying amount of insurance or requiring the payment of varying
573 premiums; (B) group annuity and pure endowment contracts
574 purchased under a retirement plan or plan of deferred compensation,
575 established or maintained by an employer, including a partnership or
576 sole proprietorship, or by an employee organization, or by both, other
577 than a plan providing individual retirement accounts or individual
578 retirement annuities under Section 408 of the Internal Revenue Code,
579 as now or hereafter amended; (C) disability and accidental death
580 benefits in all policies and contracts; and (D) all other benefits, except
581 life insurance and endowment benefits in life insurance policies and
582 benefits provided by all other annuity and pure endowment contracts,
583 shall be calculated by a method consistent with the principles of this
584 subsection.

585 (h) This subsection shall apply to all annuity and pure endowment
586 contracts other than group annuity and pure endowment contracts
587 purchased under a retirement plan or plan of deferred compensation,
588 established or maintained by an employer, including a partnership or
589 sole proprietorship, or by an employee organization, or by both, other
590 than a plan providing individual retirement accounts or individual
591 retirement annuities under Section 408 of the Internal Revenue Code,
592 as now or hereafter amended. Reserves according to the
593 [commissioners] commissioners' annuity reserve method for benefits
594 under annuity or pure endowment contracts, excluding any disability
595 and accidental death benefits in such contracts, shall be the greatest of
596 the respective excesses of the present values, at the date of valuation,
597 of the future guaranteed benefits, including guaranteed nonforfeiture
598 benefits, provided for by such contracts at the end of each respective
599 contract year, over the present value, at the date of valuation, of any

600 future valuation considerations derived from future gross
601 considerations, required by the terms of such contract, that become
602 payable prior to the end of such respective contract year. The future
603 guaranteed benefits shall be determined by using the mortality table, if
604 any, and the interest rate, or rates, specified in such contracts for
605 determining guaranteed benefits. The valuation considerations are the
606 portions of the respective gross considerations applied under the terms
607 of such contracts to determine nonforfeiture values.

608 (i) (1) In no event shall a company's aggregate reserves for all life
609 insurance policies, excluding disability and accidental death benefits,
610 issued on or after the effective date as specified in accordance with the
611 provisions of subsection (h) of section 38-130e of the general statutes,
612 revision of 1958, revised to 1981, be less than the aggregate reserves
613 calculated in accordance with the methods set forth in subsections (f),
614 (g), (i) and (k) of this section, and the mortality table or tables and rate
615 or rates of interest used in calculating nonforfeiture benefits for such
616 policies; (2) in no event shall the aggregate reserves for all policies,
617 contracts and benefits be less than the aggregate reserves determined
618 by the qualified actuary to be necessary to render the opinion required
619 by subsection (b) of this section; (3) reserves for any category of
620 policies, contracts or benefits as established by the commissioner may
621 be calculated, at the option of the company, according to any
622 standards which produce greater aggregate reserves for such category
623 than those calculated according to the minimum standard herein
624 provided, but the rate or rates of interest used for policies and
625 contracts, other than annuity and pure endowment contracts, shall not
626 be [~~higher~~] greater than the corresponding rate or rates of interest used
627 in calculating any nonforfeiture benefits provided for [~~therein~~] in the
628 policies or contracts; (4) any such company which at any time shall
629 have adopted any standard of valuation producing greater aggregate
630 reserves than those calculated according to the minimum standard
631 herein provided may, with the approval of the commissioner, adopt
632 any lower standard of valuation, but not lower than the minimum
633 herein provided; provided, for the purposes of this subsection, the
634 holding of additional reserves previously determined by a qualified

635 actuary to be necessary to render the opinion required by subsection
636 (b) of this section shall not be deemed to be the adoption of a higher
637 standard of valuation.

638 (j) If in any contract year the gross premium charged by any life
639 insurance company on any policy or contract, in force as of or written
640 after the effective date as specified in accordance with the provisions of
641 subsection (h) of section 38-130e of the general statutes, revision of
642 1958, revised to 1981, is less than the valuation net premium for the
643 policy or contract calculated by the method used in calculating the
644 reserve thereon but using the most recent minimum valuation
645 standards of mortality and rate of interest, the minimum reserve
646 required for such policy or contract shall be the greater of either the
647 reserve calculated according to the mortality table, rate of interest, and
648 method actually used for such policy or contract, or the reserve
649 calculated by the method actually used for such policy or contract but
650 using the minimum standards of mortality and rate of interest in effect
651 in the year that the policy or contract was issued and replacing the
652 valuation net premium by the actual gross premium in each contract
653 year for which the valuation net premium exceeds the actual gross
654 premium. The minimum valuation standards of mortality and rate of
655 interest referred to in this subsection are those standards stated in
656 subsections (d) and (f) of this section. For any life insurance policy
657 issued on or after January 1, 1985, for which the gross premium in the
658 first policy year exceeds that of the second year and for which no
659 comparable additional benefit is provided in the first year for such
660 excess and which provides an endowment benefit or a cash surrender
661 value or a combination thereof in an amount greater than such excess
662 premium, the foregoing provisions of this subsection shall be applied
663 as if the method actually used in calculating the reserve for such policy
664 were the method described in subsection (g) of this section. The
665 minimum reserve at each policy anniversary of such policy shall be the
666 greater of the minimum reserve calculated in accordance with
667 subsection (g) of this section and the minimum reserve calculated in
668 accordance with this subsection.

