



Rep. Frank J. Mautino

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LRB093 20967 WGH 49191 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 (14) This Section is repealed on July 1, 2009.

17 Section 99. Effective date. This Act takes effect on July  
18 1, 2004."