
THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE BILL

No. 1766 Session of
2015

INTRODUCED BY PICKETT AND DeLUCA, FEBRUARY 17, 2016

SENATOR WHITE, BANKING AND INSURANCE, IN SENATE, AS AMENDED,
MAY 18, 2016

AN ACT

1 Amending Title 40 (Insurance) of the Pennsylvania Consolidated
2 Statutes, providing for standard valuation; and making
3 related repeals regarding Act 284 of 1921 and Act 285 of
4 1921.

5 The General Assembly of the Commonwealth of Pennsylvania
6 hereby enacts as follows:

7 Section 1. Title 40 of the Pennsylvania Consolidated
8 Statutes is amended by adding a part to read:

9 PART IV

10 STANDARD VALUATION

11 Chapter

12 71. Reserve Liabilities

13 CHAPTER 71

14 RESERVE LIABILITIES

15 Subchapter

16 A. General Provisions

17 B. Valuation of Reserves for Contracts and Policies

18 C. Confidentiality

1 D. Exemptions

2 E. Miscellaneous Provisions

3 SUBCHAPTER A

4 GENERAL PROVISIONS

5 Sec.

6 7101. Scope.

7 7102. Definitions.

8 7103. Special applicability provisions.

9 7104. Notice regarding operative date of valuation manual.

10 7105. Regulations.

11 § 7101. Scope.

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

16 § 7102. Definitions.

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

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

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

28 "Commissioner." The Insurance Commissioner of the
29 Commonwealth.

30 "Company." An entity, including a fraternal benefit society,

1 that:

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

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

9 "Department." The Insurance Department of the Commonwealth.

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

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

17 "Experience materials." Documents, materials, data and other
18 information, including all working papers and copies of all
19 these items created or produced in connection with experience
20 data, which include any potentially company-identifying or
21 personally identifiable information provided to or obtained by
22 the commissioner.

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

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

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

29 (2) From the jurisdiction determined or acknowledged by
30 the department under section 1406.2(c) of The Insurance

1 Company Law of 1921 to have sufficient, significant contacts
2 with the international insurance group.

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

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

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

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

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

16 (2) The Standard Valuation Law, as amended by NAIC in
17 2009, or legislation including substantially similar terms
18 and provisions, has been enacted by both of the following:

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

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

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

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

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

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

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

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

13 "Qualified actuary." An individual who:

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

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

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

23 "Tail risk." A risk that occurs where:

24 (1) the frequency of low probability events is higher
25 than expected under a normal probability distribution; or

26 (2) there are observed events of very significant size
27 or magnitude.

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

30 "Valuation manual." The manual of valuation instructions

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

7 (1) At least 75% of the members of NAIC voting, but not
8 less than a majority of the total membership.

9 (2) Members of NAIC representing jurisdictions totaling
10 more than 75% of the direct premiums written as reported in
11 the most recently available life, accident and health annual
12 statements, health annual statements or fraternal annual
13 statements.

14 § 7103. Special applicability provisions.

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

19 (1) The following shall apply to policies or contracts
20 subject to this chapter that were issued on or after May 17,
21 1921, and prior to the operative date of the valuation
22 manual:

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

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

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

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

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

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

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

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

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

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

16 (3) The following shall not apply to policies or
17 contracts subject to this chapter that were issued on or
18 after May 17, 1921, and prior to the operative date of the
19 valuation manual:

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

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

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

28 § 7104. Notice regarding operative date of valuation manual.

29 Upon the occurrence of the last occurring event under the
30 definition of "operative date of the valuation manual" in

1 section 7102 (relating to definitions), the commissioner shall
2 issue a notice regarding the operative date of the valuation
3 manual to be published in the Pennsylvania Bulletin and on the
4 department's publicly accessible Internet website.

5 § 7105. Regulations.

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

8 SUBCHAPTER B

9 VALUATION OF RESERVES FOR CONTRACTS AND POLICIES

10 Sec.

11 7111. Reserve valuation for policies and contracts issued prior
12 to operative date of valuation manual.

13 7112. Reserve valuation for policies and contracts issued on or
14 after operative date of valuation manual.

15 7113. Actuarial opinion of reserves prior to operative date of
16 valuation manual.

17 7114. Actuarial opinion of reserves on or after operative date
18 of valuation manual.

19 7115. Computation of minimum standard.

20 7116. Computation of minimum standard for annuities.

21 7117. Computation of minimum standard by calendar year of
22 issue.

23 7118. Reserve valuation method for life insurance and endowment
24 benefits.

25 7119. Reserve valuation method for annuity and pure endowment
26 benefits.

27 7120. Minimum reserves.

28 7121. Optional reserve calculation.

