

PROPOSED RULEMAKING

INSURANCE DEPARTMENT

[31 PA. CODE CH. 147]

Annual Financial Reporting Requirements

The Insurance Department (Department) proposes to amend Chapter 147 (relating to annual financial reporting requirements) to read as set forth in Annex A. This rulemaking is proposed under the authority of sections 206, 506, 1501 and 1502 of The Administrative Code of 1929 (71 P.S. §§ 66, 186, 411 and 412), regarding the general proposed rulemaking authority of the Department, sections 320, 630, 1007 and 2452 of The Insurance Company Law of 1921 (40 P.S. §§ 443, 764a, 967 and 991.2452), regarding the authority of the Insurance Commissioner to require insurance companies, associations, exchanges, fraternal benefit societies and preferred provider organizations to file statements concerning their affairs and financial condition, sections 205 and 206 of The Pennsylvania Fair Plan Act (40 P.S. §§ 1600.205 and 1600.206), section 731 of the Medical Care Availability and Reduction of Error (MCARE) Act (40 P.S. § 1303.731), 40 Pa.C.S. §§ 6125, 6331 and 6701 (relating to reports and examinations; reports and examinations; and regulation), sections 11 and 14 of the Health Maintenance Organization Act (40 P.S. §§ 1561 and 1564) and sections 7 and 25 of the Continuing-Care Provider Registration and Disclosure Act (40 P.S. §§ 3207 and 3225), regarding the specific regulatory and rulemaking authority of the Department as to financial reporting by the Pennsylvania Fair Plan, the Pennsylvania Professional Liability Joint Underwriting Association, hospital plan corporations, professional health service corporations, beneficial associations, health maintenance organizations and continuing care providers, respectively.

Purpose

The purpose of this proposed rulemaking is to update Chapter 147, commonly referred to as the "CPA Audit Rule." Chapter 147 was initially adopted in 1979 and requires insurers to have annual audits of their year-end statutory financial statements performed by independent certified public accountants. It is based on a model regulation developed by the National Association of Insurance Commissioners (NAIC) and included in the NAIC's Financial Regulation Standards and Accreditation Program.

This proposed rulemaking is based upon changes to NAIC Model Regulation #205 adopted by the NAIC in 2014. The amendments to the NAIC model were developed as a result of the NAIC's determination that it was necessary for insurers to maintain an effective internal audit function capable of providing the insurer's audit committee with independent assurance regarding to the insurer's governance, risk management and internal controls. As such, the NAIC determined that the best way to implement an internal audit requirement would be to place the requirement within the NAIC's existing Annual Financial Reporting Model Regulation (#205). Model Regulation #205 currently includes a requirement for insurers to receive an annual financial statement audit, as well as requirements related to the establishment of audit committees and maintenance of effective internal controls over financial reporting. The proposed amendments add corporate governance-related functions to the audit committee's responsibilities.

The Department expects that the proposed amendments to Chapter 147 will be required for the Department to maintain accreditation by the NAIC.

Explanation of Regulatory Requirements

The following is a description of the changes in the proposed rulemaking:

Proposed amendments to § 147.2 (relating to definitions) revise the definition of "audit committee" to add functions and add a definition for "internal audit function."

Proposed amendments to § 147.3a (relating to requirements for audit committees) add a requirement for an audit committee to oversee the insurer's internal audit function, to fix an error in existing text and to renumber the remainder of the section accordingly.

Proposed § 147.8a (relating to internal audit function requirements) would set forth the requirements for the establishment of the internal audit function, including independence and reporting requirements. This section would also specify which insurers would be exempt from those requirements.

Proposed amendments to § 147.13 (relating to effective date and exemption) include a provision requiring an insurer no longer qualifying for an exemption to comply with the requirements of § 147.8a within 1 year of exceeding the exemption thresholds.

Affected Parties

The proposed rulemaking applies to insurers licensed to transact business in this Commonwealth that are not exempt under proposed § 147.8a(a).

Fiscal Impact

State government

There will not be a material increase in cost to the Department as a result of this proposed rulemaking.

General public

The public will benefit to the extent the proposed rulemaking strengthens financial solvency regulatory requirements for insurers, thereby promoting the ability of the insurance industry to meet obligations under insurance policies.

