CHAPTER 2750
DEPARTMENT OF COMMERCE
VARIABLE LIFE INSURANCE

NOTE: Pursuant to Laws of Minnesota 1983, chapter 289, section 114, this chapter of Minnesota Rules is to be administered by the commissioner of commerce.

2750.0100 DEFINITIONS.

Subpart 1. **Scope.** As used in this chapter, the following terms have the meanings given them.

Subp. 2. **Assumed investment rate.** "Assumed investment rate" means the rate of investment return that would be required to be credited to a variable life insurance policy, after deduction of charges for taxes, investment expenses, and mortality and expense guarantees to maintain the variable death benefit equal at all times to the amount of death benefit, other than incidental insurance benefits, which would be payable under the plan of insurance if the death benefit did not vary according to the investment experience of the separate account.

Subp. 3. **Benefit base.** "Benefit base" means the amount, not less than the amount specified under part 2750.3200, item B specified by the terms of the variable life insurance policy to which the difference between the net investment return and the assumed investment rate is applied in determining the variable benefits of the policy.

Subp. 4. **Employee Retirement Income Security Act of 1974.** "Employee Retirement Income Security Act of 1974" means the Federal Employee Retirement Income Security Act of 1974, United States Code, title 29, sections 1001 et seq.

Subp. 5. **General account.** "General account" means all assets of the insurer other than assets in separate accounts established pursuant to Minnesota Statutes, section 61A.14, or pursuant to the corresponding section of the insurance laws of the state of domicile of a foreign or alien insurer, whether or not for variable life insurance.

Subp. 6. **Incidental insurance benefit.** "Incidental insurance benefit" means all insurance benefits in a variable life insurance policy, other than the variable death benefit and the minimum death benefit, including accidental death and dismemberment benefits, disability income benefits, guaranteed insurability options, family income, or fixed benefit term riders.

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Subp. 7. **Investment Company Act of 1940.** "Investment Company Act of 1940" means the federal Investment Company Act of 1940, United States Code, title 15, sections 80a-1 et. seq.

Subp. 8. **Minimum death benefit.** "Minimum death benefit" means the amount of the guaranteed death benefit, other than incidental insurance benefits, payable under a variable life insurance policy regardless of the investment performance of the separate account.

Subp. 9. **Net investment return.** "Net investment return" means the rate of investment return in a separate account to be applied to the benefit base after deduction of charges for taxes, investment expenses, and mortality and expense guarantees in accordance with the terms of the policy.

Subp. 10. **Securities Act of 1933.** "Securities Act of 1933" means the federal Securities Act of 1933, United States Code, title 15, sections 77a et seq.

Subp. 11. **Securities Exchange Act of 1934.** "Securities Exchange Act of 1934" means the federal Securities Exchange Act of 1934, United States Code, title 15, sections 78a et. seq.

Subp. 12. **Separate account.** "Separate account" means a separate account established for variable life insurance pursuant to Minnesota Statutes, section 61A.14, or pursuant to the corresponding section of the insurance laws of the state of domicile of a foreign or alien insurer.

Subp. 13. **Variable death benefit.** "Variable death benefit" means the amount of the death benefit, other than incidental insurance benefits, payable under a variable life insurance policy dependent on the investment performance of the separate account, which the insurer would have to pay in the absence of the minimum death benefit.

Subp. 14. **Variable life insurance policy.** "Variable life insurance policy" means any individual policy that provides for life insurance that varies according to the investment experience of any separate account or accounts established and maintained by the insurer as to such policy, pursuant to Minnesota Statutes, section 61A.14, or pursuant to the corresponding section of the insurance laws of the state of domicile of a foreign or alien insurer.

Statutory Authority: *MS s 61A.20*

2750.0200 AUTHORITY AND SCOPE.

The following rules are applicable to all variable life insurance policies issued in this state, and are promulgated under the authority of Minnesota Statutes, section 61A.20.

Statutory Authority: *MS s 61A.20*

2750.0300 QUALIFICATION OF INSURER TO ISSUE VARIABLE LIFE INSURANCE.

Qualifications of insurer to issue variable life insurance:

A. An insurer shall not deliver or issue for delivery in this state any variable life insurance policy unless it has complied with Minnesota Statutes, sections 61A.13 to 61A.21, and parts 2750.0100 to 2750.4500, and the commissioner has granted the insurer the authority to issue variable life insurance policies in the state of Minnesota pursuant to Minnesota Statutes, section 61A.20.

B. Before any insurer shall deliver or issue for delivery any variable life insurance policy in this state, it must file with the commissioner the following information for the consideration of the commissioner in making the determination required by Minnesota Statutes, section 61A.19:

(1) copies of and a general description of the variable life insurance policies it intends to issue;

(2) a general description of the methods of operation of the variable life insurance business of the insurer;

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(3) with respect to any separate account maintained by an insurer for any variable life insurance policy, a statement of the investment policy the insurer intends to follow for the investment of the assets held in such separate account, and a statement of the procedures for changing such investment policy. The statement of investment policy shall include a description of the investment objective and orientation intended for the separate account.