29 7122. Reserve calculation for valuation net premium exceeding
30 gross premium charged.

1 7123. Reserve calculation for indeterminate premium plans.

2 7124. Minimum standard for accident and health insurance
3 contracts.

4 7125. Valuation manual for policies issued on or after the
5 operative date of valuation manual.

6 7126. Requirements of principle-based valuation.

7 7127. Experience reporting for policies in force on or after
8 operative date of valuation manual.

9 § 7111. Reserve valuation for policies and contracts issued
10 prior to operative date of valuation manual.

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

14 (b) Annual valuation.--The commissioner shall annually
15 value, or cause to be valued, the reserve liabilities for all
16 outstanding life insurance policies and annuity and pure
17 endowment contracts of each company doing business in this
18 Commonwealth. The commissioner may certify the amount of
19 reserves.

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

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

29 (e) Minimum standard.--The minimum standard for the
30 valuation of policies and contracts issued prior to the

1 operative date of section 410A of The Insurance Company Law of
2 1921 shall be as follows:

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

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

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

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

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

1 interest designated.

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

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

17 (ii) Annuities deferred 10 or more years, and
18 written in connection with life or term insurance, shall
19 be valued upon the same mortality table from which the
20 consideration or premiums were computed, with interest at
21 not more than 3.5% per year.

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

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

29 (ii) the American men ultimate table of mortality,
30 with any modification and extension below 20 years of age

1 as may be approved by the commissioner, with interest at
2 a rate not less than 2% nor more than 3.5% per year.

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

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

14 (i) the minimum reserves provided under this
15 section;

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

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

21 § 7112. Reserve valuation for policies and contracts issued on
22 or after operative date of valuation manual.

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

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

1 The commissioner may certify the amount of reserves.

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

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

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

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

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

18 § 7113. Actuarial opinion of reserves prior to operative date
19 of valuation manual.

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

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

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

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

1 section.

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

7 (1) are computed appropriately;

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

10 (3) are consistent with prior reported amounts; and

11 (4) comply with the applicable laws of this
12 Commonwealth.

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

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

30 (2) A memorandum, in form and substance acceptable to

1 the commissioner as specified by regulation, shall be
2 prepared to support each actuarial opinion.

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

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

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

18 (2) The opinion shall apply to all business in force,
19 including individual and group accident and health insurance
20 plans, in form and substance acceptable to the commissioner
21 as specified by regulation.

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

26 (4) In the case of an opinion required to be submitted
27 by a foreign or alien company, the commissioner may accept
28 the opinion filed by that company with the insurance
29 supervisory official of another state if the commissioner
30 determines that the opinion reasonably meets the requirements

1 applicable to a company domiciled in this Commonwealth.

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

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

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

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

15 "Qualified actuary." A member in good standing of the
16 American Academy of Actuaries who meets the requirements under
17 31 Pa. Code Ch. 84b (relating to actuarial opinion and
18 memorandum).

19 § 7114. Actuarial opinion of reserves on or after operative
20 date of valuation manual.

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

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

27 (c) Annual submission and purpose.--Each company with
28 outstanding life insurance contracts, accident and health
29 insurance contracts or deposit-type contracts in this
30 Commonwealth shall annually submit the opinion of the appointed

1 actuary as to whether the reserves and related actuarial items
2 held in support of the company's policies and contracts:

3 (1) are computed appropriately;

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

6 (3) are consistent with prior reported amounts; and

7 (4) comply with the applicable laws of this
8 Commonwealth.

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

12 (1) Except as exempted in the valuation manual, each
13 company with outstanding life insurance contracts, accident
14 and health insurance contracts or deposit-type contracts in
15 this Commonwealth shall include in the actuarial opinion
16 required under this section an opinion by the same appointed
17 actuary as to whether the reserves and related actuarial
18 items held in support of the company's policies and contracts
19 specified in the valuation manual, when considered in light
20 of the assets held by the company with respect to the
21 reserves and related actuarial items, including, but not
22 limited to, the investment earnings on the assets and the
23 considerations anticipated to be received and retained under
24 the policies and contracts, make adequate provision for the
25 company's obligations under the policies and contracts,
26 including, but not limited to, the benefits under and
27 expenses associated with the policies and contracts.

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

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

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

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

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

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

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

27 (5) In the case of an opinion required to be submitted
28 by a foreign or alien company, the commissioner may accept
29 the opinion filed by that company with the insurance
30 supervisory official of another state if the commissioner

1 determines that the opinion reasonably meets the requirements
2 applicable to a company domiciled in this Commonwealth.

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

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

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

13 § 7115. Computation of minimum standard.