Political subdivisions

The proposed rulemaking will not impose additional costs on political subdivisions.

Private sector

The proposed rulemaking may impose additional costs on insurers that have not yet established an internal audit function. However, the strengthened requirements are consistent with National standards to be adopted by all states participating in the NAIC Financial Regulation Standards and Accreditation Program. This proposed rulemaking minimizes costs by including a number of exemptions for smaller insurers.

Paperwork

The proposed rulemaking would not impose additional paperwork on the Department, as no filing is required to be made by insurers regarding this new requirement. To the extent that insurers document internal audit function requirements in written format, the amendments may impose additional paperwork on insurers.

Effectiveness Date and Sunset Date

The proposed rulemaking will become effective 30 days after final-form publication in the *Pennsylvania Bulletin*. The Department continues to monitor the effectiveness of regulations on a triennial basis. Therefore, a sunset date has not been assigned.

Contact Person

Questions or comments concerning this proposed rulemaking may be addressed in writing to Bridget E. Burke, Regulatory Coordinator, 1341 Strawberry Square, Harrisburg, PA 17120, fax (717) 772-1969, briburke@pa.gov within 30 days after the publication in the *Pennsylvania Bulletin*.

Regulatory Review

Under section 5(a) of the Regulatory Review Act (71 P. S. § 745.5(a)), on January 11, 2016, the Department submitted a copy of this proposed rulemaking and a copy of a Regulatory Analysis Form to the Independent Regulatory Review Commission (IRRC) and to the Chairpersons of the House Insurance Committee and the Senate Banking and Insurance Committee. A copy of this material is available to the public upon request.

Under section 5(g) of the Regulatory Review Act, IRRC may convey any comments, recommendations or objections to the proposed rulemaking within 30 days of the close of the public comment period. The comments, recommendations or objections must specify the regulatory review criteria in section 5.2 of the Regulatory Review Act (71 P. S. § 745.5b) which have not been met. The Regulatory Review Act specifies detailed procedures for review, prior to final publication of the rulemaking, by the Department, the General Assembly and the Governor of comments, recommendations or objections raised.

TERESA D. MILLER,
Insurance Commissioner

Fiscal Note: 11-254. No fiscal impact; (8) recommends adoption.

Annex A

TITLE 31. INSURANCE

PART VIII. MISCELLANEOUS PROVISIONS

CHAPTER 147. ANNUAL FINANCIAL REPORTING REQUIREMENTS

§ 147.2. Definitions.

The following words and terms, when used in this chapter, have the following meanings, unless the context clearly indicates otherwise:

* * * * *

Audit committee—

(i) A committee or equivalent body established by the board of directors or equivalent body of an [**insurer**] **entity** for the purpose of overseeing the [**accounting and financial reporting processes, audits of financial statements, and internal control structure of the insurer or insurer group.**] following functions of an insurer or insurer group:

- (A) **Accounting and financial reporting processes.**
- (B) **Internal audit function.**
- (C) **External audits of financial statements.**
- (D) **Internal control structure.**

(ii) The term includes a committee established under section 1405(c)(4) or (5) of The Insurance Company Law of 1921 (40 P. S. § 991.1405(c)(4) and (5)).

* * * * *

*Insurer group—*Two or more affiliated insurers identified by a controlling entity for the purpose of evaluating the effectiveness of internal control over financial reporting.

Internal audit function—The role of a person in providing independent, objective and reasonable assurances that add value to and improve upon the organization’s operations and assist the organization in accomplishing its objectives by employing a systematic disciplined approach to evaluate and improve the effectiveness of the risk management, control and governance processes.

*Internal control over financial reporting—*The process effected by the board of directors, management and other personnel of an insurer or insurer group, which provides reasonable assurances regarding the reliability of the financial statements in accordance with § 147.9a (relating to establishment and communication of internal control over financial reporting).

* * * * *

§ 147.3a. Requirements for audit committees.

* * * * *

(f) The audit committee shall retain an independent certified public accountant to conduct the annual audit and issue an audited financial report under this chapter in accordance with the following requirements:

* * * * *

(3) The report required under paragraph (2) may be provided to the audit committee on an aggregate basis for insurers in an insurer group, if the report identifies any substantial differences in reported items among the insurers in the group.

