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TITLE 40 **INSURANCE**

Part

- I. Preliminary Provisions
- II. Regulation of Insurers and Related Persons Generally
- III. Special Provisions Relating to Particular Classes of Insurers
- IV. Standard Valuation

Enactment. Unless otherwise noted, the provisions of Title 40 were added November 15, 1972, P.L.1063, No.271, effective in 90 days.

PART I **PRELIMINARY PROVISIONS**

Chapter

- 1. General Provisions

Enactment. Part I was added November 15, 1972, P.L.1063, No.271, effective in 90 days.

CHAPTER 1
GENERAL PROVISIONS

Sec.

101. Definitions.

Enactment. Chapter 1 was added November 15, 1972, P.L.1063, No.271, effective in 90 days.

§ 101. Definitions.

Subject to additional definitions contained in subsequent provisions of this title which are applicable to specific parts, articles, chapters or other provisions of this title, the following words and phrases when used in this title shall have, unless the context clearly indicates otherwise, the meanings given to them in this section:

"Beneficial society." A corporation subject to regulation under the act of June 4, 1937 (P.L.1643, No.342).

"Certificate of authority." An instrument in writing issued by the department authorizing an insurer or proposed insurer to engage in the business of insurance, or some specified line, branch or part thereof, in this Commonwealth.

"Corporation not-for-profit." A corporation not-for-profit as defined in Title 15 (relating to corporations and unincorporated associations).

"Department." The Insurance Department of the Commonwealth.

"Foreign." Not incorporated or organized under the laws of this Commonwealth.

"Uncertificated." Not holding an unsuspended or unrevoked certificate of authority authorizing the relevant line, branch or part of the business of insurance.

PART II
REGULATION OF INSURERS AND RELATED
PERSONS GENERALLY

Chapter

- 33. Compliance with Federal Health Care Legislation
- 35. Medical Professional Liability Reciprocal Exchange-to-Stock Conversion
- 37. Unclaimed Life Insurance Benefits
- 38. Retroactive Denial of Reimbursements

Enactment. Part II (Reserved) was added November 15, 1972, P.L.1063, No.271, effective in 90 days.

Part Heading. The heading of Part II (Reserved) was amended June 17, 2013, P.L.43, No.13, effective in 60 days.

CHAPTER 33
COMPLIANCE WITH FEDERAL
HEALTH CARE LEGISLATION

Sec.

3301. Definitions.

3302. Opt-out for abortion.

Enactment. Chapter 33 was added June 17, 2013, P.L.43, No.13, effective in 60 days.

§ 3301. Definitions.

The following words and phrases when used in this chapter shall have the meanings given to them in this section unless the context clearly indicates otherwise:

"Abortion." The term shall have the same meaning given to it in 18 Pa.C.S. § 3203 (relating to definitions).

"Complication." The term shall have the same meaning given to it in 18 Pa.C.S. § 3203 (relating to definitions).

"Health insurance exchange." The term shall mean an insurance system established to comply with section 1311(b) or 1321(c) of the Patient Protection and Affordable Care Act (Public Law 111-148, 42 U.S.C. § 18031(b) or 18041(c)).

§ 3302. Opt-out for abortion.

(a) Prohibition.--The Commonwealth of Pennsylvania hereby elects pursuant to the authority granted the states under section 1303(a) of the Patient Protection and Affordable Care Act (Public Law 111-148, 42 U.S.C. § 18023(a)) to prohibit certain abortion coverage in qualified health plans offered through the health insurance exchange under subsection (b).

(b) Included coverage prohibition.--No qualified health plan offered in this Commonwealth through the health insurance exchange shall include coverage for the performance of any abortion unless the reason the abortion is performed is one for which the expenditure of public funds would be permitted under 18 Pa.C.S. § 3215(c) (relating to publicly owned facilities; public officials and public funds).

(c) Excluded coverage prohibited.--No qualified health plan offered in this Commonwealth through a health insurance exchange shall exclude coverage for:

(1) Treatment of any postabortion complication.

(2) Treatment of any miscarriage or any complication related to a miscarriage.

(d) Option.--Nothing in this section shall prohibit an individual from purchasing optional supplemental abortion coverage provided the individual pays a separate premium for the coverage and obtains the coverage outside of the health insurance exchange.

CHAPTER 35

MEDICAL PROFESSIONAL LIABILITY RECIPROCAL EXCHANGE-TO-STOCK CONVERSION

Sec.

- 3501. Definitions.
- 3502. Adoption of plan of conversion.
- 3503. Contents of plan of conversion.
- 3504. Optional provisions of plan of conversion.
- 3505. Alternative plan of conversion.
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- 3508. Corporate existence.
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- 3512. Reciprocal insurer insolvent or in hazardous financial condition.
- 3513. Rules and regulations.
- 3514. Laws applicable to stock company.
- 3515. Licensing of stock company and commencement of business as an insurance company.

3516. Amendment of policies.
3517. Prohibition on acquisition of control.

Enactment. Chapter 35 was added May 13, 2015, P.L.3, No.2, effective in 60 days.

§ 3501. Definitions.

The following words and phrases when used in this chapter shall have the meanings given to them in this section unless the context clearly indicates otherwise:

"Attorney." The person that manages and acts as the attorney-in-fact for the reciprocal insurer.

"Commissioner." The Insurance Commissioner of the Commonwealth.

"Department." The Insurance Department of the Commonwealth.

"Eligible subscriber." A subscriber of a reciprocal insurer whose policy is in force on at least one of the following dates:

(1) the date the reciprocal insurer or its attorney adopts a plan of conversion; or

(2) if a different date, on the record date for establishing subscribers eligible to vote on the plan of conversion.

"Participating policy." A policy that grants a holder the right to receive dividends if, as and when declared by the reciprocal insurer.

"Person." An individual, a corporation, a limited liability company, a partnership, an association, a joint stock company, a trust, an unincorporated organization, a similar entity or a combination of the foregoing acting in concert.

"Plan of conversion" or "plan." A plan adopted under this chapter to convert the reciprocal insurer into a stock company by the subscribers' advisory committee or an equivalent governing body of the reciprocal insurer or, in the absence of a governing body, by the board of directors or governing body of the attorney for the reciprocal insurer.

"Policy." An insurance policy issued by the reciprocal insurer.

"Reciprocal insurer." A Pennsylvania-domiciled reciprocal and inter-insurance exchange, as established in Article X of the act of May 17, 1921 (P.L.682, No.284), known as The Insurance Company Law of 1921, that is authorized to write medical professional liability insurance and at least 50% of its direct written premium in the calendar year preceding adoption of the plan of conversion consisted of medical professional liability insurance.

"Stock company." An insurance company that:

(1) meets the requirements for admission to do business as a domestic Pennsylvania insurer;

(2) is formed at the direction of the reciprocal insurer or attorney; and

(3) shall be the successor of the reciprocal insurer by the merger of the reciprocal insurer with and into the stock company or by another means approved by the commissioner.

§ 3502. Adoption of plan of conversion.

(a) Plan of conversion.--The following shall apply:

(1) A plan of conversion may not become effective unless the reciprocal insurer seeking to convert to a stock company has adopted:

(i) by the affirmative vote of not less than two-thirds of the subscribers' advisory committee or an equivalent governing body of the reciprocal insurer; or

(ii) in the absence of a governing body, by the board of directors or governing body of the attorney for the reciprocal insurer, a plan of conversion consistent with the requirements of sections 3503 (relating to contents of plan of conversion) and 3504 (relating to optional provisions of plan of conversion).

(2) Before approval of a plan by the commissioner, the reciprocal insurer may amend or withdraw the plan under paragraph (1) by the affirmative vote of not less than two-thirds of:

(i) its subscribers' advisory committee or an equivalent governing body of the reciprocal insurer; or

(ii) in the absence of a governing body, by the board of directors or governing body of the attorney for the reciprocal insurer.

(b) Eligible subscriber.--A person insured under a group policy that is otherwise an eligible subscriber also shall be an eligible subscriber. A person whose policy becomes effective after the adoption of the plan or the voting record date, if a later date, but before the plan's effective date is not an eligible subscriber but shall have the rights established under section 3507 (relating to rights of subscribers whose policies are issued after adoption of plan and before effective date).

(c) Documents.--The following shall apply:

(1) Before a reciprocal insurer's eligible subscribers may vote on approval of a plan, the reciprocal insurer or the attorney shall file the following documents with the commissioner within 90 days after adoption of the plan:

(i) the plan of conversion, including the independent evaluation of pro forma market value required under section 3503(d).

(ii) the form of notice required under subsection (g);

(iii) the form of proxy to be solicited from eligible subscribers under subsection (h);

(iv) the form of notice required under section 3508 (relating to corporate existence) to persons whose policies are issued after adoption of the plan but before its effective date;

(v) the proposed articles of incorporation and bylaws of the stock company;

(vi) the acquisition of control statement, as required under section 1402 of the act of May 17, 1921 (P.L.682, No.284), known as The Insurance Company Law of 1921; and

(vii) other information as the commissioner may request.

(2) Upon filing of the documents required under this subsection with the commissioner, the reciprocal insurer shall send to eligible subscribers a notice advising eligible subscribers of:

(i) the adoption and filing of the plan;

(ii) the ability of subscribers to provide the commissioner and the reciprocal insurer with comments on the plan within 30 days of the date of the notice; and

(iii) the procedure for making comments.

(d) Notice and approval of plan.--The commissioner shall immediately give written notice to the reciprocal insurer of a decision and, in the event of disapproval, a statement in detail

of the reasons for the decision. The commissioner shall approve the plan if the commissioner finds the following:

- (1) the plan complies with this chapter;
- (2) the plan will not prejudice the interests of the subscribers; and
- (3) the plan's method of allocating subscription rights is fair and equitable.

(e) Experts.--At the reciprocal insurer's expense, the commissioner may retain a qualified expert not otherwise a part of the commissioner's staff to assist in reviewing the plan and the independent evaluation of the pro forma market value required under section 3503(d).

(f) Hearing.--The commissioner may order a hearing on whether the terms of the plan comply with this chapter after giving written notice to the reciprocal insurer and other interested persons, all of whom have the right to appear at the hearing.

(g) Notice of subscribers' meeting.--The following shall apply:

- (1) Eligible subscribers shall be sent notice of the subscribers' meeting to vote upon the plan. The notice must:
 - (i) briefly but fairly describe the proposed conversion plan;
 - (ii) inform the subscriber of the subscriber's right to vote upon the plan; and
 - (iii) be sent to each subscriber's last known address, as shown on the reciprocal insurer's records, at least 30 days before the time fixed for the meeting.
- (2) If the reciprocal insurer holds an annual meeting of subscribers and the meeting to vote upon the plan is held at the annual meeting, only a combined notice of meeting is required.

(h) Voting.--The plan shall be voted upon by eligible subscribers and shall be deemed approved upon receiving the affirmative vote of at least two-thirds of the votes cast by eligible subscribers. Unless the governing documents of the reciprocal insurer establish a different date, the record date for determining subscribers eligible to vote on the plan shall be the date of adoption of the plan or other date set forth in the plan that shall be no less than 30 nor more than 90 days before the date of the meeting. Eligible subscribers entitled to vote upon the proposed plan may vote in person or by proxy. Unless the governing documents of the reciprocal insurer provide otherwise, an eligible subscriber may cast one vote.

(i) Approval of plan.--A merger of the reciprocal insurer with and into the stock company must be approved at the meeting of the subscribers called for the purpose of approving the plan of conversion and shall require for approval or ratification the affirmative vote of at least two-thirds of the votes cast by eligible subscribers.

(j) Documents to be filed following approval.--Within 30 days after the eligible subscribers approved the plan, the stock company shall file the following documents with the commissioner:

- (1) the minutes of the meeting of the eligible subscribers at which the plan was approved;
- (2) the articles of incorporation and bylaws of the stock company; and
- (3) articles of merger for the merger of the reciprocal insurer with and into the stock company. The plan shall be consummated upon the filing of the articles of merger.

§ 3503. Contents of plan of conversion.

(a) Contents.--The following provisions shall be included in a plan of conversion:

(1) The reasons for proposed conversion.

(2) The effect of conversion on existing policies, including a provision that the policies in force on the effective date of conversion continue to remain in force under the terms of the policies, except that the following rights, to the extent they existed in the reciprocal insurer, shall be extinguished on the effective date of the conversion:

(i) The voting rights of the subscribers provided under the policies.

(ii) The right to share in the surplus of the reciprocal insurer provided for under the policies.

(iii) The assessment provisions provided for under the policies.

(3) The grant of subscription rights to eligible subscribers, including all of the following:

(i) A provision that each eligible subscriber is to receive, without payment, nontransferable subscription rights to purchase a portion of the capital stock of the stock company and that, in the aggregate, the eligible subscribers may, prior to the right of any other party, purchase 100% of the capital stock of the stock company, exclusive of the shares of capital stock required to be sold or distributed to the holders of surplus notes or the shares of capital stock required to be sold or distributed to subscribers under the reciprocal insurer's constituent documents.

(ii) As an alternative to subscription rights in the stock company, the plan may provide that each eligible subscriber is to receive, without payment, nontransferable subscription rights to purchase a portion of the capital stock of one of the following:

(A) the attorney or a holding company that will act as the holding company for the stock company and, in either case, will hold the stock of the stock company; or

(B) an insurance company or other corporation that will purchase all the stock of or otherwise acquire the stock company.

(iii) A provision that the subscription rights shall be allocated in whole shares among the eligible subscribers using a fair and equitable formula. This formula may, but need not, take into account how the different classes of policies of the eligible subscribers contributed to the surplus of the reciprocal insurer or any other factors that may be fair or equitable.

(b) Oversubscription.--The plan shall provide a fair and equitable means for allocating shares of capital stock in the event of an oversubscription to shares by eligible subscribers exercising subscription rights received under subsection (a) (3).

(c) Shares not subscribed.--The plan shall provide that a share of capital stock not subscribed to by an eligible subscriber exercising subscription rights received under subsection (a) (3) shall be sold in a public offering through an underwriter or in another transaction approved by the commissioner. If the number of shares of capital stock not subscribed by eligible subscribers is so small in number or other factors exist that do not warrant the time or expense of a public offering, the plan of conversion may provide for sale of the unsubscribed shares through a private placement or other

alternative method approved by the commissioner that is fair and equitable to eligible subscribers.

(d) Market value of capital stock.--The following shall apply:

(1) The plan shall set the price of the capital stock equal to the estimated pro forma market value of the stock company as successor to the reciprocal insurer based upon an independent evaluation by a qualified expert.

(2) The pro forma market value may be the value that is estimated to be necessary to attract full subscription for the shares, as indicated by the independent evaluation and may be stated as a range of pro forma market value.

(3) If the attorney is a party to the conversion either as the entity that grants subscription rights to subscribers or the attorney is simultaneously acquired by the stock company in connection with the conversion, the incremental value of the attorney shall be included in the estimate of pro forma market value of the stock company as successor to the reciprocal insurer.

(4) The qualified expert shall consider the effect on the pro forma market value of a right of subscribers to a return of capital contained in the subscriber agreement or other operative document of the reciprocal insurer.

(e) Purchase price of capital stock and minimum subscription amount.--The plan shall set the purchase price per share of capital stock equal to a reasonable amount. The minimum subscription amount required of an eligible subscriber, however, cannot exceed \$500, but the plan may provide that the minimum number of shares a person may purchase under the plan is 25 shares.

(f) Limitation on amount of capital stock purchase.--The plan shall provide that a person or group of persons acting in concert may not acquire, in the public offering or under the exercise of subscription rights, more than 5% of the capital stock of the stock company or the stock of another corporation that is participating in the conversion plan, as provided in subsection (a)(3)(i), except with the approval of the commissioner. The limitation does not apply to an entity that is to purchase 100% of the capital stock of the converted company as part of the plan of conversion approved by the commissioner.

(g) Limitation on directors and officers.--The plan shall provide that a director or officer or person acting in concert with a director or officer of the reciprocal insurer or the attorney may not acquire capital stock of the stock company or the stock of another corporation that is participating in the conversion plan, as provided in subsection (a)(3)(i), for three years after the effective date of the plan, except through a broker-dealer, without the permission of the commissioner. This subsection does not prohibit the directors and officers from making a block purchase of 1% or more of the outstanding common stock:

(1) other than through a broker-dealer if approved in writing by the department;

(2) through the exercise of subscription rights received under the plan; or

(3) from participation in a stock benefit plan approved by shareholders under section 3509(b) (relating to conflict of interest).

(h) Sale of stock by directors and officers.--The plan shall provide that a director or officer may not sell stock purchased under this section or section 3504(a) (relating to optional

provisions of plan of conversion) within one year after the effective date of the conversion.

(i) Holders of surplus notes.--The plan shall provide that the rights of a holder of a surplus note to participate in the conversion shall be governed by the terms of the surplus note and the rights of subscribers to a return of capital shall be governed by the subscriber agreement or other operative document of the reciprocal insurer.

(j) Repurchase of capital stock.--The plan shall provide that, without the prior approval of the commissioner, a stock company, or a corporation participating in the conversion plan under subsection (a)(3)(i), may not for a period of three years from the date of the completion of the conversion repurchase any of its capital stock from a person. The restriction under this subsection shall not apply to either:

(1) a repurchase on a pro rata basis under an offer made to the shareholders of the stock company or a corporation participating in the conversion plan under subsection (a)(3)(i); or

(2) a purchase in the open market by a tax-qualified or nontax-qualified employee stock benefit plan in an amount reasonable and appropriate to fund the plan.

Cross References. Section 3503 is referred to in sections 3502, 3504, 3505, 3509, 3517 of this title.

§ 3504. Optional provisions of plan of conversion.

(a) Subscription rights.--The plan may provide that the directors and officers of the attorney and the reciprocal insurer shall receive, without payment, nontransferable subscription rights to purchase capital stock of the stock company or the stock of another corporation that is participating in the conversion plan, as provided in section 3503(a)(3)(ii) (relating to contents of plan of conversion). The subscription rights shall be allocated among the directors and officers by a fair and equitable formula and shall be subordinate to the subscription rights of eligible subscribers. This chapter may not require the subordination of subscription rights received by directors and officers in their capacity as eligible subscribers.

(b) Maximum share purchase by directors and officers.--The aggregate total number of shares that may be purchased by directors and officers of the attorney and the reciprocal insurer in their capacity under subsection (a) and in their capacity as eligible subscribers under section 3503(a)(3) may not exceed 35% of the total number of shares to be issued if total assets of the reciprocal insurer are less than \$50,000,000 or 25% of the total number of shares to be issued if total assets of the reciprocal insurer are more than \$500,000,000. For reciprocal companies with total assets of or between \$50,000,000 and \$500,000,000, the percentage of the total number of shares that may be purchased shall be interpolated.

(c) Liquidation account.--The plan may provide for the creation of a liquidation account for the benefit of subscribers in the event of voluntary liquidation subsequent to conversion in an amount equal to the surplus of the reciprocal insurer, exclusive of the principal amount of a surplus note, on the last day of the quarter immediately preceding the date of adoption of the plan.

Cross References. Section 3504 is referred to in sections 3502, 3503 of this title.

§ 3505. Alternative plan of conversion.

A plan of conversion may be adopted that does not rely in whole or in part upon issuing nontransferable subscription rights to subscribers to purchase stock of the stock company if the commissioner finds that the plan does not prejudice the interests of the subscribers, is fair and equitable and is not inconsistent with the purpose and intent of this chapter. An alternative plan may:

(1) Include the acquisition or merger of the stock company or a corporation participating in the conversion plan under section 3503(a)(3)(ii) (relating to contents of plan of conversion) by or into a domestic or foreign stock company.

