

BILL ANALYSIS

Senate Research Center

S.B. 1654
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Enrolled

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

In order to sell life insurance policies, insurers must maintain and incorporate statutory reserves with respect to their future obligations. Interested parties contend that the current law relies on a one-size-fits-all approach that does not appropriately take into account differences in companies and the life insurance products they write. For example, differences in the design of two products can affect the level of statutory reserves, even if the underlying risks to a company are the same. Interested parties contend that the resulting statutory reserves, when compared to the amount reasonably necessary to pay future obligations, are much too high in some cases, and too low in others. Because of these inefficiencies, some life insurers have been forced to utilize reinsurance, or alternative mechanisms such as captive insurance programs, to mitigate the impact of unnecessarily high reserves.

The National Association of Insurance Commissioners (NAIC) has adopted a revised Standard Valuation Law model for passage by state legislatures, which allows a state's insurance commissioner to permit companies to set outstanding policy and contract reserves using a principles-based reserving approach.

Principles-based reserving uses revised methods and assumptions for setting reserves that better reflect the features and risks in modern products. In addition, it requires companies to model various economic scenarios to ensure the right level of reserves to meet the future obligations of life insurance companies to their policyholders. Once principles-based reserving is implemented, statutory life insurance reserves will more accurately reflect the insurance risks of individual companies and products.

S.B. 1654 seeks to update the state's standard valuation law to allow for the implementation of principles-based reserves for certain life insurance and annuity products, applying the statutory framework developed by the NAIC and permitting the Texas Department of Insurance to adopt the valuation model.

S.B. 1654 amends current law relating to the standard valuation for life insurance, accident and health insurance, and annuities and the nonforfeiture requirements of certain life insurance policies and amends provisions that may be subject to a criminal penalty.

RULEMAKING AUTHORITY

Rulemaking authority is expressly granted to the commissioner of insurance in SECTION 15 (Section 425.073, Insurance Code) of this bill.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Section 425.052, Insurance Code, by amending Subsection (a) and adding Subsection (c), as follows:

- (a) Defines "accident and health insurance," "appointed actuary," "company," "deposit-type contract," "life insurance," "policyholder behavior," "principle-based valuation," "qualified actuary," "reserves," "tail risk," and "valuation manual" in this subchapter.

(c) Provides that the definitions under Subsection (a) of "accident and health insurance," "appointed actuary," "company," "deposit-type contract," "life insurance," "policyholder behavior," "principle-based valuation," "qualified actuary," and "tail risk" apply only on and after the operative date of the valuation manual.

SECTION 2. Amends the heading to Section 425.053, Insurance Code, to read as follows:

Sec. 425.053. ANNUAL VALUATION OF RESERVES FOR POLICIES AND CONTRACTS ISSUED BEFORE OPERATIVE DATE OF VALUATION MANUAL.

SECTION 3. Amends Section 425.053, Insurance Code, by amending Subsections (a) and (c) and adding Subsections (d) and (e), as follows:

(a) Requires the Texas Department of Insurance (TDI) to annually value or cause to be valued, rather than value or have valued, the reserves for all outstanding life insurance policies and annuity and pure endowment contracts of each life insurance company engaged in business in this state issued before the operative date of the valuation manual. Deletes existing text authorizing TDI to certify the amount of those reserves, specifying the mortality table or tables, rate or rates of interest, and methods, including the net level premium method or another method, used in computing those reserves.

(c) Deletes existing text authorizing TDI, instead of valuing the reserves as required by Subsection (a) for a foreign or alien company, to accept any valuation made by or for the insurance supervisory official of another state or jurisdiction if the official accepts as sufficient and valid for all legal purposes a certificate of valuation made by TDI that states the valuation was made in a specified manner according to which the aggregate reserves would be at least as large as they would be if computed in the manner prescribed by the law of that state or jurisdiction.

(d) Provides that, except as otherwise provided by this subchapter, policies and contracts issued on or after the operative date of the valuation manual are governed by Section 425.0535.

