

This Document can be made available
in alternative formats upon request

State of Minnesota
HOUSE OF REPRESENTATIVES

**EIGHTY-FIFTH
SESSION**

HOUSE FILE No. 1892

March 12, 2007

Authored by Atkins, Thissen, Lillie, Zellers and Dittrich

The bill was read for the first time and referred to the Committee on Commerce and Labor

A bill for an act

1.1 relating to insurance; regulating continuation coverage for life insurance;
1.2 authorizing the use of certain mortality tables to calculate reserves for certain
1.3 life policies; regulating life insurance policy illustrations and interest rate
1.4 disclosures; requiring auto insurers to notify the commissioner of decision to
1.5 withdraw from the market; regulating certain notices of cancellation and certain
1.6 policy renewals; modifying a definition; amending Minnesota Statutes 2006,
1.7 sections 60A.351; 61A.092, subdivision 6; 61A.25, subdivision 4; 65B.17, by
1.8 adding a subdivision; 72A.52, subdivision 1; 72B.02, subdivision 7; proposing
1.9 coding for new law in Minnesota Statutes, chapter 61A; repealing Minnesota
1.10 Statutes 2006, section 45.025, subdivisions 1, 2, 3, 4, 5, 6, 8, 9, 10; Minnesota
1.11 Rules, parts 2790.1750; 2790.1751.
1.12

1.13 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.14 Section 1. Minnesota Statutes 2006, section 60A.351, is amended to read:

1.15 **60A.351 RENEWAL OF INSURANCE POLICY WITH ALTERED RATES.**

1.16 If an insurance company licensed to do business in this state offers or purports to
1.17 offer to renew any commercial liability and/or property insurance policy at less favorable
1.18 terms as to the dollar amount of coverage or deductibles, higher rates, and/or higher rating
1.19 plan, the new terms, the new rates and/or rating plan may take effect on the renewal date
1.20 of the policy if the insurer has sent to the policyholder notice of the new terms, new rates
1.21 and/or rating plan at least ~~60~~ 30 days prior to the expiration date. If the insurer has not so
1.22 notified the policyholder, the policyholder may elect to cancel the renewal policy within
1.23 the 60-day period after receipt of the notice. Earned premium for the period of coverage,
1.24 if any, shall be calculated pro rata upon the prior rate. This section does not apply to
1.25 ocean marine insurance, accident and health insurance, reinsurance, and coverage under
1.26 the federal Terrorism Risk Insurance Act.

2.1 This section does not apply if the change relates to guide "a" rates or excess rates
2.2 also known as "consent to rates" or if there has been any change in the risk insured.

2.3 Sec. 2. Minnesota Statutes 2006, section 61A.092, subdivision 6, is amended to read:

2.4 Subd. 6. **Application.** This section applies to a policy, certificate of insurance,
2.5 or similar evidence of coverage issued to a Minnesota resident or issued to provide
2.6 coverage to a Minnesota resident. This section does not apply to: (1) a certificate of
2.7 insurance or similar evidence of coverage that meets the conditions of section 61A.093,
2.8 subdivision 2; or (2) a group life insurance policy that contains a provision permitting the
2.9 certificate holder, upon termination or layoff from employment, to retain the coverage
2.10 provided under the employer's group policy or another group policy offered by the insurer
2.11 by paying premiums directly to the insurer, provided that the employer shall give the
2.12 employee notice of the employee's and each related certificate holder's right to continue
2.13 the insurance by paying premiums directly to the insurer. The insurer may reserve the
2.14 right to increase premium rates after the first 18 months of continued coverage provided
2.15 for under clause (2). A related certificate holder is an insured spouse or dependent child of
2.16 the employee. Upon termination of this group policy or at the option of the insured who
2.17 has continued coverage under clause (2), each covered employee, spouse, and dependent
2.18 child is entitled to have issued to them a life conversion policy as prescribed in section
2.19 61A.09, subdivision 1, paragraph (h).

2.20 Sec. 3. Minnesota Statutes 2006, section 61A.25, subdivision 4, is amended to read:

2.21 Subd. 4. **Reserve valuation of life insurance and endowment benefits; modified**
2.22 **premiums.** (a) Except as otherwise provided in paragraph (b) and subdivisions 4a and 7,
2.23 reserves according to the commissioners reserve valuation method, for the life insurance
2.24 and endowment benefits of policies providing for a uniform amount of insurance and
2.25 requiring the payment of uniform premiums shall be the excess, if any, of the present value
2.26 at the date of valuation of future guaranteed benefits provided for by the policies over
2.27 the then present value of any future modified net premiums therefor. The modified net
2.28 premiums for a policy shall be the uniform percentage of the respective contract premiums
2.29 for the benefits that the present value, at the date of issue of the policy, of all the modified
2.30 net premiums shall be equal to the sum of the then present value of the benefits provided
2.31 for by the policy and the excess of clause (1) over clause (2) as follows:

2.32 (1) a net level annual premium equal to the present value, at the date of issue, of the
2.33 benefits provided for after the first policy year, divided by the present value at the date of
2.34 issue of an annuity of one per annum payable on the first and each subsequent anniversary

3.1 of the policy on which a premium falls due; but the net level annual premium shall not
3.2 exceed the net level annual premium on the 19 year premium whole life plan for insurance
3.3 of the same amount at an age one year higher than the age at issue of the policy;

3.4 (2) a net one year term premium for the benefits provided for in the first policy year.

