



Insurance Committee

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1 AMENDMENT TO HOUSE BILL 938

2 AMENDMENT NO. _____. Amend House Bill 938 on page 1, line
3 5, by replacing "Section" with "Sections 223 and"; and

4 on page 1, immediately below line 5, by inserting the
5 following:

6 "(215 ILCS 5/223) (from Ch. 73, par. 835)

7 Sec. 223. Director to value policies - Legal standard of
8 valuation.

9 (1) The Director shall annually value, or cause to be
10 valued, the reserve liabilities (hereinafter called reserves)
11 for all outstanding life insurance policies and annuity and
12 pure endowment contracts of every life insurance company doing
13 business in this State, except that in the case of an alien
14 company, such valuation shall be limited to its United States
15 business, and may certify the amount of any such reserves,
16 specifying the mortality table or tables, rate or rates of

1 interest, and methods (net level premium method or other) used
2 in the calculation of such reserves. Other assumptions may be
3 incorporated into the reserve calculation to the extent
4 permitted by the National Association of Insurance
5 Commissioners' Accounting Practices and Procedures Manual. In
6 calculating such reserves, he may use group methods and
7 approximate averages for fractions of a year or otherwise. In
8 lieu of the valuation of the reserves herein required of any
9 foreign or alien company, he may accept any valuation made, or
10 caused to be made, by the insurance supervisory official of any
11 state or other jurisdiction when such valuation complies with
12 the minimum standard herein provided and if the official of
13 such state or jurisdiction accepts as sufficient and valid for
14 all legal purposes the certificate of valuation of the Director
15 when such certificate states the valuation to have been made in
16 a specified manner according to which the aggregate reserves
17 would be at least as large as if they had been computed in the
18 manner prescribed by the law of that state or jurisdiction.

19 Any such company which at any time has adopted any standard
20 of valuation producing greater aggregate reserves than those
21 calculated according to the minimum standard herein provided
22 may, with the approval of the Director, adopt any lower
23 standard of valuation, but not lower than the minimum herein
24 provided, however, that, for the purposes of this subsection,
25 the holding of additional reserves previously determined by a
26 qualified actuary to be necessary to render the opinion

1 required by subsection (1a) shall not be deemed to be the
2 adoption of a higher standard of valuation. In the valuation of
3 policies the Director shall give no consideration to, nor make
4 any deduction because of, the existence or the possession by
5 the company of

6 (a) policy liens created by any agreement given or
7 assented to by any assured subsequent to July 1, 1937, for
8 which liens such assured has not received cash or other
9 consideration equal in value to the amount of such liens,
10 or

11 (b) policy liens created by any agreement entered into
12 in violation of section 232 unless the agreement imposing
13 or creating such liens has been approved by a Court in a
14 proceeding under Article XIII, or in the case of a foreign
15 or alien company has been approved by a court in a
16 rehabilitation or liquidation proceeding or by the
17 insurance official of its domiciliary state or country, in
18 accordance with the laws thereof.

19 (1a) This subsection shall become operative at the end of
20 the first full calendar year following the effective date of
21 this amendatory Act of 1991.

22 (A) General.

23 (1) Every life insurance company doing business in
24 this State shall annually submit the opinion of a
25 qualified actuary as to whether the reserves and
26 related actuarial items held in support of the policies

1 and contracts specified by the Director by regulation
2 are computed appropriately, are based on assumptions
3 that satisfy contractual provisions, are consistent
4 with prior reported amounts and comply with applicable
5 laws of this State. The Director by regulation shall
6 define the specifics of this opinion and add any other
7 items deemed to be necessary to its scope.

8 (2) The opinion shall be submitted with the annual
9 statement reflecting the valuation of reserve
10 liabilities for each year ending on or after December
11 31, 1992.

12 (3) The opinion shall apply to all business in
13 force including individual and group health insurance
14 plans, in form and substance acceptable to the Director
15 as specified by regulation.

16 (4) The opinion shall be based on standards adopted
17 from time to time by the Actuarial Standards Board and
18 on additional standards as the Director may by
19 regulation prescribe.

20 (5) In the case of an opinion required to be
21 submitted by a foreign or alien company, the Director
22 may accept the opinion filed by that company with the
23 insurance supervisory official of another state if the
24 Director determines that the opinion reasonably meets
25 the requirements applicable to a company domiciled in
26 this State.

1 (6) For the purpose of this Section, "qualified
2 actuary" means a member in good standing of the
3 American Academy of Actuaries who meets the
4 requirements set forth in its regulations.

5 (7) Except in cases of fraud or willful misconduct,
6 the qualified actuary shall not be liable for damages
7 to any person (other than the insurance company and the
8 Director) for any act, error, omission, decision or
9 conduct with respect to the actuary's opinion.

10 (8) Disciplinary action by the Director against
11 the company or the qualified actuary shall be defined
12 in regulations by the Director.

13 (9) A memorandum, in form and substance acceptable
14 to the Director as specified by regulation, shall be
15 prepared to support each actuarial opinion.

