

★★★ **NOTICE OF RULEMAKING HEARING** ★★★

NOTICE IS HEREBY GIVEN that pursuant to the authority granted under s. 601.41(3), Stats., and the procedures set forth in under s. 227.18, Stats., OCI will hold a public hearing to consider the adoption of the attached proposed rulemaking order affecting Section Ins 2.81, Wis. Adm. Code, relating to use of the 2001 CSO Preferred Class Structure Mortality Table in determining reserve liabilities.

HEARING INFORMATION

Date: April 14, 2010

Time: 10:00 a.m., or as soon thereafter as the matter may be reached

Place: OCI, Room 227, 125 South Webster St 2nd Floor, Madison, WI

Written comments can be mailed to:

James W. Harris
Legal Unit - OCI Rule Comment for Rule Ins 281
Office of the Commissioner of Insurance
PO Box 7873
Madison WI 53707-7873

Written comments can be hand delivered to:

James W. Harris
Legal Unit - OCI Rule Comment for Rule Ins 281
Office of the Commissioner of Insurance
125 South Webster St - 2nd Floor
Madison WI 53703-3474

Comments can be emailed to:

James W. Harris
james.harris@wisconsin.gov

Comments submitted through the Wisconsin Administrative Rule Web site at: <http://adminrules.wisconsin.gov> on the proposed rule will be considered.

The deadline for submitting comments is 4:00 p.m. on the 14th day after the date for the hearing stated in this Notice of Hearing.

SUMMARY OF PROPOSED RULE & FISCAL ESTIMATE

For a summary of the rule see the analysis contained in the attached proposed rulemaking order. There will be no state or local government fiscal effect. The full text of the proposed changes, a summary of the changes and the fiscal estimate are attached to this Notice of Hearing.

INITIAL REGULATORY FLEXIBILITY ANALYSIS

This rule does not impose any additional requirements on small businesses.

OCI SMALL BUSINESS REGULATORY COORDINATOR

The OCI small business coordinator is Eileen Mallow and may be reached at phone number (608) 266-7843 or at email address eileen.mallow@wisconsin.gov

CONTACT PERSON

A copy of the full text of the proposed rule changes, analysis and fiscal estimate may be obtained from the OCI internet Web site at <http://oci.wi.gov/ocirules.htm> or by contacting Inger Williams, Public Information and Communications, OCI, at: inger.williams@wisconsin.gov, (608) 264-8110, 125 South Webster Street – 2nd Floor, Madison WI or PO Box 7873, Madison WI 53707-7873.

**PROPOSED ORDER OF THE OFFICE OF THE COMMISSIONER OF INSURANCE
AMENDING AND CREATING A RULE**

To amend Ins 2.81(4) (c);

To create Ins 2.81(5) (e) 4., Wis. Adm. Code,

Relating to use of the 2001 CSO Preferred Class Structure Mortality Table in determining reserve liabilities.

ANALYSIS PREPARED BY THE OFFICE OF THE COMMISSIONER OF INSURANCE (OCI)

1. Statutes interpreted:

ss. 600.01, 601.41(3), 601.42, 623.06 and 632.43, Stats.

2. Statutory authority:

ss. 600.01 (2), 600.13, 601.41 (3), 601.42, 623.04, 623.06, and 632.43, Stats.

3. Explanation of OCI's authority to promulgate the proposed rule under these statutes:

The proposed rule is promulgated under the commissioner's authority to prescribe valuation of reserve liabilities and accounting standards and reporting for insurers.

4. Related statutes or rules:

The proposed rule relates to existing rules prescribing valuation of liabilities, non-forfeiture values, and actuarial reporting and analysis under ss. 601.42, 623.06 and 632.43, Stats., and ss. Ins 2.80 and ch. 50, Wis. Adm. Code.

5. The plain language analysis and summary of the proposed rule:

Existing provisions establish mortality tables to be used by insurers to calculate minimum reserves and requirements related to testing and reporting of actuarial information. Current rules allow insurers, meeting prescribed conditions, to use the 2001 CSO Preferred Class Structure Mortality Table as adopted by the National Association of Insurance Commissioners (NAIC) at the September, 2006, national meeting and published in the NAIC Proceedings (Third Quarter 2006), in determining minimum reserves on policies written after January 1, 2007. The proposed rule makes the 2001 CSO Preferred Class Structure Mortality Table available for use in determining minimum reserves on policies written starting January 1, 2005 and prior to January 1, 2007 with consent of the commissioner if additional conditions are met. The proposed rule will increase the ability of insurers and the commissioner to monitor financial status by reference to required reports as well as the financial examination process.

6. Summary of and preliminary comparison with any existing or proposed federal regulation that is intended to address the activities to be regulated by the proposed rule:

There are no federal regulations which address use of mortality tables to establish reserve liabilities for insurers doing business in Wisconsin.