669 (k) In the case of any plan of life insurance [which] that provides for
670 future premium determination, the amounts of which are to be
671 determined by the insurance company based on then estimates of
672 future experience, or in the case of any plan of life insurance or annuity
673 which is of such nature that the minimum reserves cannot be
674 determined by the methods described in subsections (g), (h), and (j) of
675 this section, the reserves which are held under any such plan must be
676 appropriate in relation to the benefits and the pattern of premiums for
677 that plan, and be computed by a method which is consistent with the
678 principles of this standard valuation law, as determined by regulations
679 adopted by the commissioner in accordance with the provisions of
680 chapter 54.

681 (l) The commissioner shall adopt regulations in accordance with the
682 provisions of chapter 54 containing the minimum standards applicable
683 to the valuation of health insurance plans.

684 (m) (1) The provisions of sections 38a-77 and 38a-433 shall apply to
685 policies issued by a company before the date of its election to comply
686 with section 38-130e of the general statutes, revision of 1958, revised to
687 1981, or January 1, 1981, whichever occurred first.

688 (2) The provisions of section 38-130e of the general statutes, revision
689 of 1958, revised to 1981, shall apply to policies issued by a company on
690 and after the date of such election or on and after January 1, 1981,
691 whichever occurred first, and before October 1, 1981.

692 (3) The provisions of this section shall apply to policies and
693 contracts issued on or after October 1, 1981, and prior to the operative
694 date of the Valuation Manual, as set forth in section 2 of this act.

695 Sec. 2. (NEW) (*Effective October 1, 2013*) (a) As used in this section:

696 (1) "Accident and health insurance contract" means a policy or
697 contract that incorporates morbidity risk and provides protection
698 against economic loss resulting from accident, sickness or medical
699 conditions as may be specified in the Valuation Manual;

700 (2) "Appointed actuary" means a qualified actuary who is appointed
701 in accordance with the Valuation Manual to prepare the actuarial
702 opinion required under subsection (d) of this section;

703 (3) "Commissioner" means the Insurance Commissioner;

704 (4) "Company" means an entity that has written, issued or reinsured
705 life insurance contracts, accident and health insurance contracts or
706 deposit-type contracts (A) in this state and has at least one such
707 contract in force or on claim, or (B) in any state and holds a certificate
708 of authority to write life insurance contracts, accident and health
709 insurance contracts or deposit-type contracts in this state;

710 (5) "Deposit-type contract" means a policy or contract that does not
711 incorporate morbidity or mortality risk and as may be specified in the
712 Valuation Manual;

713 (6) "Life insurance contract" means a policy or contract that
714 incorporates mortality risk and as may be specified in the Valuation
715 Manual. "Life insurance" includes annuity and pure endowment
716 contracts;

717 (7) "NAIC" means the National Association of Insurance
718 Commissioners;

719 (8) "Policyholder behavior" means any action a policyholder,
720 contract holder, certificate holder or any other person with the right to
721 elect options may take under a policy or contract subject to this section.
722 "Policyholder behavior" includes, but is not limited to, lapse,
723 withdrawal, transfer, deposit, premium payment, loan annuitization or
724 benefit elections prescribed by the policy or contract, except that
725 "policyholder behavior" does not include events of morbidity or
726 mortality that result in benefits prescribed in their essential aspects by
727 the terms of the policy or contract;

728 (9) "Principle-based valuation" means a reserve valuation that uses
729 one or more assumptions or one or more methods determined by a
730 company and is required to comply with subsection (e) of this section;

731 (10) "Qualified actuary" means an individual who is qualified in
732 accordance with the standards of the American Academy of Actuaries
733 to prepare and sign the actuarial opinion required under subsection (d)
734 of this section and who meets the requirements specified in the
735 Valuation Manual;

736 (11) "Tail risk" means a risk that occurs where the frequency of low
737 probability events is greater than expected under a normal probability
738 distribution or where there are observed events of significant size or
739 magnitude;

740 (12) "Valuation Manual" means the manual of valuation instructions
741 adopted by NAIC as set forth in this section and as amended from
742 time to time.

743 (b) (1) The provisions of this section shall apply to policies and
744 contracts issued on or after the operative date of the Valuation Manual,
745 as set forth in subdivision (2) of this subsection.

746 (2) (A) The operative date of the Valuation Manual shall be January
747 first of the first calendar year following the first July first as of which
748 all of the following have occurred:

749 (i) The Valuation Manual has been adopted by NAIC by an
750 affirmative vote of at least forty-two NAIC members or three-quarters
751 of NAIC members voting, whichever is greater;

752 (ii) The Standard Valuation Law, as amended by NAIC in 2009, or
753 legislation including substantially similar terms and provisions has
754 been enacted by states representing greater than seventy-five per cent
755 of the direct written premiums as reported in the following annual
756 statements submitted to NAIC for 2008: Life insurance, accident and
757 health insurance, health insurance or fraternal annual statements; and

758 (iii) The Standard Valuation Law, as amended by NAIC in 2009, or
759 legislation including substantially similar terms and provisions has
760 been enacted by at least forty-two of the following fifty-five
761 jurisdictions: The fifty states of the United States, the District of

762 Columbia, the United States Virgin Islands, the Commonwealth of
763 Puerto Rico, American Samoa and Guam.

764 (B) After all the events set forth in subparagraph (A) of this
765 subdivision have occurred, the commissioner shall certify that all such
766 events have occurred and notify companies of such certification and
767 the effective date of the operation of the Valuation Manual.