16 (10) If the insurance company fails to provide a
17 supporting memorandum at the request of the Director
18 within a period specified by regulation or the Director
19 determines that the supporting memorandum provided by
20 the insurance company fails to meet the standards
21 prescribed by the regulations or is otherwise
22 unacceptable to the Director, the Director may engage a
23 qualified actuary at the expense of the company to
24 review the opinion and the basis for the opinion and
25 prepare the supporting memorandum as is required by the
26 Director.

1 (11) Any memorandum in support of the opinion, and
2 any other material provided by the company to the
3 Director in connection therewith, shall be kept
4 confidential by the Director and shall not be made
5 public and shall not be subject to subpoena, other than
6 for the purpose of defending an action seeking damages
7 from any person by reason of any action required by
8 this Section or by regulations promulgated hereunder;
9 provided, however, that the memorandum or other
10 material may otherwise be released by the Director (a)
11 with the written consent of the company or (b) to the
12 American Academy of Actuaries upon request stating
13 that the memorandum or other material is required for
14 the purpose of professional disciplinary proceedings
15 and setting forth procedures satisfactory to the
16 Director for preserving the confidentiality of the
17 memorandum or other material. Once any portion of the
18 confidential memorandum is cited by the company in its
19 marketing or is cited before any governmental agency
20 other than a state insurance department or is released
21 by the company to the news media, all portions of the
22 confidential memorandum shall be no longer
23 confidential.

24 (B) Actuarial analysis of reserves and assets
25 supporting those reserves.

26 (1) Every life insurance company, except as

1 exempted by or under regulation, shall also annually
2 include in the opinion required by paragraph (A)(1) of
3 this subsection (1a), an opinion of the same qualified
4 actuary as to whether the reserves and related
5 actuarial items held in support of the policies and
6 contracts specified by the Director by regulation,
7 when considered in light of the assets held by the
8 company with respect to the reserves and related
9 actuarial items including, but not limited to, the
10 investment earnings on the assets and the
11 considerations anticipated to be received and retained
12 under the policies and contracts, make adequate
13 provision for the company's obligations under the
14 policies and contracts including, but not limited to,
15 the benefits under and expenses associated with the
16 policies and contracts.

17 (2) The Director may provide by regulation for a
18 transition period for establishing any higher reserves
19 which the qualified actuary may deem necessary in order
20 to render the opinion required by this Section.

21 (2) This subsection shall apply to only those policies and
22 contracts issued prior to the operative date of section 229.2
23 (the Standard Non-forfeiture Law).

24 (a) Except as otherwise in this Article provided, the
25 legal minimum standard for valuation of contracts issued
26 before January 1, 1908, shall be the Actuaries or Combined

1 Experience Table of Mortality with interest at 4% per annum
2 and for valuation of contracts issued on or after that date
3 shall be the American Experience Table of Mortality with
4 either Craig's or Buttolph's Extension for ages under 10
5 and with interest at 3 1/2% per annum. The legal minimum
6 standard for the valuation of group insurance policies
7 under which premium rates are not guaranteed for a period
8 in excess of 5 years shall be the American Men Ultimate
9 Table of Mortality with interest at 3 1/2% per annum. Any
10 life company may, at its option, value its insurance
11 contracts issued on or after January 1, 1938, in accordance
12 with their terms on the basis of the American Men Ultimate
13 Table of Mortality with interest not higher than 3 1/2% per
14 annum.

15 (b) Policies issued prior to January 1, 1908, may
16 continue to be valued according to a method producing
17 reserves not less than those produced by the full
18 preliminary term method. Policies issued on and after
19 January 1, 1908, may be valued according to a method
20 producing reserves not less than those produced by the
21 modified preliminary term method hereinafter described in
22 paragraph (c). Policies issued on and after January 1,
23 1938, may be valued either according to a method producing
24 reserves not less than those produced by such modified
25 preliminary term method or by the select and ultimate
26 method on the basis that the rate of mortality during the

1 first 5 years after the issuance of such contracts
2 respectively shall be calculated according to the
3 following percentages of rates shown by the American
4 Experience Table of Mortality:

5 (i) first insurance year 50% thereof;

6 (ii) second insurance year 65% thereof;

7 (iii) third insurance year 75% thereof;

8 (iv) fourth insurance year 85% thereof;

9 (v) fifth insurance year 95% thereof;

10 (c) If the premium charged for the first policy year
11 under a limited payment life preliminary term policy
12 providing for the payment of all premiums thereon in less
13 than 20 years from the date of the policy or under an
14 endowment preliminary term policy, exceeds that charged
15 for the first policy year under 20 payment life preliminary
16 term policies of the same company, the reserve thereon at
17 the end of any year, including the first, shall not be less
18 than the reserve on a 20 payment life preliminary term
19 policy issued in the same year at the same age, together
20 with an amount which shall be equivalent to the
21 accumulation of a net level premium sufficient to provide
22 for a pure endowment at the end of the premium payment
23 period, equal to the difference between the value at the
24 end of such period of such a 20 payment life preliminary
25 term policy and the full net level premium reserve at such
26 time of such a limited payment life or endowment policy.

