



**SCOTT WALKER**  
**OFFICE OF THE GOVERNOR**  
**STATE OF WISCONSIN**

P.O. Box 7863  
MADISON, WI 53707

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December 15, 2014

Ted Nickel  
Secretary  
Commissioner of Insurance  
125 South Webster Street  
Madison, Wisconsin 53703-3474

**RE: Emergency Rule modifying and creating Ins 2.30 relating to 2012 Individual Annuity Reserving Mortality Table and affecting Small Business**

Dear Secretary Nickel,

I hereby approve the proposed emergency rule modifying and creating Chapter Ins 2.30 of the Wisconsin Administrative Code submitted on November 7, 2014 pursuant to Wisconsin Statutes § 227.24(1)(e)1g. You may proceed with publication in accordance with Wisconsin Statutes § 227.24(1)(c).

Sincerely,

Scott Walker  
Governor



# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

**Scott Walker**, Governor  
**Theodore K. Nickel**, Commissioner

[Wisconsin.gov](http://Wisconsin.gov)

**Legal Unit**  
125 South Webster Street • P.O. Box 7873  
Madison, Wisconsin 53707-7873  
Phone: (608) 267-9586 • Fax: (608) 264-6228  
Web Address: [oci.wi.gov](http://oci.wi.gov)

TO: Bruce Hoesly  
Legislative Reference Bureau  
1 East Main Street, Suite 200  
Madison, WI 53701-2037

FROM: Richard B. Wicka, Deputy Chief Legal Counsel  
Office of the Commissioner of Insurance

DATE: December 19, 2014

SUBJECT: Emergency Rule affecting Section Ins 2.30, Wis. Adm. Code, relating to 2012 Individual Annuity Reserving Mortality Table and affecting small business

Two copies of this emergency rule are attached. One is for filing and publication in the Wisconsin Administrative Register and the other to be stamped and returned to OCI. The rule should be published in the official State newspaper on December 29, 2014.

If you have any questions, please contact Richard B. Wicka at (608) 261-6018 or e-mail at [richard.wicka@wisconsin.gov](mailto:richard.wicka@wisconsin.gov).

Attachment: 2 copies rule



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor  
Theodore K. Nickel, Commissioner

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STATE OF WISCONSIN

OFFICE OF THE COMMISSIONER OF INSURANCE

SS

I, Theodore K. Nickel, Commissioner of Insurance and custodian of the official records, certify that the annexed emergency rule affecting Section Ins 2.30, Wis. Adm. Code, relating to 2012 Individual Annuity Reserving Mortality Table and affecting small business, is duly approved and adopted by this Office on December 19, 2014.

I further certify that I have compared this copy with the original on file in this Office and that it is a true copy of the original, and the whole of the original.

IN TESTIMONY WHEREOF, I have hereunto set my hand at 125 South Webster Street, Madison, Wisconsin, on December 19, 2014.

Theodore K. Nickel  
Commissioner of Insurance

## **EMERGENCY ORDER AMENDING AND CREATING A RULE**

### **Office of the Commissioner of Insurance**

**Rule No.** Agency 145 – Ins 2.30 (2) (f) to (j), 2.30 (3) (c), 2.30 (cm), and 2.30 (3m), Wis. Adm. Code.

The Commissioner of Insurance proposes an order to amend s. Ins 2.30 (3) (c); and to create ss. Ins 2.30 (2) (f) to (j), 2.30 (cm), and 2.30 (3m), Wis. Adm. Code, relating to 2012 Individual Annuity Reserving Mortality Table and Affecting Small Business.

The statement of scope for this rule SS: 086-14, was approved by the Governor on July 14, 2014, published in Register No. 705, on September 14, 2014, and approved by the Commissioner on September 26, 2014. This rule was approved by the Governor on December 15, 2014.

