Sen. William R. Haine

Filed: 4/2/2014

AMENDMENT TO SENATE BILL 2764

AMENDMENT NO. ______. Amend Senate Bill 2764, AS AMENDED, by replacing everything after the enacting clause with the following:

"Section 5. The Illinois Insurance Code is amended by changing Sections 223 and 229.2 as follows:

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

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

(1) <u>For policies and contracts issued prior to the operative date of the Valuation Manual, the</u> ~~The~~ Director shall annually value, or cause to be valued, the reserve liabilities (hereinafter called reserves) for all outstanding life insurance policies and annuity and pure endowment contracts of every life insurance company doing business in this State, except that in the case of an alien company, such valuation

shall be limited to its United States business~~, and may certify the amount of any such reserves, specifying the mortality table or tables, rate or rates of interest, and methods (net level premium method or other) used in the calculation of such reserves. Other assumptions may be incorporated into the reserve calculation to the extent permitted by the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual~~. In calculating such reserves, he may use group methods and approximate averages for fractions of a year or otherwise. In lieu of the valuation of the reserves herein required of any foreign or alien company, he may accept any valuation made, or caused to be made, by the insurance supervisory official of any state or other jurisdiction when such valuation complies with the minimum standard ~~herein~~ provided in this Section.

The provisions set forth in this subsection (1) and in subsections (2), (3), (4), (5), (6), and (7) of this Section shall apply to all policies and contracts, as appropriate, subject to this Section issued prior to the operative date of the Valuation Manual. The provisions set forth in subsections (8) and (9) of this Section shall not apply to any such policies and contracts.

For policies and contracts issued on or after the operative date of the Valuation Manual, the Director shall annually value, or cause to be valued, the reserve liabilities (reserves) for all outstanding life insurance contracts, annuity and pure endowment contracts, accident and health contracts, and deposit-type contracts of every company issued on or after the operative date of the Valuation Manual. In lieu of the valuation of the reserves required of a foreign or alien company, the Director may accept a valuation made, or caused to be made, by the insurance supervisory official of any state or other jurisdiction when the valuation complies with the minimum standard provided in this Section.

The provisions set forth in subsections (8) and (9) of this Section shall apply to all policies and contracts issued on or after the operative date of the Valuation Manual. ~~and if the official of such state or jurisdiction accepts as sufficient and valid for all legal purposes the certificate of valuation of the Director when such certificate states the valuation to have been made in a specified manner according to which the aggregate reserves would be at least as large as if they had been computed in the manner prescribed by the law of that state or jurisdiction.~~

Any such company which adopts at any time a ~~has adopted any~~ standard of valuation producing greater aggregate reserves than those calculated according to the minimum standard ~~herein~~ provided under this Section may adopt a lower standard of valuation, with the approval of the Director, ~~adopt any lower standard of valuation,~~ but not lower than the minimum herein provided, however, that, for the purposes of this subsection, the holding of additional reserves previously determined by the appointed ~~a qualified~~ actuary to be necessary to render the opinion required by subsection (1a) shall not be deemed to be the adoption of a higher standard of valuation. In the valuation of policies the Director shall give no consideration to, nor make any deduction because of, the existence or the possession by the company of

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

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

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

(A) General.

(1) Prior to the operative date of the Valuation Manual, every ~~Every~~ life insurance company doing business in this State shall annually submit the

opinion of a qualified actuary as to whether the reserves and related actuarial items held in support of the policies and contracts specified by the Director by regulation are computed appropriately, are based on assumptions that satisfy contractual provisions, are consistent with prior reported amounts and comply with applicable laws of this State. The Director by regulation shall define the specifics of this opinion and add any other items deemed to be necessary to its scope.

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

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

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

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

Director determines that the opinion reasonably meets the requirements applicable to a company domiciled in this State.

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

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

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

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

(10) If the insurance company fails to provide a supporting memorandum at the request of the Director within a period specified by regulation or the Director determines that the supporting memorandum provided by the insurance company fails to meet the standards prescribed by the regulations or is otherwise unacceptable to the Director, the Director may engage a qualified actuary at the expense of the company to

review the opinion and the basis for the opinion and prepare the supporting memorandum as is required by the Director.