(g) The audit committee is responsible for overseeing the insurer’s internal audit function and granting the person performing the function suitable authority and resources to fulfill their responsibilities as required under § 147.8a (relating to internal audit function requirements).

[(g)] (h) Exemptions are as follows.

(1) The requirements of subsections (b), (c), (e) and (f) do not apply to an insurer with direct written and assumed premiums less than \$500,000,000, excluding premiums reinsured with the Federal Crop Insurance Corporation and the Federal Flood Program, which has been granted an exemption by the Department on the basis of financial or organizational hardship under § 147.13(g) (relating to effective date and exemption).

(2) This section does not apply to continuing care providers.

(3) The requirements of subsections (b)—(e) do not apply to insurers subject to section 1405(c)(4) and (5) of The Insurance Company Law of 1921 (40 P. S. § 991.1405(c)(4) and (5)), Sarbanes Oxley [**complaint**] **compliant** entities or direct or indirect wholly owned subsidiaries of Sarbanes Oxley [**complaint**] **compliant** entities.

[(h)] (i) This section may not be interpreted to limit the Department’s authority to require an insurer to take

specific corrective action relating to the independence of audit committee members under sections 501—563, 501-A—515-A[,] and 501-B—515-B of The Insurance Department Act of 1921 (40 P. S. §§ 221.1—221.63, 221.1-A—221.15-A[,] and 221.1-B—221.15-B) [**(relating to), regarding** suspension of business and risk-based capital requirements[], **31 Pa. Code**], Chapter 160 (relating to standards to define insurers deemed to be in hazardous financial condition) or other provisions of law.

(*Editor's Note:* The following section is new and printed in regular type to enhance readability.)

§ 147.8a. Internal audit function requirements.

(a) *Exemption.* An insurer is exempt from the requirements of this section if:

(1) The insurer meets the following requirements:

(i) Has annual direct written and unaffiliated assumed premium, including international direct and assumed premium excluding premiums reinsured with the Federal Crop Insurance Corporation and Federal Flood Program, less than \$500 million.

(ii) If the insurer is a member of a group of insurers, the group has annual direct written and unaffiliated assumed premium including international direct and assumed premium, excluding premiums reinsured with the Federal Crop Insurance Corporation and Federal Flood Program, less than \$1 billion.

(2) It is a continuing care provider licensed to transact business in this Commonwealth under the Continuing-Care Provider Registration and Disclosure Act (40 P. S. §§ 3201—3225).

(b) *Function.* The insurer or group of insurers shall establish an internal audit function that provides independent, objective and reasonable assurance to the audit committee and the insurer's management regarding the insurer's governance, risk management and internal controls. This function includes the performance of general and specific audits, reviews and tests and employ other techniques deemed necessary to protect assets, evaluate control effectiveness and efficiency, and evaluate compliance with policies and regulations.

(c) *Independence.* To ensure that internal auditors remain objective, the internal audit function must be organizationally independent. Specifically, the internal audit function may not defer ultimate judgment on audit matters to others, and shall appoint an individual to head the internal audit function who will have direct and unrestricted access to the board of directors. Organizational independence does not preclude dual-reporting relationships.

(d) *Reporting.* The head of the internal audit function shall report to the audit committee regularly, but no less than annually, on the periodic audit plan, factors that may adversely impact the internal audit function's independence or effectiveness, material findings from completed audits and the appropriateness of corrective actions implemented by management as a result of audit findings.

(e) *Additional requirements.* If an insurer is a member of an insurance holding company system or included in a group of insurers, the insurer may satisfy the internal audit function requirements in this section at the ultimate controlling parent level, an intermediate holding company level or the individual legal entity level.

(f) *Internal review by exempt entities.* An insurer or group of insurers exempt from the requirements of this section is encouraged, but not required, to conduct a review of the insurer business type, sources of capital and other risk factors to determine whether an internal audit function is warranted. The potential benefits of an internal audit function should be assessed and compared against the estimated costs.

§ 147.13. Effective date and exemption.

