

STATE OF MICHIGAN  
DEPARTMENT OF LABOR AND ECONOMIC GROWTH  
OFFICE OF FINANCIAL AND INSURANCE REGULATION

Bulletin 2008-17-INS

**In the matter of**

Preneed Life Insurance minimum standards  
For determining reserve liabilities and  
Nonforfeiture values

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**Issued and entered**  
this 16<sup>th</sup> day of December 2008  
By Ken Ross  
Commissioner

In May 2008, the DeLoitte-UConn Actuarial Center completed a Preneed Insurance Mortality Study for the Society of Actuaries that found use of the 2001 CSO mortality table produced inadequate reserves and nonforfeiture values for preneed insurance products. This study found that preneed insurance is often sold to people 75 to 90 years old, in low face amounts with limited or no underwriting, since insurers often require a single premium, paid in advance.

In response to this report, the National Association of Insurance Commissioners (NAIC) developed a model regulation, #817-3, requiring use of the Ultimate 1980 CSO mortality table as the minimum mortality standard for determining reserve liabilities and nonforfeiture values for both male and female insureds for all preneed insurance contracts. The NAIC model also provides transition rules for those insurers currently using the 2001 CSO mortality table with specific directives for information and certification in the annual actuarial opinion memorandum until January 1, 2012. By that date, the NAIC model requires all insurers selling preneed policies, annuities, or other preneed contracts to use at a minimum the Ultimate 1980 CSO to assure adequate reserves and nonforfeiture values for these products.

In Michigan, MCL 500.2080 governs both the sale of life insurance policies and assignment of their proceeds to fund prepaid funeral and cemetery sales of goods and services contracts subject to the Prepaid Funeral and Cemetery Sales Act, 1986 PA 255, MCL 328.211-328.235. Both the Insurance Code and the Prepaid Act contain numerous disclosure requirements and consumer protections to assure that adequate funds are available immediately following the death of the insured to pay for the funeral and cemetery goods and services purchased.

Chapter 8 of the Michigan Insurance Code specifically requires life insurance companies to maintain reserves adequate to satisfy all contractual provisions of the products they sell and authorizes the Commissioner's to take action by order or rule to implement those requirements.

Similarly, the Michigan Administrative Code, R 500.991 – R 500.997 grants the Commissioner authority to specify methods of actuarial analysis and actuarial assumptions, when, in the Commissioner's judgment, these specifications are necessary for an acceptable opinion to be rendered on the adequacy of reserves and related items, including nonforfeiture values under MCL 500.4060.

The Commissioner has elected to address the inadequacy of reserves and nonforfeiture values for preneed products under the 2001 CSO mortality table by Order rather than rule.

Under the statutory and administrative rule authority cited in Order 08-062-M, all life insurers selling preneed products in Michigan for a single premium, paid in advance, must maintain reserves and nonforfeiture values for such products as they would for annuity or endowment contracts under Appendices A-820 and A-830 of the NAIC Accounting practices and procedures manual, exclusive of use of the 2001 CSO mortality table. Commencing January 1, 2009, the annual actuarial opinion memorandum shall specify the methods used for these products in support of the company's asset adequacy testing.

Order 08-062-M also authorizes all preneed insurers offering preneed products for periodic premiums and currently using the Ultimate 1980 CSO mortality table to continue its use after January 1, 2009. The annual actuarial memorandum of these life insurers must specify use of the Ultimate 1980 CSO for male and female insureds in support of the company's asset adequacy testing.

Order 08-062-M also incorporates the transition rules developed by the NAIC for continued use of the 2001 CSO mortality table for preneed products until December 31, 2011 if the actuarial opinion memorandum submitted in support of the company asset adequacy testing includes the notification and information required in the order.

Finally, Order 08-062-M requires all preneed insurers selling products for periodic premiums to use as of January 1, 2012 the Ultimate 1980 CSO mortality table for male and female insureds in the calculation of minimum nonforfeiture values and minimum reserves.

