

H B

373

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: CSHB 373 (L&C)
 Title: Nonforfeiture benefits of life insurance policies
 Sponsor: Labor & Commerce
 Requestor: _____
 Date of Request: _____

FISCAL DETAIL

Agency Affected: Commerce & Econ. Development
 Program Category Affected: Public protection
 BRU, Program or Subprogram(s) Affected: _____
 Division of Insurance _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

POSITIONS:

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
FULL-TIME						
PART-TIME						
TEMPORARY						

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

ANALYSIS: Attach a separate page for analysis

Prepared By: Kenneth C. Moore, Director
 Division: Insurance

Phone: 465-2515

Date: _____

Approved by Commissioner: Richard A. Lyon
 Agency: Commerce and Economic Development

Date: 12/29/83

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

12/1/83

CS HOUSE BILL 373, INTRODUCED BY THE HOUSE LABOR AND COMMERCE COMMITTEE, TRACTS MODEL LEGISLATION ADOPTED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS IN 1980. THIS LEGISLATION REPRESENTS A COMPREHENSIVE REVISION OF THE STATUTES WHICH WERE FIRST ADOPTED DURING ALASKA'S TERRITORIAL DAYS. CS HB 373 WILL ALLOW THE INSURANCE INDUSTRY MORE FLEXIBILITY IN RESPONDING TO THE EVER-CHANGING LIFE INSURANCE MARKETPLACE.

THE POSITIVE OUTCOME OF THIS LEGISLATION WILL RESULT IN A REDUCTION OF LIFE INSURANCE PREMIUMS. FOR EXAMPLE, FOR AN ALASKAN MALE, AGE 35, A WHOLE LIFE INSURANCE POLICY NOW COSTS \$16.23 PER THOUSAND DOLLARS OF COVERAGE PER YEAR. IF ^{CS} HB 373 IS IN EFFECT THE SAME POLICY WOULD COST \$12.64. THESE FIGURES WERE PROVIDED BY THE PRUDENTIAL INSURANCE COMPANY.

ALASKA IS THE ONLY STATE WHICH HAS NOT ADOPTED SIMILAR LEGISLATION. ^{CS} HB 373 PASSED 37 - 0 IN THE HOUSE AND WAS FAVORABLY REVIEWED IN THE SENATE LABOR AND COMMERCE AND JUDICIARY COMMITTEES. I RECOMMEND THE PASSAGE OF HB 373.

*KEN MOORE - DIRECTOR OF DIV of Insurance
SUPPLIED BY THE INSURANCE INDUSTRY
~~NOTE~~ FISCAL NOTE - ZERO
38 page - Terminal change*

ALASKA STATE LEGISLATURE - SENATE

SENATOR RICHARD I. ELIASON

LABOR AND COMMERCE COMMITTEE, CHAIRMAN
REJOURCES COMMITTEE
JUDICIARY COMMITTEE
FISHERIES SUB-COMMITTEE



P O BOX 143
SITKA, ALASKA 99835
POUCH V
JUNEAU, ALASKA 99811
(907) 465-4910

MEMORANDUM

TO: Senator Bill Ray, Chair
Senate Judiciary Committee

FROM: Senator Dick Eliason

DATE: February 27, 1984

RE: CS HB 373 (L&C) - "An Act relating to nonforfeiture benefits of life insurance policies and reserve valuation standards for life insurance policies and annuity contracts."

As chairman of the Senate Labor & Commerce Committee, I had the opportunity to review the merits of the above-mentioned legislation and I recommend that HB 373 pass out of the Judiciary Committee with a "do pass".

HB 373, introduced by the House Labor & Commerce Committee, tracks model legislation adopted by the National Association of Insurance Commissioners (NAIC) in 1980. To date, Alaska is the only state which has not adopted this legislation.

HB 373 represents a comprehensive revision of the Standard Valuation Law and the Standard Nonforfeiture Law for Life Insurance. It would allow the insurance industry more flexibility in responding to the ever-changing life insurance marketplace.

However, this legislation will not only benefit the insurance industry, but will also help reduce the cost of insurance to the consumer. For example, for an Alaskan male, age 35, a whole life insurance policy now costs \$16.23 per thousand dollars of coverage per year. If HB 373 is in effect the same policy would cost \$12.64. (These figures were provided by the Prudential Insurance Company).

