

THE GENERAL ASSEMBLY OF PENNSYLVANIA

SENATE BILL

No. 1012 Session of
1981INTRODUCED BY JUBELIRER, ZEMPRELLI, LYNCH, SCANLON, MESSINGER,
EARLY, LOEPER, KUSSE, FISHER AND WILT, JULY 1, 1981SENATOR HOLL, BANKING AND INSURANCE, AS AMENDED, OCTOBER 14,
1981

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 insurance policies and annuity contracts.

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

17 Section 1. Sections 301 and 303, act of May 17, 1921
18 (P.L.789, No.285), known as "The Insurance Department Act of one
19 thousand nine hundred and twenty-one," amended July 3, 1980
20 (P.L.363, No.92), are amended to read:

21 Section 301. Computation of Reserve Liability.--(a) The
22 Insurance Commissioner shall each year value, or cause to be
23 valued, the reserve liabilities (hereinafter called reserves or

1 net value), as of the thirty-first day of December of the
2 preceding year, for all outstanding life insurance policies and
3 annuity and pure endowment contracts of every life insurance
4 company doing business in this Commonwealth, except that in the
5 case of any company organized under the laws of any foreign
6 country, such valuation shall be limited to its United States
7 business in accordance with the terms of the policy, contract,
8 and rules following, and may certify the amount of any such
9 reserves, specifying the mortality table or tables, rate or
10 rates of interest and methods (net level premium method or
11 other) used in the calculation of such reserves. In calculating
12 such reserves, he may use group methods and approximate averages
13 for fractions of a year or otherwise.

14 (b) This subsection shall apply only to policies and
15 contracts issued prior to the operative date of section four
16 hundred and ten A (the Standard [Non-forfeiture Law]
17 Nonforfeiture Law for Life Insurance) of an act, approved the
18 seventeenth day of May, one thousand nine hundred and twenty-one
19 (Pamphlet Laws, six hundred eighty-two), as amended.

20 (1) The net value of all outstanding policies of life
21 insurance, issued by the company prior to the first day of
22 January, one thousand eight hundred and ninety, shall be
23 computed upon the basis of the American experience table of
24 mortality, with interest at not less than four and one-half and
25 not more than six per centum per annum.

26 (2) The net value of all outstanding policies, issued
27 between the first day of January, one thousand eight hundred and
28 ninety, and the first day of January, one thousand nine hundred
29 and three, on the combined experience or actuaries' table of
30 mortality, with interest at four per centum per annum.

1 (3) The net value of all outstanding policies of life
2 insurance, issued on and after the first day of January,
3 nineteen hundred and three, on the American experience table of
4 mortality, with interest at three and one-half per centum per
5 annum: Provided, however, That any company may value its group
6 term insurance policies, under which premium rates are not
7 guaranteed for a period in excess of five years, according to
8 the American men ultimate table of mortality, with interest at
9 three and one-half per centum per annum.

10 (4) The net value of all policies of life insurance, issued
11 on and after January first, one thousand nine hundred and
12 twenty-one, where the premiums are payable monthly or oftener,
13 shall be valued according to the American experience table of
14 mortality, with interest at three and one-half per centum per
15 annum. But any company may voluntarily value its industrial
16 policies according to the standard industrial mortality table,
17 with interest at three and one-half per centum per annum.

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

23 (6) Except as otherwise provided in subparagraph (B) of
24 paragraph (1) and in paragraph (2) of subsection (c) of this
25 section for group annuity and pure endowment contracts, the
26 legal minimum standard for valuation of annuities issued after
27 January one, one thousand nine hundred and twelve, shall be
28 McClintock's table of mortality among annuitants, with interest
29 at three and one-half per centum per annum; however, (i) for
30 annuities and pure endowments purchased under group annuity and

1 pure endowment contracts the legal minimum standard may, at the
2 option of the company, be the 1971 Group Annuity Mortality Table
3 or any modification of this table approved by the Insurance
4 Commissioner, with interest at five per centum per annum, and
5 (ii) annuities deferred ten or more years, and written in
6 connection with life or term insurance, shall be valued upon the
7 same mortality table from which the consideration or premiums
8 were computed, with interest not higher than three and one-half
9 per centum per annum.