* * * * *

(i) In the case of insurers organized in Canada or the United Kingdom of Great Britain and Northern Ireland, the annual audited financial report is defined as the annual statement of total business on the form filed by the insurers with their domiciliary supervision authority, audited by an independent chartered accountant. For these insurers, the letter required in § 147.6a (relating to letter of qualifications of independent certified public accountant) must state that the independent certified public accountant is aware of the requirements relating to the annual audited financial report filed with the Commissioner under § 147.3 (relating to filing and extensions for filing [**of annual audited financial report**] **required reports and communications**) and affirm that the opinion expressed is in conformity with those requirements.

(j) **If an insurer or group of insurers exempt from the requirements of § 147.8a (relating to internal audit function requirements) no longer qualifies for that exemption, it has 1 year after the year the threshold is exceeded to comply with the requirements of § 147.8a.**

[Pa.B. Doc. No. 16-111. Filed for public inspection January 22, 2016, 9:00 a.m.]

[31 PA. CODE CH. 84]

Tables Approved for Use in Determining Minimum Nonforfeiture Standards and Minimum Standards for Valuation

The Insurance Department (Department) proposes to amend Chapter 84 (relating to tables approved for use in determining minimum nonforfeiture standards and minimum standards for valuation) to read as set forth in Annex A. This rulemaking is proposed under the authority of sections 206, 506, 1501 and 1502 of The Administrative Code of 1929 (71 P. S. §§ 66, 186, 411 and 412), regarding the general rulemaking authority of the Department, sections 301 and 303 of The Insurance Department Act of 1921 (40 P. S. §§ 71 and 73), regarding computation of reserve liability and minimum reserve requirements of companies charging less than net premiums computed on mortality tables, and section 410A of The Insurance Company Law of 1921 (40 P. S. § 510.1), regarding standard nonforfeiture law for life insurance.

Purpose

The purpose of this proposed rulemaking is to adopt new mortality tables for use in determining the minimum reserves that insurers must maintain for annuities. These new minimum standards would apply to annuities issued on or after the effective date of adoption of this proposed rulemaking. The proposed amendments are based upon changes to National Association of Insurance Commissioners (NAIC) Model Regulation 821, which were ad-

opted by the NAIC in 2012. The 2012 Individual Annuity Mortality Table was developed by the Society of Actuaries and the American Academy of Actuaries in cooperation with the Life Actuarial (A) Task Force and reflects improved mortality experience resulting from increased life expectancies. The new table is a generational table that incorporates projections for future mortality improvements. In other words, because people are living longer, mortality tables must be updated so that insurers can maintain accurate reserves. As such, increased reserving will strengthen insurer solvency and thereby protect consumers by ensuring reliable payment of benefits when due.

The Department's adoption of the proposed mortality tables will help to assure the solvency of insurance companies by requiring adequate and accurate reserves based on the most recent mortality tables. Additionally, the adoption of the proposed amendments will promote consistency with other states.

Explanation of Regulatory Requirements

The following is a description of the significant features of and changes in the proposed rulemaking:

Proposed amendments to § 84.2 (relating to definitions) would add definitions for "generational mortality table," "period table," "Projection Scale G2," "2012 IAR Table" and "2012 IAM Period Table."

Proposed amendments to § 84.3 (relating to 1983 Table "a," Annuity 2000 Mortality Table, 1983 GAM Table, 1994 GAR Table and 2012 IAR Mortality Table) include the addition of the 2012 IAR Mortality Table, which would be applicable to annuities or pure endowment contracts issued after the effective date of adoption of this proposed rulemaking. The remainder of this section would be renumbered accordingly.

Proposed § 84.3a (relating to application of the 2012 IAR Mortality Table) sets forth the methodology for application of the 2012 IAR Mortality Table and provides examples for calculation of mortality rates.

Proposed Appendices I—IV set forth the 2012 IAM Period Tables and the Projection Scale G2 for males and females.

External Comments

The Department circulated exposure drafts of this proposed rulemaking to the Insurance Federation of Pennsylvania, Inc., the American Fraternal Alliance and the Pennsylvania Fraternal Alliance. Comments received were editorial and expressed support for the proposed rulemaking.

Affected Parties

The proposed rulemaking would apply to life insurance companies and fraternal benefit societies issuing annuity and pure endowment contracts in this Commonwealth.

Fiscal Impact

State government

There will be no increase in cost to the Department due to the adoption of new annuity tables since the proposed rulemaking does not impose additional requirements on the insurance industry which the Department must monitor for compliance.