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### **FINDING OF EMERGENCY**

The Commissioner of Insurance finds that an emergency exists and that the attached rule is necessary for the immediate preservation of the public peace, health, safety, or welfare. Facts constituting the emergency are as follows:

Under the current rule governing the minimum standards of valuation for individual annuity and pure endowment contracts life insurers are required to use the Annuity 2000 Mortality Table, which has become outdated and risks leaving insurers with an insufficient level of reserves. OCI is addressing the issue by enacting a permanent rule that would require insurers to use the 2012 Individual Annuity Reserving Mortality Table (2012 IAR Table) for contracts issued on or after January 1, 2015. Wisconsin insurers have expressed support for the proposed rule and its enactment at the earliest date possible in 2014. Insurers are requesting time in advance of January 2015 in order to modify existing policy forms and marketing material so that they are able to compete with other insurers on a level playing field. However, in order for insurers to have sufficient time to file new policy and rate forms for use beginning January 1, 2015 the rule must be in place no later than November 2014 to ensure sufficient time to submit form or rate filings with the Office. Delay beyond January 2015 will not be in the best interest of insurers or consumers.

The 2012 IAR Table provides insurers with a more accurate tool for calculating minimum reserves. This is beneficial to the both the insurers and consumers. The emergency rule will provide insurers with the earliest opportunity to use the 2012 IAR Table while the permanent rule moves through the legislative process. In addition, the proposed permanent rule has been recommended by the National Association of Insurance Commissioners (NAIC) and is in the process of being adopted in other states. The emergency rule will help domestic insurers remain on equal footing with insurers from other states where the rule is already being adopted.

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### **ANALYSIS PREPARED BY THE OFFICE OF THE COMMISSIONER OF INSURANCE (OCI)**

**1. Statutes interpreted:**

ss. 600.01, 601.41 (3), 601.42, 623.06, and 632.43, Wis. Stats.

**2. Statutory authority:**

ss. 601.41 (3), 601.42 (3), and 623.06 (2a) (b) and (4m), Wis. Stats.

**3. Explanation of OCI's authority to promulgate the proposed rule under these statutes:**

The Commissioner has the general authority to promulgate rules necessary to administer and enforce chs. 600 to 655, Wis. Stat., and as provided under ss. 227.11 (2) (a) and 601.41 (3), Wis. Stat. Further, under ss. 623.06 (2a) (b) and (4m), Wis. Stat., the Commissioner has specific authority to determine the minimum standard for the valuation of individual annuity and pure endowment contracts by establishing mortality tables to be used by insurers to calculate minimum reserves and requirements related to the testing and reporting of actuarial information.

**4. Related statutes or rules:**

The proposed rule relates to existing rules prescribing valuation of liabilities, non-forfeiture values, and actuarial reporting and analysis under ss. 601.42, 623.06 and 632.43, Stats., and ss. Ins 2.80 and ch. 50, Wis. Adm. Code.

**5. The plain language analysis and summary of the proposed rule:**

The proposed rule would require life insurers to use the 2012 IAR Table when determining the minimum standard of valuation for individual annuity and pure endowment contracts issued on or after January 1, 2015. The proposed rule would modernize an outdated table that risks leaving insurers with an insufficient level of reserves. The 2012 IAR Table is comprised of a basic experience table with margins (2012 IAM Period Table) and a projection scale. The addition of a projection scale to the 2012 IAR Table allows the Table to remain up-to-date over a longer period of time because it allows the Table to adjust by considering the most accurate statistics during each valuation year.

**6. Summary of and preliminary comparison with any existing or proposed federal regulation that is intended to address the activities to be regulated by the proposed rule:**

The office is unaware of any proposed or existing federal regulation that is intended to address the activities to be regulated by this proposed rule.

**7. Comparison of similar rules in adjacent states as found by OCI:**

**Illinois:** 50 Ill. Adm. Code 935 was adopted on June 20, 2014 and becomes effective January 1, 2015. This rule closely resembles Wisconsin's proposed rule by adopting the 2012 IAR Table in determining the minimum standard of valuation of annuity and pure endowment contracts.

**Iowa:** 191 IAC 43.1 to 43.7 closely resembles Wisconsin's proposed rule and incorporates the 2012 IAR Table for determining the minimum standard of valuation for annuity and pure endowment contracts.