10 (7) Any such company may, however, at any time elect under
11 any of its policies of life insurance to reserve on the American
12 experience table of mortality, with a lower rate of interest,
13 but at a rate not less than two per centum, or on the American
14 men ultimate table of mortality (with such modification and
15 extension below age twenty as may be approved by the Insurance
16 Commissioner), with interest at a rate not more than three and
17 one-half per centum and not less than two per centum and its
18 obligations under such policies shall be valued accordingly.

19 (8) On or after the operative date of section four hundred
20 and ten A (the Standard [Non-forfeiture Law] Nonforfeiture Law
21 for Life Insurance) of an act, approved the seventeenth day of
22 May, one thousand nine hundred and twenty-one (Pamphlet Laws,
23 six hundred eighty-two), as amended, reserves for any policies
24 or contracts may be calculated, at the option of the company,
25 according to any standard which produces greater aggregate
26 reserves for all such policies or contracts than the standard in
27 use by such company immediately prior to the exercise of the
28 option; and, with the approval of the Insurance Commissioner,
29 any company which at any time shall have adopted any standard of
30 valuation producing greater aggregate reserves than the minimum

1 reserves above provided may adopt any lower standard of
2 valuation for any policies or contracts but not lower than the
3 minimum reserves above provided nor lower than the standard
4 specified in such policies or contracts or the standard used by
5 such company for the determination of the [non-forfeiture]
6 nonforfeiture values thereof.

7 (c) This subsection shall apply only to policies and
8 contracts issued on or after the operative date of section four
9 hundred and ten A (the Standard [Non-forfeiture Law]
10 Nonforfeiture Law for Life Insurance) of an act, approved the
11 seventeenth day of May, one thousand nine hundred and twenty-one
12 (Pamphlet Laws, six hundred eighty-two), as amended, except as
13 otherwise provided in subparagraph (B) of paragraph (1) and in
14 paragraph (2) of this subsection for group annuity and pure
15 endowment contracts issued prior to such operative date.

16 (1) (A) Except as otherwise provided in subparagraph (B) of
17 this paragraph (1) and in paragraph (2) of this subsection, the
18 minimum standard for the valuation of all such policies and
19 contracts shall be the [Commissioners] commissioners reserve
20 valuation methods defined in paragraphs [(2) and] (3) and (4) of
21 this subsection (c), and in section 303, three and one-half per
22 centum (3 1/2%) interest for policies and contracts other than
23 group annuity and pure endowment contracts and as provided in
24 (iii) of this subparagraph (A) for group annuity and pure
25 endowment contracts, or in the case of policies and contracts,
26 other than annuity and pure endowment contracts, issued on or
27 after June 23, 1976, four per centum (4%) interest for such
28 policies issued prior to January 1, 1979 and four and one-half
29 per centum (4 1/2%) interest or such higher rate of interest as
30 may be approved from time to time by the Insurance Commissioner

1 for such policies issued on or after January 1, 1979, and the
2 following tables:

3 (i) For all [Ordinary] ordinary policies of life insurance
4 issued on the standard basis, excluding any disability and
5 accidental death benefits in such policies, the Commissioners
6 1941 Standard Ordinary Mortality Table for such policies issued
7 prior to the operative date of [clause] paragraph (2) of
8 subsection (d) of section 410A (the Standard [Non-forfeiture
9 Law] Nonforfeiture Law for Life Insurance) of "The Insurance
10 Company Law of 1921," and the Commissioners 1958 Standard
11 Ordinary Mortality Table for such policies issued on or after
12 [such] the operative date of paragraph (2) of subsection (d) of
13 section 410A (the Standard Nonforfeiture Law for Life Insurance)
14 of "The Insurance Company Law of 1921" and prior to the
15 operative date of subsection (e) of section 410A (the Standard
16 Nonforfeiture Law for Life Insurance) of "The Insurance Company
17 Law of 1921": Provided, That for any category of such policies
18 issued on female risks, all modified net premiums and present
19 values referred to in this section may be calculated according
20 to any age not more than six years younger than the actual age
21 of the insured; and for such policies issued on or after the
22 operative date of subsection (e) of section 410A (the Standard
23 Nonforfeiture Law for Life Insurance) of "The Insurance Company
24 Law of 1921": (a) the Commissioners 1980 Standard Ordinary
25 Mortality Table, or (b) at the election of the company for any
26 one or more specified plans of life insurance, the Commissioners
27 1980 Standard Ordinary Mortality Table with Ten-Year Select
28 Mortality Factors, or (c) any ordinary mortality table, adopted
29 after 1980 by the National Association of Insurance
30 Commissioners, that is approved by regulation promulgated by the