Any questions regarding this bulletin or the attached Order should be directed to:

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P.O. Box 30220  
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Ken Ross  
Commissioner

STATE OF MICHIGAN  
DEPARTMENT OF LABOR & ECONOMIC GROWTH  
OFFICE OF FINANCIAL AND INSURANCE REGULATION

Before the Commissioner of Financial and Insurance Regulation

In the matter of Preneed Life Insurance minimum  
standards for determining reserve liabilities and  
nonforfeiture values

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Order No. 08-062-M

Issued and entered  
this 16<sup>th</sup> day of December 2008  
by Ken Ross  
Commissioner

**ORDER SPECIFYING METHODS OF ACTUARIAL ANALYSIS AND  
ASSUMPTIONS  
FOR ADEQUACY OF RESERVES AND NONFORFEITURE VALUES FOR  
PRENEED LIFE INSURANCE**

**I  
BACKGROUND**

Pursuant to Section 438 of the Michigan Insurance Code of 1956, as amended (the Code), MCL 500.438, and the Administrative Procedures Act of 1969, as amended, MCL 24.201 *et. seq.*, the Commissioner prescribes the format and content of statements that are suitable and adaptable to each kind of insurer authorized or eligible to transact business in Michigan. A statement filed by the insurer shall be prepared in accordance with instruction provided by, and accounting practices and procedures designated by, the Commissioner.

Using data provided by ten preneed insurance companies for an experience period from January 2000 to January 2005, the Deloitte-UConn Actuarial Center completed in May 2008 a Preneed Insurance Mortality Study for the Society of Actuaries. This mortality study found that the unique mortality characteristics of preneed life insurance -- commonly issued at high ages such as 75 to 90 in low face amounts with limited underwriting and often on a guaranteed basis -- exhibit high mortality in the first year or two that results in inadequate reserves for an insurer using the 2001 CSO mortality table to determine reserves for these products.

In response to this study, the National Association of Insurance Commissioners (NAIC) issued a model regulation, #817-3, requiring use of the Ultimate 1980 CSO as the minimum mortality standard for determining reserve liabilities and nonforfeiture values for both male and female insureds for preneed insurance contracts. The NAIC model

also provides transition rules for those insurers using the 2001 CSO mortality table that include specific directives for information and certification in the actuarial opinion memorandum to be submitted annually by those insurers until January 1, 2012. By that date, the NAIC model requires all insurers selling preneed contracts to use at a minimum the Ultimate 1980 CSO to assure adequate reserves and nonforfeiture values.

Section 2080 of the Code, MCL 500.2080, governs both the sale of life insurance policies and assignment of their proceeds in Michigan to fund prepaid funeral and cemetery sales of goods and services contracts subject to the Prepaid Funeral and Cemetery Sales Act, 1986 PA 255, MCL 328.211-328.235.

Chapter 8 of the Insurance Code generally specifies the reserving requirements for life insurers and the Commissioner's powers to regulate reserves. MCL 500.830 authorizes the Commissioner to establish annually the required minimum reserves for life insurers, and MCL 500.830a grants the commissioner the power to direct what must be included in the opinion of a qualified actuary to establish that the reserves held by every life insurance company are computed appropriately and are adequate to satisfy contractual provisions. Chapter 8 of the Insurance Code, Michigan Administrative Rules, R 500.991-R 500.997, and the Commissioner's annual order on financial statements all incorporate the provisions of the NAIC accounting practices and procedures manual for valuation of life insurance policies. MCL 500.830a provides in part that, "By order, the commissioner may provide of a transition period for any higher reserves" that may be necessary to make adequate provision for the company's obligation under its policies and contracts, and the Michigan Administrative Code R 500.993(1) provides that:

The commissioner shall have the authority to specify methods of actuarial analysis and actuarial assumptions when, in the commissioner's judgment, these specifications are necessary for an acceptable opinion to be rendered relative to the adequacy of reserves and related items.

Like the information submitted to the Deloitte-UConn Actuarial Center for its Preneed Insurance Mortality study, information available to the Office of Financial and Insurance Regulation suggests that many life insurance companies selling coverage in Michigan to fund preneed funeral and cemetery contracts often do so without underwriting and upon payment of a single premium, while other companies may sell coverage upon payment of periodic premiums. Since MCL 500.2080 and the Prepaid Funeral and Cemetery Sales Act, 1986 PA 255, MCL 328.211-328.235 both contain numerous specific requirements to assure that products sold on a preneed and often prepaid basis will produce adequate funds immediately following the death of the insured, the adequacy of reserves and nonforfeiture values for such products is of paramount importance. Preneed insurers have asked the Commissioner to authorize continued use of the 1980 CSO table for products issued after January 1, 2009.

