THE INSURANCE CODE OF 1956 (EXCERPT)
Act 218 of 1956

500.836 Calendar year statutory valuation interest rates; use; determination; weighting factors; “reference interest rate” defined; alternative method for determination of reference interest rate; changes to policy or contract forms; computing reference interest rate for calendar year 1986.

Sec. 836.

(1) The calendar year statutory valuation interest rates as defined in this section are the interest rates used in determining the minimum standard for the valuation of the following:

(a) All life insurance policies issued in a particular calendar year on or after the operative date of paragraphs 9 to 18 of section 4060(5).

(b) All individual annuity and pure endowment contracts issued in a calendar year after December 31, 1982.

(c) All annuities and pure endowments purchased in a calendar year after December 31, 1982 under group annuity and pure endowment contracts.

(d) The net increase, if any, in a calendar year after January 1, 1983 in amounts held under guaranteed interest contracts.

(2) The calendar year statutory valuation interest rates, I, shall be determined as follows, and the results rounded to the nearer 0.25%:

(a) For life insurance,

$$I = .03 + W (R1 - .03) + W (R2 - .09).$$
$$2$$

where R is the reference interest rate defined in this section, R1 is the lesser of R and .09, R 2 is the greater of R and .09, and W is the weighting factor defined in this section.

(b) For single premium immediate annuities and for annuity benefits involving life contingencies arising from other annuities with cash settlement options and from guaranteed interest contracts with cash settlement options, I = .03 + W (R - .03) where R is the reference interest rate defined in this section, R1 is the lesser of R and .09, R 2 is the greater of R and .09, and W is the weighting factor defined in this section.

(c) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on an issue year basis, except as stated in subdivision (b), the formula for life insurance stated in subdivision (a) applies to annuities and guaranteed interest contracts with guaranteed durations in excess of 10 years and the formula for single premium immediate annuities stated in subdivision (b) applies to annuities and guaranteed interest contracts with guaranteed duration of 10 years or less.

(d) For other annuities with no cash settlement options and for guaranteed interest contracts with no cash settlement options, the formula for single premium immediate annuities stated in subdivision (b) applies.

(e) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a change in fund basis, the formula for single premium immediate annuities stated in subdivision (b) applies.

(3) However, if the calendar year statutory valuation interest rate for any life insurance policies issued in any calendar year determined without reference to this sentence differs from the corresponding actual rate for similar policies issued in the immediately preceding calendar year by less than 0.5%, the calendar year statutory valuation interest rate for the life insurance policies must be equal to the corresponding actual rate for the immediately preceding calendar year. For purposes of applying the immediately preceding sentence, the calendar year statutory valuation interest rate for life insurance policies issued in a calendar year must be determined for 1980 using the reference interest rate defined for 1979 and must be determined for each subsequent calendar year regardless of when paragraphs 9 to 18 of section 4060(5) become operative.

(4) The weighting factors referred to in the formulas in subsection (2) are given in the following tables:

(a) The weighting factors for life insurance are:

Guaranteed Duration (Years)	Weighting Factors
10 or less	.50
more than 10, but not more than 20	.45
more than 20	.35

For life insurance, the guaranteed duration is the maximum number of years the life insurance can remain in force on a basis guaranteed in the policy or under options to convert to plans of life insurance with premium rates or nonforfeiture values, or both, that are guaranteed in the original policy.

(b) The weighting factor for single premium immediate annuities and for annuity benefits involving life contingencies arising from other annuities with cash settlement options and guaranteed interest contracts with cash settlement options is .80.

(c) The weighting factors for other annuities and for guaranteed interest contracts, except as stated in subdivision (b), are specified in subparagraphs (i), (ii), and (iii), according to the rules and definitions in subparagraphs (iv), (v), and (vi) as follows:

(i) For annuities and guaranteed interest contracts valued on an issue year basis:

Guaranteed Duration (Years)	Weighting Factor For Plan Type A	B	C
5 or less:	.80	.60	.50
more than 5, but not more than 10:	.75	.60	.50
more than 10, but not more than 20:	.65	.50	.45
more than 20:	.45	.35	.35

	Plan Type A	B	C
(ii) For annuities and guaranteed interest contracts valued on a change in fund basis, the factors shown in subparagraph (i) increased by:	.15	.25	.05

	Plan Type A	B	C
(iii) For annuities and guaranteed interest contracts valued on an issue year basis, other than those with no cash settlement options, that do not guarantee interest on considerations received more than 1 year after issue or purchase and for annuities and guaranteed interest contracts valued on a change in fund basis that do not guarantee interest rates on considerations received more than 12 months beyond the valuation date, the factors shown in subparagraph (i) or derived in subparagraph (ii) increased by:	.05	.05	.05

(iv) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, the guaranteed duration is the number of years for which the contract guarantees interest rates in excess of the calendar year statutory valuation interest rate for life insurance policies with guaranteed duration in excess of 20 years. For other annuities with no cash settlement options and for guaranteed interest contracts with no cash settlement options, the guaranteed duration is the number of years from the date of issue or date of purchase to the date annuity benefits are scheduled to commence.