1 Insurance Commissioner for use in determining the minimum
2 standard of valuation for such policies.

3 (ii) For all [Industrial] industrial life insurance policies
4 issued on the standard basis, excluding any disability and
5 accidental death benefits in such policies, the 1941 Standard
6 Industrial Mortality Table for such policies issued prior to the
7 operative date of paragraph (3) of subsection (d) of section
8 410-A (The Standard [Non-forfeiture Law] Nonforfeiture Law for
9 Life Insurance) of "The Insurance Company Law of 1921," and for
10 such policies issued on or after such operative date the
11 Commissioners 1961 Standard Industrial Mortality Table [for such
12 policies issued on or after such operative date] or any
13 industrial mortality table, adopted after 1980 by the National
14 Association of Insurance Commissioners, that is approved by
15 regulation promulgated by the Insurance Commissioner for use in
16 determining the minimum standard of valuation for such policies.

17 (iii) For [Individual Annuity and Pure Endowment] individual
18 annuity and pure endowment contracts, excluding any disability
19 and accidental death benefits in such contracts, the 1937
20 Standard Annuity Mortality Table, or at the option of the
21 company, the Annuity Mortality Table for 1949 Ultimate or any
22 modification of either of these tables approved by the Insurance
23 Commissioner.

24 For all annuities and pure endowments purchased under [Group
25 Annuity and Pure Endowment] group annuity and pure endowment
26 contracts, excluding any disability and accidental death
27 benefits in such contracts, either the Group Annuity Mortality
28 Table for 1951, or any modification of such table approved by
29 the Insurance Commissioner, with interest at three and one-half
30 per centum (3 1/2%) or, at the option of the company, the 1971

1 Group Annuity Mortality Table or any modification of this table
2 approved by the Insurance Commissioner, in which event five per
3 centum (5%) interest shall be used in determining the minimum
4 standard for the valuation of such contracts; or at the option
5 of the company, any of the tables or modifications of tables
6 specified for [Individual Annuity and Pure Endowment] individual
7 annuity and pure endowment contracts.

8 (iv) For [Total and Permanent Disability] total and
9 permanent disability benefits in or supplementary to [Ordinary]
10 ordinary policies or contracts, for policies or contracts issued
11 on or after January 1, 1966, the tables of Period 2 disablement
12 rates and the 1930 [and] to 1950 termination rates of the 1952
13 Disability Study of the Society of Actuaries, with due regard to
14 the type of benefit, or any tables of disablement rates and
15 termination rates, adopted after 1980 by the National
16 Association of Insurance Commissioners, that are approved by
17 regulation promulgated by the Insurance Commissioner for use in
18 determining the minimum standard of valuation for such policies;
19 for policies or contracts issued on or after January 1, 1961,
20 and prior to January 1, 1966, either such tables or, at the
21 option of the company, the Class (3) Disability Table (1926);
22 and for policies issued prior to January 1, 1961, the Class (3)
23 Disability Table (1926). Any such table shall, for active lives,
24 be combined with a mortality table permitted for calculating the
25 reserves for life insurance policies.

26 (v) For [Accidental Death] accidental death benefits in or
27 supplementary to policies, for policies issued on or after
28 January 1, 1966, the 1959 Accidental Death Benefits Table or any
29 accidental death benefits table, adopted after 1980 by the
30 National Association of Insurance Commissioners, that is

1 approved by regulation promulgated by the Insurance Commissioner
2 for use in determining the minimum standard of valuation for
3 such policies; for policies issued on or after January 1, 1961,
4 and prior to January 1, 1966, either such table or, at the
5 option of the company, the Inter-Company Double Indemnity
6 Mortality Table; and for policies issued prior to January 1,
7 1961, the Inter-Company Double Indemnity Mortality Table. Either
8 table shall be combined with a mortality table permitted for
9 calculating the reserves for life insurance policies.

10 (vi) For [Group Life] group life insurance, life insurance
11 issued on the substandard basis and other special benefits, such
12 tables as may be approved by the Insurance Commissioner.