(e) Provides that the minimum standards for the valuation of policies and contracts issued before the operative date of the valuation manual are as provided by Sections 425.058 (Valuation of Policy or Contract: General Rule) through 425.071 (Lapse Rates in Minimum Standard of Valuation) and Section 425.072(b), as applicable. Provides that Sections 425.072(a), 425.073, and 425.074 do not apply to a policy or contract described by this subsection.

SECTION 4. Amends Subchapter B, Chapter 425, Insurance Code, by adding Section 425.0535, as follows:

Sec. 425.0535. ANNUAL VALUATION OF RESERVES FOR POLICIES AND CONTRACTS ISSUED ON OR AFTER OPERATIVE DATE OF VALUATION MANUAL. (a) Requires the commissioner of insurance (commissioner) to annually value, or cause to be valued, the reserves for all outstanding life insurance contracts, annuity and pure endowment contracts, accident and health contracts, and deposit-type contracts of each company issued on or after the operative date of the valuation manual.

(b) Authorizes the commissioner, in lieu of the valuation of the reserves required of a foreign or alien company, to accept a valuation made, or caused to be made, by the insurance supervisory official of another state if the valuation complies with the minimum standard provided by this subchapter.

(c) Provides that Sections 425.072(a), 425.073, and 425.074 apply to all policies and contracts issued on or after the operative date of the valuation manual.

SECTION 5. Amends the heading to Section 425.054, Insurance Code, to read as follows:

Sec. 425.054. ACTUARIAL OPINION OF RESERVES ISSUED BEFORE OPERATIVE DATE OF VALUATION MANUAL.

SECTION 6. Amends Section 425.054, Insurance Code, by amending Subsection (a) and adding Subsections (a-1), (j), (k), (l), (m), (n), (o), (p), and (q), as follows:

(a) Provides that this section applies only to an actuarial opinion of reserves issued before the operative date of the valuation manual.

(a-1) Creates this subsection from existing text. Makes no further change.

(j) Provides that, except as provided by Subsections (n), (o), and (p), any document or other information in the possession or control of TDI that is a memorandum in support of the opinion or other material provided by the company to the commissioner in connection with a memorandum is confidential and privileged and not subject to:

(1) disclosure under Chapter 552 (Public Information), Government Code;

(2) subpoena;

(3) discovery; or

(4) admissibility as evidence in a private civil action.

(k) Prohibits the commissioner or any person who receives a document or other information described by Subsection (j) while acting under the authority of the commissioner from testifying and from being compelled to testify in a private civil action concerning the document or other information.

(l) Authorizes the commissioner to:

(1) share documents or other information, including the confidential and privileged documents or information described by Subsection (j), with another state, federal, or international regulatory agency, with the National Association of Insurance Commissioners (NAIC) and its affiliates and subsidiaries, and with state, federal, and international law enforcement authorities, provided that the recipient agrees to maintain the confidentiality of the document or information; and

(2) receive documents or other information, including confidential and privileged documents or information, from NAIC and its affiliates and subsidiaries, and from regulatory and law enforcement officials of other foreign or domestic jurisdictions, provided that the commissioner is required to maintain as confidential or privileged any document or information received with notice or understanding that it is confidential or privileged under the laws of the jurisdiction that is the source of the document or information.

(m) Provides that disclosing information or providing a document to the commissioner under this section, or sharing information as authorized under this section, does not result in a waiver of any applicable privilege or claim of confidentiality that may apply to the document or information.

(n) Provides that a memorandum in support of the opinion, and any other material provided by the company to the commissioner in connection with the memorandum, may be subject to subpoena for the purpose of defending an action seeking damages from the actuary submitting the memorandum by reason of an action required by this section or rules adopted under this section.

(o) Provides that the memorandum or other material provided by the company to the commissioner in connection with the memorandum may otherwise be released by the

commissioner with the written consent of the company, or to the Actuarial Board for Counseling and Discipline (ABCD) or its successor on receipt of a request stating that the memorandum or other material is required for the purpose of professional disciplinary proceedings and setting forth procedures satisfactory to the commissioner for preserving the confidentiality and privileged status of the memorandum or other material.

