

THE GENERAL ASSEMBLY OF PENNSYLVANIA

SENATE BILL

No. 636

Session of
1975

INTRODUCED BY HANKINS, HOLL, McKINNEY, LYNCH AND SMITH,
APRIL 28, 1975

REFERRED TO INSURANCE, APRIL 28, 1975

AN ACT

1 Amending the act of May 17, 1921 (P.L.789, No.285), entitled, as
2 amended, "An act relating to insurance; establishing an
3 insurance department; and amending, revising, and
4 consolidating the law relating to the licensing,
5 qualification, regulation, examination, suspension, and
6 dissolution of insurance companies, Lloyds associations,
7 reciprocal and inter-insurance exchanges, and certain
8 societies and orders, the examination and regulation of fire
9 insurance rating bureaus, and the licensing and regulation of
10 insurance agents and brokers; the service of legal process
11 upon foreign insurance companies, associations or exchanges;
12 providing penalties, and repealing existing laws," further
13 regulating the computation of the reserve liability of life,
14 health, and accident insurance policies and annuity
15 contracts.

16 The General Assembly of the Commonwealth of Pennsylvania
17 hereby enacts as follows:

18 Section 1. Paragraph (6) of subsection (b) of section 301,
19 act of May 17, 1921 (P.L.789, No.285), known as "The Insurance
20 Department Act of one thousand nine hundred and twenty-one,"
21 amended May 1, 1945 (P.L.346, No.145), is amended to read:

22 Section 301. Computation of Reserve Liability.--* * *

23 (b) This subsection shall apply only to policies and
24 contracts issued prior to the operative date of section four

1 hundred and ten A (the Standard Non-forfeiture Law) of an act,
2 approved the seventeenth day of May, one thousand nine hundred
3 and twenty-one (Pamphlet Laws, six hundred eighty-two), as
4 amended.

5 * * *

6 (6) [The] Except as otherwise provided in subparagraph (B)
7 of paragraph (1) of subsection (c) of this section for group
8 annuity and pure endowment contracts, the legal minimum standard
9 for valuation of annuities issued after January one, one
10 thousand nine hundred and twelve, shall be McClintock's table of
11 mortality among annuitants, with interest at three and one-half
12 per centum per annum; but annuities deferred ten or more years,
13 and written in connection with life or term insurance, shall be
14 valued upon the same mortality table from which the
15 consideration or premiums were computed, with interest not
16 higher than three and one-half per centum per annum.

17 * * *

18 Section 2. The introductory paragraph of subsection (c) and
19 the introductory paragraph of paragraph (1) of subsection (c) of
20 section 301 of the act, added May 1, 1945 (P.L.346, No.145), are
21 amended and a subparagraph is added to paragraph (1) to read:

22 Section 301. Computation of Reserve Liability.--* * *

23 (c) This subsection shall apply only to policies and
24 contracts issued on or after the operative date of section four
25 hundred and ten A (the Standard Non-forfeiture Law) of an act,
26 approved the seventeenth day of May, one thousand nine hundred
27 and twenty-one (Pamphlet Laws, six hundred eighty-two), as
28 amended, except as otherwise provided in subparagraph (B) of
29 paragraph (1) of this subsection for group annuity and pure
30 endowment contracts issued prior to such operative date.

1 (1) [The] (A) Except as otherwise provided in subparagraph
2 (B) of this paragraph (1), the minimum standard for the
3 valuation of all such policies and contracts shall be the
4 Commissioners reserve valuation method defined in paragraph (2)
5 of this subsection (c), three and one-half per centum (3 1/2%)
6 interest, or in the case of policies and contracts, other than
7 annuity and pure endowment contracts, issued on or after the
8 effective date of this amending act of 1975 and prior to January
9 1, 1986, four per centum (4%) interest, and the following
10 tables:

11 * * *

12 (B) The minimum standard for valuation of all individual
13 annuity and pure endowment contracts issued on or after the
14 operative date of this subparagraph (B), as defined herein, and
15 for all annuities and pure endowments purchased on or after such
16 operative date under group annuity and pure endowment contracts,
17 shall be the Commissioner's reserve valuation method defined in
18 paragraph (2) of this subsection (c) and the following tables
19 and interest rates:

20 (i) For individual annuity and pure endowment contracts
21 issued prior to January 1, 1986, excluding any disability and
22 accidental death benefits in such contracts, the 1971 Individual
23 Annuity Mortality Table, or any modification of this table
24 approved by the Insurance Commissioner; and six per centum (6%)
25 interest for single premium immediate annuity contracts, and
26 four per centum (4%) interest for all other individual annuity
27 and pure endowment contracts.

28 (ii) For individual annuity and pure endowment contracts
29 issued on or after January 1, 1986, excluding any disability and
30 accidental death benefits in such contracts, the 1971 Individual

1 Annuity Mortality Table, or any modification of this table
2 approved by the Insurance Commissioner, and three and one-half
3 per centum (3 1/2%) interest.

4 (iii) For all annuities and pure endowments purchased prior
5 to January 1, 1986 under group annuity and pure endowment
6 contracts, excluding any disability and accidental death
7 benefits purchased under such contracts, the 1971 Group Annuity
8 Mortality Table, or any modification of this table approved by
9 the Insurance Commissioner, and six per centum (6%) interest.

10 (iv) For all annuities and pure endowments purchased on or
11 after January 1, 1986 under group annuity and pure endowment
12 contracts, excluding any disability and accidental death
13 benefits purchased under such contracts, the 1971 Group Annuity
14 Mortality Table, or any modification of this table approved by
15 the Insurance Commissioner, and three and one-half per centum (3
16 1/2%) interest.

