



Rep. Frank J. Mautino

Filed: 3/17/2004

09300HB5075ham001

LRB093 20967 WGH 48759 a

1 AMENDMENT TO HOUSE BILL 5075

2 AMENDMENT NO. _____. Amend House Bill 5075 by replacing
3 everything after the enacting clause with the following:

4 "Section 5. The Illinois Insurance Code is amended by
5 changing Section 229.4 and adding Section 229.4a as follows:

6 (215 ILCS 5/229.4) (from Ch. 73, par. 841.4)

7 Sec. 229.4. Standard Non-forfeiture Law for Individual
8 Deferred Annuities.

9 (1) No contract of annuity issued on or after the operative
10 date of this Section except as stated in subsection (11) shall
11 be delivered or issued for delivery in this State unless it
12 contains in substance the following provisions or
13 corresponding provisions which in the opinion of the Director
14 are at least as favorable to the contract holder upon cessation
15 of payment of considerations under the contract:

16 (a) That upon cessation of payment of considerations
17 under a contract, the company will grant a paid-up annuity
18 benefit on a plan stipulated in the contract of such value
19 as is specified in subsections (3), (4), (5), (6) and (8).

20 (b) If a contract provides for a lump sum settlement at
21 maturity, or at any other time, that upon surrender of the
22 contract at or prior to the commencement of any annuity
23 payments, the company will pay in lieu of any paid-up
24 annuity benefit a cash surrender benefit of such amount as

1 is specified in subsections (3), (4), (6) and (8). The
2 company shall reserve the right to defer the payment of
3 such cash surrender benefit for a period of 6 months after
4 demand therefor with surrender of the contract.

5 (c) A statement of the mortality table, if any, and
6 interest rates used in calculating any minimum paid-up
7 annuity, cash surrender or death benefits that are
8 guaranteed under the contract, together with sufficient
9 information to determine the amount of such benefits.

10 (d) A statement that any paid-up annuity, cash
11 surrender or death benefits that may be available under the
12 contract are not less than the minimum benefits required by
13 any statute of the state in which the contract is delivered
14 and an explanation of the manner in which such benefits are
15 altered by the existence of any additional amounts credited
16 by the company to the contract, any indebtedness to the
17 company on the contract or any prior withdrawals from or
18 partial surrenders of the contract.

19 Notwithstanding the requirements of this subsection, any
20 deferred annuity contract may provide that if no considerations
21 have been received under a contract for a period of 2 full
22 years and the portion of the paid-up annuity benefit at
23 maturity on the plan stipulated in the contract arising from
24 considerations paid prior to such period would be less than
25 \$20.00 monthly, the company may at its option terminate such
26 contract by payment in cash of the present value of such
27 portion of the paid-up annuity benefit, calculated on the basis
28 of the mortality table, if any, and interest rate specified in
29 the contract for determining the paid-up annuity benefit, and
30 by such payment shall be relieved of any further obligation
31 under such contract.

32 (2) The minimum values as specified in subsections (3),
33 (4), (5), (6) and (8) of any paid-up annuity, cash surrender or
34 death benefits available under an annuity contract shall be

1 based upon minimum nonforfeiture amounts as defined in this
2 subsection.

3 (a) With respect to contracts providing for flexible
4 considerations, the minimum nonforfeiture amount at any
5 time at or prior to the commencement of any annuity
6 payments shall be equal to an accumulation up to such time
7 at a rate of interest of 3% per annum of percentages of the
8 net considerations, as hereinafter defined, paid prior to
9 such time, decreased by the sum of (i) any prior
10 withdrawals from or partial surrenders of the contract
11 accumulated at a rate of interest of 3% per annum and (ii)
12 the amount of any indebtedness to the company on the
13 contract, including interest due and accrued, and
14 increased by any existing additional amounts credited by
15 the company to the contract.

16 The net considerations for a given contract year used
17 to define the minimum nonforfeiture amount shall be an
18 amount not less than zero and shall be equal to the
19 corresponding gross considerations credited to the
20 contract during that contract year less an annual contract
21 charge of \$30.00 and less a collection charge of \$1.25 per
22 consideration credited to the contract during that
23 contract year. The percentages of net considerations shall
24 be 65% of the net consideration for the first contract year
25 and 87 1/2% of the net considerations for the second and
26 later contract years. Notwithstanding the provisions of
27 the preceding sentence, the percentage shall be 65% of the
28 portion of the total net consideration for any renewal
29 contract year which exceeds by not more than two times the
30 sum of those portions of the net considerations in all
31 prior contract years for which the percentage was 65%.