(p) Provides that the memorandum ceases to be confidential and privileged if:

- (1) any portion of the memorandum is cited by the company in its marketing;
- (2) the memorandum is cited by the company before a government agency other than a state insurance department; or
- (3) the memorandum is released by the company to the news media.

(q) Provides that this section does not prohibit the commissioner from using information acquired under this section in the furtherance of a legal or regulatory action relating to the administration of this code.

SECTION 7. Amends Subchapter B, Chapter 425, Insurance Code, by adding Section 425.0545, as follows:

Sec. 425.0545. ACTUARIAL OPINION OF RESERVES AFTER OPERATIVE DATE OF VALUATION MANUAL. (a) Requires a company that has outstanding life insurance contracts, accident and health insurance contracts, or deposit-type contracts in this state and is subject to regulation by TDI to annually submit the opinion of the appointed actuary as to whether the reserves and related actuarial items held in support of the policies and contracts are computed appropriately, are based on assumptions that satisfy contractual provisions, are consistent with prior reported amounts, and are in compliance with applicable laws of this state. Requires that an opinion under this section comply with provisions of the valuation manual, including in regard to any items necessary to its scope.

(b) Requires a company described by Subsection (a), unless exempted by the valuation manual, to include with the opinion required by that subsection an opinion of the same appointed actuary concerning whether the reserves and related actuarial items held in support of the policies and contracts specified in the valuation manual, when considered in light of the assets held by the company with respect to the reserves and related actuarial items, including investment earnings on the assets and considerations anticipated to be received and retained under the policies and contracts, make adequate provision for the company's obligations under the policies and contracts, including benefits under and expenses associated with the policies and contracts.

(c) Requires that each opinion required by this section:

- (1) be in the form and contain the substance that is specified by the valuation manual and is acceptable to the commissioner;
- (2) be submitted with the annual statement reflecting the valuation of reserves for each year ending on or after the operative date of the valuation manual;
- (3) apply to all policies and contracts subject to this section, plus other actuarial liabilities specified by the valuation manual; and
- (4) be based on standards adopted from time to time by the Actuarial Standards Board or its successor, and on any additional standards prescribed by the valuation manual.

(d) Authorizes the commissioner, in the case of an opinion required to be submitted by a foreign or alien company, to accept the opinion filed by the company with the insurance supervisory official of another state if the commissioner determines that the opinion reasonably meets the requirements applicable to a company domiciled in this state.

SECTION 8. Amends Section 425.055(a), Insurance Code, as follows:

(a) Requires that a memorandum be prepared to support each actuarial opinion required by Section 425.054 (Actuarial Opinion Required) or 425.0545. Requires that the form and substance of each supporting memorandum comply with the commissioner's rules for memorandums subject to Section 425.054, or the valuation manual for memorandums subject to Section 425.0545. Deletes existing text requiring that a memorandum that, in form and substance, complies with the commissioner's rules be prepared to support each actuarial opinion required by Section 425.054.

SECTION 9. Amends Section 425.056(a), Insurance Code, to provide that, except in cases of fraud or wilful misconduct or as provided by Subsection (b), a person who certifies an opinion under Section 425.054 or 425.0545 is not liable for damages to a person, other than the life insurance company covered by the opinion, for an act, error, omission, decision, or other conduct with respect to the person's opinion.

SECTION 10. Amends Section 425.057, Insurance Code, to provide that a company or person that certifies an opinion under Section 425.054 or 425.0545 and that violates Section 425.054, 425.0545, or 425.055 (Supporting Memorandum for Actuarial Opinion) or rules adopted under those sections is subject to disciplinary action under Chapter 82 (Sanctions).

SECTION 11. Amends the heading to Section 425.058, Insurance Code, to read as follows:

Sec. 425.058. COMPUTATION OF MINIMUM STANDARD: GENERAL RULE.

SECTION 12. Amends the heading to Section 425.059, Insurance Code, to read as follows:

Sec. 425.059. COMPUTATION OF MINIMUM STANDARD FOR CERTAIN ANNUITIES AND PURE ENDOWMENT CONTRACTS.