768 (3) (A) The Valuation Manual shall specify:

769 (i) The specific policies or contracts subject to this section and the
770 minimum valuation standards for such policies or contracts as follows:
771 (I) For life insurance contracts, other than annuity contracts, the
772 commissioners' reserve valuation method, and (II) for annuity
773 contracts, the commissioners' annuity reserve valuation method. The
774 Valuation Manual shall specify minimum reserves for all other policies
775 or contracts subject to this section;

776 (ii) The specific policies or contracts or types of policies or contracts
777 subject to this section that are required to establish reserves using a
778 principle-based valuation as set forth in subsection (e) of this section
779 and the minimum valuation standards consistent with such
780 requirements;

781 (iii) For policies or contracts subject to a principle-based valuation,
782 (I) requirements for the format of reports submitted to the
783 commissioner, including the information deemed necessary to
784 determine if the valuation is appropriate and in compliance with this
785 section, (II) the assumptions prescribed for risks over which the
786 company does not have significant control or influence, and (III) the
787 procedures for the corporate governance and oversight of the actuarial
788 function and a process for appropriate waiver or modification of such
789 procedures;

790 (iv) For policies or contracts not subject to a principle-based
791 valuation, the minimum valuation standard shall (I) be consistent with
792 the minimum valuation standard in effect prior to the operative date of

793 the Valuation Manual, or (II) develop reserves that quantify the
794 benefits, guarantees and funding associated with the policies or
795 contracts and their risks, at a level of conservatism that reflects
796 conditions that include unfavorable events that have a reasonable
797 probability of occurring;

798 (v) Other requirements including, but not limited to, reserve
799 methods, models for measuring risk, generation of economic scenarios,
800 assumptions, margins, use of company experience, risk measurement,
801 disclosures, certifications, reports, actuarial opinions and memoranda,
802 transition rules and internal controls; and

803 (vi) The data a company shall be required to submit under this
804 section, the form of such data and to whom such data shall be
805 submitted and other information that may be required, including data
806 analyses and reporting of such analyses.

807 (B) In the absence of a specific valuation requirement or if a specific
808 valuation requirement in the Valuation Manual is not, in the opinion of
809 the commissioner, in compliance with this section, with respect to such
810 requirement, the commissioner shall direct a company to comply with
811 the minimum valuation standards prescribed by regulations adopted
812 in accordance with the provisions of chapter 54 of the general statutes.

813 (4) (A) Unless a later effective date has been specified, a change to
814 the Valuation Manual shall apply on January first of the first calendar
815 year following the date as of which both of the following have
816 occurred:

817 (i) The change to the Valuation Manual has been adopted by NAIC
818 by an affirmative vote of at least three-quarters of NAIC members
819 voting but not less than a majority of the total NAIC membership; and

820 (ii) The change to the Valuation Manual has been adopted by NAIC
821 members representing jurisdictions totaling greater than seventy-five
822 per cent of the direct written premiums, as reported in the most recent
823 annual statements submitted to NAIC prior to the vote in

824 subparagraph (A)(i) of this subdivision, for the following: Life
825 insurance, accident and health insurance, health insurance or fraternal
826 annual statements.

827 (B) After both events set forth in subparagraph (A) of this
828 subdivision have occurred, the commissioner shall certify that both
829 such events have occurred and notify companies of such certification,
830 the change to the Valuation Manual and the effective date of such
831 change.

832 (c) The commissioner shall annually value, or cause to be valued,
833 the reserve liabilities, hereinafter called reserves, for all outstanding
834 life insurance contracts, accident and health contracts and deposit-type
835 contracts of every company. In lieu of the valuation of the reserves
836 required of any foreign or alien company, the commissioner may
837 accept a valuation made, or caused to be made, by the insurance
838 regulatory official of any state or other jurisdiction when such
839 valuation complies with the minimum standard provided in this
840 section.

841 (d) (1) Every company with outstanding life insurance contracts,
842 accident and health insurance contracts or deposit-type contracts in
843 this state shall annually submit the opinion of an appointed actuary as
844 to whether the reserves and related actuarial items held in support of
845 such policies and contracts are computed appropriately, are based on
846 assumptions that satisfy contractual provisions, are consistent with
847 prior reported amounts and comply with applicable laws of this state.
848 The Valuation Manual shall prescribe the specifics of such opinion and
849 add any other items deemed to be necessary to its scope.

850 (2) (A) Unless exempted by the Valuation Manual, every company
851 with outstanding life insurance contracts, accident and health
852 insurance contracts or deposit-type contracts in this state shall also
853 include in the opinion required under subdivision (1) of this
854 subsection an opinion of the same appointed actuary as to whether the
855 reserves and related actuarial items held by the company in support of
856 such policies and contracts, when considered in light of the assets held

857 by the company with respect to the reserves and related actuarial
858 items, including, but not limited to, the investment earnings on the
859 assets and the considerations anticipated to be received and retained
860 under such policies and contracts, make adequate provision for the
861 company's obligations under such policies and contracts, including,
862 but not limited to, the benefits under and expenses associated with
863 such policies and contracts.

864 (B) Every appointed actuary that provides an opinion under this
865 subsection shall prepare and provide to the company a memorandum
866 that supports such opinion, in such form and substance as may be
867 specified in the Valuation Manual and acceptable to the commissioner.
868 If a company fails to provide a supporting memorandum at the request
869 of the commissioner within the time period specified in the Valuation
870 Manual or the commissioner determines that a supporting
871 memorandum provided by a company fails to meet the standards
872 prescribed by the Valuation Manual or is otherwise unacceptable to
873 the commissioner, the commissioner may engage the services by
874 employment or by contract of a qualified actuary, at such company's
875 expense, to review such opinion and the basis for such opinion and to
876 prepare the supporting memorandum required under this subdivision.