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

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

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

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

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

27 (c) Policies and contracts issued on or after May 17,
28 1921.--The minimum standard for the valuation of policies and
29 contracts issued on or after May 17, 1921, shall be, together
30 with the tables referenced under subsection (d), the

1 commissioners reserve valuation methods established under
2 sections 7118 (relating to reserve valuation method for life
3 insurance and endowment benefits), 7119 (relating to reserve
4 valuation method for annuity and pure endowment benefits), 7122
5 (relating to reserve calculation for valuation net premium
6 exceeding gross premium charged) and 7124:

7 (1) Three and one-half percent interest.

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

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

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

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

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

24 (ii) The Commissioners 1958 Standard Ordinary
25 Mortality Table for policies issued on or after the
26 operative date of section 410A(d) (2) of The Insurance
27 Company Law of 1921 and prior to the operative date of
28 section 410A(e) of The Insurance Company Law of 1921. For
29 policies issued on female risks, all modified net
30 premiums and present values referred to in this

1 subparagraph may be calculated according to any age not
2 more than six years younger than the actual age of the
3 insured.

4 (iii) For policies issued on or after the operative
5 date of section 410A(e) of The Insurance Company Law of
6 1921, the calculation shall be in accordance with the
7 following tables as specified by regulation:

8 (A) The Commissioners 1980 Standard Ordinary
9 Mortality Table.

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

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

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

21 (i) The 1941 Standard Industrial Mortality Table for
22 policies issued prior to the operative date of section
23 410A(d) (3) of The Insurance Company Law of 1921.

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

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

4 (i) The 1937 Standard Annuity Mortality Table.

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

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

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

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

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

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

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

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

29 (A) the tables of Period 2 disablement rates and
30 the 1930 to 1950 termination rates of the 1952

1 Disability Study of the Society of Actuaries, with
2 due regard to the type of benefit; or

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

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

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

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

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

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

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

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

21 (A) the 1959 Accidental Death Benefits Table; or

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

26 (ii) For policies issued on or after January 1,
27 1961, and prior to January 1, 1966:

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

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

1 (iii) For policies issued prior to January 1, 1961,
2 the Inter-Company Double Indemnity Mortality Table.
3 A table under this paragraph shall be combined with a
4 mortality table permitted for calculating the reserves for
5 life insurance policies.

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

9 § 7116. Computation of minimum standard for annuities.

10 (a) Computation generally.--Except as provided in section
11 7117 (relating to computation of minimum standard by calendar
12 year of issue), the minimum standard of valuation for individual
13 annuity and pure endowment contracts issued on or after the
14 operative date of section 301(c)(1)(B) of the act of May 17,
15 1921 (P.L.789, No.285), known as The Insurance Department Act of
16 1921, and for annuities and pure endowments purchased on or
17 after that operative date under group annuity and pure endowment
18 contracts shall be the commissioner's reserve valuation methods
19 established under sections 7118 (relating to reserve valuation
20 method for life insurance and endowment benefits) and 7119
21 (relating to reserve valuation method for annuity and pure
22 endowment benefits) and the following:

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

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

11 (3) For individual annuity and pure endowment contracts
12 issued on or after January 1, 1979, other than single premium
13 immediate annuity contracts and excluding disability and
14 accidental death benefits in the contracts, the 1971
15 Individual Annuity Mortality Table or any individual annuity
16 mortality table that is adopted after 1980 by NAIC and
17 approved by regulation for use in determining the minimum
18 standard of valuation for the contracts, or any modification
19 of the tables approved by the commissioner, and 5.5% interest
20 for single premium deferred annuity and pure endowment
21 contracts and 4.5% interest for all other individual annuity
22 and pure endowment contracts or a higher rate of interest as
23 may be approved by the commissioner.

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

30 (5) For annuities and pure endowments purchased on or

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

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

20 § 7117. Computation of minimum standard by calendar year of
21 issue.

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

26 (1) Life insurance policies issued in a particular
27 calendar year on or after the operative date of section
28 410A(e) of The Insurance Company Law of 1921.

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

1 1981.

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

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

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

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

13 (i) For life insurance:

$$14 \quad I = .03 + W(R_1 - .03) + W/2(R_2 - .09).$$

15 Where R_1 is the lesser of R and .09, R_2 is the greater of
16 R and .09, R is the reference interest rate defined in
17 this section and W is the weighting factor defined in
18 this section.

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

$$24 \quad I = .03 + W(R_1 - .03)$$

25 Where R_1 is the lesser of R and .09, R_2 is the greater of
26 R and .09, R is the reference interest rate defined in
27 this section and W is the weighting factor defined in
28 this section.

