Government of Puerto Rico
OFFICE OF THE PUERTO RICO COMMISSIONER OF INSURANCE
San Juan, Puerto Rico

RULE NUMBER 48 OF THE PUERTO RICO INSURANCE CODE REGULATIONS

"VALUATION STANDARDS FOR RESERVES AND NONFORFEITURE VALUES FOR LIFE INSURANCE POLICIES"

NUMBER: 9373
Date: April 13, 2022
Approved: Attorn. Felix E. Rivera Torres
Under Secretary of State

Department of State

Government of Puerto Rico

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SECTION 1. - LEGAL GROUNDS

The Office of the Commissioner of Insurance of Puerto Rico repeals Rule No. 48 of the Regulations of the Insurance Code of Puerto Rico, Regulation No. 3163 of the Department of State of Puerto Rico, entitled "Standards for the Valuation of Reserves and Nonforfeiture Values", and adopts a new Rule No. 48, entitled "Standards for the Valuation of Reserves and Nonforfeiture Values for Life Insurance Policies," in accordance with the powers and authority conferred by Sections 2.030 and 5.080 of the Insurance Code of Puerto Rico, Act No. 77 of June 19, 1957, as amended, as well as Act No. 38 of June 30, 2017, as amended, known as the "Uniform Administrative Procedure Act of the Government of Puerto Rico".

SECTION 2. - PURPOSE

This new Rule is adopted and the existing Rule 48 is repealed for the purpose of updating the minimum reserve valuation standards for life, health, and accident insurance policies, annuity contracts, pure endowment contracts and *deposit-type* contracts, and nonforfeiture value standards for life policies, in accordance with the regulatory standards promulgated by the National Association of Insurance Commissioners (NAIC), in its model regulation known as "Standard Valuation Law" and "Standard Nonforfeiture Law for Life Insurance".

SECTION 3. - APPLICABILITY

The provisions of this Rule shall be applicable to all insurance companies that do business in Puerto Rico and issue or have issued life insurance policies, health and accident insurance policies, annuity contracts, pure endowment insurance contracts and *deposit-type* contracts.

SECTION 4. -STATEMENT OF PURPOSE AND NEED

Section 5.080 of the Puerto Rico Insurance Code requires the Commissioner to establish minimum valuation standards for life insurance policies and annuity contracts by regulation and that such standards be consistent with the minimum valuation standards formulated or approved by the NAIC. Also, Section 5.090 of the Puerto Rico Insurance Code establishes that the minimum total reserves shall be calculated in accordance with the regulations promulgated by the Commissioner and determined by an actuary qualified to render the actuarial opinion required in Section 5.100 of the Puerto Rico Insurance Code.

The current Rule 48 establishes provisions on reserve valuation that have not been revised since 1984. For the calculation of reserves, the Rule uses a formula based on mortality tables and interest rates, without differentiating between one insurance company and another. Currently, the NAIC uses a method for calculating reserves known as *Principle-Based Reserving* (PBR), based on a set of fundamental principles rather than a rule that applies to everyone equally. This approach allows insurance companies to reflect their own experience and risks, while producing reserves that are more aligned with the risks of the insurance company. In view of the above, it is necessary to adopt the NAIC valuation model in order to update the reserve valuation standards. With said adoption, the accreditation requirements established by the NAIC are also met.

Accordingly, this new Rule Number 48 updates the minimum reserve valuation standards for life, health, and accident insurance policies, annuity contracts, pure endowment contracts, and *deposit-type contracts*, and nonforfeiture values for life policies, in accordance with the regulatory standards promulgated by the NAIC.

SECTION 5. - DEFINITIONS

The following terms shall have the meanings set forth below, unless a different meaning is implied from the text of another Section of this Rule:

A. “Qualified Actuary” - means a person who is qualified to sign the actuarial opinion in accordance with the qualification standards of the American Academy of Actuaries and who meets the requirements specified in the Valuation Manual.

B. “Appointed Actuary” - means a qualified actuary who is appointed or hired to prepare the actuarial opinion required by this Rule, in accordance with the provisions of the Valuation Manual, Rule 95 of the Regulations of the Puerto Rico Insurance Code and Section 5.100 of the Puerto Rico Insurance Code.

C. “Insurance company” - means any entity that (a) has underwritten, issued, or reinsured contracts of life, health, or accident insurances, or *deposit-type contracts* in Puerto Rico and that has at least one policy in force or a claim thereon, or (b) has underwritten, issued, or reinsured life, health, or accident or *deposit-type* insurance contracts in Puerto Rico and is required to maintain a certificate of authority to subscribe life, health, or accident insurance or *deposit-type contracts* in Puerto Rico.

D. “Policyholder Behavior” - means any action which a policyholder, contract holder, or any other person having the right to select options, such as the holder of a certificate, may take under a policy or contract subject to this Rule, including, but not limited to: expiry, withdrawing, transferring, depositing, paying premiums, borrowing, annualizing, or selecting benefits provided under the policy or contract, excluding mortality or morbidity events resulting in the benefits provided in their essential aspects by the terms of the policy or contract.

E. “Deposit-type *Contract*” - means contracts that do not include mortality or morbidity risks, and as specified in the Valuation Manual.

F. “Valuation Manual” - means the valuation instruction manual adopted by the NAIC, as specified in this Rule or as subsequently amended.

G. “Tail risk” - means a risk that occurs when the frequency of low probability events is higher than expected according to a normal probability distribution or when events of very large size or magnitude are observed.

H. “Health and Accident Insurance” - means contracts that include the risk of morbidity and provide protection against economic loss resulting from accidents, illnesses, or health conditions, and as specified in the Valuation Manual.

I. “Life Insurance” - means contracts that include mortality risk, including annuity contracts and pure endowment insurance contracts, and as specified in the Valuation Manual.

J. “Cash Salvage Value” or “Cash Surrender Value” - means the amount of money that is available to the contract holder upon delivery of the contract, before any net outstanding contract debt or any charges for delivery of the contract.

K. “Principles-based Valuation” - means the valuation of reserves using one or more methods, or one or more assumptions determined by the insurance company, and required to comply with Section 19 of this Rule, as specified in the Valuation Manual.

The other terms used in this Rule shall have the same meaning and scope as provided in the Puerto Rico Insurance Code.

SECTION 6. - GENERAL PROVISIONS

A. Policies and contracts issued before January 1, 2017

1. The Commissioner shall annually assess, or have assessed, the liability reserve (hereinafter referred to as reserves) for all life insurance policies and annuity and pure endowment insurance contracts in force of every life insurance company doing business in Puerto Rico issued on or after January 1, 1978, and before January 1, 2017. In calculating reserves, the Commissioner may use group methods and approximate averages for fractions of a year, or other methods. Instead of the reserve valuation of an insurance company

foreigner insurance company herein required, the Commissioner may accept any valuation made or ordered to be made by the supervisory insurance official of any state or other jurisdiction, provided the valuation meets the minimum valuation standard provided in this Rule.

2. The provisions of Sections 8, 9, 10, 11, 12, 13, 14, 15, 16 and 17 of this Rule shall apply, where appropriate, to all policies and contracts subject to this Rule issued on or after January 1, 1978 and prior to January 1, 2017. The provisions of Sections 18 and 19 of this Rule shall not apply to such policies and contracts.

3. The minimum standard for the valuation of policies and contracts issued prior to January 1, 1978, shall be that provided for in the laws in force immediately prior to said date.

B. Policies and contracts issued on or after January 1, 2017

l. The Commissioner shall annually assess, or cause to be assessed, the reserves for all life insurance, health, and accident insurance policies, annuity contracts, pure endowment insurance contracts and *deposit-type* contracts in force of every insurance company issued on or after January 1, 2017. Instead of the reserve valuation of the foreign insurance company herein required, the Commissioner may accept any valuation made or ordered to be made by the supervisory insurance official of any state or other jurisdiction, as long as that the valuation meets the minimum valuation standard provided in this Rule.

2. The provisions of Sections 18 and 19 of this Rule shall apply to all policies and contracts issued on or after January 1, 2017.

SECTION 7.- **ACTUARIAL OPINION OF RESERVES**

A. Any insurance company that has in force life, health, and accident insurance contracts or *deposit-type contracts* in Puerto Rico, subject to regulation by the Commissioner, shall annually submit the opinion of the appointed actuary as to whether the reserves and related actuarial items maintained to support the policies and contracts were properly calculated, are based on assumptions that satisfy the contractual provisions, are consistent with the amounts previously reported, and are in accordance with the amounts previously reported and comply with the applicable laws of Puerto Rico. The Valuation Manual will provide the specific details of this opinion, including any items that are understood to be necessary to fulfill the scope of the opinion.

