

INSURANCE  
DEPARTMENT OF BANKING AND INSURANCE  
DIVISION OF INSURANCE

2001 Commissioner's Standard Ordinary (CSO) Mortality Table for Use in Determining Minimum Reserve Liabilities and Nonforfeiture Benefits

Proposed New Rules: N.J.A.C. 11:4-27

Authorized By: Holly C. Bakke, Commissioner, Department of Banking and Insurance

Authority: N.J.S.A. 17:1-8.1, 17:1C-6e, 17B:25-19 and 17B:30-1 et seq.

Calendar Reference: See Summary below for explanation of exception to calendar requirement.

Proposal Number: PRN 2004-289

Submit written comments by October 1, 2004 to:

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The agency proposal follows:

Summary

The Standard Valuation Law (N.J.S.A. 17B:19-8) sets the basis for the annual valuation of the reserve liabilities of life insurance policies. The Valuation of Life Insurance rules, N.J.A.C. 11:4-32, set standards for calculating reserves on many types of policies issued on or after January 1, 2000. The Standard Nonforfeiture Law (N.J.S.A. 17B:25-19) requires minimum nonforfeiture benefits for these policies and establishes the basis for calculating these benefits. Pursuant to N.J.S.A. 17B:19-8a(i) and 17B: 25-19h(viii), the Commissioner may promulgate a mortality table

adopted by the National Association of Insurance Commissioners (NAIC) for use in determining the minimum standard of valuation and in determining the minimum nonforfeiture standard.

On December 8, 2002, the National Association of Insurance Commissioners approved the 2001 Mortality Tables as a basis for valuation and nonforfeiture. The 2001 Mortality Tables can be found at [www.actuary.org/life/cso-0702.htm](http://www.actuary.org/life/cso-0702.htm). The NAIC also adopted a model rule for implementation of these tables on the same date.

The proposed new subchapter adopts new mortality tables, collectively known as the "2001 CSO Mortality Table" as a basis for reserve valuation and minimum nonforfeiture benefits. The proposed new subchapter follows the NAIC Model, "Recognition of the 2001 CSO Mortality Table for Use in Determining Minimum Reserve Liabilities and Non-Forfeiture Benefits Model Regulation." The new mortality tables are found in Appendices 1 through 7 to this proposed new subchapter.

The mortality table to be used for minimum reserve liabilities and nonforfeiture benefits is determined as of the issue date of the life insurance policy. The mortality tables proposed in this new subchapter may be used, at the option of the insurer, as early as January 1, 2005. The insurer may elect to introduce the new table on a plan by plan basis or uniformly for all life insurance products. The proposed new subchapter, however, mandates the use of these tables for all life insurance policies effective January 1, 2009 and thereafter. If an insurer chooses to use the 2001 CSO table, it must do so for both valuation and nonforfeiture purposes.

The Department is proposing the use of the 2001 CSO Mortality Table pursuant to this proposed new subchapter for three reasons: (1) insured life mortality has improved since the adoption of the current standard (the 1980 CSO table). In general, but not always, use of lower

mortality results in lower reserve liabilities. Companies may reduce premiums or other factors (such as cost of insurance charges), resulting in lower insurance costs to the consumer. In addition, the adoption of the table as a nonforfeiture standard will lower the maximum cost of insurance charges to consumers on some types of policies; (2) the proposed new subchapter promotes uniformity among states since this table has been or will shortly be adopted by the majority of states; and (3) when the 2001 CSO Mortality Table is adopted by a majority of states, it will become the basis for the reserves deductible for Federal income tax purposes by insurers. This proposed new subchapter will eliminate circumstances where the reserves the insurer must hold are higher than the tax reserves for Federal income tax purposes. Such circumstances can result in higher costs charged to the policyholder.

The proposed new subchapter includes the following sections:

N.J.A.C. 11:4-27.1, Purpose and scope, which generally introduces the new rules.

N.J.A.C. 11:4-27.2, Definitions, provides definitions of the terms "2001 CSO Mortality Tables"; "2001 CSO Mortality Table (F)"; "2001 CSO Mortality Table (M)"; "composite mortality tables" and "smoker and non-smoker mortality tables." These definitions mirror the language found in the NAIC Model Rules.

N.J.A.C. 11:4-27.3, 2001 CSO Mortality Tables Effective Date, permits the use of the tables as of January 1, 2005, and mandates their use effective January 1, 2009.