**Minnesota:** ch. 2752 closely resembles Wisconsin's proposed rule and incorporates the 2012 IAR Table for determining the minimum standard of valuation for annuity and pure endowment contracts.

**8. A summary of the factual data and analytical methodologies that OCI used in support of the proposed rule and how any related findings support the regulatory approach chosen for the proposed rule:**

The existing requirements are contained primarily in ss. 623.06 (2a) (b) and (4m), Wis. Stat., s. Ins 2.30 (3), and Subch. V of Ch. 50, Wis. Adm. Code. These provisions establish that mortality tables are to be used by insurers to calculate minimum reserves and establish requirements related to testing and reporting of actuarial information. Current rules require insurers to use the Annuity 2000 Mortality Table as adopted by the NAIC. The proposed rule will require insurers to use the 2012 IAR Table as adopted by the NAIC in December 2012 for calculating the minimum reserves on contracts written on or after January 1, 2015. The proposed rule is being considered as it has been recommended by the NAIC and is in the process of being adopted by other states. Further, not adopting the 2012 IAR Table may place domestic insurers at a competitive disadvantage compared to insurers from states where the table has been adopted.

**9. Any analysis and supporting documentation that OCI used in support of OCI's determination of the rule's effect on small businesses under s. 227.114:**

The proposed rule would have an impact on life insurers, however based on revenue and ownership structure very few, if any, life insurers meet the definition of small businesses. In addition, many of the potential implementation and compliance costs are mitigated by other factors contained in the proposed rule. Therefore, any economic impact on small businesses posed by the proposed rule would not be significant.

**10. See the attached Private Sector Fiscal Analysis.**

This rule change will have no significant effect on the private sector regulated by OCI.

**11. A description of the Effect on Small Business:**

This rule will have little or no effect on small business since very few, if any, life insurers meet the definition of a small business. In addition, many of the implementation and compliance costs are mitigated by other factors contained in the proposed rule. First, insurers already have the systems in place perform the calculations, they primarily just need to substitute in new numbers and equations. Moreover, the 2012 IAR Table will only apply to contracts issued on or after January 1, 2015, which provides insurers with the opportunity to minimize any economic impact by adjusting their products. Finally, with a majority of states on the verge of adopting the 2012 IAR Table, insurers will be able to avoid excess federal taxes on reserves held in excess of the current federally recognized mortality table.

**12. Agency contact person:**

A copy of the full text of the proposed rule changes, analysis and fiscal estimate may be obtained from the Web site at: <http://oci.wi.gov/ocirules.htm> or by contacting Inger Williams, OCI Services Section, at:

Phone: (608) 264-8110  
Email: [inger.williams@wisconsin.gov](mailto:inger.williams@wisconsin.gov)

Address: 125 South Webster St – 2<sup>nd</sup> Floor, Madison WI 53703-3474  
Mail: PO Box 7873, Madison, WI 53707-7873

**13. Place where comments are to be submitted and deadline for submission:**

The deadline for submitting comments is 4:00 p.m. on the 14<sup>th</sup> day after the date for the hearing stated in the Notice of Hearing.

Mailing address:

Richard B. Wicka  
Legal Unit - OCI Rule Comment for Rule Ins 08614  
Office of the Commissioner of Insurance  
PO Box 7873  
Madison WI 53707-7873

Street address:

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Email address:

Richard B. Wicka  
richard.wicka@wisconsin.gov

Web site: <http://oci.wi.gov/ocirules.htm>

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**The proposed rule changes are:**

**SECTION 1. Ins 2.30 (2) (f) to (j) are created to read:**

**Ins 2.30 (2) (f)** “Period table” means a table of mortality rates applicable to a given calendar year (the Period).

**(g)** “Generational mortality table” means a mortality table containing a set of mortality rates that decrease for a given age from one year to the next based on a combination of a Period table and a projection scale containing rates of mortality improvement.

**(h)** “2012 IAR Table” means that generational mortality table developed by the society of actuaries committee on life insurance research and containing rates,  $qx_{2012+n}$ , derived from a combination of the 2012 IAM Period Table and Projection Scale G2, using the methodology stated in Section 3m.