877 (3) Every opinion required under this subsection shall:

878 (A) Be submitted with the annual statement reflecting the valuation
879 of such reserves for each year ending on or after December thirty-first
880 of the calendar year of the operative date of the Valuation Manual;

881 (B) Apply to all policies and contracts subject to subdivision (1) of
882 this subsection and any other actuarial liabilities as may be specified in
883 the Valuation Manual; and

884 (C) Be based on standards adopted from time to time by the
885 Actuarial Standards Board or its successor and on such additional
886 standards as may be prescribed in the Valuation Manual.

887 (4) In the case of an opinion required to be submitted by a foreign or

888 alien company, the commissioner may accept the opinion filed by that
889 company with the insurance regulatory official of another state if the
890 commissioner determines that the opinion reasonably meets the
891 requirements applicable to a company domiciled in this state.

892 (5) Except in cases of fraud or wilful misconduct, the appointed
893 actuary shall not be liable for damages to any person, other than the
894 company and the commissioner, for any act, error, omission, decision
895 or conduct with respect to such actuary's opinion.

896 (6) The commissioner may engage the services by employment or by
897 contract of a qualified actuary, at a company's expense, to perform an
898 actuarial examination of the company and provide an opinion on the
899 appropriateness of any reserve assumption or method used by the
900 company or to review and provide an opinion on the company's
901 compliance with any requirement set forth in this section. The
902 commissioner may rely on the opinion, regarding requirements set
903 forth in this section, of a qualified actuary engaged by the insurance
904 regulatory official of another state, district or territory of the United
905 States.

906 (7) The commissioner may require a company to change any
907 assumption or method that the commissioner deems necessary to
908 comply with the requirements of this section or the Valuation Manual,
909 and the company shall adjust its reserves as required by the
910 commissioner.

911 (e) (1) For policies or contracts subject to a principle-based valuation
912 as specified in the Valuation Manual, a company shall establish
913 reserves using a principle-based valuation that:

914 (A) Quantifies the benefits, guarantees and funding associated with
915 such policies or contracts and their risks, at a level of conservatism that
916 reflects conditions that include unfavorable events that have a
917 reasonable probability of occurring during the lifetime of such policies
918 or contracts. For policies or contracts with significant tail risk, the
919 principle-based valuation shall reflect appropriately adverse

920 conditions to quantify the tail risk;

921 (B) Incorporates assumptions, risk analysis methods, financial
922 models and management techniques that are consistent with, but not
923 necessarily identical to, those utilized within the company's overall
924 risk assessment process while recognizing potential differences in
925 financial reporting structures and any prescribed assumptions or
926 methods;

927 (C) Incorporates assumptions derived in one of the following ways:
928 (i) The assumption is prescribed in the Valuation Manual; or (ii) for an
929 assumption not prescribed in the Valuation Manual, (I) the assumption
930 is established utilizing the company's available experience, to the
931 extent such experience is relevant and statistically credible, or (II) to
932 the extent company data is not available, relevant or statistically
933 credible, the assumption is established utilizing other relevant and
934 statistically credible experience; and

935 (D) Provides margins for uncertainty including adverse deviation
936 and estimation error, such that the greater the uncertainty, the larger
937 the margin and resulting reserves.

938 (2) A company using principle-based valuation for one or more
939 policies or contracts shall:

940 (A) Establish procedures for corporate governance and oversight of
941 the actuarial valuation function consistent with those described in the
942 Valuation Manual;

943 (B) Provide to the commissioner and such company's board of
944 directors an annual certification of the effectiveness of the internal
945 controls with respect to the principle-based valuation. Such controls
946 shall be designed to ensure that all material risks inherent in the
947 liabilities and associated assets subject to such valuation are included
948 in the valuation and that such valuations are made in accordance with
949 the Valuation Manual. The certification shall be based on the internal
950 controls in place as of the end of the preceding calendar year; and

951 (C) Develop and file with the commissioner upon request a
952 principle-based valuation report that complies with standards
953 prescribed in the Valuation Manual.

954 (3) A principle-based valuation may include a prescribed formulaic
955 reserve component.

956 (f) A company shall submit mortality, morbidity, policyholder
957 behavior or expense experience and other data in accordance with the
958 requirements specified in the Valuation Manual.

959 (g) (1) For the purposes of this subsection:

960 (A) "Confidential information" includes:

961 (i) A supporting memorandum submitted pursuant to
962 subparagraph (B) of subdivision (2) of subsection (d) of this section
963 and all documents, materials and other information and copies thereof
964 created, produced or obtained by or disclosed to the commissioner or
965 any other person in connection with such memorandum;

966 (ii) All documents, materials and other information and copies
967 thereof created, produced or obtained by or disclosed to the
968 commissioner or any other person in the course of an examination
969 made pursuant to subdivision (6) of subsection (d) of this section;

970 (iii) All reports, documents, materials and other information
971 developed by a company in support of or in connection with the
972 annual certification required under subparagraph (B) of subdivision
973 (2) of subsection (e) of this section and all documents, materials and
974 other information and copies thereof created, produced or obtained by
975 or disclosed to the commissioner or any other person in connection
976 with such certification;

977 (iv) Any principle-based valuation report developed pursuant to
978 subparagraph (C) of subdivision (2) of subsection (e) of this section
979 and all documents, materials and other information and copies thereof
980 created, produced or obtained by or disclosed to the commissioner or

981 any other person in connection with such report; and

982 (v) All documents, materials, data and other information submitted
983 pursuant to subsection (f) of this section and all documents, materials,
984 data and other information created or produced in connection with
985 such submission, in each case that includes any potentially company-
986 identifying or personally-identifiable information, that is obtained by
987 or provided to the commissioner, and all documents, materials, data
988 and other information created, produced or obtained by or disclosed to
989 the commissioner or any other person in connection with such
990 submission.