General public

It is unlikely that there will be adverse fiscal impact on the consumers who purchase annuity contracts. The

general public will be purchasing annuity contracts from more financially stable insurers.

Political subdivisions

The proposed rulemaking will not impose additional costs on political subdivisions.

Private sector

The proposed rulemaking may have some fiscal impact on insurance companies marketing annuity contracts. Insurers will be required to expend the time necessary to determine if their current annuity reserve standards meet the new requirements. To the extent that the standards do not comply with the new requirements, an insurance company must increase the reserves for contracts issued on or after the effective date of adoption of this proposed rulemaking. However, negative fiscal impact would be minimized by requiring the new tables be used only for contracts issued after the effective date of adoption of this proposed rulemaking.

Paperwork

The proposed rulemaking will not impose additional paperwork on the Department. The proposed rulemaking will not change an insurer's existing reporting, record-keeping or other paperwork requirements.

Effectiveness Date and Sunset Date

The proposed rulemaking will become effective 30 days after final-form publication in the *Pennsylvania Bulletin*. The Department continues to monitor the effectiveness of regulations on a triennial basis. Therefore, a sunset date has not been assigned.

Contact Person

Questions or comments concerning this proposed rulemaking may be addressed in writing to Bridget E. Burke, Regulatory Coordinator, 1341 Strawberry Square, Harrisburg, PA 17120, fax (717) 772-1969, briburke@pa.gov within 30 days after the publication in the *Pennsylvania Bulletin*.

Regulatory Review

Under section 5(a) of the Regulatory Review Act (71 P. S. § 745.5(a)), on January 11, 2016, the Department submitted a copy of this proposed rulemaking and a copy of a Regulatory Analysis Form to the Independent Regulatory Review Commission (IRRC) and to the Chairpersons of the House Insurance Committee and the Senate Banking and Insurance Committee. A copy of this material is available to the public upon request.

Under section 5(g) of the Regulatory Review Act, IRRC may convey any comments, recommendations or objections to the proposed rulemaking within 30 days of the close of the public comment period. The comments, recommendations or objections must specify the regulatory review criteria in section 5.2 of the Regulatory Review Act (71 P. S. § 745.5b) which have not been met. The Regulatory Review Act specifies detailed procedures for review, prior to final publication of the rulemaking, by the Department, the General Assembly and the Governor of comments, recommendations or objections raised.

TERESA D. MILLER,
Insurance Commissioner

Fiscal Note: 11-255. No fiscal impact; (8) recommends adoption.

Annex A

TITLE 31. INSURANCE

PART IV. LIFE INSURANCE

CHAPTER 84. TABLES APPROVED FOR USE IN DETERMINING MINIMUM NONFORFEITURE STANDARDS AND MINIMUM STANDARDS FOR VALUATION

§ 84.2. Definitions.

The following words and terms, when used in this chapter, have the following meanings, unless the context clearly indicates otherwise:

Act—The Insurance Department Act of 1921 (40 P. S. §§ 1—321).

Annuity 2000 Mortality Table—The mortality table developed by the Society of Actuaries Committee on Life Insurance Research and shown on page 240 of Volume XLVII of the *Transactions of the Society of Actuaries* (1995) and adopted as a recognized mortality table for annuities in December 1996 by the NAIC.

Commissioner—The Insurance Commissioner of the Commonwealth.

Department—The Insurance Department of the Commonwealth.

Generational mortality table—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.

Law—The Insurance Company Law of 1921 (40 P. S. §§ 341—991).

NAIC—The National Association of Insurance Commissioners.

Period table—A table of mortality rates applicable to a given calendar year.

Projection Scale G2—The table, as shown in Appendices III and IV, of annual rates, $G2_x$, of mortality improvement by age for projecting future mortality rates beyond calendar year 2012 developed by the Society of Actuaries Committee on Life Insurance Research.

1983 Table “a”—The mortality table developed by the Society of Actuaries Committee to Recommend a New Mortality Basis for Individual Annuity Valuation and adopted as a recognized mortality table for annuities in June 1982 by the NAIC.

1983 GAM Table—The mortality table developed by the Society of Actuaries Committee on Annuities and adopted as a recognized mortality table for annuities in December 1983 by the NAIC.