**(i)** “2012 Individual Annuity Mortality Period Life Table” or “2012 IAM Period Table” means the Period Table containing loaded mortality rates for calendar year 2012. This table contains rates,  $qx_{2012}$ , developed by the society of actuaries committee on life insurance research, and published in the 2012 proceedings of the NAIC, Fall Volume I, pages 149-150.

**(j)** “Projection Scale G2” or “Scale G2” is a table of annual rates,  $G2x$ , of mortality improvement by age for projecting future mortality rates beyond calendar year 2012. This table was developed by the society of actuaries committee on life insurance

research, and published in the 2012 proceedings of the NAIC, Fall Volume I, pages 151-152.

**SECTION 2. Ins 2.30 (3) (c) is amended to read:**

**Ins 2.30 (3) (c)** Except as provided in par. (d) the annuity 2000 mortality table shall be used to determine the minimum standard of valuation for any individual annuity or pure endowment contract issued on or after January 1, 1999, but before January 1, 2015.

**SECTION 3. Ins 2.30 (3) (cm) is created to read:**

**Ins 2.30 (3) (cm)** Except as provided in par. (d) the 2012 IAR Table shall be used for determining the minimum standard of valuation for any individual annuity or pure endowment contract issued on or after January 1, 2015.

**SECTION 4. Section Ins 2.30 (3m) is created to read:**

**Ins 2.30 (3m)** Application of the 2012 IAR Table

In using the 2012 IAR Table, the mortality rate for a person age x in year (2012 + n) is calculated as follows:

$$q_x^{2012+n} = q_x^{2012} * (1 - G2_x)^n$$

The resulting  $q_x$  2012+n shall be rounded to three decimal places per 1,000, e.g., 0.741 deaths per 1,000. Also, the rounding shall occur according to the formula above, starting at the 2012 period table rate. For example, for a male age 30,  $q_x$  2012 = 0.741.

$q_x$  2013 = 0.741 \* (1 - 0.010) ^ 1 = 0.73359, which is rounded to 0.734.

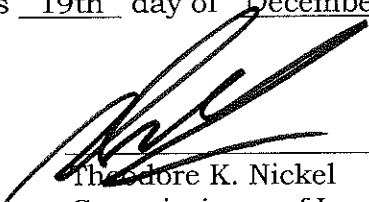
$q_x$  2014 = 0.741 \* (1 - 0.010) ^ 2 = 0.7262541, which is rounded to 0.726.

A method leading to incorrect rounding would be to calculate  $q_x$  2014 as  $q_x$  2013 \* (1 - 0.010), or 0.734 \* 0.99 = 0.727. It is incorrect to use the already rounded  $q_x$  2013 to calculate  $q_x$  2014.

**SECTION 5. INITIAL APPLICABILITY.** These changes apply to contracts issued on or after January 1, 2015.

**SECTION 6. EFFECTIVE DATE.** These changes will take effect on the first day of the month after publication, as provided in s. 227.22 (2) (intro.), Wis. Stats.

Dated at Madison, Wisconsin, this 19th day of December, 2014.

  
Theodore K. Nickel  
Commissioner of Insurance



**Office of the Commissioner of Insurance**  
**Private Sector Fiscal Analysis**

for Section Ins 2.30 relating to 2012 Individual Annuity Reserving  
Mortality Table and Affecting Small Business

This rule change will have no significant effect on the private sector regulated by OCI.

### ADMINISTRATIVE RULES – FISCAL ESTIMATE

1. **Fiscal Estimate Version**

Original  Updated  Corrected

2. **Administrative Rule Chapter Title and Number**

**INS 08614**

3. **Subject**

2012 Individual Annuity Reserving Mortality Table

4. **State Fiscal Effect:**

No Fiscal Effect  Increase Existing Revenues  Increase Costs  
 Indeterminate  Decrease Existing Revenues  Decrease Costs  
 Yes  No May be possible to absorb within agency's budget.