Attached is further back-up information regarding this legislation.

Faint, illegible text, possibly a document header or list of items, with some recognizable words like "UNITED STATES" and "DEPARTMENT OF" scattered throughout.

WHILE YOU WERE AWAY

FOR Sheila DATE 2-13 TIME 3:50 ~~AM~~ PM

BY Steve Silver

OF (informed of 2/21/84 mtg) TELEPHONED

PHONE 586-3340 RETURNED YOUR CALL

AREA CODE NUMBER EXTENSION

MESSAGE PLEASE CALL

Scheduled HB373 WILL CALL AGAIN

for 3/1/84 - No need CAME TO SEE YOU

for eyepatches WANTS TO SEE YOU

SIGNED [Signature] TOPS FORM 4002

COMMITTEE REPORT

SENATE

FURTHER:

2/7/85

Date

1-21/89

Mr. President

The Committee on LABOR & COMMERCE considered CSHB 373 (LAC)

non-qualified benefits of life insurance policies and reserve valuation standards for life insurance policies and annuity contracts; and.

and (a majority of the committee) (the committee) reports it back with the following recommendations:

- do pass
- do pass with attached amendment(s)
- replace with/or adopt CS for _____
- new title
- same title and recommends _____
- and attached a "LETTER OF INTENT" NEW FISCAL NOTE
- reports it back without recommendation
- recommends referral to _____ Committee

MEMBERS SIGNING
DO PASS

MEMBERS HAVING
OTHER RECOMMENDATIONS

Chairman

Chairman recommendation

Life Insurance
(standard
nonforfeiture/
valuation)

HOUSE BILL NO. 373, by the Labor & Commerce Committee.

Represents a comprehensive revision of the standard valuation and standard nonforfeiture law for life insurance, based on model amendments proposed by a number of groups and organizations, including the National Association of Insurance Commissioners, the American Council of Life Insurance, and the Society of Actuaries. The standard laws have not been revised since they were originally enacted in the 1940's, and the changes proposed have been adopted in 39 states to date. Similar measures have been introduced in other state legislatures.

The bill amends the existing section of state law relating to the standard valuation law for life insurance (AS 21.18.110(b)). The standard valuation law establishes minimum reserving standards to provide for the solvency of life insurance policies, guaranteeing future benefits provided for by the policies. The current basis for reserving is based on mortality tables and interest rates. In general, HB 373 does not change the method of reserving, but would change the mortality tables, reflecting increased longevity, based on the 1980 Standard Ordinary Mortality Table.

The bill would also change the method of determining valuation interest rates. Currently the interest factor allowed is statically fixed in law. Each time economic conditions warrant change in rates, the law must be changed. HB 373 would take a dynamic approach to interest rates, linking the interest rate to Moody's Corporate Bond Yield Average -- Monthly Average Corporates, as published by Moody's Investors Service, Inc., and would allow the interest rate to change, based on the index.

page 581

The bill would also allow new mortality tables to be adopted by regulation, although the tables would first have to be adopted by the National Association of Insurance Commissioners, and the regulation process would have to be observed.

The standard nonforfeiture law for life insurance determines how benefits are paid to defaulting or surrendering policyholders, depending on the number of years the premiums were paid, and the payment provisions stipulated in the insurance policy. In determining the benefits of a defaulting or surrendering policyholder the interest rates and mortality factors are taken into account. Life insurance policies issued in the state must contain provisions for payment of nonforfeiture benefits, and cash surrender values. A statement of the mortality table and interest rate used in calculating the cash surrender values and the paid-up nonforfeiture benefits available may be used in some types of policies. The standard nonforfeiture law and the standard valuation law are linked on the basis of interest rates and mortality tables.

The bill lists the methods of payment of benefits to terminating policyholders, language to be contained in insurance policies guaranteeing payment of benefits, calculation of and value of the policy, and calculation of adjusted premiums and present values of life insurance policies.

Provides Act takes effect immediately.

Brief Summary

TECHNICAL NOTES
Proposed Amendments to the Standard Valuation Law
and
Standard Nonforfeiture Law for Life Insurance

The proposed amendments were adopted by the National Association of Insurance Commissioners (NAIC) in December, 1980. Instrumental in their development were the NAIC, the American Council of Life Insurance (ACLI), and the Society of Actuaries. This cooperative effort resulted in these amendments which are the most encompassing changes since these laws were first adopted.