32 (a-5) Notwithstanding the provisions of paragraph (a)
33 of this subsection, the minimum nonforfeiture amount for
34 any contract issued on or after July 1, 2002 and before

1 July 1, 2005 shall be based on a rate of interest of 1.5%
2 per annum.

3 (b) With respect to contracts providing for fixed
4 scheduled considerations, minimum nonforfeiture amounts
5 shall be calculated on the assumption that considerations
6 are paid annually in advance and shall be defined as for
7 contracts with flexible considerations which are paid
8 annually, with two exceptions:

9 (i) The portion of the net consideration for the
10 first contract year to be accumulated shall be the sum
11 of 65% of the net consideration for the first contract
12 year plus 22 1/2% of the excess of the net
13 consideration for the first contract year over the
14 lesser of the net considerations for the second and
15 third contract years.

16 (ii) The annual contract charge shall be the lesser
17 of (A) \$30.00 or (B) 10% of the gross annual
18 consideration.

19 (c) With respect to contracts providing for a single
20 consideration, minimum nonforfeiture amounts shall be
21 defined as for contracts with flexible considerations
22 except that the percentage of net consideration used to
23 determine the minimum nonforfeiture amount shall be equal
24 to 90% and the net consideration shall be the gross
25 consideration less a contract charge of \$75.00.

26 (3) Any paid-up annuity benefit available under a contract
27 shall be such that its present value on the date annuity
28 payments are to commence is at least equal to the minimum
29 nonforfeiture amount on that date. Such present value shall be
30 computed using the mortality table, if any, and the interest
31 rate specified in the contract for determining the minimum
32 paid-up annuity benefits guaranteed in the contract.

33 (4) For contracts which provide cash surrender benefits,
34 such cash surrender benefits available prior to maturity shall

1 not be less than the present value as of the date of surrender
2 of that portion of the maturity value of the paid-up annuity
3 benefit which would be provided under the contract at maturity
4 arising from considerations paid prior to the time of cash
5 surrender reduced by the amount appropriate to reflect any
6 prior withdrawals from or partial surrenders of the contract,
7 such present value being calculated on the basis of an interest
8 rate not more than 1% higher than the interest rate specified
9 in the contract for accumulating the net considerations to
10 determine such maturity value, decreased by the amount of any
11 indebtedness to the company on the contract, including interest
12 due and accrued, and increased by any existing additional
13 amounts credited by the company to the contract. In no event
14 shall any cash surrender benefit be less than the minimum
15 nonforfeiture amount at that time. The death benefit under such
16 contracts shall be at least equal to the cash surrender
17 benefit.

18 (5) For contracts which do not provide cash surrender
19 benefits, the present value of any paid-up annuity benefit
20 available as a nonforfeiture option at any time prior to
21 maturity shall not be less than the present value of that
22 portion of the maturity value of the paid-up benefit provided
23 under the contract arising from considerations paid prior to
24 the time of the contract is surrendered in exchange for, or
25 changed to, a deferred paid-up annuity, such present value
26 being calculated for the period prior to the maturity date on
27 the basis of the interest rate specified in the contract for
28 accumulating the net considerations to determine such maturity
29 value, and increased by any existing additional amounts
30 credited by the company to the contract. For contracts which do
31 not provide any death benefits prior to the commencement of any
32 annuity payments, such present values shall be calculated on
33 the basis of such interest rate and the mortality table
34 specified in the contract for determining the maturity value of

1 the paid-up annuity benefit. However, in no event shall the
2 present value of a paid-up annuity benefit be less than the
3 minimum nonforfeiture amount at that time.

4 (6) For the purpose of determining the benefits calculated
5 under subsections (4) and (5), in the case of annuity contracts
6 under which an election may be made to have annuity payments
7 commence at optional maturity dates, the maturity date shall be
8 deemed to be the latest date for which election shall be
9 permitted by the contract, but shall not be deemed to be later
10 than the anniversary of the contract next following the
11 annuitant's seventieth birthday or the tenth anniversary of the
12 contract, whichever is later.