5. **Fund Sources Affected:**

GPR  FED  PRO  PRS  SEG  SEG-S

6. **Affected Ch. 20, Stats. Appropriations:**

None

7. **Local Government Fiscal Effect:**

No Fiscal Effect  Increase Revenues  Increase Costs  
 Indeterminate  Decrease Revenues  Decrease Costs

8. **Local Government Units Affected:**

Towns  Villages  Cities  Counties  School Districts  WTCS Districts  Others:

9. **Private Sector Fiscal Effect (small businesses only):**

No Fiscal Effect  Increase Revenues  Increase Costs  
 Indeterminate  Decrease Revenues  Yes  No May have significant economic impact on a substantial number of small businesses  
 Yes  No May have significant economic impact on a substantial number of small businesses  Decrease Costs

10. **Types of Small Businesses Affected:**

Life insurers that meet the definition of small businesses.

11. **Fiscal Analysis Summary**

See Fiscal Estimate & Economic Impact Analysis

12. **Long-Range Fiscal Implications**

None

13. **Name - Prepared by**

Timothy L. Cornelius

Telephone Number

(608) 264-8622

Date

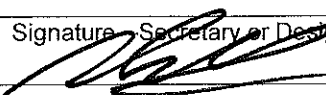
11/03/2014

14. **Name – Analyst Reviewer**

Telephone Number

Date

Signature – Secretary or Designee



Telephone Number

(608) 267-3782

Date

12/19/2014

## ADMINISTRATIVE RULES Fiscal Estimate & Economic Impact Analysis

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1. Type of Estimate and Analysis

Original    Updated    Corrected

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2. Administrative Rule Chapter, Title and Number

Ins 2.30 (2) (f) to (j), 2.30 (c) (3), 2.30 (cm), and 2.30 (3m)

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3. Subject

2012 Individual Annuity Reserving Mortality Table

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4. Fund Sources Affected

GPR    FED    PRO    PRS    SEG    SEG-S

5. Chapter 20, Stats. Appropriations Affected

None

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6. Fiscal Effect of Implementing the Rule

No Fiscal Effect    Increase Existing Revenues    Increase Costs  
 Indeterminate    Decrease Existing Revenues    Could Absorb Within Agency's Budget  
 Decrease Cost

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7. The Rule Will Impact the Following (Check All That Apply)

State's Economy    Specific Businesses/Sectors  
 Local Government Units    Public Utility Rate Payers  
 Small Businesses (if checked, complete Attachment A)

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8. Would Implementation and Compliance Costs Be Greater Than \$20 million?

Yes    No

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9. Policy Problem Addressed by the Rule

Under the current rule governing the minimum standards of valuation for individual annuity and pure endowment contracts life insurers are required to use the Annuity 2000 Mortality Table, which has become outdated and risks leaving insurers with an insufficient level of reserves. The proposed rule would require life insurers to use the 2012 Individual Annuity Reserving Mortality Table (2012 IAR Table) when determining the minimum standard of valuation for individual annuity and pure endowment contracts, which provides insurers with a more accurate tool for calculating minimum reserves. The 2012 IAR Table not only incorporates updated data such as increasing life expectancies into the minimum reserve calculation, but it also has a built in mechanism, the projection scale, that allows it to adjust annually and project future mortality rates ensuring appropriate reserve levels and maximum efficiency in calculating reserves over a longer period of time.

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10. Summary of the businesses, business sectors, associations representing business, local governmental units, and individuals that may be affected by the proposed rule that were contacted for comments.

OCI solicited comments generally through publication requesting comments from the public utilizing the OCI website. In addition, OCI solicited comments from the following businesses and associations:

Benefit Services Group;  
Capitol Consultants;  
Catholic Financial Life;  
Hamilton Consulting;  
Independent Insurance Agents of Wisconsin  
Johnson Insurance;  
Liberty Mutual Insurance;  
Martin Schreiber Associates;  
Ministry Health Care;

