

TITLE 50: INSURANCE
PART 1411 UNIVERSAL LIFE INSURANCE
CHAPTER I: DEPARTMENT OF INSURANCE

Section 1411.40 Nonforfeiture

- a) Minimum Cash Surrender Values for Flexible Premium Universal Life Insurance Policies
 - 1) Minimum cash surrender values for flexible premium universal life insurance policies shall be determined separately for the basic policy or group certificate and any benefits and riders for which premiums are paid separately. The following requirements pertain to a basic policy or group certificate and any benefits and riders for which premiums are not paid separately.
 - 2) The minimum cash surrender value (before adjustment for indebtedness and dividend credits) available on a date as of which interest is credited to the policy or group certificate shall be equal to:
 - A) The accumulation to that date of the premiums paid minus the accumulations (all accumulations being at the actual rate or rates of interest at which interest credits have been made unconditionally to the policy; or have been made conditionally, but for which the conditions have since been met) to that date of:
 - i) The benefit charges;
 - ii) The averaged administrative expense charges for the first policy year and any insurance-increase years;
 - iii) Actual administrative expense charges for other years;
 - iv) Initial and additional acquisition expense charges not exceeding the initial or additional expense allowances, respectively;
 - v) Any service charges actually made (excluding charges for cash surrender or election of a paid-up nonforfeiture benefit); and
 - vi) Any deductions made for partial withdrawals,
 - B) Minus any unamortized unused initial and additional expense allowances.
 - 3) Interest on the premiums and on all charges referred to in subsections (a)(2)(A)(i) through (vi) of this Section shall be accumulated from and to such dates as are consistent with the manner in which interest is credited in determining the policy value.
 - 4) The benefit charges shall include the charges made for mortality and any charges made for riders or supplementary benefits for which premiums are not paid separately. If benefit charges are substantially level by duration and develop low or no cash values, then the Director shall have the right to require higher cash values unless the insurer provides adequate justification that the cash values are appropriate in relation to the policy's or group certificate's other characteristics.
 - 5) The administrative expense charges shall include charges per premium payment, charges per dollar of premium paid, periodic charges per thousand dollars of insurance, periodic per policy or group certificate charges, and any other charges

permitted by the policy or group certificate to be imposed without regard to the policyowner's or group certificateholder's request for services.

- 6) The averaged administrative expense charges for any year shall be those which would have been imposed in that year if the charge rate or rates for each transaction or period within the year had been equal to the arithmetic average of the corresponding charge rates which the policy or group certificate states will be imposed in policy years 2 through 20 in determining the policy value.
- 7) The initial acquisition expense charges shall be the excess of the expense charges, other than service charges, actually made in the first policy year over the averaged administrative expense charges for that year. Additional acquisition expense charges shall be the excess of the expense charges, other than service charges, actually made in an insurance-increase year over the averaged administrative expense charges for that year. An insurance-increase year shall be the year beginning on the date of increase in the amount of insurance by policyowner or group certificateholder request (or by the terms of the policy or group certificate).
- 8) Service charges shall include charges permitted by the policy or group certificate to be imposed as the result of a policyowner's or group certificateholder's request for a service by the insurer (such as the furnishing of future benefit illustrations) or of special transactions.
- 9) The initial expense allowance shall be the allowance provided by Section 229.2(4c)(a) of the Code for a fixed premium, fixed benefit endowment policy with a face amount equal to the initial face amount of the flexible premium universal life insurance policy, with level premiums paid annually until the highest attained age at which a premium may be paid under the flexible premium universal life insurance policy, and maturing on the latest maturity date permitted under the policy or group certificate, if any, otherwise at the highest age in the valuation mortality table. The unused initial expense allowance shall be the excess, if any, of the initial expense allowance over the initial acquisition expense charges as defined above.
- 10) If the amount of insurance is subsequently increased upon request of the policyowner or group certificateholder (or by the terms of the policy or group certificate), an additional expense allowance and an unused additional expense allowance shall be determined on a basis consistent with the above and with Section 229.2(4c)(e) of the Code, using the face amount and the latest maturity date permitted at that time under the policy or group certificate.
- 11) The unamortized unused initial expense allowance during the policy year beginning on the policy or group certificate anniversary at age $x+t$ (where "x" is the same issue age) shall be the unused initial expense allowance multiplied by a_{x+t}/a_x where a_{x+t} and a_x are present values of an annuity of 1 per year payable on policy or group certificate anniversaries beginning at ages $x+t$ and x , respectively, and continuing until the highest attained age at which a premium may be paid under the policy or group certificate, both on the mortality and interest bases guaranteed in the policy or group certificate. An unamortized unused additional expense allowance shall be the unused additional expense allowance multiplied by a similar ratio of annuities, with a_x replaced by an annuity beginning on the date as of which the additional expense allowance was determined.