Statutory Authority: *MS s 61A.20*

POLICY REQUIREMENTS

2750.1100 CONFORMANCE WITH STATUTES.

The commissioner shall not accept the filing of any variable life insurance policy form unless it conforms to the requirements of parts 2750.1100 to 2750.1500 and Minnesota Statutes, chapter 61A.

Statutory Authority: *MS s 61A.20*

2750.1200 MANDATORY POLICY BENEFIT AND DESIGN REQUIREMENTS.

Variable life insurance policies delivered or issued for delivery in this state shall comply with the following minimum requirements:

A. Coverage shall be provided for the lifetime of the insured with the mortality and expense risk borne by the insurer.

B. Gross premiums for death benefits shall be a level amount for the duration of the premium payment period, but this item shall not be construed to prohibit temporary or permanent additional premiums for incidental insurance benefits or substandard risks. This item shall not be deemed to prohibit the use of fixed benefit preliminary term insurance for a period not to exceed 120 days from the date of the application for a variable life insurance policy. The premium rate for such preliminary term insurance shall be stated separately in the application or receipt.

C. A minimum death benefit shall be provided in an amount at least equal to the initial face amount of the policy so long as premiums are duly paid, subject to the provisions of part 2750.1300, item B.

D. The policy shall provide that the variable death benefit shall reflect the investment experience of the variable life insurance separate account established and maintained by the insurer and that the excess, positive or negative, of the net investment return over the assumed investment rate, as applied to the benefit base of each variable life insurance policy, shall be used to provide either:

(1) fully paid-up variable life insurance providing coverage for the same period as the basic insurance under the policy or fully paid-up term insurance amounts for a term of annual periods of not less than one year nor more than five years, positive or negative, as the case may be, or a combination thereof; or

(2) variable life insurance amounts, positive or negative, as the case may be, so that the reserve maintains the same percentage relationship to the variable death benefit as it would have on a corresponding fixed benefit policy.

E. Each variable life insurance policy shall be credited with the full amount of the net investment return applied to the benefit base.

F. Changes in variable death benefits of each variable life insurance policy shall be determined at least annually.

G. The cash value of each variable life insurance policy shall be determined at least monthly. The method of computation of cash values and other nonforfeiture benefits, as described either in the policy or in a statement filed with the commissioner or person fulfilling the equivalent function of the state in which the policy is delivered or issued for delivery, shall be in accordance with actuarial procedures that recognize the variable nature of the

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policy. The method of computation must be such that, if the net investment return credited to the policy at all times from the date of issue should be equal to the assumed investment rate with premiums and benefits determined accordingly under the terms of the policy, then the resulting cash values and other nonforfeiture benefits must be at least equal to the minimum values required by Minnesota Statutes, section 61A.24 (standard nonforfeiture law) for a fixed benefit policy with such premiums and benefits. The assumed investment rate shall not exceed the maximum interest rate permitted under the standard nonforfeiture law of this state. The method of computation may disregard incidental minimum guarantees as to the dollar amounts payable. Incidental minimum guarantees include, for example, but are not to be limited to, a guarantee that the amount payable at death or maturity shall be at least equal to the amount that otherwise would have been payable if the net investment return credited to the policy at all times from the date of issue had been equal to the assumed investment rate.

H. The computation of values required for each variable life insurance policy may be based upon reasonable and necessary approximations.

I. In determining the net investment return to be applied to the benefit base, the insurer may deduct only the charges described in part 2750.3700, subpart 1, items A, B, D, and E.

Statutory Authority: *MS s 61A.20*

2750.1300 MANDATORY POLICY PROVISIONS.

Every variable life insurance policy filed for approval in this state shall contain at least the following:

A. the cover page or pages corresponding to the cover page of each such policy shall contain:

(1) a prominent statement in either contrasting color or in boldface type at least four points larger than the type size of the largest type used in the text of any provision on that page, that the death benefit may be variable or fixed under specified conditions;

(2) a prominent statement in either contrasting color or in boldface type at least four points larger than the type size of the largest type used in the text of any provision on that page that cash values may increase or decrease in accordance with the experience of the separate account subject to any specified minimum guarantees;

(3) a statement that the minimum death benefit will be at least equal to the initial face amount at the date of issue if premiums are duly paid and if there are no outstanding policy loans, partial withdrawals, or partial surrenders;

(4) the rule or a reference to the policy provision that describes the method for determining the variable amount of insurance payable at death;