1 The premium payment period is the period during which
2 premiums are concurrently payable under such 20 payment
3 life preliminary term policy and such limited payment life
4 or endowment policy.

5 (d) The legal minimum standard for the valuations of
6 annuities issued on and after January 1, 1938, shall be the
7 American Annuitant's Table with interest not higher than 3
8 3/4% per annum, and all annuities issued before that date
9 shall be valued on a basis not lower than that used for the
10 annual statement of the year 1937; but annuities deferred
11 10 or more years and written in connection with life
12 insurance shall be valued on the same basis as that used in
13 computing the consideration or premiums therefor, or upon
14 any higher standard at the option of the company.

15 (e) The Director may vary the standards of interest and
16 mortality as to contracts issued in countries other than
17 the United States and may vary standards of mortality in
18 particular cases of invalid lives and other extra hazards.

19 (f) The legal minimum standard for valuation of waiver
20 of premium disability benefits or waiver of premium and
21 income disability benefits issued on and after January 1,
22 1938, shall be the Class (3) Disability Table (1926)
23 modified to conform to the contractual waiting period, with
24 interest at not more than 3 1/2% per annum; but in no event
25 shall the values be less than those produced by the basis
26 used in computing premiums for such benefits. The legal

1 minimum standard for the valuation of such benefits issued
2 prior to January 1, 1938, shall be such as to place an
3 adequate value, as determined by sound insurance
4 practices, on the liabilities thereunder and shall be such
5 that the value of the benefits under each and every policy
6 shall in no case be less than the value placed upon the
7 future premiums.

8 (g) The legal minimum standard for the valuation of
9 industrial policies issued on or after January 1, 1938,
10 shall be the American Experience Table of Mortality or the
11 Standard Industrial Mortality Table or the Substandard
12 Industrial Mortality Table with interest at 3 1/2% per
13 annum by the net level premium method, or in accordance
14 with their terms by the modified preliminary term method
15 hereinabove described.

16 (h) Reserves for all such policies and contracts may be
17 calculated, at the option of the company, according to any
18 standards which produce greater aggregate reserves for all
19 such policies and contracts than the minimum reserves
20 required by this subsection.

21 (3) This subsection shall apply to only those policies and
22 contracts issued on or after January 1, 1948 or such earlier
23 operative date of Section 229.2 (the Standard Non-forfeiture
24 Law) as shall have been elected by the insurance company
25 issuing such policies or contracts.

26 (a) Except as otherwise provided in subsections (4),

1 (6), and (7), the minimum standard for the valuation of all
2 such policies and contracts shall be the Commissioners
3 Reserve valuation method defined in paragraphs (b) and (f)
4 of this subsection and in subsection 5, 3 1/2% interest for
5 such policies issued prior to September 8, 1977, 5 1/2%
6 interest for single premium life insurance policies and 4
7 1/2% interest for all other such policies issued on or
8 after September 8, 1977, and the following tables:

9 (i) The Commissioners 1941 Standard Ordinary
10 Mortality Table for all Ordinary policies of life
11 insurance issued on the standard basis, excluding any
12 disability and accidental death benefits in such
13 policies, for such policies issued prior to the
14 operative date of subsection (4a) of Section 229.2
15 (Standard Non-forfeiture Law); and the Commissioners
16 1958 Standard Ordinary Mortality Table for such
17 policies issued on or after such operative date but
18 prior to the operative date of subsection (4c) of
19 Section 229.2 provided that for any category of such
20 policies issued on female risks all modified net
21 premiums and present values referred to in this Act
22 may, prior to September 8, 1977, be calculated
23 according to an age not more than 3 years younger than
24 the actual age of the insured and, after September 8,
25 1977, calculated according to an age not more than 6
26 years younger than the actual age of the insured; and

1 for such policies issued on or after the operative date
2 of subsection (4c) of Section 229.2, (i) the
3 Commissioners 1980 Standard Ordinary Mortality Table,
4 or (ii) at the election of the company for any one or
5 more specified plans of life insurance, the
6 Commissioners 1980 Standard Ordinary Mortality Table
7 with Ten-Year Select Mortality Factors, or (iii) any
8 ordinary mortality table adopted after 1980 by the
9 National Association of Insurance Commissioners and
10 approved by regulations promulgated by the Director
11 for use in determining the minimum standard of
12 valuation for such policies.

13 (ii) For all Industrial Life Insurance policies
14 issued on the standard basis, excluding any disability
15 and accidental death benefits in such policies--the
16 1941 Standard Industrial Mortality Table for such
17 policies issued prior to the operative date of
18 subsection 4 (b) of Section 229.2 (Standard
19 Non-forfeiture Law); and for such policies issued on or
20 after such operative date the Commissioners 1961
21 Standard Industrial Mortality Table or any industrial
22 mortality table adopted after 1980 by the National
23 Association of Insurance Commissioners and approved by
24 regulations promulgated by the Director for use in
25 determining the minimum standard of valuation for such
26 policies.