N.J.A.C. 11:4-27.4, Conditions, permits plans with separate smoker and non-smoker rates to use either composite mortality tables or smoker/non-smoker tables to determine minimum reserve liabilities, minimum cash surrender values, and amounts of paid-up non-forfeiture benefits. Plans without separate smoker/non-smoker rates utilize the composite mortality tables. This section also permits insurers to use the 2001 CSO Mortality Table in its ultimate or select and ultimate form for

the purpose of determining minimum reserve liabilities, cash surrender values, and paid-up nonforfeiture amounts. An approved actuarial opinion must be filed with the annual statement pursuant to N.J.A.C. 11:1-21A.6. New Jersey-only insurers may be exempted from this requirement.

N.J.A.C. 11:4-27.5, Application of 2001 CSO mortality tables to valuation of life insurance policies, permits application of the 2001 Table to valuation of life insurance policies. This provision specifies how the 2001 CSO Mortality Table is used in the calculations specified by the Valuation of Life Insurance rules (N.J.A.C. 11:4-32)

N.J.A.C. 11:4-27.6, Gender-blended tables, permits the use of gender-blended tables (male and female) in lieu of the 2001 CSO Mortality Table. A gender-blended table may be substituted for determining minimum cash surrender values and amounts of paid-up nonforfeiture benefits, but not for determining reserves, when the insurer charges the same rates for males and females, or is required by law to offer gender neutral benefits. This provision also establishes that it is not a violation of the Unfair Trade Practices Act, N.J.S.A. 17B:30-1 et seq., in and of itself, for an insurer to issue the same kinds of policy on both a gender specific and gender neutral basis.

Seven appendices are included as part of this proposal.

Appendix 1,	2001 CSO Table – Ultimate Only;
Appendix 2,	2001 CSO Table –Male – Composite;
Appendix 3,	2001 CSO Table – Male – Nonsmoker;
Appendix 4,	2001 CSO Table –Male – Smoker;
Appendix 5,	2001 CSO Table –Female – Composite;
Appendix 6,	2001 CSO Table – Female – Nonsmoker; and

Appendix 7, 2001 CSO Table – Female – Smoker.

The Department's proposal provides for a comment period of 60 days, and therefore, pursuant to N.J.A.C. 1:30-3.3 (a)5, is not subject to the provisions of N.J.A.C. 1:30-3.1 and 3.2 governing rulemaking calendars.

Social Impact

The direct impact of this proposed subchapter is on the life insurance industry, specifically on the reserve liabilities which insurance companies must establish and the nonforfeiture benefits which must be paid on lapse or surrender. The proposed subchapter establishes mortality standards which more accurately reflect expected mortality than the current standard, which is based upon data from prior to 1980, and may result in lower costs of doing business to insurers. These savings may be shared with those who purchase insurance. The proposed subchapter promotes uniformity among states which historically have varied in their regulation of life insurance products and will ease the administrative systems of the insurers, resulting in speed to market for insurance products.

Economic Impact

As noted, permitted reserves of life insurance companies for Federal income tax purposes are based on the mortality table adopted in the majority of states. Therefore, adoption of these rules assists in making the 2001 CSO Table the prevalent table and in establishing a more current Federal tax standard. Upon adoption of these rules, life insurers will incur some administrative costs in filing revised forms and recalculating reserves and/or premiums. The Department anticipates that such costs will be minimal.

Life insurance policyholders may receive favorable tax treatment on their policies if the premiums and benefits under such policies satisfy certain conditions based on the prevalent mortality table. Adoption of these rules should make the demonstration or verification of these conditions easier, since the state standards which the policy must satisfy will have the same mortality basis as the Federal standards used for qualification as life insurance. The adoption of these rules will likely result in lower reserve requirements for some products which, in turn, could lead to lower premiums and charges on affected policies. Thus, ultimately, the costs of such insurance to policyholders may be reduced.

#### Federal Standards Statement

A Federal standards analysis is not required because the proposed new subchapter is not subject to any Federal requirements or standards. This proposed new subchapter is based on an NAIC Model. While the rules will have an ancillary impact on Federal tax standards, they are not subject to any Federal requirements or standards. Rather, the rules serve merely as a reference for tax related Federal benchmarks.

#### Jobs Impact

The Department does not anticipate that these proposed new rules will result in the generation or loss of jobs. Insurers will continue to be subject to the same regulatory mandates to perform valuations and comply with nonforfeiture requirements. Prior to 2009, insurers may have to make additional filings to bring their existing policy offerings into compliance. However, insurers currently make numerous changes to their insurance products with resulting form filings as part of the normal course of business.

### Agricultural Industry Impact

The Department does not anticipate any impact on the agriculture industry from the proposed new subchapter.

### Regulatory Flexibility Statement

These rules directly impacts life insurers. The Department believes that this proposed new subchapter will apply to few, if any, "small businesses", as that term is defined in the Regulatory Flexibility Act, N.J.S.A. 2:14B-16 et seq. because the affected insurers do not employ fewer than 100 full time employees. The Department does not believe that insurers will be required to hire any consultants or bear the cost of any other professional services to comply with this proposed new subchapter. Existing staff will be required to make the administrative and other changes necessary for compliance, as they already do in response to evolution in the market.