29 (iii) For other annuities with cash settlement
30 options and guaranteed interest contracts with cash

1 settlement options, valued on an issue year basis, except
2 as stated in subparagraph (ii):

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

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

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

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

21 (2) The following shall apply:

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

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

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

10 (1) For life insurance, the guarantee duration shall be
11 the maximum number of years the life insurance can remain in
12 force on a basis guaranteed in the policy or under options to
13 convert to plans of life insurance with premium rates or
14 nonforfeiture values, or both, which are guaranteed in the
15 original policy. Weighting factors for life insurance shall
16 be as provided in the following table:

<u>Guarantee Duration</u>	<u>Weighting</u>
<u>(Years)</u>	<u>Factors</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>

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

27 (3) Weighting factors for other annuities and for
28 guaranteed interest contracts, except as stated in paragraph
29 (2), shall be as specified in subparagraphs (i), (ii) and
30 (iii), according to the rules and definitions in

1 subparagraphs (iv), (v) and (vi):

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

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

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

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

27 (iv) For other annuities with cash settlement
28 options and guaranteed interest contracts with cash
29 settlement options, the guarantee duration is the number
30 of years for which the contract guarantees interest rates

1 in excess of the calendar year statutory valuation
2 interest rate for life insurance policies with guarantee
3 duration in excess of 20 years. For other annuities with
4 no cash settlement options and for guaranteed interest
5 contracts with no cash settlement options, the guarantee
6 duration is the number of years from the date of issue or
7 date of purchase to the date annuity benefits are
8 scheduled to commence.

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

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

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

16 (II) without an adjustment but in
17 installments over five years or more;

18 (III) as an immediate life annuity; or

19 (IV) no withdrawal permitted.

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

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

26 (II) without an adjustment but in
27 installments over five years or more; or

28 (III) no withdrawal permitted.

29 At the end of interest rate guarantee, funds may be
30 withdrawn without an adjustment in a single sum or

1 installments over less than five years.

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

6 (I) without adjustment to reflect changes in
7 interest rates or asset values since receipt of
8 the funds by the insurance company; or

9 (II) subject only to a fixed surrender
10 charge stipulated in the contract as a percentage
11 of the fund.

12 (vi) The following shall apply:

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

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

21 (C) As used in this section:

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

30 (II) A change in fund basis of valuation

1 shall refer to a valuation basis under which the
2 interest rate used to determine the minimum
3 valuation standard applicable to each change in
4 the fund held under the annuity or guaranteed
5 interest contract is the calendar year valuation
6 interest rate for the year of the change in the
7 fund.

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

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

16 (2) For single premium immediate annuities and for
17 annuity benefits involving life contingencies arising from
18 other annuities with cash settlement options and guaranteed
19 interest contracts with cash settlement options, the average
20 over a period of 12 months, ending on June 30 of the calendar
21 year of issue or year of purchase, of the monthly average of
22 the composite yield on seasoned corporate bonds, as published
23 by Moody's Investors Service, Inc.

24 (3) For other annuities with cash settlement options and
25 guaranteed interest contracts with cash settlement options,
26 valued on a year of issue basis, except as stated in
27 paragraph (2), with guarantee duration in excess of 10 years,
28 the lesser of the average over a period of 36 months and the
29 average over a period of 12 months, ending on June 30 of the
30 calendar year of issue or purchase, of the monthly average of

1 the composite yield on seasoned corporate bonds, as published
2 by Moody's Investors Service, Inc.

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

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

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

25 (e) Alternative method to determine reference interest
26 rate.--If the monthly average of the composite yield on seasoned
27 corporate bonds is no longer published by Moody's Investors
28 Service, Inc. or if NAIC determines that the monthly average of
29 the composite yield on seasoned corporate bonds as published by
30 Moody's Investors Service, Inc. is no longer appropriate for the

1 determination of the reference interest rate, then an
2 alternative method for determination of the reference interest
3 rate adopted by NAIC and approved by regulation may be
4 substituted.

5 § 7118. Reserve valuation method for life insurance and
6 endowment benefits.

7 (a) Uniform insurance amount and premiums.--Except as
8 otherwise provided in sections 7119 (relating to reserve
9 valuation method for annuity and pure endowment benefits), 7122
10 (relating to reserve calculation for valuation net premium
11 exceeding gross premium charged) and 7124 (relating to minimum
12 standard for accident and health insurance contracts), for the
13 life insurance and endowment benefits of policies providing for
14 a uniform amount of insurance and requiring the payment of
15 uniform premiums, reserves according to the commissioners
16 reserve valuation method shall be the excess, if any, of the
17 present value, at the date of valuation, of the future
18 guaranteed benefits provided for by those policies, over the
19 then present value of any future modified net premiums therefor.
20 The modified net premiums for a policy shall be the uniform
21 percentage of the respective gross premiums for the benefits so
22 that the present value, at the date of issue of the policy, of
23 all modified net premiums shall be equal to the sum of the then
24 present value of the benefits provided for by the policy and the
25 excess of paragraph (1) over paragraph (2), as follows:

26 (1) A net level annual premium equal to the present
27 value, at the date of issue, of the benefits provided for
28 after the first policy year, divided by the present value, at
29 the date of issue, of an annuity of one per year payable on
30 the first and each subsequent anniversary of the policy on

1 which a premium falls due. However, the net level annual
2 premium shall not exceed the net level annual premium on the
3 19-year premium whole life plan for insurance of the same
4 amount at an age one year greater than the age at issue of
5 the policy.

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

8 (b) First-year excess.--For a life insurance policy issued
9 on or after January 1, 1985, for which the gross premium in the
10 first policy year exceeds that of the second year and for which
11 no comparable additional benefit is provided in the first year
12 for the excess and which provides an endowment benefit or a cash
13 surrender value or a combination in an amount greater than the
14 excess premium, reserves according to the commissioners reserve
15 valuation method as of any policy anniversary occurring on or
16 before the assumed ending date defined under this subsection as
17 the first policy anniversary on which the sum of any endowment
18 benefit and any cash surrender value then available is greater
19 than the excess premium shall, except as otherwise provided in
20 section 7122, be the greater of the reserve as of the policy
21 anniversary calculated as described in subsection (a) and the
22 reserve as of the policy anniversary calculated as described in
23 subsection (a), but with:

24 (1) The value defined in subsection (a) being reduced by
25 15% of the amount of this excess first year premium.

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

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

1 (4) The cash surrender value provided on that date being
2 considered as an endowment benefit.
3 In making the comparison under this subsection, the mortality
4 and interest bases stated in sections 7115 (relating to
5 computation of minimum standard) and 7117 (relating to
6 computation of minimum standard by calendar year of issue) shall
7 be used.

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

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

17 (2) Group annuity and pure endowment contracts purchased
18 under a retirement plan or plan of deferred compensation,
19 established or maintained by an employer, including a
20 partnership or sole proprietorship, or by an employee
21 organization, or by both, other than a plan providing
22 individual retirement accounts or individual retirement
23 annuities under section 408 of the Internal Revenue Code of
24 1986 (Public Law 99-514, 26 U.S.C. § 408).

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

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

30 § 7119. Reserve valuation method for annuity and pure endowment

1 benefits.

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

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

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

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

29 (3) The valuation considerations shall be the portions
30 of the respective gross considerations applied under the

1 terms of the contracts to determine nonforfeiture values.

2 § 7120. Minimum reserves.

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

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

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

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

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

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

26 § 7121. Optional reserve calculation.

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

1 contracts than the minimum reserves required by law.

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

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

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

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

29 § 7122. Reserve calculation for valuation net premium exceeding
30 gross premium charged.

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

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

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

13 (ii) The reserve calculated by the method actually
14 used for the policy or contract but using the minimum
15 valuation standards of mortality and rate of interest and
16 replacing the valuation net premium by the actual gross
17 premium in each contract year for which the valuation net
18 premium exceeds the actual gross premium.

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

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

26 (1) For a life insurance policy issued on or after
27 January 1, 1985, for which the gross premium in the first
28 policy year exceeds that of the second year and for which no
29 comparable additional benefit is provided in the first year
30 for the excess and which provides an endowment benefit or a

1 cash surrender value or a combination in an amount greater
2 than the excess premium, the provisions of this section shall
3 be applied as if the method actually used in calculating the
4 reserve for the policy were the method described in section
5 7118 (relating to reserve valuation method for life insurance
6 and endowment benefits), ignoring section 7118(b).

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

12 § 7123. Reserve calculation for indeterminate premium plans.

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

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

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

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

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

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

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

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

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

5 § 7124. Minimum standard for accident and health insurance
6 contracts.

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

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

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

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

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

30 (i) place a sound value on its liabilities under

1 these contracts; and

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

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

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

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

16 § 7125. Valuation manual for policies issued on or after
17 operative date of valuation manual.

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

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

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

30 (i) The commissioners reserve valuation method for

1 life insurance contracts other than annuity contracts.

2 (ii) The commissioners annuity reserve valuation
3 method for annuity contracts.

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

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

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

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

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

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

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

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

28 (ii) develop reserves that quantify the benefits,
29 guarantees and the funding associated with the contracts
30 and their risks at a level of conservatism that reflects

1 conditions that include unfavorable events having a
2 reasonable probability of occurring.