(5) a captioned provision or endorsement to the policy that provides that the policyholder may cancel the variable life insurance policy by delivering or mailing a written notice or sending a telegram to the insurer and by returning the policy before midnight of the tenth day after the date the policyholder receives the policy, or before midnight of the 45th day after the date of the execution of the application, whichever is later (notice given by mail and return of the policy are effective on being postmarked properly addressed and postage prepaid; the insurer must return all payments made for the policy within ten days after it receives notice of cancellation and the returned policy);

(6) such other items as are currently required by Minnesota Statutes, chapter 61A;

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B. a provision for a grace period of not less than 31 days from the premium due date which shall provide that where the premium is paid within the grace period, policy values will be the same, except for the deduction of any overdue premium, as if the premium were paid on or before the due date;

C. a provision that the policy will be reinstated at any time within three years from the date of default upon the written application of the insured and evidence of insurability, including good health, satisfactory to the insurer, unless the cash surrender value has been paid or the period of extended insurance has expired, upon the payment of any outstanding indebtedness arising subsequent to the end of the grace period following the date of default together with accrued interest thereon to the date of reinstatement and payment of an amount not exceeding the greater of:

(1) all overdue premiums with interest at a rate not exceeding eight percent per annum compounded annually and any indebtedness in effect at the end of the grace period following the date of default with interest at a rate not exceeding eight percent per annum compounded annually; or

(2) 110 percent of the increase in cash surrender value resulting from reinstatement plus all overdue premiums for incidental insurance benefits with interest at a rate not exceeding eight percent per annum compounded annually;

D. a full description of the benefit base and of the method of calculation and application of any factors used to adjust variable benefits under the policy;

E. a provision designating the separate account to be used and stating that:

(1) such separate account shall be used to fund only variable life insurance benefits;

(2) the assets of such separate account shall be available to cover the liabilities of the general account of the insurer only to the extent that the assets of the separate account exceed the liabilities of the separate account arising under the variable life insurance policies supported by the separate account; and

(3) the assets of such separate account shall be valued at least as often as any policy benefits vary but at least monthly;

F. a provision stating that the approval process for a change in the investment policy of the separate account is on file with the commissioner;

G. a provision that payment of variable death benefits in excess of the minimum death benefits, cash values, policy loans, or partial withdrawals (except when used to pay premiums) or partial surrenders may be deferred:

(1) for up to six months from the date of request, if such payments are based on policy values that do not depend on the investment performance of the separate account; or

(2) otherwise, for any period during which the New York Stock Exchange is closed for trading (except for normal holiday closing) or when the Securities and Exchange Commission has determined that a state of emergency exists that may make such payment impractical;

H. settlement options that shall be provided on a fixed basis only;

I. a description of the basis for computing the cash surrender value under the policy shall be included; such surrender value may be expressed as either:

(1) a schedule of cash value amounts per $1,000 of variable face amount at each attained age or policy year for at least 20 years from issue, or for the premium paying period, if less than 20 years; or

(2) one cash value schedule as described in subitem (1) for the death benefit, or for each $1,000 of death benefit, which would be in effect if the

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net investment return is always equal to the assumed investment rate and a second schedule applicable to any adjustments to the death benefit (disregarding the minimum death benefit guarantee and term insurance amounts) if the net investment return does not equal the assumed investment rate at each age for at least 20 years from issue, or for the premium paying period if it is less than 20 years; and

J. premiums for incidental insurance benefits shall be stated separately.

Statutory Authority: *MS s 61A.20*

2750.1400 NONFORFEITURE, PARTIAL WITHDRAWAL, POLICY LOAN, AND PARTIAL SURRENDER PROVISIONS.

Every variable life insurance policy delivered or issued for delivery in this state shall contain provisions that are not less favorable to the policyholder than the following:

A. a provision for nonforfeiture insurance benefits so that at least one such benefit is offered on a fixed basis from the due date of the premium in default:

(1) variable extended term insurance may not be offered;

(2) a given nonforfeiture option need not be offered on both a fixed and a variable basis;

(3) the insurer may establish a reasonable minimum cash surrender value below which any such nonforfeiture insurance options will not be available;

B. a provision for policy loans after three full years' premiums have been paid (which may at the option of the insurer be entitled and referred to as a partial withdrawal provision) not less favorable to the policyholder than the following:

(1) up to 75 percent but if the loan is made from the general account not more than 90 percent of the policy's cash value may be borrowed;

(2) the amount borrowed, or any repayment thereof, shall not affect the amount of the premium payable under the policy;

(3) the amount borrowed shall bear interest at a rate not to exceed eight percent per year compounded annually;

(4) any indebtedness shall be deducted from the proceeds payable on death;

(5) any indebtedness shall be deducted from the cash value upon surrender or in determining any nonforfeiture benefit;

