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## REGULATORY BULLETIN 2006-10<sup>1</sup>

TO: All Licensed Life Insurance Companies

FROM: Christina Urias  
Director of Insurance

DATE: November 27, 2006

RE: **2001 Commissioners' Standard Ordinary (CSO) Mortality Table**  
**2001 CSO Preferred Class Structure Mortality Table**

The purpose of this Regulatory Bulletin is to advise interested parties that, effective January 1, 2007, the Director: (1) re-approves the use of the 2001 Commissioners' Standard Ordinary (CSO) Mortality Table<sup>2</sup> for use in determining the minimum valuation standard and the minimum non-forfeiture standard for all ordinary life insurance policies and contracts issued on a standard basis; and, (2) newly approves the use of the 2001

<sup>1</sup> This Substantive Policy Statement is advisory only. A Substantive Policy Statement does not include internal procedural documents that only affect the internal procedures of the Agency, and does not impose additional requirements or penalties on regulated parties or include confidential information. If you believe that this Substantive Policy Statement does impose additional requirements or penalties on regulated parties, you may petition the agency under A.R.S. § 41-1033 for a review of the Statement.

<sup>2</sup> "2001 CSO Mortality Table" is the 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 (2<sup>nd</sup> Quarter 2002)* and supplemented by the 2001 CSO Preferred Class Structure Mortality Table (defined below). 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)" is the mortality table consisting of the rates of mortality for female lives for the 2001 CSO Mortality Table;
- (2) "2001 CSO Mortality Table (M)" is the mortality table consisting of the rates of mortality for male lives for the 2001 CSO Mortality Table;
- (3) "Composite Mortality Tables" are the mortality tables with rates of mortality that do not distinguish between smokers and nonsmokers;
- (4) "Smoker and nonsmoker mortality tables" are the mortality tables with separate rates of mortality for smokers and nonsmokers.

CSO Preferred Class Structure Mortality Table<sup>3</sup> for use in determining the minimum valuation standard for ordinary life insurance policies and contracts issued on a preferred mortality basis. On January 1, 2007, an insurer may elect to use the 2001 CSO Mortality Table, or the 2001 CSO Preferred Class Structure Mortality Table, for any specified insurance plans subject to any applicable provisions of Arizona Revised Statutes (“A.R.S.”) §§20-510 and 20-1231.01. This Regulatory Bulletin: (1) recognizes, permits and prescribes the use of mortality tables that reflect differences in mortality between Preferred and Standard Lives; and, (2) **supersedes Regulatory Bulletin 2003-12 in which the Director approved the use of the 2001 CSO Mortality Table.**

A.R.S. §20-510 specifies the minimum valuation standards for all policies and contracts. For policies that are issued on or after the operative date of A.R.S. §20-1231.01, insurers may use any ordinary mortality table that the NAIC adopts after 1980 and that the Director approves for use in determining the minimum valuation standard for those policies. A.R.S. §20-510(D)(1)(c). In addition, A.R.S. §20-1231.01(8)(f) also permits an insurer to use such mortality tables to determine the minimum non-forfeiture standard for all policies and contracts.

In December 2002, the NAIC adopted the 2001 CSO Mortality Table, as set forth in the *Report of the American Academy of Actuaries’ Commissioners Standard Ordinary Task Force*, as presented to the NAIC Life and Health Actuarial Task Force June 2002. The NAIC also adopted a model regulation to recognize, permit and prescribe the use of the 2001 CSO Mortality Table: “Recognition of the 2001 CSO Mortality Table for Use in Determining Minimum Reserve Liabilities and Non-forfeiture Benefits Model Regulation.” The NAIC also adopted, effective January 1, 2007, a model regulation to recognize, permit and prescribe use of the 2001 CSO Preferred Class Structure Mortality table: “Model Regulation Permitting the Recognition of Preferred Mortality Tables for Use in Determining Minimum Reserve Liabilities” (together the NAIC Model Regulations”). The NAIC Accounting Practices and Procedures Manual, which insurers follow in this state pursuant to A.R.S. §20-223, will likely reflect many of these NAIC Model Regulation requirements.

Until such time as the Department formally promulgates the NAIC Model Regulations, or until the legislature expressly codifies the use of the 2001 CSO Mortality Table or the 2001 CSO Preferred Class Structure Mortality Table in statute, the Department will refer to the NAIC Model Regulations for guidance in interpreting and enforcing the requirements of A.R.S. §§20-510 and 20-1231.01, when an insurer uses either of the 2001 Mortality Tables.

Please direct questions regarding this Regulatory Bulletin to William K. Robinson, Life and Health Actuary at (602) 364-3248, or to [wrobinson@azinsurance.gov](mailto:wrobinson@azinsurance.gov).

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<sup>3</sup> “2001 CSO Preferred Class Structure Mortality Tables” are the 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 forms 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.