1 (iii) For Individual Annuity and Pure Endowment
2 contracts, excluding any disability and accidental
3 death benefits in such policies--the 1937 Standard
4 Annuity Mortality Table--or, at the option of the
5 company, the Annuity Mortality Table for 1949,
6 Ultimate, or any modification of either of these tables
7 approved by the Director.

8 (iv) For Group Annuity and Pure Endowment
9 contracts, excluding any disability and accidental
10 death benefits in such policies--the Group Annuity
11 Mortality Table for 1951, any modification of such
12 table approved by the Director, or, at the option of
13 the company, any of the tables or modifications of
14 tables specified for Individual Annuity and Pure
15 Endowment contracts.

16 (v) For Total and Permanent Disability Benefits in
17 or supplementary to Ordinary policies or contracts for
18 policies or contracts issued on or after January 1,
19 1966, the tables of Period 2 disablement rates and the
20 1930 to 1950 termination rates of the 1952 Disability
21 Study of the Society of Actuaries, with due regard to
22 the type of benefit, or any tables of disablement rates
23 and termination rates adopted after 1980 by the
24 National Association of Insurance Commissioners and
25 approved by regulations promulgated by the Director
26 for use in determining the minimum standard of

1 valuation for such policies; for policies or contracts
2 issued on or after January 1, 1961, and prior to
3 January 1, 1966, either such tables or, at the option
4 of the company, the Class (3) Disability Table (1926);
5 and for policies issued prior to January 1, 1961, the
6 Class (3) Disability Table (1926). Any such table
7 shall, for active lives, be combined with a mortality
8 table permitted for calculating the reserves for life
9 insurance policies.

10 (vi) For Accidental Death benefits in or
11 supplementary to policies--for policies issued on or
12 after January 1, 1966, the 1959 Accidental Death
13 Benefits Table or any accidental death benefits table
14 adopted after 1980 by the National Association of
15 Insurance Commissioners and approved by regulations
16 promulgated by the Director for use in determining the
17 minimum standard of valuation for such policies; for
18 policies issued on or after January 1, 1961, and prior
19 to January 1, 1966, any of such tables or, at the
20 option of the company, the Inter-Company Double
21 Indemnity Mortality Table; and for policies issued
22 prior to January 1, 1961, the Inter-Company Double
23 Indemnity Mortality Table. Either table shall be
24 combined with a mortality table permitted for
25 calculating the reserves for life insurance policies.

26 (vii) For Group Life Insurance, life insurance

1 issued on the substandard basis and other special
2 benefits--such tables as may be approved by the
3 Director.

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

20 (A) A net level annual premium equal to the present
21 value, at the date of issue, of such benefits provided
22 for after the first policy year, divided by the present
23 value, at the date of issue, of an annuity of one per
24 annum payable on the first and each subsequent
25 anniversary of such policy on which a premium falls
26 due; provided, however, that such net level annual

1 premium shall not exceed the net level annual premium
2 on the 19 year premium whole life plan for insurance of
3 the same amount at an age one year higher than the age
4 at issue of such policy.

5 (B) A net one year term premium for such benefits
6 provided for in the first policy year.

7 For any life insurance policy issued on or after
8 January 1, 1987, for which the contract premium in the
9 first policy year exceeds that of the second year with no
10 comparable additional benefit being provided in that first
11 year, which policy provides an endowment benefit or a cash
12 surrender value or a combination thereof in an amount
13 greater than such excess premium, the reserve according to
14 the Commissioners reserve valuation method as of any policy
15 anniversary occurring on or before the assumed ending date,
16 defined herein as the first policy anniversary on which the
17 sum of any endowment benefit and any cash surrender value
18 then available is greater than such excess premium, shall,
19 except as otherwise provided in paragraph (f) of subsection
20 (3), be the greater of the reserve as of such policy
21 anniversary calculated as described in the preceding part
22 of this paragraph (b) and the reserve as of such policy
23 anniversary calculated as described in the preceding part
24 of this paragraph (b) with (i) the value defined in subpart
25 A of the preceding part of this paragraph (b) being reduced
26 by 15% of the amount of such excess first year premium,

1 (ii) all present values of benefits and premiums being
2 determined without reference to premiums or benefits
3 provided for by the policy after the assumed ending date,
4 (iii) the policy being assumed to mature on such date as an
5 endowment, and (iv) the cash surrender value provided on
6 such date being considered as an endowment benefit. In
7 making the above comparison, the mortality and interest
8 bases stated in paragraph (a) of subsection (3) and in
9 subsection 6 shall be used.

10 Reserves according to the Commissioners reserve
11 valuation method for (i) life insurance policies providing
12 for a varying amount of insurance or requiring the payment
13 of varying premiums, (ii) group annuity and pure endowment
14 contracts purchased under a retirement plan or plan of
15 deferred compensation, established or maintained by an
16 employer (including a partnership or sole proprietorship)
17 or by an employee organization, or by both, other than a
18 plan providing individual retirement accounts or
19 individual retirement annuities under Section 408 of the
20 Internal Revenue Code, as now or hereafter amended, (iii)
21 disability and accidental death benefits in all policies
22 and contracts, and (iv) all other benefits, except life
23 insurance and endowment benefits in life insurance
24 policies and benefits provided by all other annuity and
25 pure endowment contracts, shall be calculated by a method
26 consistent with the principles of this paragraph (b),

1 except that any extra premiums charged because of
2 impairments or special hazards shall be disregarded in the
3 determination of modified net premiums.