(6) whenever the indebtedness exceeds the cash value, the insurer shall give notice of intent to cancel the policy if the excess indebtedness is not repaid within 31 days after the date of mailing of such notice;

(7) the policy may provide that if, at any time, so long as premiums are duly paid, the variable death benefit is less than it would have been if no loan or withdrawal had ever been made, the policyholder may increase such variable death benefit up to what it would have been if there had been no loan or withdrawal by paying an amount not exceeding 110 percent of the corresponding increase in cash value and by furnishing such evidence of insurability as the insurer may request;

(8) in addition to the foregoing, the policy may contain a partial surrender provision; however, any such provision shall provide that the policyholder may request part of the cash value and both the variable and minimum death benefits will be reduced in proportion to the percentage of the cash value received by the policyholder and the premium for the remaining amount of insurance will also be reduced to the appropriate rates for the reduced amount of insurance. The policy may provide that a partial surrender provision

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shall not require the insurer to reduce the amount of the minimum death benefit to less than the lowest amount of minimum death benefit which would have been issued to the insured under the insurance plans of the insurer at the time the policy was issued. The policy must clearly provide that the policyholder has the option of electing to exercise the cash value privileges of the policy loan or partial withdrawal provision rather than the partial surrender provision;

(9) all policy loan, partial withdrawal, or partial surrender provisions shall be constructed so that variable life insurance policyholders who have not exercised such provision are not disadvantaged by the exercise thereof;

(10) moneys paid to the policyholders upon the exercise of any policy loan, partial withdrawal, or partial surrender provision shall be withdrawn from the separate account and shall be returned to the separate account upon repayment except that a stock insurer may provide the moneys for policy loans from the general account.

Statutory Authority: *MS s 61A.20*

2750.1500 OTHER POLICY PROVISIONS.

Other policy provisions:

A. Incidental insurance benefits, if offered, shall be on a fixed basis only.

B. Policies issued on a participating basis shall offer to pay dividend amounts in cash. In addition, such policies may offer the following dividend options:

(1) the amount of the dividend may be credited against premium payments;

(2) the amount of the dividend may be applied to provide paid-up amounts of additional fixed benefit whole life insurance;

(3) the amount of the dividend may be applied to provide paid-up amounts of additional variable life insurance;

(4) the amount of the dividend may be deposited in the general account at a specified minimum rate of interest; and

(5) the amount of the dividend may be applied to provide paid-up amounts of fixed benefit one-year term insurance.

C. A provision allowing the policyholder to elect in writing in the application for the policy or thereafter an automatic premium loan on a basis not less favorable than that required of policy loans or partial withdrawals under part 2750.1400, except that a restriction that no more than two consecutive premiums can be paid under this provision may be imposed.

Statutory Authority: *MS s 61A.20*

RESERVE LIABILITIES

2750.2100 STANDARD VALUATION LAW.

Reserve liabilities for variable life insurance policies shall be established under the standard valuation law, Minnesota Statutes, section 61A.25, in accordance with actuarial procedures that recognize the variable nature of the benefits provided and any mortality guarantees.

Statutory Authority: *MS s 61A.20*

2750.2200 GUARANTEED MINIMUM DEATH BENEFIT.

Reserve liabilities for the guaranteed minimum death benefit shall be the reserve needed to provide for the contingency of death occurring when the guaranteed minimum death benefit exceeds the death benefit that would be paid in the absence of the guarantee, and shall be maintained in the general account of the insurer and shall be not less than the greater of the following minimum reserves:

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A. the aggregate total of the term costs, if any, covering a period of one full year from the valuation date, of the guarantee on each variable life insurance contract, assuming an immediate one-third depreciation in the current value of the assets of the separate account followed by a net investment return equal to the assumed investment rate; or

B. the aggregate total of the attained age level reserves on each variable life insurance contract. The attained age level reserve on each variable life insurance contract shall not be less than zero and shall equal the residue, as described in subitem (1), of the prior year's attained age level reserve on the contract, with any such residue, increased or decreased by a payment computed on an attained age basis as described in subitem (2):

(1) the residue of the prior year's attained age level reserve on each variable life insurance contract shall not be less than zero and shall be determined by adding interest at the valuation interest rate to such prior year's reserve, deducting the tabular claims based on the excess, if any, of the guaranteed minimum death benefit over the death benefit that would be payable in the absence of such guarantee, and dividing the net result by the tabular probability of survival (the "excess" referred to in the preceding sentence shall be based on the actual level of death benefits that would have been in effect during the preceding year in the absence of the guarantee, taking appropriate account of the reserve assumptions regarding the distribution of death claim payments over the year);

(2) the payment referred to under this item shall be computed so that the present value of a level payment of that amount each year over the future premium paying period of the contract is equal to (X) minus (Y) minus (Z), where (X) is the present value of the future guaranteed minimum death benefits, (Y) is the present value of the future death benefits that would be payable in the absence of such guarantee, and (Z) is any residue, as described in subitem (1), of the prior year's attained age level reserve on such variable life insurance contract. If the contract is paid-up, the payment shall equal (X) minus (Y) minus (Z). The amounts of future death benefits referred to in (Y) shall be computed assuming a net investment return of the separate account that may differ from the assumed investment rate and/or the valuation interest rate but in no event may exceed the maximum interest rate permitted for the valuation of life contracts.

