

1 AN ACT concerning insurance.

2 **Be it enacted by the People of the State of Illinois,**  
3 **represented in the General Assembly:**

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

29 (c) A statement of the mortality table, if any, and  
30 interest rates used in calculating any minimum paid-up  
31 annuity, cash surrender or death benefits that are  
32 guaranteed under the contract, together with sufficient

1 information to determine the amount of such benefits.

2 (d) A statement that any paid-up annuity, cash  
3 surrender or death benefits that may be available under the  
4 contract are not less than the minimum benefits required by  
5 any statute of the state in which the contract is delivered  
6 and an explanation of the manner in which such benefits are  
7 altered by the existence of any additional amounts credited  
8 by the company to the contract, any indebtedness to the  
9 company on the contract or any prior withdrawals from or  
10 partial surrenders of the contract.

11 Notwithstanding the requirements of this subsection, any  
12 deferred annuity contract may provide that if no considerations  
13 have been received under a contract for a period of 2 full  
14 years and the portion of the paid-up annuity benefit at  
15 maturity on the plan stipulated in the contract arising from  
16 considerations paid prior to such period would be less than  
17 \$20.00 monthly, the company may at its option terminate such  
18 contract by payment in cash of the present value of such  
19 portion of the paid-up annuity benefit, calculated on the basis  
20 of the mortality table, if any, and interest rate specified in  
21 the contract for determining the paid-up annuity benefit, and  
22 by such payment shall be relieved of any further obligation  
23 under such contract.

24 (2) The minimum values as specified in subsections (3),  
25 (4), (5), (6) and (8) of any paid-up annuity, cash surrender or  
26 death benefits available under an annuity contract shall be  
27 based upon minimum nonforfeiture amounts as defined in this  
28 subsection.

29 (a) With respect to contracts providing for flexible  
30 considerations, the minimum nonforfeiture amount at any  
31 time at or prior to the commencement of any annuity  
32 payments shall be equal to an accumulation up to such time  
33 at a rate of interest of 3% per annum of percentages of the  
34 net considerations, as hereinafter defined, paid prior to  
35 such time, decreased by the sum of (i) any prior  
36 withdrawals from or partial surrenders of the contract

1 accumulated at a rate of interest of 3% per annum and (ii)  
2 the amount of any indebtedness to the company on the  
3 contract, including interest due and accrued, and  
4 increased by any existing additional amounts credited by  
5 the company to the contract.

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

22 (a-5) Notwithstanding the provisions of paragraph (a)  
23 of this subsection, the minimum nonforfeiture amount for  
24 any contract issued on or after July 1, 2002 and before  
25 July 1, 2005 shall be based on a rate of interest of 1.5%  
26 per annum.

27 (b) With respect to contracts providing for fixed  
28 scheduled considerations, minimum nonforfeiture amounts  
29 shall be calculated on the assumption that considerations  
30 are paid annually in advance and shall be defined as for  
31 contracts with flexible considerations which are paid  
32 annually, with two exceptions:

33 (i) The portion of the net consideration for the  
34 first contract year to be accumulated shall be the sum  
35 of 65% of the net consideration for the first contract  
36 year plus 22 1/2% of the excess of the net

1 consideration for the first contract year over the  
2 lesser of the net considerations for the second and  
3 third contract years.

4 (ii) The annual contract charge shall be the lesser  
5 of (A) \$30.00 or (B) 10% of the gross annual  
6 consideration.

7 (c) With respect to contracts providing for a single  
8 consideration, minimum nonforfeiture amounts shall be  
9 defined as for contracts with flexible considerations  
10 except that the percentage of net consideration used to  
11 determine the minimum nonforfeiture amount shall be equal  
12 to 90% and the net consideration shall be the gross  
13 consideration less a contract charge of \$75.00.

14 (3) Any paid-up annuity benefit available under a contract  
15 shall be such that its present value on the date annuity  
16 payments are to commence is at least equal to the minimum  
17 nonforfeiture amount on that date. Such present value shall be  
18 computed using the mortality table, if any, and the interest  
19 rate specified in the contract for determining the minimum  
20 paid-up annuity benefits guaranteed in the contract.