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

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

(1) Every life insurance company, except as exempted by or under regulation, shall also annually include in the opinion required by paragraph (A)(1) of this subsection (1a), an opinion of the same qualified actuary as to whether the reserves and related actuarial items held in support of the policies and contracts specified by the Director by regulation, when considered in light of the assets held by the company with respect to the reserves and related actuarial items including, but not limited to, the investment earnings on the assets and the considerations anticipated to be received and retained under the policies and contracts, make adequate provision for the company's obligations under the policies and contracts including, but not limited to, the benefits under and expenses associated with the policies and contracts.

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

(1b) Actuarial Opinion of Reserves after the Operative Date of the Valuation Manual.

(A) General.

(1) Every company with outstanding life insurance contracts, accident and health insurance contracts, or deposit-type contracts in this State and subject to regulation by the Director shall annually submit the opinion of the appointed actuary as to whether the reserves and related actuarial items held in support of the policies and contracts are computed appropriately, are based on assumptions that satisfy contractual provisions, are consistent with prior reported amounts, and comply with applicable laws of this State. The Valuation Manual shall prescribe the specifics of this opinion, including any items deemed to be necessary to its scope.

(2) The opinion shall be submitted with the annual statement reflecting the valuation of such reserve liabilities for each year ending on or after the operative date of the Valuation Manual.

(3) The opinion shall apply to all policies and contracts subject to paragraph (B) of this subsection (1b), plus other actuarial liabilities as may be specified in the Valuation Manual.

(4) The opinion shall be based on standards adopted from time to time by the Actuarial Standards Board or its successor and on additional standards as may be prescribed in the Valuation Manual.

(5) In the case of an opinion required to be

submitted by a foreign or alien company, the Director may accept the opinion filed by that company with the insurance supervisory official of another state if the Director determines that the opinion reasonably meets the requirements applicable to a company domiciled in this State.

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

(7) A memorandum, in a form and substance as specified in the Valuation Manual and acceptable to the Director, shall be prepared to support each actuarial opinion.

(8) If the insurance company fails to provide a supporting memorandum at the request of the Director within a period specified in the Valuation Manual or the Director determines that the supporting memorandum provided by the insurance company fails to meet the standards prescribed by the Valuation Manual or is otherwise unacceptable to the Director, the Director may engage a qualified actuary at the expense of the company to review the opinion and the basis for the opinion and prepare the supporting memorandum as is

required by the Director.

(B) Every company with outstanding life insurance contracts, accident and health insurance contracts, or deposit-type contracts in this state and subject to regulation by the Director, except as exempted in the Valuation Manual, shall also annually include in the opinion required by subparagraph (1) of paragraph (A) of this subsection (1b), an opinion of the same appointed actuary as to whether the reserves and related actuarial items held in support of the policies and contracts specified in the Valuation Manual, when considered in light of the assets held by the company with respect to the reserves and related actuarial items, including, but not limited to, the investment earnings on the assets and the considerations anticipated to be received and retained under the policies and contracts, make adequate provision for the company's obligations under the policies and contracts, including, but not limited to, the benefits under and expenses associated with the policies and contracts.

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

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

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

(b) Policies issued prior to January 1, 1908, may continue to be valued according to a method producing reserves not less than those produced by the full preliminary term method. Policies issued on and after January 1, 1908, may be valued according to a method producing reserves not less than those produced by the modified preliminary term method hereinafter described in paragraph (c). Policies issued on and after January 1, 1938, may be valued either according to a method producing reserves not less than those produced by such modified preliminary term method or by the select and ultimate method on the basis that the rate of mortality during the first 5 years after the issuance of such contracts respectively shall be calculated according to the following percentages of rates shown by the American Experience Table of Mortality:

(i) first insurance year 50% thereof;

(ii) second insurance year 65% thereof;

(iii) third insurance year 75% thereof;

(iv) fourth insurance year 85% thereof;

(v) fifth insurance year 95% thereof.

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

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

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

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

(f) The legal minimum standard for valuation of waiver of premium disability benefits or waiver of premium and income disability benefits issued on and after January 1, 1938, shall be the Class (3) Disability Table (1926) modified to conform to the contractual waiting period, with interest at not more than 3 1/2% per annum; but in no event shall the values be less than those produced by the basis used in computing premiums for such benefits. The legal minimum standard for the valuation of such benefits issued prior to January 1, 1938, shall be such as to place an adequate value, as determined by sound insurance practices, on the liabilities thereunder and shall be such that the value of the benefits under each and every policy shall in no case be less than the value placed upon the future premiums.