B. Actuarial analysis of reserves and assets that support reserves:

Every insurance company with existing life, health, and accident insurance contracts or *deposit-type* contracts in Puerto Rico, subject to regulation by the Commissioner, except as exempted in the Valuation Manual, shall also include annually in the opinion required in subsection (A) above, an opinion of the appointed actuary as to whether the reserves and related actuarial items maintained to support the policies and contracts specified in the Valuation Manual, when considered in light of the assets held by the insurance company with respect to the reserves and related actuarial items, including but not limited to the investment income from the assets and the income anticipated to be received and retained from the policies and contracts, are adequate to meet the obligations under the policies and contracts, including but not limited to the benefits and expenses associated with the policies and contracts.

C. Any actuarial opinion subject to the provisions of subsection (B) of this section must comply with the following:

1. A memorandum in support of each actuarial opinion, prepared in the form and with the content specified in the valuation Manual, acceptable to the Commissioner.
2. If the insurance company fails to submit an explanatory memorandum upon request by the Commissioner within the time specified in the Valuation Manual, or the Commissioner determines that the explanatory memorandum provided by the insurance company does not meet the standards set forth in the Valuation Manual or is otherwise not acceptable to the Commissioner, the Commissioner may hire a qualified actuary, at the expense of the insurance company, to review the opinion and grounds of the opinion and to prepare an explanatory memorandum required by the Commissioner.

D. Any opinion subject to the provisions of this section must comply with the following provisions:

1. The opinion shall be presented in the form and with the content specified in the

Valuation Manual acceptable to the Commissioner.

2. The opinion will be presented with the annual report and will reflect the reserve valuation for each year ended on or after January 1, 2017.
3. The opinion shall be applicable to all policies and contracts subject to subsection (B) of this section and to all other actuarial liabilities specified in the Valuation Manual.
4. The opinion shall be based on the standards adopted from time to time by the *Actuarial Standards Board* or its successor entity, and any additional standards set forth in the Valuation Manual.
5. In the case of an opinion required to be submitted by a foreign insurance company, the Commissioner may accept the opinion submitted by the insurance company to the supervisory insurance official of another State, if the Commissioner determines that the opinion reasonably complies with the requirements applicable to insurance companies domiciled in Puerto Rico.
6. Except in cases of fraud or misconduct, the appointed actuary shall not be liable for damages to any person, other than the insurance company and the Commissioner, by reason of any act, error, omission, decision or conduct with respect to the opinion of the appointed actuary.

SECTION 8. - COMPUTATION OF THE MINIMUM STANDARD FOR VALUATION

Except as provided in Sections 9, 10, and 17 of this Rule, the minimum standard for the valuation of policies and contracts issued prior to January 1, 1978, shall be that provided by the laws and rules in effect immediately prior to said date. Except as provided in Sections 9, 10, and 17 of this Rule, the minimum standard for the valuation of policies and contracts issued prior to January 1, 1978, will be the reserve valuation methods of the commissioner as established in Sections 11, 12, 15, and 17 of this Rule, five and one-half percent (5 1/2%) interest for single premium life insurance policies, four and one-half percent (4 1/2%) interest for all other policies, and the following tables:

A. For any ordinary life insurance policy issued to cover a normal risk, excluding any disability and accidental death benefits on said policies, the Commissioners 1958 Standard Ordinary Mortality Table for those policies issued on or after January 1, 1978, but prior to the operative date of Subsection G of Section 22 of this Rule, Nonforfeiture Rule for Life Insurance. Provided, that for any class of such policies issued to female risks, all modified net premiums and present values referred to in this Rule may be calculated according to an age which is not less than the actual age of the insured person by more than six (6) years, and for all such policies issued on or after the operative date of Subsection G of Section 22 of this Rule,

(1) the Commissioners 1980 Standard Ordinary Mortality Table, or

(2) at the option of the insurance company for one or more specific life insurance plans, the Commissioners 1980 Standard Ordinary Mortality Table with Ten-Year Select Mortality Factors, or

(3) any ordinary mortality table adopted after 1980 by the NAIC and approved by regulation promulgated by the commissioners to be used for determining the minimum valuation standard for said policies.

B. For any industrial life insurance policy issued, on or after January 1, 1978, to cover a normal risk, excluding any disability and accidental death benefits on said policies, the Commissioners 1961 Standard Industrial Mortality Table, or any industrial mortality table adopted by the NAIC after 1980 and approved by the Commissioner for use in determining the minimum valuation standard for such policies.

C. For total and permanent disability benefits in or supplementary to ordinary policies or contracts: for policies or contracts issued on or after January 1, 1978, the tables of Period 2 disablement rates and the 1930 to 1950 termination rates of the 1952 Disability Study of the Society of Actuaries, with due regard to the type of benefit or any tables of disability rates and termination rates adopted after 1980 by the NAIC, that are approved by regulation promulgated by the Commissioner for use in determining the minimum standard of valuation for those policies. To determine active life reserves, the above tables should be combined with a mortality table permitted for calculating life insurance policy reserves.

D. For accidental death benefits on or supplementary to policies issued on or after January 1, 1978, the 1959 Accidental Death Benefits Table or any Accidental Death benefits table adopted after 1980 by the NAIC that is approved by the Commissioner for use in determining the minimum valuation standard for such policies. Said table will be combined with an approved mortality table for calculating life insurance policy reserves.

E. For group life insurance, life insurance issued on a substandard basis, and other special benefits, said tables as may be approved by the Commissioner.

SECTION 9. - COMPUTATION OF THE MINIMUM VALUATION STANDARD FOR ANNUITY CONTRACTS

A. Except as otherwise provided in Section 10 of this Rule, the minimum valuation standard for all individual annuity and pure endowment insurance contracts issued on or after January 1, 1978, and for all annuities and pure endowment insurances purchased on or after said date under group annuity and pure endowment contacts, shall be the commissioners reserve valuation methods as defined in Sections 11 and 12 of this Rule, and the following tables and interest rates:

(]) For individual single premium immediate annuity contracts, excluding any disability and accidental death benefits in those contracts, the 1971 Individual Annuity Mortality Table or any individual annuity mortality table adopted after 1980 by the NAIC that is approved by the Commissioner for use in determining the minimum standard for standard for such contracts, or any modification of these tables approved by the commissioner, and seven and one-half percent (7 1/2%) interest.

(2) For individual annuity and pure endowment contracts, other than single premium immediate annuity contracts, excluding any disability and accidental death benefits in those contracts, the 1971 Individual Annuity Mortality Table or any individual annuity mortality table adopted after 1980 by the NAIC, that is approved by regulation promulgated by the commissioner for use in determining the minimum standard of valuation for those contracts, or any modification of these tables approved by the Commissioner, and five and one-half percent (5 1/2%) interest for single premium deferred annuities and

pure endowment insurance contracts, and four and one-half percent (4 1/2%) interest for all other individual annuity and pure endowment insurance contracts.

(3) For all annuities and pure endowment insurances purchased under group annuity and pure endowment contracts, excluding any disability or accidental death benefits purchased in accordance with such contacts, the 1971 Group Annuity Mortality Table, or any other group annuity mortality table adopted by the NAIC after 1980 and approved by the Commissioner for use in determining the minimum valuation standard for such annuities and pure endowment insurance, or any modification of these tables approved by the Commissioner, and seven and one-half percent (7 1/2%) interest.

SECTION 10. - COMPUTATION OF THE MINIMUM VALUATION STANDARD ACCORDING TO THE CALENDAR YEAR OF ISSUANCE

A. Interest rates used to determine the minimum valuation standard for the following policies and contracts, shall be the statutory valuation interest rates for the calendar year as set forth in this Section:

(1) All life insurance policies issued in a given calendar year as of the operative date of Subsection G of Section 22 of this Rule;

(2) All individual annuity and pure endowment insurance contracts issued in a given calendar year on or after January 1, 1982;

(3) All annuities and pure endowment insurances purchased in a given calendar year on or after January 1, 1982, under group annuity and pure endowment insurance contracts; and

(4) the net increase, if any, in a given calendar year as of January 1, 1982, in the amounts reserved under guaranteed interest contracts.