## II FINDINGS OF FACT AND CONCLUSIONS OF LAW

Based on the foregoing Preneed Insurance Mortality Study and Michigan law and regulations, the Commissioner FINDS and CONCLUDES that:

1. Use by a life insurance company of the 2001 CSO mortality table, as defined in MCL 500.838(1)(a), to determine minimum reserves and nonforfeiture values will produce inadequate reserves for policies and other contracts issued for preneed funeral and cemetery goods and services supplied at the time of an insured's death, pursuant to MCL 500.2080 to fund contracts subject to the Prepaid Funeral and Cemetery Sales Act, 1986 PA 255, MCL 328.211-328.235.
2. To assure adequate reserves for such products sold under MCL 500.2080, those life insurers selling in Michigan life insurance policies, annuity contracts, or any other contract to fund preneed funeral and cemetery goods and services contracts for a single premium, paid in advance, must maintain reserves for such policies or contracts adequate to pay all future guaranteed benefits, including guaranteed nonforfeiture benefits under MCL 500.4060, and must maintain reserves at a minimum as they would for annuity and endowment contracts under Appendices A-820 and A-830 of the NAIC accounting practices and procedures manual, exclusive of use of the 2001 CSO mortality table.
3. To assure adequate reserves for the products sold under MCL 500.2080, those life insurers selling in Michigan life insurance policies, annuity contracts, or any other contract to fund preneed funeral and cemetery goods and services contracts for periodic premiums, must maintain adequate reserves for such contracts and must use the Ultimate 1980 CSO as the minimum mortality standard for determining reserve liabilities and nonforfeiture values for both male and female insureds.
4. The memorandum of actuarial opinion required by MCL 500.830a and subject to administrative rules R 500.991-R 500.997 must specifically address the standards used for determining reserve liabilities and nonforfeiture values for preneed life insurance, commencing January 1, 2009, in accordance with the terms of the following order.

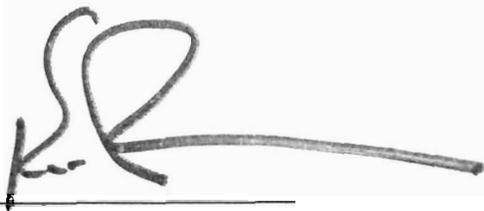
## III ORDER

Therefore, IT IS ORDERED that:

1. "Preneed insurance" means any life insurance policy, annuity, certificate or other contract under MCL 500.2080 that is issued in combination with, in support of, with an assignment to, or as guarantee for a contract for funeral services or goods or cemetery services or goods or any such insurance product that is assigned under MCL 328.229.

2. All insurers selling preneed insurance on a prepaid basis, i.e. for a single premium paid in advance, must maintain reserves and nonforfeiture values for such products adequate to fulfill all terms of their contracts and at a minimum as they would for annuity and endowment contracts under Appendices A-820 and A-830 of the NAIC accounting practices and procedures manual, exclusive of use of the 2001 CSO mortality table. The annual actuarial memorandum shall specify the methods used for these products in support of the company's asset adequacy testing.
3. All preneed insurers currently using the Ultimate 1980 CSO mortality table are authorized to continue its use after January 1, 2009 as the minimum mortality standard for determining reserve liabilities and nonforfeiture values for both male and female insureds. The annual actuarial memorandum shall specify use of this mortality table in support of the company's asset adequacy testing.
4. All preneed insurers currently using the 2001 CSO mortality table may elect to continue its use through December 31, 2011, provided that the insurer shall provide, as part of the actuarial opinion memorandum submitted in support of the company's asset adequacy testing, an annual written notification to the domiciliary commissioner that includes:
  - (a) A complete list of all preneed policy forms that use the 2001 CSO as a minimum standard;
  - (b) A certification signed by the appointed actuary stating that the reserve methodology employed by the company in determining reserves for the preneed policies issued after January 1, 2009 and using the 2001 CSO as a minimum standard, develops adequate reserves. For the purpose of this certification, the preneed insurance policies using the 2001 CSO as a minimum standard shall not be aggregated with any other policies; and
  - (c) Supporting information regarding the adequacy of reserves for preneed insurance policies issued after January 1, 2009 and using the 2001 CSO as minimum standard for reserves.
5. Preneed insurance policies issued on or after January 1, 2012 shall use the Ultimate 1980 CSO in the calculation of minimum nonforfeiture values and minimum reserves.
6. This Order does not affect other provisions of Chapter 8 of the Insurance Code or MCL 500.4060 regarding minimum valuation interest rate standards or minimum valuation method standards.

7. This Order shall be issued forthwith separately to each life insurer authorized to transact business in the State of Michigan and shall also be included in the annual order that issues later in December 2008.

A handwritten signature in black ink, appearing to be 'KR' followed by a long horizontal stroke, positioned above a thin horizontal line.

Ken Ross  
Commissioner