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## **ADMINISTRATIVE RULES**

### **Fiscal Estimate & Economic Impact Analysis**

National Association of Insurance and Financial Advisors;  
National Federation of Independent Businesses;  
Network Health;  
Northwestern Mutual Insurance Professional Insurance Agents of Wisconsin;  
Sentry Insurance;  
Thrivent Financial;  
WEA Trust;  
Wisconsin Association of Health Underwriters;  
Wisconsin Chiropractic Association;  
Wisconsin Council of Life Insurers;  
Wisconsin Counties Association;  
Wisconsin Hospital Association;  
Wisconsin Insurance Alliance;  
Wisconsin Physicians Service Insurance Corporation; and  
Wisconsin Primary Health Care Association

OCI received three comments all in support of the proposed rule. In general, the supporting comments recognized that the proposed rule adopting the 2012 IAR Table will help ensure the appropriate level of reserves for annuity and pure endowment contracts and prevent excess federal taxes from being assessed to insurers for maintaining a higher level of reserves that is appropriate for these contracts. In addition, the inclusion of a projection scale in the 2012 IAR Table, a mechanism that adjusts mortality rates annually, will keep the 2012 IAR Table current for a longer period of time; this will increase efficiency and help OCI and the insurers avoid various cost that might be associated with implementing new mortality tables (and administrative rules). Finally, the proposed rule will put domestic insurers in step with insurers in other states where the rule is already being adopted. These comments are reviewed in detail in Sections 12 and 13.

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11. Identify the local governmental units that participated in the development of this EIA.

None

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12. Summary of Rule's Economic and Fiscal Impact on Specific Businesses, Business Sectors, Public Utility Rate Payers, Local Governmental Units and the State's Economy as a Whole (Include Implementation and Compliance Costs Expected to be Incurred)

The proposed rule change will have no fiscal effect on the state or local governments, nor will it have a significant effect on the private sector. The rule would affect insurers offering individual annuity and pure endowment contracts, however any impact would not be significant.

Insurers may encounter minor implementation costs if they choose to upgrade information technology and/or actuarial services. However, this cost would be minimal since insurers already have the systems in place to perform the calculations, they mainly just need to substitute in the new equations and numbers. In addition, these minor cost will likely be offset in the long-term by the fact that mechanisms built into the new table will help it remain current for a longer period of time, which will reduce the frequency in which new mortality tables will need to be adopted and help avoid the various costs associated with their implementation. Further, the law requires insurers to maintain appropriate reserves and many insurers may be using the table already.

Based on the comments OCI received from the insurers, the propose rule would have two other economic effects. First, the Wisconsin Council of Life Insurers (WCLI) and Northwestern Mutual (NM) noted that the proposed rule will increase the level of reserves held by the insurers, however both also acknowledged that in their opinion the results provided by the 2012 IAR Table reflect the appropriate level of reserves for these products. Accordingly, in NM's case

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## **ADMINISTRATIVE RULES**

### **Fiscal Estimate & Economic Impact Analysis**

they have already implemented the 2012 IAR Table internally and have been holding a higher level of reserves.

OCI has taken these comments under consideration and does not believe that the increased level of reserves will have a significant impact on insurers. First, the impact is mitigated by the fact that the 2012 IAR Table only applies to new contracts issued on or after January 1, 2015. This means that insurers will have a chance minimize any burden relating to the increased reserve levels by adjusting their products accordingly. Moreover, as indicated in the comments the results from the 2012 IAR Table provide the most appropriate level of reserves. Insurers are highly adept at assessing their own financial obligations and stability, therefore it is likely that insurers have already implemented or are prepared to implement measures necessary to account for the higher reserves needed to cover the contracts they are issuing, as was the case with NM. Therefore, based on these factors and the responses received, OCI does not expect the increased level of reserves resulting from the proposed rule to have a significant economic impact on insurers.

OCI also received comments from WCLI and NM noting that the rule will help prevent insurers from being assessed an additional federal tax on appropriate reserves. Insurers holding reserves above the level provided for in the current federally recognized mortality table have to pay federal taxes on the addition reserves and in order for a table to be recognized for federal tax purposes it must be enacted by 26 states. Currently, the table recognized by the federal government is outdated and risks leaving insurers with inadequate reserves. The 2012 IAR Table reflects a more appropriate level of reserves, however, insurers who choose to implement the 2012 IAR Table and hold a higher reserve level that is appropriate are encountering an excess tax burden. OCI has taken this issue under consideration and does not believe that it will have a significant overall economic impact on insurers.