B. Statutory valuation interest rates for the calendar year

(1) The following formulas will be used to determine the statutory valuation interest rates for the calendar year, and the result will be rounded to the nearest quarter of one percent (1/4 of 1%):

(a) For life insurance:

$$I = .03 + W \cdot (R_1 - .03) + \frac{W}{2} \cdot (R_2 - .09)$$

(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 RI is the smaller of *R* and .09,

R2 is the greater of *R* and .09,

R is the reference interest rate as defined in this Section,

W is the weighting factor as 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 paragraph (b) above, the formula for life insurance stated in paragraph (a) above shall apply to annuities and guaranteed interest contracts with guarantee durations in excess of ten (10) years, and the formula for single premium immediate annuities stated in paragraph (b) above shall apply to annuities and guaranteed interest contracts with guarantee duration of ten(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 paragraph (b) above shall apply.

(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 paragraph (b) above.

(2) However, if the calendar year statutory valuation interest rate for a life insurance policy 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 one-half of one percent (1/2 of 1%), the calendar year statutory valuation interest rate for the life insurance policies shall 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 shall be determined for 1980 (using the reference interest rate defined in 1979) and shall be determined for each subsequent calendar year regardless of when Subsection (G) of Section 22 of this Rule becomes effective.

C. Weighting factors

(1) The weighting factors in the aforementioned formulas are provided in the following tables:

(a) Weighting factors for life insurance:

Term of the warranty duration (Years)	Weighting factors
10 or less	.50
More than 10, but not more than	.45
20 More than 20	.35

For life insurance, the guarantee 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 which are guaranteed in the original policy;

(b) 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:

.80

(c) Weighting factors for other annuities and for guaranteed interest contracts, except as stated in paragraph (b) above, shall be as specified in items (i), (ii) and (iii) below, according to the rules and definitions in items (iv), (v) and (vi) below:

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

Term of the warranty duration (Years)	Weighting Factor for Types of Plans		
	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

	Type of Plan		
	A	B	C
(ii) For annuities and contracts with interests guaranteed valued on the basis of changes in the fund, the factors in item (i) above increased by:	.15	.25	.05

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

(iv) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, the guarantee 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 guarantee duration in excess of twenty (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) The “Type of Plan”, as used in the tables above, is defined as follows:

Plan Type A: The policyholder may withdraw funds at any time, but only: (1) with an adjustment to reflect changes in interest rates or asset values since receipt of the funds by the insurance company, or (2) without an adjustment but installments over five (5) years or more, or (3) as an immediate life annuity, or (4) no withdrawal permitted.

Plan Type B: Before expiration of the interest rate guarantee, policyholder may withdraw funds, but only: (1) with an adjustment to reflect changes in interest rates or asset values since receipt of the funds by the insurance company, or (2) without an adjustment but in installments over five (5) years or more, or (3) no withdrawal permitted. At the end of interest rate guarantee, funds may be withdrawn without an adjustment in a single sum or installments over less than five (5) years.

Plan Type C: Policyholder may withdraw funds before expiration of interest rate guarantee in a single sum or installments over less than five (5) years either, (1) without adjustment to reflect changes in interest rates or asset values since receipt of the funds by the insurance company, or (2) subject only to a fixed surrender charge stipulated in the contract as a percentage of the fund.

(vi) An insurance company may choose 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 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.

D. Reference interest rate

(1) The reference interest rate referred to in subsection B of this section shall be defined as follows:

(a) For all life insurance, the lesser of the average over a period of thirty-six (36) months and the average over a period of twelve (12) months, ending on June 30 of the calendar year preceding the year of issue, of the monthly average of the composite yield on seasoned corporate bonds, 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 twelve (12) months, ending on June 30 of the calendar year of issue or year of purchase, of the monthly average of the composite yield on seasoned corporate bonds, as published by Moody’s Investors Service, Inc.

(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 paragraph (b) with guarantee duration in excess of ten (10) years, the lesser of the average over a period of thirty-six(36) months and the average over a period of twelve (12) months, ending on June 30 of the calendar year of issue or purchase, of the monthly average of the composite yield on seasoned corporate bonds, as published by Moody’s

Investors Service, Inc.

(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 Subparagraph (b) above, with guarantee duration of ten (10) years or less, the average over a period of twelve (12) months, ending on June 30 of the calendar year of issue or purchase, of the monthly average of the composite yield on seasoned corporate bonds, as published by Moody's Investors Service, Inc.

(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 twelve (12) months, ending on June 30 of the calendar year of issue or purchase, of the monthly average of the composite yield on seasoned corporate bonds, as published by Moody's Investors Service, Inc.

(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 paragraph (b) above, the average over a period of twelve (12) months, ending on June 30 of the calendar year of the change in the fund, of the monthly average of the composite yield on seasoned corporate bonds, as published by Moody's Investors Service, Inc.

E. Alternative Method for Determining Reference Interest Rates.

In the event that the monthly average of the composite yield on seasoned corporate bonds is no longer published by Moody's Investors Service, Inc. or in the event that the NAIC determines that the monthly average of the composite yield on seasoned corporate bonds 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 adopted by the NAIC and approved the commissioner may be used.

SECTION 11. - RESERVE VALUATION METHOD LIFE AND ENDOWMENT INSURANCE BENEFITS

A. Except as otherwise provided in Sections 12, 15, and 17 of this Rule, reserves according to the Commissioner's reserve valuation method for the life insurance and endowment benefits of policies providing for a uniform amount of insurance and requiring the payment of uniform premiums shall be equal to the excess, if any, of the present value, at the date of valuation, of the future guaranteed benefits provided for by those policies, over the then present value of any future modified net premiums therefore. The modified net premiums for said policies. The modified net premiums for a policy shall be the uniform percentage of the respective contract the premiums for the benefits such that the present value, at the date of issue of the policy, of all modified net premiums shall be equal to the sum of the then present value of the benefits provided for by the policy and the excess of (1) over (2), as follows:

(1) A net level annual premium equal to the present value, at the date of issue, of the benefits provided for after the first policy year, divided by the present value, at the date of issue, of an annuity of one per annum payable on the first and each subsequent anniversary of the policy on which a premium becomes due. Provided, however, that the net level annual premium shall not exceed the net level annual premium on the nineteen-year premium whole life plan for insurance of the same amount at an age one year higher than the age at issue of the policy.

(2) A net one-year term premium for the benefits provided for in the first policy year.

B. Except as otherwise provided in Section 15 of this Rule, for any life insurance policy issued on or after January 1, 1985, for which the contract premium in the first policy year exceeds the premium in the second policy year, and for which no additional comparable benefit is provided in the first policy year for such excess and which provides an endowment insurance benefit or cash surrender value or a combination thereof in an amount greater than the excess premium, the reserve in accordance with the Commissioners reserve calculation method for any anniversary of the policy that takes place on or before the assumed termination date, here shall define how the first anniversary of the policy in which the sum of any endowment insurance benefit or any cash surrender value, then available, is greater than the excess premium will be the greater amount between the reserve on the policy anniversary date, calculated as described in the subsection A above, and the reserve on the policy anniversary date, calculated a described in the paragraph above, but (1) the value defined in item (1) of that paragraph being reduced by fifteen percent (15%) of the amount of such excess of the first year's premium, (2) all present values of benefits and premiums being determined without reference to premiums or benefits provided for by the policy after the assumed ending date, (3) the policy being assumed to mature on that date as an endowment, and (4) the cash surrender value provided at that date is considered an as endowment benefit. The mortality and interest bases indicated in Sections 9 and 10 of this Rule will be used to make the comparison.

C. Reserves in accordance with the commissioners’ reserve valuation method shall be calculated by a method consistent with the principles set forth in the preceding subsections of this section for:

(1) Life insurance policies that provide a varying amount of insurance or require payment of varying premiums;

(2) Group pure endowment annuity contracts purchased under a retirement plan or deferred compensation plan established or maintained by an employer (including a partnership or individual employer) or by an employee organization, or by both, other than a plan that provides for individual retirement accounts or individual retirement annuities;

(3) Disability and accidental death benefits on all policies and contracts; and

(4) All other benefits, except life insurance and endowment benefits in life insurance policies and benefits provided by all other annuity and pure endowment contracts.

SECTION 12. - RESERVE VALUATION METHOD - ANNUITY CONTRACT AND PURE ENDOWMENT INSURANCE BENEFITS

A. This section shall apply to all annuity and pure endowment contracts other than group annuity and pure endowment contracts purchased under a retirement plan or plan of deferred compensation, established or maintained by an employer (including a partnership or sole proprietorship) or by an employee organization, or by both, other than a plan providing individual retirement accounts or individual retirement annuities under Section 408 of the Internal Revenue Code, as now or hereafter amended.