991 (B) "NAIC" and "regulatory agency" include their employees,
992 agents, consultants and contractors.

993 (2) (A) Except as provided in subparagraphs (C) to (F), inclusive, of
994 this subdivision, a company's confidential information shall (i) be
995 confidential by law and privileged, (ii) not be subject to disclosure
996 under section 1-210, (iii) not be subject to subpoena, and (iv) not be
997 subject to discovery or admissible in evidence in any civil action in this
998 state. The commissioner may use such confidential information in the
999 furtherance of any regulatory or legal action brought as part of the
1000 commissioner's official duties.

1001 (B) Neither the commissioner nor any person who receives
1002 confidential information while acting under the authority of the
1003 commissioner shall be permitted or required to testify in any civil
1004 action concerning such confidential information.

1005 (C) If an examination report or other materials prepared in
1006 connection with an examination made under section 38a-14 or 38a-14a
1007 include any confidential information specified in subparagraph (A)(ii)
1008 of subdivision (1) of this subsection and the commissioner makes
1009 public such examination report pursuant to the commissioner's
1010 authority under section 38a-14, an examination report or confidential
1011 information in connection with an examination made pursuant to
1012 subdivision (6) of subsection (d) of this section shall not be

1013 confidential, to the same extent as if the examination report or
1014 confidential information in connection with an examination made
1015 pursuant to subdivision (6) of subsection (d) of this section had been
1016 prepared under section 38a-14 or 38a-14a.

1017 (D) Any confidential information specified in subparagraph (A)(i) or
1018 (A)(iv) of subdivision (1) of this subsection in the possession or control
1019 of the Insurance Department may be subject to subpoena for the
1020 purpose of defending an action for damages from the appointed
1021 actuary who prepared such supporting memorandum or principle-
1022 based valuation report by reason of an action required by this section
1023 or any regulations adopted thereunder.

1024 (E) The commissioner may release any confidential information
1025 specified in subparagraph (A)(i) or (A)(iv) of subdivision (1) of this
1026 subsection in the possession or control of the Insurance Department
1027 with the written consent of the company.

1028 (F) If any portion of a supporting memorandum submitted pursuant
1029 to subparagraph (B) of subdivision (2) of subsection (d) of this section
1030 or a principle-based valuation report filed pursuant to subparagraph
1031 (C) of subdivision (2) of subsection (e) of this section is (i) cited by the
1032 company in such company's marketing, (ii) cited by the company
1033 before a governmental agency other than a state insurance department,
1034 (iii) publicly volunteered by such company, or (iv) released by such
1035 company to the news media, all portions of the memorandum or
1036 report shall no longer be confidential.

1037 (3) To assist the commissioner in the performance of the
1038 commissioner's duties, the commissioner may:

1039 (A) Share confidential information with (i) other state, federal and
1040 international regulatory agencies, (ii) NAIC and its affiliates and
1041 subsidiaries, and (iii) in the case of confidential information specified
1042 in subparagraphs (A)(i) and (A)(iv) of subdivision (1) of this
1043 subsection, (I) the Actuarial Board for Counseling and Discipline or its
1044 successor upon request from said board that such confidential

1045 information is required for the purpose of professional disciplinary
1046 proceedings, and (II) state, federal and international law enforcement
1047 officials. The recipient of any such confidential information shared
1048 pursuant to this subparagraph shall agree, in writing, and shall have
1049 the legal authority to agree, to maintain the confidentiality and
1050 privileged status of any such confidential information in the same
1051 manner and to the same extent as required for the commissioner;

1052 (B) Receive documents, materials, data and other information,
1053 including confidential and privileged documents, materials, data and
1054 other information, from (i) NAIC or its affiliates or subsidiaries, (ii) the
1055 Actuarial Board for Counseling and Discipline or its successor, and (iii)
1056 regulatory and law enforcement officials of other states or
1057 jurisdictions. The commissioner shall maintain as confidential and
1058 privileged any documents, materials, data or other information
1059 received with notice or the understanding that such documents,
1060 materials, data or other information are confidential and privileged
1061 under the laws of the jurisdiction that is the source of the documents,
1062 materials, data or other information; and

1063 (C) Enter into written agreements governing the sharing and use of
1064 documents, materials, data and other information, that are consistent
1065 with the provisions of this subdivision and subdivision (1) of this
1066 subsection.

1067 (4) No waiver of any applicable privilege or claims of confidentiality
1068 in any confidential information shall occur as a result of disclosure to
1069 the commissioner or sharing authorized under this subdivision or
1070 subdivision (1) of this subsection.