17 After the effective date of this act a company may file with
18 the Insurance Commissioner a written notice of its election to
19 comply with the provisions of this subparagraph (B) after a
20 specified date before January 1, 1979, which shall be the
21 operative date of this subparagraph (B) for such company:
22 Provided, That a company may elect a different operative date
23 for individual annuity and pure endowment contracts from that
24 elected for group annuity and pure endowment contracts. Whenever
25 a company makes no such election, the operative date of this
26 subparagraph (B) for such company shall be January 1, 1979.

27 * * *

28 Section 3. Section 301.1 of the act, added May 20, 1949
29 (P.L.1500, No.450), is amended to read:

30 Section 301.1. Computation of [Policy and Loss] Reserve

1 Liability; [Noncancellable] Health and Accident Insurance.--(a)
2 The Insurance [Commissioners] Commissioner shall each year value
3 or cause to be valued, or shall annually require the insurer to
4 value or cause to be valued, the reserve liabilities, as of the
5 thirty-first day of December of the preceding year, of every
6 life insurance company doing business in this Commonwealth, with
7 respect to all of its [noncancellable] health and accident
8 insurance [issued on and after January first, one thousand nine
9 hundred fifty] policies. For all such policies, the company
10 shall maintain an active life reserve which shall place a sound
11 value on its liabilities under such policies and be not less
12 than the reserve according to appropriate standards set forth in
13 regulations issued by the Insurance Commissioner and, in no
14 event, less in the aggregate than the pro rata gross unearned
15 premiums for such policies.

16 [(b) The legal minimum standard for computing the active
17 life reserve, including the unearned premium reserve of such
18 noncancellable health and accident policies issued on and after
19 January first, one thousand nine hundred fifty, shall be based
20 on the Conference Modification of Class III Disability Table,
21 with interest not to exceed three and one-half per centum per
22 annum, on the full preliminary term basis. The disabled life
23 reserves under such non-cancellable health and accident policies
24 issued on and after such date shall also be based on such table,
25 except that for claims of less than twenty-seven months'
26 duration, the reserve may be taken as equivalent to the
27 prospective claim payment, in the case of short term contracts,
28 or to three and one-half times the elapsed period of disability,
29 in the case of unlimited contracts: Provided, That in the case
30 of unlimited contracts, the reserve shall not be less than the

1 equivalent of seven weeks' claim payments.]

2 [(c) The Insurance Commissioner may modify the application
3 of the requirements prescribed in this section to policies or to
4 claims arising under policies in accordance with the waiting
5 period contained in such policies and in accordance with any
6 limitation as to the time for which indemnity is payable, or in
7 such other manner as the actual facts warrant.]

8 (d) [The Insurance Commissioner may, whenever he deems it
9 prudent, for the protection of policyholders in this
10 Commonwealth, vary the standard in particular cases.] This
11 section shall not apply to total and permanent disability
12 benefits, supplementary to life insurance or annuity policies or
13 contracts.

14 Section 4. Section 311.1 of the act, added May 20, 1949
15 (P.L.1498, No.449), is amended to read:

16 Section 311.1. Computation of [Policy and Loss Reserves]
17 Reserve Liability; [Noncancellable] Health and Accident
18 Insurance [Issued on and After January First, One Thousand Nine
19 Hundred Fifty].--(a) The Insurance Commissioner shall each year
20 value or cause to be valued, or shall annually require the
21 insurer to value or cause to be valued, the reserve liabilities,
22 as of the thirty-first day of December of the preceding year, of
23 every casualty insurance company doing business in this
24 commonwealth, with respect to all of its [noncancellable] health
25 and accident insurance [issued on and after January first, one
26 thousand nine hundred fifty] policies. For all such policies the
27 company shall maintain an active life reserve which shall place
28 a sound value on its liabilities under such policies and be not
29 less than the reserve according to appropriate standards set
30 forth in regulation issued by the Insurance Commissioner and, in

1 no event, less in the aggregate than the pro rata gross unearned
2 premiums for such policies.

3 [(b) The legal minimum standard for computing the active
4 life reserve, including the unearned premium reserve of such
5 noncancellable health and accident policies, shall be based on
6 the conference modification of class iii disability table, with
7 interest not to exceed three and one-half per centum per annum,
8 on the full preliminary term basis. The disabled life reserve
9 under such noncancellable health and accident policies issued on
10 and after such date shall also be based on such table, except
11 that for claims of less than twenty-seven months' duration, the
12 reserve may be taken as equivalent to the prospective claim
13 payment, in the case of short term contracts, or to three and
14 one-half times the elapsed period of disability, in the case of
15 unlimited contracts: Provided, That in the case of unlimited
16 contracts, the reserve shall not be less than the equivalent of
17 seven weeks' claim payments.]

18 [(c) The Insurance Commissioner may modify the application
19 of the requirements prescribed in this section to policies or to
20 claims arising under policies in accordance with the waiting
21 period contained in such policies and in accordance with any
22 limitation as to the time for which indemnity is payable, or in
23 such other manner as the actual facts warrant.]

24 (d) [The Insurance Commissioner may, whenever he deems it
25 prudent, for the protection of policyholders in this
26 Commonwealth, vary the standard in particular cases.] The
27 Insurance Commissioner may, with respect to any foreign or alien
28 insurer, accept a like valuation of the insurance supervising
29 official of the state, province or foreign country in which such
30 insurer is domiciled, if such valuation is made upon a basis and

1 according to standards producing an aggregate reserve not less
2 than herein contained.

3 Section 5. This act shall take effect immediately.