4 (c) In no event shall a company's aggregate reserves
5 for all life insurance policies, excluding disability and
6 accidental death benefits be less than the aggregate
7 reserves calculated in accordance with the methods set
8 forth in paragraphs (b), (f), and (g) of subsection (3) and
9 in subsection (5) and the mortality table or tables and
10 rate or rates of interest used in calculating
11 non-forfeiture benefits for such policies.

12 (d) In no event shall the aggregate reserves for all
13 policies, contracts, and benefits be less than the
14 aggregate reserves determined by the qualified actuary to
15 be necessary to render the opinion required by subsection
16 (1a).

17 (e) Reserves for any category of policies, contracts or
18 benefits as established by the Director, may be calculated,
19 at the option of the company, according to any standards
20 which produce greater aggregate reserves for such category
21 than those calculated according to the minimum standard
22 herein provided, but the rate or rates of interest used for
23 policies and contracts, other than annuity and pure
24 endowment contracts, shall not be higher than the
25 corresponding rate or rates of interest used in calculating
26 any nonforfeiture benefits provided for therein.

1 (f) If in any contract year the gross premium charged
2 by any life insurance company on any policy or contract is
3 less than the valuation net premium for the policy or
4 contract calculated by the method used in calculating the
5 reserve thereon but using the minimum valuation standards
6 of mortality and rate of interest, the minimum reserve
7 required for such policy or contract shall be the greater
8 of either the reserve calculated according to the mortality
9 table, rate of interest, and method actually used for such
10 policy or contract, or the reserve calculated by the method
11 actually used for such policy or contract but using the
12 minimum standards of mortality and rate of interest and
13 replacing the valuation net premium by the actual gross
14 premium in each contract year for which the valuation net
15 premium exceeds the actual gross premium. The minimum
16 valuation standards of mortality and rate of interest
17 referred to in this paragraph (f) are those standards
18 stated in subsection (6) and paragraph (a) of subsection
19 (3).

20 For any life insurance policy issued on or after
21 January 1, 1987, for which the gross premium in the first
22 policy year exceeds that of the second year with no
23 comparable additional benefit provided in that first year,
24 which policy provides an endowment benefit or a cash
25 surrender value or a combination thereof in an amount
26 greater than such excess premium, the foregoing provisions

1 of this paragraph (f) shall be applied as if the method
2 actually used in calculating the reserve for such policy
3 were the method described in paragraph (b) of subsection
4 (3), ignoring the second paragraph of said paragraph (b).
5 The minimum reserve at each policy anniversary of such a
6 policy shall be the greater of the minimum reserve
7 calculated in accordance with paragraph (b) of subsection
8 (3), including the second paragraph of said paragraph (b),
9 and the minimum reserve calculated in accordance with this
10 paragraph (f).

11 (g) In the case of any plan of life insurance which
12 provides for future premium determination, the amounts of
13 which are to be determined by the insurance company based
14 on then estimates of future experience, or in the case of
15 any plan of life insurance or annuity which is of such a
16 nature that the minimum reserves cannot be determined by
17 the methods described in paragraphs (b) and (f) of
18 subsection (3) and subsection (5), the reserves which are
19 held under any such plan shall:

20 (i) be appropriate in relation to the benefits and
21 the pattern of premiums for that plan, and

22 (ii) be computed by a method which is consistent
23 with the principles of this Standard Valuation Law, as
24 determined by regulations promulgated by the Director.

25 (4) Except as provided in subsection (6), the minimum
26 standard for the valuation of all individual annuity and pure

1 endowment contracts issued on or after the operative date of
2 this subsection, as defined herein, and for all annuities and
3 pure endowments purchased on or after such operative date under
4 group annuity and pure endowment contracts shall be the
5 Commissioners Reserve valuation methods defined in paragraph
6 (b) of subsection (3) and subsection (5) and the following
7 tables and interest rates:

8 (a) For individual single premium immediate annuity
9 contracts, excluding any disability and accidental death
10 benefits in such contracts, the 1971 Individual Annuity
11 Mortality Table, any individual annuity mortality table
12 adopted after 1980 by the National Association of Insurance
13 Commissioners and approved by regulations promulgated by
14 the Director for use in determining the minimum standard of
15 valuation for such contracts, or any modification of those
16 tables approved by the Director, and 7 1/2% interest.

17 (b) For individual and pure endowment contracts other
18 than single premium annuity contracts, excluding any
19 disability and accidental death benefits in such
20 contracts, the 1971 Individual Annuity Mortality Table,
21 any individual annuity mortality table adopted after 1980
22 by the National Association of Insurance Commissioners and
23 approved by regulations promulgated by the Director for use
24 in determining the minimum standard of valuation for such
25 contracts, or any modification of those tables approved by
26 the Director, and 5 1/2% interest for single premium

1 deferred annuity and pure endowment contracts and 4 1/2%
2 interest for all other such individual annuity and pure
3 endowment contracts.