SECTION 13. Amends the heading to Section 425.064, Insurance Code, to read as follows:

Sec. 425.064. COMMISSIONERS RESERVE VALUATION METHOD FOR LIFE INSURANCE AND ENDOWMENT BENEFITS.

SECTION 14. Amends the heading to Section 425.065, Insurance Code, to read as follows:

Sec. 425.065. COMMISSIONERS ANNUITY RESERVE VALUATION METHOD FOR ANNUITY AND PURE ENDOWMENT BENEFITS.

SECTION 15. Amends Subchapter B, Chapter 425, Insurance Code, by adding Sections 425.072, 425.073, 425.074, 425.075, 425.076, and 425.077, as follows:

Sec. 425.072. MINIMUM STANDARD FOR ACCIDENT AND HEALTH INSURANCE CONTRACTS. (a) Provides that the standard prescribed by the valuation manual for accident and health insurance contracts issued on or after the operative date of the valuation manual is the minimum standard of valuation required under Section 425.0535.

(b) Provides that, for disability, accident and sickness, and accident and health insurance contracts issued before the operative date of the valuation manual, the minimum standard of valuation is the standard in existence before the operative date of the valuation manual in addition to any requirements established by the commissioner and adopted by rule.

Sec. 425.073. VALUATION MANUAL FOR POLICIES ISSUED ON OR AFTER THE OPERATIVE DATE OF THE VALUATION MANUAL. (a) Provides that, except as otherwise provided by this section, for policies issued on or after the operative date of the valuation manual, the standard prescribed by the valuation manual is the minimum standard of valuation required under Section 425.0535.

(b) Requires the commissioner by rule to adopt a valuation manual and determine the operative date of the valuation manual. Requires that a valuation manual adopted by the commissioner under this section be substantially similar to the valuation manual approved by NAIC. Requires that the operative date be January 1 of the first calendar year immediately following a year in which, on or before July 1, the commissioner determines that:

(1) the valuation manual has been adopted by NAIC by an affirmative vote of at least 42 members, or three-fourths of the members voting, whichever is greater;

(2) NAIC Standard Model Valuation Law, as amended by NAIC in 2009, or legislation including substantially similar terms and provisions, has been enacted by states representing greater than 75 percent of the direct premiums written as reported in the following annual statements submitted for 2008:

(A) life insurance and accident and health annual statements;

(B) health annual statements; or

(C) fraternal annual statements; and

(3) NAIC Standard Model Valuation Law, as amended by NAIC in 2009, or legislation including substantially similar terms and provisions, has been enacted by at least 42 of the following 55 jurisdictions:

(A) the 50 United States;

(B) American Samoa;

(C) the United States Virgin Islands;

(D) the District of Columbia;

(E) Guam; and

(F) Puerto Rico.

(c) Requires that any changes to the valuation manual, after a valuation manual has been adopted by the commissioner by rule, be adopted by rule and be substantially similar to changes adopted by NAIC. Prohibits the effective date for changes to the valuation manual, unless a change in the valuation specifies a later effective date, from being earlier than January 1 of the year immediately following the date on which the commissioner determines that the changes to the valuation manual have been adopted by NAIC by an affirmative vote representing:

(1) at least three-fourths of the members of NAIC voting, but not less than a majority of the total membership; and

(2) members of NAIC representing jurisdictions totaling greater than 75 percent of the direct premiums written as reported in the most recently available annual statements as provided by Subsections (b)(2)(A)-(C).