(2) Provide for issuing stock, cash or other consideration to subscribers instead of subscription rights.

(3) Set forth another plan containing any other provisions approved by the commissioner.

§ 3506. Effective date of plan.

A plan is effective when the following have been completed:

(1) The commissioner has approved the plan.

(2) The eligible subscribers have approved the plan.

(3) If the stock company becomes successor to the reciprocal insurer by merger, the eligible subscribers have approved the merger of the reciprocal insurer with and into the stock company and the articles of merger have been filed with the Secretary of the Commonwealth.

§ 3507. Rights of subscribers whose policies are issued after adoption of plan and before effective date.

(a) Notice.--A subscriber shall be sent a written notice regarding the plan upon issuance of a policy if the subscriber's policy is issued after the later of:

(1) the date the proposed plan has been adopted; or

(2) if different, the record date for establishing subscribers eligible to vote on the plan.

The notice shall be sent before the effective date of the plan.

(b) Cancellation and refund.--A subscriber entitled to receive the notice provided for in subsection (a) shall be advised of the subscriber's right of cancellation and to a pro rata refund of unearned premiums.

(c) Limitation on subscribers.--A subscriber who has made or filed a claim under the subscriber's insurance policy may not receive a refund under subsection (b). A person who has exercised the rights provided under subsection (b) may not make or file a claim under the subscriber's insurance policy.

Cross References. Section 3507 is referred to in section 3502 of this title.

§ 3508. Corporate existence.

On the effective date of the conversion, the corporate existence of the reciprocal insurer continues in the stock company. On the effective date of the conversion, the assets, rights, franchises and interests of the reciprocal insurer in and to every species of real, personal and mixed property and the accompanying things in action are vested in the stock company without a deed or other instrument of transfer and the stock company assumes the obligations and liabilities of the reciprocal insurer.

Cross References. Section 3508 is referred to in section 3502 of this title.

§ 3509. Conflict of interest.

(a) Compensation.--A director, officer, agent or employee of the attorney or reciprocal insurer may not receive a fee,

commission or other valuable consideration, other than his usual regular salary or compensation, for aiding, promoting or assisting in a conversion under this chapter except as provided for in the plan approved by the commissioner. This subsection does not prohibit the payment of reasonable fees and compensation to counsel, accountants and actuaries for services performed in the independent practice of their professions, even if the counsel, accountant or actuary is also a director or officer of the attorney or the reciprocal insurer.

(b) Stock benefit plan.--For a period of two years after the effective date of the conversion, a stock company may not implement a non-tax-qualified stock benefit plan unless the plan is approved by a majority of votes eligible to be cast at a meeting of shareholders held not less than six months after the effective date of the conversion.

(c) Costs and expenses.--The costs and expenses connected with a plan of conversion shall be paid for or reimbursed by the reciprocal insurer or the stock company. If the plan provides for participation by another corporation or stock company in the plan under section 3503(a)(3)(ii) (relating to contents of plan of conversion), the corporation or stock company may pay for or reimburse all or a portion of the costs and expenses connected with the plan.

Cross References. Section 3509 is referred to in section 3503 of this title.

§ 3510. Failure to give notice.

If the reciprocal insurer complies substantially and in good faith with the notice requirements of this chapter, the reciprocal insurer's failure to send a subscriber the required notice does not impair the validity of an action taken under this chapter.

§ 3511. Limitation on actions.

An action challenging the validity of or arising out of acts taken or proposed to be taken under this chapter shall be commenced no later than 30 days after the later of the approval of the plan by the commissioner or the deemed approval of the plan by a vote of the eligible subscribers.

§ 3512. Reciprocal insurer insolvent or in hazardous financial condition.

(a) Waiver of requirements.--If a reciprocal insurer seeking to convert is insolvent or is in hazardous financial condition according to information supplied in its most recent annual or quarterly statement filed with the department or as determined by a financial examination performed by the department under Article IX of the act of May 17, 1921 (P.L.789, No.285), known as The Insurance Department Act of 1921, the requirements of this chapter, including notice to and policyholder approval of the plan of conversion, may be waived at the discretion of the commissioner if requested by the attorney or the reciprocal insurer. If a waiver under this section is ordered by the commissioner, the reciprocal insurer shall specify the following in its plan of conversion:

(1) The method and basis for the issuance of the stock company's shares of its capital stock to an independent party in connection with an investment by the independent party in an amount sufficient to restore the stock company, as successor to the reciprocal insurer, to a sound financial condition.

(2) That the conversion shall be accomplished without granting subscription rights or other consideration to the past, present or future subscribers.

(b) Authority of commissioner.--This section shall not alter or limit the authority of the commissioner under the provisions of law, including, but not limited to, Article V of The Insurance Department Act of 1921.

§ 3513. Rules and regulations.

The commissioner may promulgate rules and regulations to administer and enforce this chapter.

§ 3514. Laws applicable to stock company.

(a) Control of stock company.--A reciprocal insurer may not convert under this chapter if, as a direct result of the conversion, a person or the person's affiliates acquire control of the stock company, unless that person and the person's affiliates comply with the provisions of section 1402 of the act of May 17, 1921 (P.L.682, No.284), known as The Insurance Company Law of 1921. For purposes of this subsection, the term "control" shall have the meaning provided in section 1401 of The Insurance Company Law of 1921.

(b) Stock insurance company rules.--Except as otherwise specified in this chapter, a stock company resulting from the conversion of a reciprocal insurer under this chapter shall have and may exercise the rights and privileges and shall be subject to the requirements and regulations imposed upon stock insurance companies formed under this act and other laws of this Commonwealth relating to the regulation and supervision of insurance companies, but it may not exercise rights or privileges that other stock insurance companies may not exercise.

§ 3515. Licensing of stock company and commencement of business as an insurance company.

The commissioner may waive the minimum surplus requirement of a stock company in connection with the initial licensing of a stock company that will be the successor to a reciprocal insurer. The stock company may not engage in the business of insurance as a stock company until the completion of the merger with the reciprocal insurer and compliance with the provisions of this chapter.

§ 3516. Amendment of policies.

By endorsement or rider approved by the commissioner and sent to the policyholder, a reciprocal insurer may simultaneously with or after the adoption of a plan of conversion amend an outstanding insurance policy for the purpose of extinguishing a right of the holder of the policy to share in the surplus of the reciprocal insurer. This amendment shall be void if the plan of conversion is not submitted to the commissioner or, if submitted, is disapproved by the commissioner or, if approved by the commissioner, is not approved by the eligible subscribers on or before the first anniversary of its approval by the commissioner.

§ 3517. Prohibition on acquisitions of control.

Except as otherwise specifically provided in section 3503 (relating to contents of plan of conversion), from the date a plan of conversion is adopted until the effective date of the plan of conversion, a person may not directly or indirectly offer to acquire, make an announcement to acquire or acquire in any manner, including making a filing with the department for acquisition under a statute or regulation of this Commonwealth, the beneficial ownership of 10% or more of a class of a voting security of the attorney or the stock company that will be the successor of the reciprocal insurer or of a person that controls the voting securities of the attorney or the stock company that will be the successor of the reciprocal insurer.

CHAPTER 37
UNCLAIMED LIFE INSURANCE BENEFITS

Sec.

- 3701. Purpose of chapter.
- 3702. Definitions.
- 3703. Death master file comparison.
- 3704. Applicability.
- 3705. Enforcement.
- 3706. Regulations.

Enactment. Chapter 37 was added November 3, 2016, P.L.1043, No.132, effective in 360 days.

§ 3701. Purpose of chapter.

The purpose of this chapter is to require the complete and proper disclosure, transparency and accountability relating to a method of payment for life insurance death benefits regulated by the Insurance Department.

§ 3702. Definitions.

The following words and phrases when used in this chapter shall have the meanings given to them in this section unless the context clearly indicates otherwise:

"Beneficiary." A person designated to receive the proceeds from a life insurance policy or retained asset account.

"Commissioner." The Insurance Commissioner of the Commonwealth.

"Contract." An annuity contract. The term shall not include an annuity used to fund an employment-based retirement plan or program where:

- (1) the insurer does not perform the recordkeeping services; or
- (2) the insurer is not committed by terms of the annuity contract to pay death benefits to the beneficiaries of specific plan participants.

"Death master file." The Social Security Administration's death master file or any other database or service that is at least as comprehensive for determining that an individual has reportedly died.

"Death master file match." A search of the death master file that results in a match of the Social Security number or the name and date of birth of an insured, annuity owner or retained asset account holder.

"Department." The Insurance Department of the Commonwealth.

"Insured." An individual covered by a life insurance policy.

"Insurer." A person licensed in this Commonwealth to sell life insurance policies or annuity contracts as any of the following:

- (1) A single insurance entity.
- (2) An insurer under a parent organization that sells annuities using a different charter.

The term as used in this chapter shall not include a fraternal benefit society.

"Knowledge of death." Either of the following:

- (1) receipt of an original or valid copy of a certified death certificate; or
- (2) a death master file match validated by the insurer in accordance with section 3703(a) (relating to death master file comparison).

"Policy." A policy or certificate of life insurance that provides a death benefit. The term shall not include:

(1) a policy or certificate of life insurance that provides a death benefit under an employee benefit plan subject to the Employee Retirement Income Security Act of 1974 (Public Law 93-406, 88 Stat. 829), as periodically amended, or under any Federal employee benefits program;

(2) a policy or certificate of life insurance that is purchased in conjunction with a preneed funeral contract or prearrangement;

(3) a policy or certificate of credit life or accidental death insurance; or

(4) a policy issued to a group master policyholder for which the insurer does not provide recordkeeping services.

"Recordkeeping services." Those circumstances under which an insurer has agreed with a group policy or contract customer to be responsible for obtaining, maintaining and administering in its own or its agents' systems at least the following information about each individual insured under an insured's group insurance contract, or a line of coverage under the contract:

(1) Social Security number or name and date of birth;

(2) beneficiary designation information;

(3) coverage eligibility;

(4) benefit amount; and

(5) premium payment status.

"Retained asset account." A mechanism whereby the settlement of proceeds payable under a policy or contract is accomplished by the insurer or an entity acting on behalf of the insurer depositing the proceeds into an account with check or draft writing privileges, where those proceeds are retained by the insurer or its agent, pursuant to a supplementary contract not involving annuity benefits other than death benefits.

§ 3703. Death master file comparison.

(a) Comparison.--An insurer shall implement procedures for performing a comparison of its insureds' in-force life insurance policies, contracts and retained asset accounts against the same death master file, on at least a semiannual basis, by using the full death master file once and thereafter using the death master file update files for future comparison to identify potential matches of its insureds. For a potential match identified as a result of a death master file match, all of the following shall apply:

(1) Within 90 days of a death master file match the insurer shall:

(i) complete a good faith effort to confirm the death of the insured or retained asset account holder against other available records and information. The effort shall be documented by the insurer; and

(ii) determine whether benefits are due in accordance with the applicable policy or contract, and if benefits are due:

(A) use good faith efforts to locate the beneficiary or beneficiaries, which shall be documented by the insurer; and

(B) provide the appropriate claims forms or instructions to the beneficiary or beneficiaries to make a claim, including instructions on the need to provide an official death certificate, if applicable under the policy or contract.

(2) The insurer shall implement procedures to account for:

(i) common nicknames, initials used in lieu of a first or middle name, use of a middle name, compound

first and middle names and interchanged first and middle names;

(ii) compound last names, maiden or married names and hyphens, blank spaces or apostrophes in last names;

(iii) transposition of the month and date portions of the date of birth; and

(iv) incomplete Social Security numbers.

(3) To the extent permitted by law, the insurer may disclose minimum necessary personal information about the insured or beneficiary to a person who the insurer reasonably believes may be able to assist the insurer with locating the beneficiary or a person otherwise entitled to payment of the claims proceeds.

(b) Costs.--An insurer or its service provider may not charge an insured, a retained asset account holder, a beneficiary or other authorized representative for costs associated with a search or verification conducted in accordance with subsection (a).

(c) Payment.--

(1) The benefits from a policy, contract or retained asset account, plus applicable accrued contractual interest, shall first be paid to the designated beneficiaries or owners.

(2) If the beneficiary cannot be found, the benefits shall escheat to the Commonwealth as unclaimed property pursuant to Article XIII.1 of the act of April 9, 1929 (P.L.343, No.176), known as The Fiscal Code, and, notwithstanding the provisions of section 1301.4(a)1 of The Fiscal Code, shall be due and reportable to the Commonwealth three years after knowledge of death of the insured.

(d) Group life insurance.--An insurer shall confirm the possible death of an insured if the insurer maintains at least the following information regarding those covered under a policy or certificate:

(1) Social Security number or name and date of birth;

(2) beneficiary designation information;

(3) coverage eligibility;

(4) benefit amount; and

(5) premium payment status.

(e) Exceptions and exemptions.--At the written request of an insurer, the commissioner may make an order to:

(1) limit the insurer's death master file comparisons required under this section to the insurer's electronic searchable files or approve a plan and timeline for conversion of the insurer's files to searchable electronic files, upon a demonstration of hardship by the insurer;

(2) exempt the insurer from the death master file comparisons required under this section or permit the insurer to perform the comparisons less frequently than annually, upon a demonstration of hardship by the insurer; or

(3) phase in compliance with this section according to a plan and timeline submitted by the insured and approved by the commissioner.

Cross References. Section 3703 is referred to in section 3702 of this title.

§ 3704. Applicability.

This chapter shall not apply to all of the following:

(1) An annuity contract that does not require the insurer to pay benefits to the beneficiary of the policy.

(2) A policy that provides a death benefit under the Employee Retirement Income Security Act of 1974 (Public Law 93-406, 88 Stat. 829).

(3) A Federal employee benefit program.

(4) A policy to fund funeral or burial services.

(5) A policy of credit life insurance or health and accident insurance.

§ 3705. Enforcement.

(a) Actions.--Upon a determination by hearing that an insurer has violated this chapter, the commissioner may pursue one or more of the following courses of action:

(1) issue an order requiring the insurer to cease and desist from engaging in the violation or suspend, revoke or refuse to issue the certificate of qualification or license of the offending insurer.

(2) impose a civil penalty of not more than \$5,000 for each violation.

(b) Additional remedies or penalties.--The enforcement remedies imposed under this section shall be in addition to any other remedies or penalties imposed by statute.

(c) Administrative procedure.--An action or adjudication of the commissioner under this section shall be preceded by a hearing in accordance with 2 Pa.C.S. Ch. 5 Subch. A (relating to practice and procedure of Commonwealth agencies) and shall be subject to review and appeal in accordance with 2 Pa.C.S. Ch. 7 Subch. A (relating to judicial review of Commonwealth agency action).

§ 3706. Regulations.

The commissioner may promulgate rules and regulations to administer the provisions of this chapter.

CHAPTER 38

RETROACTIVE DENIAL OF REIMBURSEMENTS

Sec.

3801. Scope of chapter.

3802. Definitions.

3803. Retroactive denial of reimbursement.

3804. Exceptions to retroactive denial of reimbursement.

3805. Coordination of benefits.

3806. Tolling.

Enactment. Chapter 38 was added November 4, 2016, P.L.1144, No.146, effective in 60 days.

§ 3801. Scope of chapter.

This chapter shall not apply to reimbursements made as part of an annual contracted reconciliation of a risk-sharing arrangement under an administrative service provider contract.

§ 3802. Definitions.

The following words and phrases when used in this chapter shall have the meanings given to them in this section unless the context clearly indicates otherwise:

"Abuse." Incidents or practices of providers, physicians or suppliers of services and equipment which are inconsistent with accepted sound medical, business or fiscal practices.

"Fraud." Any activity defined as an offense under 18 Pa.C.S. § 4117 (relating to insurance fraud).

"Health care provider." A person, corporation, facility, institution or other entity licensed, certified or approved by the Commonwealth to provide health care or professional medical services. The term includes, but is not limited to, a physician,

chiropractor, optometrist, professional nurse, certified nurse-midwife, podiatrist, hospital, nursing home, ambulatory surgical center or birth center.

"Insurer." A health insurance entity licensed in this Commonwealth to issue any individual or group health, sickness or accident policy or subscriber contract or certificate that provides medical or health care coverage by a health care facility or licensed health care provider that is offered or governed under any of the following:

(1) The act of May 17, 1921 (P.L.682, No.284), known as The Insurance Company Law of 1921, including section 630 and Article XXIV thereof.

(2) The act of December 29, 1972 (P.L.1701, No.364), known as the Health Maintenance Organization Act.

(3) The act of May 18, 1976 (P.L.123, No.54), known as the Individual Accident and Sickness Insurance Minimum Standards Act.

(4) Chapter 61 (relating to hospital plan corporations) or 63 (relating to professional health services plan corporations).

"Reimbursement." Payments made to a health care provider by an insurer.

"Waste." The overutilization of professional medical services or the misuse of resources by a health care provider.

§ 3803. Retroactive denial of reimbursement.

(a) **General rule.**--Except as provided in section 3804 (relating to exceptions to retroactive denial of reimbursement), an insurer may not retroactively deny reimbursement as a result of an overpayment determination more than 24 months after the date the insurer initially paid the health care provider. An insurer that retroactively denies reimbursement to a health care provider under this chapter shall do so based upon coding guidelines and policies in effect at the time the service subject to the retroactive denial was rendered.

(b) **Written notice.**--An insurer that retroactively denies reimbursement to a health care provider under subsection (a) shall provide the health care provider with a written statement specifying the basis for the retroactive denial.

Cross References. Section 3803 is referred to in sections 3804, 3806 of this title.

§ 3804. Exceptions to retroactive denial of reimbursement.

The provisions of section 3803 (relating to retroactive denial of reimbursement) do not apply if an insurer retroactively denies reimbursement to a health care provider because any of the following apply:

(1) The information submitted to the insurer constitutes fraud, waste or abuse as defined in this chapter.

(2) The claim submitted to the insurer was a duplicate claim.

(3) Denial was required by a Federal or State government plan.

(4) Services were subject to coordination of benefits with another insurer, the medical assistance program or the Medicare program.

Cross References. Section 3804 is referred to in sections 3803, 3805 of this title.

§ 3805. Coordination of benefits.

If an insurer retroactively denies reimbursement for services as a result of coordination of benefits under the provisions of section 3804(4) (relating to exceptions to retroactive denial

of reimbursement), the health care provider shall have 12 months from the date of the denial, unless the entity responsible for payment permits a longer time period, to submit a claim for reimbursement for the service to such entities.

§ 3806. Tolling.

An insurer may request medical or billing records in writing from a health care provider under section 3803 (relating to retroactive denial of reimbursement). The health care provider shall provide the necessary records to the insurer within 60 days of the request. The period of time in which the health care provider is gathering the requested documentation shall be added to the 24-month period.

PART III

SPECIAL PROVISIONS RELATING TO PARTICULAR
CLASSES OF INSURERS

Article

- A. Health Plan Corporations
- B. Fraternal and Beneficial Societies

Enactment. Part III was added November 15, 1972, P.L.1063, No.271, effective in 90 days.

ARTICLE A
HEALTH PLAN CORPORATIONS

Chapter

- 61. Hospital Plan Corporations
- 63. Professional Health Services Plan Corporations

CHAPTER 61
HOSPITAL PLAN CORPORATIONS

Subchapter

- A. Preliminary Provisions and Certification
- B. Regulation Generally

Enactment. Chapter 61 was added November 15, 1972, P.L.1063, No.271, effective in 90 days.