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

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

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

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

(i) The Commissioners 1941 Standard Ordinary Mortality Table for all Ordinary policies of life insurance issued on the standard basis, excluding any disability and accidental death benefits in such policies, for such policies issued prior to the operative date of subsection (4a) of Section 229.2 (Standard Non-forfeiture Law); and the Commissioners 1958 Standard Ordinary Mortality Table for such policies issued on or after such operative date but prior to the operative date of subsection (4c) of Section 229.2 provided that for any category of such policies issued on female risks all modified net premiums and present values referred to in this Section ~~Act~~ may, prior to September 8, 1977, be calculated according to an age not more than 3 years younger than the actual age of the insured and, after September 8, 1977, calculated according to an age not more than 6 years younger than the actual age of the insured; and for such policies issued on or after the operative date of subsection (4c) of Section 229.2, (i) the Commissioners 1980 Standard Ordinary Mortality Table, or (ii) at the election of the company for any one or more specified plans of life insurance, the Commissioners 1980 Standard Ordinary Mortality Table with Ten-Year Select Mortality Factors, or (iii) any ordinary mortality table adopted after 1980 by the NAIC ~~National Association of Insurance Commissioners~~ and approved by regulations promulgated by the Director for use in determining the minimum standard of valuation for such policies.

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

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

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

(v) For Total and Permanent Disability Benefits in or supplementary to Ordinary policies or contracts for policies or contracts issued on or after January 1, 1966, the tables of Period 2 disablement rates and the 1930 to 1950 termination rates of the 1952 Disability Study of the Society of Actuaries, with due regard to the type of benefit, or any tables of disablement rates and termination rates adopted after 1980 by the NAIC ~~National Association of Insurance Commissioners~~ and approved by regulations promulgated by the Director for use in determining the minimum standard of valuation for such policies; for policies or contracts issued on or after January 1, 1961, and prior to January 1, 1966, either such tables or, at the option of the company, the Class (3) Disability Table (1926); and for policies issued prior to January 1, 1961, the Class (3) Disability Table (1926). Any such table shall, for active lives, be combined with a mortality table permitted for calculating the reserves for life insurance policies.

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

(vii) For Group Life Insurance, life insurance issued on the substandard basis and other special benefits--such tables as may be approved by the Director.

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

(A) A net level annual premium equal to the present value, at the date of issue, of such benefits provided for after the first policy year, divided by the present value, at the date of issue, of an annuity of one per annum payable on the first and each subsequent anniversary of such policy on which a premium falls due; provided, however, that such net level annual premium shall not exceed the net level annual premium on the 19 year premium whole life plan for insurance of the same amount at an age one year higher than the age at issue of such policy.

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

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

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

Reserves according to the Commissioners reserve valuation method for (i) life insurance policies providing for a varying amount of insurance or requiring the payment of varying premiums, (ii) group annuity and pure endowment contracts purchased under a retirement plan or plan of deferred compensation, established or maintained by an employer (including a partnership or sole proprietorship) or by an employee organization, or by both, other than a plan providing individual retirement accounts or individual retirement annuities under Section 408 of the Internal Revenue Code, as now or hereafter amended, (iii) disability and accidental death benefits in all policies and contracts, and (iv) all other benefits, except life insurance and endowment benefits in life insurance policies and benefits provided by all other annuity and pure endowment contracts, shall be calculated by a method consistent with the principles of this paragraph (b), except that any extra premiums charged because of impairments or special hazards shall be disregarded in the determination of modified net premiums.

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

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

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

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

For any life insurance policy issued on or after January 1, 1987, for which the gross premium in the first policy year exceeds that of the second year with no comparable additional benefit provided in that first year, which policy provides an endowment benefit or a cash surrender value or a combination thereof in an amount greater than such excess premium, the foregoing provisions of this paragraph (f) shall be applied as if the method actually used in calculating the reserve for such policy were the method described in paragraph (b) of subsection (3), ignoring the second paragraph of said paragraph (b). The minimum reserve at each policy anniversary of such a policy shall be the greater of the minimum reserve calculated in accordance with paragraph (b) of subsection (3), including the second paragraph of said paragraph (b), and the minimum reserve calculated in accordance with this paragraph (f).