13 (B) [The] Except as provided in paragraph (2) of this
14 subsection (c), the minimum standard for valuation of all
15 individual annuity and pure endowment contracts issued on or
16 after the operative date of this subparagraph (B), as defined
17 herein, and for all annuities and pure endowments purchased on
18 or after such operative date under group annuity and pure
19 endowment contracts, shall be the [Commissioner's] commissioners
20 reserve valuation methods defined in paragraphs [(2) and] (3)
21 and (4) of this subsection (c) and the following tables and
22 interest rates:

23 (i) For individual annuity and pure endowment contracts
24 issued prior to January 1, 1979, excluding any disability and
25 accidental death benefits in such contracts, the 1971 Individual
26 Annuity Mortality Table, or any modification of this table
27 approved by the Insurance Commissioner; and six per centum (6%)
28 interest for single premium immediate annuity contracts, and
29 four per centum (4%) interest for all other individual annuity
30 and pure endowment contracts.

1 (ii) For individual single premium immediate annuity
2 contracts issued on or after January 1, 1979, excluding any
3 disability and accidental death benefits in such contracts, the
4 1971 Individual Annuity Mortality Table or any individual
5 annuity mortality table, adopted after 1980 by the National
6 Association of Insurance Commissioners, that is approved by
7 regulation promulgated by the Insurance Commissioner for use in
8 determining the minimum standard of valuation for such
9 contracts, or any modification of [this table] these tables
10 approved by the Insurance Commissioner, and seven and one-half
11 per centum (7 1/2%) interest or such higher rate of interest as
12 may be approved from time to time by the Insurance Commissioner.

13 (iii) For individual annuity and pure endowment contracts
14 issued on or after January 1, 1979, other than single premium
15 immediate annuity contracts, excluding any disability and
16 accidental death benefits in such contracts, the 1971 Individual
17 Annuity Mortality Table, or any individual annuity mortality
18 table, adopted after 1980 by the National Association of
19 Insurance Commissioners, that is approved by regulation
20 promulgated by the Insurance Commissioner for use in determining
21 the minimum standard of valuation for such contracts, or any
22 modification of [this table] these tables approved by the
23 Insurance Commissioner, and five and one-half per centum (5
24 1/2%) interest for single premium deferred annuity and pure
25 endowment contracts and four and one-half per centum (4 1/2%)
26 interest for all other such individual annuity and pure
27 endowment contracts or such higher rate or rates of interest as
28 may be approved from time to time by the Insurance Commissioner.

29 (iv) For all annuities and pure endowments purchased prior
30 to January 1, 1979 under group annuity and pure endowment

contracts, excluding any disability and accidental death benefits purchased under such contracts, the 1971 Group Annuity Mortality Table, or any modification of this table approved by the Insurance Commissioner, and six per centum (6%) interest.

(v) For all annuities and pure endowments purchased on or after January 1, 1979 under group annuity and pure endowment contracts, excluding any disability and accidental death benefits purchased under such contracts, the 1971 Group Annuity Mortality Table, or any group annuity mortality table, adopted after 1980 by the National Association of Insurance Commissioners, that is approved by regulation promulgated by the Insurance Commissioner for use in determining the minimum standard of valuation for such annuities and pure endowments, or any modification of [this table] these tables approved by the Insurance Commissioner, and seven and one-half per centum (7 1/2%) interest or such higher rate of interest as may be approved from time to time by the Insurance Commissioner.

After June 23, 1976, a company may file with the Insurance Commissioner a written notice of its election to comply with the provisions of this subparagraph (B) after a specified date before January 1, 1979, which shall be the operative date of this subparagraph (B) for such company: Provided, That 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. Whenever a company makes no such election, the operative date of this subparagraph (B) for such company shall be January 1, 1979.

(2) (A) The interest rates used in determining the minimum standard for the valuation of:

(i) all life insurance policies issued in a particular

1 calendar year, on or after the operative date of subsection (e)
2 of section 410A (The Standard Nonforfeiture Law for Life
3 Insurance) of "The Insurance Company Law of 1921,"

4 (ii) all individual annuity and pure endowment contracts
5 issued in a particular calendar year on or after January 1,
6 1981,

7 (iii) all annuities and pure endowments purchased in a
8 particular calendar year on or after January 1, 1981, under
9 group annuity and pure endowment contracts, and

10 (iv) the net increase, if any, in a particular calendar year
11 after January 1, ~~1982~~ 1981, in amounts held under guaranteed <—
12 interest contracts

13 shall be the calendar year statutory valuation interest rates as
14 defined in this paragraph (2) of subsection (c).