To date, at least 39 states have enacted the 1980 amendments, including most of the western states. The uniform enactment of the standard valuation and nonforfeiture laws by the various states obviates an insurer from establishing its reserves on different bases for different states with varying minimum valuation standards. Such an approach would only result in increased insurance costs with no greater assurance of insurer solvency.

Interest and mortality are the prime factors in establishing reserves and in the determination of nonforfeiture values. Currently, the minimum standards for these factors are statically established in law. So, any changes in these factors needs to be accomplished by legislative action.

The proposed amendments establish a dynamic approach to the interest factor. The interest rate is pegged to an outside index (Moody's Corporate Bond Yield Average - Monthly Average Corporates) and automatically responds to the movement of that index. Therefore, the necessity of legislative action each time a change in interest rate is called for is eliminated. This index has historically tracked the long term interest trends without undue fluctuations. The variable policy loan interest rate utilizes this same index. Additionally, formula weightings also further insulate the interest factor from chance fluctuation. Current economic conditions require the interest factor be more reflective of the current economic state in a more timely manner. An indication of the magnitude of the impact of the interest factor is that for each 1% change in the valuation interest rate, the value of the reserves changes by approximately 10% (e.g. a 1% increase in valuation interest rates causes the reserves to decrease by approximately 10%).

The proposed amendments change the mortality basis through the adoption of the Commissioners 1980 Standard Ordinary Mortality Table (1980 CSO) and the Commissioners 1980 Extended Term Insurance Table. The current mortality basis is the Commissioners 1958 Standard Ordinary Mortality Table (1958 CSO). The 1980 CSO reflects the better mortality (increased longevity) experienced in more recent years. Generally, increased longevity results in decreased amounts of reserves similar to the impact created by changes in the valuation interest rates. Additionally, the proposed amendments allow for the director of insurance to adopt by

regulation new mortality tables for valuation and nonforfeiture determinations once they have been adopted by the NAIC.

The Standard Valuation Law establishes the minimum standards (interest, mortality, and valuation method) for a life insurer in establishing its required reserves. The regulatory interest is to assure the solvency of an insurer so that it may meet its current contractual obligations and those which extend many years into the future. The proposed amendments establish a conservative but more realistic basis for the required reserves. An ancillary effect will be a greater array of new life insurance contracts being offered to the public by a wider range of insurers at a lower cost.

The Standard Nonforfeiture Law establishes the minimum standards for determining what share of the insurer's assets a terminating policyholder is due. The regulatory intent is to provide equity to the terminating policyholder as well as to those policyholders whose coverage remains in force. A more realistic determination of surrender values is provided for by the proposed amendments. Also, appropriate patterns for nonforfeiture values are established which prevents manipulations of these values for certain periods of time commonly used in comparing the values of similar life insurance contracts offered by different insurers.

Due to the financial integration which is currently taking place, a proliferation of new and innovative life insurance and annuity contracts has taken place. No standard valuation or nonforfeiture law can accommodate or anticipate all possible kinds of life insurance and annuity contracts. Therefore, the proposed amendments provide the director of insurance with the authority to promulgate regulations to establish the valuation and nonforfeiture standards for such products.

The above represents an overview of the proposed amendments to the Standard Valuation and Standard Valuation Laws. The materials provided by the ACLI presents a more detailed and technical discussion of these proposed amendments, presented in an equitable manner. The division of insurance feels that such information can be relied upon.

The Division of Insurance recommends enactment of the proposed amendments.

Testimony notes. HB 373

Administration favors bill.

Bill tracks model legislation adopted by the NAIC (National Association of Insurance Commissioners) in 1980.

Bill amends the Standard Valuation Law and the Standard Nonforfeiture Law for life insurance.

Allows for a more dynamic approach to determining values in the two laws. Allows more flexibility in responding to change in the life insurance marketplace.

Approach to establishing reserves is conservative but realistic.

Will make available a much wider range of products.

By Div of Insurance

SUMMARY OF 1980 AMENDMENTS TO STANDARD
VALUATION LAW AND STANDARD NONFORFEITURE
LAW FOR LIFE INSURANCE

These amendments adopted by the National Association of Insurance Commissioners in December, 1980 are the most significant and comprehensive changes to the Standard Laws since these laws were originally enacted in the 1940's. They represent the culmination of years of effort in a cooperative project involving a number of organizations and groups.