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

18 (8) Any paid-up annuity, cash surrender or death benefits
19 available at any time, other than on the contract anniversary
20 under any contract with fixed scheduled considerations, shall
21 be calculated with allowance for the lapse of time and the
22 payment of any scheduled considerations beyond the beginning of
23 the contract year in which cessation of payment of
24 considerations under the contract occurs.

25 (9) For any contract which provides, within the same
26 contract by rider or supplemental contract provision, both
27 annuity benefits and life insurance benefits that are in excess
28 of the greater of cash surrender benefits or a return of the
29 gross considerations with interest, the minimum nonforfeiture
30 benefits shall be equal to the sum of the minimum nonforfeiture
31 benefits for the annuity portion and the minimum nonforfeiture
32 benefits, if any, for the life insurance portion computed as if
33 each portion were a separate contract. Notwithstanding the
34 provisions of subsections (3), (4), (5), (6) and (8),

1 additional benefits payable (a) in the event of total and
2 permanent disability, (b) as reversionary annuity or deferred
3 reversionary annuity benefits, or (c) as other policy benefits
4 additional to life insurance, endowment, and annuity benefits,
5 and considerations for all such additional benefits, shall be
6 disregarded in ascertaining the minimum nonforfeiture amounts,
7 paid-up annuity, cash surrender and death benefits that may be
8 required by this section. The inclusion of such additional
9 benefits shall not be required in any paid-up benefits, unless
10 such additional benefits separately would require minimum
11 nonforfeiture amounts, paid-up annuity, cash surrender and
12 death benefits.

13 (10) After the effective date of this Section, any company
14 may file with the Director a written notice of its election to
15 comply with the provisions of this Section after a specified
16 date before the second anniversary of the effective date of
17 this Section. After the filing of such notice, then upon such
18 specified date, which shall be the operative date of this
19 section for such company, this Section shall become operative
20 with respect to annuity contracts thereafter issued by such
21 company. If a company makes no such election, the operative
22 date of this section for such company shall be the second
23 anniversary of the effective date of this Section.

24 (11) This Section shall not apply to any reinsurance, group
25 annuity purchased under a retirement plan or plan of deferred
26 compensation established or maintained by an employer
27 (including a partnership or sole proprietorship) or by an
28 employee organization, or by both, other than a plan providing
29 individual retirement accounts or individual retirement
30 annuities under Section 408 of the Internal Revenue Code, as
31 now or hereafter amended, premium deposit fund, variable
32 annuity, investment annuity, immediate annuity, any deferred
33 annuity contract after annuity payments have commenced, or
34 reversionary annuity, nor to any contract which shall be

1 delivered outside this State through an agent or other
2 representative of the company issuing the contract.

3 (12) This Section is repealed on July 1, 2006.

4 (Source: P.A. 92-541, eff. 7-1-02.)

5 (215 ILCS 5/229.4a new)

6 Sec. 229.4a. Standard Non-forfeiture Law for Individual
7 Deferred Annuities.

8 (1) Title. This Section shall be known as the Standard
9 Nonforfeiture Law for Individual Deferred Annuities.

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

23 (3) Nonforfeiture Requirements.

24 (A) In the case of contracts issued on or after the
25 operative date of this Section as defined in subsection
26 (13), no contract of annuity, except as stated in
27 subsection (2), shall be delivered or issued for delivery
28 in this State unless it contains in substance the following
29 provisions, or corresponding provisions which in the
30 opinion of the Director of Insurance are at least as
31 favorable to the contract holder, upon cessation of payment
32 of considerations under the contract:

33 (i) That upon cessation of payment of

1 considerations under a contract, or upon the written
2 request of the contract owner, the company shall grant
3 a paid-up annuity benefit on a plan stipulated in the
4 contract of such value as is specified in subsections
5 (5), (6), (7), (8) and (10);