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

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

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

24 (6) For the purpose of determining the benefits calculated  
25 under subsections (4) and (5), in the case of annuity contracts  
26 under which an election may be made to have annuity payments  
27 commence at optional maturity dates, the maturity date shall be  
28 deemed to be the latest date for which election shall be  
29 permitted by the contract, but shall not be deemed to be later  
30 than the anniversary of the contract next following the  
31 annuitant's seventieth birthday or the tenth anniversary of the  
32 contract, whichever is later.

33 (7) Any contract which does not provide cash surrender  
34 benefits or does not provide death benefits at least equal to  
35 the minimum nonforfeiture amount prior to the commencement of  
36 any annuity payments shall include a statement in a prominent

1 place in the contract that such benefits are not provided.

2 (8) Any paid-up annuity, cash surrender or death benefits  
3 available at any time, other than on the contract anniversary  
4 under any contract with fixed scheduled considerations, shall  
5 be calculated with allowance for the lapse of time and the  
6 payment of any scheduled considerations beyond the beginning of  
7 the contract year in which cessation of payment of  
8 considerations under the contract occurs.

9 (9) For any contract which provides, within the same  
10 contract by rider or supplemental contract provision, both  
11 annuity benefits and life insurance benefits that are in excess  
12 of the greater of cash surrender benefits or a return of the  
13 gross considerations with interest, the minimum nonforfeiture  
14 benefits shall be equal to the sum of the minimum nonforfeiture  
15 benefits for the annuity portion and the minimum nonforfeiture  
16 benefits, if any, for the life insurance portion computed as if  
17 each portion were a separate contract. Notwithstanding the  
18 provisions of subsections (3), (4), (5), (6) and (8),  
19 additional benefits payable (a) in the event of total and  
20 permanent disability, (b) as reversionary annuity or deferred  
21 reversionary annuity benefits, or (c) as other policy benefits  
22 additional to life insurance, endowment, and annuity benefits,  
23 and considerations for all such additional benefits, shall be  
24 disregarded in ascertaining the minimum nonforfeiture amounts,  
25 paid-up annuity, cash surrender and death benefits that may be  
26 required by this section. The inclusion of such additional  
27 benefits shall not be required in any paid-up benefits, unless  
28 such additional benefits separately would require minimum  
29 nonforfeiture amounts, paid-up annuity, cash surrender and  
30 death benefits.

31 (10) After the effective date of this Section, any company  
32 may file with the Director a written notice of its election to  
33 comply with the provisions of this Section after a specified  
34 date before the second anniversary of the effective date of  
35 this Section. After the filing of such notice, then upon such  
36 specified date, which shall be the operative date of this

1 section for such company, this Section shall become operative  
2 with respect to annuity contracts thereafter issued by such  
3 company. If a company makes no such election, the operative  
4 date of this section for such company shall be the second  
5 anniversary of the effective date of this Section.

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

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

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

21 (215 ILCS 5/229.4a new)

22 Sec. 229.4a. Standard Non-forfeiture Law for Individual  
23 Deferred Annuities.

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

26 (2) Applicability. This Section shall not apply to any  
27 reinsurance, group annuity purchased under a retirement plan or  
28 plan of deferred compensation established or maintained by an  
29 employer (including a partnership or sole proprietorship) or by  
30 an employee organization, or by both, other than a plan  
31 providing individual retirement accounts or individual  
32 retirement annuities under Section 408 of the Internal Revenue  
33 Code, as now or hereafter amended, premium deposit fund,  
34 variable annuity, investment annuity, immediate annuity, any  
35 deferred annuity contract after annuity payments have

1 commenced, or reversionary annuity, nor to any contract which  
2 shall be delivered outside this State through an agent or other  
3 representative of the company issuing the contract.

4 (3) Nonforfeiture Requirements.

5 (A) In the case of contracts issued on or after the  
6 operative date of this Section as defined in subsection  
7 (13), no contract of annuity, except as stated in  
8 subsection (2), shall be delivered or issued for delivery  
9 in this State unless it contains in substance the following  
10 provisions, or corresponding provisions which in the  
11 opinion of the Director of Insurance are at least as  
12 favorable to the contract holder, upon cessation of payment  
13 of considerations under the contract:

14 (i) That upon cessation of payment of  
15 considerations under a contract, or upon the written  
16 request of the contract owner, the company shall grant  
17 a paid-up annuity benefit on a plan stipulated in the  
18 contract of such value as is specified in subsections  
19 (5), (6), (7), (8) and (10);