4 (c) For all annuities and pure endowments purchased
5 under group annuity and pure endowment contracts,
6 excluding any disability and accidental death benefits
7 purchased under such contracts, the 1971 Group Annuity
8 Mortality Table, any group annuity mortality table adopted
9 after 1980 by the National Association of Insurance
10 Commissioners and approved by regulations promulgated by
11 the Director for use in determining the minimum standard of
12 valuation for such annuities and pure endowments, or any
13 modification of those tables approved by the Director, and
14 7 1/2% interest.

15 After September 8, 1977, any company may file with the
16 Director a written notice of its election to comply with the
17 provisions of this subsection after a specified date before
18 January 1, 1979, which shall be the operative date of this
19 subsection for such company; provided, a company may elect a
20 different operative date for individual annuity and pure
21 endowment contracts from that elected for group annuity and
22 pure endowment contracts. If a company makes no election, the
23 operative date of this subsection for such company shall be
24 January 1, 1979.

25 (5) This subsection shall apply to all annuity and pure
26 endowment contracts other than group annuity and pure endowment

1 contracts purchased under a retirement plan or plan of deferred
2 compensation, established or maintained by an employer
3 (including a partnership or sole proprietorship) or by an
4 employee organization, or by both, other than a plan providing
5 individual retirement accounts or individual retirement
6 annuities under Section 408 of the Internal Revenue Code, as
7 now or hereafter amended.

8 Reserves according to the Commissioners annuity reserve
9 method for benefits under annuity or pure endowment contracts,
10 excluding any disability and accidental death benefits in such
11 contracts, shall be the greatest of the respective excesses of
12 the present values, at the date of valuation, of the future
13 guaranteed benefits, including guaranteed nonforfeiture
14 benefits, provided for by such contracts at the end of each
15 respective contract year, over the present value, at the date
16 of valuation, of any future valuation considerations derived
17 from future gross considerations, required by the terms of such
18 contract, that become payable prior to the end of such
19 respective contract year. The future guaranteed benefits shall
20 be determined by using the mortality table, if any, and the
21 interest rate, or rates, specified in such contracts for
22 determining guaranteed benefits. The valuation considerations
23 are the portions of the respective gross considerations applied
24 under the terms of such contracts to determine nonforfeiture
25 values.

26 (6) (a) Applicability of this subsection. (i) The interest

1 rates used in determining the minimum standard for the
2 valuation of

3 (A) all life insurance policies issued in a
4 particular calendar year, on or after the operative
5 date of subsection (4c) of Section 229.2 (Standard
6 Nonforfeiture Law),

7 (B) all individual annuity and pure endowment
8 contracts issued in a particular calendar year ending
9 on or after December 31, 1983,

10 (C) all annuities and pure endowments purchased in
11 a particular calendar year ending on or after December
12 31, 1983, under group annuity and pure endowment
13 contracts, and

14 (D) the net increase in a particular calendar year
15 ending after December 31, 1983, in amounts held under
16 guaranteed interest contracts
17 shall be the calendar year statutory valuation interest
18 rates, as defined in this subsection.

19 (b) Calendar Year Statutory Valuation Interest Rates.

20 (i) The calendar year statutory valuation interest
21 rates shall be determined according to the following
22 formulae, rounding "I" to the nearest .25%.

23 (A) For life insurance,

$$24 I = .03 + W (R1 - .03) + W/2 (R2 - .09).$$

25 (B) For single premium immediate annuities and
26 annuity benefits involving life contingencies

1 arising from other annuities with cash settlement
2 options and from guaranteed interest contracts
3 with cash settlement options,

4 $I = .03 + W (R - .03)$ or with prior approval of
5 the Director $I = .03 + W (Rq - .03)$.

6 For the purposes of this subparagraph (i), "I"
7 equals the calendar year statutory valuation interest
8 rate, "R" is the reference interest rate defined in
9 this subsection, "R1" is the lesser of R and .09, "R2"
10 is the greater of R and .09, "Rq" is the quarterly
11 reference interest rate defined in this subsection,
12 and "W" is the weighting factor defined in this
13 subsection.

14 (C) For other annuities with cash settlement
15 options and guaranteed interest contracts with
16 cash settlement options, valued on an issue year
17 basis, except as stated in (B), the formula for
18 life insurance stated in (A) applies to annuities
19 and guaranteed interest contracts with guarantee
20 durations in excess of 10 years, and the formula
21 for single premium immediate annuities stated in
22 (B) above applies to annuities and guaranteed
23 interest contracts with guarantee durations of 10
24 years or less.

25 (D) For other annuities with no cash
26 settlement options and for guaranteed interest

1 contracts with no cash settlement options, the
2 formula for single premium immediate annuities
3 stated in (B) applies.