3.5 (b) For a life insurance policy issued on or after January 1, 1985, for which the
3.6 contract premium in the first policy year exceeds that of the second year and for which
3.7 no comparable additional benefit is provided in the first year for the excess and which
3.8 provides an endowment benefit or a cash surrender value or a combination thereof in an
3.9 amount greater than the excess premium, the reserve according to the commissioners
3.10 reserve valuation method as of a policy anniversary occurring on or before the assumed
3.11 ending date defined herein as the first policy anniversary on which the sum of any
3.12 endowment benefit and any cash surrender value then available is greater than the excess
3.13 premium shall, except as otherwise provided in subdivision 7, be the greater of the reserve
3.14 as of the policy anniversary calculated as described in paragraph (a) and the reserve as
3.15 of the policy anniversary calculated as described in that paragraph, but with the value
3.16 defined in clause (1) of that paragraph being reduced by 15 percent of the amount of the
3.17 excess first year premium; all present values of benefits and premiums being determined
3.18 without reference to premiums or benefits provided for by the policy after the assumed
3.19 ending date; the policy being assumed to mature on that date as an endowment; and the
3.20 cash surrender value provided on that date being considered as an endowment benefit.
3.21 In making the above comparison the mortality and interest bases stated in subdivisions
3.22 3 and 3b shall be used.

3.23 (c) Reserves according to the commissioners reserve valuation method for (1) life
3.24 insurance policies providing for a varying amount of insurance or requiring the payment
3.25 of varying premiums, (2) group annuity and pure endowment contracts purchased under
3.26 a retirement plan or plan of deferred compensation, established or maintained by an
3.27 employer, including but not limited to a partnership or sole proprietorship, or by an
3.28 employee organization, or by both, other than a plan providing individual retirement
3.29 accounts or individual retirement annuities under Section 408 of the Internal Revenue
3.30 Code, as amended, (3) disability and accidental death benefits in all policies and contracts,
3.31 and (4) all other benefits, except life insurance and endowment benefits in life insurance
3.32 policies and benefits provided by all other annuity and pure endowment contracts, shall be
3.33 calculated by a method consistent with the principles of paragraphs (a) and (b), except
3.34 that any extra premiums charged because of impairments or special hazards shall be
3.35 disregarded in the determination of modified net premiums.

4.1 (d) For a universal life insurance policy that guarantees coverage to remain in
 4.2 force as long as the accumulation of premiums paid satisfies a secondary guarantee
 4.3 requirement, reserves according to the commissioners reserve valuation method may be
 4.4 calculated using a lapse assumption only in accordance with and in the circumstances
 4.5 described in the National Association of Insurance Commissioners' accounting practices
 4.6 and procedures manual for policies issued on or after January 1, 2007, and on or before
 4.7 December 31, 2010.

4.8 **Sec. 4. [61A.257] PREFERRED MORTALITY TABLES FOR USE IN**
 4.9 **DETERMINING MINIMUM RESERVE LIABILITIES.**

4.10 Subdivision 1. **Definitions.** (a) For the purposes of this section only, the following
 4.11 terms have the meanings given them.

4.12 (b) "2001 CSO Mortality Table" means that mortality table, consisting of separate
 4.13 rates of mortality for male and female lives, developed by the American Academy of
 4.14 Actuaries CSO Task Force from the Valuation Basic Mortality Table developed by the
 4.15 Society of Actuaries Individual Life Insurance Valuation Mortality Task Force, and
 4.16 adopted by the NAIC in December 2002. The 2001 CSO Mortality Table is included in
 4.17 the Proceedings of the NAIC (2nd Quarter 2002) and supplemented by the 2001 CSO
 4.18 Preferred Class Structure Mortality Table defined in paragraph (b). Unless the context
 4.19 indicates otherwise, the "2001 CSO Mortality Table" includes both the ultimate form of
 4.20 that table and the select and ultimate form of that table and includes both the smoker and
 4.21 nonsmoker mortality tables and the composite mortality tables. It also includes both the
 4.22 age-nearest-birthday and age-last-birthday bases of the mortality tables. Mortality tables
 4.23 in the 2001 CSO Mortality Table include the following:

4.24 (1) "2001 CSO Mortality Table (F)" means that mortality table consisting of the rates
 4.25 of mortality for female lives from the 2001 CSO Mortality Table;

4.26 (2) "2001 CSO Mortality Table (M)" means that mortality table consisting of the
 4.27 rates of mortality for male lives from the 2001 CSO Mortality Table;

4.28 (3) "composite mortality tables" means mortality tables with rates of mortality that
 4.29 do not distinguish between smokers and nonsmokers; and

4.30 (4) "smoker and nonsmoker mortality tables" means mortality tables with separate
 4.31 rates of mortality for smokers and nonsmokers.

4.32 (c) "2001 CSO Preferred Class Structure Mortality Table" means mortality tables
 4.33 with separate rates of mortality for Super Preferred Nonsmokers, Preferred Nonsmokers,
 4.34 Residual Standard Nonsmokers, Preferred Smokers, and Residual Standard Smoker splits
 4.35 of the 2001 CSO Nonsmoker and Smoker Tables as adopted by the NAIC at the September

5.1 2006 national meeting and published in the NAIC Proceedings (3rd Quarter 2006). Unless
5.2 the context indicates otherwise, the "2001 CSO Preferred Class Structure Mortality Table"
5.3 includes both the ultimate form of that table and the select and ultimate form of that
5.4 table, the smoker and nonsmoker mortality tables, both the male and female mortality
5.5 tables and the gender composite mortality tables, and both the age-nearest-birthday and
5.6 age-last-birthday bases of the mortality table.

5.7 (d) "Statistical agent" means an entity with proven systems for protecting the
5.8 confidentiality of individual insured and insurer information; demonstrated resources
5.9 for and history of ongoing electronic communications and data transfer ensuring data
5.10 integrity with insurers, which are its members or subscribers; and a history of and means
5.11 for aggregation of data and accurate promulgation of the experience modifications in a
5.12 timely manner.

5.13 Subd. 2. **2001 CSO Preferred Class Structure Table.** At the election of the
5.14 insurer, for each calendar year of issue, for any one or more specified plans of insurance
5.15 and subject to satisfying the conditions stated in this section, the 2001 CSO Preferred
5.16 Class Structure Mortality Table may be substituted in place of the 2001 CSO Smoker or
5.17 Nonsmoker Mortality Table as the minimum valuation standard under section 61A.25 for
5.18 policies issued on or after January 1, 2007. No such election must be made until the
5.19 insurer demonstrates at least 20 percent of the business to be valued on this table is in one
5.20 or more of the preferred classes. A table from the 2001 CSO Preferred Class Structure
5.21 Mortality Table used in place of a 2001 CSO Mortality Table, pursuant to the requirements
5.22 of this section, will be treated as part of the 2001 CSO Mortality Table only for purposes
5.23 of reserve valuation pursuant to section 61A.25 and Minnesota Rules, chapter 2748.

