

304.6-180 Deficiency reserve -- Recognition of premium deficiency reserve.

- (1) If in any contract year the gross premium charged by any life insurer on any policy or contract, which is subject to subsection (2) of KRS 304.6-140, is less than the valuation net premium for the policy or contract calculated by the method used in calculating the reserve thereon, but using the minimum valuation standards of mortality and rate of interest, the minimum reserve required for such 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 such policy or contract, or the reserve calculated by the method actually used for such policy or contract but using the minimum 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 valuation standards of mortality and rate of interest referred to in this section are those standards stated in KRS 304.6-140 and 304.6-145. Provided that for any life insurance policy issued on or after January 1, 1986, for which the gross premium in the first policy year exceeds that of the second year and for which no comparable additional benefit is provided in the first year for such excess and which provides an endowment benefit or a cash surrender value or a combination thereof in an amount greater than such excess premium, the foregoing provisions of this section shall be applied as if the method actually used in calculating the reserve for such policy were the method described in KRS 304.6-150, ignoring the second subsection of that section. The minimum reserve at each policy anniversary of such a policy shall be the greater of the minimum reserve calculated in accordance with KRS 304.6-150, including the second subsection of that section, and the minimum reserve calculated in accordance with this section.
- (2) When the anticipated losses, loss adjustment expenses, commissions and acquisition costs, and maintenance costs exceed the recorded unearned premium reserve and any future installment premiums on existing policies, a premium deficiency reserve shall be recognized by a property and casualty insurer by recording an additional liability for the deficiency, with a corresponding charge to operations. Commission and other acquisition costs need not be considered in the premium deficiency analysis to the extent they have previously been expensed. For purposes of determining if a premium deficiency exists, insurance contracts shall be grouped in a manner consistent with how policies are marketed, serviced, and measured. A liability shall be recognized for each grouping where a premium deficiency is indicated. Deficiencies shall not be offset by anticipated profits in other policy groupings. If a premium deficiency reserve is established, disclosure of the amount of that reserve shall be made in the financial statements. If a reporting entity utilizes anticipated investment income as a factor in the premium deficiency calculation, disclosure of this shall be made in the financial statements.
- (3) When the anticipated losses, loss adjustment expenses, commissions and other acquisition costs, and maintenance costs exceed the recorded unearned premium reserve, contingency reserve, and the estimated future renewal premium on existing policies, a mortgage guaranty insurer shall recognize a premium deficiency reserve

by recording an additional liability for the deficiency with a corresponding charge to operations. Commissions and other acquisition costs need not be considered in the premium deficiency analysis to the extent they have been expensed. If a mortgage guaranty insurer utilizes anticipated investment income as a factor in the premium deficiency calculation, disclosure of this shall be made in the financial statements.

- (4) When the expected claims payments or incurred costs, claim adjustment expenses, and administration costs exceed the premiums to be collected for the remainder of a contract period, an individual or group accident and health insurer or health maintenance organization shall recognize a premium deficiency reserve by recording an additional liability for the deficiency, with a corresponding charge to operations. For purposes of determining if a premium deficiency exists, contracts shall be grouped in a manner consistent with how policies are marketed, serviced, and measured. A liability shall be recognized for each grouping where a premium deficiency is indicated. Deficiencies shall not be offset by anticipated profits in other policy groupings. Such accruals shall be made for any loss contracts, even if the contract period has not yet started.

Effective: July 13, 2004

History: Amended 2004 Ky. Acts ch. 24, sec. 17, effective July 13, 2004. -- Amended 1982 Ky. Acts ch. 263, sec. 13, effective July 15, 1982. -- Amended 1978 Ky. Acts ch. 280, sec. 7, effective June 17, 1978. -- Created 1970 Ky. Acts ch. 301, subtit. 6, sec. 18, effective June 18, 1970.