6 (ii) If a contract provides for a lump sum
7 settlement at maturity, or at any other time, that upon
8 surrender of the contract at or prior to the
9 commencement of any annuity payments, the company
10 shall pay in lieu of a paid-up annuity benefit a cash
11 surrender benefit of such amount as is specified in
12 subsections (5), (6), (8) and (10). The company may
13 reserve the right to defer the payment of the cash
14 surrender benefit for a period not to exceed 6 months
15 after demand therefor with surrender of the contract
16 after making written request and receiving written
17 approval of the Director. The request shall address the
18 necessity and equitability to all policyholders of the
19 deferral;

20 (iii) A statement of the mortality table, if any,
21 and interest rates used calculating any minimum
22 paid-up annuity, cash surrender, or death benefits
23 that are guaranteed under the contract, together with
24 sufficient information to determine the amounts of the
25 benefits; and

26 (iv) A statement that any paid-up annuity, cash
27 surrender or death benefits that may be available under
28 the contract are not less than the minimum benefits
29 required by any statute of the state in which the
30 contract is delivered and an explanation of the manner
31 in which the benefits are altered by the existence of
32 any additional amounts credited by the company to the
33 contract, any indebtedness to the company on the
34 contract or any prior withdrawals from or partial

1 surrenders of the contract.

2 (B) Notwithstanding the requirements of this Section,
3 a deferred annuity contract may provide that if no
4 considerations have been received under a contract for a
5 period of 2 full years and the portion of the paid-up
6 annuity benefit at maturity on the plan stipulated in the
7 contract arising from prior considerations paid would be
8 less than \$20 monthly, the company may at its option
9 terminate the contract by payment in cash of the then
10 present value of the portion of the paid-up annuity
11 benefit, calculated on the basis on the mortality table, if
12 any, and interest rate specified in the contract for
13 determining the paid-up annuity benefit, and by this
14 payment shall be relieved of any further obligation under
15 the contract.

16 (4) Minimum values. The minimum values as specified in
17 subsections (5), (6), (7), (8) and (10) of any paid-up annuity,
18 cash surrender or death benefits available under an annuity
19 contract shall be based upon minimum nonforfeiture amounts as
20 defined in this subsection.

21 (A) (i) The minimum nonforfeiture amount at any time at
22 or prior to the commencement of any annuity payments shall
23 be equal to an accumulation up to such time at rates of
24 interest as indicated in subdivision (4) (B) of the net
25 considerations (as hereinafter defined) paid prior to such
26 time, decreased by the sum of paragraphs (a) through (d)
27 below:

28 (a) Any prior withdrawals from or partial
29 surrenders of the contract accumulated at rates of
30 interest as indicated in subdivision (4) (B);

31 (b) An annual contract charge of \$50,
32 accumulated at rates of interest as indicated in
33 subdivision (4) (B);

34 (c) Any premium tax paid by the company for the

1 contract, accumulated at rates of interest as
2 indicated in subdivision (4) (B); and

3 (d) The amount of any indebtedness to the
4 company on the contract, including interest due and
5 accrued.

6 (ii) The net considerations for a given contract year
7 used to define the minimum nonforfeiture amount shall be an
8 amount equal to 87.5% of the gross considerations, credited
9 to the contract during that contract year.

10 (B) The interest rate used in determining minimum
11 nonforfeiture amounts shall be an annual rate of interest
12 determined as the lesser of 3% per annum and the following,
13 which shall be specified in the contract if the interest
14 rate will be reset:

15 (i) The five-year Constant Maturity Treasury Rate
16 reported by the Federal Reserve as of a date, or
17 average over a period, rounded to the nearest 1/20th of
18 one percent, specified in the contract no longer than
19 15 months prior to the contract issue date or
20 redetermination date under subdivision (4) (B) (iv);

21 (ii) Reduced by 125 basis points;

22 (iii) Where the resulting interest rate is not less
23 than 1%; and

24 (iv) The interest rate shall apply for an initial
25 period and may be redetermined for additional periods.
26 The redetermination date, basis and period, if any,
27 shall be stated in the contract. The basis is the date
28 or average over a specified period that produces the
29 value of the 5-year Constant Maturity Treasury Rate to
30 be used at each redetermination date.