C. The valuation interest rate and mortality table used in computing the two minimum reserves described in items A and B shall conform to permissible standards for the valuation of life insurance contracts. In determining such minimum reserve, the company may employ suitable approximations and estimates, including but not limited to groupings and averages.

Statutory Authority: *MS s 61A.20*

2750.2300 FIXED INCIDENTAL INSURANCE BENEFITS.

Reserve liabilities for all fixed incidental insurance benefits shall be maintained in the general account in amounts determined in accordance with the actuarial procedures appropriate to such benefit.

Statutory Authority: *MS s 61A.20*

SEPARATE ACCOUNTS

2750.3100 ESTABLISHMENT AND ADMINISTRATION OF SEPARATE ACCOUNTS.

An insurer issuing variable life insurance in this state shall establish and administer one or more separate accounts pursuant to Minnesota Statutes, section 61A.14.

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A. All persons with access to the cash, securities, or other assets of the separate account shall be under bond in an amount not less than $3,000,000.

B. If an insurer establishes more than one separate account for variable life insurance, justification for the establishment of each additional separate account shall also be filed with the commissioner. The creation of additional separate accounts to avoid lower maximum charges against the separate account is prohibited.

C. The assets of such separate accounts established for variable life insurance policies shall be valued at least as often as variable benefits are determined but in any event at least monthly.

D. A separate account exempt pursuant to section 3(c)(11) of the Investment Company Act of 1940 because of the tax qualified status of the policies funded thereby shall not be used to fund other variable life insurance policies.

E. Except for separate accounts exempt pursuant to section 3(c)(11) of the Investment Company Act of 1940, variable life insurance separate accounts shall not be used for variable annuities or for the investment of funds corresponding to dividend accumulations or other policyholder liabilities not involving life contingencies.

Statutory Authority: *MS s 61A.20*

2750.3200 AMOUNTS IN SEPARATE ACCOUNT.

Amounts in separate account:

A. The insurer shall maintain in each variable life insurance separate account assets with a fair market value at least equal to the greater of the valuation reserves for the variable portion of the variable life insurance policies or the benefit base for such policies.

B. The benefit base of any variable life insurance policy as of the beginning of any valuation period shall not be less than the sum of the following factors after deducting amounts of any indebtedness pursuant to part 2750.1400, item B:

(1) the valuation net premium for such period, for the variable portion of the policy, minus the discounted cost of term insurance for such period, based on the tabular mortality and interest rates used in determining valuation reserves; and

(2) the valuation terminal reserve, for the variable portion of the policy, at the end of the immediately preceding valuation period adjusted for the net investment return of such preceding period.

C. In lieu of the minimum benefit base requirement specified in item B an insurer may otherwise qualify under this part if the policy benefits obtained over a 20-year period from the date of issue by the use of the insurer's benefit base are at least substantially equivalent in value to the benefits obtained by the use of the minimum benefit base specified in item B.

D. Notwithstanding the actual reserve basis used for policies that do not meet standard underwriting requirements, the benefit base for such policies may be the same as for corresponding policies that do meet standard underwriting requirements.

Statutory Authority: *MS s 61A.20*

2750.3300 INVESTMENTS BY SEPARATE ACCOUNT.

Subpart 1. **Permissible.** Assets allocated to a variable life insurance separate account shall be held in cash or investments having a reasonably ascertainable market price. For purposes of this subpart, only the following shall be considered investments having a reasonably ascertainable market price:

A. liens in favor of the insurer against separate account policy reserves resulting from use by policyholders of cash values;

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B. securities listed and traded on the New York Stock Exchange, the American Stock Exchange, or regional stock exchanges or successors to such exchanges having the same or similar qualifications;

C. securities listed on the National Association of Securities Dealers Automated Quotations System (hereinafter referred to as the "NASDAQ System");

D. shares of an investment company registered pursuant to the Investment Company Act of 1940 (where such an investment company issues book shares in lieu of share certificates, such book shares shall be deemed to be adequate evidence of ownership);

E. obligations of or guaranteed by the United States government, the Canadian government, any state, municipality, or governmental subdivision of a state;

F. commercial paper issued by business corporations when the total of such paper issued by the corporation does not exceed in value a guaranteed short line of credit by a bank;

G. certificates of deposit issued by financial institutions, the deposits of which are insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation; and

H. new bond or debt issues which may reasonably be expected to be listed on an exchange regulated by the Securities Exchange Act of 1934.