First, OCI is expecting the 2012 IAR Table to reach the 26 state threshold necessary to be recognized for federal tax purposes. OCI's research indicated that 27 states, including Wisconsin, have or are in the process of enacting the 2012 IAR Table. In addition, since the 2012 IAR Table is contained in a National Association of Insurance Commissioners (NAIC) model rule and is being promoted by the NAIC, OCI anticipates more states will continue to adopt the 2012 IAR Table over the next year. The comment from WCLI does acknowledge that if the 2012 IAR Table is not enacted by 26 states insurers holding appropriate reserves consistent with the new rule would have to pay federal taxes on the additional reserves. The extent to which the potential federal tax may impact individual insurers is difficult for OCI to determine because it will likely vary from insurer to insurer and depend on the amount of reserves being taxed and/or whether the insurer had previously decided to hold a higher level of reserves to ensure adequate reserves.

Although it is difficult for OCI to determine the exact impact the potential tax may have on individual insurers, OCI does not believe the overall impact will be significant. The comments OCI received were supportive of the proposed rule because in their view it will help prevent an excessive tax burden being placed on appropriate reserves. In the case of NM, and any other insurers holding a higher level of reserves based on the 2012 IAR Table, they are already being assessed a tax for maintaining a higher reserve level, a level that is supported by the most recent data. Therefore, this rule would help them by reducing their tax liability. Alternatively, OCI has not received any comments expressing concerns over the proposed rule's potential tax implications. Finally, OCI believes that if the 2012 IAR Table does not reach the 26 state threshold next year, there is a strong likelihood that it will meet the threshold the following year. As noted above OCI's review indicated that the 2012 IAR Table is already on the verge of meeting the threshold and should be recognized next year, however, if it does not, it will very likely reach the threshold the following year, especially since the 2012 IAR Table is contained in a NAIC model rule that is being promoted by the NAIC.

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#### 13. Benefits of Implementing the Rule and Alternative(s) to Implementing the Rule

The proposed rule would require insurers to use the 2012 IAR Table for contracts issued on or after January 1, 2015

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## ADMINISTRATIVE RULES Fiscal Estimate & Economic Impact Analysis

instead of the Annuity 2000 Mortality Table, which has become outdated and risks leaving insurers with an insufficient level of reserves. The change is beneficial to insurers and consumers for a number of reasons.

First, the 2012 IAR Table provides insurers with a more accurate tool for calculating minimum reserves. The 2012 IAR Table accounts for the fact that people purchasing annuities are living longer and enables insurers to maintain appropriate reserves by increasing the level of reserves held by insurers.

The addition of a projection scale to the 2012 IAR Table also allows the table to remain up-to-date over a longer period of time because it allows the table to adjust and consider the most accurate data during each valuation year. Not only does this addition ensure more accurate reserve levels by accounting for the most accurate data, but it also reduces the frequency in which new mortality tables (and rules) need to be adopted. Accordingly, this will increase efficiency and help OCI and insurers avoid various costs associated with implementing new administrative rules.

Finally, the 2012 IAR Table has been recommended by the NAIC and is in the process of being adopted in other states. The proposed rule will help domestic insurers remain on equal footing with insurers from other states where the rule is already being adopted. In addition, since the proposed rule is based on a NAIC model rule being adopted in a majority of states, insurers operating in multiple states will benefit from the uniformity resulting from the proposed rule.

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14. Long Range Implications of Implementing the Rule  
None

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15. Compare With Approaches Being Used by Federal Government

The OCI is not aware of any existing or proposed federal regulations intended to address the activities to be regulated by the proposed rule change.

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16. Compare With Approaches Being Used by Neighboring States (Illinois, Iowa, Michigan and Minnesota)

Illinois: 50 Ill. Adm. Code 935 was adopted on June 20, 2014 and becomes effective January 1, 2015. This rule closely resembles Wisconsin's proposed rule by adopting the 2012 IAR Table in determining the minimum standard of valuation of annuity and pure endowment contracts.

