

November 25, 1986

SUBJECT: INSURANCE

WITHDRAWN

Circular Letter No. 22 (1986)

TO: ALL AUTHORIZED LIFE INSURANCE COMPANIES AND FRATERNAL BENEFIT SOCIETIES

WRITING LIFE INSURANCE IN NEW YORK STATE

RE: CHAPTER 365 OF THE LAWS OF 1986

REVISED NONFORFEITURE REQUIREMENTS FOR LIFE INSURANCE

FORMS SUBJECT TO SECTIONS 4232(b) and 4518 OF THE INSURANCE LAW

The purpose of this Circular Letter is to remind insurers of the need to review their currently approved life insurance policy and certificate forms which are subject to Section 4232(b) or 4518 (commonly referred to as universal life forms) to determine if such forms apply with Chapter 365 of the Laws of 1986. The following information is provided as an aid in this review.

1. The operative date of Chapter 365 of the Laws of 1986 is January 1, 1988 or such earlier date elected by the insurer. After the operative date for a life insurance company, Section 3203(a)(13) no longer permits forfeiture of additional amounts credited under Section 4232 (b) in, the prior twelve months. Many of the policy forms previously approved under Section 3203(a)(13) do provide for forfeiture of the prior twelve months additional amounts credited pursuant to Section 4232(b). Such policy provisions will need to be deleted in any policy form to, be issued after the operative date elected by the insurer and in any event by January 1, 1988. The revised Section 3203(a)(13) will permit a surrender charge that is otherwise in compliance with Section 4221(n-1) to be applied against the policy value including that portion which arose from the crediting of additional amounts without regard to the magnitude of the additional amounts.

2. New Section 4221(n-1) provides two alternate retrospective methods for determining minimum nonforfeiture benefit compliance.

(a) The first, described in Section 4221 (n-1) (3) (A), specifies limits on expense charges against premium and against the fund, limits on mortality charges and a minimum interest accumulation rate. Any surrender charge based on unused first year expense limits must be amortized over 20 years.

(b) The second method, described in Section 4221 (n-1)(3)(B), does not specify limits on the expense, mortality and interest factors. This method is similar to that in the NAIC Model Universal Life Regulation. Among the differences are (i) additional amounts are nonforfeiture once credited, (ii) any unused initial expense allowance must be amortized over 20 years, (iii) the initial expense allowance is subject to a cap of \$ 50 per \$ 1000 of insurance and (iv) an option must be provided at least once a year to purchase paid-up insurance.

(c) For any new policy or certificate issued after the operative date elected by the insurer and in any event by January 1,

1988 for any policy or certificate subject to Section 4232(b) or 4518, one of the two alternatives mentioned above must be used. Because of the lead time needed to approve a life insurance policy or certificate form, insurers should not make any new submission after April 1, 1987 of any life insurance policy or certificate form subject to Section 4232(b) or 4518 unless the form complies with Section 4221(n-1). The submission should include an actuarial memorandum stating the subsections of Section 4221 being used and demonstrate that the form complies with one of the two alternative methods.

3. Section 4221(n-1) (3) (B) (iii) describes a guaranteed paid-up life insurance option. Please note such option is only necessary in policy or certificate forms which provide for expense charges deducted from the policy value.

4. Section 4221(n-1)(3)(B)(i) specifically provides a cap of \$ 50.00 on the initial expense allowance instead of the \$ 60.00 in the 'NAIC Model Universal Life Regulation for 1980 CSO policies and a cap on the surrender charge period of 20 years in lieu of all of life. The actuarial memoranda submitted with the policy filings demonstrating value compliance with the minimum standards should be checked to be sure the proper caps have been provided for New York State submissions.

Very truly yours,

[SIGNATURE]

James P. Corcoran

Superintendent of Insurance