31 (C) During the period or term that a contract provides
32 substantive participation in an equity indexed benefit, it
33 may increase the reduction described in subdivision
34 (4) (B) (ii) above by up to an additional 100 basis points to

1 reflect the value of the equity index benefit. The present
2 value at the contract issue date, and at each
3 redetermination date thereafter, of the additional
4 reduction shall not exceed market value of the benefit. The
5 Director may require a demonstration that the present value
6 of the additional reduction does not exceed the market
7 value of the benefit. Lacking such a demonstration that is
8 acceptable to the Director, the Director may disallow or
9 limit the additional reduction.

10 (D) The Director may adopt rules to implement the
11 provisions of subdivision (4) (C) and to provide for further
12 adjustments to the calculation of minimum nonforfeiture
13 amounts for contracts that provide substantive
14 participation in an equity index benefit and for other
15 contracts that the Director determines adjustments are
16 justified.

17 (5) Computation of Present Value. Any paid-up annuity
18 benefit available under a contract shall be such that its
19 present value on the date annuity payments are to commence is
20 at least equal to the minimum nonforfeiture amount on that
21 date. Present value shall be computed using the mortality
22 table, if any, and the interest rates specified in the contract
23 for determining the minimum paid-up annuity benefits
24 guaranteed in the contract.

25 (6) Calculation of Cash Surrender Value. For contracts that
26 provide cash surrender benefits, the cash surrender benefits
27 available prior to maturity shall not be less than the present
28 value as of the date of surrender of that portion of the
29 maturity value of the paid-up annuity benefit that would be
30 provided under the contract at maturity arising from
31 considerations paid prior to the time of cash surrender reduced
32 by the amount appropriate to reflect any prior withdrawals from
33 or partial surrenders of the contract, such present value being
34 calculated on the basis of an interest rate not more than 1%

1 higher than the interest rate specified in the contract for
2 accumulating the net considerations to determine maturity
3 value, decreased by the amount of any indebtedness to the
4 company on the contract, including interest due and accrued,
5 and increased by any existing additional amounts credited by
6 the company to the contract. In no event shall any cash
7 surrender benefit be less than the minimum nonforfeiture amount
8 at that time. The death benefit under such contracts shall be
9 at least equal to the cash surrender benefit.

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

30 (8) Maturity Date. For the purpose of determining the
31 benefits calculated under subsections (6) and (7), in the case
32 of annuity contracts under which an election may be made to
33 have annuity payments commence at optional maturity dates, the
34 maturity date shall be deemed to be the latest date for which

1 election shall be permitted by the contract, but shall not be
2 deemed to be later than the anniversary of the contract next
3 following the annuitant's seventieth birthday or the tenth
4 anniversary of the contract, whichever is later.

5 (9) Disclosure of Limited Death Benefits. A contract that
6 does not provide cash surrender benefits or does not provide
7 death benefits at least equal to the minimum nonforfeiture
8 amount prior to the commencement of any annuity payments shall
9 include a statement in a prominent place in the contract that
10 such benefits are not provided.

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

19 (11) Proration of Values; Additional Benefits. For a
20 contract which provides, within the same contract by rider or
21 supplemental contract provision, both annuity benefits and
22 life insurance benefits that are in excess of the greater of
23 cash surrender benefits or a return of the gross considerations
24 with interest, the minimum nonforfeiture benefits shall be
25 equal to the sum of the minimum nonforfeiture benefits for the
26 annuity portion and the minimum nonforfeiture benefits, if any,
27 for the life insurance portion computed as if each portion were
28 a separate contract. Notwithstanding the provisions of
29 subsections (5), (6), (7), (8) and (10), additional benefits
30 payable in the event of total and permanent disability, as
31 reversionary annuity or deferred reversionary annuity
32 benefits, or as other policy benefits additional to life
33 insurance, endowment and annuity benefits, and considerations
34 for all such additional benefits, shall be disregarded in

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

7 (12) Rules. The Director may adopt rules to implement the
8 provisions of this Section.

9 (13) Effective Date. After the effective date of this
10 amendatory Act of the 93rd General Assembly, a company may
11 elect to apply its provisions to annuity contracts on a
12 contract form-by-contract form basis before July 1, 2006. In
13 all other instances, this Section shall become operative with
14 respect to annuity contracts issued by the company on or after
15 July 1, 2006.

16 Section 99. Effective date. This Act takes effect on July
17 1, 2004."