Cross References. Chapter 61 is referred to in section 4117 of Title 18 (Crimes and Offenses); sections 4304.1, 4326 of Title 23 (Domestic Relations); section 6160 of Title 42 (Judiciary and Judicial Procedure); section 7309 of Title 51 (Military Affairs); section 1719 of Title 75 (Vehicles).

SUBCHAPTER A
PRELIMINARY PROVISIONS AND CERTIFICATION

Sec.

- 6101. Definitions.
- 6102. Certification of hospital plan corporations.
- 6103. Exemptions applicable to certified hospital plan corporations.
- 6104. Uncertified plans prohibited.
- 6105. Penalties.

§ 6101. Definitions.

The following words and phrases when used in this chapter shall have, unless the context clearly indicates otherwise, the meanings given to them in this section:

"Hospital plan corporation." A corporation not-for-profit engaged in the business of maintaining and operating a nonprofit hospital plan.

"Nonprofit hospital plan." A plan whereby for prepayment, periodical or lump sum payment hospitalization or related health benefits may be provided to subscribers to such plan.

Cross References. Section 6101 is referred to in section 6301 of this title; section 102 of Title 15 (Corporations and Unincorporated Associations).

§ 6102. Certification of hospital plan corporations.

(a) General rule.--A corporation not-for-profit incorporated for the purpose of establishing, maintaining and operating a nonprofit hospital plan shall not commence business until it shall have received from the department a certificate of authority authorizing the corporation to establish, maintain and operate such a nonprofit hospital plan.

(b) Exemption.--The provisions of subsection (a) of this section shall not apply to any nonprofit corporation incorporated with the approval of the department under the former provisions of section 218 of the Nonprofit Corporation Law of 1933. For the purposes of this chapter such a corporation shall be deemed to be a holder of a certificate of authority issued under this section.

(c) Form of application.--Every application for a certificate of authority under this section shall be made to the department in writing and shall be in such form and contain such information as the regulations of the department may require.

(d) Standards for issuance of certificate.--A certificate of authority shall be issued by order of the department only if and when the department shall find and determine that the application complies with the provisions of this chapter and the regulations of the department thereunder.

(e) Procedure before department.--For the purpose of enabling the department to make the finding or determination required by subsection (d) of this section, the department, by publication of notice in the Pennsylvania Bulletin, shall afford reasonable opportunity for hearing, which shall be public, and, before or after any such hearing, it may make such inquiries, audits and investigations, and may require the submission of such supplemental studies and information, as it may deem necessary or proper to enable it to reach a finding or determination. The department, in granting a certificate of authority, may impose such conditions as it may deem to be just and reasonable. In every case the department shall make a finding or determination in writing, stating whether or not the application has been approved, and, if it has been approved in part only, specifying the part which has been approved and the part which has been denied. Any holder of a certificate of authority, exercising the authority conferred thereby, shall be deemed to have waived any and all objections to the terms and conditions of such certificate.

(f) Judicial review.--Orders of the department upon an application for a certificate of authority under this section shall be subject to judicial review in the manner and within the time provided by law.

Cross References. Section 6102 is referred to in sections 6124, 6304, 6329 of this title.

§ 6103. Exemptions applicable to certified hospital plan corporations.

(a) General insurance laws.--A hospital plan corporation holding a certificate of authority under this chapter shall not be subject to the laws of this Commonwealth now in force relating to the business of insurance, and no statute hereafter enacted relating to the business of insurance shall apply to such a corporation unless such statute shall specifically refer and apply to a corporation subject to this chapter.

(b) Tax laws.--Every hospital plan corporation holding a certificate of authority under this chapter is hereby declared to be a charitable and benevolent institution, and all its funds and investments shall be exempt from taxation by the Commonwealth and its political subdivisions.

§ 6104. Uncertified plans prohibited.

It shall be unlawful for any person, other than a hospital plan corporation holding a certificate of authority under this chapter, to establish, maintain or operate a nonprofit hospital plan in this Commonwealth.

§ 6105. Penalties.

Any person who violates any of the provisions of this chapter, or any regulation or order of the department made pursuant thereto, any person who hinders or prevents the department in the discharge of any duty imposed on it by this chapter, any person who fraudulently procures or attempts to procure any benefit from any hospital plan corporation holding a certificate of authority under this chapter, and any person who willfully makes any false statement in any proceeding or report under this chapter, shall be guilty of a misdemeanor, and, upon conviction thereof, shall be sentenced to pay a fine of not more than \$3,000 or to be imprisoned for not more than six months, or both, in the discretion of the court. Any act or default by any corporation, association, or common law trust, in violation of any provision of this chapter or of any regulation or order of the department made pursuant thereto, shall be deemed to be the act or default of the officers or directors who participated in authorizing or effecting such act or default or who knowingly permitted it.

SUBCHAPTER B
REGULATION GENERALLY

Sec.

- 6121. Eligible hospitals.
- 6122. Action as agent under Federal and other programs.
- 6123. Investment of funds.
- 6124. Rates and contracts.
- 6125. Reports and examinations.
- 6126. Solicitors and agents.
- 6127. Dissolution or liquidation.

§ 6121. Eligible hospitals.

Any hospital plan corporation may enter into contracts for the rendering of hospitalization to any of its subscribers only with hospitals operated by the Commonwealth, or its agencies, or by political subdivisions, or by corporations organized under the laws of this Commonwealth for hospital purposes, or with such other hospitals as are approved by the Department of Public Welfare.

References in Text. The Department of Public Welfare, referred to in this section, was redesignated as the Department of Human Services by Act 132 of 2014.

Cross References. Section 6121 is referred to in section 6124 of this title.

§ 6122. Action as agent under Federal and other programs.

(a) **General rule.**--Any hospital plan corporation may, with the approval of the department, act as a contracting agency or organization under section 1841 of Title XVIII of the Federal Social Security Act, as amended or supplemented, with power to perform all the services which may be required of a contracting agency or organization thereunder and may perform administrative services similar or related to those which may be required of an agency or organization thereunder in connection with a Federal, State or local governmental health care program and may perform administrative services similar or related to those which may be required of such an agency or organization in connection with or associated with nongovernmental organizations, individuals, groups and agencies in the health care field.

(b) **Legislative amendment of stated purposes of existing corporations.**--The stated purposes of all existing hospital plan corporations are hereby amended so as to include the performance of the activities authorized by subsection (a) of this section.

§ 6123. Investment of funds.

Any statute to the contrary notwithstanding, funds of any hospital plan corporation, equal to its reserves, shall be invested in compliance with the requirements of law for the investment of the capital and reserves of life insurance companies. The funds of any such corporation, equal to its surplus, shall be invested in compliance with the requirements of law for the investment of the surplus of life insurance companies.

§ 6124. Rates and contracts.

(a) **General rule.**--The rates charged to subscribers by hospital plan corporations, all rates of payments to hospitals made by such corporations pursuant to the contracts provided for in this chapter, all acquisition costs in connection with the solicitation of subscribers to such hospital plans, the reserves to be maintained by such corporations, the certificates issued by such corporations representing their agreements with subscribers, and any and all contracts entered into by any such corporation with any hospital, shall, at all times, be subject to the prior approval of the department.

(b) **Procedure.**--Every application for such approval shall be made to the department in writing and shall be subject to the provisions of subsections (c) through (f) of section 6102 of this title (relating to certification of hospital plan corporations) except that the department may substitute publication in the Pennsylvania Bulletin of notice of reasonable opportunity to submit written comments for publication of opportunity for hearing in any case where the right to an oral hearing is not conferred by the Constitution of the United States or the Constitution of Pennsylvania. Within 60 days after the filing of the application the department shall approve or refuse such application.

(c) **Maintenance of contractual relationships.**--

(1) **Declaration of necessity.**--It is hereby found that many subscribers to nonprofit hospital plans make payments over long periods of time prior to becoming entitled to benefits under such a plan and that it is important in the

public interest that the reasonable expectations of such subscribers as to coverage should be fulfilled if possible. It is hereby declared to be essential for the maintenance of the health of the residents of this Commonwealth that subscribers to nonprofit hospital plans be assured receipt of the hospitalization and related health benefits prepaid by them through payment of the rates approved under this chapter and charged by a hospital plan corporation and that to accomplish this essential purpose termination of contracts between hospital plan corporations and hospitals entered into pursuant to section 6121 (relating to eligible hospitals) and this section be subject to prior approval by the department as provided in this subsection.

(2) Notification period.--No contract between a hospital plan corporation and any hospital providing for the rendering of hospitalization to subscribers to the hospital plan shall be terminated unless the party seeking such termination gives 90 days advance written notice to the other party to the contract and to the department of the proposed termination.

(3) Hearing period.--Whenever a termination subject to paragraph (2) involves contracts with hospitals having more than 5% of the beds in the area served by a hospital plan corporation, the department shall hold public hearings on at least 15 days notice for the purpose of investigating the reasons for the termination. Pending completion of said investigation by the department, termination of the hospital contracts shall be suspended for a period not to exceed six months from the expiration of the period provided for in paragraph (2). All terms and conditions of the contract between the hospital plan corporation and the hospital or hospitals shall continue in full force and effect during said investigation by the department. Based on the record made during the hearings, the department shall make specific findings as to the facts of the dispute and shall either approve termination of the contracts or recommend such terms for continuation of the contract as are in the public interest, based upon the facts, the right of a hospital to be paid its costs for hospitalization services to subscribers and the need of subscribers for efficient, reliable hospitalization at a reasonable cost.

(4) Negotiation period.--If the department recommends terms for continuation of the contract, the hospital plan corporation and the hospitals involved shall renew their negotiations in order to determine whether a new agreement can be reached substantially on the basis of the terms for continuation recommended by the department and pending such negotiations, the termination of the hospital contracts shall be suspended for a further period not to exceed 90 days from the date of the decision of the department. If the hospital plan corporation and the hospitals are unable to consummate a new contract within said further period of 90 days, they shall so advise the department. The department shall in that event approve termination of the contracts effective at the end of a further period of 30 days and shall prescribe the form and extent of notice which the hospital plan corporation shall use in advising its subscribers that hospitalization in the hospitals involved is not covered by a contract between the hospital plan corporation and such hospitals.

(5) Retroactivity.--Upon the settlement of any dispute between a hospital plan corporation and any hospital pursuant to paragraphs (2) and (4), the terms and conditions of any

new contract shall be retroactive to the date of expiration of the contract previously in effect between the parties. (Aug. 2, 1975, P.L.293, No.94, eff. imd.)

1996 Partial Repeal. Section 14 of Act 159 of 1996, known as the Accident and Health Filing Reform Act, provided that subsec. (a) is repealed insofar as it provides for the approval of rates and contracts.

1975 Amendment. Act 94 added subsec. (c). See sections 2 and 3 of Act 94 of 1975 in the appendix to this title for special provisions relating to applicability and effective date and retroactivity.

References in Text. Section 14 of Act 159 of 1996, known as the Accident and Health Filing Reform Act, was renumbered 5101 by the act of December 22, 2011, P.L.614, No.134.

§ 6125. Reports and examinations.

(a) **Annual report.**--Every hospital plan corporation shall on or before March 1 of each year, file with the department a statement, verified by at least two of the principal officers of the corporation showing its condition at the end of the preceding calendar year. Such statement shall be in such form, and shall contain such matters, as the department shall prescribe.

(b) **Examination.**--Every hospital plan corporation shall be subject to examination not less frequently than every three years by the department and its agents, who shall have free access to all the books, records, papers and documents that relate to the business of the corporation, and the power to examine the officers, agents, employees and subscribers to the nonprofit hospital plan of the corporation, under oath, in relation to the affairs, transactions and financial condition of the corporation. Such examinations shall be made at such times as the department shall deem necessary.

§ 6126. Solicitors and agents.

Solicitors and agents for every hospital plan corporation shall meet the prerequisites provided by law for agents of insurance companies.

§ 6127. Dissolution or liquidation.

No hospital plan corporation shall be dissolved under the provisions of Title 15 (relating to corporations and unincorporated associations) or under any other provision of law except with the prior approval of the department. Articles of dissolution for a hospital plan corporation filed in the Department of State, whether pursuant to a decree of court liquidating the corporation or otherwise, shall not be effective unless and until approved by the Insurance Department. Any dissolution or liquidation of a hospital plan corporation shall be under the supervision of the department, which shall have all powers with respect thereto granted to it under laws of this Commonwealth governing the dissolution or liquidation of insurance companies.

CHAPTER 63

PROFESSIONAL HEALTH SERVICES PLAN CORPORATIONS

Subchapter

- A. Preliminary Provisions and Certification
- B. Regulation Generally

Enactment. Chapter 63 was added November 15, 1972, P.L.1063, No.271, effective in 90 days.

Cross References. Chapter 63 is referred to in section 4117 of Title 18 (Crimes and Offenses); sections 4304.1, 4326 of Title 23 (Domestic Relations); section 6160 of Title 42 (Judiciary and Judicial Procedure); section 7309 of Title 51 (Military Affairs); section 1719 of Title 75 (Vehicles).

SUBCHAPTER A
PRELIMINARY PROVISIONS AND CERTIFICATION

Sec.

- 6301. Application of chapter.
- 6302. Definitions.
- 6303. Statement of legislative findings and policy.
- 6304. Certification of professional health service corporations.
- 6305. Initial reserves.
- 6306. Standards concerning incorporators.
- 6307. Exemptions applicable to certificated professional health service corporations.
- 6308. Uncertificated plans prohibited.
- 6309. Penalties.
- 6310. Enforcement.

§ 6301. Application of chapter.

(a) **General rule.**--This chapter shall apply to every person engaged in the business of maintaining and operating a nonprofit health service plan and to every person who shall violate any provision of this chapter.

(b) **Exceptions.**--Notwithstanding subsection (a) of this section, this chapter shall not apply to:

- (1) Any hospital plan corporations as defined in section 6101 of this title (relating to hospital plan corporation definitions).
- (2) Any fraternal benefit society subject to regulation under Chapter 65 of this title (relating to fraternal benefit societies).

References in Text. Chapter 65, referred to in this section, is repealed. The subject matter is now contained in Article XXIV of the act of May 17, 1921, P.L.682, No.284, known as The Insurance Company Law of 1921.

§ 6302. Definitions.

(a) **General rule.**--The following words and phrases when used in this chapter shall have, unless the context clearly indicates otherwise, the meanings given to them in this section:

"Ancillary health services." The general and usual services rendered and care administered by ancillary health service providers as defined herein.

"Ancillary health service providers." The following persons duly licensed or certified under the laws of this Commonwealth to provide ancillary health services: Clinical laboratory permittees as defined in the act of September 26, 1951 (P.L.1539, No.389), known as The Clinical Laboratory Act.

"Chiropractic services." The general and usual services rendered and care administered by doctors of chiropractic, as defined in the act of August 10, 1951 (P.L.1182, No.264), known as the Chiropractic Registration Act of 1951.

"Clinical social work services." The general and usual services rendered and care administered by licensed clinical social workers, as defined by the "practice of clinical social

work" in the act of July 9, 1987 (P.L.220, No.39), known as the Social Workers, Marriage and Family Therapists and Professional Counselors Act.

"Dental service corporation." A corporation not-for-profit engaged in the business of maintaining and operating a nonprofit dental service plan.

"Dental services." The general and usual services rendered and care administered by doctors of dental surgery, as defined in the act of May 1, 1933 (P.L.216, No.76), known as The Dental Law.

"Department of Health." The Department of Health of the Commonwealth.

"General medical service corporation." A corporation not-for-profit engaged in the business of maintaining and operating a nonprofit professional health service plan.

"Health care facility." As defined in the act of July 19, 1979 (P.L.130, No.48), known as the Health Care Facilities Act.

"Health service doctor." Any health care professional duly licensed or certified under Commonwealth statute regulating a particular branch of health care practice, including, but not limited to, doctor of dental surgery, doctor of medicine, doctor of optometry, doctor of osteopathy, doctor of podiatry, doctor of chiropractic, licensed physical therapist, licensed clinical social worker, licensed occupational therapist, licensed marriage and family therapist, licensed professional counselor, certified registered nurse anesthetist, certified registered nurse practitioner, certified enterostomal therapy nurse, certified community health nurse, certified psychiatric mental health nurse, certified clinical nurse specialist, licensed psychologist, licensed speech-language pathologist, licensed audiologist or licensed teacher of persons who are hearing impaired.

"Income." Net income from gains, profits and net income derived from professions, vocations, trades, businesses, commerce or sales, or dealings in property, whether real or personal, growing out of the ownership or use of or interest in such property, also from interest, rent, dividends, securities, or the transaction of any business carried on for gain or profit, or gains or profits and income derived from any source whatever and income derived from salaries, wages or compensation for personal service of whatever kind and in whatever form paid.

"Licensed marriage and family therapy services." The general and usual services rendered and care administered by persons licensed pursuant to 49 Pa. Code Ch. 48 (relating to State Board of Social Workers, Marriage and Family Therapists and Professional Counselors-Licensure of Marriage and Family Therapists).

"Licensed professional counseling services." The general and usual services rendered and care administered by persons licensed pursuant to 49 Pa. Code Ch. 49 (relating to State Board of Social Workers, Marriage and Family Therapists and Professional Counselors-Licensure of Professional Counselors).

"Low income." Low income as set forth in section 6325 (relating to income status and effect).

"Medical services." The general and usual services rendered and care administered by doctors of medicine, as defined in the act of December 20, 1985 (P.L.457, No.112), known as the Medical Practice Act of 1985.

"Nonprofit dental service plan." A plan whereby for prepayment, periodical or lump sum payment dental services only

may be provided to persons of low income or over-income and their dependents.

"Nonprofit optometric service plan." A plan whereby for prepayment, periodical or lump sum payment optometric services only may be provided to persons of low income and over-income and their dependents.

"Nonprofit professional health service plan." A plan whereby for prepayment, periodical or lump sum payment professional health services may be provided to persons of low income or over-income and their dependents. The term does not include a plan which is primarily a nonprofit dental service plan or a nonprofit optometric service plan.

"Occupational therapy services." The general and usual services rendered and care administered by licensed occupational therapists, as defined by "occupational therapy" in the act of June 15, 1982 (P.L.502, No.140), known as the Occupational Therapy Practice Act.

"Optometric service corporation." A corporation not-for-profit engaged in the business of maintaining and operating a nonprofit optometric service plan.

"Optometric services." The general and usual services rendered and care administered by doctors of optometry, as defined in the act of June 6, 1980 (P.L.197, No.57), known as the Optometric Practice and Licensure Act.

"Osteopathic services." The general and usual services rendered and care administered by doctors of osteopathy, as defined in the act of October 5, 1978 (P.L.1109, No.261), known as the Osteopathic Medical Practice Act.

"Over-income." Over-income as set forth in section 6325 (relating to income status and effect).

"Person with dependents." Any person who furnishes other persons with their chief support, whether or not such dependent person is related to or living with him.

"Physical therapy services." The general and usual services rendered and care administered by licensed physical therapists, as defined as "physical therapy" in the act of October 10, 1975 (P.L.383, No.110), known as the Physical Therapy Practice Act.

"Podiatry services." The general and usual services rendered and care administered by doctors of podiatry, as defined in the act of March 2, 1956 (1955 P.L.1206, No.375), known as the Podiatry Practice Act.

"Professional health service corporation." A dental service corporation, a general medical service corporation, or an optometric service corporation.

"Professional health services." Professional services provided by a duly licensed health service doctor, provided that the services are medically necessary.

"Psychological services." The general and usual services rendered and care administered by licensed psychologists as defined as the "practice of psychology" in the act of March 23, 1972 (P.L.136, No.52), known as the Professional Psychologists Practice Act.