7. Comparison of similar rules in adjacent states as found by OCI:

Illinois: Il Adm. Code Tit. 50 s. 1412.20, permits the use for purposes of reserve valuation, under prescribed conditions, of the 2001 CSO Preferred Class Structure Mortality Table, adopting the NAIC model regulation. The state is considering action to apply the model regulation retrospectively to business in force.

Iowa: Iowa Adm. Code 191-94.3, permits the use for purposes of reserve valuation, under prescribed conditions, of the 2001 CSO Preferred Class Structure Mortality Table, adopting the NAIC model regulation. The state has not taken action to apply the model regulation retrospectively to business in force.

Michigan: Mich. Comp. Laws, s. 500.838a, permits the use for purposes of reserve valuation, under prescribed conditions, of the 2001 CSO Preferred Class Structure Mortality Table, adopting the NAIC model regulation. The state has not taken action to apply the model regulation retrospectively to business in force.

Minnesota: Minn. R. s. 2748, permits the use for purposes of reserve valuation, under prescribed conditions, of the 2001 CSO Preferred Class Structure Mortality Table, adopting the NAIC model regulation. The state has not taken action to apply the model regulation retrospectively to business in force.

8. A summary of the factual data and analytical methodologies that OCI used in support of the proposed rule and how any related findings support the regulatory approach chosen for the proposed rule:

The existing rule allows insurers, meeting prescribed conditions, to use the 2001 CSO Preferred Class Structure Mortality Table to reflect differences in mortality between preferred and standard lives in determining reserves to more precisely fit the characteristics of policies written after January 1, 2007. The proposed rule will allow insurers, under prescribed conditions to use the 2001 CSO Preferred Class Structure Mortality Table retrospectively to determine minimum reserves for policies issued during the period January 1, 2005 to January 1, 2007, and will enhance the ability of insurers and regulators to monitor financial status. The proposed rule follows a model recommended by the NAIC Life Insurance and Annuities (A) Committee, which has been adopted or is under consideration in other states.

9. Any analysis and supporting documentation that OCI used in support of OCI's determination of the rule's effect on small businesses under s. 227.114:

This rule relates to insurer determination of minimum reserves, and there is no significant effect on small business.

10. See the attached Private Sector Fiscal Analysis.

11. A description of the Effect on Small Business:

This rule will have little or no effect on small businesses.

12. Agency contact person:

A copy of the full text of the proposed rule changes, analysis and fiscal estimate may be obtained from the Web site at:

<http://oci.wi.gov/ocirules.htm>

or by contacting Inger Williams, OCI Services Section, at:

Phone: (608) 264-8110

Email: Inger.Williams@oci.state.wi.us

Address: 125 South Webster St – 2nd Floor, Madison WI 53703-3474

Mail: PO Box 7873, Madison, WI 53707-7873

13. Place where comments are to be submitted and deadline for submission:

The deadline for submitting comments is 4:00 p.m. on the 14th day after the date for the hearing stated in the Notice of Hearing.

Mailing address:

James W. Harris

Legal Unit - OCI Rule Comment for Rule Ins 281

Office of the Commissioner of Insurance

PO Box 7873

Madison WI 53707-7873

Street address:

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Email address:

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James.Harris@oci.state.wi.us

Web site: **<http://oci.wi.gov/ocirules.htm>**

The proposed rule changes are:

Section 1. Section Ins 2.81(4) (c) is amended to read:

Ins 2.81(4) (c). At the election of the insurer, for each calendar year of issue, for any one or more specified plans of insurance and subject to satisfying the conditions stated in this paragraph and sub. (5) (e) 1. through 3., the 2001 CSO preferred class structure mortality table may be elected in place of the smoker mortality table found in the 2001 CSO mortality table or the nonsmoker mortality table found in the 2001 CSO mortality table or both as the minimum valuation standard for policies issued on or after January 1, 2007. For policies issued on or after January 1, 2005, and prior to January 1, 2007, the 2001 CSO preferred class structure mortality table may be elected in place of the smoker and nonsmoker mortality tables found in the 2001 CSO mortality table with the consent of the commissioner and subject to the conditions of sub. (5) (e) 1. through 4. In considering a request by a foreign insurer for such consent, the commissioner may rely on the consent of the commissioner of the foreign company's state of domicile. No such election may be made until the insurer demonstrates to the commissioner in a form acceptable to the commissioner that at least 20% of the business to be valued on this table is in one or more of the preferred classes. A table from the 2001 CSO preferred class structure mortality table used in place of a 2001 CSO mortality table, pursuant to the requirements of this section, will be treated as part of the 2001 CSO mortality table only for purposes of reserve valuation.