Iowa: 191 IAC 43.1 to 43.7 closely resembles Wisconsin's proposed rule and incorporates the 2012 IAR Table for determining the minimum standard of valuation for annuity and pure endowment contracts.

Minnesota: ch. 2752 closely resembles Wisconsin's proposed rule and incorporates the 2012 IAR Table for determining the minimum standard of valuation for annuity and pure endowment contracts.

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17. Contact Name  
Louie Cornelius

18. Contact Phone Number  
608-264-8113

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This document can be made available in alternate formats to individuals with disabilities upon request.

## ADMINISTRATIVE RULES Fiscal Estimate & Economic Impact Analysis

### ATTACHMENT A

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1. Summary of Rule's Economic and Fiscal Impact on Small Businesses (Separately for each Small Business Sector, Include Implementation and Compliance Costs Expected to be Incurred)

The proposed rule would have a similar economic impact on small business insurers as it would have on regular insurers. The proposed rule would have an impact on life insurers, however any impact would not be significant because few life insurers, if any, meet the definition of a small business. In addition, many of the implementation and compliance costs are mitigated by other factors. First, small business insurers may encounter implementation cost if they wish to upgrade software or actuarial services, however this cost should be minimal since insurers already have the systems in place to perform the calculations, they primarily just need to substitute in new numbers and equations.

The proposed rule would also require small business insurers to maintain an increased level of reserves consistent with the 2012 IAR Table. However, this impact is mitigated by the fact that the 2012 IAR Table only applies to contracts issued on or after January 1, 2015. This provides insurers with an opportunity to minimize any burden associated with the increased reserves by adjusting their products accordingly to account for the higher reserve levels.

Finally, insurers holding reserves consistent with the appropriate level determined by the 2012 IAR Table would have to pay federal taxes on the reserves that exceed the level determined by the currently recognized mortality table if 26 states do not adopt the 2012 IAR Table. However, OCI expects the 2012 IAR Table to reach the 26 state threshold by next year. OCI's review showed that 27 states have either adopted or are in the process of adopting the 2012 IAR Table.

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2. Summary of the data sources used to measure the Rule's impact on Small Businesses

Section 227.114, Wis. Stat., defines a "small business" as "a business entity, including its affiliates, which is independently owned and operated and not dominant in its field, and which employs 25 or fewer full-time employees or which has a gross annual sales of less than \$5,000,000." OCI reviewed the revenue and ownership structure of domestic life insurers and based on either too much revenue or the ownership structure, it appears that none of Wisconsin's life insurers qualify as small businesses.

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3. Did the agency consider the following methods to reduce the impact of the Rule on Small Businesses?

- Less Stringent Compliance or Reporting Requirements
- Less Stringent Schedules or Deadlines for Compliance or Reporting
- Consolidation or Simplification of Reporting Requirements
- Establishment of performance standards in lieu of Design or Operational Standards
- Exemption of Small Businesses from some or all requirements
- Other, describe:

All insurers must maintain compliance with the relevant reserves requirements and maintain adequate reserves to cover payouts from the contracts they have issued. No exceptions can be made for small business insurers. In addition, OCI does not believe that the rule's economic impact will be significant based on the mitigating factors described in Sections 1 and 4.

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4. Describe the methods incorporated into the Rule that will reduce its impact on Small Businesses

**ADMINISTRATIVE RULES**  
**Fiscal Estimate & Economic Impact Analysis**

A key factor in reducing the economic impact this rule will have on small businesses is that the 2012 IAR Table, which will require increased reserves, will only apply to contract issued on or after January 1, 2015. This allows insurers to lessen any economic burden associated with the increased level of reserves by adjusting their products accordingly.

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5. Describe the Rule's Enforcement Provisions

The proposed changes do not add any new requirements to be enforced. However, insurers are still subject to the current reserve requirements, failure to comply with those requirements may be enforced by the Commissioner pursuant to ss. 601.41(1) and 601.64, Wis. Stat.

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6. Did the Agency prepare a Cost Benefit Analysis (if Yes, attach to form)

Yes  No

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