"Speech-language pathology services," "audiology services" and "services of teachers of persons who are hearing impaired." The general and usual services rendered and care administered by licensed speech-language pathologists, licensed teachers of persons who are hearing impaired or licensed audiologists, as defined in the act of December 21, 1984 (P.L.1253, No.238), known as the Speech-Language and Hearing Licensure Act.

"Subscribers of low income." Persons of low income who subscribe to a nonprofit professional health service plan, a

nonprofit dental service plan or a nonprofit optometric service plan.

"Subscribers of over-income." Persons of over-income who subscribe to a nonprofit professional health service plan, a nonprofit dental service plan or a nonprofit optometric service plan.

(b) Rule of construction.--The definitions specified in subsection (a) are for the purposes of this chapter only and not for the purpose of defining dental practice, medical practice, optometric practice, osteopathic practice, podiatry practice, chiropractic practice, physical therapy practice, psychological practice, speech-language pathology practice, audiology practice or the practice of teaching persons who are hearing impaired as such.

(Oct. 10, 1980, P.L.801, No.151, eff. 90 days; Mar. 30, 1982, P.L.220, No.70, eff. imd.; Nov. 17, 1982, P.L.681, No.193, eff. 60 days; Apr. 20, 1988, P.L.363, No.57, eff. 60 days; Apr. 21, 1994, P.L.124, No.14, eff. 60 days; Oct. 9, 2008, P.L.1393, No.108, eff. 120 days)

2008 Amendment. Act 108 amended the defs. of "health service doctor" and "professional health services" and added the defs. of "clinical social work services," "licensed marriage and family therapy services," "licensed professional counseling services" and "occupational therapy services."

References in Text. The act of August 10, 1951, P.L.1182, No.264, known as the Chiropractic Registration Act of 1951, referred to in the def. of "chiropractic services," was repealed by the act of December 16, 1986, P.L.1646, No.188, known as the Chiropractic Practice Act.

Cross References. Section 6302 is referred to in section 102 of Title 15 (Corporations and Unincorporated Associations).

§ 6303. Statement of legislative findings and policy.

(a) Declaration of necessity.--It is hereby declared that adequate professional health services are essential for the maintenance of the physical and mental health of the residents of this Commonwealth, and that it is necessary that provision be made for adequate professional health services to persons of low income who are unable to provide such services for themselves or their dependents without depriving themselves or their dependents of such necessities of life as food, clothing and shelter.

(b) Construction of chapter.--It is hereby declared to be the purpose and intent of this chapter and the policy of the General Assembly to authorize qualified persons to provide adequate professional health services for residents of this Commonwealth who are unable to provide such services for themselves or their dependents at their own cost without depriving themselves or their dependents of such necessities of life as food, clothing and shelter, and provide persons of over-income with the limited professional health services benefits set forth in this chapter.

Cross References. Section 6303 is referred to in section 6325 of this title.

§ 6304. Certification of professional health service corporations.

(a) General rule.--A corporation not-for-profit incorporated for the purpose of establishing, maintaining and operating a nonprofit professional health service plan, nonprofit dental service plan or nonprofit optometric service plan shall not commence business until it shall have received from the

department a certificate of authority authorizing the corporation to establish, maintain and operate a nonprofit professional health service plan, a nonprofit dental service plan or a nonprofit optometric service plan, as the case may be.

(b) Exemptions.--The provisions of subsection (a) of this section shall not apply to any nonprofit corporation incorporated with the approval of the department under the former provisions of section 219 or 220 of the Nonprofit Corporation Law of 1933. For the purposes of this chapter such a corporation shall be deemed to be a holder of a certificate of authority issued under this section as:

(1) an optometric service corporation, if incorporated under the former provisions of section 219 of the Nonprofit Corporation Law of 1933 for the primary purpose of providing a nonprofit optometric service plan;

(2) a general medical service corporation, if incorporated under the former provisions of section 219 of the Nonprofit Corporation Law of 1933 for any other purpose; or

(3) a dental service corporation, if incorporated under the former provisions of section 220 of the Nonprofit Corporation Law of 1933.

(c) Form of application.--Every application for a certificate of authority under this section shall be made to the Insurance Department in writing and shall be in such form and contain such information as the regulations of the Department of Health and the Insurance Department may require. The Insurance Department shall forward the application to the Department of Health for action thereon and report to the Insurance Department.

(d) Standards for issuance of certificate.--A certificate of authority shall be issued by order of the Insurance Department only if and when the Department of Health and the Insurance Department shall severally find and determine that the application complies with the provisions of this chapter and the regulations of the Department of Health and the Insurance Department thereunder.

(e) Procedure.--The proceedings before the Department of Health and the Insurance Department shall be subject to the provisions of section 6102(e) of this title (relating to procedure before department) and the term department in such section shall be deemed to be a reference also to the Department of Health. Each department shall make a thorough investigation of the applicant and the area in and the plan under which it proposes to operate.

(f) Judicial review.--The final orders of the Department of Health and the Insurance Department upon an application for a certificate of authority under this section shall be deemed to be a single order for the purposes of judicial review and to have been issued on the date the Insurance Department issues its final order after having considered the final action of the Department of Health upon the application. Such order, and all other orders of each department, shall be subject to judicial review in the manner and within the time provided by law.

Cross References. Section 6304 is referred to in section 6322 of this title.

§ 6305. Initial reserves.

No professional health service corporation shall receive a certificate of authority under this chapter unless it has set up a minimum reserve of \$25,000 for the exclusive purpose of

meeting the contractual obligations of its subscribers. All or any part of such \$25,000 may be in the form of borrowed money to be repaid in whole or in part from surplus. Money borrowed to satisfy the requirements of this section may be repaid only when authorized by two-thirds of the board of directors of such corporation in office and the Insurance Department.

§ 6306. Standards concerning incorporators.

No certificate of authority shall be issued to a professional health service corporation unless all of its incorporators were residents of this Commonwealth and citizens of the United States.

(Apr. 28, 1978, P.L.202, No.53)

1978 Repeal. Act 53 repealed section 6306 in part, effective February 13, 1973. The repealed provisions have been deleted from the text.

§ 6307. Exemptions applicable to certificated professional health service corporations.

(a) **General insurance laws.**--A professional health service corporation shall be subject to regulation and supervision by the Department of Health and the Insurance Department under this chapter. A professional health service corporation holding a certificate of authority under this chapter shall not be subject to the laws of this Commonwealth now in force relating to the business of insurance, and no statute hereafter enacted relating to the business of insurance shall apply to such a corporation unless such statute shall specifically refer and apply to a corporation subject to this chapter.

(b) **Tax laws.**--Every professional health service corporation holding a certificate of authority under this chapter is hereby declared to be a charitable and benevolent institution, and all its income, funds, investments and property shall be exempt from all taxation by the Commonwealth or its political subdivisions.

§ 6308. Uncertificated plans prohibited.

(a) **General rule.**--It shall be unlawful for any person, other than a professional health service corporation holding a certificate of authority under this chapter relating to the plan being maintained or operated by such corporation, to establish, maintain or operate in this Commonwealth a nonprofit dental service plan, a nonprofit optometric service plan, or a nonprofit professional health service plan.

(b) **Exemptions.**--Nothing in subsection (a) of this section shall be construed as preventing any person from furnishing professional health services for the prevention of disease among his employees or from furnishing any of such services as required under The Pennsylvania Workmen's Compensation Act and related statutes, when the employee is not charged for such service.

References in Text. The short title of the act of June 2, 1915, P.L.736, No.338, known as The Pennsylvania Workmen's Compensation Act, referred to in subsec. (b), was amended by the act of July 2, 1993, P.L.190, No.44. The amended short title is now the Workers' Compensation Act.

§ 6309. Penalties.

Any person who violates any provision of this chapter or of any regulation or order of the Department of Health or of the Insurance Department made pursuant thereto, any person who hinders or prevents the Department of Health or the Insurance Department in the discharge of any duty imposed on it by this chapter, any person who fraudulently procures or attempts to

procure any benefit from any professional health service corporation holding a certificate of authority under this chapter, and any person who willfully makes any false statement in any proceeding or report under this chapter, shall be guilty of a misdemeanor, and, upon conviction thereof, shall be sentenced to pay a fine of not more than \$3,000 or to be imprisoned for not more than six months, or both, in the discretion of the court. Any act or default by any corporation, association, or common law trust, in violation of any provision of this chapter or of any regulation or order of either department made pursuant thereto, shall be deemed to be the act or default of the officers or directors who participated in authorizing or effecting such act or default or who knowingly permitted it.

§ 6310. Enforcement.

When necessary to effect the purposes of this chapter, in addition to all other remedies in law or equity, the Insurance Department or the Department of Health, or both, may commence an action in mandamus or for an injunction to prevent any violation of the provisions of this chapter or the continuance of any such violation, or to enforce compliance herewith. Any court having jurisdiction is hereby vested with authority to determine the cause and to issue such process as may be necessary to accomplish the purposes of this chapter.

SUBCHAPTER B
REGULATION GENERALLY

Sec.

- 6321. Required reserves.
- 6322. Scope of service.
- 6323. Action as agent under Federal and other programs.
- 6324. Rights of health service doctors.
- 6325. Income status; effect.
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- 6331. Reports and examinations.
- 6332. Regulation by Department of Health.
- 6333. Dental service agents.
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§ 6321. Required reserves.

A professional health service corporation shall at all times while engaged in business maintain reserves, in such form and amount as the department may determine, to insure its subscribers against loss through the failure of the corporation to provide the services agreed to in its contracts.

§ 6322. Scope of service.

(a) Territory of service.--The certificate of authority of a professional health service corporation shall define the limits of the area in which it may operate. If the corporation is deemed to be a holder of a certificate of authority under section 6304(b) of this title (relating to exemptions), the articles of incorporation of the corporation on the effective date of this chapter, regardless of any subsequent amendment to such articles, shall be deemed to be its initial certificate of authority for the purposes of this section.

(b) Classes and kinds of services.--The certificate of authority, bylaws, or resolutions of the board of directors of a professional health service corporation may limit the professional health services that will be provided for its subscribers, and may divide such professional health services as it elects to provide into classes or kinds, and it may enter into contracts with its subscribers or groups of subscribers to secure professional health services of any kind or class so delimited. A general medical services corporation shall make available to its subscribers or groups of subscribers, upon request of any individual for his individual subscriptions or any group for its group subscriptions, contracts which provide coverage for professional health services with appropriate premiums.

(c) Services provided only by licensed persons.--A professional health service corporation shall not provide professional health services for its subscribers otherwise than through health service doctors, duly licensed to practice in their respective fields under the laws of this Commonwealth.

(d) Services provided only to domiciliaries.--A professional health service corporation shall provide professional health services only to persons domiciled within this Commonwealth. If a subscriber, regularly domiciled within this Commonwealth and entitled to professional health services, or any of his dependents so entitled, necessarily employs professional health services within the meaning of this chapter, while absent from this Commonwealth, a professional health service corporation to which he is a subscriber may, in its discretion, and if satisfied as to the necessity for such services and satisfied that it was such as the subscriber would have been entitled to under similar circumstances in this Commonwealth, pay to the persons who rendered the services such fees and charges as would have been payable if the services had been rendered in this Commonwealth. A professional health service corporation organized under the laws of, and operating near the boundaries of, this Commonwealth may, with the consent of the proper officers of and as authorized by the laws of the adjacent state, provide professional health services therein; but all operations of any such corporation, whether within or without this Commonwealth, shall remain at all times subject to the provisions of this chapter.

(e) Liability of corporation limited.--All professional health services provided by or on behalf of a professional health service corporation shall be in accordance with the best professional health service practice in the community at the time, but the corporation providing such services shall not be liable for injuries resulting from negligence, misfeasance, malfeasance, nonfeasance, or malpractice, on the part of any officer or employee or on the part of any health service doctor in the course of rendering professional health services to subscribers, and the corporation may so provide in its contracts with subscribers.

(f) Legislative amendment of stated purposes of existing corporations.--The stated purposes of all existing general medical service corporations are hereby amended so as to include the furnishing of osteopathic, dental, optometric, podiatry, chiropractic, physical therapy, clinical social work, occupational therapy, psychological, speech-language pathology and audiology services and the services of teachers of persons who are hearing impaired through doctors of osteopathy, dentistry, optometry, podiatry and chiropractic and through licensed physical therapists, licensed clinical social workers,

licensed marriage and family therapists, licensed occupational therapists, licensed professional counselors, psychologists, speech-language pathologists, audiologists and teachers of persons who are hearing impaired, respectively.

(Oct. 10, 1980, P.L.801, No.151, eff. 90 days; Mar. 30, 1982, P.L.220, No.70, eff. imd.; Apr. 20, 1988, P.L.363, No.57, eff. 60 days; Apr. 21, 1994, P.L.124, No.14, eff. 60 days; Oct. 9, 2008, P.L.1393, No.108, eff. 120 days)

2008 Amendment. Act 108 amended subsec. (f).

1980 Amendment. Act 151 amended subsecs. (b) and (f).

Cross References. Section 6322 is referred to in section 6324 of this title.

§ 6323. Action as agent under Federal and other programs.

(a) General rule.--Any professional health service corporation may, with the approval of the department, act as a contracting agency or organization under section 1842 of Title XVIII of the Federal Social Security Act, as amended or supplemented, with power to perform all the services which may be required of a contracting agency or organization thereunder and may perform administrative services similar or related to those which may be required of an agency or organization thereunder in connection with a Federal, State or local governmental health care program and may perform administrative services similar or related to those which may be required of such an agency or organization in connection with or associated with nongovernmental organizations, individuals, groups and agencies in the health care field.

(b) Legislative amendment of stated purposes of existing corporations.--The stated purposes of all existing professional health service corporations are hereby amended so as to include the performance of the activities authorized by subsection (a) of this section.

§ 6324. Rights of health service doctors.

(a) Admission to plan.--Every health service doctor practicing within the area covered by any professional health service corporation shall have the right, on complying with such regulations as the corporation may make with the approval of the Department of Health, to register with such corporation for such general or special professional health services as he may be licensed to practice, within that area, but the corporation may, with the approval of the Department of Health, refuse to place the name of any health service doctor on its register. Any professional health service corporation may, with the approval of the Department of Health, remove from its register the name of any health service doctor after due notice and opportunity for hearing for cause satisfactory to the corporation. Nothing in this section shall be construed to limit the discretion of a professional health service corporation to determine the classes or kinds of services that will be covered under its contracts.

(b) Freedom from control.--Subject to the provisions of section 6322(e) of this title (relating to liability of corporation limited), a professional health service corporation shall impose no restrictions on the health service doctors who administer to its subscribers, as to methods of diagnosis or treatment. The relation between a subscriber, or any of his dependents, and the health service doctor shall be identical with the relation that ordinarily exists in the community between a health service doctor and his patient. Subject to the provisions of subsection (a) of this section, no person shall be permitted to interfere with the choice or selection by a

patient of his health service doctor after that choice or selection has been made by an adult of sound mind.

(c) Disputes.--All matters, disputes, or controversies relating to the professional health services rendered by the health service doctors, or any questions involving professional ethics, shall be considered and determined only by health service doctors as selected in a manner prescribed in the bylaws of the professional health service corporation.
(Oct. 9, 2008, P.L.1393, No.108, eff. 120 days)

2008 Amendment. Act 108 amended subsec. (a).
§ 6325. Income status; effect.

(a) Income standards.--

(1) Every professional health service corporation shall from time to time, by action of its members, fix the requisites for persons of low income eligible for the benefits of and under this chapter, such requisites to afford due consideration to the marital status and to the number of dependents of the persons involved and such requisites to be consistent with the declaration contained in section 6303(a) of this title (relating to declaration of necessity). Any requisites thus fixed shall be subject to the approval of the department.

(2) All persons not meeting the requisites for persons of low income as thus fixed shall be persons of over-income.

(b) Determination of status.--

(1) The professional health service corporation shall determine whether an applicant for subscription is in receipt of a low income or over-income within the meaning of this chapter and after the application has been approved, the subscriber shall be deemed to be of low income or over-income until his status has been redetermined by the corporation, which redetermination may be made at any time.

(2) The professional health service corporation, in determining the income status of any applicant or subscriber, may, through its officers and agents, examine under oath any applicant or subscriber claiming a low income status and any other person consenting thereto who is believed to have material knowledge concerning the income status of the applicant or subscriber. The determination of the corporation shall be final.

(c) Effect of status.--Every person of low income and every person of over-income, residing in the area served by a professional health service corporation, shall be entitled, upon complying with regulations adopted by that corporation and the payment of such initiation and other fees as are authorized by the department, to the services of any health service doctor registered with the corporation, under such terms and conditions as are customary in professional health services in the community, but only within the limits of services for which such health service doctors are registered. A professional health service corporation may for cause refuse to enter into contractual relations with an applicant and may, for cause, after due notice and opportunity for hearing, rescind any contract that it has entered into with any subscriber and refund any unearned portion of any fees paid and may, on default in payment of the agreed dues, fees, payments or any charges by subscriber or someone on his behalf, discontinue coverage without notice and opportunity for hearing, after having notified a subscriber of his default, and having allowed him two days to procure such coverages. Any payment made by the corporation to health service doctors for services rendered to

subscribers of over-income shall be a payment only to the extent agreed upon between the corporation and the health service doctors on account of any greater sum which may be due the health service doctors for rendering such services.

(d) Prohibited contracts.--No contract by or on behalf of any professional health service corporation shall provide for any periodic payment or any other payment by that corporation to a subscriber which is not related to the value of the service provided to such subscriber on account of illness or injury, nor be in any way related to the payment of any such benefit by any other entity.

Cross References. Section 6325 is referred to in section 6302 of this title.

§ 6326. Specifically authorized contract provisions.

A professional health service corporation may, as a condition precedent to entering into a contract with an applicant or group of applicants for professional health service, require any of the following:

(1) A physical examination of the applicant and of each of his dependents, if any, and proof of his or their substantial freedom from any disease or condition requiring immediate professional health service or likely to require it within the next 12 months, before a contract becomes effective.

(2) A waiting period after a contract is entered into and before the subscriber is entitled to professional health service.

(3) An agreement that the subscriber or someone on his behalf shall pay the stated fee or fees for professional health services in the case of any given illness or injury or other condition requiring professional health service, before becoming entitled to treatment under the terms of the contract.

(4) An agreement that, as a condition precedent to payment by the corporation for professional health services performed for the subscriber, the subscriber or someone on his behalf will submit to the corporation such information as is reasonably necessary to enable it to determine the amount of such payment, which information shall be submitted in the form and verified in the manner prescribed by the corporation.

(5) An agreement that any rights of the subscriber to receive services or payments under his contract with the corporation are personal to the subscriber and may not be assigned.

§ 6327. Subscriptions provided for persons on relief.

Every government agency which is charged by law with the duty of providing professional health services for persons unable to provide it at their own expense or to procure it through persons to whose support and assistance they are by law entitled, is hereby empowered, in the exercise of its authority, to provide any such service if, in the judgment of the agency, it is in the public interest so to do, through a subscription or subscriptions, paid for from any lawfully available public funds, with any professional health service corporation on behalf of any person or persons entitled to such relief.

§ 6328. Board of directors.

(a) Professional health service corporations generally.--The business of every professional health service corporation, except a general medical service corporation, shall be managed

by a board of directors of at least nine persons, all of whom shall be residents of this Commonwealth.