The Department does not believe that different requirements based on insurer size would be appropriate or feasible since the proposed new subchapter directly affects all life insurance policies effective as of January 1, 2009, and possibly some policies effective between January 1, 2005 and December 31, 2008. Accordingly, the proposed new subchapter provides no differentiation in compliance requirements based on business size.

### Smart Growth Impact

The proposed new subchapter will have no impact on the achievement of smart growth and implementation of the State Development and Redevelopment Plan.

Full text of this proposal follows:

SUBCHAPTER 27. [(RESERVED)]      **THE 2001 COMMISSIONER’S STANDARD ORDINARY  
(CSO) MORTALITY TABLE FOR USE IN DETERMINING MINIMUM RESERVE  
LIABILITIES AND NONFORFEITURE BENEFITS**

**11:4-27.1      Purpose and scope**

This subchapter sets forth the requirements for the use of the 2001 Commissioner’s Standard Ordinary (CSO) Mortality Table in accordance with N.J.S.A. 17B:19-8a(i), N.J.S.A. 17B:25-19h(viii), N.J.A.C. 11:4-32.3(a) and N.J.A.C. 11:4-32.3(b).

**11:4-27.2      Definitions**

The following words and terms, when used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise.

“2001 CSO Mortality Table” means that mortality table, consisting of separate rates of mortality for male and female lives, developed by the American Academy of Actuaries CSO Task Force from the Valuation Basic Mortality Table developed by the Society of Actuaries Individual Life Insurance Valuation Mortality Task Force, and adopted by the NAIC in December 2002. The 2001 CSO Mortality Table is reproduced in Appendices 1 through 7, incorporated herein by reference, and is included in the *Proceedings of the NAIC* (2nd Quarter 2002). See [www.naic.org](http://www.naic.org) and [www.actuary.org/life/cso\\_0702.htm](http://www.actuary.org/life/cso_0702.htm). Unless the context indicates otherwise, the “2001 CSO Mortality Table” includes both the ultimate form of that table and the select and ultimate form of that table and includes both the smoker and nonsmoker mortality tables and the composite mortality tables. It also includes both the age-nearest-birthday and age-last-birthday bases of the mortality tables.

**“2001 CSO Mortality Table (F)” means that mortality table consisting of the rates of mortality for female lives from the 2001 CSO Mortality Table.**

**“2001 CSO Mortality Table (M)” means that mortality table consisting of the rates of mortality for male lives from the 2001 CSO Mortality Table.**

**“Composite mortality tables” means mortality tables with rates of mortality that do not distinguish between smokers and nonsmokers.**

**“Smoker and nonsmoker mortality tables” means mortality tables with separate rates of mortality for smokers and nonsmokers.**

**11:4-27.3 2001 CSO Mortality Table effective dates**

**(a) At the election of the insurer for any one or more specified plans of insurance and subject to the conditions stated in this subchapter, the 2001 CSO Mortality Table may be used as the minimum standard for policies issued on or after January 1, 2005 and before January 1, 2009 to which N.J.S.A. 17B:19-8a(i), N.J.S.A. 17B:25-19h(viii) and N.J.A.C. 11:4-32.3(a) and (b) are applicable. If the company elects to use the 2001 CSO Mortality Table, it shall do so for both valuation and nonforfeiture purposes.**

**(b) Subject to the conditions stated in this subchapter, the 2001 CSO Mortality Table shall be used in determining minimum standards for policies issued on or after January 1, 2009, to which N.J.S.A. 17B:19-8a(i), N.J.S.A. 17B:25-19h(viii) and N.J.A.C. 11:4-32.3(a) and (b) are applicable.**

**11:4-27.4 Conditions**

(a) For each plan of insurance with separate rates for smokers and nonsmokers, an insurer may use:

1. Composite mortality tables to determine minimum reserve liabilities and minimum cash surrender values and amounts of paid-up nonforfeiture benefits;

2. Smoker and nonsmoker mortality tables to determine the valuation net premiums and additional minimum reserves, if any, required by N.J.S.A. 17B:19-8(e) and may use composite mortality tables to determine the basic minimum reserves, minimum cash surrender values and amounts of paid-up nonforfeiture benefits; or

3. Smoker and nonsmoker mortality tables to determine minimum reserve liabilities and minimum cash surrender values and amounts of paid-up nonforfeiture benefits.

(b) For plans of insurance without separate rates for smokers and nonsmokers, the composite mortality tables shall be used.