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

9 (6) The data and form of the data required under section
10 7127 (relating to experience reporting for policies in force
11 on or after operative date of valuation manual) and with whom
12 the data must be submitted. The valuation manual may specify
13 other requirements, including data analyses and reporting of
14 analyses.

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

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

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

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

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

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

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

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

14 § 7126. Requirements of principle-based valuation.

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

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

26 (2) Incorporates assumptions, risk analysis methods and
27 financial models and management techniques that are
28 consistent with, but not necessarily identical to, those
29 utilized within the company's overall risk assessment
30 process, while recognizing potential differences in financial

1 reporting structures and any prescribed assumptions or
2 methods.

3 (3) Incorporates assumptions that are:

4 (i) Prescribed in the valuation manual.

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

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

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

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

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

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

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

1 operative date of valuation manual) and any other documents,
2 materials and other information, including all working papers
3 and copies thereof, created, produced or obtained by or
4 disclosed to the commissioner or any other person in
5 connection with the memorandum.

6 (2) All documents, materials and other information,
7 including all working papers and copies thereof, created,
8 produced or obtained by or disclosed to the commissioner or
9 any other person in the course of an examination made under
10 section 7125(d) (relating to valuation manual for policies
11 issued on or after operative date of valuation manual),
12 except that confidential information shall not include an
13 examination report or other material prepared in connection
14 with an examination made under Article IX of the act of May
15 17, 1921 (P.L.789, No.285), known as The Insurance Department
16 Act of 1921, to the extent not held to be private and
17 confidential information under section 905 of The Insurance
18 Department Act of 1921.

19 (3) Reports, documents, materials and other information
20 developed by a company in support of or in connection with an
21 annual certification by the company under section 7126(b) (2)
22 (relating to requirements of principle-based valuation),
23 which evaluates the effectiveness of the company's internal
24 controls regarding a principle-based valuation, and any other
25 documents, materials and other information, including all
26 working papers and copies thereof, created, produced or
27 obtained by or disclosed to the commissioner or any other
28 person in connection with the reports, documents, materials
29 and other information.

30 (4) A principle-based valuation report developed under

1 section 7126(b)(3) and any other documents, materials and
2 other information, including all working papers and copies
3 thereof, created, produced or obtained by or disclosed to the
4 commissioner or any other person in connection with the
5 report.

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

12 § 7132. General rule for confidential information.

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

16 (1) Subject to discovery or admissible as evidence in a
17 private civil action.

18 (2) Subject to subpoena.

19 (3) Subject to the act of February 14, 2008 (P.L.6,
20 No.3), known as the Right-to-Know Law.

21 § 7133. Private civil actions.

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

29 § 7134. Use of confidential information by department.

30 To assist in the performance of its duties, the department

1 may:

2 (1) Use confidential information in the furtherance of
3 any regulatory or legal action brought against a company as a
4 part of the department's official duties.

5 (2) Share confidential information with regulatory or
6 law enforcement officials of this Commonwealth or other
7 jurisdictions, IAIS, NAIC and its affiliates and
8 subsidiaries, group-wide supervisors and members of a
9 supervisory college under section 1406.1 of The Insurance
10 Company Law of 1921, if prior to receiving the confidential
11 information the recipient agrees, and has the legal authority
12 to agree, to maintain the confidential and privileged status
13 of the confidential information in the same manner and to the
14 same extent as required for the commissioner.

15 (3) Receive, and shall maintain as confidential, any
16 confidential information from the Actuarial Board for
17 Counseling and Discipline or its successor, from NAIC and its
18 affiliates and subsidiaries and from regulatory and law
19 enforcement officials of this Commonwealth or other
20 jurisdictions with the understanding that the documents,
21 materials or other information received are confidential by
22 law in those jurisdictions and shall be given the same
23 confidential treatment provided by this subchapter.

24 § 7135. Agreements.

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

28 § 7136. No waiver of privilege or confidentiality.

29 (a) Sharing of information by department.--The sharing of
30 confidential information with or by the department as authorized

1 by section 7134 (relating to use of confidential information by
2 department) shall not constitute a waiver of any applicable
3 privilege or claim of confidentiality in the documents,
4 materials or information.

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

10 § 7137. Limited exceptions.

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

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

23 (2) May be subject to subpoena for the purpose of
24 defending an action seeking damages from the actuary
25 submitting the related memorandum in support of an opinion
26 submitted under section 7113 (relating to actuarial opinion
27 of reserves prior to operative date of valuation manual) or
28 7114 (relating to actuarial opinion of reserves on or after
29 operative date of valuation manual) or a principle-based
30 valuation report developed under section 7126(b) (3) (relating

1 to requirements of principle-based valuation) by reason of an
2 action required by this chapter or regulations promulgated
3 under this chapter.