Purposes of Amendments

1. Update the minimum standards for reserves and nonforfeiture benefits and provide for future automatic updating of these standards in order to permit company operations and the products offered to the consumer to keep pace with changes in the economy and in longevity.
2. Accommodate more effectively products that have been introduced since the laws were first enacted.
3. Accommodate new products that may be developed in the future, thereby increasing company flexibility to offer, and insurance department flexibility to regulate, products that meet new public needs and expectations.

Principal Features of Amendments

1. A system for the automatic annual updating of the statutory valuation and nonforfeiture interest rate standards applicable to new business.
2. New mortality tables for ordinary life insurance and authority for the insurance commissioner to promulgate more modern life insurance, annuity, and disability tables.
3. Changes in the allowance for company excess initial expenses that is used in calculating minimum nonforfeiture benefits for life insurance.
4. Provisions to require appropriate patterns of nonforfeiture benefits.
5. Provisions that take account of special features of products not contemplated in the original versions of these laws, such as family policies, policies that provide for changes in benefits and premiums after issue at the option of the policyholder, and policies that provide for the payment of an additional premium in the first policy year.
6. Provisions to authorize the insurance commissioner to promulgate valuation and nonforfeiture regulations to accommodate life insurance plans providing for future premium determination by the company and plans for which minimum reserves or nonforfeiture values cannot be determined by the other provisions of the laws.



**ERICKSON
INSURANCE
AGENCY**

February 13, 1984

Senator Dick Eliason, Chairman
Senate Labor & Commerce Committee
Pouch V
Juneau, Alaska 99811.

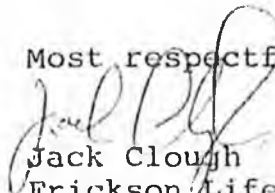
Re: H.B.373

Dear Senator Eliason:

I am writing to express my full support in passage of H.B.373. I believe that Alaska is the only state not to have such a law but that the bill has passed the House (37-0) and now lies in the Senate Labor & Commerce Committee. Truly, this bill is in the best interest of the consumer and can only benefit everyone.

It is my hope, Senator, that you feel as I do and will urge the committee, as well as the Senate, to pass this legislation into law as soon as possible. Your comments will be most appreciated.

Most respectfully,


Jack Clough
Erickson Life
President

JC:lb

RECEIVED JAN 31 1984

Richard Scott/Financial Plans
P. O. BOX 80845 - COLLEGE STATION - FAIRBANKS, AK 99708
(907) 479-6778

January 28, 1984

Rep. Bob Bettisworth
Juneau, AK

Dear Bob,

HB 373 includes a proposal to authorize use of the latest mortality table in computing premiums and cash values for life insurance. Since the insurance commissioners of all the states create a committee to approve proposed new tables, they are generally referred to by the date approved, and called the Commissioners Standard Ordinary mortality table, or "CSO" for short. The latest table is the "1980 CSO" and at last count had been approved by 31 states so far. The last one before that one, I think, was the 1958 CSO.

Since premiums are based on projected life spans starting at various ages, and since life expectancy in general has changed considerably since the 1958 table, it appears valid to adopt the 1980 CSO table as soon as it can be arranged. From a premium standpoint, the change reduces most rates and resulting cash values slightly and at some ages may increase them slightly. The reason that adoption of a new table doesn't make major changes is that the companies constantly monitor mortality statistics and adjust the premiums from time to time.

I was told that HB 373 was sponsored by the Labor and Commerce committee and is presently in the Rules Committee, Rep. Cowdery, Chairman. Mark Ringstad and Niilo Koponen are also on the Committee.

Now that the 1980 CSO has been out long enough to become generally adopted across the country, I notice a trend for life insurance companies to issue their new policy forms only in those states which have approved the 1980 CSO table. Since the newer policy constructions include current-interest-assumption plans with what appear to be substantial buyer advantages, adoption of the new table will broaden the choices available to Alaskan buyers and sellers of life insurance.

If past history repeats, this shouldn't come up again for another 22 years. Anything you can do or advice you may have in this matter will be most appreciated.

Best wishes to you and your colleagues as you work to develop plans for the future of this state.

