

THE GENERAL ASSEMBLY OF PENNSYLVANIA

**SENATE BILL**

**No. 1135** Session of  
1979

INTRODUCED BY COPPERSMITH, LYNCH AND HOLL, DECEMBER 3, 1979

REFERRED TO INSURANCE, DECEMBER 3, 1979

AN ACT

1 Amending the act of May 17, 1921 (P.L.682, No.284), entitled "An  
2 act relating to insurance; amending, revising, and  
3 consolidating the law providing for the incorporation of  
4 insurance companies, and the regulation, supervision, and  
5 protection of home and foreign insurance companies, Lloyds  
6 associations, reciprocal and inter-insurance exchanges, and  
7 fire insurance rating bureaus, and the regulation and  
8 supervision of insurance carried by such companies,  
9 associations, and exchanges, including insurance carried by  
10 the State Workmen's Insurance Fund; providing penalties; and  
11 repealing existing laws," providing for standard  
12 nonforfeitures for individual deferred annuities.

13 The General Assembly of the Commonwealth of Pennsylvania  
14 hereby enacts as follows:

15 Section 1. Subsection (f) of section 410B, act of May 17,  
16 1921 (P.L.682, No.284), known as "The Insurance Company Law of  
17 1921," added July 17, 1935 (P.L.1116, No.358), is amended to  
18 read:

19 Section 410B. Uniform Provisions for Contracts of Annuities  
20 and Pure Endowment Contracts.--\* \* \*

21 (f) A provision specifying the options available upon  
22 cessation of payment of considerations under the contract.

1       (1) In the case of contracts issued prior to the effective  
2 date of this amendatory act, such provision shall specify that,  
3 if the contract, after having been in force for three full  
4 years, shall by its terms lapse or become forfeited because any  
5 stipulated payment to the company shall not have been made, the  
6 reserve on such contract, computed according to the standard  
7 adopted by said company in accordance with section three hundred  
8 and one of this act shall, after deducting one-fifth of the said  
9 entire reserve and any indebtedness to the company under the  
10 contract, be applied as a net single payment according to said  
11 standard for the purchase of a paid up annuity or pure endowment  
12 contract, which may be non-participating and which shall be  
13 payable by the company under the same terms and conditions,  
14 except as to amount of the original contract. A company may  
15 provide, in lieu of said paid up values, for a paid up annuity  
16 or pure endowment contract in an amount bearing the same  
17 proportion to the original annuity or pure endowment contract as  
18 the number of stipulated payments, which shall have been made to  
19 the company, shall bear to the total number of stipulated  
20 payments required to be made to the company under the contract,  
21 and if there be any indebtedness to the company under the  
22 contract, the amount of such paid up annuity or pure endowment  
23 shall be reduced by an amount bearing the same proportion to  
24 such paid up annuity or pure endowment as such indebtedness  
25 bears to the reserve on such paid up annuity or pure endowment,  
26 computed according to the standard adopted by said company in  
27 accordance with section three hundred and one of an act,  
28 approved the seventeenth day of May, one thousand nine hundred  
29 and twenty-one (Pamphlet Laws, seven hundred and eighty-nine),  
30 as amended;

1       (2) In the case of contracts issued on or after the  
2 effective date of this amendatory act, such provisions shall be  
3 in accordance with section 410C.

4       Section 2. The act is amended by adding a section to read:

5       Section 410C. Standard Nonforfeiture Law for Individual  
6 Deferred Annuities.--(a) This section shall be known as the  
7 Standard Nonforfeiture Law for Individual Deferred Annuities.

8       (b) This section shall not apply to any reinsurance, group  
9 annuity purchased under a retirement plan or plan of deferred  
10 compensation established or maintained by an employer (including  
11 a partnership or sole proprietorship) or an employe  
12 organization, or by both, other than a plan providing individual  
13 retirement accounts or individual retirement annuities under  
14 section 408 of the Internal Revenue Code, as now or hereafter  
15 amended, premium deposit fund, variable annuity, investment  
16 annuity, immediate annuity, any deferred annuity contract after  
17 annuity payments have commenced, or reversionary annuity, nor to  
18 any contract which shall be delivered outside this State through  
19 an agent or other representative of the company issuing the  
20 contract.

21       (c) In the case of contracts issued on or after the exact  
22 date of this section as defined in subsection (1) no contract of  
23 annuity, except as stated in subsection (b) shall be delivered  
24 or issued for delivery in this State unless it contains in  
25 substance the following provisions, or corresponding provisions  
26 which in the opinion of the commissioner are at least as  
27 favorable to the contract holder, upon cessation of payment of  
28 considerations under the contract.

29       (1) That upon cessation of payment of considerations under a  
30 contract, the company will grant a paid-up annuity benefit on a

1 plan stipulated in the contract of such value as is specified in  
2 subsections (e), (f), (g), (h) and (j).