Subp. 2. **Prohibitions.** Assets allocated to a variable life insurance separate account shall not be invested in:

A. commodities or commodity contracts;

B. put and call options or combinations of such options;

C. short sales;

D. purchases on margins;

E. letter or restricted stock;

F. units or other evidences of ownership of a separate account of another insurer, except those registered under the Investment Company Act of 1940; or

G. real estate other than shares of a real estate investment trust listed as described in subpart 1, item B.

Statutory Authority: *MS s 61A.20*

2750.3400 LIMITATIONS ON OWNERSHIP.

Limitations on ownership:

A. A variable life insurance separate account shall not purchase or otherwise acquire the securities of any issuer, other than securities issued or guaranteed as to principal and interest by the United States, if immediately after such purchase or acquisition the value of such investment, together with prior investments of such account in such security valued as required by this part, would exceed ten percent of the value of the assets of the separate account. The commissioner shall waive this limitation in writing if he believes such waiver will not render the operation of the separate account hazardous to the public or the policyholders in this state.

B. No separate account shall purchase or otherwise acquire the voting securities of any issuer if as a result of such acquisition the insurer and its separate accounts, in the aggregate, will own more than ten percent of the total issued and outstanding voting securities of such issuer. The commissioner shall waive this limitation in writing if he believes such waiver will not render the operation of the separate account hazardous to the public or the policyholders in this state or jeopardize the independent operation of the issuer of such securities.

C. The percentage limitation specified in item A shall not be construed to preclude the investment of the assets of separate accounts in shares of

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investment companies registered pursuant to the Investment Company Act of 1940 if the investments and investment policies of such investment companies comply substantially with the provisions of part 2750.3300 and other applicable portions of this chapter.

Statutory Authority: *MS s 61A.20*

2750.3500 VALUATION OF ASSETS OF VARIABLE LIFE INSURANCE SEPARATE ACCOUNT.

Subpart 1. **Market value.** Investments of the separate account shall be valued at their market value on the date of valuation.

A. Market value for investments traded on the recognized exchanges means the last reported sale price on the date of valuation. If there has been no sale on that date, the market value means the last reported bid quotation on the date of valuation.

B. Market value for investments listed on the NASDAQ System means the last representative bid quotation on the valuation date. If an investment ceases to be listed but continues to be traded over the counter, it shall be valued at the lowest bid quotation as it appears on the National Quotation Bureau sheets.

C. If the valuation date referred to items A and B is a day when the exchange or the NASDAQ System is not open for business, the valuation date shall be the last date when the exchange or the NASDAQ System was open for business.

Subp. 2. **Cessation of trading.** If an investment ceases to be traded, it shall be valued at fair value as determined in good faith by or at the direction of the board of directors of the insurer but not in excess of the last reported bid quotation.

Subp. 3. **Notice of cessation of trading.** Notification of cessation of trading of any investment shall be reported by the insurer to the commissioner within 30 days thereof.

Statutory Authority: *MS s 61A.20*

2750.3600 SEPARATE ACCOUNT INVESTMENT POLICY.

Separate account investment policy:

A. The investment policy of a separate account operated by a domestic insurer filed under part 2750.0300, item B, subitem (3) shall not be changed without filing the change with the commissioner.

B. The commissioner shall have 60 days after the date the change is filed with him to notify the insurer of his determination that the proposed change is a material change in the insurer's investment policy.

C. If the change is deemed material by the commissioner he shall hold a public hearing to determine whether the change is detrimental to the interests of the policyholders of the insurer.

D. At least 30 days prior to any public hearing under item C, the insurer shall mail a notice to each policyholder and to the insurance commissioner of each state in which the affected variable life insurance policies are being sold. Such notice shall describe the proposed change in investment policy, list the reasons therefor, designate the date and place of the public hearing, inform the policyholder of the procedures to be followed in commenting on the change, and describe the conduct of the meeting.

E. Within 60 days after such public hearing, the commissioner shall notify the insurer of his determination, and if it is that the change is detrimental to the interests of the policyholders of the insurer, the insurer shall not be allowed to make such change.