(v) As used in subparagraphs (i) to (iii):

(A) "Plan Type A" means at any time the policyholder may withdraw funds only with an adjustment to reflect changes in interest rates or asset values since receipt of the funds by the insurance company; without the adjustment but in installments over 5 years or more; as an immediate life annuity; or no withdrawal permitted.

(B) "Plan Type B" means before expiration of the interest rate guarantee, the policyholder may withdraw funds only with an adjustment to reflect changes in interest rates or asset values since receipt of the funds by the insurance company; without the adjustment but in installments over 5 years or more; or no withdrawal permitted. At the end of interest rate guarantee, funds may be withdrawn without the adjustment in a single sum or installments over less than 5 years.

(C) "Plan Type C" means the policyholder may withdraw funds before expiration of interest rate guarantee in a single sum or installments over less than 5 years either without adjustment to reflect changes in interest rates or asset values since receipt of the funds by the insurance company or subject only to a fixed surrender charge stipulated in the contract as a percentage of the fund.

(vi) A company may elect to value guaranteed interest contracts with cash settlement options and annuities with cash settlement options on either an issue year basis or on a change in fund basis. Guaranteed interest contracts with no cash settlement options and other annuities with no cash settlement options must be valued on an issue year basis. As used in this section, an issue year basis of valuation refers to a valuation basis under which the interest rate used to determine the minimum valuation standard for the entire duration of the annuity or guaranteed interest contract is the calendar year valuation interest rate for the year of issue or year of purchase of the annuity or guaranteed interest contract, and the change in fund basis of valuation refers to a valuation basis under which the interest rate used to determine the minimum valuation standard applicable to each change in the fund held under the annuity or guaranteed interest contract is the calendar year valuation interest rate for the year of the change in the fund.

(5) As used in subsections (2) and (3), "the reference interest rate" means:

(a) For all life insurance, the lesser of the average over a period of 36 months and the average over a period of 12 months, ending on June 30 of the calendar year next preceding the year of issue, of Moody's corporate bond yield average - monthly average corporates, as published by Moody's investors service, inc.

(b) For single premium immediate annuities and for annuity benefits involving life contingencies arising from other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, the average over a period of 12 months, ending on June 30 of the calendar year of issue or year of purchase or December 31 of the calendar year preceding the year of issue or year of purchase, of Moody's corporate bond yield average - monthly average corporates, as published by Moody's investors service, inc. An insurer shall use the same method of computing the reference interest rate under this subdivision in all of its contracts. An insurer shall not change its method of computing the reference interest rate under this subdivision unless the insurer has notified and received approval from the director.

(c) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a year of issue basis, except as stated in subdivision (b), with guaranteed duration in excess of 10 years, the lesser of the average over a period of 36 months and the average over a period of 12 months, ending on June 30 of the calendar year of issue or purchase or December 31 of the calendar year preceding the year of issue or year of purchase, of Moody's corporate bond yield average - monthly average corporates, as published by Moody's investors service, inc. An insurer shall use the same method of computing the reference interest rate under this subdivision in all of its contracts. An insurer shall not change its method of computing the reference interest rate under this subdivision unless the insurer has notified and received approval from the director.

(d) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a year of issue basis, except as stated in subdivision (b), with guaranteed duration of 10 years or less, the average over a period of 12 months, ending on June 30 of the calendar year of issue or purchase or December 31 of the calendar year preceding the year of issue or year of purchase, of Moody's corporate bond yield average - monthly average corporates, as published by Moody's investors service, inc. An insurer shall use the same method of computing the reference interest rate under this subdivision in all of its contracts. An insurer shall not change its method of computing the reference interest rate under this subdivision unless the insurer has notified and received approval from the director.

(e) For other annuities with no cash settlement options and for guaranteed interest contracts with no cash settlement options, the average over a period of 12 months, ending on June 30 of the calendar year of issue or purchase or December 31 of the calendar year preceding the year of issue or year of purchase, of Moody's corporate bond yield average - monthly average corporates, as published by Moody's investors service, inc. An insurer shall use the same method of computing the reference interest rate under this subdivision in all of its contracts. An insurer shall not change its method of computing the reference interest rate under this subdivision unless the insurer has notified and received approval from the director.

(f) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a change in fund basis, except as stated in subdivision (b), the average over a period of 12 months, ending on June 30 of the calendar year of the change in the fund or December 31 of the calendar year preceding the year of the change in the fund, of Moody's corporate bond yield average - monthly average corporates, as published by Moody's investors service, inc. An insurer shall use the same method of computing the reference interest rate under this subdivision in all of its contracts. An insurer shall not change its method of computing the reference interest rate under this subdivision unless the insurer has notified and received approval from the director.

(6) If Moody's corporate bond yield average - monthly average corporates is no longer published by Moody's investors service, inc. or if the national association of insurance commissioners determines that Moody's corporate bond yield average - monthly average corporates as published by Moody's investors service, inc. is no longer appropriate for the determination of the reference interest rate, then an alternative method for determination of the reference interest rate, which is adopted by the national association of insurance commissioners and approved by a rule promulgated by the director, may be substituted.

(7) Any changes to policy or contract forms that are needed because of changes in valuation rates do not require refiling with, or approval by, the director.

(8) An insurer may use December 31, 1985 for purposes of computing the reference interest rate for the calendar year 1986 only.

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