(b) General medical service corporation.--

(1) A general medical service corporation shall be managed by a board of not less than 21, nor more than 36 members, all of whom shall be residents of this Commonwealth, and at no time shall the board be less than 50% subscribers who have coverage under a contract issued by the corporation, and who are generally representative of broad segments of subscribers covered under contracts issued by such corporation, whose background and experience indicate that they are qualified to act in the interests of such subscribers and who or whose spouse does not derive substantial income from the delivery or administration of health care.

(2) The bylaws of every general medical service corporation shall provide appropriate procedures for the nomination and election or appointment of the directors of the corporation and the nomination and election or appointment of committees of the board in such a manner that the interests of the subscribers of the corporation will be justly and reasonably represented.

(3) All directors of the corporation shall be members of the corporation.

(4) A health service doctor, who provides professional health services for the corporation's subscribers, may be a director but in no event shall be counted among the directors who represent subscribers.

(5) Every general medical service corporation shall within six months of the effective date of this act submit for review by the Insurance Commissioner and the Secretary of Health bylaws meeting the standards of this section. Whenever a general medical service corporation changes its bylaws, said change shall be submitted within 30 days to the commissioner and secretary for their review to determine whether such changes meet statutory standards of this section.

(6) In the event that the Insurance Commissioner or the Secretary of Health find, after notice to the corporation and hearing, that a general medical service corporation has not met the requirements of this section, the commissioner or secretary shall notify the corporation of the findings and order the corporation, in specific terms, to meet the requirements of this section. Such findings and order shall be subject to judicial review in the manner and within the time provided by law.

(Apr. 28, 1978, P.L.202, No.53, eff. 60 days; Oct. 4, 1978, P.L.1001, No.211, eff. imd.)

§ 6329. Rates and contracts.

(a) General rule.--All rates charged subscribers or groups of subscribers by any professional health service corporation, and the form and content of all contracts between any such corporation and its subscribers or groups of subscribers, all methods and rates of payment by such corporation to health service doctors serving its subscribers, all acquisition costs in procuring subscribers, the reserves to be maintained by such corporation, and all contracts entered into by any such corporation and extending over a period of more than one year or calling for the expenditure by the corporation of any amount in excess of 20% of its reserves, shall be approved by the department before they become effective.

(b) Procedure.--Every application for such approval shall be made to the department in writing and shall be subject to the provisions of subsections (c) through (f) of section 6102 of this title (relating to certification of hospital plan corporations), except that the department may substitute publication in the Pennsylvania Bulletin of notice of reasonable opportunity to submit written comments for publication of opportunity for hearing in any case where the right to an oral hearing is not conferred by the Constitution of the United States or the Constitution of Pennsylvania. Within 60 days after the filing of the application the department shall approve or refuse such application.

1996 Partial Repeal. Section 14 of Act 159 of 1996, known as the Accident and Health Filing Reform Act, provided that subsec. (a) is repealed insofar as it provides for the approval of rates and contracts.

References in Text. Section 14 of Act 159 of 1996, known as the Accident and Health Filing Reform Act, was renumbered 5101 by the act of December 22, 2011, P.L.614, No.134.

§ 6330. Investment of funds.

Any statute to the contrary notwithstanding, funds of any professional health service corporation, equal to its reserves, shall be invested in compliance with the requirements of law for the investment of the capital and reserves of life insurance companies. The funds of any such corporation, equal to its surplus, shall be invested in compliance with the requirements of law for the investment of the surplus of life insurance companies.

§ 6331. Reports and examinations.

(a) Annual report.--Every professional health service corporation shall, on or before March 1 of each year, file with the department a statement, verified by at least two of the principal officers of the corporation, summarizing its financial activities during the preceding calendar year, and showing its financial condition at the end of that year. Such statement shall be in such form, and shall contain such matters, as the department shall prescribe.

(b) Examination and special reports.--Every professional health service corporation shall be subject to examination not less frequently than once in every three years by the department and its agents, who shall have free access to all the books, records, papers and documents that relate to the business of the corporation, and the power to examine the officers, agents, employees, and subscribers for the professional health services of the corporation, and all health service doctors registered with the corporation, and all other persons having or having had substantial part in the work of the corporation, in relation to its affairs, transactions, and financial condition. Such examination shall be made at such times as the department shall deem necessary. The department may, at any time, without making such examination, call on any such corporation for a written report, authenticated by at least two of its principal officers, concerning the financial affairs and status of the corporation.

§ 6332. Regulation by Department of Health.

(a) Annual reports.--Every professional health service corporation shall, on or before March 1 of each year, file with the Department of Health a report of its activities, other than its financial activities, during the preceding calendar year. Every such report shall be verified by at least two of the principal officers of the corporation and shall be in such form, and shall contain such matter, as the Department of Health shall

prescribe. The Department of Health is hereby authorized to inquire into the activities of every professional health service corporation and to determine whether the corporation is providing adequate professional health services to its subscribers in accordance with the best professional health service practice in the community.

(b) Examination and special reports.--The Department of Health and its agents shall have free access to all the books, records, papers and documents that relate to the business of the corporation, other than financial, and the power to examine the officers, agents, employees, and subscribers for the professional health services of the corporation, and all health service doctors registered with the corporation, and all other persons having or having had substantial part in the work of the corporation, in relation to its affairs, transactions, and condition of the corporation, other than financial. Such examinations shall be made at such times as the Department of Health shall deem necessary. The Department of Health may, at any time, without making such examination, call on any such corporation for a written report, authenticated by at least two of its principal officers, concerning the affairs of the corporation other than its financial affairs.

(c) Extension or improvement of service pursuant to order.--In the event the Department of Health finds that a professional health service corporation does not provide adequate professional health services to its subscribers in accordance with the best professional health service practice in the community, the Department of Health may notify the corporation of its findings and order the corporation, in specific terms, to extend or improve the professional health services furnished by the corporation. Such order shall be entered after notice and opportunity for hearing and shall be subject to judicial review in the manner and within the time provided by law.

§ 6333. Dental service agents.

Any dental service corporation may select any person to act as its agent in the performance of any of its functions.

§ 6334. Dissolution or liquidation.

No professional health service corporation shall be dissolved under the provisions of Title 15 (relating to corporations and unincorporated associations) or under any other provision of law, except with the prior approval of the department. Articles of dissolution for a professional health service corporation filed in the Department of State, whether pursuant to a decree of court liquidating the corporation or otherwise, shall not be effective unless and until approved by the Insurance Department. Any dissolution or liquidation of a professional health service corporation shall be under the supervision of the Insurance Department which shall have all powers with respect thereto granted to it under the laws of this Commonwealth governing the dissolution or liquidation of insurance companies.

§ 6335. Ancillary health services.

Anything in this chapter to the contrary notwithstanding, a professional health service corporation may provide ancillary health services through ancillary health service providers. An ancillary health service provider may register with a professional health service corporation as a participating provider and continue as such upon complying with such regulations as the corporation may make with the approval of the Department of Health.

(Nov. 17, 1982, P.L.681, No.193, eff. 60 days)

1982 Amendment. Act 193 added section 6335.

ARTICLE B
FRATERNAL AND BENEFICIAL SOCIETIES

Chapter

- 65. Fraternal Benefit Societies (Repealed)
- 67. Beneficial Societies

CHAPTER 65
FRATERNAL BENEFIT SOCIETIES
(Repealed)

1992 Repeal. Chapter 65 (Subchapters A - G) was added November 15, 1972, P.L.1063, No.271, and repealed December 14, 1992, P.L.835, No.134, effective in 60 days. The subject matter is now contained in Article XXIV of the act of May 17, 1921, P.L.682, No.284, known as The Insurance Company Law of 1921.

CHAPTER 67
BENEFICIAL SOCIETIES

Sec.

6701. Regulation.

Enactment. Chapter 67 was added November 15, 1972, P.L.1063, No.271, effective in 90 days.

Cross References. Chapter 67 is referred to in section 4117 of Title 18 (Crimes and Offenses).

§ 6701. Regulation.

All beneficial societies or associations not subject to regulation under Chapter 65 of this title (relating to fraternal benefit societies), transacting any class of insurance, shall file with the department copies of their charter, constitution, and laws and annually make a report in such form as the department may require, showing their condition and standing at the end of the preceding calendar year, and of their transactions for such year, and the department may at any time make an examination of the books and accounts of any such society.

References in Text. Chapter 65, referred to in this section, is repealed. The subject matter is now contained in Article XXIV of the act of May 17, 1921, P.L.682, No.284, known as The Insurance Company Law of 1921.

PART IV
STANDARD VALUATION

Chapter

- 71. Reserve Liabilities

Enactment. Part IV was added June 30, 2016, P.L.399, No.59, effective immediately.

CHAPTER 71
RESERVE LIABILITIES

Subchapter

- A. General Provisions
- B. Valuation of Reserves for Contracts and Policies
- C. Confidentiality
- D. Exemptions
- E. Miscellaneous Provisions

Enactment. Chapter 71 was added June 30, 2016, P.L.399, No.59, effective immediately.

SUBCHAPTER A
GENERAL PROVISIONS

Sec.

- 7101. Scope of chapter.
- 7102. Definitions.
- 7103. Special applicability provisions.
- 7104. Notice regarding operative date of valuation manual.
- 7105. Regulations.

§ 7101. Scope of chapter.

This chapter relates to standards for the valuation of reserve liabilities for life insurance, accident and health insurance and deposit-type contracts depending on their date of issuance.

§ 7102. Definitions.

The following words and phrases when used in this chapter shall have the meanings given to them in this section unless the context clearly indicates otherwise:

"Accident and health insurance." A contract that incorporates morbidity risk and provides protection against economic loss resulting from accident, sickness or medical conditions and as may be specified in the valuation manual.

"Appointed actuary." A qualified actuary who is appointed in accordance with the valuation manual to prepare the actuarial opinion required by section 7114 (relating to actuarial opinion of reserves on or after operative date of valuation manual).

"Commissioner." The Insurance Commissioner of the Commonwealth.

"Company." An entity, including a fraternal benefit society, that:

(1) has written, issued or reinsured life insurance contracts, accident and health insurance contracts or deposit-type contracts in this Commonwealth and has at least one policy in force or on claim; or

(2) is required to hold a certificate of authority to write life insurance contracts, accident and health insurance contracts or deposit-type contracts in this Commonwealth.

"Department." The Insurance Department of the Commonwealth.

"Deposit-type contract." A contract that does not incorporate mortality or morbidity risks and as may be specified in the valuation manual.

"Experience data." Documents, materials, data and other information submitted by a company under section 7127 (relating to experience reporting for policies in force on or after operative date of valuation manual).

"Experience materials." Documents, materials, data and other information, including all working papers and copies of all these items created or produced in connection with experience

data, which include any potentially company-identifying or personally identifiable information provided to or obtained by the commissioner.

"Fraternal benefit society." As provided for under Article XXIV of The Insurance Company Law of 1921.

"Group-wide supervisor." The chief insurance regulatory official who is:

(1) Authorized to engage in conducting and coordinating group-wide supervision activities.

(2) From the jurisdiction determined or acknowledged by the department under section 1406.2(c) of The Insurance Company Law of 1921 to have sufficient, significant contacts with the international insurance group.

"IAIS." The International Association of Insurance Supervisors or its successor organization.

"Life insurance." A contract that incorporates mortality risk, including an annuity or pure endowment contract, and as may be specified in the valuation manual.

"NAIC." The National Association of Insurance Commissioners, its subsidiaries or affiliates or its successor organization.

"Operative date of the valuation manual." The January 1 of the first calendar year following the first July 1 when all of the following have occurred:

(1) The valuation manual has been adopted by NAIC by an affirmative vote of at least 42 members or 75% of the members voting, whichever is greater.

(2) The Standard Valuation Law, as amended by NAIC in 2009, or legislation including substantially similar terms and provisions, has been enacted by both of the following:

(i) States representing more than 75% of the direct premiums written as reported for life, accident and health annual statements, health annual statements or fraternal annual statements submitted in 2008.

(ii) At least 42 of the 55 NAIC member jurisdictions, including the 50 states, American Samoa, the United States Virgin Islands, the District of Columbia, Guam and the Commonwealth of Puerto Rico.

"Policyholder behavior." An action taken by a policyholder, certificate holder, contract holder or any other person having the right to elect options as to a policy or contract subject to this chapter. The options shall:

(1) Include lapse, withdrawal, transfer, deposit, premium payment, loan, annuitization or benefit elections prescribed by the policy or contract.

(2) Exclude events of mortality or morbidity that result in benefits prescribed in their essential aspects by the terms of the policy or contract.

"Principle-based valuation." A reserve valuation that:

(1) Uses one or more methods or one or more assumptions determined by the insurer.

(2) Is required to comply with section 7126 (relating to requirements of principle-based valuation) as specified in the valuation manual.

"Qualified actuary." An individual who:

(1) Is qualified to sign the applicable statement of actuarial opinion in accordance with the American Academy of Actuaries qualification standards for actuaries signing these statements of actuarial opinion.

(2) Meets the requirements specified in the valuation manual.

"Reserve liabilities," "reserves" or "net value." An amount recorded in financial statements to reflect potential obligations.

"Tail risk." A risk that occurs where:

- (1) the frequency of low probability events is higher than expected under a normal probability distribution; or
- (2) there are observed events of very significant size or magnitude.

"The Insurance Company Law of 1921." The act of May 17, 1921 (P.L.682, No.284), known as The Insurance Company Law of 1921.

"Valuation manual." The manual of valuation instructions adopted by NAIC or as subsequently amended and adopted by NAIC. Unless a change in the valuation manual specifies a later effective date, a change to the valuation manual is effective on January 1 following the date when the change to the valuation manual has been adopted by NAIC by an affirmative vote representing both of the following:

- (1) At least 75% of the members of NAIC voting, but not less than a majority of the total membership.
- (2) Members of NAIC representing jurisdictions totaling more than 75% of the direct premiums written as reported in the most recently available life, accident and health annual statements, health annual statements or fraternal annual statements.

Cross References. Section 7102 is referred to in section 7104 of this title.

§ 7103. Special applicability provisions.

The standards for the valuation of reserve liabilities for life insurance, accident and health insurance and deposit-type contracts shall be subject to the following applicability provisions:

- (1) The following shall apply to policies or contracts subject to this chapter that were issued on or after May 17, 1921, and prior to the operative date of the valuation manual:

(i) Section 7115 (relating to computation of minimum standard).

(ii) Section 7116 (relating to computation of minimum standard for annuities).

(iii) Section 7117 (relating to computation of minimum standard by calendar year of issue).

(iv) Section 7118 (relating to reserve valuation method for life insurance and endowment benefits).

(v) Section 7119 (relating to reserve valuation method for annuity and pure endowment benefits).

(vi) Section 7120 (relating to minimum reserves).

(vii) Section 7121 (relating to optional reserve calculation).

(viii) Section 7122 (relating to reserve calculation for valuation net premium exceeding gross premium charged).

(ix) Section 7123 (relating to reserve calculation for indeterminate premium plans).

- (2) Except as otherwise provided in this chapter, section 7124 (relating to minimum standard for accident and health insurance contracts) shall apply to policies issued before, on or after the operative date of the valuation manual.

- (3) The following shall not apply to policies or contracts subject to this chapter that were issued on or

after May 17, 1921, and prior to the operative date of the valuation manual:

(i) Section 7125 (relating to valuation manual for policies issued on or after operative date of valuation manual).

(ii) Section 7126 (relating to requirements of principle-based valuation).

(4) Sections 7125 and 7126 shall apply to policies issued on or after the operative date of the valuation manual.

§ 7104. Notice regarding operative date of valuation manual.

Upon the occurrence of the last occurring event under the definition of "operative date of the valuation manual" in section 7102 (relating to definitions), the commissioner shall issue a notice regarding the operative date of the valuation manual to be published in the Pennsylvania Bulletin and on the department's publicly accessible Internet website.

§ 7105. Regulations.

The department may promulgate regulations, as necessary, to implement, administer and enforce this chapter.

SUBCHAPTER B

VALUATION OF RESERVES FOR CONTRACTS AND POLICIES

Sec.

- 7111. Reserve valuation for policies and contracts issued prior to operative date of valuation manual.
- 7112. Reserve valuation for policies and contracts issued on or after operative date of valuation manual.
- 7113. Actuarial opinion of reserves prior to operative date of valuation manual.
- 7114. Actuarial opinion of reserves on or after operative date of valuation manual.
- 7115. Computation of minimum standard.
- 7116. Computation of minimum standard for annuities.
- 7117. Computation of minimum standard by calendar year of issue.
- 7118. Reserve valuation method for life insurance and endowment benefits.
- 7119. Reserve valuation method for annuity and pure endowment benefits.
- 7120. Minimum reserves.
- 7121. Optional reserve calculation.
- 7122. Reserve calculation for valuation net premium exceeding gross premium charged.
- 7123. Reserve calculation for indeterminate premium plans.
- 7124. Minimum standard for accident and health insurance contracts.
- 7125. Valuation manual for policies issued on or after operative date of valuation manual.
- 7126. Requirements of principle-based valuation.
- 7127. Experience reporting for policies in force on or after operative date of valuation manual.

§ 7111. Reserve valuation for policies and contracts issued prior to operative date of valuation manual.

(a) **Applicability.**--This section shall apply to each policy or contract issued prior to the operative date of the valuation manual.

(b) **Annual valuation.**--The commissioner shall annually value, or cause to be valued, the reserve liabilities for all outstanding life insurance policies and annuity and pure

endowment contracts of each company doing business in this Commonwealth. The commissioner may certify the amount of reserves.

(c) Calculation.--In calculating reserves, the commissioner may use group methods and approximate averages for fractions of a year or otherwise.

(d) Other jurisdictions.--In lieu of the valuation of the reserves required of a foreign or alien company, the commissioner may accept a valuation made, or caused to be made, by the insurance supervisory official of any state or other jurisdiction when the valuation complies with the minimum standard provided in this chapter.

(e) Minimum standard.--The minimum standard for the valuation of policies and contracts issued prior to the operative date of section 410A of The Insurance Company Law of 1921 shall be as follows:

(1) The net value of all outstanding policies of life insurance, issued by the company prior to January 1, 1890, shall be computed upon the basis of the American experience table of mortality, with interest at not less than 4.5% and not more than 6% per year.

(2) The net value of all outstanding policies, issued between January 1, 1890, and January 1, 1903, shall be computed on the combined experience or actuaries' table of mortality, with interest at 4% per year.

(3) The net value of all outstanding policies of life insurance, issued on and after January 1, 1903, shall be computed on the American experience table of mortality, with interest at 3.5% per year, but a company may value its group term insurance policies, under which premium rates are not guaranteed for a period in excess of five years, according to the American men ultimate table of mortality, with interest at 3.5% per year.

(4) The net value of all policies of life insurance, issued on and after January 1, 1921, where the premiums are payable monthly or more frequently, shall be computed according to the American experience table of mortality, with interest at 3.5% per year, but a company may voluntarily value its industrial policies according to the standard industrial mortality table, with interest at 3.5% per year.

(5) The net value of a policy at any time shall be taken to be the single net premium which will, at that time, affect the insurance, less the value at that time of the future net premiums called for by the table of mortality and rate of interest designated.

(6) Except as otherwise provided in sections 7116(a) (relating to computation of minimum standard for annuities) and 7117(a) (relating to computation of minimum standard by calendar year of issue) for group annuity and pure endowment contracts, the legal minimum standard for valuation of annuities issued after January 1, 1912, shall be computed according to McClintock's table of mortality among annuitants, with interest at 3.5% per year, but the following shall apply:

(i) For annuities and pure endowments purchased under group annuity and pure endowment contracts, the legal minimum standard may, at the option of the company, be computed according to the 1971 Group Annuity Mortality Table or any modification of this table approved by the commissioner, with interest at 5% per year.