1994 GAR Table—The mortality table developed by the Society of Actuaries Group Annuity Valuation Table Task Force and shown on pages 866—867 of volume XLVII of the *Transactions of the Society of Actuaries* (1995) and adopted as a recognized mortality table for annuities in December 1996 by the NAIC.

2012 IAR Table—The generational mortality table developed by the Society of Actuaries Committee on Life Insurance Research containing rates, q_x^{2012+n} , derived from a combination of the 2012 IAM Period Table and Projection Scale G2, using the methodology in § 84.3a (relating to application of the 2012 IAR Mortality Table).

2012 IAM Period Table—The period table, as shown in Appendices I and II, containing loaded mortality rates for calendar year 2012, q_x^{2012} , developed by the Society of Actuaries Committee on Life Insurance Research.

§ 84.3. 1983 Table “a,” Annuity 2000 Mortality Table, 1983 GAM Table [and], 1994 GAR Table and 2012 IAR Mortality Table.

(a) The 1983 Table “a,” the Annuity 2000 Mortality Table excluding mortality rates independent of sex, the 1983 GAM Table [and], the 1994 GAR Table and the 2012 IAR Mortality Table are approved by the Commissioner as annuity mortality tables for valuation.

(b) At the option of the company, the 1983 Table “a” may be used in determining the minimum standard of valuation for an individual annuity or pure endowment contract issued prior to January 1, 1986, and for an annuity or pure endowment purchased prior to January 1, 1986, under a group annuity or pure endowment contract.

(c) The 1983 Table “a,” or the Annuity 2000 Mortality Table excluding mortality rates independent of sex shall be used in determining the minimum standard of valuation for an individual annuity or pure endowment contract issued on or after January 1, 1986, and prior to June 26, 1999.

(d) The Annuity 2000 Mortality Table excluding mortality rates independent of sex shall be used, except as provided by [subsection (e)] subsections (e) and (f), in determining the minimum standard of valuation for an individual annuity or pure endowment contract issued on or after June 26, 1999.

(e) Except as provided in subsection (f), the 2012 IAR Mortality Table shall be used for determining the minimum standard of valuation for any individual annuity or pure endowment contract issued on or after _____ (Editor’s Note: The blank refers to the effective date of adoption of this proposed rulemaking).

[(e)] (f) The 1983 Table “a” shall be used in determining the minimum standard of valuation for an individual annuity or pure endowment contract issued on or after June 26, 1999[.], when the contract is based on life contingencies and is issued to fund periodic benefits arising from:

(1) Settlements of claims pertaining to court settlements or out of court settlements from tort actions.

(2) Settlements of claims, such as worker’s compensation claims.

(3) Settlements of long term disability claims when a temporary or life annuity has been used in lieu of continuing disability payments.

[(f)] (g) At the option of the company, the 1983 GAM Table or the 1994 GAR Table may be used in determining the minimum standard of valuation for an annuity or pure endowment purchased prior to January 1, 1986, under a group annuity or pure endowment contract.

[(g)] (h) The 1983 GAM Table or the 1994 GAR Table shall be used in determining the minimum standard of valuation for an annuity or pure endowment purchased

on or after January 1, 1986, and prior to June 26, 1999, under a group annuity or pure endowment contract.

[(h)] (i) 1994 GAR Table.

(1) The 1994 GAR Table shall be used in determining the minimum standard of valuation for an annuity or pure endowment purchased on or after June 26, 1999, under a group annuity or pure endowment contract.

(2) In using the 1994 GAR Table, the mortality rate for a person age x in year (1994 + n) shall be calculated as follows:

$$q_x^{1994+n} = q_x^{1994} (1 - AA_x)^n$$

where the values of q_x^{1994} and AA_x are as specified in the 1994 GAR Table.

(Editor's Note: Section 84.3a and Appendices I—IV are new and printed in regular type to enhance readability.)

§ 84.3a. Application of the 2012 IAR Mortality Table.

(a) In using the 2012 IAR Mortality Table, the mortality rate for a person age x in year (2012 + n) is calculated as follows: $q_x^{2012+n} = q_x^{2012} (1 - G2_x)^n$.

(b) The resulting q_x^{2012+n} shall be rounded to three decimal places per 1,000, for example, 0.741 deaths per 1,000. This rounding shall occur according to the formula in subsection (a), starting at the 2012 period table rate.