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

6 (4) Is no longer confidential once any portion of a
7 memorandum in support of an opinion submitted under section
8 7113 or 7114 or a principle-based valuation report developed
9 under section 7126(b) (3) is:

10 (i) cited by the company in its marketing materials;

11 (ii) publicly released to a governmental agency
12 other than a State insurance department; or

13 (iii) released by the company to the news media.

14 SUBCHAPTER D

15 EXEMPTIONS

16 Sec.

17 7141. Single-state company exemption.

18 7142. Small company exemption.

19 § 7141. Single-state company exemption.

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

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

29 (2) Computes reserves using assumptions and methods used
30 prior to the operative date of the valuation manual in

1 addition to any requirements established by the commissioner
2 and promulgated by regulation.

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

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

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

14 § 7142. Small company exemption.

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

20 (1) The company has less than ~~\$100,000,000~~ \$300,000,000 <--
21 of ordinary life premiums. AND, IF THE COMPANY IS A MEMBER OF <--
22 AN NAIC GROUP OF LIFE INSURERS, THE GROUP HAS COMBINED
23 ORDINARY LIFE PREMIUMS OF LESS THAN \$600,000,000.

24 (2) THE COMPANY REPORTED TOTAL ADJUSTED CAPITAL OF AT
25 LEAST 450% OF THE AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL
26 IN THE MOST RECENT RISK-BASED CAPITAL REPORT. THIS PARAGRAPH
27 SHALL NOT APPLY TO FRATERNAL BENEFIT SOCIETIES WITH LESS THAN
28 \$50,000,000 OF ORDINARY LIFE PREMIUMS.

29 (3) THE APPOINTED ACTUARY HAS PROVIDED AN UNQUALIFIED
30 OPINION ON THE RESERVES REPORTED IN THE MOST RECENT ANNUAL

1 STATEMENT.

2 ~~(2)~~ (4) Any universal life secondary guarantee policies <--
3 issued or assumed by the company with an issue date on or
4 after the operative date of the valuation manual meet the
5 definition of a nonmaterial secondary guarantee universal
6 life product.

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

9 (1) The conditions under subsection (a) are met based on
10 premiums and other values from the prior calendar year's
11 financial statements.

12 (2) Any universal life secondary guarantee business
13 issued since the operative date of the valuation manual meets
14 the definition of a nonmaterial secondary guarantee universal
15 life product.

16 (c) Inclusion with NAIC filing.--The statement of exemption
17 under subsection (a) shall also be included with the NAIC filing
18 for the second quarter of that year.

19 (d) Rejection.--If the commissioner finds that the
20 conditions in subsection (a) are not met, the commissioner shall
21 reject the statement of exemption prior to September 1. If the
22 commissioner rejects the exemption or the company does not file
23 a statement of exemption, the company shall follow the
24 requirements of the valuation manual minimum standard entitled
25 VM-20 for the ordinary life policies issued on or after the
26 operative date of the valuation manual.

27 (e) Approval.--If the statement of exemption under
28 subsection (a) is granted, the minimum reserve requirements for
29 the exempt company's ordinary life policies issued on or after
30 the operative date of the valuation manual shall be as set forth

1 in the valuation manual except for VM-20, BUT USING MORTALITY
2 TABLES AUTHORIZED BY VM-20.

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

6 "Nonmaterial secondary guarantee universal life product." A
7 universal life product where the secondary guarantee meets the
8 following parameters at the time of issue:

9 (1) The policy has only one secondary guarantee, which
10 is in the form of a required premium consisting of either a
11 specified annual or cumulative premium.

12 (2) The duration of the secondary guarantee for each
13 policy is no longer than 20 years from issue through issue
14 age 60, grading down by two-thirds year for each higher issue
15 age to age 82, and thereafter five years.

16 (3) The present value of the required premium under the
17 secondary guarantee must be at least as great as the present
18 value of net premiums resulting from the appropriate
19 valuation basic table over the course of the maximum
20 secondary guarantee duration allowable under the contract in
21 aggregate and subject to the duration limit under paragraph
22 (2). The following shall apply:

23 (i) The present value shall use minimum allowable
24 valuation basic table rates, where preferred tables are
25 subject to existing qualification requirements, and the
26 maximum valuation interest rate as defined in VM-20
27 section 3(C) (2).

28 (ii) The minimum premiums shall be the annual
29 required premiums over the course of the maximum
30 secondary guarantee duration.

1 "Ordinary life premiums." Direct premiums plus reinsurance
2 assumed premiums from an unaffiliated company from the ordinary
3 life line of business reported in Exhibit 1-Part 1, entitled
4 Premiums and Annuity Considerations for Life and Accident and
5 Health Contracts, of the prior calendar year's life, accident
6 and health annual statement or the fraternal annual statement.