(c) For the purpose of determining minimum reserve liabilities and minimum cash surrender values and amounts of paid-up nonforfeiture benefits, the 2001 CSO Mortality Table may, at the option of the insurer for each plan of insurance, be used in either its ultimate or its select and ultimate form, subject to the restrictions of N.J.A.C. 11:4-27.5 and 11:4-32 relative to use of the select and ultimate form.

(d) When the 2001 CSO Mortality Table is the minimum reserve standard for any plan for a company, the actuarial opinion in the annual statement filed by that company with the Commissioner shall be based on an asset adequacy analysis as specified in N.J.A.C. 11:1-

**21A.6. The Commissioner may exempt an insurer from this requirement if it only does business in this state and in no other state.**

**11:4-27.5 Applicability of the 2001 CSO Mortality Table to N.J.A.C. 11:4-32**

**(a) Subject to the transition dates for use of the 2001 CSO Mortality table in N.J.A.C. 11:4-27.3, the 2001 CSO Mortality Table may be used in applying N.J.A.C. 11:4-32 in the following manner.**

**1. The net level reserve premium is based on the ultimate mortality rates in the 2001 CSO Mortality Table in N.J.A.C. 11:4-32.1(c)2ii.**

**2. In the definition of contract segmentation at N.J.A.C. 11:4-32.2, all calculations are made using the 2001 CSO Mortality Rate, and, if elected, the optional minimum mortality standard for deficiency reserves stipulated in N.J.A.C. 11:4-32.3 and 32.4. Where the definition of contract segmentation refers to a mortality rate for issue age  $x$  and policy year  $k+t$ , the mortality rate to be used is the valuation mortality rate for deficiency reserves in policy year  $k+t$ , but using the unmodified select mortality rates if modified select mortality rates are used in the computation of deficiency reserves.**

**3. The 2001 CSO Mortality Table is the minimum standard for basic reserves in N.J.A.C. 11:4-32.3(a).**

**4. In N.J.A.C. 11:4-32.3(b), the 2001 CSO Mortality Table is the minimum standard for deficiency reserves. If select mortality rates are used, they may be multiplied by  $X$  percent for durations in the first segment, subject to the conditions specified in N.J.A.C. 11:4-32.3(b)3I through viii. In demonstrating compliance with those conditions, the demonstrations may not combine the results of tests that utilize the 1980 CSO Mortality Table**

with those tests that utilize the 2001 CSO Mortality Table, unless the combination is explicitly required by rule or necessary to be in compliance with relevant Actuarial Standards of Practice.

5. The valuation mortality table used in determining the tabular cost of insurance shall be the ultimate mortality rates in the 2001 CSO Mortality Table in N.J.A.C. 11:4-32.4(c).

6. The calculations specified in N.J.A.C. 11:4-32.4(e) shall use the ultimate mortality rates in the 2001 CSO Mortality Table in N.J.A.C. 11:4-32.4(e)4.

7. The calculations specified in N.J.A.C. 11:4-32.4(f) shall use the ultimate mortality rates in the 2001 CSO Mortality Table N.J.A.C. 11:4-32.4(f)4.

8. The calculations specified in N.J.A.C. 11:4-32.4(g) shall use the ultimate mortality rates in the 2001 CSO Mortality Table in N.J.A.C. 11:4-32.4(g)2.

9. The one-year valuation premium shall be calculated using the ultimate mortality rates in the 2001 CSO Mortality Table in N.J.A.C. 11:4-32.5(a)2.

(b) Nothing in this section shall be construed to expand the applicability of N.J.A.C. 11:4-32 to include life insurance policies exempted therein.

#### **11:4-27-6 Gender-blended tables**

(a) For any ordinary life insurance policy delivered or issued for delivery in this State on and after January 1, 2005 that uses the same premium rates and charges for male and female lives, or is issued in circumstances where applicable law does not permit distinctions on the basis of gender, a mortality table that is a blend of the 2001 CSO Mortality Table (M) and the 2001 CSO Mortality Table (F) may, at the option of the insurer for each

plan of insurance, be substituted for the 2001 CSO Mortality Table for use in determining minimum cash surrender values and amounts of paid-up nonforfeiture benefits. No change in minimum valuation standards is implied by this subsection of the regulation.

(b) The insurer may choose from among the blended tables developed by the American Academy of Actuaries CSO Task Force and adopted by the NAIC on December 8, 2002.

(c) It shall not, in and of itself, be a violation of N.J.S.A. 17B:30-1 et seq. for an insurer to issue the same kind of policy of life insurance on both a sex-distinct and sex-neutral basis.

#### **11:4-27.7 Separability**

If any provision of this subchapter or its application to any person or circumstance is, for any reason, held to be invalid, the remainder of the subchapter and the application of the provision in question to other persons or circumstances shall not be affected.