5.24 Subd. 3. **Conditions.** (a) For each plan of insurance with separate rates for preferred
5.25 and standard nonsmoker lives, an insurer may use the Super Preferred Nonsmoker,
5.26 Preferred Nonsmoker, and Residual Standard Nonsmoker Tables to substitute for the
5.27 Nonsmoker Mortality Table found in the 2001 CSO Mortality Table to determine minimum
5.28 reserves. At the time of election and annually thereafter, except for business valued under
5.29 the Residual Standard Nonsmoker Table, the qualified actuary shall certify that:

5.30 (1) the present value of death benefits over the next ten years after the valuation date,
5.31 using the anticipated mortality experience without recognition of mortality improvement
5.32 beyond the valuation date for each class, is less than the present value of death benefits
5.33 using the valuation basic table corresponding to the valuation table being used for that
5.34 class; and

5.35 (2) the present value of death benefits over the future life of the contracts, using
5.36 anticipated mortality experience without recognition of mortality improvement beyond

6.1 the valuation date for each class, is less than the present value of death benefits using the
 6.2 valuation basic table corresponding to the valuation table being used for that class.

6.3 (b) For each plan of insurance with separate rates for preferred and standard smoker
 6.4 lives, an insurer may use the Preferred Smoker and Residual Standard Smoker Tables to
 6.5 substitute for the Smoker Mortality Table found in the 2001 CSO Mortality Table to
 6.6 determine minimum reserves. At the time of election and annually thereafter, for business
 6.7 valued under the Preferred Smoker Table, the qualified actuary shall certify that:

6.8 (1) the present value of death benefits over the next ten years after the valuation date,
 6.9 using the anticipated mortality experience without recognition of mortality improvement
 6.10 beyond the valuation date for each class, is less than the present value of death benefits
 6.11 using the Preferred Smoker Valuation Basic Table corresponding to the valuation table
 6.12 being used for that class; and

6.13 (2) the present value of death benefits over the future life of the contracts, using
 6.14 anticipated mortality experience without recognition of mortality improvement beyond
 6.15 the valuation date for each class, is less than the present value of death benefits using the
 6.16 Preferred Smoker Valuation Basic Table.

6.17 (c) Unless exempted by the commissioner, every authorized insurer using the 2001
 6.18 CSO Preferred Class Structure Table shall annually file with the commissioner, the
 6.19 NAIC, or a statistical agent designated by the NAIC and acceptable to the commissioner,
 6.20 statistical reports showing mortality and such other information as the commissioner may
 6.21 deem necessary or expedient for the administration of the provisions of this section. The
 6.22 form of the reports shall be established by the commissioner or the commissioner may
 6.23 require the use of a form established by the NAIC or by a statistical agent designated by
 6.24 the NAIC and acceptable to the commissioner.

6.25 **Sec. 5. [61A.70] APPLICABILITY AND SCOPE.**

6.26 Sections 61A.70 to 61A.745 apply to all group and individual life insurance policies
 6.27 and certificates except:

6.28 (1) variable life insurance;

6.29 (2) individual and group annuity contracts;

6.30 (3) credit life insurance; or

6.31 (4) life insurance policies with no illustrated death benefits on any individual
 6.32 exceeding \$10,000.

6.33 **Sec. 6. [61A.705] DEFINITIONS.**

6.34 For the purposes of sections 61A.70 to 61A.745:

7.1 (a) "Actuarial Standards Board" means the board established by the American
7.2 Academy of Actuaries to develop and promulgate standards of actuarial practice.

7.3 (b) "Contract premium" means the gross premium that is required to be paid under
7.4 a fixed premium policy, including the premium for a rider for which benefits are shown
7.5 in the illustration.

7.6 (c) "Currently payable scale" means a scale of nonguaranteed elements in effect for
7.7 a policy form as of the preparation date of the illustration or declared to become effective
7.8 within the next 95 days.

7.9 (d) "Disciplined current scale" means a scale of nonguaranteed elements constituting
7.10 a limit on illustrations currently being illustrated by an insurer that is reasonably based
7.11 on actual recent historical experience, as certified annually by an illustration actuary
7.12 designated by the insurer. Further guidance in determining the disciplined current scale
7.13 as contained in standards established by the Actuarial Standards Board may be relied
7.14 upon if the standards:

7.15 (1) are consistent with all provisions of sections 61A.70 to 61A.745;

7.16 (2) limit a disciplined current scale to reflect only actions that have already been
7.17 taken or events that have already occurred;

7.18 (3) do not permit a disciplined current scale to include any projected trends of
7.19 improvements in experience or any assumed improvements in experience beyond the
7.20 illustration date; and

7.21 (4) do not permit assumed expenses to be less than minimum assumed expenses.

7.22 (e) "Generic name" means a short title descriptive of the policy being illustrated such
7.23 as "whole life," "term life," or "flexible premium adjustable life."

7.24 (f) "Guaranteed elements" and "nonguaranteed elements" are defined as follows:

7.25 (1) "guaranteed elements" means the premiums, benefits, values, credits, or charges
7.26 under a policy of life insurance that are guaranteed and determined at issue; and

7.27 (2) "nonguaranteed elements" means the premiums, benefits, values, credits, or
7.28 charges under a policy of life insurance that are not guaranteed or not determined at issue.

7.29 (g) "Illustrated scale" means a scale of nonguaranteed elements currently being
7.30 illustrated that is not more favorable to the policy owner than the lesser of:

7.31 (1) the disciplined current scale; or

7.32 (2) the currently payable scale.