7 SUBCHAPTER E

8 MISCELLANEOUS PROVISIONS

9 Sec.

10 7151. Effect on The Insurance Company Law of 1921.

11 § 7151. Effect on The Insurance Company Law of 1921.

12 (a) Fraternal benefit organizations.--The following shall
13 apply:

14 (1) Section 2451(b) of The Insurance Company Law of 1921
15 shall apply to the minimum reserves for certificates issued
16 after February 11, 1994 and prior to the effective date of
17 this chapter.

18 (2) The minimum reserves for certificates issued on or
19 after the effective date of this chapter shall be governed by
20 this chapter.

21 (b) Standard nonforfeiture law for life insurance.--

22 Notwithstanding any provision of The Insurance Company Law of
23 1921:

24 (1) For policies issued prior to the operative date of
25 the valuation manual, any commissioners standard ordinary
26 mortality table that was adopted after 1980 by NAIC and is
27 approved by regulation for use in determining the minimum
28 nonforfeiture standard may be substituted for the
29 Commissioners 1980 Standard Ordinary Mortality Table with or
30 without Ten-Year Select Mortality Factors or for the

1 Commissioners 1980 Extended Term Insurance Table.

2 (2) For policies issued on or after the operative date
3 of the valuation manual, the valuation manual shall provide
4 the commissioners standard mortality table for use in
5 determining the minimum nonforfeiture standard that may be
6 substituted for the Commissioners 1980 Standard Ordinary
7 Mortality Table with or without Ten-Year Select Mortality
8 Factors or for the Commissioners 1980 Extended Term Insurance
9 Table. If the commissioner approves by regulation any
10 commissioners standard ordinary mortality table adopted by
11 NAIC for use in determining the minimum nonforfeiture
12 standard for policies issued on or after the operative date
13 of the valuation manual, that minimum nonforfeiture standard
14 shall supersede the minimum nonforfeiture standard provided
15 by the valuation manual.

16 (3) For policies issued prior to the operative date of
17 the valuation manual, any commissioners standard industrial
18 mortality table that was adopted after 1980 by NAIC and that
19 is approved by regulation for use in determining the minimum
20 nonforfeiture standard may be substituted for the
21 Commissioners 1961 Standard Industrial Mortality Table or the
22 Commissioners 1961 Industrial Extended Term Insurance Table.

23 (4) For policies issued on or after the operative date
24 of the valuation manual, the valuation manual shall provide
25 the commissioners standard mortality table for use in
26 determining the minimum nonforfeiture standard that may be
27 substituted for the Commissioners 1961 Standard Industrial
28 Mortality Table or the Commissioners 1961 Industrial Extended
29 Term Insurance Table. If the commissioner approves by
30 regulation any commissioners standard industrial mortality

1 table adopted by the NAIC for use in determining the minimum
2 nonforfeiture standard for policies issued on or after the
3 operative date of the valuation manual, that minimum
4 nonforfeiture standard shall supersede the minimum
5 nonforfeiture standard provided by the valuation manual.

6 (c) Nonforfeiture interest rate.--Notwithstanding any
7 provision of The Insurance Company Law of 1921, the
8 nonforfeiture rate shall be as follows:

9 (1) For policies issued prior to the operative date of
10 the valuation manual, the nonforfeiture interest rate per
11 year for any policy issued in a particular calendar year
12 shall be equal to 125% of the calendar year statutory
13 valuation interest rate for the policy as defined in section
14 7117 (relating to computation of minimum standard by calendar
15 year of issue) rounded to the nearest 0.25%, but the
16 nonforfeiture interest rate shall not be less than 4%.

17 (2) For policies issued on and after the operative date
18 of the valuation manual, the nonforfeiture interest rate per
19 year for any policy issued in a particular calendar year
20 shall be provided by the valuation manual.

21 Section 2. Repeals are as follows:

22 (1) The General Assembly declares that the repeals under
23 paragraphs (2) and (3) are necessary to effectuate the
24 addition of 40 Pa.C.S. Pt. IV.

25 (2) Sections 301, 301.1, 303 and 311.1 of the act of May
26 17, 1921 (P.L.789, No.285), known as The Insurance Department
27 Act of 1921, are repealed.

28 (3) Section 410A(e)(8)(F) and (G) and (9) of the act of
29 May 17, 1921 (P.L.682, No.284), known as The Insurance
30 Company Law of 1921, are repealed.

1 (4) All other acts and parts of acts are repealed
2 insofar as they are inconsistent with this act.

3 Section 3. This act shall take effect ~~in 30 days~~

<--

4 IMMEDIATELY.

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