B. Reserves according to the Commissioner’s annuity reserve method for benefits under annuity or pure endowment contracts, excluding any disability and accidental death benefits in the contracts, shall be the greatest of the respective excesses of the present values, at the date of valuation, of the future guaranteed benefits, including guaranteed nonforfeiture benefits, provided for by the contracts at the end of each respective contract year, over the present value, at the date of valuation, of any future valuation considerations derived from future gross considerations, required by the terms of the contract, that become payable prior to the end of the respective contract year. The future guaranteed benefits shall be determined by using the mortality table, if any, and the interest rate, or rates, specified in the contracts for determining guaranteed benefits. The valuation considerations are the portions of the respective gross considerations applied under the terms of the contracts to determine nonforfeiture values.

SECTION 13. - MINIMUM RESERVES

A. In no event shall the amount of the insurance company's aggregate reserves for all life insurance policies, excluding disability and accidental death benefits, issued on or after January 1, 1978, be less than the value of aggregate reserves calculated in accordance with the methods set forth in Sections 11, 12, 15 and 16 of this Rule and the mortality table or tables and the interest rate or rates used to calculate the nonforfeiture benefits for the policies.

B. In no event shall the aggregate reserves for all policies, contracts and benefits be less than the aggregate reserves determined by the qualified appointed actuary to be necessary to render the opinion required by Section 7 of this Rule.

SECTION 14.- OPTIONAL CALCULATION OF RESERVES

A. Reserves for policies and contracts issued prior to January 1, 1978, may be calculated, at the option of the insurance company, according to any standards that produce greater aggregate reserves for all such policies and contracts than the minimum reserves required by the laws in effect immediately prior to that date.

B. The reserves established by the Commissioner for any class of policies, contracts or benefits issued on or after January 1, 1978, may be calculated, at the option of the insurance company, in accordance with any standard which produces aggregate reserves for such classes of policies and contracts greater than those calculated in accordance with the minimum standards set forth in this Rule, but the interest rate or rates used for policies and contracts, other than annuity and pure endowment contracts, shall not be greater than the corresponding interest rate or rates used to calculate any nonforfeiture benefits provided in the policies or contracts.

C. Any insurance company adopting a valuation standard at any time, which produces aggregate reserves greater than those calculated in accordance with the minimum standard set forth in this Rule, may, with the approval of the Commissioner, adopt a lower valuation standard, but such standard may not be less than the minimum provided in this Rule. Provided that, for purposes of this section, the maintenance of additional reserves previously determined by the appointed actuary to be necessary to render the opinion required by Section 7 of this Rule shall not be construed as the adoption of a higher valuation standard.

SECTION 15.- CALCULATION OF RESERVES-VALUATION OF NET PREMIUM IN EXCESS OF GROSS PREMIUM COLLECTED

If in any contract year the gross premium charged by a life insurance company on a policy or contract is less than the valuation net premium for the policy or contract calculated by the method used in calculating the reserve but using the minimum valuation standards of mortality and rate of interest, the minimum reserve required for the policy or contract shall be the greater of either the reserve calculated according to the mortality table, rate of interest, and method actually used for the policy or contract, or the reserve calculated by the method actually used for the policy or contract but using the minimum valuation standards of mortality and rate of interest and replacing the valuation net premium by the actual gross premium in each contract year for which the valuation net premium exceeds the actual gross premium. The minimum mortality and interest rate valuation standards referred to in this section are those set forth in Sections 9 and 10 of this Rule.

For life insurance policies issued on or after January 1, 1985, for which the gross premium in the first policy year exceeds the gross premium in the second policy year and for which no additional benefit comparable to such excess is provided in the first policy year and which provide an endowment benefit or cash surrender value or a combination of both in an amount greater than the excess premium, the provisions of this section shall apply as if the method actually used to calculate the policy reserve were the method described in Section 11 of this Rule, without regard to subsection (B) of said Section. The minimum reserve on each policy anniversary shall be the greater of the minimum reserve calculated in accordance with Section 11 of this Rule, including subsection (B) of the aforementioned section, and the minimum reserve calculated in accordance with this section.

SECTION 16.- CALCULATION OF RESERVES - UNDETERMINED PREMIUM PLANS

In the case of a life insurance plan which provides for the determination of future premiums, the amounts of which shall be determined by the insurance company on the basis of estimates of future experience, or in the case of a life insurance or annuity plan which is of such a nature that minimum reserves cannot be determined by the methods described in Sections 11, 12 and 15 of this Rule, the reserves maintained under such plan shall:

(1) Be adequate in relation to the benefits and premium pattern for such plan; and

(2) They shall be calculated using a method that is consistent with the principles of this Rule, as approved by the Commissioner.

SECTION 17. - MINIMUM STANDARD FOR HEALTH AND ACCIDENT INSURANCE

For health and accident insurance issued on or after January 1, 2017, the standard set forth in the Valuation Manual shall be the minimum valuation standard required under Subsection B of Section 6 of this Rule. For disability, health, and accident insurance issued on or after January 1, 1978, but before January 1, 2017, the minimum valuation standard will be the standard adopted by the Commissioner.

SECTION 18. - VALUATION MANUAL FOR POLICIES ISSUED ON OR AFTER JANUARY 1, 2017

A. For policies issued on or after January 1, 2017, the standard provided in the Valuation Manual shall be the minimum valuation standard required in Subsection B of Section 6 this Rule, except as provided in paragraphs C or E of this Rule.

B. Unless a change to the Valuation Manual specifies a later effective date, changes to the Valuation Manual shall become effective on January 1 following the date on which the change to the Valuation Manual has been adopted by the NAIC by an affirmative vote representing at least three-fourths (3/4) of the votes cast by NAIC members voting, but not less than a majority of the total NAIC membership, and by NAIC members representing jurisdictions with more than seventy-five percent (75%) of the direct premium written as reported in the most recent annual reports of life, accident, and health insurance, health insurance and fraternal societies, which were available before the vote was taken.

C. In the absence of a specific valuation requirement or if in the opinion of the Commissioner any specific valuation requirement in the Valuation Manual does not comply with the provisions of this Rule, the insurance company shall, with respect to such requirements, comply with such minimum valuation standards as may be prescribed by the Commissioner.

D. The Commissioner may engage a qualified actuary, to be paid by the insurance company, to conduct an actuarial examination of the insurance company and render an opinion as to whether the assumptions or method used by the insurance company for any reserve are adequate, or to review and render an opinion as to the compliance of the insurance company with any requirement set forth in this Rule. With respect to the provisions of this Rule, the Commissioner may rely on the opinion of a qualified actuary engaged by the Commissioner of another State, district, or territory of the United States.

E. The Commissioner may require the insurance company to change any assumption or method which in the opinion of the Commissioner is necessary to comply with the requirements of the Valuation Manual or this Rule, and the insurance company shall adjust the reserves as required by the Commissioner.

SECTION 19. - REQUIREMENTS FOR PRINCIPLE-BASED VALUATION

A. An insurance company shall establish reserves for policies or contracts, as specified in the Valuation Manual, using principles-based valuation that meets the following conditions:

(1) The benefits and guarantees, and the fund, associated with the contracts and their risks will be quantified at a level of conservatism that reflects conditions that include unfavorable events with a reasonable probability of occurring during the term of the contract. For policies or contracts with significant tail risk, adequately adverse conditions will be reflected to quantify the tail risk.

(2) It will include assumptions, risk analysis methods, and financial models and

management techniques that are consistent, but not necessarily identical, with those used within the overall risk assessment process of the insurance company, while recognizing possible differences in financial reporting structures and any assumptions or methods provided.

(3) Assumptions obtained in one of the following ways will be included:

(a) The assumption is set forth in the Valuation Manual.

(b) For assumptions not provided for in the Valuation Manual, such assumptions shall be established using the available experience of the insurance company, to the extent such experience is relevant and statistically valid, or where there is no relevant or statistically valid information available on the insurance company, other relevant and statistically valid experience shall be used.

(4) Uncertainty margins will be provided to include adverse deviation and estimation errors, so that the greater the uncertainty, the greater the margin and the resulting reserve.

B. An insurance company using a principles-based valuation for one or more of the policies or contracts subject to this section, as specified in the Valuation Manual, shall:

(1) Establish procedures for corporate governance and oversight of the actuarial valuation consistent with those described in the Valuation Manual.

(2) Provide the Commissioner and its board of directors with an annual certification of the effectiveness of its internal controls with respect to principles-based assessment. Such controls shall be designed to ensure that any material risks inherent in the related liabilities and assets subject to such valuation are included in the valuation, and that valuations are made in accordance with the Valuation Manual. The certification shall be made with respect to the controls established at the end of the preceding calendar year.