15 (B) The calendar year statutory valuation interest rates, I,
16 shall be determined as follows and the results rounded to the
17 nearer one-quarter of one per centum (1/4 of 1%):

18 (i) For life insurance,

19
$$I = .03 + \frac{W(R1 - .03) + W(R2 - .09)}{2}.$$

20 2

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

25
$$I = .03 + W(R - .03).$$

26 where R1 is the lesser of R and .09,

27 R2 is the greater of R and .09,

28 R is the reference interest rate defined in this paragraph (2),

29 and W is the weighting factor defined in this paragraph (2).

30 (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 (ii) above,
the formula for life insurance stated in (i) above shall apply
to annuities and guaranteed interest contracts with guarantee
durations in excess of ten years and the formula for single
premium immediate annuities stated in (ii) above shall apply to
annuities and guaranteed interest contracts with guarantee
duration of ten 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 (ii) above 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 (ii) above shall apply.

However, if the calendar year statutory valuation interest
rate for any life insurance policies issued in any calendar year
determined without reference to this sentence differs from the
corresponding actual rate for similar policies issued in the
immediately preceding calendar year by less than one-half of one
per centum (1/2 of 1%), the calendar year statutory valuation
interest rate for such life insurance policies shall be equal to
the corresponding actual rate for the immediately preceding
calendar year. For purposes of applying the immediately
preceding sentence, 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 for 1979) and shall be determined for each
subsequent calendar year regardless of when subsection (e) of

section 410A (The Standard Nonforfeiture Law for Life Insurance)
of "The Insurance Company Law of 1921" becomes operative.

(C) The weighting factors referred to in the formulas stated
above are given in the following tables:

(i) Weighting factors for life insurance:

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

For life insurance, the guarantee duration is 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.

(ii) Weighting factor 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:

.80

(iii) Weighting factors for other annuities and for
guaranteed interest contracts, except as stated in (ii) above,
shall be as specified in tables (a), (b) and (c) below,
according to the rules and definitions in (d), (e) and (f)
below:

(a) For annuities and guaranteed interest contracts valued
on an issue year basis:

<u>Guarantee</u>	<u>Weighting Factor</u>
<u>Duration</u>	<u>for Plan Type</u>

1	<u>(Years)</u>	<u>A</u>	<u>B</u>	<u>C</u>
2	<u>5 or less</u>	<u>.80</u>	<u>.60</u>	<u>.50</u>
3	<u>More than 5, but not more</u>			
4	<u>than 10:</u>	<u>.75</u>	<u>.60</u>	<u>.50</u>
5	<u>More than 10, but not more</u>			
6	<u>than 20:</u>	<u>.65</u>	<u>.50</u>	<u>.45</u>
7	<u>More than 20:</u>	<u>.45</u>	<u>.35</u>	<u>.35</u>
8		<u>Plan Type</u>		
9	<u>(b) For annuities and guaranteed</u>	<u>A</u>	<u>B</u>	<u>C</u>
10	<u>interest contracts valued on</u>			
11	<u>a change in fund basis, the</u>			
12	<u>factors shown in (a) above</u>			
13	<u>increased by:</u>	<u>.15</u>	<u>.25</u>	<u>.05</u>
14		<u>Plan Type</u>		
15	<u>(c) For annuities and guaranteed</u>	<u>A</u>	<u>B</u>	<u>C</u>
16	<u>interest contracts valued on</u>			
17	<u>an issue year basis (other</u>			
18	<u>than those with no cash</u>			
19	<u>settlement options) which</u>			
20	<u>do not guarantee interest</u>			
21	<u>on considerations received</u>			
22	<u>more than one year after issue or</u>			
23	<u>purchase and for annuities and</u>			
24	<u>guaranteed interest contracts</u>			
25	<u>valued on a change in fund</u>			
26	<u>basis which do not guarantee</u>			
27	<u>interest rates on considerations</u>			
28	<u>received more than twelve months</u>			
29	<u>beyond the valuation date, the</u>			
30	<u>factors shown in (a) or derived</u>			

1 in (b) increased by: .05 .05 .05

(d) 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 twenty 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.

13 (e) Plan type as used in the above tables is defined as
14 follows:

Plan Type A: At any time policyholder may withdraw
funds only (1) with an adjustment to
reflect changes in interest rates or
asset values since receipt of the
funds by the insurance company, or
(2) without such adjustment but in
installments over five years or more, or
(3) as an immediate life annuity, or
(4) no withdrawal permitted.