1071 (5) A privilege established under the law of any state or jurisdiction
1072 that is substantially similar to a privilege established under
1073 subdivision (2) of this subsection shall be available and enforced in any
1074 proceeding in, and in any court of, this state.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>October 1, 2013</i>	38a-78
Sec. 2	<i>October 1, 2013</i>	New section

Statement of Legislative Commissioners:

In section 2(b)(3)(A)(iv), "minimum standard valuation standard" was changed to "minimum valuation standard" for consistency, and the title was changed.

INS *Joint Favorable Subst. -LCO*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note**State Impact:** None**Municipal Impact:** None**Explanation**

This bill details certain requirements that health, accident and life insurers must follow in determining the value of their reserves. There is no state or municipal fiscal impact.

The Out Years**State Impact:** None**Municipal Impact:** None

OLR Bill Analysis**sHB 6613****AN ACT CONCERNING CHANGES TO THE STANDARD VALUATION LAW AND THE USE OF THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS' VALUATION MANUAL.****SUMMARY:**

This bill requires health, accident, and life insurers to use the National Association of Insurance Commissioners' (NAIC) Valuation Manual for determining the value of their reserves once specified triggering events occur. Among other things, the bill:

1. specifies what must be in the manual;
2. identifies the types of information submitted to comply with the bill that is considered confidential, and the protections for this information, and;
3. specifies the commissioner's powers and duties regarding this information, including circumstances when he can share it.

Once the triggering events occur, each company must establish reserves using a principle-based valuation for policies or contracts as required by the manual. Under the bill, "principle-based valuation" uses one or more assumptions or methods determined by a company to value reserves. The bill specifies how this valuation must be implemented.

The bill requires the commissioner to annually value the reserves for all outstanding life insurance contracts, accident and health contracts, and deposit-type contracts of every company.

Until the manual goes into effect, the bill modifies the existing laws

governing reserve requirements for life insurance companies. It expands the scope of the law that requires (1) the insurance commissioner to value the reserves of these companies and (2) the affected companies to submit the opinion of a qualified actuary on whether the reserves are computed accurately, among other things. It expands the confidentiality protection of information submitted in connection with these requirements but gives the insurance commissioner various powers with regard to this information. These changes apply to policies and contracts issued on or after October 1, 1981.

The bill makes minor, conforming, and technical changes.

EFFECTIVE DATE: October 1, 2013

SCOPE OF THE LAW (§ 1(A))

Under current law, the commissioner must annually value, or cause to be valued, the reserves for all outstanding life insurance policies and annuity and pure endowment contracts of life insurance companies doing business in Connecticut. For alien (out of state) companies, the valuation is limited to the company's United States business. The bill eliminates the commissioner's power to certify the amount of the reserves, specify the mortality table or tables, rate or rates of interest, and methods, including net level premium method or other, used in calculating them.

As described below, once the manual goes into effect, the bill extends this requirement to all outstanding life insurance, accident and health, and deposit-type contracts of every company. For foreign or alien companies, the commissioner may accept a valuation made by or caused to be made by the insurance regulatory official of any other jurisdiction if it complies with the bill's minimum standard.

MODIFICATIONS OF EXISTING REQUIREMENTS FOR LIFE INSURANCE POLICY RESERVES

Actuary's Opinion (§ 1(b)(2)(B))

By law, each life insurance company doing business in Connecticut

must annually submit a qualified actuary's opinion as to whether its reserves and related actuarial items held to support its policies and contracts meet statutory requirements. The actuary also must prepare a supporting memorandum.

By law, the commissioner can engage an actuary if the memorandum is not prepared or is deficient. The bill specifies that the commissioner can do this by employing or contracting with this actuary.

The bill specifically requires the commissioner to adopt regulations to specify:

1. the form and substance of and standards for the supporting memorandum, and
2. the period for a company to provide a memorandum after the commissioner requests one.

Confidentiality (§§ 1(b)(11), 1(c))

Under current law, the commissioner must keep confidential any memorandum in support of the opinion and any other material the company provides him. This material may not be made public and is not subject to subpoena, other than to defend an action seeking damages by reason of any act required by law.

But the commissioner may release the material:

1. with the company's written consent or
2. if the American Academy of Actuaries requests it for disciplinary proceedings and establishes procedures satisfactory to the commissioner to preserve its confidentiality.

In addition, once the company refers to any part of the memorandum in its marketing, or releases this information to the news media, or this information is referred to before a governmental agency other than a state insurance department, the entire confidential

memorandum is no longer confidential.

The bill additionally makes all information in the department's possession or control relating to the memorandum (1) confidential and privileged, (2) exempt from disclosure under the Freedom of Information Act, (3) not subject to subpoena, except to defend an action for damages by the actuary, and (4) not subject to discovery or admissible in evidence in any civil action in this state. It bars the commissioner or anyone who receives the information relating to the memorandum while acting under his authority from being permitted or required to testify in any civil action concerning it.

Commissioner's Powers (§ 1(c)(1))

On the other hand, the bill allows the commissioner to use this information to further any regulatory or legal action brought as part of his official duties. It allows the commissioner to:

1. share information, including information deemed confidential and privileged, with (a) other state, federal and international regulatory officials; (b) the National Association of Insurance Commissioners (NAIC), its affiliates, and subsidiaries; and (c) state, federal and international law enforcement officials, provided the recipient agrees in writing to maintain its confidentiality and privileged status;
2. receive information, including confidential and privileged information, from (a) NAIC, its affiliates, or subsidiaries and (b) regulatory and law enforcement officials of other jurisdictions; and
3. enter into written agreements governing the sharing and use of the information that are consistent with these provisions.