(ii) Annuities deferred 10 or more years, and written in connection with life or term insurance, shall

be valued upon the same mortality table from which the consideration or premiums were computed, with interest at not more than 3.5% per year.

(7) At any time and under any of its policies of life insurance, a company may elect to reserve on the following, with its obligations under these policies to be valued accordingly:

(i) the American experience table of mortality with a lower rate of interest, but at a rate not less than 2% per year; or

(ii) the American men ultimate table of mortality, with any modification and extension below 20 years of age as may be approved by the commissioner, with interest at a rate not less than 2% nor more than 3.5% per year.

(8) On or after the operative date of section 410A of The Insurance Company Law of 1921, reserves for any policies or contracts may be calculated, at the option of the company, according to any standard which produces greater aggregate reserves for all these policies or contracts than the standard in use by the company immediately prior to the exercise of the option.

(9) With the approval of the commissioner, a company that adopts a standard under paragraph (8) may adopt a lower standard of valuation for any policies or contracts if that lower standard is not lower than:

(i) the minimum reserves provided under this section;

(ii) the standard specified in the policies or contracts; or

(iii) the standard used by the company for the determination of the nonforfeiture values of the policies or contracts.

§ 7112. Reserve valuation for policies and contracts issued on or after operative date of valuation manual.

(a) Applicability.--This section shall apply to each policy or contract issued on or after the operative date of the valuation manual.

(b) Annual valuation.--The commissioner shall annually value, or cause to be valued, the reserve liabilities for all outstanding life insurance contracts, annuity and pure endowment contracts, accident and health contracts and deposit-type contracts of each company doing business in this Commonwealth. The commissioner may certify the amount of reserves.

(c) Other jurisdictions.--In lieu of the valuation of the reserves required of a foreign or alien company, the commissioner may accept a valuation made, or caused to be made, by the insurance supervisory official of any state or other jurisdiction when the valuation complies with the minimum standard provided in this chapter.

(d) Applicable standards.--The following provisions shall govern a policy or contract under this section:

(1) Section 7124(a), (b), (d) and (e) (relating to minimum standard for accident and health insurance contracts).

(2) Section 7125 (relating to valuation manual for policies issued on or after operative date of valuation manual).

(3) Section 7126 (relating to requirements of principle-based valuation).

Cross References. Section 7112 is referred to in sections 7124, 7125 of this title.

§ 7113. Actuarial opinion of reserves prior to operative date of valuation manual.

(a) Applicability.--This section shall apply to an actuarial opinion prepared prior to the operative date of the valuation manual.

(b) Regulations regarding actuarial opinion.--Through regulations, the commissioner:

(1) Shall define the specifics of the actuarial opinion under this section and add any other items deemed to be necessary to fulfill the purpose of this section.

(2) May provide for a transition period for establishing any higher reserves that the qualified actuary may deem necessary in order to render the opinion required by this section.

(c) Annual submission and purpose.--Each company doing business in this Commonwealth shall annually submit the opinion of a qualified actuary as to whether the reserves and related actuarial items held in support of the company's policies and contracts specified by the commissioner by regulation:

(1) are computed appropriately;

(2) are based on assumptions that satisfy contractual provisions;

(3) are consistent with prior reported amounts; and

(4) comply with the applicable laws of this

Commonwealth.

(d) Opinion regarding company obligations.--The following shall apply regarding the opinion of the qualified actuary and the company's obligations:

(1) Except as exempted by regulation, each company shall include in the actuarial opinion required under this section an opinion by the same qualified actuary as to whether the reserves and related actuarial items held in support of the company's policies and contracts specified by the commissioner by regulation, when considered in light of the assets held by the company with respect to the reserves and related actuarial items, including, but not limited to, the investment earnings on the assets and the considerations anticipated to be received and retained under the policies and contracts, make adequate provision for the company's obligations under the policies and contracts, including, but not limited to, the benefits under and expenses associated with the policies and contracts.

(2) A memorandum, in form and substance acceptable to the commissioner as specified by regulation, shall be prepared to support each actuarial opinion.

(3) If a company fails to provide a supporting memorandum at the request of the commissioner within a period specified by regulation or if the commissioner determines that the supporting memorandum provided by the company fails to meet the standards prescribed by regulation or is otherwise unacceptable to the commissioner, the commissioner may engage a qualified actuary at the expense of the company to review the opinion and the basis for the opinion and prepare the supporting memorandum required by the commissioner.

(e) Requirements.--Each actuarial opinion under this section shall be governed by the following:

(1) The opinion shall be submitted with the annual statement reflecting the valuation of the reserve liabilities for each year ending on or after December 31, 1993.

(2) The opinion shall apply to all business in force, including individual and group accident and health insurance

plans, in form and substance acceptable to the commissioner as specified by regulation.

(3) The opinion shall be based on standards adopted from time to time by the Actuarial Standards Board, or its successor, and on any additional standards as specified by regulation.

(4) In the case of an opinion required to be submitted by a foreign or alien company, the commissioner may accept the opinion filed by that company with the insurance supervisory official of another state if the commissioner determines that the opinion reasonably meets the requirements applicable to a company domiciled in this Commonwealth.

(5) Except in cases of fraud or willful misconduct, a qualified actuary shall not be liable for damages to any person, other than the insurance company or fraternal benefit society and the commissioner, for any act, error, omission, decision or conduct with respect to the actuarial opinion.

(6) Disciplinary action by the commissioner against the company, fraternal benefit society or the qualified actuary shall be prescribed by regulation.

(7) The confidentiality provisions under Subchapter C (relating to confidentiality) shall apply.

(f) Definitions.--As used in this section, the following words and phrases shall have the meanings given to them in this subsection unless the context clearly indicates otherwise:

"Qualified actuary." A member in good standing of the American Academy of Actuaries who meets the requirements under 31 Pa. Code Ch. 84b (relating to actuarial opinion and memorandum).

Cross References. Section 7113 is referred to in sections 7120, 7121, 7131, 7137 of this title.

§ 7114. Actuarial opinion of reserves on or after operative date of valuation manual.

(a) Applicability.--This section shall apply to an actuarial opinion prepared on or after the operative date of the valuation manual.

(b) Compliance with valuation manual.--The actuarial opinion under this section must comply with the requirements set forth in the valuation manual.

(c) Annual submission and purpose.--Each company with outstanding life insurance contracts, accident and health insurance contracts or deposit-type contracts in this Commonwealth shall annually submit the opinion of the appointed actuary as to whether the reserves and related actuarial items held in support of the company's policies and contracts:

- (1) are computed appropriately;
- (2) are based on assumptions that satisfy contractual provisions;
- (3) are consistent with prior reported amounts; and
- (4) comply with the applicable laws of this Commonwealth.

(d) Opinion regarding company obligations.--The following shall apply regarding the opinion of the appointed actuary and the company's obligations:

- (1) Except as exempted in the valuation manual, each company with outstanding life insurance contracts, accident and health insurance contracts or deposit-type contracts in this Commonwealth shall include in the actuarial opinion required under this section an opinion by the same appointed actuary as to whether the reserves and related actuarial items held in support of the company's policies and contracts

specified in the valuation manual, when considered in light of the assets held by the company with respect to the reserves and related actuarial items, including, but not limited to, the investment earnings on the assets and the considerations anticipated to be received and retained under the policies and contracts, make adequate provision for the company's obligations under the policies and contracts, including, but not limited to, the benefits under and expenses associated with the policies and contracts.

(2) A memorandum, in form and substance as specified in the valuation manual and as acceptable to the commissioner, shall be prepared to support each actuarial opinion.

(3) If a company fails to provide a supporting memorandum at the request of the commissioner within a period specified in the valuation manual or if the commissioner determines that the supporting memorandum provided by the company fails to meet the standards prescribed by the valuation manual or is otherwise unacceptable to the commissioner, the commissioner may engage a qualified actuary at the expense of the company to review the opinion and the basis for the opinion and prepare the supporting memorandum required by the commissioner.

(e) Requirements.--Each actuarial opinion under this section shall be governed by the following:

(1) The opinion shall be in form and substance as specified in the valuation manual and acceptable to the commissioner.

(2) The opinion shall be submitted with the annual statement reflecting the valuation of the reserve liabilities for each year ending on or after the operative date of the valuation manual.

(3) The opinion shall apply to all policies and contracts subject to subsection (d), plus other actuarial liabilities as may be specified in the valuation manual.

(4) The opinion shall be based on standards adopted from time to time by the Actuarial Standards Board, or its successor, and on any additional standards as prescribed in the valuation manual.

(5) In the case of an opinion required to be submitted by a foreign or alien company, the commissioner may accept the opinion filed by that company with the insurance supervisory official of another state if the commissioner determines that the opinion reasonably meets the requirements applicable to a company domiciled in this Commonwealth.

(6) Except in cases of fraud or willful misconduct, an appointed actuary shall not be liable for damages to any person, other than the company and the commissioner, for any act, error, omission, decision or conduct with respect to the actuarial opinion.

(7) Disciplinary action by the commissioner against the company or the appointed actuary shall be prescribed by regulation.

(8) The confidentiality provisions under Subchapter C (relating to confidentiality) shall apply.

Cross References. Section 7114 is referred to in sections 7102, 7120, 7121, 7131, 7137 of this title.

§ 7115. Computation of minimum standard.

(a) Applicability.--This section shall govern the minimum standard for the valuation of a company's policies and contracts except as provided in the following sections:

(1) Section 7116 (relating to computation of minimum standard for annuities).

(2) Section 7117 (relating to computation of minimum standard by calendar year of issue).

(3) Section 7124 (relating to minimum standard for accident and health insurance contracts).

(b) Policies and contracts issued prior to May 17, 1921.--The minimum standard for the valuation of policies and contracts issued prior to May 17, 1921, shall be as provided by the laws in effect immediately prior to May 17, 1921.

(c) Policies and contracts issued on or after May 17, 1921.--The minimum standard for the valuation of policies and contracts issued on or after May 17, 1921, shall be, together with the tables referenced under subsection (d), the commissioners reserve valuation methods established under sections 7118 (relating to reserve valuation method for life insurance and endowment benefits), 7119 (relating to reserve valuation method for annuity and pure endowment benefits), 7122 (relating to reserve calculation for valuation net premium exceeding gross premium charged) and 7124:

(1) Three and one-half percent interest.

(2) Four percent interest for life insurance policies and contracts, other than annuity and pure endowment contracts, issued on or after June 23, 1976, and prior to January 1, 1979.

(3) Four and one-half percent interest for policies issued on or after January 1, 1979.

(d) Applicable tables.--Together with the requirements under subsection (c), the tables and other provisions of this section shall govern:

(1) For ordinary policies of life insurance issued on the standard basis, excluding disability and accidental death benefits in these policies, the following tables shall apply:

(i) The Commissioners 1941 Standard Ordinary Mortality Table for policies issued prior to the operative date of section 410A(d)(2) of The Insurance Company Law of 1921.

(ii) The Commissioners 1958 Standard Ordinary Mortality Table for policies issued on or after the operative date of section 410A(d)(2) of The Insurance Company Law of 1921 and prior to the operative date of section 410A(e) of The Insurance Company Law of 1921. For policies issued on female risks, all modified net premiums and present values referred to in this subparagraph may be calculated according to any age not more than six years younger than the actual age of the insured.

(iii) For policies issued on or after the operative date of section 410A(e) of The Insurance Company Law of 1921, the calculation shall be in accordance with the following tables as specified by regulation:

(A) The Commissioners 1980 Standard Ordinary Mortality Table.

(B) At the election of the company for any one or more specified plans of life insurance, the Commissioners 1980 Standard Ordinary Mortality Table with Ten-Year Select Mortality Factors.

(C) Any ordinary mortality table that is adopted after 1980 by NAIC and approved by regulation for use in determining the minimum standard of valuation for the policies.

(2) For industrial life insurance policies issued on the standard basis, excluding disability and accidental death benefits in these policies, the following tables shall apply:

(i) The 1941 Standard Industrial Mortality Table for policies issued prior to the operative date of section 410A(d) (3) of The Insurance Company Law of 1921.

(ii) For policies issued on or after the operative date of section 410A(d) (3) of The Insurance Company Law of 1921, the Commissioners 1961 Standard Industrial Mortality Table or any industrial mortality table that is adopted after 1980 by NAIC and approved by regulation for use in determining the minimum standard of valuation for the policies.

(3) For individual annuity and pure endowment contracts, excluding disability and accidental death benefits in these policies, any of the following shall apply:

(i) The 1937 Standard Annuity Mortality Table.

(ii) At the option of the company, the Annuity Mortality Table for 1949, Ultimate.

(iii) Any modification of either of the tables under subparagraphs (i) and (ii) as approved by the commissioner.

(4) For group annuity and pure endowment contracts, excluding disability and accidental death benefits in the contracts, any of the following shall apply:

(i) The Group Annuity Mortality Table for 1951 or any modification of the table approved by the commissioner, with interest at 3.5%.

(ii) At the option of the company, the 1971 Group Annuity Mortality Table or any modification of the table approved by the commissioner, in which event 5% interest shall be used in determining the minimum standard for the valuation of the contracts.

(iii) At the option of the company, any of the tables or modifications of tables specified for individual annuity and pure endowment contracts.

(5) For total and permanent disability benefits in or supplementary to ordinary policies or contracts, the following shall apply:

(i) For policies or contracts issued on or after January 1, 1966:

(A) the tables of Period 2 disablement rates and the 1930 to 1950 termination rates of the 1952 Disability Study of the Society of Actuaries, with due regard to the type of benefit; or

(B) any tables of disablement rates and termination rates that are adopted after 1980 by NAIC and approved by regulation for use in determining the minimum standard of valuation for the policies or contracts.

(ii) For policies or contracts issued on or after January 1, 1961, and prior to January 1, 1966:

(A) any of the tables under subparagraph (i);

or

(B) at the option of the company, the Class (3) Disability Table (1926).

(iii) For policies issued prior to January 1, 1961, the Class (3) Disability Table (1926).

A table under this paragraph shall, for active lives, be combined with a mortality table permitted for calculating the reserves for life insurance policies.

(6) For accidental death benefits in or supplementary to policies, the following shall apply:

(i) For policies issued on or after January 1, 1966:

(A) the 1959 Accidental Death Benefits Table;

or

(B) any accidental death benefits table that is adopted after 1980 by NAIC and approved by regulation for use in determining the minimum standard of valuation for the policies.

(ii) For policies issued on or after January 1, 1961, and prior to January 1, 1966:

(A) any of the tables under subparagraph (i);

or

(B) at the option of the company, the Inter-Company Double Indemnity Mortality Table.

(iii) For policies issued prior to January 1, 1961, the Inter-Company Double Indemnity Mortality Table.

A table under this paragraph shall be combined with a mortality table permitted for calculating the reserves for life insurance policies.

(7) For group life insurance, life insurance issued on the substandard basis and other special benefits, those tables approved by the commissioner shall apply.

Cross References. Section 7115 is referred to in sections 7103, 7118, 7122 of this title.

§ 7116. Computation of minimum standard for annuities.

(a) **Computation generally.**--Except as provided in section 7117 (relating to computation of minimum standard by calendar year of issue), the minimum standard of valuation for individual annuity and pure endowment contracts issued on or after the operative date of section 301(c)(1)(B) of the act of May 17, 1921 (P.L.789, No.285), known as The Insurance Department Act of 1921, and for annuities and pure endowments purchased on or after that operative date under group annuity and pure endowment contracts shall be the commissioner's reserve valuation methods established under sections 7118 (relating to reserve valuation method for life insurance and endowment benefits) and 7119 (relating to reserve valuation method for annuity and pure endowment benefits) and the following:

(1) For individual annuity and pure endowment contracts issued prior to January 1, 1979, excluding disability and accidental death benefits in the contracts, the 1971 Individual Annuity Mortality Table or any modification of the table approved by the commissioner, and 6% interest for single premium immediate annuity contracts and 4% interest for all other individual annuity and pure endowment contracts.

(2) For individual single premium immediate annuity contracts issued on or after January 1, 1979, excluding disability and accidental death benefits in the contracts, the 1971 Individual Annuity Mortality Table or any individual annuity mortality table that is adopted after 1980 by NAIC and approved by regulation for use in determining the minimum standard of valuation for the contracts, or any modification of the tables approved by the commissioner, and 7.5% interest or a higher rate of interest as may be approved by the commissioner.

(3) For individual annuity and pure endowment contracts issued on or after January 1, 1979, other than single premium immediate annuity contracts and excluding disability and accidental death benefits in the contracts, the 1971

Individual Annuity Mortality Table or any individual annuity mortality table that is adopted after 1980 by NAIC and approved by regulation for use in determining the minimum standard of valuation for the contracts, or any modification of the tables approved by the commissioner, and 5.5% interest for single premium deferred annuity and pure endowment contracts and 4.5% interest for all other individual annuity and pure endowment contracts or a higher rate of interest as may be approved by the commissioner.

(4) For annuities and pure endowments purchased prior to January 1, 1979, under group annuity and pure endowment contracts and excluding disability and accidental death benefits purchased under the contracts, the 1971 Group Annuity Mortality Table or any modification of the table approved by the commissioner, and 6% interest.

(5) For annuities and pure endowments purchased on or after January 1, 1979, under group annuity and pure endowment contracts and excluding disability and accidental death benefits purchased under the contracts, the 1971 Group Annuity Mortality Table or any group annuity mortality table that is adopted after 1980 by NAIC and approved by regulation for use in determining the minimum standard of valuation for annuities and pure endowments, or any modification of the tables approved by the commissioner, and 7.5% interest or a higher rate of interest as may be approved by the commissioner.

(b) Operative date.--After June 23, 1976, a company may file with the commissioner a written notice of its election to comply with the provisions of this section after a specified date before January 1, 1979, which shall be the operative date of this section for that company. A company may elect a different operative date for individual annuity and pure endowment contracts from that elected for group annuity and pure endowment contracts. If a company makes no election, the operative date of this section for that company shall be January 1, 1979.

Cross References. Section 7116 is referred to in sections 7103, 7111, 7115 of this title.

§ 7117. Computation of minimum standard by calendar year of issue.

(a) Applicability.--The interest rates used in determining the minimum standard for the valuation of the following shall be the calendar year statutory valuation interest rates as defined in this section:

(1) Life insurance policies issued in a particular calendar year on or after the operative date of section 410A(e) of The Insurance Company Law of 1921.

(2) Individual annuity and pure endowment contracts issued in a particular calendar year on or after January 1, 1981.

(3) Annuities and pure endowments purchased in a particular calendar year on or after January 1, 1981, under group annuity and pure endowment contracts.

(4) The net increase, if any, in a particular calendar year after January 1, 1981, in amounts held under guaranteed interest contracts.

(b) Calendar year statutory valuation interest rates.--The following shall apply:

(1) Subject to paragraph (2), the calendar year statutory valuation interest rates, I, shall be determined as follows and the results rounded to the nearest 0.25%:

(i) For life insurance:

$$I = .03 + W(R1 - .03) + W/2(R2 - .09).$$

Where R1 is the lesser of R and .09, R2 is the greater of R and .09, R is the reference interest rate defined in this section and W is the weighting factor defined in this section.

(ii) For single premium immediate annuities and for annuity benefits involving life contingencies arising from other annuities with cash settlement options and from guaranteed interest contracts with cash settlement options:

$$I = .03 + W(R1 - .03).$$

Where R1 is the lesser of R and .09, R2 is the greater of R and .09, R is the reference interest rate defined in this section and W is the weighting factor defined in this section.