F. Should any policyholder object to the proposed change and the change is allowed by the commissioner, the objecting policyholder shall be given

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the option within 60 days of notification to the policyholder of the allowance by the commissioner of such change, or converting, without evidence of insurability, under one of the following options, to a fixed benefit life insurance policy issued by the insurer or an affiliate:

(1) if the policy is in force on a premium paying basis, either:

(a) conversion as of the original issue age to a substantially comparable permanent form of fixed benefit life insurance, based on the insurer's premium rates for fixed benefit life insurance at the original issue age, for an amount of insurance not exceeding the death benefit of the variable life insurance policy on the date of conversion;

(b) conversion as of the attained age to a substantially comparable permanent form of fixed benefit life insurance for an amount of insurance not exceeding the excess of the death benefit of the variable life insurance policy on the date of conversion over:

i. its cash value on the date of conversion if the policyholder elects to surrender the variable life policy for its cash value; or

ii. the death benefit payable under any paid-up insurance option if the policyholder elects such nonforfeiture option under the variable life policy;

(2) if the policy is in force as paid-up variable life insurance, then conversion will be to a substantially comparable paid-up fixed benefit life insurance policy for an amount of insurance not exceeding the death benefit of the variable life insurance policy on the date of conversion;

(3) if conversion is made pursuant to item F, subitem (1) or (2), then:

(a) if the cash value of the variable life insurance policy exceeds the cash value of the fixed benefit life insurance policy, the difference shall be paid to the policyholder;

(b) if the cash value of the fixed benefit life insurance policy exceeds the cash value of the variable life insurance policy, the difference shall be paid by the policyholder; and

(c) any indebtedness under the variable life insurance policy shall become indebtedness under the fixed benefit policy, provided that any excess of such indebtedness over the cash value of the fixed benefit policy on the date the conversion shall be deducted from any amount otherwise payable to the policyholder.

Statutory Authority: *MS s 61A.20*

2750.3700 CHARGES AGAINST VARIABLE LIFE INSURANCE SEPARATE ACCOUNT.

Subpart 1. **Permissible deductions.** The insurer may deduct only the following from the separate account:

A. taxes or reserves for taxes attributable to investment gains and income of the separate account;

B. actual cost of reasonable brokerage fees and similar direct acquisition and sales costs incurred in the purchase or sale of separate account assets;

C. actuarially determined costs of insurance (tabular costs) and the release of reserves and benefit base consistent with the release of separate account liabilities;

D. charges for investment management expenses, including internal costs attributable to the investment management of assets of the separate account, not exceeding the following percentages, on an annual basis, of the average net value of the separate account as of the dates of valuation under part 2750.3100, item C: .75 percent of that portion of separate account assets valued

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at or under $75,000,000; and .50 percent of that portion of separate account assets valued in excess of $75,000,000 but less than $150,000,000; and .40 percent of that portion of separate account assets valued in excess of $150,000,000 but less than $400,000,000; and .35 percent of that portion of separate account assets valued in excess of $400,000,000 but less than $800,000,000; and .30 percent of that portion of separate account assets valued in excess of $800,000,000;

E. a charge, at a rate specified in the policy, not to exceed .50 percent per year of the average net asset value of the separate account as of the dates of valuation under part 2750.3100, item C, for mortality and expense guarantees; and

F. any amounts in excess of those required to be held in the separate account.

Subp. 2. **Other charges.** Any charges against the separate account made by either an affiliate of the insurer or an unaffiliated fund shall be considered part of the charges limited by subpart 1, items D and E. Any charge against the separate account, excluding taxes, shall not vary in accordance with the difference between the investment performance of the separate account and any index of securities prices or other measure of investment performance.

Statutory Authority: *MS s 61A.20*

ADDITIONAL INFORMATION; FOREIGN COMPANIES; AGENT QUALIFICATIONS

2750.4100 INFORMATION FURNISHED TO APPLICANTS.

The requirements of this part shall be deemed to have been satisfied to the extent that a disclosure containing information required by this part is delivered, either in the form of a prospectus included in a registration statement relating to the policies that satisfies the requirements of the Securities Act of 1933 and that was declared effective by the Securities and Exchange Commission; or all information and reports required by the Employee Retirement Income Security Act of 1974 if the policies are exempted from the registration requirements of the Securities Act of 1933 pursuant to section 3(a)(2) thereof. An insurer delivering or issuing for delivery in this state any variable life insurance policies shall deliver to the applicant for the policy, and obtain a written acknowledgement of receipt from such applicant coincident with or prior to the execution of the application, the following information:

A. a summary explanation, in nontechnical terms, of the principal features of the policy, including a description of the manner in which the variable benefits will reflect the investment experience of the separate account and the factors which affect such variation. Such explanation must include notices of the provision required by part 2750.1300, item A, subitem (5) and Minnesota Statutes, section 61A.03, clause (3);

B. a statement of the investment policy of the separate account, including:

(1) a description of the investment objective and orientation intended for the separate account and the principal types of investments intended to be made; and

(2) any restriction or limitations on the manner in which the operations of the separate account are intended to be conducted;

C. a statement of the net investment return of the separate account for each of the last ten years for which the separate account was in existence;