(d) Requires that the valuation manual specify:

(1) the minimum valuation standards for and definitions of the policies or contracts subject to Section 425.0535, including:

(A) the commissioner's reserve valuation method for life insurance contracts subject to Section 425.0535;

(B) the commissioner's annuity reserve valuation method for annuity contracts subject to Section 425.0535; and

(C) the minimum reserves for all other policies or contracts subject to Section 425.0535;

(2) the policies or contracts that are subject to the requirements of a principle-based valuation under Section 425.074 and the minimum valuation standards consistent with those requirements, including:

(A) the requirements for the format of reports to the commissioner under Section 425.074(b)(3), which must include the information necessary to determine if a valuation is appropriate and in compliance with this subchapter;

(B) the assumptions prescribed for risks over which the company does not have significant control or influence; and

(C) the procedures for corporate governance and oversight of the actuarial function, and a process for appropriate waiver or modification of the procedures;

(3) the policies that are not subject to a principle-based valuation under Section 425.074;

(4) the data and form of data required under Section 425.075, to whom the data must be submitted, and other desired requirements, including requirements concerning data analyses and reporting of analyses;

(5) other requirements, including requirements relating to reserve methods, models for measuring risk, generation of economic scenarios, assumptions, margins, use of company experience, disclosure, certification, reports, actuarial opinions and memorandums, transition rules, and internal controls; and

(6) an exemption that allows certain small companies to value reserves based on an exception from certain requirements of this section and Section 425.074; however, the premium thresholds for determining whether the exemption applies shall be as follows:

(A) less than \$300 million of ordinary life premium; and

(B) less than \$600 million of combined ordinary life premiums for a group of life insurers if the company is a member of that group.

(e) Provides that, for purposes of Subsections (d)(6)(A) and (B), an ordinary life premium is measured as a direct premium plus reinsurance assumed from an unaffiliated company, as reported in the prior calendar year statement.

(f) Requires that the minimum valuation standard specified in the valuation manual, with respect to policies that are not subject to a principle-based valuation under Section 425.074 as described by Subsection (d)(3), be consistent with the minimum valuation standard before the operative date of the valuation manual, or develop reserves that quantify the benefits and guarantees, and the funding, associated with the contracts and their risks at a level of conservatism that reflects conditions that include unfavorable events that have a reasonable probability of occurring.

(g) Requires the company, in the absence of a specific valuation requirement or if a specific valuation requirement in the valuation manual does not in the commissioner's opinion comply with this subchapter, to, with respect to the requirement, comply with minimum valuation standards prescribed by the commissioner by rule.

(h) Authorizes the commissioner to employ or contract with a qualified actuary, at the expense of the company, to perform an actuarial examination of the company and provide an opinion concerning the appropriateness of any reserve assumption or method used by the company, or to review and provide an opinion on a company's compliance with any requirement of this subchapter. Authorizes the commissioner to rely on the opinion, regarding provisions contained within this subchapter, of a qualified actuary engaged by the insurance supervisory official of another state.

(i) Authorizes the commissioner to require a company to change an assumption or method as necessary in the commissioner's opinion to comply with a requirement of the valuation manual or this subchapter.

(j) Authorizes the commissioner to take other disciplinary action as permitted under Chapter 82.

Sec. 425.074. REQUIREMENTS OF A PRINCIPLE-BASED VALUATION. (a) Requires a company to establish reserves using a principle-based valuation that meets the conditions for policies or contracts provided by the valuation manual. Requires that, at a minimum, the valuation:

(1) quantify the benefits and guarantees, and the funding, associated with the 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 terms of the contracts;

(2) with respect to policies and contracts with significant tail risk, reflect conditions appropriately adverse to quantify the tail risk;

(3) incorporate assumptions, risk analysis methods, and financial models and management techniques that are consistent with those used in the company's overall risk assessment process, while recognizing potential differences in financial reporting structures and any prescribed assumptions or methods;

(4) incorporate assumptions:

(A) prescribed by the valuation manual; or

(B) established:

(i) using the company's available experience, to the extent that data is relevant and statistically credible; or

(ii) to the extent that the company data is not available, relevant, or statistically credible, using other relevant, statistically credible experience; and

(5) provide margins for uncertainty, including adverse deviation and estimation error, such that the greater the uncertainty the larger the margin and resulting reserve.

(b) Requires a company using a principle-based valuation for one or more policies or contracts subject to this section and as specified by the valuation manual to:

(1) establish procedures for corporate governance and oversight of the actuarial valuation function consistent with procedures specified by the valuation manual;

(2) provide to the commissioner and the company's board of directors an annual certification of the effectiveness of the internal controls with respect to the principle-based valuation; and

(3) develop, and file with the commissioner on request, a principle-based valuation report that complies with standards prescribed in the valuation manual.