(3) Develop and file with the Commissioner, at his request, a principles-based valuation report that meets the standards set forth in the Valuation Manual.

C. The principles-based valuation may include a reserve component based on a fixed formula.

SECTION 20. - EXPERIENCE REPORT FOR POLICIES ISSUED ON OR AFTER JANUARY 1, 2017

An insurance company shall report experience with respect to mortality, morbidity, policyholder behavior or expenses, and other information, as provided in the Valuation Manual.

SECTION 21.- CONFIDENTIALITY

A. For the purposes of this section, "confidential information" shall refer to:

(1) An explanatory memorandum in support of the actuarial opinion rendered pursuant to Section 7 of this Rule and any other documents, materials and other information, including, but not limited to, all worksheets or papers, and copies thereof, created, produced, or obtained by, or disclosed to, the Commissioner or any other person in connection with such memorandum;

(2) All documents, materials, and other information, including, but not limited to, all worksheets or papers, and copies thereof, created, produced, or obtained by, or disclosed to the Commissioner or any other person in the course of an examination conducted pursuant to paragraph (D) of Section 18 of this Rule; provided, however, that if the examination report or other material prepared in connection with the examination conducted pursuant to the Code is not understood to be private and confidential information within the meaning of the Code, the examination report or other material prepared in connection with the examination conducted pursuant paragraph (D) of Section 18 of this Rule shall not be deemed to be "Confidential Information" to the same extent as if such report and other material had been prepared in accordance with the Code;

(3) Any reports, documents, materials and other information developed by a company in support of, or in connection with, an annual certification by the company under paragraph B(2) of Section 19 of this Act evaluating the effectiveness of the company's internal controls with respect to a principle-based valuation and any other documents, materials and other information, including, but not limited to, all working papers, and copies thereof, created, produced or obtained by or disclosed to the commissioner or any other person in connection with such reports, documents, materials and other information;

(4) Any report of a principles-based valuation prepared pursuant to

paragraph B(3) of Section 19 of this Rule and any other documents, materials and other information, including, but not limited to, all worksheets and working papers and copies thereof, created, produced or obtained by, or disclosed to, the Commissioner or any other person in connection with such report; and

(5) Any documents, materials, data and other information submitted by an insurance company pursuant to Section 20 of this Rule (collectively, “experience information”) and any other documents, materials, data and other information, including, but not limited to, all worksheets or documents created or produced in connection with such experience information, in each case which includes any information that might identify the insurance company or any other person, provided or obtained by the Commissioner (together with any “experience information”, “experience material”) and any other document, material, data or other information, including, but not limited to, all work sheets or documents and copies thereof, created, produced, obtained by, or disclosed to the Commissioner or any other person in connection with such experience materials.

B. Privilege and Confidentiality of the Confidential Information

(1) Except as provided in this section, the Confidential Information of the insurance company is confidential and privileged, and shall not be subject to public inspection, subpoenas, and discovery of evidence, nor shall it be admissible as evidence in any private civil case; provided, however, that the Commissioner is authorized to use the Confidential Information in any legal proceeding against the insurance company in the performance of the Commissioner's official duties.

(2) Neither the Commissioner nor any other person receiving any Confidential Information, while acting under the authority of the Commissioner, shall be permitted or required to give testimony in any private civil case relating to any Confidential Information.

(3) In the performance of his or her duties, the Commissioner may share Confidential Information with (a) other state, federal, and international regulatory agencies and with the NAIC and its affiliates and subsidiaries, and (b) in the case of Confidential Information specified in Subsections A(1) and (4) of this Section only, the *Actuarial Board*

for Counseling and Discipline or its successor, upon its request that the Confidential Information is required for a professional disciplinary proceeding and with state, federal, and international law enforcement officials; provided that the entity receiving such information has the legal authority to agree and agrees to maintain the confidentiality and privileged status of such documents, materials, data and other information in the same manner and to the same extent as required of the Commissioner.

(4) The Commissioner may receive documents, materials, data, and other information, including otherwise confidential and privileged documents, materials, data or information, from the NAIC and its affiliates and subsidiaries, regulatory officials or law enforcement officials of other jurisdictions, and the *Actuarial Board for Counseling and Discipline* or its successor, and shall maintain as confidential or privileged any document, material, data or other information received with notice or understanding that the same is confidential or privileged under the laws of the jurisdiction of origin of the document, material or other information.

(5) The Commissioner may make agreements on how information is shared and used that are consistent with this Subsection.

(6) No waiver of any applicable privilege or claim of confidentiality with respect to the Confidential Information shall result from disclosure to the Commissioner under this section or from the sharing of such information as authorized in the preceding subsection (3).

(7) The privilege that is established by law in any state or jurisdiction that is substantially similar to the privilege set forth in this subsection shall be asserted and available in any litigation and court in Puerto Rico.

(8) In this Section the terms “regulatory agency”, “law enforcement agency” and “NAIC” include, but are not limited to, the employees, agents, consultants, and contractor thereof.

C. Notwithstanding the provisions of subsection B above, any Confidential Information specified in paragraphs A(1) and (4):

(1) May be subject to subpoena for the purpose of defending an action in damages against the appointed actuary who filed the explanatory memorandum of the opinion

opinion submitted in accordance with Section 7 of this Rule or a principles-based valuation report prepared in accordance with paragraph B(3) of Section 19 of this Rule, due to an action required by this Rule;

(2) may be disclosed by the Commissioner with the written consent of the insurance company; and

(3) Once any part of the explanatory memorandum of the actuarial opinion submitted pursuant to Section 7 of this Rule or of the principles-based valuation report prepared pursuant to Subsection B(3) of Section 19 of this Rule, by the insurance company in its marketing or is offered to any governmental agency voluntarily other than the Office of the Commissioner of Insurance or disclosed by the insurance company by news media, no part of such memorandum or report shall be deemed confidential.

SECTION 22. - NONFORFEITURE STANDARD FOR LIFE INSURANCE

A. Nonforfeiture benefits

In the case of policies issued on or after January 1, 1978, no life insurance policy, except as provided in subsection K, shall be surrendered or issued for surrender in Puerto Rico, unless it contains substantially the following provisions, or corresponding provisions, which in the judgment of the Commissioner are at least as favorable to the defaulting policyholder or to the one who has surrendered the policy as are the minimum requirements subsequently specified herein and which essentially comply with subsection J of this section:

(1) That, in the event the premium is not paid, the insurance company shall grant, upon proper request made not later than 60 days after the due date of the premium in arrears, a nonforfeiture benefit insurance paid off in accordance with the schedule set forth in the policy, effective on such due date, equal to the amount hereinafter specified. In lieu of such nonforfeiture benefit of the stipulated paid off insurance, the insurance company may substitute, upon appropriate request made not later than sixty (60) days after the due date of the premium in arrears, an actuarially equivalent, paid off nonforfeiture alternate benefit that provides a greater amount or a longer period of death benefits, or if applicable, a greater amount or prepayment of endowment benefits.

(2) That, upon surrender of the policy within sixty (60) days after the due date of any premium payment in arrears after premiums have been paid for at least three full years in the case of ordinary insurance, or five full years in the case of industrial insurance, the insurance company will pay, in lieu of any paid off nonforfeiture benefit, a cash surrender value equal to the amount hereinafter specified in this rule.

(3) That a given nonforfeiture benefit of paid off insurance shall be effective as provided in the policy, unless the person entitled to make such election chooses another available option not later than sixty days after the due date of the due premium.

(4) That, if the policy shall be paid off by the completion of all premium payments or shall continue under any nonforfeiture benefit of insurance which commenced on or after the third policy anniversary in the case of ordinary insurance, or the fifth policy anniversary in the case of industrial insurance, the insurance company shall pay, upon surrender of the policy, within thirty (30) days after any policy anniversary, a cash surrender value equal to the amount specified below in this rule.

(5) In the case of policies that cause unplanned changes in benefits or premiums on a guaranteed basis in the policy, or that provide an option for changes in benefits or premiums other than a change to a new policy, a change in the mortality table, interest rate, and method used to calculate cash surrender values and paid off nonforfeiture benefits available under the policy. In the case of all other policies, a statement showing the mortality table and interest rate used in computing the cash surrender values and nonforfeiture benefits of paid off insurance provided under the policy, together with a table showing the cash surrender values, if any, and nonforfeiture benefits of paid off insurance, if any, available under the policy on each policy anniversary, either during the first twenty (20) years of the policy or during the term of the policy, whichever is shorter, calculating said values and benefits on the basis of the presumption that there are no dividends or additions of paid off insurance accredited to the policy and that nothing is due to the insurance company on the policy.