D. a statement describing, as an approximate percentage of an annual gross premium for each year and for the life of the policy all commission or equivalent payments to be paid to all agents or other persons as a result of the proposed sale for each year of the policy for which such payments are to be made. As used in this part, "commissions" means all moneys and other valuable consideration, including but not limited to prizes, bonuses paid directly

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or indirectly to, for, or on behalf of the selling agent as compensation for services in the sale of variable life insurance;

E. a statement of the annual taxes, brokerage fees, and similar costs, and the charges, expressed as an annual percentage, levied against the separate account during the previous year;

F. a summary of the method to be used in valuing assets held by the separate account;

G. a summary of the federal income tax liabilities of the policy applicable to the insured, the policy owner, and the beneficiary;

H. if the applicant is furnished illustrations of benefits payable under any variable life insurance contract, such illustrations shall be prepared by the insurer and shall not include projections of past investment experience into the future or attempted predictions of future investment experience, provided that nothing contained herein prohibits use of hypothetical assumed rates of return to illustrate possible levels of benefits if it is made clear that such assumed rates are hypothetical only;

I. a prominent statement either in contrasting color or in boldface type at least four points larger than the type size of the largest type used in the text of any provision on the page, providing in substance the following information:

(1) "The purpose of this variable life insurance policy is to provide insurance protection for the beneficiary named therein."

(2) "No claim is made that this variable life insurance policy is in any way similar or comparable to a systematic investment plan of a mutual fund."

Statutory Authority: *MS s 61A.20*

2750.4200 APPLICATIONS.

The application for a variable life insurance policy shall contain:

A. a prominent statement that the death benefit may be variable or fixed under specified conditions;

B. a prominent statement that cash values may increase or decrease in accordance with the experience of the separate account, subject to any specified minimum guarantees; and

C. questions designed to elicit information which enables the insurer to determine the suitability of variable life insurance for the applicant.

Statutory Authority: *MS s 61A.20*

2750.4300 REPORTS TO POLICYHOLDERS.

Any insurer delivering or issuing for delivery in this state any variable life insurance policies shall mail to each variable life insurance policyholder at his or her last known address the following reports:

A. Furnish, within 30 days after each anniversary of the policy, a statement or statements of the cash surrender value, death benefit, any partial withdrawal or policy loan, any interest charge, and any optional payments allowed pursuant to part 2750.1300 under the policy computed as of the policy anniversary date. Provided, however, that such statement may be furnished within 30 days after a specified date in each policy year so long as the information contained therein is computed as of a date not more than 45 days prior to the mailing of such notice. This statement shall state in contrasting color or distinctive type that, in accordance with the investment experience of the separate account, the cash values and the variable death benefit may increase or decrease, and shall prominently identify any value described therein which may be recomputed prior to the next statement required by this part. If the policy guarantees that the variable death benefit on the next policy anniversary date will not be less than the variable death benefit specified in such statement, the statement shall be modified to so indicate.

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B. Furnish annually, a statement or statements including:

(1) a summary of the financial statement of the separate account based on the annual statement last filed with the commissioner;

(2) the net investment return of the separate account for the last year and, for each year after the first, a comparison of the investment rate of the separate account during the last year with the investment rate during prior years, up to a total of five years when available;

(3) a list of investments held by the separate account as of a date not earlier than the end of the last year for which an annual statement was filed with the commissioner;

(4) any charges, taxes, and brokerage fees determined on an accrual basis payable by the separate account during the previous year, each expressed as a dollar amount and a percentage and the total expressed as a dollar amount and as a percentage of the assets of the separate account;

(5) a statement of any change, since the last report, in the investment objective and orientation of the separate account, in any investment restriction or material quantitative or qualitative investment requirement applicable to the separate account or in the investment adviser of the separate account;

(6) the names and principal occupations of each principal executive officer and each director of the insurer; and

(7) the names of all parents of the insurer and the basis of control of the insurer, and the name of any person who is known to own, of record or beneficially, ten percent or more of the outstanding voting securities of the company.

Statutory Authority: *MS s 61A.20*

2750.4400 FOREIGN COMPANIES.

If the law, rule, or regulation in the place of domicile of a foreign company provides a degree of protection to the policyholders and the public that is substantially greater than that provided by this chapter, the commissioner shall consider compliance with such law, rule, or regulation as compliance with these rules.

Statutory Authority: *MS s 61A.20*

2750.4500 QUALIFICATION OF AGENTS FOR SALE OF VARIABLE LIFE INSURANCE.

Any person who holds a valid license to solicit and sell life insurance in this state and has filed with the commissioner evidence of compliance with all applicable state and federal securities laws shall be qualified pursuant to Minnesota Statutes, section 60A.17, subdivision 13, clause (1) to sell or offer for sale variable life insurance policies in this state.

Statutory Authority: *MS s 61A.20*

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