(c) Requires that a company's internal controls with respect to the principle-based valuation be designed to ensure that all material risks inherent in the liabilities and associated assets subject to the valuation are included in the valuation, and that valuations are made in accordance with the valuation manual. Requires that the certification described by Subsection (b)(2) be based on the controls in place as of the end of the preceding calendar year.

(d) Authorizes a principle-based valuation to include a prescribed formulaic reserve component.

Sec. 425.075. EXPERIENCE REPORTING FOR POLICIES IN FORCE ON OR AFTER OPERATIVE DATE OF VALUATION MANUAL. Requires a company to submit mortality, morbidity, policyholder behavior, or expense experience and other data as prescribed in the valuation manual.

Sec. 425.076. CONFIDENTIALITY. (a) Defines "confidential information" in this section.

(b) Provides that a company's confidential information, except as provided in this section, is confidential by law and privileged, and shall not be subject to Chapter 552, Government Code, shall not be subject to subpoena, and shall not be subject to discovery or admissible in evidence in any private civil action; provided, however, that the commissioner is authorized to use the confidential information in the furtherance of any regulatory or legal action brought against the company as a part of the commissioner's official duties.

(c) Provides that neither the commissioner nor any person who received confidential information while acting under the authority of the commissioner shall be permitted or required to testify in any private civil action concerning any confidential information.

(d) Authorizes the commissioner, in order to assist in the performance of the commissioner's duties, to share confidential information (1) with other state, federal, and international regulatory agencies and with NAIC and its affiliates and subsidiaries and (2) in the case of confidential information specified in Subsections (a)(1) and (a)(4) only, with ABCD or its successor upon request stating that the confidential information is required for the purpose of professional

disciplinary proceedings and with state, federal, and international law enforcement officials; in the case of (1) and (2), provided that such recipient agrees, and has the legal authority to agree, to maintain the confidentiality and privileged status of such documents, materials, data, and other information in the same manner and to the same extent as required for the commissioner.

(e) Authorizes the commissioner to receive documents, materials, data, and other information, including otherwise confidential or privileged documents, materials, data, or information, from NAIC and its affiliates and subsidiaries, from regulatory or law enforcement officials of other foreign or domestic jurisdictions and from ABCD or its successor and requires the commissioner to maintain as confidential or privileged any document, material, data, or other information received with notice or the understanding that it is confidential or privileged under the laws of the jurisdiction that is the source of the document, material, data, or other information.

(f) Authorizes the commissioner to enter into agreements governing sharing and use of information consistent with Subsections (b) through (k).

(g) Provides that no waiver of any applicable privilege or claim of confidentiality in the confidential information shall occur as a result of disclosure to the commissioner under this section or as a result of sharing as authorized in Subsection (d).

(h) Requires that a privilege established under the law of any state or jurisdiction that is substantially similar to the privilege established under Subsections (b) through (k) be available and enforced in any proceeding in, and in any court of, this state.

(i) Provides that, in this section, a reference to a regulatory agency, law enforcement agency, or NAIC includes an employee, agent, consultant, or contractor of the agency or association, as applicable.

(j) Authorizes any confidential information specified in Subsections (a)(1) and (a)(4), notwithstanding this section, to be:

(1) subject to subpoena for the purpose of defending an action seeking damages from the appointed actuary submitting the related memorandum in support of an opinion submitted under Section 425.0545 or a principle-based valuation report developed under Section 425.074(b)(3) by reason of an action required by this subchapter or by rules adopted under this subchapter; and

(2) released by the commissioner with the written consent of the company.

(k) Provides that, once any portion of a memorandum in support of an opinion submitted under Section 425.0545 or a principle-based valuation report developed under Section 425.074(b)(3) is cited by the company in its marketing or is publicly volunteered to or before a governmental agency other than a state insurance department or is released by the company to the news media, all portions of such memorandum or report shall no longer be confidential and privileged.

