

**WAC 284-74-340 General calculation requirements for basic reserves and premium deficiency reserves.**

(1) At the election of the company for any one or more specified plans of life insurance, the minimum valuation standard of mortality under RCW 48.74.030(1) for basic reserves may be calculated using the 1980 CSO mortality table with select mortality factors (or any other valuation mortality table adopted by the NAIC after the operative date of this regulation and promulgated by regulation by the commissioner for this purpose). If select mortality factors are elected, they may be:

(a) The ten-year select mortality factors incorporated into the 1980 amendments to the NAIC standard valuation law;

(b) The select mortality factors in WAC 284-74-380; or

(c) Any other table of select mortality factors adopted by the NAIC after the operative date of this regulation and promulgated by regulation by the commissioner for the purpose of calculating basic reserves.

(2) Deficiency reserves, if any, are calculated under RCW 48.74.070 for each policy as the excess, if greater than zero, of the quantity A over the basic reserve. The quantity A is obtained by recalculating the basic reserve for the policy using the minimum valuation standards of mortality under RCW 48.74.030(1) and rate of interest under RCW 48.74.030(3), and replacing the net premium by the actual gross premium in each contract year the actual gross premium is less than the corresponding net premium. The actual gross premiums shall be the maximum gross premiums guaranteed on the valuation date.

The quantity A and the corresponding net premiums used in the determination of quantity A shall be based upon the minimum valuation standard of mortality under subsection (1) of this section for basic reserves: Provided, That at the election of the company for any one or more specified plans of life insurance, the quantity A and the corresponding net premiums used in the determination of the quantity A may be based upon the 1980 CSO mortality table with select mortality factors (or any other valuation mortality table adopted by the NAIC after the operative date of this regulation and promulgated by regulation by the commissioner). If select mortality factors are elected, they may be:

(a) The ten-year select mortality factors incorporated into the 1980 amendments to the NAIC standard valuation law;

(b) The select mortality factors in WAC 284-74-380;

(c) Subject to the conditions in subsection (3) of this section, X percent of the select mortality factors in WAC 284-74-380; or

(d) Any other table of select mortality factors adopted by the NAIC after the operative date of this regulation and promulgated by regulation by the commissioner for the purpose of calculating deficiency reserves.

(3) If X percent of the select mortality factors in WAC 284-74-380 is elected under subsection (2)(c) of this section, then that election is subject to the following conditions:

(a) X may vary by policy year, policy form, underwriting classification, issue age, or any other policy factor expected to affect mortality experience;

(b) Using the valuation interest rate for basic reserves, subparagraph (i) is greater than or equal to subparagraph (ii);

(i) The actuarial present value of future death benefits, calculated using the mortality rates resulting from the application of X;

(ii) The actuarial present value of future death benefits, calculated using anticipated mortality experience without recognition of mortality improvement beyond the valuation date;

(c) The mortality rates resulting from the application of X are at least as great as anticipated mortality experience, without recognition of mortality improvement beyond the valuation date, in each of the first five years after the valuation date;

(d) The appointed actuary shall increase X at any valuation date where it is necessary to continue to meet all the requirements of this subsection (3);

(e) The appointed actuary may decrease X at any valuation date as long as it continues to meet all the requirements of this subsection (3);

(f) The appointed actuary shall specifically take into account the adverse effect on expected mortality and lapsation of any anticipated or actual increase in gross premiums; and

(g) If X is less than one hundred percent at any duration for any policy, the following requirements shall be met:

(i) The appointed actuary shall annually prepare an actuarial opinion and memorandum in conformance with the requirements of WAC 284-07-380 through 284-07-400;

(ii) The appointed actuary shall disclose in the regulatory asset adequacy issues summary the impact of insufficiency of assets to support the payment of benefits and expenses and the establishment of statutory reserves during one or more interim periods; and

(iii) The appointed actuary shall annually opine for all policies subject to this regulation as to whether the mortality rates resulting from the application of X meet the requirements of this subsection (3). This opinion shall be included with or attached to the company's annual statement, and shall disclose the lowest X factor used for any policy on the valuation date. This opinion shall be supported by an actuarial report, subject to appropriate actuarial standards of practice promulgated by the Actuarial Standards Board of the American Academy of Actuaries. The X factors shall reflect anticipated future mortality, without recognition of mortality improvement beyond the valuation date, taking into account relevant emerging experience.

(4) This subsection applies to both basic reserves and deficiency reserves. Any set of select mortality factors may be used only for the first segment. However, if the first segment is less than ten years, the appropriate ten-year select mortality factors incorporated into the 1980 amendments to the NAIC standard valuation law may be used thereafter through the tenth policy year from the date of issue.

(5) In determining basic reserves or deficiency reserves, guaranteed maximum gross premiums without policy fees may be used where the calculation involves the guaranteed maximum gross premium but only if the policy fee is specified in the policy and is a level dollar amount for the entire premium paying period of the policy. In determining deficiency reserves, policy fees may be included in guaranteed maximum gross premiums, even if not included in the actual calculation of basic reserves.

(6) Reserves for policies under which the insurer has changed its guarantees after issue with respect to gross premiums, benefits, charges, or credits, with the new guarantees effective for more than one year after the date of the change, shall be the greatest of the following:

(a) Reserves calculated ignoring the change;

(b) Reserves assuming the guarantee was made at issue; and

(c) Reserves assuming that the policy was issued on the date of the guarantee.

(7) The commissioner may require that the company document the extent of the adequacy of reserves for specified blocks, including, but not limited to, policies issued prior to the operative date of this regulation. This documentation may include a demonstration of the extent to which aggregation with other nonspecified blocks of business is relied upon in the formation of the appointed actuary opinion pursuant to and consistent with the requirements of WAC 284-07-380 and 284-07-400.

[Statutory Authority: RCW 48.02.060, 48.74.030, 48.74.080 and 48.74.070. WSR 12-06-027 (Matter No. R 2011-29), § 284-74-340, filed 3/1/12, effective 4/1/12. Statutory Authority: RCW 48.02.060, 48.74.030, 48.74.040, 48.74.070, and 48.74.080. WSR 00-07-069, § 284-74-340, filed 3/13/00, effective 4/13/00.]