Plan Type B: Before expiration of the interest rate
guarantee, policyholder may withdraw
funds only (1) with an adjustment to
reflect changes in interest rates or
asset values since receipt of the
funds by the insurance company, or
(2) without such adjustment but in

1 installments over five years or
2 more, or (3) no withdrawal permitted.
3 At the end of the interest rate
4 guarantee, funds may be withdrawn
5 without such adjustment in a single sum
6 or installments over less than five
7 years.

8 Plan Type C: Policyholder may withdraw funds before
9 expiration of the interest rate guarantee
10 in a single sum or installments over less
11 than five years either (1) without ad-
12 justment to reflect changes in interest
13 rates or asset values since receipt of
14 the funds by the insurance company, or
15 (2) subject only to a fixed surrender
16 charge stipulated in the contract as a
17 percentage of the fund.

18 (f) A company may elect to value guaranteed interest
19 contracts with cash settlement options and annuities with cash
20 settlement options on either an issue year basis or on a change
21 in fund basis. Guaranteed interest contracts with no cash
22 settlement options and other annuities with no cash settlement
23 options must be valued on an issue year basis. As used in this
24 paragraph (2) of subsection (c), an issue year basis of
25 valuation refers to a valuation basis under which the interest
26 rate used to determine the minimum valuation standard for the
27 entire duration of the annuity or guaranteed interest contract
28 is the calendar year valuation interest rate for the year of
29 issue or year of purchase of the annuity or guaranteed interest
30 contract, and the change in fund basis of valuation refers 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) The reference interest rate referred to in subparagraph (B) of this paragraph (2) of subsection (c) shall be defined as follows:

(i) For all life insurance, the lesser of the average over a period of thirty-six months and the average over a period of twelve months, ending on June 30 of the calendar year next preceding the year of issue, of Moody's Corporate Bond Yield Average-Monthly Average Corporates, as published by Moody's Investors Service, Inc.

(ii) 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 twelve months, ending on June 30 of the calendar year of issue or year of purchase, of Moody's Corporate Bond Yield Average-Monthly Average Corporates, as published by Moody's Investors Service, Inc.

(iii) 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 (ii) above, with guarantee duration in excess of ten years, the lesser of the average over a period of thirty-six months and the average over a period of twelve months, ending on June 30 of the calendar year of issue or purchase, of Moody's Corporate Bond Yield Average-Monthly Average Corporates, as published by

1 Moody's Investors Service, Inc.

2 (iv) For other annuities with cash settlement options and
3 guaranteed interest contracts with cash settlement options,
4 valued on a year of issue basis, except as stated in (ii) above,
5 with guarantee duration of ten years or less, the average over a
6 period of twelve months, ending on June 30 of the calendar year
7 of issue or purchase, of Moody's Corporate Bond Yield Average-
8 Monthly Average Corporates, as published by Moody's Investors
9 Service, Inc.

10 (v) For other annuities with no cash settlement options and
11 for guaranteed interest contracts with no cash settlement
12 options, the average over a period of twelve months, ending on
13 June 30 of the calendar year of issue or purchase, of Moody's
14 Corporate Bond Yield Average-Monthly Average Corporates, as
15 published by Moody's Investors Service, Inc.

16 (vi) For other annuities with cash settlement options and
17 guaranteed interest contracts with cash settlement options,
18 valued on a change in fund basis, except as stated in (ii)
19 above, the average over a period of twelve months, ending on
20 June 30 of the calendar year of the change in the fund, of
21 Moody's Corporate Bond Yield Average-Monthly Average Corporates,
22 as published by Moody's Investors Service, Inc.

23 (E) In the event that Moody's Corporate Bond Yield Average-
24 Monthly Average Corporates is no longer published by Moody's
25 Investors Service, Inc., or in the event that the National
26 Association of Insurance Commissioners determines that Moody's
27 Corporate Bond Yield Average-Monthly Average Corporates is no
28 longer appropriate for the determination of the reference
29 interest rate, then an alternative method for determination of
30 the reference interest rate, which is adopted by the National

1 Association of Insurance Commissioners and approved by
2 regulation promulgated by the Insurance Commissioner, may be
3 substituted.

