

Bulletin 54

FLEXIBLE PREMIUM UNIVERSAL LIFE INSURANCE: MINIMUM RESERVES AND CASH SURRENDER VALUES; RESERVE DESTRENGTHENING

July 27, 1987

This Bulletin is directed to all companies writing life insurance in the State of Indiana. The Department of Insurance of the State of Indiana interprets the Standard Nonforfeiture Law and the Standard Valuation Law to include the following requirements for flexible premium universal life insurance products:

1. Guaranteed maximum mortality rates used in determining the deductions from the accumulation fund must not exceed the mortality rates contained in the nonforfeiture value and reserve mortality table.
2. The same mortality table must be used to calculate nonforfeiture values and reserves.
3. The interest rate used in determining nonforfeiture values and reserves must be the same as the minimum interest rate that is guaranteed for the accumulation fund. This limits the maximum interest rate that can be used to the statutory maximum reserve interest rate.
4. No reserves can be less than the greater of:
 - a. the net level reserve reduced by the unamortized portion of the Standard Valuation Laws initial expense allowance, and
 - b. the cash surrender value.

Additional reserves may be needed for certain mortality and interest guarantees.

For purposes of this requirement, the net level reserve is equal to the accumulation fund increased by any unamortized excess first year expense charges.

5. In determining minimum cash surrender values, any surrender charges plus the unamortized portion of any excess first year expense charges can never exceed the unamortized portion of the Standard Nonforfeiture Law initial expense allowance.

Any reserve destrengthening on flexible premium universal life products must show that these requirements have been met for destrengthened reserves and must be approved by this department before the destrengthening takes place, as is done for reserve destrengthening on other products.

Harry E. Eakin
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