(1) 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.

(2) 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} .

**APPENDIX I
2012 IAM Period Table
Female, Age Nearest Birthday**

AGE	1000 · q_x^{2012}	AGE	1000 · q_x^{2012}	AGE	1000 · q_x^{2012}	AGE	1000 · q_x^{2012}
0	1.621	30	0.300	60	3.460	90	88.377
1	0.405	31	0.321	61	3.916	91	97.491
2	0.259	32	0.338	62	4.409	92	107.269
3	0.179	33	0.351	63	4.933	93	118.201
4	0.137	34	0.365	64	5.507	94	130.969
5	0.125	35	0.381	65	6.146	95	146.449
6	0.117	36	0.402	66	6.551	96	163.908
7	0.110	37	0.429	67	7.039	97	179.695
8	0.095	38	0.463	68	7.628	98	196.151
9	0.088	39	0.504	69	8.311	99	213.150
10	0.085	40	0.552	70	9.074	100	230.722
11	0.086	41	0.600	71	9.910	101	251.505
12	0.094	42	0.650	72	10.827	102	273.007
13	0.108	43	0.697	73	11.839	103	295.086
14	0.131	44	0.740	74	12.974	104	317.591
15	0.156	45	0.780	75	14.282	105	340.362
16	0.179	46	0.825	76	15.799	106	362.371
17	0.198	47	0.885	77	17.550	107	384.113
18	0.211	48	0.964	78	19.582	108	400.000
19	0.221	49	1.051	79	21.970	109	400.000
20	0.228	50	1.161	80	24.821	110	400.000
21	0.234	51	1.308	81	28.351	111	400.000
22	0.240	52	1.460	82	32.509	112	400.000
23	0.245	53	1.613	83	37.329	113	400.000
24	0.247	54	1.774	84	42.830	114	400.000
25	0.250	55	1.950	85	48.997	115	400.000
26	0.256	56	2.154	86	55.774	116	400.000
27	0.261	57	2.399	87	63.140	117	400.000
28	0.270	58	2.700	88	71.066	118	400.000
29	0.281	59	3.054	89	79.502	119	400.000
						120	1000.000

PROPOSED RULEMAKING

APPENDIX II
2012 IAM Period Table
Male, Age Nearest Birthday

AGE	$1000 \cdot q_x^{2012}$	AGE	$1000 \cdot q_x^{2012}$	AGE	$1000 \cdot q_x^{2012}$	AGE	$1000 \cdot q_x^{2012}$
0	1.605	30	0.741	60	5.096	90	109.993
1	0.401	31	0.751	61	5.614	91	123.119
2	0.275	32	0.754	62	6.169	92	137.168
3	0.229	33	0.756	63	6.759	93	152.171
4	0.174	34	0.756	64	7.398	94	168.194
5	0.168	35	0.756	65	8.106	95	185.260
6	0.165	36	0.756	66	8.548	96	197.322
7	0.159	37	0.756	67	9.076	97	214.751
8	0.143	38	0.756	68	9.708	98	232.507
9	0.129	39	0.800	69	10.463	99	250.397
10	0.113	40	0.859	70	11.357	100	268.607
11	0.111	41	0.926	71	12.418	101	290.016
12	0.132	42	0.999	72	13.675	102	311.849
13	0.169	43	1.069	73	15.150	103	333.962
14	0.213	44	1.142	74	16.860	104	356.207
15	0.254	45	1.219	75	18.815	105	380.000
16	0.293	46	1.318	76	21.031	106	400.000
17	0.328	47	1.454	77	23.540	107	400.000
18	0.359	48	1.627	78	26.375	108	400.000
19	0.387	49	1.829	79	29.572	109	400.000
20	0.414	50	2.057	80	33.234	110	400.000
21	0.443	51	2.302	81	37.533	111	400.000
22	0.473	52	2.545	82	42.261	112	400.000
23	0.513	53	2.779	83	47.441	113	400.000
24	0.554	54	3.011	84	53.233	114	400.000
25	0.602	55	3.254	85	59.855	115	400.000
26	0.655	56	3.529	86	67.514	116	400.000
27	0.688	57	3.845	87	76.340	117	400.000
28	0.710	58	4.213	88	86.388	118	400.000
29	0.727	59	4.631	89	97.634	119	400.000
						120	1000.000