(6) A statement that indicates the cash surrender values and nonforfeiture benefits of paid off insurance available under the policy will not be less than the minimum values and benefits required by or in accordance with the insurance law of the state in which the policy is issued; an explanation of the manner in which the cash surrender values and nonforfeiture benefits of paid off insurance are altered by the existence of additions to the paid off insurance accredited to the policy or by any indebtedness to the insurance company on the policy; if not included in the policy a detailed statement of the computation method of the values and benefits available under the policy; and a detailed statement should be included, stating that such computation method has been filed with the insurance examining officer of the state in which the policy is delivered; and a statement should be included on the method to be used in computing the cash surrender values and paid off nonforfeiture benefits available under the policy on any policy anniversary following the last anniversary for which such values and benefits appear consecutively in the policy.

Any of the foregoing provisions, or parts thereof, inapplicable by reason of the insurance plan, may, to the extent that they are inapplicable, be omitted from the policy.

The insurance company reserves the right to defer payment of any cash surrender value for a period of six (6) months after it has been requested upon surrender of the policy.

B. Computation of cash surrender value

(1) Any cash surrender value available under the policy in the event of default of the payment of premium due on any policy anniversary, whether or not required by subsection A of this Section, shall be an amount no less than the excess, if any, of the present value on such anniversary, of the guaranteed future benefits which would have been provided under the policy, including any existing paid off insurance additions, had there been no default in payment, over the sum of: (a) the then present value of the adjusted premiums as defined in subsections D, E, F, and G for premiums due on and after such anniversary; and (b) the amount of any indebtedness owed to the insurance company on the policy.

(2) Provided, however, that for any policy issued on or after the operative date of subsection G of this section, as determined under such subsection, which provides supplemental life insurance or annuity benefits at the option of the insured, and for an additional identifiable premium, by supplemental policy addendum or provision, the cash surrender value referred to in item (1) of this subsection shall be an amount not less than the sum of the cash surrender value, as defined in such paragraph for an otherwise similar policy issued at the same age, without such endorsement or supplemental policy provision, of the policy and the cash surrender value, as defined in such paragraph for a policy providing only the benefits otherwise provided by such an endorsement or supplemental policy provision.

(3) Provided, as well, that for any family policy issued on or after the operative date of subsection G, as determined under said subsection, which defines the primary insured and provides term insurance on the life of the spouse of the primary insured, which expires before the spouse attains the age of seventy-one (71) years; the cash surrender

value referred to in item (1) of this subsection shall be an amount no less than the sum of the cash surrender value as defined in such item for an otherwise similar policy issued at the same age without such term insurance on the life of the spouse, and the cash surrender value as defined in said paragraph for a policy providing only the benefits otherwise provided under such term insurance on the life of the spouse.

(4) Any cash surrender value available within thirty (30) days after a policy anniversary under a policy settled because all premiums have been paid off, or a policy continued under any nonforfeiture benefit. The amount of the paid off insurance proceeds, regardless of whether required by subsection A of this section, shall be an amount not less than the present value on such anniversary of the guaranteed future benefits provided under the policy, including any existing paid off insurance proceeds, less any debt to the insurance company on the policy.

C. Computation of the nonforfeiture benefit of paid off insurance

Any paid off nonforfeiture benefit available under the policy in the event of default in a premium payment due on any policy anniversary, shall be that whose present value on such anniversary is at least equal to the cash surrender value provided under the policy, or if none is provided, that cash surrender value which would have been required by this section in the absence of the condition to the effect that premiums would have been paid for at least a specified period.

D. Calculation of adjusted premiums

(1) This subsection shall not apply to policies issued on or after the operative date of subsection G of this section, as determined therein. Except as provided in item

(3) of this subsection, the adjusted premiums for any policy will be calculated on a yearly basis, and will be the same as the uniform percentage of the respective premiums specified in the policy for each year, excluding any amount stated in the policy as additional premium due to an impairment or special risk, such that the present value, as of the date of issue of the policy, of such adjusted premiums equals the sum of: (a) the then present value of future benefits guaranteed under the policy; (b) two percent (2%) of the amount of the insurance, if the amount of insurance is uniform, or of the equivalent uniform amount, as defined below, if the amount of insurance varies with the term of the policy; (c) forty percent (40%) of the adjusted premium for the first policy year (d) twenty-five percent (25%) of the adjusted premium for the first policy year, or of the adjusted premium for. a whole life policy with the same uniform amount or its equivalent with uniform premiums for life issued at the same age and for the same amount of insurance, whichever is less. Provided, however, that upon application of the percentages specified in (c) and (d) above, no adjusted premium shall be deemed to exceed four percent (4%) of the amount of the insurance or of the equivalent level amount. For purposes of this section, the date of issue of a policy shall be the date on which the age of the insured is determined for insurance purposes.

(2) In the case of a policy that provides an insurance amount that varies with the duration of the policy, the equivalent uniform amount, for purposes of this section, shall be deemed to be the uniform insurance amount provided by an otherwise similar policy containing the same endowment benefits, if any, issued to the same

age and term, the amount of which does not vary and the benefits of which have the same present value at the inception of the insurance as the benefits under the policy.

(3) The adjusted premiums for a policy that provides term insurance benefits by means of an endorsement or supplemental provision to the policy will be equal to: (a) the adjusted premiums for an otherwise similar policy issued at the same age without such term insurance benefit, increased, during the period for which premiums for such term insurance benefits are payable, by (b) the adjusted premiums for such term insurance.

Items (a) and (b) above shall be calculated separately and as specified in items (1) and (2) of this subsection, except that, for the purposes of paragraphs (b),

(c) and (d) of item (1), the insurance amount, or the equivalent uniform insurance amount used for computing the adjusted premiums referred to in (b) shall be equal to the excess of the corresponding amount determined for the entire policy over the amount used in computing the adjusted premiums in item (3)(a).

(4) Except as provided in subsections E and F of this section, in the case of ordinary policies issued on or after January 1, 1978, all adjusted premiums and present values referred to in this section shall be computed on the basis of the Commissioners 1958 Standard Ordinary Mortality Table and the interest rate specified in the policy for computing cash surrender values and nonforfeiture benefits paid off, provided that such interest rate shall not exceed five and one-half percent (5 1/2%) per year, except that for a single premium whole life insurance policy or a single premium endowment insurance policy, the interest rate shall not exceed six and one-half percent (6 1/2%) per year. Provided, furthermore, that for any ordinary insurance class issued to a female risk, the adjusted premiums and present values may be calculated according to an age that shall not be more than six years younger than the actual age of the insured person. Provided, however, that in calculating the present value of the paid off term insurance accompanied by a pure endowment insurance, if any, offered as a nonforfeiture benefit, the assumed mortality rates shall not exceed those indicated in the Commissioners 1958 Extended Term Insurance Table. Provided, further, that for the insurance

issued on a sub-normal basis, the calculations of such adjusted premiums and present values may be based on such other mortality tables as may be specified by the insurance company and approved by the Commissioner.

E. Calculation of adjusted premiums - ordinary policies

This subsection shall not apply to ordinary policies issued on or after the operative date of subsection G, as determined in that subsection. In the case of ordinary policies issued on or after January 1, 1978, all adjusted premiums and values referred to in this section, shall be calculated on the basis of the Commissioners 1958 Standard Ordinary Mortality Table, the interest rate specified in the policy for calculating the cash surrender values and nonforfeiture benefits of paid off insurance, provided that such interest rate shall not exceed five and one-half percent (5 1/2%) per year, except that for a single premium whole life policy or a single premium endowment insurance policy, the interest rate shall not exceed six and one-half percent (6 1/2%) per year. Provided, that for any ordinary insurance class issued to a female risk, the adjusted premiums and present values may be calculated according to an age that shall not be more than six years younger than the actual age of the insured person. Provided, however, that in calculating the present value of the paid off term insurance accompanied by a pure endowment insurance, if any, offered as a nonforfeiture benefit, the assumed mortality rates shall not exceed those indicated in the Commissioners 1958 Extended Term Insurance Table. Provided, furthermore, that for insurances issued on a sub-normal basis, the calculations of said adjusted premiums and present values may be based on such other mortality tables as may be specified by the insurance company and approved by the Commissioner.