7.33 (h) "Illustration" means a presentation or depiction that includes nonguaranteed
7.34 elements of a policy of life insurance over a period of years and that is one of the three
7.35 types defined in clauses (1) to (3):

8.1 (1) "basic illustration" means a ledger or proposal used in the sale of a life insurance
8.2 policy that shows both guaranteed and nonguaranteed elements;

8.3 (2) "supplemental illustration" means an illustration furnished in addition to a basic
8.4 illustration that meets the applicable requirements of sections 61A.70 to 61A.745, and that
8.5 may be presented in a format differing from the basic illustration, but may only depict a
8.6 scale of nonguaranteed elements that is permitted in a basic function; and

8.7 (3) "in-force illustration" means an illustration furnished at any time after the policy
8.8 that it depicts has been in force for one year or more.

8.9 (i) "Illustration actuary" means an actuary meeting the requirements of section 11
8.10 who certifies to illustrations based on the standard of practice adopted by the Actuarial
8.11 Standards Board.

8.12 (j) "Lapse-supported illustration" means an illustration of a policy form failing
8.13 the test of self-supporting as defined in sections 61A.70 to 61A.745, under a modified
8.14 persistence rate assumption using persistence rates underlying the disciplined current
8.15 scale for the first five years and 100 percent policy persistence thereafter.

8.16 (k)(1) "Minimum assumed expenses" means the minimum expenses that may be
8.17 used in the calculation of the disciplined current scale for a policy form. The insurer
8.18 may choose to designate each year the method of determining assumed expenses for all
8.19 policy forms from the following:

8.20 (i) fully allocated expenses;

8.21 (ii) marginal expenses; and

8.22 (iii) a generally recognized expense table based on fully allocated expenses
8.23 representing a significant portion of insurance companies and approved by the National
8.24 Association of Insurance Commissioners or by the commissioner.

8.25 (2) Marginal expenses may be used only if greater than a generally recognized
8.26 expense table. If no generally recognized expense table is approved, fully allocated
8.27 expenses must be used.

8.28 (l) "Nonterm group life" means a group policy or individual policies of life insurance
8.29 issued to members of an employer group or other permitted group where:

8.30 (1) every plan of coverage was selected by the employer or other group
8.31 representative;

8.32 (2) some portion of the premium is paid by the group or through payroll deduction;
8.33 and

8.34 (3) group underwriting or simplified underwriting is used.

8.35 (m) "Policy owner" means the owner named in the policy or the certificate holder in
8.36 the case of a group policy.

9.1 (n) "Premium outlay" means the amount of premium assumed to be paid by the
9.2 policy owner or other premium payer out-of-pocket.

9.3 (o) "Self-supporting illustration" means an illustration of a policy form for which it
9.4 can be demonstrated that, when using experience assumptions underlying the disciplined
9.5 current scale, for all illustrated points in time on or after the 15th policy anniversary or the
9.6 20th policy anniversary for second-or-later-to-die policies (or upon policy expiration if
9.7 sooner), the accumulated value of all policy cash flows equals or exceeds the total policy
9.8 owner value available. For this purpose, policy owner value will include cash surrender
9.9 values and any other illustrated benefit amounts available at the policy owner's election.

9.10 **Sec. 7. [61A.71] POLICIES TO BE ILLUSTRATED.**

9.11 (a) Each insurer marketing policies to which sections 61A.70 to 61A.745 are
9.12 applicable shall notify the commissioner whether a policy form is to be marketed with
9.13 or without an illustration. For all policy forms being actively marketed on the effective
9.14 date of sections 61A.70 to 61A.745, the insurer shall identify in writing those forms and
9.15 whether or not an illustration will be used with them. For policy forms filed after the
9.16 effective date of sections 61A.70 to 61A.745, the identification must be made at the time
9.17 of filing. Any previous identification may be changed by notice to the commissioner.

9.18 (b) If the insurer identifies a policy form as one to be marketed without an
9.19 illustration, any use of an illustration for any policy using that form prior to the first
9.20 policy anniversary is prohibited.

9.21 (c) If a policy form is identified by the insurer as one to be marketed with an
9.22 illustration, a basic illustration prepared and delivered in accordance with sections
9.23 61A.70 to 61A.745 is required, except that a basic illustration need not be provided to
9.24 individual members of a group or to individuals insured under multiple lives coverage
9.25 issued to a single applicant unless the coverage is marketed to these individuals. The
9.26 illustration furnished an applicant for a group life insurance policy or policies issued to a
9.27 single applicant on multiple lives may be either an individual or composite illustration
9.28 representative of the coverage on the lives of member of the group or the multiple lives
9.29 covered.

9.30 (d) Potential enrollees of nonterm group life subject to this regulation shall be
9.31 furnished a quotation with the enrollment materials. The quotation must show potential
9.32 policy values for sample ages and policy years on a guaranteed and nonguaranteed basis
9.33 appropriate to the group and the coverage. This quotation must not be considered an
9.34 illustration for purposes of sections 61A.70 to 61A.745, but all information provided shall
9.35 be consistent with the illustrated scale. A basic illustration must be provided at delivery of

10.1 the certificate to enrollees for nonterm group life who enroll for more than the minimum
 10.2 premium necessary to provide pure death benefit protection. In addition, the insurer shall
 10.3 make a basic illustration available to any nonterm group life enrollee who requests it.

10.4 **Sec. 8. ~~[61A.715]~~ GENERAL RULES AND PROHIBITIONS.**

10.5 (a) An illustration used in the sale of a life insurance policy must satisfy the
 10.6 applicable requirements of sections 61A.70 to 61A.745, be clearly labeled "life insurance
 10.7 illustration," and contain the following basic information:

10.8 (1) name of insurer;

10.9 (2) name and business address of producer or insurer's authorized representative, if
 10.10 any;

10.11 (3) name, age, and sex of proposed insured, except where a composite illustration is
 10.12 permitted under sections 61A.70 to 61A.745;

10.13 (4) underwriting or rating classification upon which the illustration is based;

10.14 (5) generic name of policy, the company product name, if different, and form
 10.15 number;

10.16 (6) initial death benefit; and

10.17 (7) dividend option election or application of nonguaranteed elements, if applicable.

