# BILL ANALYSIS

Senate Research Center | H.B. 1590
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Engrossed

## AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

For many years, life insurance companies have been required by standard valuation laws to establish and maintain policy reserve liabilities in order to have funds available for the payment of policy obligations when called upon. These reserves have largely been determined by actuarial mortality tables, rates of interest, and actuarial methods used in computing those reserves.

In recognition that certain parts of the reserve requirements for life insurance have become outdated, the National Association of Insurance Commissioners recently adopted recommended changes to these standards. These changes involve the availability of a new mortality standard and a change in the method of computing reserves related to a specific class of products. While the mortality change will be implemented through a regulation adopted by the Texas Department of Insurance, under the Texas Standard Valuation Law, the change in method requires a legislative modification to the law.

The modification, involving a recognition of lapse rates in the calculation of reserves for a secondary guarantee in universal life contracts, will result in lower reserve requirements for companies and the values being more compatible with the underlying economics of the business. Such lower requirements will result in more efficient use of capital by insurance companies, lower prices to consumers, less use of reinsurance or other financial tools, and higher profits.

H.B. 1590 authorizes the recognition of lapse rates in the calculation of reserves for a secondary guarantee in certain universal life insurance contracts.

## RULEMAKING AUTHORITY

Rulemaking authority is expressly granted to the commissioner of insurance in SECTION 1 (Section 425.071, Insurance Code) of this bill.

## SECTION BY SECTION ANALYSIS

SECTION 1. Amends Subchapter B, Chapter 425, Insurance Code, by adding Section 425.071, as follows:

> Sec. 425.071. LAPSE RATES IN MINIMUM STANDARD OF VALUATION. (a) Authorizes the minimum standard of valuation under this subchapter (Standard Valuation Law) to include lapse rates in the calculation of reserves for a secondary guarantee in universal life contracts issued after December 31, 2006.
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>> (b) Provides that, for purposes of this section, a secondary guarantee refers to specified conditions in a universal life contract that, if satisfied, provide for death benefits to remain in effect regardless of the accumulation value in the contract.
>>
>> (c) Prohibits lapse rates authorized by this section from exceeding two percent per year.
>>
>> (d) Authorizes the commissioner of insurance to adopt rules to implement this section.

SECTION 2. Effective date: June 1, 2007, or September 1, 2007.