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

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

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

(4) Except as provided in subsection (6), the minimum standard <u>of</u> ~~for the~~ valuation <u>for</u> ~~of all~~ individual annuity and

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

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

(b) For individual and pure endowment contracts other than single premium annuity contracts, excluding any disability and accidental death benefits in such contracts, the 1971 Individual Annuity Mortality Table, any individual annuity mortality table adopted after 1980 by the NAIC ~~National Association of Insurance Commissioners~~ and approved by regulations promulgated by the Director for use in determining the minimum standard of valuation for such contracts, or any modification of those tables approved by the Director, and 5 1/2% interest for single premium deferred annuity and pure endowment contracts and 4 1/2% interest for all other such individual annuity and pure endowment contracts.

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

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

(5) This subsection shall apply to all annuity and pure

endowment contracts other than group annuity and pure endowment contracts purchased under a retirement plan or plan of deferred compensation, established or maintained by an employer (including a partnership or sole proprietorship) or by an employee organization, or by both, other than a plan providing individual retirement accounts or individual retirement annuities under Section 408 of the Internal Revenue Code, as now or hereafter amended.

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

(6)(a) Applicability of this subsection. The interest rates used in determining the minimum standard for the valuation of

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

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

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

(D) the net increase in a particular calendar year ending after December 31, 1983, in amounts held under guaranteed interest contracts

shall be the calendar year statutory valuation interest rates, as defined in this subsection.

(b) Calendar Year Statutory Valuation Interest Rates.

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

(A) For life insurance,

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

(B) For single premium immediate annuities and annuity benefits involving life contingencies arising from other annuities with cash settlement options and from guaranteed interest contracts with cash settlement options,

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

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

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

(D) For other annuities with no cash settlement options and for guaranteed interest contracts with no cash settlement options, the formula for single premium immediate annuities stated in (B) applies.

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

(ii) If the calendar year statutory valuation interest rate for any life insurance policy issued in any calendar year determined without reference to this subparagraph differs from the corresponding actual rate for similar policies issued in the immediately preceding calendar year by less than .5%, the calendar year statutory valuation interest rate for such life insurance policy shall be the corresponding actual rate for the immediately preceding calendar year. For purposes of applying this subparagraph, the calendar year statutory valuation interest rate for life insurance policies issued in a calendar year shall be determined for 1980, using the reference interest rate defined for 1979, and shall be determined for each subsequent calendar year regardless of when subsection (4c) of Section 229.2 (Standard Nonforfeiture Law) becomes operative.

(c) Weighting Factors.

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

(A) Weighting Factors for Life Insurance.

Guarantee Duration (Years)	Weighting Factors
10 or less	.50
More than 10, but not more than 20	.45
More than 20	.35

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

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

(C) The weighting factors for other annuities and for guaranteed interest contracts, except as stated in (B) of this subparagraph (i), shall be as specified in tables (1), (2), and (3) of this subpart (C), according to the rules and definitions in (4), (5) and (6) of this subpart (C).

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

Guarantee Duration (Years)	Weighting Factor for Plan Type 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

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

(3) For annuities and guaranteed interest contracts valued on an issue year basis, other than those with no cash settlement options, which do not guarantee interest on considerations received more than one year after issue or purchase, and for annuities and

guaranteed interest contracts valued on a change in fund basis which do not guarantee interest rates on considerations received more than 12 months beyond the valuation date, the factors shown in (1), or derived in (2), for Plan Types A, B and C are increased by .05.

(4) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, the guarantee duration is the number of years for which the contract guarantees interest rates in excess of the calendar year statutory valuation interest rate for life insurance policies with guarantee durations in excess of 20 years. For other annuities with no cash settlement options, and for guaranteed interest contracts with no cash settlement options, the guarantee duration is the number of years from the date of issue or date of purchase to the date annuity benefits are scheduled to commence.

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

Plan Type A is a plan under which the policyholder may not withdraw funds, or may withdraw funds at any time but only (a) with an adjustment to reflect changes in interest rates or asset values since receipt of the funds by the insurance company, (b) without such an adjustment but in installments over 5 years or more, or (c) as an immediate life annuity.