4 (E) For other annuities with cash settlement
5 options and guaranteed interest contracts with
6 cash settlement options, valued on a change in fund
7 basis, the formula for single premium immediate
8 annuities stated in (B) applies.

9 (ii) If the calendar year statutory valuation
10 interest rate for any life insurance policy issued in
11 any calendar year determined without reference to this
12 subparagraph differs from the corresponding actual
13 rate for similar policies issued in the immediately
14 preceding calendar year by less than .5%, the calendar
15 year statutory valuation interest rate for such life
16 insurance policy shall be the corresponding actual
17 rate for the immediately preceding calendar year. For
18 purposes of applying this subparagraph, the calendar
19 year statutory valuation interest rate for life
20 insurance policies issued in a calendar year shall be
21 determined for 1980, using the reference interest rate
22 defined for 1979, and shall be determined for each
23 subsequent calendar year regardless of when subsection
24 (4c) of Section 229.2 (Standard Nonforfeiture Law)
25 becomes operative.

26 (c) Weighting Factors.

1 (i) The weighting factors referred to in the
2 formulae stated in paragraph (b) are given in the
3 following tables.

4 (A) Weighting Factors for Life Insurance.

5 Guarantee	6 Weighting
7 Duration	8 Factors
9 (Years)	
10 10 or less	.50
11 More than 10, but not more than 20	.45
12 More than 20	.35

13 For life insurance, the guarantee duration is
14 the maximum number of years the life insurance can
15 remain in force on a basis guaranteed in the policy
16 or under options to convert to plans of life
17 insurance with premium rates or nonforfeiture
18 values or both which are guaranteed in the original
19 policy.

20 (B) The weighting factor for single premium
21 immediate annuities and for annuity benefits
22 involving life contingencies arising from other
23 annuities with cash settlement options and
24 guaranteed interest contracts with cash settlement
25 options is .80.

26 (C) The weighting factors for other annuities
and for guaranteed interest contracts, except as
stated in (B) of this subparagraph (i), shall be as

1 specified in tables (1), (2), and (3) of this
 2 subpart (C), according to the rules and
 3 definitions in (4), (5) and (6) of this subpart
 4 (C).

5 (1) For annuities and guaranteed interest
 6 contracts valued on an issue year basis.

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

16 (2) For annuities and guaranteed interest
 17 contracts valued on a change in fund basis, the
 18 factors shown in (1) for Plan Types A, B and C are
 19 increased by .15, .25 and .05, respectively.

20 (3) For annuities and guaranteed interest
 21 contracts valued on an issue year basis, other than
 22 those with no cash settlement options, which do not
 23 guarantee interest on considerations received more
 24 than one year after issue or purchase, and for
 25 annuities and guaranteed interest contracts valued
 26 on a change in fund basis which do not guarantee

1 interest rates on considerations received more
2 than 12 months beyond the valuation date, the
3 factors shown in (1), or derived in (2), for Plan
4 Types A, B and C are increased by .05.

5 (4) For other annuities with cash settlement
6 options and guaranteed interest contracts with
7 cash settlement options, the guarantee duration is
8 the number of years for which the contract
9 guarantees interest rates in excess of the
10 calendar year statutory valuation interest rate
11 for life insurance policies with guarantee
12 durations in excess of 20 years. For other
13 annuities with no cash settlement options, and for
14 guaranteed interest contracts with no cash
15 settlement options, the guarantee duration is the
16 number of years from the date of issue or date of
17 purchase to the date annuity benefits are
18 scheduled to commence.

19 (5) The plan types used in the above tables are
20 defined as follows.

21 Plan Type A is a plan under which the
22 policyholder may not withdraw funds, or may
23 withdraw funds at any time but only (a) with an
24 adjustment to reflect changes in interest rates or
25 asset values since receipt of the funds by the
26 insurance company, (b) without such an adjustment

1 but in installments over 5 years or more, or (c) as
2 an immediate life annuity.

3 Plan Type B is a plan under which the
4 policyholder may not withdraw funds before
5 expiration of the interest rate guarantee, or may
6 withdraw funds before such expiration but only (a)
7 with an adjustment to reflect changes in interest
8 rates or asset values since receipt of the funds by
9 the insurance company, or (b) without such
10 adjustment but in installments over 5 years or
11 more. At the end of the interest rate guarantee,
12 funds may be withdrawn without such adjustment in a
13 single sum or installments over less than 5 years.

14 Plan Type C is a plan under which the
15 policyholder may withdraw funds before expiration
16 of the interest rate guarantee in a single sum or
17 installments over less than 5 years either (a)
18 without adjustment to reflect changes in interest
19 rates or asset values since receipt of the funds by
20 the insurance company, or (b) subject only to a
21 fixed surrender charge stipulated in the contract
22 as a percentage of the fund.