APPENDIX III
 Projection Scale G2
 Female, Age Nearest Birthday

AGE	G2 _x	AGE	G2 _x	AGE	G2 _x	AGE	G2 _x
0	0.010	30	0.010	60	0.013	90	0.006
1	0.010	31	0.010	61	0.013	91	0.006
2	0.010	32	0.010	62	0.013	92	0.005
3	0.010	33	0.010	63	0.013	93	0.005
4	0.010	34	0.010	64	0.013	94	0.004
5	0.010	35	0.010	65	0.013	95	0.004
6	0.010	36	0.010	66	0.013	96	0.004
7	0.010	37	0.010	67	0.013	97	0.003
8	0.010	38	0.010	68	0.013	98	0.003
9	0.010	39	0.010	69	0.013	99	0.002
10	0.010	40	0.010	70	0.013	100	0.002
11	0.010	41	0.010	71	0.013	101	0.002
12	0.010	42	0.010	72	0.013	102	0.001
13	0.010	43	0.010	73	0.013	103	0.001
14	0.010	44	0.010	74	0.013	104	0.000
15	0.010	45	0.010	75	0.013	105	0.000
16	0.010	46	0.010	76	0.013	106	0.000
17	0.010	47	0.010	77	0.013	107	0.000
18	0.010	48	0.010	78	0.013	108	0.000
19	0.010	49	0.010	79	0.013	109	0.000
20	0.010	50	0.010	80	0.013	110	0.000
21	0.010	51	0.010	81	0.012	111	0.000
22	0.010	52	0.011	82	0.012	112	0.000
23	0.010	53	0.011	83	0.011	113	0.000
24	0.010	54	0.011	84	0.010	114	0.000
25	0.010	55	0.012	85	0.010	115	0.000
26	0.010	56	0.012	86	0.009	116	0.000
27	0.010	57	0.012	87	0.008	117	0.000
28	0.010	58	0.012	88	0.007	118	0.000
29	0.010	59	0.013	89	0.007	119	0.000
						120	0.000

PROPOSED RULEMAKING

APPENDIX IV
Projection Scale G2
Male, Age Nearest Birthday

AGE	$G2_x$	AGE	$G2_x$	AGE	$G2_x$	AGE	$G2_x$
0	0.010	30	0.010	60	0.015	90	0.007
1	0.010	31	0.010	61	0.015	91	0.007
2	0.010	32	0.010	62	0.015	92	0.006
3	0.010	33	0.010	63	0.015	93	0.005
4	0.010	34	0.010	64	0.015	94	0.005
5	0.010	35	0.010	65	0.015	95	0.004
6	0.010	36	0.010	66	0.015	96	0.004
7	0.010	37	0.010	67	0.015	97	0.003
8	0.010	38	0.010	68	0.015	98	0.003
9	0.010	39	0.010	69	0.015	99	0.002
10	0.010	40	0.010	70	0.015	100	0.002
11	0.010	41	0.010	71	0.015	101	0.002
12	0.010	42	0.010	72	0.015	102	0.001
13	0.010	43	0.010	73	0.015	103	0.001
14	0.010	44	0.010	74	0.015	104	0.000
15	0.010	45	0.010	75	0.015	105	0.000
16	0.010	46	0.010	76	0.015	106	0.000
17	0.010	47	0.010	77	0.015	107	0.000
18	0.010	48	0.010	78	0.015	108	0.000
19	0.010	49	0.010	79	0.015	109	0.000
20	0.010	50	0.010	80	0.015	110	0.000
21	0.010	51	0.011	81	0.014	111	0.000
22	0.010	52	0.011	82	0.013	112	0.000
23	0.010	53	0.012	83	0.013	113	0.000
24	0.010	54	0.012	84	0.012	114	0.000
25	0.010	55	0.013	85	0.011	115	0.000
26	0.010	56	0.013	86	0.010	116	0.000
27	0.010	57	0.014	87	0.009	117	0.000
28	0.010	58	0.014	88	0.009	118	0.000
29	0.010	59	0.015	89	0.008	119	0.000
						120	0.000

[Pa.B. Doc. No. 16-112. Filed for public inspection January 22, 2016, 9:00 a.m.]