

**STATE OF CALIFORNIA  
DEPARTMENT OF INSURANCE  
45 Fremont Street, 23rd Floor  
San Francisco, CA 94105**

**Bulletin 2009-2  
February 26, 2009**

**TO: All Licensed Life Insurance Companies and Other Interested Persons**

**SUBJECT: Recognition of Preferred Mortality Tables for Use in Determining Minimum Reserve Liabilities**

**Section 1. Authority**

This bulletin is issued under the authority of Insurance Code sections 10489.2 and 10163.2, and California Code of Regulations, title 10, section 2542.4.

**Section 2. Purpose**

The purpose of this bulletin is to recognize and permit the use of mortality tables that reflect differences in mortality between preferred and standard lives in determining minimum reserve liabilities in accordance with California Insurance Code Section 10489.2(a) of the "Standard Valuation Law" and California Code of Regulations Title 10, Sections 2542.4(a) and 2542.4(b) of the "Valuation of Life Insurance Policies."

NOTE: Authority Cited: California Insurance Code Sections 10489.2 and California Code of Regulations Title 10, Section 2542.4.

**Section 3. Definitions**

(a) "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 included in the *Proceedings of the NAIC (2nd Quarter 2002)* and supplemented by the 2001 CSO Preferred Class Structure Mortality Table defined below in Subsection (b). 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. Mortality tables in the 2001 CSO Mortality Table include the following:

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

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

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

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

(b) “2001 CSO Preferred Class Structure Mortality Table” means mortality tables with separate rates of mortality for Super Preferred Nonsmokers, Preferred Nonsmokers, Residual Standard Nonsmokers, Preferred Smokers, and Residual Standard Smoker splits of the 2001 CSO Nonsmoker and Smoker tables as adopted by the NAIC at the September, 2006 national meeting and published in the *NAIC Proceedings (3<sup>rd</sup> Quarter 2006)*. Unless the context indicates otherwise, the “2001 CSO Preferred Class Structure Mortality Table” includes both the ultimate form of that table and the select and ultimate form of that table. It includes both the smoker and nonsmoker mortality tables. It includes both the male and female mortality tables and the gender composite mortality tables. It also includes both the age-nearest birthday and age-last-birthday bases of the mortality table.

#### **Section 4. 2001 CSO Preferred Class Structure Table**

At the election of the company, for each calendar year of issue, for any one or more specified plans of insurance and subject to satisfying the conditions stated in this regulation, the 2001 CSO Preferred Class Structure Mortality Table may be substituted in place of the 2001 CSO Smoker or Nonsmoker Mortality Table as the minimum valuation standard for policies issued on or after January 1, 2007 and, subject to commissioner approval, for policies issued prior to January 1, 2007 which were valued using the 2001 CSO Mortality Table. No such election shall be made until the company demonstrates 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 rule, will be treated as part of the 2001 CSO Mortality Table only for purposes of reserve valuation pursuant to the requirements of California Department of Insurance Bulletin No. 2003–5, “Recognition of the 2001 CSO Mortality Table for Use in Determining Minimum Reserve Liabilities and Nonforfeiture Benefits.”

#### **Section 5. Conditions**

(a) For each plan of insurance with separate rates for preferred and standard nonsmoker lives, an insurer may use the Super Preferred Nonsmoker, Preferred Nonsmoker, and Residual Standard Nonsmoker tables to substitute for the nonsmoker mortality table found in the 2001 CSO Mortality Table to determine minimum reserves. At the time of election and annually thereafter, except for business valued under the Residual Standard Nonsmoker Table, the appointed actuary shall certify that:

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

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

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

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

(1) The present value of death benefits over the next ten years after the valuation date, using the anticipated mortality experience without recognition of mortality improvement beyond the valuation date for each class, is less than the present value of death benefits using the preferred smoker valuation basis table corresponding to the valuation table being used for that class.

(2) The present value of death benefits over the future life of the contracts, using anticipated mortality experience without recognition of mortality improvement beyond the valuation date for each class, is less than the present value of death benefits using the preferred smoker valuation basic table.

(c) Unless specific approval is given by the commissioner of this state, the use of the 2001 CSO Preferred Class Structure Mortality Table shall not be permitted for the valuation of reserves in any statutory financial statement in which a company reports either of the following:

(1) a deferred premium asset that is based on the valuation net premium, even when greater than the policy gross premium, and the reduction in the deferred premium asset resulting from reinsurance is based on the modal premium payments to the reinsurer, or

(2) a reserve credit that exceeds the gross reserve, prior to the reduction for reinsurance, on the proportion of the policies reinsured.

## **Section 6. Effective Date**

This bulletin shall be effective for statutory financial statements that are due to be filed after the issue date of this bulletin, and shall remain in effect until the earlier of either the effective date of regulations promulgated to replace this bulletin or December 31, 2010.

## **Section 7. Questions**

Any questions regarding this bulletin should be directed to the Senior Life Actuary at (213) 346-6147.

STEVE POIZNER  
INSURANCE COMMISSIONER