23 (6) A company may elect to value guaranteed
24 interest contracts with cash settlement options
25 and annuities with cash settlement options on
26 either an issue year basis or on a change in fund

1 basis. Guaranteed interest contracts with no cash
2 settlement options and other annuities with no
3 cash settlement options shall be valued on an issue
4 year basis. As used in this Section, "issue year
5 basis of valuation" refers to a valuation basis
6 under which the interest rate used to determine the
7 minimum valuation standard for the entire duration
8 of the annuity or guaranteed interest contract is
9 the calendar year valuation interest rate for the
10 year of issue or year of purchase of the annuity or
11 guaranteed interest contract. "Change in fund
12 basis of valuation", as used in this Section,
13 refers to a valuation basis under which the
14 interest rate used to determine the minimum
15 valuation standard applicable to each change in
16 the fund held under the annuity or guaranteed
17 interest contract is the calendar year valuation
18 interest rate for the year of the change in the
19 fund.

20 (d) Reference Interest Rate. (i) The reference
21 interest rate referred to in paragraph (b) of this
22 subsection is defined as follows.

23 (A) For all life insurance, the reference interest
24 rate is the lesser of the average over a period of 36
25 months, and the average over a period of 12 months,
26 with both periods ending on June 30, or with prior

1 approval of the Director ending on December 31, of the
2 calendar year next preceding the year of issue, of
3 Moody's Corporate Bond Yield Average - Monthly Average
4 Corporates, as published by Moody's Investors Service,
5 Inc.

6 (B) For single premium immediate annuities and for
7 annuity benefits involving life contingencies arising
8 from other annuities with cash settlement options and
9 guaranteed interest contracts with cash settlement
10 options, the reference interest rate is the average
11 over a period of 12 months, ending on June 30, or with
12 prior approval of the Director ending on December 31,
13 of the calendar year of issue or year of purchase, of
14 Moody's Corporate Bond Yield Average - Monthly Average
15 Corporates, as published by Moody's Investors Service,
16 Inc.

17 (C) For annuities with cash settlement options and
18 guaranteed interest contracts with cash settlement
19 options, valued on a year of issue basis, except those
20 described in (B), with guarantee durations in excess of
21 10 years, the reference interest rate is the lesser of
22 the average over a period of 36 months and the average
23 over a period of 12 months, ending on June 30, or with
24 prior approval of the Director ending on December 31,
25 of the calendar year of issue or purchase, of Moody's
26 Corporate Bond Yield Average-Monthly Average

1 Corporates, as published by Moody's Investors Service,
2 Inc.

3 (D) For other annuities with cash settlement
4 options and guaranteed interest contracts with cash
5 settlement options, valued on a year of issue basis,
6 except those described in (B), with guarantee
7 durations of 10 years or less, the reference interest
8 rate is the average over a period of 12 months, ending
9 on June 30, or with prior approval of the Director
10 ending on December 31, of the calendar year of issue or
11 purchase, of Moody's Corporate Bond Yield
12 Average-Monthly Average Corporates, as published by
13 Moody's Investors Service, Inc.

14 (E) For annuities with no cash settlement options
15 and for guaranteed interest contracts with no cash
16 settlement options, the reference interest rate is the
17 average over a period of 12 months, ending on June 30,
18 or with prior approval of the Director ending on
19 December 31, of the calendar year of issue or purchase,
20 of Moody's Corporate Bond Yield Average-Monthly
21 Average Corporates, as published by Moody's Investors
22 Service, Inc.

23 (F) For annuities with cash settlement options and
24 guaranteed interest contracts with cash settlement
25 options, valued on a change in fund basis, except those
26 described in (B), the reference interest rate is the

1 average over a period of 12 months, ending on June 30,
2 or with prior approval of the Director ending on
3 December 31, of the calendar year of the change in the
4 fund, of Moody's Corporate Bond Yield Average-Monthly
5 Average Corporates, as published by Moody's Investors
6 Service, Inc.

7 (G) For annuities valued by a formula based on R_q ,
8 the quarterly reference interest rate is, with the
9 prior approval of the Director, the average within each
10 of the 4 consecutive calendar year quarters ending on
11 March 31, June 30, September 30 and December 31 of the
12 calendar year of issue or year of purchase of Moody's
13 Corporate Bond Yield Average-Monthly Average
14 Corporates, as published by Moody's Investors Service,
15 Inc.

16 (e) Alternative Method for Determining Reference
17 Interest Rates. In the event that the Moody's Corporate
18 Bond Yield Average-Monthly Average Corporates is no longer
19 published by Moody's Investors Services, Inc., or in the
20 event that the National Association of Insurance
21 Commissioners determines that Moody's Corporate Bond Yield
22 Average-Monthly Average Corporates as published by Moody's
23 Investors Service, Inc. is no longer appropriate for the
24 determination of the reference interest rate, then an
25 alternative method for determination of the reference
26 interest rate, which is adopted by the National Association

1 of Insurance Commissioners and approved by regulations
2 promulgated by the Director, may be substituted.

3 (7) Minimum Standards for Health (Disability, Accident and
4 Sickness) Plans. The Director shall promulgate a regulation
5 containing the minimum standards applicable to the valuation of
6 health (disability, sickness and accident) plans.

7 (Source: P.A. 91-357, eff. 7-29-99.)".