The commissioner must maintain the confidentiality and privileged status of any information he receives when notified, or with the understanding, that it is confidential and privileged under the laws of the source jurisdiction. No waiver of any applicable privilege or claims

occurs as a result of disclosure to the commissioner or sharing authorized under the bill.

VALUATION MANUAL (§ 2)

The bill requires health, accident, and life insurers to use the NAIC Valuation Manual for determining the value of their reserves once specified triggering events occur.

Issues Addressed in the Manual (§ 2(b)(3))

The bill requires the manual to specify:

1. the specific policies or contracts it covers and the minimum valuation standards for them. For annuity contracts, the commissioners' annuity reserve valuation method is the standard. For other life insurance contracts, the commissioner's reserve valuation method is the standard. The manual must specify minimum reserves for all other affected policies or contracts;
2. the specific policies or contracts or types of policies or contracts that must establish reserves using a principle-based valuation and the minimum valuation standards consistent with these requirements;
3. for policies or contracts subject to a principle-based valuation, (a) the requirements for formatting reports submitted to the commissioner, including the information required to determine if the valuation is appropriate and complies with the bill, (b) the assumptions prescribed for risks beyond the company's significant control or influence, and (c) the procedures for the corporate governance and oversight of the actuarial function and a process for appropriate waiver or modification of these procedures;
4. for other policies or contracts, the minimum valuation standard must (a) be consistent with the standard in effect before manual goes into effect, or (b) develop reserves that quantify the

benefits, guarantees, and funding associated with the policies or contracts and their risks, at a level of conservatism that reflects conditions that include unfavorable events that have a reasonable probability of occurring;

5. other requirements, at least including reserve methods, models for measuring risk, generation of economic scenarios, assumptions, margins, use of company experience, risk measurement, disclosures, certifications, reports, actuarial opinions and memoranda, transition rules, and internal controls; and
6. the data companies must submit, its form, who gets the data, and other information that may be required, including data analyses and reporting of them.

If (a) there is no specific valuation requirement or (b) the commissioner believes that a specific requirement in the manual does not comply with the bill, the commissioner must direct a company to comply with the minimum valuation standards prescribed by department regulations.

Under the bill, “principle-based valuation” uses one or more assumptions or methods determined by a company to value reserves. This valuation must, among other things, quantify the benefits, guarantees, and funding associated with the policies and contracts and their risks.

TRIGGERING EVENTS (§ 2 (B)(2))

Initial Adoption of the Manual

Under the bill, the manual goes into effect January 1 of the first calendar year following the first July 1 when all of the following have occurred:

1. NAIC, by an affirmative vote of at least 42 of its members or three-quarters of the members voting, whichever is greater, has adopted the manual;

2. the Standard Valuation Law, as amended by NAIC in 2009, or legislation including substantially similar terms and provisions, has been enacted by states representing more than 75% of the direct written premiums as reported in the following annual statements submitted to NAIC for 2008: life insurance, accident and health insurance, health insurance, or fraternal annual statements; and
3. at least 42 of the 50 states, the District of Columbia, the U.S. Virgin Islands, Puerto Rico, American Samoa, and Guam have enacted the law, as amended by NAIC in 2009, or legislation including substantially similar terms and provisions.

After all of these events occur, the insurance commissioner must certify this fact and notify companies of the certification and the effective date of the operation of the manual.

Changes to the Manual

Under the bill, unless a later effective date is specified, a change to the manual applies on January 1st of the first calendar year after:

1. NAIC adopts the change by an affirmative vote of at least three-quarters of its members voting but not less than a majority of its total membership and
2. the change has been adopted by NAIC members representing jurisdictions totaling more than 75% of the direct written premiums for life insurance, accident and health insurance, health insurance, or fraternal annual statements.

After both have occurred, the commissioner must certify this and notify companies of the certification, the change to the manual, and the change's effective date.

ESTABLISHING RESERVES (§ 2(E))

The bill requires each company to establish reserves using a principle-based valuation for policies or contracts as required by the

manual. The valuation must:

1. quantify the benefits, guarantees, and funding associated with the policies or contracts and their risks, at a level of conservatism that reflects conditions that include unfavorable events that have a reasonable probability of occurring during the lifetime of the policies or contracts;
2. incorporate assumptions, risk analysis methods, financial models, and management techniques that are generally consistent with those the company uses in its overall risk assessment process;
3. incorporate assumptions prescribed in the manual, or if an assumption is not prescribed in the manual, make the assumption using the company's available experience, to the extent that it is relevant and statistically credible, or to the extent this data is not available, assumptions established using other relevant and statistically credible experience; and
4. provide margins for uncertainty including adverse deviation and estimation error, so that the greater the uncertainty, the larger the margin and resulting reserves.

For policies or contracts with significant tail risk (unlikely, but potentially very expensive risks), the valuation must reflect appropriately adverse conditions to quantify the tail risk.

Governance and Internal Controls (lines 938-958)

A company using this valuation for one or more policies or contracts must:

1. establish a procedure for corporate governance and oversight of the actuarial valuation function consistent with those described in the manual;
2. annually certify to the commissioner and the company's board of directors the effectiveness of the internal controls with

respect to the principle-based valuation; and

3. develop and file with the commissioner, upon request, a valuation report that complies with standards prescribed in the manual.

The controls must be designed to ensure that:

1. all material risks inherent in the liabilities and associated assets subject to the valuation are included in the valuation, and
2. the valuations are made in accordance with the manual.

The certification must be based on the internal controls in place as of the end of the preceding calendar year.