3 (2) If a contract provides for a lump sum settlement at  
4 maturity, or at any other time, that upon surrender of the  
5 contract at or prior to the commencement of any annuity  
6 payments, the company will pay in lieu of any paid-up annuity  
7 benefit a cash surrender benefit of such amount as is specified  
8 in subsections (e), (f), (h) and (j). The company shall reserve  
9 the right to defer the payment of such cash surrender benefit  
10 for a period of six (6) months after demand therefor with  
11 surrender of the contract.

12 (3) A statement of the mortality table, if any, and interest  
13 rates used in calculating any minimum paid-up annuity, cash  
14 surrender or death benefits that are guaranteed under the  
15 contract, together with sufficient information to determine the  
16 amounts of such benefits.

17 (4) A statement that any paid-up annuity, cash surrender or  
18 death benefits that may be available under the contract are not  
19 less than the minimum benefits required by any statute of the  
20 state in which the contract is delivered and an explanation of  
21 the manner in which such benefits are altered by the existence  
22 of any additional amounts credited by the company to the  
23 contract, any indebtedness to the company on the contract or any  
24 prior withdrawals from or partial surrenders of the contract.  
25 Notwithstanding the requirements of this subsection, any  
26 deferred annuity contract may provide that if no considerations  
27 have been received under a contract for a period of two full  
28 years and the portion of the paid up annuity benefit at maturity  
29 on the plan stipulated in the contract arising from  
30 considerations paid prior to such period would be less than

1 twenty dollars (\$20) monthly, the company may at its option  
2 terminate such contract by payment in cash of the then present  
3 value of such portion of the paid-up annuity benefit, calculated  
4 on the basis of the mortality table, if any, and interest rate  
5 specified in the contract for determining the paid-up annuity  
6 benefit, and by such payment shall be relieved of any further  
7 obligation under such contract.

8 (d) The minimum values as specified in subsections (e), (f),  
9 (g), (h) and (j), of any paid-up annuity, cash surrender or  
10 death benefits available under an annuity contract shall be  
11 based upon minimum nonforfeiture amounts as defined in this  
12 section.

13 (1) With respect to contracts providing for flexible  
14 considerations, the minimum nonforfeiture amount at any time at  
15 or prior to the commencement of any annuity payments shall be  
16 equal to an accumulation up to such time at a rate of interest  
17 of three per centum (3%) per annum of percentages of the net  
18 considerations (as hereinafter defined) paid prior to such time,  
19 decreased by the sum of:

20 (A) any prior withdrawals from or partial surrenders of the  
21 contract accumulated at a rate of interest of three per centum  
22 (3%) per annum; and

23 (B) the amount of any indebtedness to the company on the  
24 contract, including interest due and accrued,  
25 and increased by any existing additional amounts credited by the  
26 company to the contract.

27 The net considerations for a given contract year used to define  
28 the minimum nonforfeiture amount shall be an amount not less  
29 than zero and shall be equal to the corresponding gross  
30 considerations credited to the contract during that contract

1 year less an annual contract charge of thirty dollars (\$30) and  
2 less a collection charge of one dollar and twenty-five cents  
3 (\$1.25) per consideration credited to the contract during that  
4 contract year. The percentages of net considerations shall be  
5 sixty-five per centum (65%) of the net considerations for the  
6 first contract year and eighty-seven and one-half per centum  
7 (87.5%) of the net considerations for the second and later  
8 contract years. Notwithstanding the provisions of the preceding  
9 sentence, the percentage shall be sixty-five per centum (65%) of  
10 the portion of the total net consideration for any renewal  
11 contract year which exceeds by not more than two times the sum  
12 of those portions of the net considerations in all prior  
13 contract years for which the percentage was sixty-five per  
14 centum (65%).

15 (2) With respect to contracts providing for fixed scheduled  
16 considerations, minimum nonforfeiture amounts shall be  
17 calculated on the assumption that considerations are paid  
18 annually in advance and shall be defined as for contracts with  
19 flexible considerations which are paid annually with two  
20 exceptions:

21 (A) The portion of the net consideration for the first  
22 contract year to be accumulated shall be sum of sixty-five per  
23 centum (65%) of the net consideration for the first contract  
24 year plus twenty-two and one-half per centum (22.5%) of the  
25 excess of the net consideration for the first contract year over  
26 the lesser of the net considerations for the second and third  
27 contract years.

28 (B) The annual contract charge shall be the lesser of (i)  
29 thirty dollars (\$30) or (ii) ten per centum (10%) of the gross  
30 annual considerations.

1       (3) With respect to contracts providing for a single  
2 consideration, minimum amount shall be defined as for contracts  
3 with flexible considerations except that the percentage of net  
4 consideration used to determine the minimum nonforfeiture amount  
5 shall be equal to ninety per centum (90%) and the net  
6 consideration shall be the gross consideration less a contract  
7 charge of seventy-five dollars (\$75).

8       (e) Any paid-up annuity benefit available under a contract  
9 shall be such that its present value on the date of annuity  
10 payments are to commence is at least equal to the minimum  
11 nonforfeiture amount on that date. Such present value shall be  
12 computed using the mortality table, if any, and the interest  
13 rate specified in the contract for determining the minimum paid-  
14 up benefits guaranteed in the contract.