10.18 (b) When using an illustration in the sale of a life insurance policy, an insurer or
 10.19 its producers or other authorized representatives shall not:

10.20 (1) represent the policy as anything other than a life insurance policy;

10.21 (2) use or describe nonguaranteed elements in a manner that is misleading or has the
 10.22 capacity or tendency to mislead;

10.23 (3) state or imply that the payment or amount of nonguaranteed elements is
 10.24 guaranteed;

10.25 (4) use an illustration that does not comply with the requirements of sections 61A.70
 10.26 to 61A.745;

10.27 (5) use an illustration that at any policy duration depicts policy performance more
 10.28 favorable to the policy owner than that produced by the illustrated scale of the insurer
 10.29 whose policy is being illustrated;

10.30 (6) provide an applicant with an incomplete illustration;

10.31 (7) represent in any way that premium payments will not be required for each year
 10.32 of the policy in order to maintain the illustrated death benefits, unless that is the fact;

10.33 (8) use the term "vanish" or "vanishing premium," or a similar term that implies the
 10.34 policy becomes paid up, to describe a plan for using nonguaranteed elements to pay a
 10.35 portion of future premiums;

11.1 (9) except for policies that can never develop nonforfeiture values, use an illustration
11.2 that is "lapse-supported"; or

11.3 (10) use an illustration that is not "self-supporting."

11.4 (c) If an interest rate used to determine the illustrated nonguaranteed elements is
11.5 shown, it must not be greater than the earned interest rate underlying the disciplined
11.6 current scale.

11.7 **Sec. 9. [61A.72] STANDARDS FOR BASIC ILLUSTRATIONS.**

11.8 Subdivision 1. **Format.** A basic illustration must conform with the following
11.9 requirements:

11.10 (1) the illustration must be labeled with the date on which it was prepared;

11.11 (2) each page, including any explanatory notes or pages, must be numbered and
11.12 show its relationship to the total number of pages in the illustration (e.g., the fourth page
11.13 of a seven-page illustration must be labeled "page 4 of 7 pages");

11.14 (3) the assumed dates of payment receipt and benefit payout within a policy year
11.15 must be clearly identified;

11.16 (4) if the age of the proposed insured is shown as a component of the tabular detail,
11.17 it must be issue age plus the number of years the policy is assumed to have been in force;

11.18 (5) the assumed payments on which the illustrated benefits and values are based
11.19 must be identified as premium outlay or contract premium, as applicable. For policies that
11.20 do not require a specific contract premium, the illustrated payments must be identified
11.21 as premium outlay;

11.22 (6) guaranteed death benefits and values available upon surrender, if any, for the
11.23 illustrated premium outlay or contract premium must be shown and clearly labeled
11.24 guaranteed;

11.25 (7) if the illustration shows any nonguaranteed elements, they cannot be based on a
11.26 scale more favorable to the policy owner than the insurer's illustrated scale at any duration.
11.27 These elements must be clearly labeled nonguaranteed;

11.28 (8) the guaranteed elements, if any, must be shown before corresponding
11.29 nonguaranteed elements and must be specifically referred to on any page of an illustration
11.30 that shows or describes only the nonguaranteed elements (e.g., "see page one for
11.31 guaranteed elements");

11.32 (9) the account or accumulation value of a policy, if shown, must be identified by the
11.33 name this value is given in the policy being illustrated and shown in close proximity to the
11.34 corresponding value available upon surrender;

12.1 (10) the value available upon surrender must be identified by the name this value
 12.2 is given in the policy being illustrated and must be the amount available to the policy
 12.3 owner in a lump sum after deduction of surrender charges, policy loans, and policy loan
 12.4 interest, as applicable;

12.5 (11) illustrations may show policy benefits and values in graphic or chart form
 12.6 in addition to the tabular form;

12.7 (12) any illustration of nonguaranteed elements shall be accompanied by a statement
 12.8 indicating that:

12.9 (i) the benefits and values are not guaranteed;

12.10 (ii) the assumptions on which they are based are subject to change by the insurer; and

12.11 (iii) actual results may be more or less favorable;

12.12 (13) if the illustration shows that the premium payer may have the option to allow
 12.13 policy charges to be paid using nonguaranteed values, the illustration must clearly disclose
 12.14 that a charge continues to be required and that, depending on actual results, the premium
 12.15 payer may need to continue or resume premium outlays. Similar disclosure must be made
 12.16 for premium outlay of lesser amounts or shorter durations than the contract premium. If a
 12.17 contract premium is due, the premium outlay display must not be left blank or show zero
 12.18 unless accompanied by an asterisk or similar mark to draw attention to the fact that the
 12.19 policy is not paid up; and

12.20 (14) if the applicant plans to use dividends or policy values, guaranteed or
 12.21 nonguaranteed, to pay all or a portion of the contract premium or policy charges, or for
 12.22 any other purpose, the illustration may reflect those plans and the impact on future policy
 12.23 benefits and values.

12.24 Subd. 2. **Narrative summary.** A basic illustration must include the following:

12.25 (1) a brief description of the policy being illustrated, including a statement that it
 12.26 is a life insurance policy;

12.27 (2) a brief description of the premium outlay or contract premium, as applicable,
 12.28 for the policy. For a policy that does not require payment of a specific contract premium,
 12.29 the illustration shall show the premium outlay that must be paid to guarantee coverage
 12.30 for the term of the contract, subject to maximum premiums allowable to qualify as a life
 12.31 insurance policy under the applicable provisions of the Internal Revenue Code;

12.32 (3) a brief description of any policy features, riders, or options, guaranteed or
 12.33 nonguaranteed, shown in the basic illustration and the impact they may have on the
 12.34 benefits and values of the policy;

12.35 (4) identification and a brief definition of column headings and key terms used in
 12.36 the illustration; and

13.1 (5) a statement containing in substance the following: "This illustration assumes
13.2 that the currently illustrated nonguaranteed elements will continue unchanged for all
13.3 years shown. This is not likely to occur, and actual results may be more or less favorable
13.4 than those shown."