(iii) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on an issue year basis, except as stated in subparagraph (ii):

(A) The formula for life insurance stated in subparagraph (i) shall apply to annuities and guaranteed interest contracts with guarantee durations in excess of 10 years.

(B) The formula for single premium immediate annuities stated in subparagraph (ii) shall apply to annuities and guaranteed interest contracts with guarantee duration of 10 years or less.

(iv) For other annuities with no cash settlement options and for guaranteed interest contracts with no cash settlement options, the formula for single premium immediate annuities stated in subparagraph (ii) shall apply.

(v) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a change in fund basis, the formula for single premium immediate annuities stated in subparagraph (ii) shall apply.

(2) The following shall apply:

(i) If the calendar year statutory valuation interest rate for a life insurance policy issued in any calendar year determined without reference to this subparagraph differs from the corresponding actual rate for similar policies issued in the immediately preceding calendar year by less than 0.5%, the calendar year statutory valuation interest rate for the life insurance policies shall be equal to the corresponding actual rate for the immediately preceding calendar year.

(ii) For purposes of applying subparagraph (i), the calendar year statutory valuation interest rate for life insurance policies issued in a calendar year shall be determined for 1980, using the reference interest rate defined in 1979, and shall be determined for each subsequent calendar year regardless of the operative date of section 410A(e) of The Insurance Company Law of 1921.

(c) Weighting factors.--The weighting factors referred to in subsection (b) shall be as follows:

(1) For life insurance, the guarantee duration shall be the maximum number of years the life insurance can remain in force on a basis guaranteed in the policy or under options to convert to plans of life insurance with premium rates or

nonforfeiture values, or both, which are guaranteed in the original policy. Weighting factors for life insurance shall be as provided in the following table:

Guarantee Duration (Years)	Weighting Factors
10 or less	.50
More than 10, but not more than 20	.45
More than 20	.35

(2) Weighting factors for single premium immediate annuities and for annuity benefits involving life contingencies arising from other annuities with cash settlement options and guaranteed interest contracts with cash settlement options shall be .80.

(3) Weighting factors for other annuities and for guaranteed interest contracts, except as stated in paragraph (2), shall be as specified in subparagraphs (i), (ii) and (iii), according to the rules and definitions in subparagraphs (iv), (v) and (vi):

(i) For annuities and guaranteed interest contracts valued on an issue year basis, the following table shall apply:

Guarantee Duration (Years)	Weighting Factor for Plan Type		
	A	B	C
5 or less	.80	.60	.50
More than 5, but not more than 10	.75	.60	.50
More than 10, but not more than 20	.65	.50	.45
More than 20	.45	.35	.35

(ii) For annuities and guaranteed interest contracts valued on a change in fund basis, the factors shown in subparagraph (i) shall be increased by .15 for plan type A, .25 for plan type B and .05 for plan type C.

(iii) For annuities and guaranteed interest contracts valued on an issue year basis, other than those with no cash settlement options, that do not guarantee interest on considerations received more than one year after issue or purchase and for annuities and guaranteed interest contracts valued on a change in fund basis that do not guarantee interest rates on considerations received more than 12 months beyond the valuation date, the factors shown in subparagraph (i) or derived in subparagraph (ii) shall be increased by .05 for plan types A, B and C.

(iv) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, the guarantee duration is the number of years for which the contract guarantees interest rates in excess of the calendar year statutory valuation interest rate for life insurance policies with guarantee duration in excess of 20 years. For other annuities with no cash settlement options and for guaranteed interest contracts with no cash settlement options, the guarantee duration is the number of years from the date of issue or date of purchase to the date annuity benefits are scheduled to commence.

(v) Each plan type referenced in this paragraph shall be defined as follows:

(A) "Plan type A." A plan in which at any time the policyholder may withdraw funds only:

(I) with an adjustment to reflect changes in interest rates or asset values since receipt of the funds by the insurance company;

- (II) without an adjustment but in installments over five years or more;
- (III) as an immediate life annuity; or
- (IV) no withdrawal permitted.

(B) "Plan type B." A plan in which, before expiration of the interest rate guarantee, the policyholder may withdraw funds only:

- (I) with an adjustment to reflect changes in interest rates or asset values since receipt of the funds by the insurance company;
- (II) without an adjustment but in installments over five years or more; or
- (III) no withdrawal permitted.

At the end of interest rate guarantee, funds may be withdrawn without an adjustment in a single sum or installments over less than five years.

(C) "Plan type C." A plan in which the policyholder may withdraw funds before expiration of interest rate guarantee in a single sum or installments over less than five years either:

- (I) without adjustment to reflect changes in interest rates or asset values since receipt of the funds by the insurance company; or
- (II) subject only to a fixed surrender charge stipulated in the contract as a percentage of the fund.

(vi) The following shall apply:

(A) A company may elect to value guaranteed interest contracts with cash settlement options and annuities with cash settlement options on either an issue year basis or on a change in fund basis.

(B) Guaranteed interest contracts with no cash settlement options and other annuities with no cash settlement options shall be valued on an issue year basis.

(C) As used in this section:

(I) An issue year basis of valuation shall refer to a valuation basis under which the interest rate used to determine the minimum valuation standard for the entire duration of the annuity or guaranteed interest contract is the calendar year valuation interest rate for the year of issue or year of purchase of the annuity or guaranteed interest contract.

(II) A change in fund basis of valuation shall refer to a valuation basis under which the interest rate used to determine the minimum valuation standard applicable to each change in the fund held under the annuity or guaranteed interest contract is the calendar year valuation interest rate for the year of the change in the fund.

(d) Reference interest rate.--The reference interest rate referred to in subsection (b) shall be defined as follows:

(1) For life insurance, the lesser of the average over a period of 36 months and the average over a period of 12 months, ending on June 30 of the calendar year preceding the year of issue, of the monthly average of the composite yield on seasoned corporate bonds, as published by Moody's Investors Service, Inc.

(2) For single premium immediate annuities and for annuity benefits involving life contingencies arising from

other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, the average over a period of 12 months, ending on June 30 of the calendar year of issue or year of purchase, of the monthly average of the composite yield on seasoned corporate bonds, as published by Moody's Investors Service, Inc.

(3) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a year of issue basis, except as stated in paragraph (2), with guarantee duration in excess of 10 years, the lesser of the average over a period of 36 months and the average over a period of 12 months, ending on June 30 of the calendar year of issue or purchase, of the monthly average of the composite yield on seasoned corporate bonds, as published by Moody's Investors Service, Inc.

(4) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a year of issue basis, except as stated in paragraph (2), with guarantee duration of 10 years or less, the average over a period of 12 months, ending on June 30 of the calendar year of issue or purchase, of the monthly average of the composite yield on seasoned corporate bonds, as published by Moody's Investors Service, Inc.

(5) For other annuities with no cash settlement options and for guaranteed interest contracts with no cash settlement options, the average over a period of 12 months, ending on June 30 of the calendar year of issue or purchase, of the monthly average of the composite yield on seasoned corporate bonds, as published by Moody's Investors Service, Inc.

(6) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a change in fund basis, except as stated in paragraph (2), the average over a period of 12 months, ending on June 30 of the calendar year of the change in the fund, of the monthly average of the composite yield on seasoned corporate bonds, as published by Moody's Investors Service, Inc.

(e) Alternative method to determine reference interest rate.--If the monthly average of the composite yield on seasoned corporate bonds is no longer published by Moody's Investors Service, Inc. or if NAIC determines that the monthly average of the composite yield on seasoned corporate bonds as published by Moody's Investors Service, Inc. is no longer appropriate for the determination of the reference interest rate, then an alternative method for determination of the reference interest rate adopted by NAIC and approved by regulation may be substituted.

Cross References. Section 7117 is referred to in sections 7103, 7111, 7115, 7116, 7118, 7122, 7151 of this title.

§ 7118. Reserve valuation method for life insurance and endowment benefits.

(a) Uniform insurance amount and premiums.--Except as otherwise provided in sections 7119 (relating to reserve valuation method for annuity and pure endowment benefits), 7122 (relating to reserve calculation for valuation net premium exceeding gross premium charged) and 7124 (relating to minimum standard for accident and health insurance contracts), for the life insurance and endowment benefits of policies providing for a uniform amount of insurance and requiring the payment of uniform premiums, reserves according to the commissioners reserve valuation method shall be the excess, if any, of the

present value, at the date of valuation, of the future guaranteed benefits provided for by those policies, over the then present value of any future modified net premiums therefor. The modified net premiums for a policy shall be the uniform percentage of the respective gross premiums for the benefits so that the present value, at the date of issue of the policy, of all modified net premiums shall be equal to the sum of the then present value of the benefits provided for by the policy and the excess of paragraph (1) over paragraph (2), as follows:

(1) A net level annual premium equal to the present value, at the date of issue, of the benefits provided for after the first policy year, divided by the present value, at the date of issue, of an annuity of one per year payable on the first and each subsequent anniversary of the policy on which a premium falls due. However, the net level annual premium shall not exceed the net level annual premium on the 19-year premium whole life plan for insurance of the same amount at an age one year greater than the age at issue of the policy.

(2) A net one-year term premium for the benefits provided for in the first policy year.

(b) First-year excess.--For a life insurance policy issued on or after January 1, 1985, 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 the excess and which provides an endowment benefit or a cash surrender value or a combination in an amount greater than the excess premium, reserves according to the commissioners reserve valuation method as of any policy anniversary occurring on or before the assumed ending date defined under this subsection as the first policy anniversary on which the sum of any endowment benefit and any cash surrender value then available is greater than the excess premium shall, except as otherwise provided in section 7122, be the greater of the reserve as of the policy anniversary calculated as described in subsection (a) and the reserve as of the policy anniversary calculated as described in subsection (a), but with:

(1) The value defined in subsection (a) being reduced by 15% of the amount of this excess first year premium.

(2) All present values of benefits and premiums being determined without reference to premiums or benefits provided for by the policy after the assumed ending date.

(3) The policy being assumed to mature on that date as an endowment.

(4) The cash surrender value provided on that date being considered as an endowment benefit.

In making the comparison under this subsection, the mortality and interest bases stated in sections 7115 (relating to computation of minimum standard) and 7117 (relating to computation of minimum standard by calendar year of issue) shall be used.

(c) Consistent method.--Reserves according to the commissioners reserve valuation method shall be calculated by a method consistent with the principles of this section, except that any extra premiums charged because of impairments or special hazards shall be disregarded in the determination of modified net premiums, for:

(1) Life insurance policies providing for a varying amount of insurance or requiring the payment of varying premiums.

(2) Group annuity and pure endowment contracts purchased under a retirement plan or plan of deferred compensation,

established or maintained by an employer, including a partnership or sole proprietorship, or by an employee organization, or by both, other than a plan providing individual retirement accounts or individual retirement annuities under section 408 of the Internal Revenue Code of 1986 (Public Law 99-514, 26 U.S.C. § 408).

(3) Disability and accidental death benefits in all policies and contracts.

(4) All other benefits, except life insurance and endowment benefits in life insurance policies and benefits provided by all other annuity and pure endowment contracts.

Cross References. Section 7118 is referred to in sections 7103, 7115, 7116, 7120, 7122, 7123 of this title.

§ 7119. Reserve valuation method for annuity and pure endowment benefits.

(a) Applicability.--This section shall apply to all annuity and pure endowment contracts other than group annuity and pure endowment contracts purchased under a retirement plan or plan of deferred compensation, established or maintained by an employer, including a partnership or sole proprietorship, or by an employee organization, or by both, other than a plan providing individual retirement accounts or individual retirement annuities under section 408 of the Internal Revenue Code of 1986 (Public Law 99-514, 26 U.S.C. § 408).

(b) Calculation.--The following shall apply:

(1) Reserves according to the commissioners annuity reserve method for benefits under annuity or pure endowment contracts, excluding any disability and accidental death benefits in the contracts, shall be the greatest of the respective excesses of the present values, at the date of valuation, of the future guaranteed benefits, including guaranteed nonforfeiture benefits, provided for by the contracts at the end of each respective contract year, over the present value, at the date of valuation, of any future valuation considerations derived from future gross considerations, required by the terms of the contract, that become payable prior to the end of the respective contract year.

(2) The future guaranteed benefits shall be determined by using the mortality table, if any, and the interest rate or rates specified in the contracts for determining guaranteed benefits.

(3) The valuation considerations shall be the portions of the respective gross considerations applied under the terms of the contracts to determine nonforfeiture values.

Cross References. Section 7119 is referred to in sections 7103, 7115, 7116, 7118, 7120, 7123 of this title.

§ 7120. Minimum reserves.

(a) Amount calculated.--A company's aggregate reserves for all life insurance policies, excluding disability and accidental death benefits, issued on or after May 17, 1921, shall not be less than the aggregate reserves calculated by using the mortality table or tables and rate or rates of interest used in calculating nonforfeiture benefits for the policies and in accordance with the methods set forth in:

(1) Section 7118 (relating to reserve valuation method for life insurance and endowment benefits).

(2) Section 7119 (relating to reserve valuation method for annuity and pure endowment benefits).

(3) Section 7122 (relating to reserve calculation for valuation net premium exceeding gross premium charged).

(4) Section 7123 (relating to reserve calculation for indeterminate premium plans).

(b) Amount necessary to render actuarial opinion.--The aggregate reserves for all policies, contracts and benefits shall not be less than the aggregate reserves determined by the appointed actuary to be necessary to render the opinion required by section 7113 (relating to actuarial opinion of reserves prior to operative date of valuation manual) or 7114 (relating to actuarial opinion of reserves on or after operative date of valuation manual).

Cross References. Section 7120 is referred to in section 7103 of this title.

§ 7121. Optional reserve calculation.

(a) Issuance prior to May 17, 1921.--Reserves for policies and contracts issued prior to May 17, 1921, may be calculated, at the option of the company, according to any standards that produce greater aggregate reserves for all these policies and contracts than the minimum reserves required by law.

(b) Issuance on or after May 17, 1921.--Reserves for any category of policies, contracts or benefits established by the commissioner, issued on or after May 17, 1921, may be calculated, at the option of the company, according to any standards that produce greater aggregate reserves for the category than those calculated according to the minimum standard provided under this chapter, but the rate or rates of interest used for policies and contracts, other than annuity and pure endowment contracts, shall not be greater than the corresponding rate or rates of interest used in calculating any nonforfeiture benefits provided in the policies or contracts.

(c) Adoption of alternative standards.--The following shall apply:

(1) Subject to paragraph (2), a company that adopts at any time a standard of valuation producing greater aggregate reserves than those calculated according to the minimum standard provided under this chapter may adopt a lower standard of valuation with the approval of the commissioner, but not lower than the minimum provided in this chapter.

(2) For the purposes of this section, the holding of additional reserves previously determined by the appointed actuary to be necessary to render the opinion required by section 7113 (relating to actuarial opinion of reserves prior to operative date of valuation manual) or 7114 (relating to actuarial opinion of reserves on or after operative date of valuation manual) shall not be deemed to be the adoption of a higher standard of valuation.

Cross References. Section 7121 is referred to in section 7103 of this title.

§ 7122. Reserve calculation for valuation net premium exceeding gross premium charged.

(a) Calculation of minimum reserve.--The following shall apply:

(1) If in any contract year the gross premium charged by a company on a policy or contract is less than the valuation net premium for the policy or contract calculated by the method used in calculating the reserve but using the minimum valuation standards of mortality and rate of interest, the minimum reserve required for the policy or contract shall be the greater of:

(i) The reserve calculated according to the mortality table, rate of interest and method actually used for the policy or contract.

(ii) The reserve calculated by the method actually used for the policy or contract but using the minimum valuation 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.

(2) The minimum valuation standards of mortality and rate of interest referred to in this subsection are those standards stated in sections 7115 (relating to computation of minimum standard) and 7117 (relating to computation of minimum standard by calendar year of issue).

(b) How to apply this section for certain policies.--The following shall apply:

(1) For a life insurance policy issued on or after January 1, 1985, 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 the excess and which provides an endowment benefit or a cash surrender value or a combination in an amount greater than the excess premium, the provisions of this section shall be applied as if the method actually used in calculating the reserve for the policy were the method described in section 7118 (relating to reserve valuation method for life insurance and endowment benefits), ignoring section 7118(b).

(2) The minimum reserve at each policy anniversary of the policy under paragraph (1) shall be the greater of the minimum reserve calculated in accordance with section 7118, including section 7118(b), and the minimum reserve calculated in accordance with this section.

Cross References. Section 7122 is referred to in sections 7103, 7115, 7118, 7120, 7123 of this title.

§ 7123. Reserve calculation for indeterminate premium plans.

(a) Applicability.--This section shall apply to either of the following:

(1) A plan of life insurance that provides for future premium determination, the amounts of which are to be determined by the insurance company based on then estimates of future experience.

(2) A plan of life insurance or annuity that is of a nature that the minimum reserves cannot be determined by the methods described in any of the following:

(i) Section 7118 (relating to reserve valuation method for life insurance and endowment benefits).

(ii) Section 7119 (relating to reserve valuation method for annuity and pure endowment benefits).

(iii) Section 7122 (relating to reserve calculation for valuation net premium exceeding gross premium charged).

(b) Nature and calculation of reserves.--The reserves that are held under a plan under this section shall be:

(1) Appropriate in relation to the benefits and the pattern of premiums for the plan.

(2) Computed by a method that is consistent with the principles of this chapter, as determined by regulation.

Cross References. Section 7123 is referred to in sections 7103, 7120 of this title.

§ 7124. Minimum standard for accident and health insurance contracts.

(a) Annual valuation of reserve liabilities.--On an annual basis as of the December 31 of the preceding year, the commissioner shall value or cause to be valued, or require the insurer to value or cause to be valued the reserve liabilities of each company doing business in this Commonwealth, with respect to all the accident and health insurance contracts of the company.

(b) Issuances after operative date of valuation manual.--For accident and health insurance contracts issued on or after the operative date of the valuation manual, the standard prescribed in the valuation manual shall be the minimum standard of valuation required under section 7112 (relating to reserve valuation for policies and contracts issued on or after operative date of valuation manual).

(c) Issuances prior to operative date of valuation manual.--For accident and health insurance contracts issued on or after May 17, 1921, and prior to the operative date of the valuation manual, the following shall apply:

(1) The minimum standard of valuation shall be the standard adopted by the commissioner by regulation.

(2) The company shall maintain a claim reserve for incurred but unpaid claims and an active life reserve that shall:

(i) place a sound value on its liabilities under these contracts; and

(ii) be not less than the reserve according to appropriate standards as prescribed by regulation.

(3) The active life reserve shall not be less in the aggregate than the pro rata gross unearned premiums for the contracts.

(d) Foreign or alien insurers.--For a foreign or alien insurer, the commissioner may accept a like valuation of the insurance supervising official of the state, province or foreign country in which that insurer is domiciled, if that valuation is made upon a basis and according to standards producing an aggregate reserve not less than contained in this chapter.

(e) Applicability.--This section shall not apply to total and permanent disability benefits supplementary to life insurance or annuity policies or contracts.

Cross References. Section 7124 is referred to in sections 7103, 7112, 7115, 7118 of this title.

§ 7125. Valuation manual for policies issued on or after operative date of valuation manual.

(a) Standard in valuation manual.--Except as provided in subsection (c) or (e), for policies issued on or after the operative date of the valuation manual, the standard prescribed in the valuation manual shall be the minimum standard of valuation required under section 7112 (relating to reserve valuation for policies and contracts issued on or after operative date of valuation manual).

(b) Specific information in valuation manual.--The valuation manual shall specify:

(1) Minimum valuation standards for and definitions of the policies or contracts subject to section 7112, which shall be:

(i) The commissioner's reserve valuation method for life insurance contracts other than annuity contracts.

(ii) The commissioner's annuity reserve valuation method for annuity contracts.

(iii) Minimum reserves for all other policies or contracts.

(2) Which policies or contracts or types of policies or contracts are subject to the requirements of a principle-based valuation in section 7126(a) (relating to requirements of principle-based valuation) and the minimum valuation standards consistent with those requirements.

(3) For policies and contracts subject to a principle-based valuation under section 7126:

(i) Requirements for the format of reports to the commissioner under section 7126(b)(3), including information necessary to determine if the valuation is appropriate and in compliance with this chapter.

(ii) Assumptions prescribed for risks over which the company does not have significant control or influence.

(iii) Procedures for corporate governance and oversight of the actuarial function and a process for appropriate waiver or modification of those procedures.

(4) For policies not subject to a principle-based valuation under section 7126, the minimum valuation standard, which shall:

(i) be consistent with the minimum standard of valuation prior to the operative date of the valuation manual; or

(ii) develop reserves that quantify the benefits, guarantees and the funding associated with the contracts and their risks at a level of conservatism that reflects conditions that include unfavorable events having a reasonable probability of occurring.

(5) Other requirements, including those relating to reserve methods, models for measuring risk, generation of economic scenarios, assumptions, margins, use of company experience, risk measurement, disclosure, certifications, reports, actuarial opinions and memorandums, transition rules and internal controls.

(6) The data and form of the data required under section 7127 (relating to experience reporting for policies in force on or after operative date of valuation manual) and with whom the data must be submitted. The valuation manual may specify other requirements, including data analyses and reporting of analyses.

(c) Absent or noncompliant valuation requirement.--In the absence of a specific valuation requirement or if a specific valuation requirement in the valuation manual is not, in the opinion of the commissioner, in compliance with this chapter, the company shall, with respect to those requirements, comply with minimum valuation standards prescribed by the commissioner by regulation.

(d) Actuarial examination and review.--The following shall apply:

(1) The commissioner may engage a qualified actuary, at the expense of a company, to:

(i) perform an actuarial examination of the company and opine on the appropriateness of any reserve assumption or method used by the company; or

(ii) review and opine on the company's compliance with any requirement under this chapter.

(2) The commissioner may rely on the opinion regarding provisions contained in this chapter of a qualified actuary engaged by the commissioner of another state, district or territory of the United States.

(3) As used in this subsection, the term "engage" shall include employment and contracting.

(e) Change, adjustment and disciplinary action.--The commissioner may require a company to change any assumption or method or adjust company reserves if, in the opinion of the commissioner, the change or adjustment is necessary to comply with the requirements of the valuation manual or this chapter. The commissioner may take disciplinary action as permitted by law.

Cross References. Section 7125 is referred to in sections 7103, 7112, 7131, 7141 of this title.

§ 7126. Requirements of principle-based valuation.

(a) Characteristics of valuation.--For policies or contracts specified in the valuation manual, a company shall establish reserves using a principle-based valuation that:

(1) Quantifies benefits and guarantees and the funding associated with contracts and their risks at a level of conservatism that reflects conditions that include unfavorable events having a reasonable probability of occurring during the lifetime of the contracts. For policies or contracts with significant tail risk, the valuation must reflect conditions appropriately adverse to quantify the tail risk.

(2) Incorporates assumptions, risk analysis methods and financial models and management techniques that are consistent with, but not necessarily identical to, those utilized within the company's overall risk assessment process, while recognizing potential differences in financial reporting structures and any prescribed assumptions or methods.

(3) Incorporates assumptions that are:

(i) Prescribed in the valuation manual.

(ii) If not prescribed in the valuation manual, established by utilizing either of the following:

(A) The company's available experience, to the extent it is relevant and statistically credible.

(B) Other relevant and statistically credible experience, to the extent that company data is not available, relevant or statistically credible.

(4) Provides margins for uncertainty, including adverse deviation and estimation error, so that the greater the uncertainty, the larger the margin and resulting reserve.

(b) Company requirements.--A company using a principle-based valuation for one or more policies or contracts subject to this section as specified in the valuation manual shall:

(1) Establish procedures for corporate governance and oversight of the actuarial valuation function consistent with those described in the valuation manual.

(2) Provide to the commissioner and the board of directors an annual certification of the effectiveness of the internal controls with respect to the principle-based valuation. These controls shall be designed to assure that all material risks inherent in the liabilities and associated assets subject to this valuation are included in the valuation and that valuations are made in accordance with the valuation manual. The certification shall be based on the controls in place as of the end of the preceding calendar year.

(3) Develop and file with the commissioner upon request a principle-based valuation report that complies with standards prescribed in the valuation manual.

(c) **Formulaic reserve component.**--A principle-based valuation may include a prescribed formulaic reserve component.

Cross References. Section 7126 is referred to in sections 7102, 7103, 7112, 7125, 7131, 7137, 7141 of this title.

§ 7127. Experience reporting for policies in force on or after operative date of valuation manual.

A company shall submit to the commissioner, or the commissioner's designee or agent, mortality, morbidity, policyholder behavior or expense experience and other data as prescribed in the valuation manual.

Cross References. Section 7127 is referred to in sections 7102, 7125 of this title.

SUBCHAPTER C
CONFIDENTIALITY

Cross References. Subchapter C is referred to in sections 7113, 7114 of this title.

Sec.

- 7131. Confidential information defined.
- 7132. General rule for confidential information.
- 7133. Private civil actions.
- 7134. Use of confidential information by department.
- 7135. Agreements.
- 7136. No waiver of privilege or confidentiality.
- 7137. Limited exceptions.

§ 7131. Confidential information defined.

As used in this subchapter, the following words and phrases shall have the meanings given to them in this section unless the context clearly indicates otherwise:

"Confidential information." Any of the following:

(1) A memorandum in support of an opinion submitted under section 7113 (relating to actuarial opinion of reserves prior to operative date of valuation manual) or 7114 (relating to actuarial opinion of reserves on or after operative date of valuation manual) and any other documents, materials and other information, including all working papers and copies thereof, created, produced or obtained by or disclosed to the commissioner or any other person in connection with the memorandum.

(2) All documents, materials and other information, including all working papers and copies thereof, created, produced or obtained by or disclosed to the commissioner or any other person in the course of an examination made under section 7125(d) (relating to valuation manual for policies issued on or after operative date of valuation manual), except that confidential information shall not include an examination report or other material prepared in connection with an examination made under Article IX of the act of May 17, 1921 (P.L.789, No.285), known as The Insurance Department Act of 1921, to the extent not held to be private and confidential information under section 905 of The Insurance Department Act of 1921.

(3) Reports, documents, materials and other information developed by a company in support of or in connection with an annual certification by the company under section 7126(b)(2) (relating to requirements of principle-based valuation), which evaluates the effectiveness of the

company's internal controls regarding a principle-based valuation, and any other documents, materials and other information, including all working papers and copies thereof, created, produced or obtained by or disclosed to the commissioner or any other person in connection with the reports, documents, materials and other information.

(4) A principle-based valuation report developed under section 7126(b)(3) and any other documents, materials and other information, including all working papers and copies thereof, created, produced or obtained by or disclosed to the commissioner or any other person in connection with the report.

(5) Experience data, experience materials and any other documents, materials, data and other information, including all working papers and copies thereof, created, produced or obtained by or disclosed to the commissioner or any other person in connection with experience data or experience materials.

Cross References. Section 7131 is referred to in section 7137 of this title.

§ 7132. General rule for confidential information.

Except as otherwise provided in this subchapter, confidential information shall be privileged and given confidential treatment and shall not be:

- (1) Subject to discovery or admissible as evidence in a private civil action.
- (2) Subject to subpoena.
- (3) Subject to the act of February 14, 2008 (P.L.6, No.3), known as the Right-to-Know Law.

Cross References. Section 7132 is referred to in section 7137 of this title.

§ 7133. Private civil actions.

The commissioner, department or any person who receives documents, materials or other information while acting under the authority of the commissioner or department or with whom the documents, materials or other information are shared under this chapter may not be permitted or required to testify in any private civil action concerning any confidential information covered under this subchapter.

§ 7134. Use of confidential information by department.

To assist in the performance of its duties, the department may:

- (1) Use confidential information in the furtherance of any regulatory or legal action brought against a company as a part of the department's official duties.
- (2) Share confidential information with regulatory or law enforcement officials of this Commonwealth or other jurisdictions, IAIS, NAIC and its affiliates and subsidiaries, group-wide supervisors and members of a supervisory college under section 1406.1 of The Insurance Company Law of 1921, if prior to receiving the confidential information the recipient agrees, and has the legal authority to agree, to maintain the confidential and privileged status of the confidential information in the same manner and to the same extent as required for the commissioner.
- (3) Receive, and shall maintain as confidential, any confidential information from the Actuarial Board for Counseling and Discipline or its successor, from NAIC and its affiliates and subsidiaries and from regulatory and law enforcement officials of this Commonwealth or other

jurisdictions with the understanding that the documents, materials or other information received are confidential by law in those jurisdictions and shall be given the same confidential treatment provided by this subchapter.

Cross References. Section 7134 is referred to in section 7136 of this title.

§ 7135. Agreements.

The department may enter into agreements governing sharing and use of confidential information consistent with this subchapter.

§ 7136. No waiver of privilege or confidentiality.

(a) Sharing of information by department.--The sharing of confidential information with or by the department as authorized by section 7134 (relating to use of confidential information by department) shall not constitute a waiver of any applicable privilege or claim of confidentiality in the documents, materials or information.

(b) Privilege established in other jurisdictions.--A privilege established under the law of any state or jurisdiction that is substantially similar to the privilege established under this subchapter shall be available and enforced in any proceeding in, and in any court of, this Commonwealth.

§ 7137. Limited exceptions.

Notwithstanding section 7132 (relating to general rule for confidential information), confidential information as defined in section 7131(1) and (4) (relating to confidential information defined):

(1) May be shared with the Actuarial Board for Counseling and Discipline if the information is required for the purpose of professional disciplinary proceedings and the Actuarial Board for Counseling and Discipline recipient agrees, and has the legal authority to agree, to maintain the confidentiality and privileged status of the documents, materials, data and other information in the same manner and to the same extent as required for the commissioner.

(2) May be subject to subpoena for the purpose of defending an action seeking damages from the actuary submitting the related memorandum in support of an opinion submitted under section 7113 (relating to actuarial opinion of reserves prior to operative date of valuation manual) or 7114 (relating to actuarial opinion of reserves on or after operative date of valuation manual) or a principle-based valuation report developed under section 7126(b)(3) (relating to requirements of principle-based valuation) by reason of an action required by this chapter or regulations promulgated under this chapter.

(3) May be released by the commissioner with the written consent of the company.

(4) Is no longer confidential once any portion of a memorandum in support of an opinion submitted under section 7113 or 7114 or a principle-based valuation report developed under section 7126(b)(3) is:

- (i) cited by the company in its marketing materials;
- (ii) publicly released to a governmental agency other than a State insurance department; or
- (iii) released by the company to the news media.

Sec.

7141. Single-state company exemption.

7142. Small company exemption.

§ 7141. Single-state company exemption.

(a) Requirements.--A company may file a written request with the commissioner to exempt specific product forms or product lines issued by a domestic company from the requirements of sections 7125 (relating to valuation manual for policies issued on or after operative date of valuation manual) and 7126 (relating to requirements of principle-based valuation) if the company:

(1) Is licensed and doing business only in this Commonwealth.

(2) Computes reserves using assumptions and methods used prior to the operative date of the valuation manual in addition to any requirements established by the commissioner and promulgated by regulation.

(b) Written exemption.--An exemption under subsection (a) that is granted by the commissioner shall be in writing.

(c) Revocation.--The commissioner may revoke the exemption under subsection (a) if the conditions under subsection (a)(1) and (2) are no longer met after 180 days' written notice to the company regarding the conditions.

(d) Additional effects of exemption.--A company granted an exemption under subsection (a) shall also be exempt from any requirement under this chapter that is created by a reference to section 7125 or 7126 for the product forms or product lines exempted.

§ 7142. Small company exemption.

(a) Requirements.--A company seeking an exemption for any of its ordinary life policies issued on or after the operative date of the valuation manual may file a statement of exemption for the current calendar year with its domestic commissioner prior to July 1 of that year if the following conditions are met:

(1) The company has less than \$300,000,000 of ordinary life premiums and, if the company is a member of an NAIC group of life insurers, the group has combined ordinary life premiums of less than \$600,000,000.

(2) The company reported total adjusted capital of at least 450% of the authorized control level risk-based capital in the most recent risk-based capital report. This paragraph shall not apply to fraternal benefit societies with less than \$50,000,000 of ordinary life premiums.

(3) The appointed actuary has provided an unqualified opinion on the reserves reported in the most recent annual statement.

(4) Any universal life secondary guarantee policies issued or assumed by the company with an issue date on or after the operative date of the valuation manual meet the definition of a nonmaterial secondary guarantee universal life product.

(b) Certification.--The statement of exemption under subsection (a) must certify that:

(1) The conditions under subsection (a) are met based on premiums and other values from the prior calendar year's financial statements.

(2) Any universal life secondary guarantee business issued since the operative date of the valuation manual meets the definition of a nonmaterial secondary guarantee universal life product.

(c) Inclusion with NAIC filing.--The statement of exemption under subsection (a) shall also be included with the NAIC filing for the second quarter of that year.

(d) Rejection.--If the commissioner finds that the conditions in subsection (a) are not met, the commissioner shall reject the statement of exemption prior to September 1. If the commissioner rejects the exemption or the company does not file a statement of exemption, the company shall follow the requirements of the valuation manual minimum standard entitled VM-20 for the ordinary life policies issued on or after the operative date of the valuation manual.

(e) Approval.--If the statement of exemption under subsection (a) is granted, the minimum reserve requirements for the exempt company's ordinary life policies issued on or after the operative date of the valuation manual shall be as set forth in the valuation manual except for VM-20, but using mortality tables authorized by VM-20.

(f) Definitions.--As used in this section, the following words and phrases shall have the meanings given to them in this subsection unless the context clearly indicates otherwise:

"Nonmaterial secondary guarantee universal life product."

A universal life product where the secondary guarantee meets the following parameters at the time of issue:

(1) The policy has only one secondary guarantee, which is in the form of a required premium consisting of either a specified annual or cumulative premium.

(2) The duration of the secondary guarantee for each policy is no longer than 20 years from issue through issue age 60, grading down by two-thirds year for each higher issue age to age 82, and thereafter five years.

(3) The present value of the required premium under the secondary guarantee must be at least as great as the present value of net premiums resulting from the appropriate valuation basic table over the course of the maximum secondary guarantee duration allowable under the contract in aggregate and subject to the duration limit under paragraph (2). The following shall apply:

(i) The present value shall use minimum allowable valuation basic table rates, where preferred tables are subject to existing qualification requirements, and the maximum valuation interest rate as defined in VM-20 section 3(C)(2).

(ii) The minimum premiums shall be the annual required premiums over the course of the maximum secondary guarantee duration.

"Ordinary life premiums." Direct premiums plus reinsurance assumed premiums from an unaffiliated company from the ordinary life line of business reported in Exhibit 1-Part 1, entitled Premiums and Annuity Considerations for Life and Accident and Health Contracts, of the prior calendar year's life, accident and health annual statement or the fraternal annual statement.

SUBCHAPTER E
MISCELLANEOUS PROVISIONS

Sec.

7151. Effect on The Insurance Company Law of 1921.

§ 7151. Effect on The Insurance Company Law of 1921.

(a) Fraternal benefit organizations.--The following shall apply:

(1) Section 2451(b) of The Insurance Company Law of 1921 shall apply to the minimum reserves for certificates issued after February 11, 1994 and prior to the effective date of this chapter.

(2) The minimum reserves for certificates issued on or after the effective date of this chapter shall be governed by this chapter.

(b) Standard nonforfeiture law for life insurance.--Notwithstanding any provision of The Insurance Company Law of 1921:

(1) For policies issued prior to the operative date of the valuation manual, any commissioners standard ordinary mortality table that was adopted after 1980 by NAIC and is approved by regulation for use in determining the minimum nonforfeiture standard may be substituted for the Commissioners 1980 Standard Ordinary Mortality Table with or without Ten-Year Select Mortality Factors or for the Commissioners 1980 Extended Term Insurance Table.

(2) For policies issued on or after the operative date of the valuation manual, the valuation manual shall provide the commissioners standard mortality table for use in determining the minimum nonforfeiture standard that may be substituted for the Commissioners 1980 Standard Ordinary Mortality Table with or without Ten-Year Select Mortality Factors or for the Commissioners 1980 Extended Term Insurance Table. If the commissioner approves by regulation any commissioners standard ordinary mortality table adopted by NAIC for use in determining the minimum nonforfeiture standard for policies issued on or after the operative date of the valuation manual, that minimum nonforfeiture standard shall supersede the minimum nonforfeiture standard provided by the valuation manual.

(3) For policies issued prior to the operative date of the valuation manual, any commissioners standard industrial mortality table that was adopted after 1980 by NAIC and that is approved by regulation for use in determining the minimum nonforfeiture standard may be substituted for the Commissioners 1961 Standard Industrial Mortality Table or the Commissioners 1961 Industrial Extended Term Insurance Table.

(4) For policies issued on or after the operative date of the valuation manual, the valuation manual shall provide the commissioners standard mortality table for use in determining the minimum nonforfeiture standard that may be substituted for the Commissioners 1961 Standard Industrial Mortality Table or the Commissioners 1961 Industrial Extended Term Insurance Table. If the commissioner approves by regulation any commissioners standard industrial mortality table adopted by the NAIC for use in determining the minimum nonforfeiture standard for policies issued on or after the operative date of the valuation manual, that minimum nonforfeiture standard shall supersede the minimum nonforfeiture standard provided by the valuation manual.

(c) Nonforfeiture interest rate.--Notwithstanding any provision of The Insurance Company Law of 1921, the nonforfeiture rate shall be as follows:

(1) For policies issued prior to the operative date of the valuation manual, the nonforfeiture interest rate per year for any policy issued in a particular calendar year shall be equal to 125% of the calendar year statutory valuation interest rate for the policy as defined in section 7117 (relating to computation of minimum standard by calendar

year of issue) rounded to the nearest 0.25%, but the nonforfeiture interest rate shall not be less than 4%.

(2) For policies issued on and after the operative date of the valuation manual, the nonforfeiture interest rate per year for any policy issued in a particular calendar year shall be provided by the valuation manual.

APPENDIX TO TITLE 40
INSURANCE

Supplementary Provisions of Amendatory Statutes

1975, AUGUST 2, P.L.293, NO.94

§ 2. Applicability.

The procedures established by this act shall apply to:

(1) any termination of contracts between hospital plan corporations and hospitals hereafter occurring; and

(2) any contracts between hospital plan corporations and hospitals under which subscribers received prepaid benefits on or after June 30, 1974 if such hospital plan corporations and hospitals were governed by contracts subject to 40 Pa.C.S. Chap. 61 (relating to hospital plan corporations) or corresponding provisions of law on June 30, 1964 and substantially continuously thereafter to and including June 30, 1974. Such contracts, if terminated, shall be reinstated as of their original termination and may be terminated hereafter only pursuant to the provisions of this act.

Explanatory Note. Act 94 added section 6124(c) of Title 40.

§ 3. Effective date and retroactivity.

This act shall take effect immediately and shall be retroactive to the extent provided in section 2 of this act.