Section 2. Section Ins 2.81(5) (e) 4. is created to read:

Ins 2.81(5) (e) 4. The use of the 2001 CSO preferred class structure mortality table for the valuation of policies issued prior to January 1, 2007 shall not be permitted in any statutory financial statement in which a company reports, with respect to any policy or portion of a policy coinsured, either a. or b. below. For purposes of this condition, both the reserve credit and the gross reserve before reinsurance for the mean reserve method shall be defined as the mean reserve minus the deferred premium asset, and for the mid-terminal reserve method shall include the unearned premium reserve. A company may estimate and adjust its accounting on an aggregate basis in order to meet the conditions to use the 2001 CSO preferred class structure table.

a. In cases where the mode of payment of the reinsurance premium is less frequent than the mode of payment of the policy premium, a reserve credit that exceeds, by more than the amount specified in this paragraph as Y, the gross reserve calculated before reinsurance. Y is the amount of the gross reinsurance premium that provides coverage for the period from the next policy premium due date to the earlier of the end of the policy year and the next reinsurance premium due date, and that would be refunded to the ceding entity upon the termination of the policy.

b. In cases where the mode of payment of the reinsurance premium is more frequent than the mode of payment of the policy premium, a reserve credit that is less than the gross reserve, calculated before reinsurance, by an amount that is less than the amount specified in this paragraph as Z. Z is the amount of the gross reinsurance premium that the ceding entity would need to pay the assuming company to provide reinsurance coverage from the period of the next reinsurance premium

due date to the next policy premium due date minus any liability established for the proportionate amount not remitted to the reinsurer.

Section 3. INITIAL APPLICABILITY. These changes first apply to policies issued on January 1, 2005.

Section 4. EFFECTIVE DATE. These changes will take effect on the first day of the month after publication, as provided in s. 227.22(2)(intro.), Stats.

Dated at Madison, Wisconsin, this 24th day of February, 2010.

Sean Dilweg
Commissioner of Insurance

**Office of the Commissioner of Insurance
Private Sector Fiscal Analysis**

for Section Ins 2.81 relating to use of the 2001 CSO Preferred Class
Structure Mortality Table in determining reserve liabilities

This rule change will have no significant effect on the private sector regulated by OCI.

FISCAL ESTIMATE WORKSHEET

Detailed Estimate of Annual Fiscal Effect

ORIGINAL UPDATED
 CORRECTED SUPPLEMENTAL

LRB Number	Amendment No. if Applicable
Bill Number	Administrative Rule Number INS 281

Subject
use of the 2001 CSO Preferred Class Structure Mortality Table in determining reserve liabilities

One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):
None

Annualized Costs:	Annualized Fiscal impact on State funds from:	
A. State Costs by Category	Increased Costs	Decreased Costs
State Operations - Salaries and Fringes	\$ 0	\$ -0
(FTE Position Changes)	(0 FTE)	(-0 FTE)
State Operations - Other Costs	0	-0
Local Assistance	0	-0
Aids to Individuals or Organizations	0	-0
TOTAL State Costs by Category	\$ 0	\$ -0
B. State Costs by Source of Funds	Increased Costs	Decreased Costs
GPR	\$ 0	\$ -0
FED	0	-0
PRO/PRS	0	-0
SEG/SEG-S	0	-0
C. State Revenues	Increased Rev.	Decreased Rev.
GPR Taxes	\$ 0	\$ -0
GPR Earned	0	-0
FED	0	-0
PRO/PRS	0	-0
SEG/SEG-S	0	-0
TOTAL State Revenues	\$ 0 None	\$ -0 None

NET ANNUALIZED FISCAL IMPACT

	STATE	LOCAL
NET CHANGE IN COSTS	\$ <u>None 0</u>	\$ <u>None 0</u>
NET CHANGE IN REVENUES	\$ <u>None 0</u>	\$ <u>None 0</u>

Prepared by: James W. Harris	Telephone No. (608) 267-2833	Agency Insurance
Authorized Signature:	Telephone No.	Date (mm/dd/ccyy) 02/24/2010

FISCAL ESTIMATE

- ORIGINAL UPDATED
 CORRECTED SUPPLEMENTAL

LRB Number	Amendment No. if Applicable
Bill Number	Administrative Rule Number INS 281

Subject
use of the 2001 CSO Preferred Class Structure Mortality Table in determining reserve liabilities

Fiscal Effect
 State: No State Fiscal Effect
 Check columns below only if bill makes a direct appropriation or affects a sum sufficient appropriation.
 Increase Existing Appropriation Increase Existing Revenues
 Decrease Existing Appropriation Decrease Existing Revenues
 Create New Appropriation
 Increase Costs - May be possible to Absorb Within Agency's Budget Yes No
 Decrease Costs

Local: No local government costs

1. <input type="checkbox"/> Increase Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	3. <input type="checkbox"/> Increase Revenues <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	5. Types of Local Governmental Units Affected: <input type="checkbox"/> Towns <input type="checkbox"/> Villages <input type="checkbox"/> Cities <input type="checkbox"/> Counties <input type="checkbox"/> Others _____
2. <input type="checkbox"/> Decrease Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	4. <input type="checkbox"/> Decrease Revenues <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	<input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts

Fund Sources Affected <input type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEG-S	Affected Chapter 20 Appropriations
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Assumptions Used in Arriving at Fiscal Estimate

Long-Range Fiscal Implications

None

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