Sec. 425.077. SINGLE STATE EXEMPTION. Authorizes the commissioner to exempt specific product forms or product lines of a domestic company that is licensed and doing business only in this state from the requirements of Section 425.073 if:

(1) the commissioner has issued an exemption in writing to the company and has not subsequently revoked the exemption in writing; and

(2) the company computes reserves using assumptions and methods used before the operative date of the valuation manual in addition to any requirements established by the commissioner and adopted by rule.

SECTION 16. Amends Subchapter A, Chapter 1105, Insurance Code, by adding Section 1105.0015, to define "operative date of the valuation manual" in this chapter.

SECTION 17. Amends Section 1105.055, Insurance Code, by amending Subsections (h) and (i) and adding Subsections (j), (k), (l), and (m), as follows:

(h) Provides that, for a policy issued before the operative date of the valuation manual, any ordinary mortality table adopted after 1980 by NAIC that is approved by rules adopted by the commissioner for use in determining the minimum nonforfeiture standard may be substituted for:

(1) the Commissioners 1980 Standard Ordinary Mortality Table with or without Ten-Year Select Mortality Factors; or

(2) the Commissioners 1980 Extended Term Insurance Table.

(i) Provides that, for a policy issued before the operative date of the valuation manual, any industrial mortality table adopted after 1980 by NAIC that is approved by rules adopted by the commissioner for use in determining the minimum nonforfeiture standard may be substituted for:

(1) the Commissioners 1961 Standard Industrial Mortality Table; or

(2) the Commissioners 1961 Industrial Extended Term Insurance Table.

(j) Requires that the valuation manual, except as provided by Subsection (k), for a policy described by Subsection (h) issued on or after the operative date of the valuation manual, provide the commissioners standard ordinary mortality table for use in determining the minimum nonforfeiture standard that may be substituted for:

(1) the Commissioners 1980 Standard Ordinary Mortality Table with or without Ten-Year Select Mortality Factors; or

(2) the Commissioners 1980 Extended Term Insurance Table.

(k) Provides that, if the commissioner by rule adopts a commissioners standard ordinary mortality table adopted by NAIC for use in determining the minimum nonforfeiture standard for policies issued on or after the operative date of the valuation manual, the minimum nonforfeiture standard determined in accordance with that table supersedes the standard provided by the valuation manual.

(l) Requires that the valuation manual, except as provided by Subsection (m), for a policy described by Subsection (i) issued on or after the operative date of the valuation manual, include the commissioners standard industrial mortality table for use in determining the minimum nonforfeiture standard that may be substituted for:

(1) the 1961 Standard Industrial Mortality Table; or

(2) the Commissioners 1961 Industrial Extended Term Insurance Table.

(m) Provides that, if the commissioner by rule adopts a commissioners standard industrial mortality table adopted by NAIC for use in determining the minimum nonforfeiture standard for policies issued on or after the operative date of the valuation manual, the minimum nonforfeiture standard determined in accordance with that table supersedes the standard provided by the valuation manual.

SECTION 18. Amends Section 1105.056, Insurance Code, as follows:

Sec. 1105.056. NONFORFEITURE INTEREST RATE. (a) Provides that, for a policy issued before the operative date of the valuation manual, the annual nonforfeiture interest rate for a policy issued in a particular calendar year is equal to 125 percent of the calendar year statutory valuation interest rate for that policy as defined by Subchapter B (Standard Valuation Law), Chapter 425, rounded to the nearest one-fourth of one percent, except that the rate may not be less than four percent.

(b) Provides that, for a policy issued on or after the operative date of the valuation manual, the annual nonforfeiture interest rate for any policy issued in a particular calendar year is provided by the valuation manual.

SECTION 19. Requires the commissioner to determine whether NAIC and a sufficient number of states and other jurisdictions have adopted a valuation manual as required by Section 425.073(b), Insurance Code, as added by this Act. Requires the commissioner, as soon as practicable after the commissioner determines that NAIC and a sufficient number of states and other jurisdictions have adopted the valuation manual as required by that section, to adopt rules necessary to implement this Act.

SECTION 20. Effective date: September 1, 2015.