F. Calculation of adjusted premiums - industrial policies

This subsection shall not apply to industrial policies issued on or after the operative date of subsection G, as determined in that subsection. In the case of industrial policies issued on or after January 1, 1978, all adjusted premiums and present values referred to in this section shall be computed on the basis of the Commissioners 1961 Standard Industrial Mortality Table, the interest rate specified in the policy for calculating cash surrender values and nonforfeiture benefits of paid off insurances, provided that such interest rate shall not exceed five and one-half percent (5 1/2%) per year, except that for a single premium whole life policy or single premium endowment policy, the interest rate shall not exceed six and one-half percent (6 1/2%) per year. Provided, however, that in calculating the present value of the paid off term insurance accompanied by a pure endowment insurance, if any, offered as a nonforfeiture benefit, the assumed mortality rates shall not exceed those indicated in the Commissioners 1961 Industrial Extended Term Insurance Table. Provided, furthermore, that for insurances issued on a sub-normal basis, the calculations of said adjusted premiums and present values may be based on such other mortality tables as may be specified by the insurance company and approved by the Commissioner.

G. Calculation of premiums adjusted by level net method premium of nonforfeiture

(1) This section shall apply to all policies issued on or after the operative date of this subsection as determined herein. Except as provided in item (7) of this section, the adjusted premiums for any policy shall be computed on an annual basis and shall be that uniform percentage of the corresponding premiums specified in the policy for each policy year, excluding amounts payable as additional premiums to cover special perils or impairments and excluding, also, any uniform annual contract charge or policy fee specified in the policy in an exhibit to the method to be used to calculate the cash surrender values and nonforfeiture benefits of paid off insurance so that the present value on the date of issue of the policy of all adjusted premiums shall be equal to the sum of: (a) the then present value of the guaranteed future benefits provided by the policy; (b) one percent (1%) of the amount of insurance if the amount of insurance is uniform or the average amount of insurance at the beginning of each of the first ten policy years; and (c) one hundred twenty-five percent (125%) of the level net nonforfeiture premium as defined below.

Provided, however, that in applying the percentages specified above in (c), no level net nonforfeiture premium shall be deemed to exceed four percent (4%) of the amount of the insurance if the amount of the insurance is uniform or of the average amount of insurance at the beginning of each of the first ten policy years. The date of issue of a policy for the purposes of this subsection shall be the date by which the rated age of the insured is determined.

(2) The level net nonforfeiture premium will be equal to the present value as of the policy issue date of the guaranteed benefits provided under the policy divided by the present value as of the policy issue date of an annuity of one per year, payable on the policy issue date and each policy anniversary on which a premium is due.

(3) In the case of policies that cause unplanned changes in benefits or premiums on a guaranteed policy basis, or that provide an option for changes in benefits or premiums other than a change to a new policy, the adjusted premiums and present values will be calculated initially on the assumption that future benefits and premiums will not change from those provided at the date of issue of the policy. At the time of such a change in benefits or premiums, future adjusted premiums, level net nonforfeiture premiums and present values will be recomputed on the presumption that future benefits and premiums will not change from those provided by the policy immediately following the change.

(4) Except as otherwise provided in item (7) of this subsection, the adjusted future premiums recalculated for any such policy shall be that uniform percentage of the corresponding future premiums specified in the policy for each policy year, excluding amounts payable as additional premiums to cover disabilities and special risks, and also excluding any uniform annual contract charge or policy fee specified in the policy in an exhibit to the method to be used to calculate the cash surrender value and nonforfeiture benefits of paid off insurance, that the present value, at the time of the change to the newly defined benefits or premiums, of all such adjusted future premiums, shall be equal to the excess of (a) the sum of: (i) the then present value of guaranteed future benefits provided under the policy, and (ii) the allowance for additional expenses, if any, on (b) the then current cash surrender value, if any, or the present value of any nonforfeiture benefits paid off under the policy.

(5) The allocation of additional expenses at the time of switching to benefits or

newly defined premiums will be the sum of: (a) one percent (1%) of the excess, if positive, of the average amount of insurance at the beginning of each of the first ten policy years subsequent to the change over the average amount of insurance prior to the change at the beginning of each of the first ten policy years subsequent to the time of the most recent prior change or if there was no prior change, the date of issue of the policy; and (b) one hundred twenty-five percent (125%) of the increase, if positive, in the leveled net nonforfeiture premium.

(6) The newly computed net nonforfeiture premium will be equal to the result obtained by dividing (a) by (b), where

(a) it is equal to the sum of:

(i) the net level nonforfeiture premium applicable before the change for the present value of an annuity of one per year payable on each policy anniversary, on or after the date of the change on which a premium would have become due if the change had not occurred, and

(ii) the present value of the increase in guaranteed future benefits provided under the policy, and

(b) is equal to the present value of an annuity of one per year payable on each policy anniversary, on or after the date of the change, on which a premium is due.

(7) Notwithstanding any other provisions of this subsection to the contrary, in the case of a policy issued on a subnormal basis which provides reduced amounts of insurance so that, in each policy year, such policy has the same tabular mortality cost as an otherwise similar policy issued on a normal basis which provides higher uniform amounts of insurance, the adjusted premiums and present values for such subnormal policies may be calculated as if they had been issued to provide such higher uniform amounts of insurance on the normal basis.

(8) All modified premiums and present values referred to in this section shall be calculated for all ordinary insurance policies on the basis of (i) the Commissioners 1980 Standard Ordinary Mortality Table, or (ii) at the option of the insurance company for one or more specified life insurance plans, the Commissioners 1980 Standard Ordinary Mortality Table with Ten-Year Selected Mortality

Factors; shall be calculated for all industrial insurance policies on the basis of the Commissioners 1961 Standard Industrial Mortality Table; and shall be calculated for all policies issued in a particular calendar year on the basis of an interest rate not greater than the nonforfeiture rate as defined in this subsection for policies issued in that calendar year. Provided, however, that:

(a) At the option of the insurance company, calculations for all policies issued in a particular calendar year may be made on the basis of an interest rate that is no greater than the nonforfeiture interest rate, as defined in this subsection, for policies issued in the immediately preceding calendar year.

(b) Under any nonforfeiture benefit of paid off insurance, including any dividend additions of paid off insurance, any available cash surrender value, regardless of whether required by subsection A of this section shall be calculated on the basis of the mortality table and interest rate used to determine the amount of such paid off insurance nonforfeiture benefit and paid off insurance dividend additions, if any.

(c) An insurance company may calculate the amount of any guaranteed nonforfeiture benefit of a paid off insurance, including any addition of paid off insurance under the policy, on the basis of an interest rate that is not less than that specified in the policy for calculating cash surrender values.

(d) In calculating the present value of any paid off term insurance paid accompanied by pure endowment insurance, if any, offered as a nonforfeiture benefit, the assumed mortality rates may not be greater than those shown in the Commissioners 1980 Extended Term Insurance Table for ordinary insurance policies, and not greater than the 1961 Extended Term Industrial Insurance Table for industrial insurance policies.

(e) For insurances issued on a sub-normal basis, the computation for any such adjusted premiums and present values may be based on appropriate modifications of the above tables.

(f) For policies issued prior to January 1, 2017, any of the ordinary mortality tables adopted after 1980 by the NAIC that are approved by the

Commissioner to be used in determining the minimum nonforfeiture standard, they may substitute the Commissioners 1980 Standard Ordinary Mortality Table, with or without the Ten-Year Selected Mortality Factors, or the Commissioners 1980 Standard Ordinary Mortality Table.

For policies issued on or after January 1, 2017, the Valuation Manual shall provide the ordinary mortality table to be used to determine the minimum nonforfeiture standard, which may be substituted for the Commissioners 1980 Standard Ordinary Mortality Table, with or without the Ten-Year Selected Mortality Factors, or the Commissioners 1980 Extended Term Insurance Table. If the Commissioner approves any ordinary mortality standard table adopted by the NAIC for use in determining the minimum nonforfeiture standard for policies issued on or after January 1, 2017, then that minimum nonforfeiture standard prevails over the minimum nonforfeiture standard provided in the Valuation Manual.

(g) For policies issued prior to January 1, 2017, any of the industrial mortality tables adopted after 1980 by the NAIC and approved by the Commissioner for use in determining the minimum nonforfeiture standard may substitute the Commissioners 1961 Standard Industrial Mortality Table or the Commissioners 1961 Industrial Extended Term Insurance Table.

For policies issued on or after January 1, 2017, the Valuation Manual will provide the ordinary mortality table to be used to determine the minimum nonforfeiture standard, which may be substituted for Commissioners 1961 Standard Industrial Mortality Table or the Commissioners 1961 Industrial Extended Term Insurance Table. If the Commissioner approves any industrial mortality standard table adopted by the NAIC for use in determining the minimum nonforfeiture standard for policies issued on or after January 1, 2017, then that minimum nonforfeiture standard prevails over the minimum nonforfeiture standard provided in the Valuation Manual.