13.5 Subd. 3. **Numeric summary.** (a) Following the narrative summary, a basic
13.6 illustration must include a numeric summary of the death benefits and values and the
13.7 premium outlay and contract premium, as applicable. For a policy that provides for a
13.8 contract premium, the guaranteed death benefits and values must be based on the contract
13.9 premium. This summary must be shown for at least policy years five, ten, and 20 and at
13.10 age 70, if applicable, on the three bases shown in clauses (1) to (3). For multiple life
13.11 policies the summary must show policy years five, ten, 20, and 30:

13.12 (1) policy guarantees;

13.13 (2) insurer's illustrated scale; and

13.14 (3) insurer's illustrated scale used but with the nonguaranteed elements reduced
13.15 as follows:

13.16 (i) dividends at 50 percent of the dividends contained in the illustrated scale used;

13.17 (ii) nonguaranteed credited interest at rates that are the average of the guaranteed
13.18 rates and the rates contained in the illustrated scale used; and

13.19 (iii) all nonguaranteed charges, including but not limited to term insurance charges,
13.20 mortality, and expense charges at rates that are the average of the guaranteed rates and the
13.21 rates contained in the illustrated scale used.

13.22 (b) In addition, if coverage would cease prior to policy maturity or age 100, the year
13.23 in which coverage ceases must be identified for each of the three bases.

13.24 Subd. 4. **Statements.** (a) Statements substantially similar to paragraphs (b) and (c)
13.25 must be included on the same page as the numeric summary and signed by the applicant or
13.26 the policy owner in the case of an illustration provided at time of delivery, as required
13.27 in sections 61A.70 to 61A.745.

13.28 (b) A statement to be signed and dated by the applicant or policy owner reading as
13.29 follows: "I have received a copy of this illustration and understand that any nonguaranteed
13.30 elements illustrated are subject to change and could be either higher or lower. The agent
13.31 has told me they are not guaranteed."

13.32 (c) A statement to be signed and dated by the insurance producer or other authorized
13.33 representative of the insurer reading as follows: "I certify that this illustration has been
13.34 presented to the applicant and that I have explained that any nonguaranteed elements
13.35 illustrated are subject to change. I have made no statements that are inconsistent with
13.36 the illustration."

14.1 Subd. 5. **Tabular detail.** (a) A basic illustration must include the following for at
 14.2 least each policy year from one to ten and for every fifth policy year thereafter ending at
 14.3 age 100, policy maturity or final expiration; and except for term insurance beyond the 20th
 14.4 year, for any year in which the premium outlay and contract premium, if applicable, is
 14.5 subject to change:

14.6 (1) the premium outlay and mode the applicant plans to pay and the contract
 14.7 premium, as applicable;

14.8 (2) the corresponding guaranteed death benefit, as provided in the policy; and

14.9 (3) the corresponding guaranteed value available upon surrender, as provided
 14.10 in the policy.

14.11 (b) For a policy that provides for a contract premium, the guaranteed death benefit
 14.12 and value available upon surrender must correspond to the contract premium.

14.13 (c) Nonguaranteed elements may be shown if described in the contract. In the case
 14.14 of an illustration for a policy on which the insurer intends to credit terminal dividends,
 14.15 they may be shown if the insurer's current practice is to pay terminal dividends. If any
 14.16 nonguaranteed elements are shown they must be down at the same durations as the
 14.17 corresponding guaranteed elements, if any. If no guaranteed benefit or value is available
 14.18 at any duration for which a nonguaranteed benefit or value is shown, a zero must be
 14.19 displayed in the guaranteed column.

14.20 **Sec. 10. [61A.725] STANDARDS FOR SUPPLEMENTAL ILLUSTRATIONS.**

14.21 (a) A supplemental illustration may be provided so long as:

14.22 (1) it is appended to, accompanied by, or preceded by a basic illustration that
 14.23 complies with sections 61A.70 to 61A.745;

14.24 (2) the nonguaranteed elements shown are not more favorable to the policy owner
 14.25 than the corresponding elements based on the scale used in the basic illustration.

14.26 (3) it contains the same statement required of a basic illustration that nonguaranteed
 14.27 elements are not guaranteed; and

14.28 (4) for a policy that has a contract premium, the contract premium underlying the
 14.29 supplemental illustration is equal to the contract premium shown in the basic illustration.

14.30 For policies that do not require a contract premium, the premium outlay underlying
 14.31 the supplemental illustration must be equal to the premium outlay shown in the basic
 14.32 illustration.

14.33 (b) The supplemental illustration must include a notice referring to the basic
 14.34 illustration for guaranteed elements and other important information.

15.1 Sec. 11. **[61A.73] DELIVERY OF ILLUSTRATION AND RECORD**15.2 **RETENTION.**

15.3 (a)(1) If a basic illustration is used by an insurance producer or other authorized
15.4 representative of the insurer in the sale of a life insurance policy and the policy is applied
15.5 for as illustrated, a copy of that illustration, signed in accordance with sections 61A.70 to
15.6 61A.745, must be submitted to the insurer at the time of policy application. A copy also
15.7 must be provided to the applicant.

15.8 (2) If the policy is issued other than as applied for, a revised basic illustration
15.9 conforming to the policy as issued must be sent with the policy. The revised illustration
15.10 must conform to the requirements of sections 61A.70 to 61A.745, must be labeled
15.11 "Revised Illustration," and must be signed and dated by the applicant or policy owner and
15.12 producer or other authorized representative of the insurer no later than the time the policy
15.13 is delivered. A copy must be provided to the insurer and the policy owner.

15.14 (b)(1) If no illustration is used by an insurance producer or other authorized
15.15 representative in the sale of a life insurance policy or if the policy is applied for other
15.16 than as illustrated, the producer or representative shall certify to that effect in writing
15.17 on a form provided by the insurer. On the same form the applicant shall acknowledge
15.18 that no illustration conforming to the policy applied for was provided and shall further
15.19 acknowledge an understanding that an illustration conforming to the policy as issued will
15.20 be provided no later than at the time of policy delivery. This form shall be submitted to the
15.21 insurer at the time of policy application.

15.22 (2) If the policy is issued, a basic illustration conforming to the policy as issued must
15.23 be sent with the policy and signed no later than the time the policy is delivered. A copy
15.24 must be provided to the insurer and the policy owner.

15.25 (c) If the basic illustration or revised illustration is sent to the applicant or policy
15.26 owner by mail from the insurer, it must include instructions for the applicant or policy
15.27 owner to sign the duplicate copy of the numeric summary page of the illustration for the
15.28 policy issued and return the signed copy to the insurer. The insurer's obligation under this
15.29 paragraph must be satisfied if it can demonstrate that it has made a diligent effort to secure
15.30 a signed copy of the numeric summary page. The requirement to make a diligent effort
15.31 must be deemed satisfied if the insurer includes in the mailing a self-addressed postage
15.32 prepaid envelope with instructions for the return of the signed numeric summary page.

15.33 (d) A copy of the basic illustration and a revised basic illustration, if any, signed as
15.34 applicable, along with any certification that either no illustration was used or that the policy
15.35 was applied for other than as illustrated, must be retained by the insurer until three years
15.36 after the policy is no longer in force. A copy need not be retained if no policy is issued.

16.1 Sec. 12. [61A.735] ANNUAL REPORT; NOTICE TO POLICY OWNERS.

16.2 (a) In the case of a policy designated as one for which illustrations will be used, the
16.3 insurer shall provide each policy owner with an annual report on the status of the policy
16.4 that must contain at least the information in this section.

16.5 (b) For universal life policies, the report must include the following:

16.6 (1) the beginning and end date of the current report period;

16.7 (2) the policy value at the end of the previous report period and at the end of the
16.8 current report period;

16.9 (3) the total amounts that have been credited or debited to the policy value during
16.10 the current report period, identifying each by type (e.g., interest, mortality, expense, and
16.11 riders);

16.12 (4) the current death benefit at the end of the current report period on each life
16.13 covered by the policy;

16.14 (5) the net cash surrender value of the policy as of the end of the current report period;

16.15 (6) the amount of outstanding loans, if any, as of the end of the current report period;

16.16 (7) for fixed premium policies, assuming guaranteed interest, mortality, and expense
16.17 loads and continued scheduled premium payments, the policy's net cash surrender value
16.18 is such that it would not maintain insurance in force until the end of the next reporting
16.19 period, a notice to this effect must be included in the report; or

16.20 (8) for flexible premium policies, assuming guaranteed interest, mortality, and
16.21 expense loads, the policy's net cash surrender value will not maintain insurance in force
16.22 until the end of the next reporting period unless further premium payments are made, a
16.23 notice to this effect must be included in the report.

16.24 (b) For all other policies, the report must include where applicable:

16.25 (1) current death benefit;

16.26 (2) annual contract premium;

16.27 (3) current cash surrender value;

16.28 (4) current dividend;

16.29 (5) application of current dividend; and

16.30 (6) amount of outstanding loan.

16.31 (c) Insurers writing life insurance policies that do not build nonforfeiture values shall
16.32 only be required to provide an annual report with respect to these policies for those years
16.33 when a change has been made to nonguaranteed policy elements by the insurer.

16.34 (d) If the annual report does not include an in-force illustration, it must contain the
16.35 following notice displayed prominently: "IMPORTANT POLICY OWNER NOTICE:
16.36 You should consider requesting more detailed information about your policy to understand

17.1 how it may perform in the future. You should not consider replacement of your policy
17.2 or make changes in your coverage without requesting a current illustration. You may
17.3 annually request, without charge, such an illustration by calling [insurer's phone number],
17.4 writing to [insurer's name] at [insurer's address] or contacting your agent. If you do not
17.5 receive a current illustration of your policy within 30 days from your request, you should
17.6 contact your state insurance department." The insurer may vary the sequential order of the
17.7 methods for obtaining an in-force illustration.

17.8 (e) Upon request of the policy owner, the insurer shall furnish an in-force illustration
17.9 of current and future benefits and values based on the insurer's present illustrated scale.
17.10 This illustration must comply with the requirements of sections 61A.715, paragraphs (a)
17.11 and (b), and 61A.72, subdivisions 1 and 5. No signature or other acknowledgment of
17.12 receipt of this illustration must be required.

17.13 (f) If an adverse change in nonguaranteed elements that could affect the policy has
17.14 been made by the insurer since the last annual report, the annual report must contain a
17.15 notice of that fact and the nature of the change prominently displayed.

17.16 **Sec. 13. [61A.74] ANNUAL CERTIFICATIONS.**

17.17 (a) The board of directors of each insurer shall appoint one or more illustration
17.18 actuaries.

17.19 (b) The illustration actuary shall certify that the disciplined current scale used in
17.20 illustrations is in conformity with the Actuarial Standard of Practice for Compliance with
17.21 the NAIC Model Regulation on Life Insurance Illustrations promulgated by the Actuarial
17.22 Standards Board, and that the illustrated scales used in insurer-authorized illustrations
17.23 meet the requirements of sections 61A.70 to 61A.745.

17.24 (c) The illustration actuary shall:

17.25 (1) be a member in good standing of the American Academy of Actuaries;

17.26 (2) be familiar with the standard of practice regarding life insurance policy
17.27 illustrations;

17.28 (3) not have been found by the commissioner, following appropriate notice and
17.29 hearing to have:

17.30 (i) violated any provision of, or any obligation imposed by, the insurance law or
17.31 other law in the course of the actuary's dealings as an illustration actuary;

17.32 (ii) been found guilty of fraudulent or dishonest practices;

17.33 (iii) demonstrated the actuary's incompetence, lack of cooperation, or
17.34 untrustworthiness to act as an illustration actuary; or

18.1 (iv) resigned or been removed as an illustration actuary within the past five years as
18.2 a result of acts or omissions indicated in any adverse report on examination or as a result
18.3 of a failure to adhere to generally acceptable actuarial standards;

18.4 (4) not fail to notify the commissioner of any action taken by a commissioner of
18.5 another state similar to that under clause (3);

18.6 (5) disclose in the annual certification whether, since the last certification, a currently
18.7 payable scale applicable for business issued within the previous five years and within
18.8 the scope of the certification has been reduced for reasons other than changes in the
18.9 experience factors underlying the disciplined current scale. If nonguaranteed elements
18.10 illustrated for new policies are not consistent with those illustrated for similar in-force
18.11 policies, this must be disclosed in the annual certification. If nonguaranteed elements
18.12 illustrated for both new and in-force policies are not consistent with the nonguaranteed
18.13 elements actually being paid, charged, or credited to the same or similar forms, this must
18.14 be disclosed in the annual certification; and

18.15 (6) disclose in the annual certification the method used to allocate overhead expenses
18.16 for all illustrations:

18.17 (i) fully allocated expenses;

18.18 (ii) marginal expenses; or

18.19 (iii) a generally recognized expense table based on fully allocated expenses
18.20 representing a significant portion of insurance companies and approved by the National
18.21 Association of Insurance Commissioners or by the commissioner.

18.22 (d)(1) The illustration actuary shall file a certification with the board and with the
18.23 commissioner:

18.24 (i) annually for all policy forms for which illustrations are used; and

18.25 (ii) before a new policy form is illustrated.

18.26 (2) If an error in a previous certification is discovered, the illustration actuary shall
18.27 notify the board of directors of the insurer and the commissioner promptly.

18.28 (e) If an illustration actuary is unable to certify the scale for any policy form
18.29 illustration the insurer intends to use, the actuary shall notify the board of directors of the
18.30 insurer and the commissioner promptly of the actuary's inability to certify.

18.31 (f) A responsible officer of the insurer, other than the illustration actuary, shall
18.32 certify annually:

18.33 (1) that the illustration formats meet the requirements of sections 61A.70 to 61A.745
18.34 and that the scales used in insurer-authorized illustrations are those scales certified by the
18.35 illustration actuary; and

19.1 (2) that the company has provided its agents with information about the expense
 19.2 allocation method used by the company in its illustrations and disclosed as required in
 19.3 paragraph (c), clause (6).

19.4 (g) The annual certifications must be provided to the commissioner each year by a
 19.5 date determined by the insurer.

19.6 (h) If an insurer changes the illustration actuary responsible for all or a portion of the
 19.7 company's policy forms, the insurer shall notify the commissioner of that fact promptly
 19.8 and disclose the reason for the change.

19.9 Sec. 14. **[61A.745] PENALTIES.**

19.10 In addition to any other penalties provided by the laws of this state, an insurer or
 19.11 producer that violates a requirement of sections 61A.70 to 61A.745 is guilty of a violation
 19.12 of section 72A.20.

19.13 Sec. 15. Minnesota Statutes 2006, section 65B.17, is amended by adding a subdivision
 19.14 to read:

19.15 Subd. 2a. **Authorization to nonrenew.** An insurer withdrawing from the market by
 19.16 nonrenewing a line of business must notify the commissioner in writing at least 90 days
 19.17 before termination of any policy is effective. The notice must contain the effective date of
 19.18 the withdrawal plan, the number of policies affected, the reason for the withdrawal, and
 19.19 the availability of coverage in the market.

19.20 Sec. 16. Minnesota Statutes 2006, section 72A.52, subdivision 1, is amended to read:

19.21 Subdivision 1. **Contents.** In addition to all other legal requirements a policy or
 19.22 contract of insurance described in section 72A.51 shall show the name and address of the
 19.23 insurer and the seller of the policy or contract and shall state, clearly and conspicuously
 19.24 in boldface type of a minimum size of ten points, a right to cancel notice in which shall
 19.25 include the following form or its equivalent: "RIGHT TO CANCEL. You may cancel this
 19.26 policy by delivering or mailing a written notice or sending a telegram to (insert name and
 19.27 mailing address of the insurer or the seller of the policy or contract) and by returning
 19.28 the policy or contract before midnight of the tenth day after the date you receive the
 19.29 policy. Notice given by mail and return of the policy or contract by mail are effective on
 19.30 being postmarked, properly addressed and postage prepaid. The insurer must return all
 19.31 payments made for this policy within ten days after it receives notice of cancellation
 19.32 and the returned policy."

19.33 (1) a minimum of ten days beginning on the date the policy is received by the owner;

20.1 (2) a minimum of 30 days beginning on the date the policy is received by the owner
20.2 if the policy is a replacement policy;

20.3 (3) a requirement for the return of the policy to the company or an agent of the
20.4 company;

20.5 (4) a statement that the policy is considered void from the beginning and the parties
20.6 shall be in the same position as if no policy had been issued; and

20.7 (5) a refund of all premiums paid, including any fees or charges, if the policy is
20.8 returned.

20.9 For variable annuity contracts issued pursuant to sections 61A.13 to 61A.21, this
20.10 notice shall be suitably modified so as to notify the purchaser that the purchaser is entitled
20.11 to a refund of the amount calculated in accordance with the provisions of section 72A.51,
20.12 subdivision 3.

20.13 Sec. 17. Minnesota Statutes 2006, section 72B.02, subdivision 7, is amended to read:

20.14 Subd. 7. **Staff adjuster.** "Staff adjuster" means an adjuster who is a salaried
20.15 employee of an insurance company or an affiliate of an insurance company and who is
20.16 engaged in adjusting insured losses solely for that company or other companies under
20.17 common control or ownership.

20.18 Sec. 18. **REPEALER.**

20.19 (a) Minnesota Statutes 2006, section 45.025, subdivisions 1, 2, 3, 4, 5, 6, 8, 9, and
20.20 10, are repealed.

20.21 (b) Minnesota Rules, parts 2790.1750; and 2790.1751, are repealed.