b) Minimum Cash Surrender Values for Fixed Premium Universal Life Insurance Policies

- 1) For fixed premium universal life insurance policies, the minimum cash surrender values shall be determined separately for the basic policy or group certificate and any benefits and riders for which premiums are paid separately. The following requirements pertain to a basic policy or group certificate and any benefits and riders for which premiums are not paid separately.
- 2) The minimum cash surrender value (before adjustment for indebtedness and dividend credits) available on a date as of which interest is credited to the policy or group certificate shall be equal to $[(A)-(B)-(C)-(D)]$, where:
 - A) (A) is the present value of all future guaranteed benefits.
 - B) (B) is the present value of future adjusted premiums. The adjusted premiums are calculated as described in Section 229.2(4c)(a). The nonforfeiture net level premium is equal to the quantity $PVFB/a_x$ where:
 - i) PVFB is the present value of all benefits guaranteed at issue assuming future premiums are paid by the policyowner or group certificateholder and all guarantees contained in the policy or group certificate or declared by the insurer, and
 - ii) a_x is the present value of an annuity of 1 per year payable on policy or group certificate anniversaries beginning at age x and continuing until the highest attained age at which a premium may be paid under the policy or group certificate.
 - C) (C) is the present value of any quantities analogous to the nonforfeiture net level premium that arise because of guarantees declared by the insurer after the issue date of the policy or group certificate. a_x shall be replaced by an annuity beginning on the date as of which the declaration became effective and payable until the end of the period covered by the declaration.
 - D) (D) is the sum of any quantities analogous to subsection (b)(2)(B) of this Section that arise because of structural changes in the policy or group certificate, as described in Section 1411.30(a)(1)(D).
- 3) Future guaranteed benefits are determined by:
 - A) Projecting the policy value, taking into account future premiums, if any, and using all guarantees of interest, mortality, expense deductions, etc., contained in the policy or group certificate or declared by the insurer; and
 - B) Taking into account any benefits guaranteed in the policy or group certificate or by declaration that do not depend on the policy value.
- 4) All present values shall be determined using:
 - A) An interest rate (or rates) specified by Section 229.2(4c) of the Code for policies or group certificates issued in the same year, and
 - B) The mortality rates specified by Section 229.2(4c) of the Code for policies or group certificates issued in the same year or contained in such other table as may be approved by the Director for this purpose.

c) Minimum Paid-Up Nonforfeiture Benefits

- 1) If a universal life insurance policy provides for the optional election of a paid-up nonforfeiture benefit, it shall be such that its present value shall be at least equal to the cash surrender value provided for by the policy or group certificate on the effective date of the election. The present value shall be based on mortality and interest standards at least as favorable to the policyowner or group certificateholder as:
 - A) In the case of a flexible premium universal life insurance policy, the mortality and interest basis guaranteed in the policy or group certificate for determining the policy value, or
 - B) In the case of a fixed premium policy, the mortality and interest standards permitted for paid-up nonforfeiture benefits by Section 229.2(4c) of the Code.
- 2) In lieu of the paid-up nonforfeiture benefit, the insurer may substitute, upon proper request not later than 60 days after the due date of the premium in default, an actuarially equivalent alternative paid-up nonforfeiture benefit that provides a greater amount or longer period of death benefits, or, if applicable, a greater amount or earlier payment of endowment benefits.