4 [(2)] (3) (A) Except as otherwise provided in subparagraph
5 (B) of this paragraph (3), and in paragraph [(3)] (4) of this
6 subsection (c), and in section 303, reserves according to the
7 [Commissioners] commissioners reserve valuation method, for the
8 life insurance and endowment benefits of policies providing for
9 a uniform amount of insurance and requiring the payment of
10 uniform premiums shall be the excess, if any, of the present
11 value, at the date of valuation, of such future guaranteed
12 benefits provided for by such policies, over the then present
13 value of any future modified net premiums therefor. The modified
14 net premiums for any such policy shall be such uniform
15 percentage of the respective contract premiums for such benefits
16 that the present value, at the date of issue of the policy, of
17 all such modified net premiums shall be equal to the sum of the
18 then present value of such benefits provided for by the policy
19 and the excess of [(A)] (I) over [(B)] (II), as follows:

20 [(A)] (I) A net level annual premium equal to the present
21 value, at the date of issue, of such benefits provided for after
22 the first policy year, divided by the present value, at the date
23 of issue, of an annuity of one per annum payable on the first
24 and each subsequent anniversary of such policy on which a
25 premium falls due: Provided, however, That such net level annual
26 premium shall not exceed the net level annual premium on the
27 nineteen year premium whole life plan for insurance of the same
28 amount at an age one year higher than the age at issue of such
29 policy.

30 [(B)] (II) A net one year term premium for such benefits

provided for in the first policy year.

(B) For any 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 such excess and which provides an endowment benefit or a cash surrender value or a combination thereof in an amount greater than such excess premium, the reserve according to the commissioners reserve valuation method as of any policy anniversary occurring on or before the assumed ending date defined herein as the first policy anniversary on which the sum of any endowment benefit and any cash surrender value then available is greater than such excess premium shall, except as otherwise provided in section 303, be the greater of the reserve as of such policy anniversary calculated as described in subparagraph (A) of this paragraph (3) and the reserve as of such policy anniversary calculated as described in that paragraph, but with (i) the value defined in (I) of that subparagraph being reduced by fifteen per centum (15%) of the amount of such excess first year premium, (ii) 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, (iii) the policy being assumed to mature on such date as an endowment, and (iv) the cash surrender value provided on such date being considered as an endowment benefit. In making the above comparison the mortality and interest bases stated in subparagraph (A) of paragraph (1) of subsection (c) and paragraph (2) of subsection (c) shall be used.

(C) Reserves[,] according to the [Commissioners]
commissioners reserve valuation method for (i) life insurance

1 policies providing for a varying amount of insurance or
2 requiring the payment of varying premiums, (ii) group annuity
3 and pure endowment contracts purchased under a retirement plan
4 or plan of deferred compensation, established or maintained by
5 an employer (including a partnership or sole proprietorship) or
6 by an employee organization, or by both, other than a plan
7 providing individual retirement[,] accounts or individual
8 retirement annuities under section 408 of the Internal Revenue
9 Code, as now or hereafter amended, (iii) disability and
10 accidental death benefits in all policies and contracts, and
11 (iv) all other benefits, except life insurance and endowment
12 benefits in life insurance policies[,] and benefits provided by
13 all other annuity and pure endowment contracts, shall be
14 calculated by a method consistent with the principles of this
15 paragraph [(2)] (3) of this subsection (c), except that any
16 extra premiums charged because of impairments or special hazards
17 shall be disregarded in the determination of modified net
18 premiums.

19 [(3)] (4) This [section] paragraph shall apply to all
20 annuity and pure endowment contracts other than group annuity
21 and pure endowment contracts purchased under a retirement plan
22 or plan of deferred compensation, established or maintained by
23 an employer (including a partnership or sole proprietorship) or
24 by an employee organization, or by both, other than a plan
25 providing individual retirement accounts or individual
26 retirement annuities under section 408 of the Internal Revenue
27 Code, as now or hereafter amended.

28 Reserves according to the commissioners annuity reserve
29 method for benefits under annuity or pure endowment contracts,
30 excluding any disability and accidental death benefits in such

1 contracts, shall be the greatest of the respective excesses of
2 the present values, at the date of valuation, of the future
3 guaranteed benefits, including guaranteed [non-forfeiture]
4 nonforfeiture benefits, provided for by such contracts at the
5 end of each respective contract year, over the present value, at
6 the date of valuation, of any future valuation considerations
7 derived from future gross considerations, required by the terms
8 of such contract, that become payable prior to the end of such
9 respective contract year. The future guaranteed benefits shall
10 be determined by using the mortality table, if any, and the
11 interest rate, or rates, specified in such contracts for
12 determining guaranteed benefits. The valuation considerations
13 are the portions of the respective gross considerations applied
14 under the terms of such contracts to determine [non-forfeiture]
15 nonforfeiture values.