(9) The nonforfeiture interest rate per year, (a) for any policy issued in a particular calendar year prior to January 1, 2017, shall be equal to one hundred twenty-five percent (125%) of the statutory valuation interest rate for such policy as defined in this Rule rounded to the nearest one-fourth of one percent (1/4% of 1%),

provided, however, that the nonforfeiture interest rate shall not be less than four percent (4%); and (b) for any policy issued in a particular calendar year on or after January 1, 2017, this shall be provided in the Valuation Manual.

(10) Notwithstanding any other provision in the Puerto Rico Insurance Code to the contrary, any resubmission of nonforfeiture values or methods of computation thereof for any previously approved policy form that involves only a change in the interest rate or mortality table used to calculate the nonforfeiture values, shall not require a resubmission of the other provisions of that policy form.

(11) After the effective date of this subsection G, any insurance company may file with the Commissioner, a written notice of its election to comply with the provisions of this section after a specified date prior to January 1, 1989, which shall be the operative date of this subsection for such insurance company. If an insurance company does not make such an election, the operative date of this subsection for such insurance company shall be January 1, 1989.

H. Nonforfeiture benefits for indeterminate premium plans

In the case of a plan of life insurance that provides for future premium determination, the amounts of which are to be determined by the insurance company based on then estimates of future experience, or in the case of a plan of life insurance or annuity that is of such a nature that the minimum reserves cannot be determined by the methods described in subsections A, B, C, D, E, F or G of this section, then:

(1) the Commissioner must be convinced that the benefits provided under the plan are substantially so favorable to policyholders and insured as the minimum benefits otherwise required by subsections A, B, C, C, D, E, F or G of this section;

(2) the Commissioner must be convinced that the benefits and the premium pattern of that plan are not such as to mislead prospective policyholders or insureds;

(3) cash surrender value and the nonforfeiture benefits of paid off insurance provided by such plan shall not be less than the cash surrender values and benefits required for the plan computed by a method that is consistent with the principles of this Nonforfeiture Standard for Life Insurance, as determined by the Commissioner.

I. *Pro rata* values: Net value of additions of paid off insurance

The cash surrender value and paid off nonforfeiture benefit available under the policy in the event of default on a premium payment due on any date other than the policy anniversary shall be calculated with allowance for the time elapsing and for the payment of installment premiums after the last preceding policy anniversary. All values stipulated in subsections B, C, D, E, F or G of this Section may be calculated on the assumption that any mortality benefit is payable at the end of the policy year in which mortality occurs. The net value of any paid off insurance additions, other than the paid off term insurance, shall not be less than the amounts used to provide such additions. Notwithstanding the provisions of subsection B of this section, the payable additional benefits (a) in case of death or dismemberment due to an accident or accidental means, (b) in case of complete and permanent invalidity, (c) as reversible annuities or reversible annuity differed benefits, (d) as term insurance provided by endorsement or supplemental provisions to a policy to which, if issued as a separate policy, this section would not apply, (e) as term insurance issued on the life of a child, or on the life of several children, provided in a policy issued on the life of the child's parent, if such term insurance expires before the child attains twenty-six years of age, if the amount of insurance is uniform after the child has been death for one year, and has not been paid off by reason of the death of one of the parents, and (f) as other benefits in addition to the life insurance benefit and the endowment benefit, and the premiums for all such additional benefits, will not be taken into account in determining the cash surrender values and nonforfeiture benefits required by this section, and none of these additional benefits will be required to be included in any nonforfeiture benefits of paid off insurance.

J. Consistency of progress of cash surrender values with duration of increasing policies

This subsection, in addition to all other applicable subsections of this section, shall apply to all policies issued on or after January 1, 1985. The cash surrender value available under a policy in the event of default in the payment of a premium due on a policy anniversary shall be an amount differing by no more than two tenths of a percent (0.2%) of the sum insured if the insurance is uniform in its amount, or of the average insurance amount at the beginning of each of the first ten (10) policy years, over the sum of: (1) greater than zero and the basic cash value specified below, and (2) the present value of any existing paid off insurance additions less the amount of any indebtedness owed to the insurance company on the policy.

The basic cash value will be equal to the present value on such anniversary of the guaranteed future benefits which would have been provided under the policy, excluding any existing paid off insurance additions, and before deduction of any indebtedness to the insurance company, had there been no default, less the present value of the nonforfeiture factors, as hereinafter defined, for premiums due on or after such anniversary. Provided, however, that the effects on the basic cash value of supplemental life insurance or annuity benefits or family coverage, as described in subsection B or D of this section, whichever is applicable, shall be the same as the effects specified in subsection B or D of this section, whichever is applicable, on the cash surrender values defined in said section.

The nonforfeiture factor for each policy year shall be an amount equal to a percentage of the adjusted premium for the policy year, as defined in subsection D or G of this section, whichever is applicable. Except as required in the subsequent sentence of this paragraph, said percentage:

(1) shall be the same percentage for each policy year between the second policy anniversary and the later of (a) the fifth policy anniversary and (b) the first policy anniversary in which a cash surrender value is available under the policy, in an amount, before including any additions of insurance paid off and before any indebtedness is deducted, of at least two-tenths of one percent (.2%) of either the sum insured, if the insurance is uniform in amount, or of the average amount insured at the beginning of each of the first ten (10) policy years; and

(b) shall be such that no percentage after the later of the two policy anniversaries specified in item (a) above may apply to less than five (5) consecutive policy years.

Provided, that no basic cash value may be less than the value that would be obtained if the adjusted premium for the policy, as defined in subsection G, were substituted for the nonforfeiture factors in computing the basic cash value.

All adjusted premiums and present values referred to in this subsection shall be calculated for a particular policy on the same mortality and interest basis as used to demonstrate the policy's compliance with the other subsections of this section. The cash surrender values referred to in this section shall include any endowment insurance benefits provided under the policy.

The cash surrender values available, except in the event of nonpayment of a premium due on a policy anniversary, and the amount of any nonforfeiture benefits of paid off insurance available under the policy in the event of nonpayment of a premium, shall be determined in a manner consistent with the ways specified for determining the analogous minimum amounts in subsections A, B, C, G and I. The amounts of any cash surrender values, or of any nonforfeiture benefits of paid off insurance granted in connection with additional benefits such as those detailed in subsection I, items (a) through (f), shall be in accordance with the principles of this subsection.

K. This section shall not apply to any of the following:

(1) reinsurance;

(2) group insurance;

(3) pure endowment insurance;

(4) annuity or reversible annuity contract;

(5) term policy with uniform amounts, which does not provide guaranteed non-forfeiture or endowment benefits, or renewal thereof, of twenty (20) years or less, with expiration prior to age seventy-one (71), for which uniform premiums are payable for the full term of the policy;

(6) a term policy with decreasing amounts, which does not provide guaranteed nonforfeiture benefits or endowment insurance, in which the adjusted premium, calculated as specified in subsections D, E, F and G, is less than the adjusted premium calculated on a uniform amount term policy, or renewal thereof, which does not provide

guaranteed nonforfeiture or endowment benefits, issued at the same age, for the same initial amount of insurance and for a term of twenty (20) years or less, and expiring before age seventy-one (71), for which uniform premiums are paid for the full term of the policy;

(6) a policy which does not provide guaranteed nonforfeiture or endowment benefits, for which no cash surrender value, if any, or present value of any nonforfeiture benefits of paid off insurance, at the beginning of any policy year, calculated as specified in subsections B, C, D, E, F and G, exceeds two and one-half percent (2 ½%) of the amount of insurance at the beginning of the same policy year; or

(7) a policy to be delivered outside Puerto Rico by an authorized representative or other representative of the insurance company issuing the policy.

For purposes of determining the applicability of this Rule, the age at expiration of a joint life insurance policy will be the age of the oldest insured at expiration.

SECTION 23. - SEVERABILITY

If any word, sentence, paragraph, subsection, section or part of this Rule shall be declared void or invalid by a competent court, the order issued by such court shall not affect or invalidate the remaining provisions of this Rule, and its effect shall be limited to that word, sentence, paragraph, subsection or section or part which has been declared null and void or invalid.

SECTION 24. - VALIDITY

The provisions of this Rule shall become effective thirty (30) days after its filing with the Department of State of Puerto Rico, in accordance with the provisions of Act No. 38, supra.

[signature]

MR. ALEXANDER-S. ADAMS VEGA,
COMMISSIONER OF INSURANCE

Date of approval: April 8, 2022

Date of filing
at the State Department:

Date of acceptance
to the Legislative Library: