

**CONFIDENTIAL**  
**LEGISLATIVE BILL REVIEW FORM: 2015**

**Bill Number:** H. 482      **Name of Bill:** An act relating to principle-based valuation for life insurance reserves and a standard nonforfeiture law for life insurance policies

**Agency/ Dept:** Dept. of Financial Regulation      **Author of Bill Review:** Commissioner Susan L. Donegan

**Date of Bill Review:** 6/1/2015      **Related Bills and Key Players** \_\_\_\_\_

**Status of Bill: (check one):** \_\_\_\_\_ **Upon Introduction**      \_\_\_\_\_ **As passed by 1<sup>st</sup> body**      ☒ **As passed by both**

**Recommended Position:**

☒ **Support**      \_\_\_\_\_ **Oppose**      \_\_\_\_\_ **Remain Neutral**      \_\_\_\_\_ **Support with modifications identified in #8 below**

**Analysis of Bill**

**1. Summary of bill and issue it addresses.**      *Describe what the bill is intended to accomplish and why.*

- Section 1 of the bill concerns the method life insurers must use to set-aside or “reserve” funds to pay expected future life insurance claims. Currently, such funds are calculated using a pre-set formula. Section 1 proposes to amend the law to allow for the use of more advanced methods to better reflect and measure the risks of new, innovative insurance policies. Guidance will be provided in the National Association of Insurance Commissioners (NAIC) Valuation Manual, which the Commissioner will adopt by rule. These advanced methods unavoidably delve into extremely complex actuarial terms and concepts. The language, however, has been fully vetted through the NAIC model law development process. In addition, Section 1 preserves the Commissioner’s authority to require insurance companies to change any assumption or method, as appropriate, and to engage a qualified actuary at the expense of the company to review compliance with Valuation Manual requirements.
- Vermont’s standard nonforfeiture law for life insurance policies establishes the minimum benefit values if policies are surrendered or lapsed. For consistency, Section 2 refers to the Standard Valuation Law and the Valuation Manual as the source for mortality and interest rates used in nonforfeiture calculations. The standard nonforfeiture value calculations are not changed.
- Sections 3-5 are purely technical amendments that reflect renumbering of the “Parts” of Title 8 of the Vermont Statutes Annotated.

**2. Is there a need for this bill?**      *Please explain why or why not.*

Yes. This bill modernizes Vermont’s insurance laws to allow for the use of more advanced methods to better reflect and measure the risks of new, innovative insurance policies. Furthermore, the bill is crucial to DFR’s future NAIC Accreditation. NAIC Accreditation assures regulators in other states that the State of Vermont has met or exceeded the recognized standards for insurance regulation. In turn, accreditation allows Vermont domiciled insurers, as well as DFR regulators, to operate on a reciprocal basis with their colleagues in other states. Accreditation rests on the passage of certain NAIC approved, and industry vetted, statutory provisions. These required provisions are typically based on NAIC model legislation that

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has been carefully crafted and commented on by regulators from all fifty states and by industry representatives. The bill is patterned on the NAIC model legislation for principle-based reserving.

**3. What are likely to be the fiscal and programmatic implications of this bill for this Department?**

None. DFR has adequate resources to handle any additional workload created by this bill.

**4. What might be the fiscal and programmatic implications of this bill for other departments in state government, and what is likely to be their perspective on it?**

None.

**5. What might be the fiscal and programmatic implications of this bill for others, and what is likely to be their perspective on it? (for example, public, municipalities, organizations, business, regulated entities, etc)**

Passage of this bill will not result in any immediate change in life insurance reserving practices. To ensure a level playing field between companies from different states, the law will not become "operative" until at least 42 states (a supermajority) representing 75% of total U.S. premium adopt the revisions. To date, 20 states have passed the legislation and at least 15 states intend to pass it in 2015. 2016 could well be the date when the above threshold is reached, at which point the bill is not expected to impose any significant fiscal or programmatic implications for insurance companies.

**6. Other Stakeholders:**

**6.1 Who else is likely to support the proposal and why?**

The American Council of Life Insurers testified in favor of the bill.

**6.2 Who else is likely to oppose the proposal and why?**

There was no opposition to this bill.

**7. Rationale for recommendation:** *Justify recommendation stated above.*

This bill modernizes Vermont's insurance laws relating to principle-based reserving, corrects technical errors contained in Title 8, and maintains Vermont's NAIC accreditation.

**8. Specific modifications that would be needed to recommend support of this bill:** *Not meant to rewrite bill, but rather, an opportunity to identify simple modifications that would change recommended position.*

None.

**9. Gubernatorial appointments to board or commission?**

~~Secretary~~/Commissioner has reviewed this document:

*Susan L. Donaghy* Date: *6/1/15*

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