Sincerely,

Richard Scott

cc:
Mark Ringstad
Niilo Koponen
Rep. Cowdery

HB 373 FLOOR SPEECH by Rep Cowdry, Chair of
House Labor + Commerce

HOUSE BILL 373 I'M GLAD TO SAY IS A PIECE OF LEGISLATION WHICH WILL BENEFIT NOT ONLY THE INSURANCE INDUSTRY -- BUT ALSO WILL HELP REDUCE THE COST OF INSURANCE TO CONSUMER.

THIS BILL IS THE PRODUCT OF MANY YEARS OF WORK. IT WAS WRITTEN BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS OF WHICH KEN MOORE, DIRECTOR OF THE DIVISION OF INSURANCE IN ALASKA, IS A MEMBER. HOUSE BILL 373 WOULD REVISE STATUTES WHICH WERE FIRST ADOPTED DURING ALASKA'S TERRITORIAL DAYS.

IT IS A MODEL PIECE OF LEGISLATION, PASSED IN STATES WHERE INSURANCE IS SUCH A MAJOR INDUSTRY THAT STANDING COMMITTEES ON INSURANCE HAVE BEEN CREATED BY THEIR LEGISLATURES TO DEAL WITH THE HIGH VOLUME OF INSURANCE LEGISLATION. STATES SUCH AS CALIFORNIA, NEW YORK, ILLINOIS, CONNECTICUT, AND MASSACHUSETTS. IN FACT 49 OF 50 STATES HAVE ADOPTED ALMOST IDENTICAL LEGISLATION.

HOUSE BILL 373 HAS BEEN SCRUTINIZED LINE BY LINE WITH A FINE TOOTH COMB, BY THE LEGAL SERVICES DIVISION OF THE LEGISLATIVE AFFAIRS AGENCY. AFTER EXHAUSTIVE REVIEW, THIS

LEGISLATION HAS FINALLY REACHED THE FLOOR FOR OUR CONSIDERATION.

HOUSE BILL 373 IS SUPPORTED BY THE ADMINISTRATION. AS I MENTIONED, KEN MOORE THE DIRECTOR OF THE DIVISION OF INSURANCE IN THE DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT HELPED PEN THIS LEGISLATION.

HOUSE BILL 373 IS STRONGLY SUPPORTED BY THE INSURANCE INDUSTRY AS WELL. IT WILL ALLOW FOR NEW PRODUCT LINES OF LIFE INSURANCE AND ANNUITY WHICH WILL RESULT IN CONSIDERABLE COST SAVINGS FOR THE CONSUMER.

IN CONCLUSION, I WOULD URGE EACH MEMBER OF THIS BODY TO VOTE IN FAVOR OF THE PASSAGE OF HOUSE BILL 373.

~~RECEIVED~~

FIRST OF ALL I DO NOT CLAIM TO BE AN EXPERT ON NON-FORFEITURE BENEFITS OR ANNUITY CONTRACTS. ONLY AN INSURANCE INDUSTRY EXPERT COULD EXPLAIN THIS BILL LINE BY LINE--PARAGRAPH BY PARAGRAPH.

WHAT I DO KNOW IS WE HAVE A BILL HERE WHICH HAS BEEN ADOPTED BY THE 49 OTHER STATES.

IT HAS THE SUPPORT OF THE INDUSTRY AND THE ADMINISTRATION AND LEGAL SERVICES SPENT WEEKS GOING OVER THE BILL.

BEYOND THAT IT WILL SAVE ALASKANS MONEY ON LIFE INSURANCE POLICY'S.

FOR EXAMPLE:

FOR AN ALASKAN MALE, AGE 35, A WHOLE LIFE POLICY NOW COSTS \$16.23 PER THOUSAND DOLLARS OF COVERAGE-PER YEAR. IF THIS BILL IS PASSED THE SAME POLICY WOULD COST \$12.64.

THESE FIGURES CAME FROM PRUDENTIAL INSURANCE. PRUDENTIAL LIKE MANY OTHER INSURANCE COMPANIES HAVE POLICY'S THEY MARKET NATIONWIDE BECAUSE ALL OTHER STATES HAVE ADOPTED A UNIFIED LAW. FOR THE BETTERMENT OF ITS PEOPLE--ALASKA SHOULD TOO.