15       (f) For contracts which provide cash surrender benefits,  
16 such cash surrender benefits available prior to maturity shall  
17 not be less than the present value as of the date of surrender  
18 of that portion of the maturity value of the paid-up annuity  
19 benefit which would be provided under the contract at maturity  
20 arising from considerations paid prior to the time of cash  
21 surrender reduced by the amount appropriate to reflect any prior  
22 withdrawals from or partial surrenders of the contract, such  
23 present value being calculated on the basis of an interest rate  
24 not more than one per centum (1%) higher than the interest rate  
25 specified in the contract for accumulating the net  
26 considerations to determine such maturity value, decreased by  
27 the amount of any indebtedness to the company on the contract,  
28 including interest due and accrued, and increased by any  
29 existing additional amounts credited by the company to the  
30 contract. In no event shall any cash surrender benefit be less

1 than the minimum nonforfeiture amount at that time. The death  
2 benefit under such contracts shall be at least equal to the cash  
3 surrender benefit.

4 (g) For contracts which do not provide cash surrender  
5 benefits, the present value of any paid-up annuity benefit  
6 available as a nonforfeiture option at any time prior to  
7 maturity shall not be less than the present value of that  
8 portion of the maturity value of the paid-up annuity benefit  
9 provided under the contract arising from considerations paid  
10 prior to the time the contract is surrendered in exchange for,  
11 or changed to, a deferred paid-up annuity, such present value  
12 being calculated for the period prior to that maturity date on  
13 the basis of the interest rate specified in the contract for  
14 accumulating the net considerations to determine such maturity  
15 value, and increased by any existing additional amount credited  
16 by the company to the contract. For contracts which do not  
17 provide any death benefits prior to the commencement of any  
18 annuity payments, such present values shall be calculated on the  
19 basis of such interest rate and the mortality table specified in  
20 the contract for determining the maturity value of the paid-up  
21 annuity benefit. However, in no event shall the present value of  
22 the paid-up annuity benefit be less than the minimum  
23 nonforfeiture amount at that time.

24 (h) For the purpose of determining the benefits calculated  
25 under subsections (f) and (g) in the case of annuity contracts  
26 under which an election may be made to have annuity payments  
27 commence at optional maturity dates, the maturity date shall be  
28 deemed to be the latest date for which election shall be  
29 permitted by the contract, but shall not be deemed to be later  
30 than the anniversary of the contract next following the

1 annuitant's seventieth birthday or the tenth anniversary of the  
2 contract, whichever is later.

3 (i) Any contract which does not provide cash surrender  
4 benefits or does not provide death benefits at least equal to  
5 the minimum nonforfeiture amount prior to the commencement of  
6 any annuity payments shall include a statement in a prominent  
7 place in the contract that such benefits are not provided.

8 (j) Any paid-up annuity, cash surrender or death benefits  
9 available at any time, other than on the contract anniversary  
10 under any contract with fixed scheduled considerations, shall be  
11 calculated with allowance for the lapse of time and the payment  
12 of any scheduled considerations beyond the beginning of the  
13 contract year in which cessation of payment of considerations  
14 under the contract occurs.

15 (k) For any contract, which provides, within the same  
16 contract by rider or supplemental contract provision, both  
17 annuity benefits and life insurance benefits that are in excess  
18 of the greater of cash surrender benefits or a return of the  
19 gross considerations with interest, the minimum nonforfeiture  
20 benefits shall be equal to the sum of the minimum nonforfeiture  
21 benefits for the annuity portion and the minimum nonforfeiture  
22 benefits, if any, for the life insurance portion computed as if  
23 each portion were a separate contract. Notwithstanding the  
24 provisions of subsections (e), (f), (g), (h) and (j), additional  
25 benefits payable (i) in the event of total and permanent  
26 disability, (ii) as reversionary annuity or deferred  
27 reversionary annuity benefits, or (iii) as other policy benefits  
28 additional to life insurance, endowment and annuity benefits,  
29 and considerations for all such additional benefits, shall be  
30 disregarded in ascertaining the minimum nonforfeiture amounts.

1 paid-up annuity, cash surrender and death benefits that may be  
2 required by this section. The inclusion of such additional  
3 benefits shall not be required in any paid-up benefits, unless  
4 such additional benefits separately would require minimum  
5 nonforfeiture amounts, paid-up annuity, cash surrender and death  
6 benefits.

7 (1) After the effective date of this section, any company  
8 may file with the commissioner a written notice of its election  
9 to comply with the provisions of this section after a specified  
10 date before the second anniversary of the effective date of this  
11 section. After the filing of such notice, then upon such  
12 specified date, which shall be the operative date of this  
13 section for such company, this section shall become operative  
14 with respect to annuity contracts, thereafter issued by such  
15 company. If a company makes no such election, the operative date  
16 of this section for such company shall be the second anniversary  
17 of the effective date of this section.

18 Section 3. This act shall take effect immediately.