16 [(4)] (5) In no event shall a company's aggregate reserves
17 for all life insurance policies, excluding disability and
18 accidental death benefits, be less than the aggregate reserves
19 calculated in accordance with the methods set forth in
20 paragraphs [(2) and] (3) and (4) of this subsection (c), and in
21 section 303, and the mortality table or tables and rate or rates
22 of interest used in calculating [non-forfeiture] nonforfeiture
23 benefits for such policies.

24 [(5)] (6) Reserves for any category of policies, contracts
25 or benefits as established by the Insurance Commissioner, may be
26 calculated, at the option of the company, according to any
27 standards which produce greater aggregate reserves for such
28 category than those calculated according to the minimum standard
29 herein provided, but the rate or rates of interest used for
30 policies and contracts other than annuity and pure endowment

1 contracts shall not be higher than the corresponding rate or
2 rates of interest used in calculating any [non-forfeiture]
3 nonforfeiture benefits provided for therein.

4 [(6)] (7) Any such company which at any time shall have
5 adopted any standard of valuation producing greater aggregate
6 reserves than those calculated according to the minimum standard
7 herein provided may, with the approval of the Insurance
8 Commissioner, adopt any lower standard of valuation, but not
9 lower than the minimum herein provided.

10 (d) The aggregate reserves or net value so ascertained of
11 the policies and contracts of any such life insurance company
12 shall be deemed its reserve liability, to provide for which it
13 shall hold funds in secure investments of an amount equal to
14 such net value above all its other liabilities. The Insurance
15 Commissioner shall, after having determined as above the net
16 value of all the policies and contracts in force, see that the
17 company has that amount in safe legal securities, after all its
18 other debts and claims against it have been provided for.

19 (e) In the case of any plan of life insurance which provides
20 for future premium determination, the amounts of which are to be
21 determined by the insurance company based on then estimates of
22 future experience, or in the case of any plan of life insurance
23 or annuity which is of such a nature that the minimum reserves
24 cannot be determined by the methods described in paragraphs (3)
25 and (4) of subsection (c) and section 303, the reserves which
26 are held under any such plan must:

27 (1) be appropriate in relation to the benefits and the
28 pattern of premiums for that plan, and

29 (2) be computed by a method which is consistent with the
30 principles of this section and section 303,

1 as determined by regulations promulgated by the Insurance
2 Commissioner.

3 [(e)] (f) The provisions of this section for the valuation
4 of policies and for premium rates shall not apply to companies
5 or associations transacting business on the mutual assessment
6 plan.

7 Section 303. Minimum Reserve Requirements of Companies

8 Charging Less Than Net Premiums Computed on Mortality Tables.--

9 If in any contract year the gross premium charged by any life
10 insurance company on any policy or contract is less than the
11 valuation net premium for the policy or contract calculated by
12 the method used in calculating the reserve thereon but using the
13 minimum valuation standards of mortality and rate of interest,
14 the minimum reserve required for such policy or contract shall
15 be the greater of either the reserve calculated according to the
16 mortality table, rate of interest, and method actually used for
17 such policy or contract, or the reserve calculated by the method
18 actually used for such policy or contract but using the minimum
19 valuation standards of mortality and rate of interest and
20 replacing the valuation net premium by the actual gross premium
21 in each contract year for which the valuation net premium
22 exceeds the actual gross premium. The minimum valuation
23 standards of mortality and rate of interest referred to in this
24 section are those standards stated in subsection (b),
25 subparagraph (A) of paragraph (1) of subsection (c), and
26 paragraph (2) of subsection (c) of section 301.

27 Provided that for any life insurance policy issued on or
28 after January 1, 1985 for which the gross premium in the first
29 policy year exceeds that of the second year and for which no
30 comparable additional benefit is provided in the first year for

1 such excess and which provides an endowment benefit or a cash
2 surrender value or a combination thereof in an amount greater
3 than such excess premium, the foregoing provisions of this
4 section shall be applied as if the method actually used in
5 calculating the reserve for such policy were the method
6 described in paragraph (3) of subsection (c) of section 301,
7 ignoring subparagraph (B) of paragraph (3) of subsection (c) of
8 section 301. The minimum reserve at each policy anniversary of
9 such a policy shall be the greater of the minimum reserve
10 calculated in accordance with paragraph (3) of subsection (c) of
11 section 301, including subparagraph (B) of that subsection, and
12 the minimum reserve calculated in accordance with this section.

13 Section 2. This act shall take effect immediately.