20 (ii) If a contract provides for a lump sum  
21 settlement at maturity, or at any other time, that upon  
22 surrender of the contract at or prior to the  
23 commencement of any annuity payments, the company  
24 shall pay in lieu of a paid-up annuity benefit a cash  
25 surrender benefit of such amount as is specified in  
26 subsections (5), (6), (8) and (10). The company may  
27 reserve the right to defer the payment of the cash  
28 surrender benefit for a period not to exceed 6 months  
29 after demand therefor with surrender of the contract  
30 after making written request and receiving written  
31 approval of the Director. The request shall address the  
32 necessity and equitability to all policyholders of the  
33 deferral;

34 (iii) A statement of the mortality table, if any,  
35 and interest rates used calculating any minimum  
36 paid-up annuity, cash surrender, or death benefits



1           that are guaranteed under the contract, together with  
2           sufficient information to determine the amounts of the  
3           benefits; and

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

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

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

33           (A) (i) The minimum nonforfeiture amount at any time at  
34           or prior to the commencement of any annuity payments shall  
35           be equal to an accumulation up to such time at rates of  
36           interest as indicated in subdivision (4)(B) of the net

1 considerations (as hereinafter defined) paid prior to such  
2 time, decreased by the sum of paragraphs (a) through (d)  
3 below:

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

7 (b) An annual contract charge of \$50,  
8 accumulated at rates of interest as indicated in  
9 subdivision (4) (B);

10 (c) Any premium tax paid by the company for the  
11 contract, accumulated at rates of interest as  
12 indicated in subdivision (4) (B); and

13 (d) The amount of any indebtedness to the  
14 company on the contract, including interest due and  
15 accrued.

16 (ii) The net considerations for a given contract year  
17 used to define the minimum nonforfeiture amount shall be an  
18 amount equal to 87.5% of the gross considerations, credited  
19 to the contract during that contract year.

20 (B) The interest rate used in determining minimum  
21 nonforfeiture amounts shall be an annual rate of interest  
22 determined as the lesser of 3% per annum and the following,  
23 which shall be specified in the contract if the interest  
24 rate will be reset:

25 (i) The five-year Constant Maturity Treasury Rate  
26 reported by the Federal Reserve as of a date, or  
27 average over a period, rounded to the nearest 1/20th of  
28 one percent, specified in the contract no longer than  
29 15 months prior to the contract issue date or  
30 redetermination date under subdivision (4) (B) (iv);

31 (ii) Reduced by 125 basis points;

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

34 (iv) The interest rate shall apply for an initial  
35 period and may be redetermined for additional periods.  
36 The redetermination date, basis and period, if any,

1           shall be stated in the contract. The basis is the date  
2           or average over a specified period that produces the  
3           value of the 5-year Constant Maturity Treasury Rate to  
4           be used at each redetermination date.

5           (C) During the period or term that a contract provides  
6           substantive participation in an equity indexed benefit, it  
7           may increase the reduction described in subdivision  
8           (4) (B) (ii) above by up to an additional 100 basis points to  
9           reflect the value of the equity index benefit. The present  
10          value at the contract issue date, and at each  
11          redetermination date thereafter, of the additional  
12          reduction shall not exceed market value of the benefit. The  
13          Director may require a demonstration that the present value  
14          of the additional reduction does not exceed the market  
15          value of the benefit. Lacking such a demonstration that is  
16          acceptable to the Director, the Director may disallow or  
17          limit the additional reduction.

18          (D) The Director may adopt rules to implement the  
19          provisions of subdivision (4) (C) and to provide for further  
20          adjustments to the calculation of minimum nonforfeiture  
21          amounts for contracts that provide substantive  
22          participation in an equity index benefit and for other  
23          contracts that the Director determines adjustments are  
24          justified.

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

33          (6) Calculation of Cash Surrender Value. For contracts that  
34          provide cash surrender benefits, the cash surrender benefits  
35          available prior to maturity shall not be less than the present  
36          value as of the date of surrender of that portion of the

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

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

36 (8) Maturity Date. For the purpose of determining the

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

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

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

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

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

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

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

18 (14) This Section is repealed on July 1, 2007.

19 Section 99. Effective date. This Act takes effect on July  
20 1, 2004.