The company must also submit mortality, morbidity, policyholder behavior or expense experience, and other data in accordance with the manual's requirements. Under the bill, "policyholder behavior" is any action a policyholder, contract holder, certificate holder, or other person who may elect options may take under a policy or contract. It includes such things as withdrawals, premium payments, and benefit elections prescribed by the policy or contract. But it does not include deaths or illnesses that result in benefits prescribed in their essential aspects by the terms of the policy or contract (e.g., a life insurance policyholder dying and his beneficiaries being paid).

VALUATION OF RESERVES (§ 2(C))

The bill requires the commissioner to annually value the reserves for all outstanding life insurance contracts, accident and health contracts, and deposit-type contracts of every company. For out-of-state companies, he may accept a valuation made by the insurance regulatory official of another jurisdiction if it complies with the bill's standards.

Actuary's Opinion (§ 2(d))

Every company with outstanding contracts in this state must annually submit the opinion of an actuary as to whether the reserves

and related actuarial items held in support of the policies and contracts:

1. are computed appropriately,
2. are based on assumptions that satisfy contractual provisions,
3. are consistent with prior reported amounts, and
4. comply with applicable state laws.

Unless exempted by the manual, the same actuary must give an opinion as to whether the reserves and related actuarial items adequately provide for the company's obligations under the policies and contracts, including the benefits under and expenses associated with them.

The actuary must prepare a memorandum that supports the opinion and give it to the company. If (1) a company fails to provide a memorandum at the commissioner's request within the time period specified in the manual or (2) the commissioner determines that the memorandum fails to meet the manual's standards or is unacceptable to the commissioner, he may engage another actuary, at the company's expense, to (1) review the opinion and its basis and (2) prepare the memorandum.

Each opinion must:

1. be submitted with the annual statement reflecting the valuation of the reserves for each year ending on or after December 31st of the year the manual goes into effect;
2. apply to all of the affected policies and contracts and any other actuarial liabilities the manual specifies; and
3. be based on standards adopted periodically by the Actuarial Standards Board or its successor and any additional standards prescribed in the manual.

The commissioner can require a company to change any assumption or method that he considers necessary to comply with the bill's requirements regarding the opinion or the manual. In such cases, the company must adjust its reserves as the commissioner requires.

CONFIDENTIALITY (§ 2 (G))

Types of Confidential Information. Under the bill, the following information is considered confidential:

1. a memorandum supporting an actuary's opinion and related documents;
2. all reports, documents, materials and other information a company develops in support of or in connection with the annual certification of the effectiveness of its internal controls;
3. any valuation report developed under the bill; and
4. all submitted information regarding mortality, morbidity, policyholder behavior or expense experience and any related information that includes any potentially company-identifying or personally identifiable information, that is obtained by or provided to the commissioner.

The bill also treats as confidential all documents, materials, and other information and their copies created, produced, or obtained by or disclosed to the commissioner or any other person in the course of an examination conducted under the bill or in connection with the memorandum, certification, report, or information submitted concerning policyholder behavior or expense experience.

Protections for Confidential Information. Under the bill, a company's confidential information is subject to same confidentiality protections that apply to submissions by life insurance companies under current law, as modified by the bill. But if (1) an examination report or other materials prepared in connection with an examination made under current law includes confidential information and (2) the

commissioner makes the report public under his existing authority, the report or confidential information connected to it is not confidential, to the same extent as if the report or confidential information connected to it had been prepared under existing law.

The actuary's supporting memorandum and related information in the department's possession or control may be subpoenaed to defend an action for damages from the actuary who prepared the memorandum or principle-based valuation report as required by the bill or its implementing regulations.

With the company's written consent, the commissioner may release any confidential information the department possesses or controls connected with the supporting memorandum or the principle-based valuation report.

If any part of a supporting memorandum or a valuation report is (1) cited by the company in its marketing or before a governmental agency other than a state insurance department, (2) publicly volunteered by the company, or (3) released by the company to the news media, the entire memorandum or report is no longer confidential.

Commissioner's Powers (§ 2(g)(3))

To help him perform his duties, the commissioner may share confidential information with:

1. other state, federal and international regulatory agencies and NAIC, its affiliates, and its subsidiaries;
2. concerning the supporting memorandum or principle-based valuation report, (a) the Actuarial Board for Counseling and Discipline or its successor upon its request when it needs the information for professional disciplinary proceedings, and (b) state, federal and international law enforcement officials.

The recipient must agree, in writing, and must have the legal

authority to agree, to maintain the information's confidentiality and privileged status in the same way and to the same extent as required for the commissioner.

The bill allows the commissioner to receive documents, materials, data and other information, including those that are confidential and privileged, from the same entities with which he can share such information. He must maintain the confidentiality of any documents, materials, data or other information received with notice or the understanding that they are confidential and privileged under the laws of the jurisdiction that is their source.

The bill allows the commissioner to enter into written agreements governing the sharing and use of documents, materials, data and other information, that are consistent with its provisions.

Privilege (§ 2(g)(3)(C))

No waiver of any applicable privilege or claims of confidentiality in any confidential information occurs as a result of disclosure to the commissioner or sharing authorized by the bill. A privilege established under the law of any state or jurisdiction that is substantially similar to a privilege established by the bill must be available and enforced in any proceeding in, and in any court of, this state.

COMMITTEE ACTION

Insurance and Real Estate Committee

Joint Favorable
Yea 18 Nay 0 (03/19/2013)