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

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

(6) A company may elect to value guaranteed interest contracts with cash settlement options and annuities with cash settlement options on either an issue year basis or on a change in fund basis. Guaranteed interest contracts with no cash settlement options and other annuities with no cash settlement options shall be valued on an issue year basis. As used in this Section, "issue year basis of valuation" refers to a valuation basis under which the interest rate used to determine the minimum valuation standard for the entire duration of the annuity or guaranteed interest contract is the calendar year valuation interest rate for the year of issue or year of purchase of the annuity or guaranteed interest contract. "Change in fund basis of valuation", as used in this Section, refers to a valuation basis under which the interest rate used to determine the minimum valuation standard applicable to each change in the fund held under the annuity or guaranteed interest contract is the calendar year valuation interest rate for the year of

the change in the fund.

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

(A) For all life insurance, the reference interest rate is the lesser of the average over a period of 36 months, and the average over a period of 12 months, with both periods ending on June 30, or with prior approval of the Director ending on December 31, of the calendar year next preceding the year of issue, of Moody's Corporate Bond Yield Average - Monthly Average Corporates, as published by Moody's Investors Service, Inc.

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

(C) For annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a year of issue basis, except those described in (B), with guarantee durations in excess of 10 years, the reference interest rate is the lesser of the average over a period of 36 months and the average over a period of 12 months, ending on June 30, or with prior approval of the Director ending on December 31, of the calendar year of issue or purchase, of Moody's Corporate Bond Yield Average-Monthly Average Corporates, as published by Moody's Investors Service, Inc.

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

(E) For annuities with no cash settlement options and for guaranteed interest contracts with no cash settlement options, the reference interest rate is the average over a period of 12 months, ending on June 30, or with prior approval of the Director ending on

December 31, of the calendar year of issue or purchase, of Moody's Corporate Bond Yield Average-Monthly Average Corporates, as published by Moody's Investors Service, Inc.

(F) For annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a change in fund basis, except those described in (B), the reference interest rate is the average over a period of 12 months, ending on June 30, or with prior approval of the Director ending on December 31, of the calendar year of the change in the fund, of Moody's Corporate Bond Yield Average-Monthly Average Corporates, as published by Moody's Investors Service, Inc.

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

(e) Alternative Method for Determining Reference Interest Rates. In the event that the Moody's Corporate Bond Yield Average-Monthly Average Corporates is no longer published by Moody's Investors Services, Inc., or in the event that the NAIC ~~National Association of Insurance Commissioners~~ determines that Moody's Corporate Bond Yield Average-Monthly Average Corporates as published by Moody's Investors Service, Inc. is no longer appropriate for the determination of the reference interest rate, then an alternative method for determination of the reference interest rate, which is adopted by the NAIC ~~National Association of Insurance Commissioners~~ and approved by regulations promulgated by the Director, may be substituted.

(7) Minimum Standards for Accident and Health (Disability, Accident and Sickness) Insurance Contracts ~~Plans~~. The Director shall promulgate a regulation containing the minimum standards applicable to the valuation of health (disability, sickness and accident) plans which are issued prior to the operative date of the Valuation Manual. For accident and health (disability, accident and sickness) insurance contracts issued on or after the operative date of the Valuation Manual, the standard prescribed in the Valuation Manual is the minimum standard of valuation required under subsection (1).

(8) Valuation Manual for Policies Issued On or After the Operative Date of the Valuation Manual.

(a) For policies issued on or after the operative date of the Valuation Manual, the standard prescribed in the Valuation Manual is the minimum standard of valuation required under subsection (1), except as provided under paragraphs (e) or (g) of this subsection (8).

(b) The operative date of the Valuation Manual is January 1 of the first calendar year following the first July 1 when all of the following have occurred:

(i) The Valuation Manual has been adopted by the NAIC by an affirmative vote of at least 42 members, or three-fourths of the members voting, whichever is greater.

(ii) The Standard Valuation Law, as amended by the NAIC in 2009, or legislation including substantially similar terms and provisions, has been enacted by states representing greater than 75% of the direct premiums written as reported in the following annual statements submitted for 2008: life, accident and health annual statements; health annual statements; or fraternal annual statements.

(iii) The Standard Valuation Law, as amended by the NAIC in 2009, or legislation including substantially similar terms and provisions, has been enacted by at least 42 of the following 55 jurisdictions: the 50 states of the United States, American Samoa, the American Virgin Islands, the District of Columbia, Guam, and Puerto Rico.

(c) Unless a change in the Valuation Manual specifies a later effective date, changes to the Valuation Manual shall be effective on January 1 following the date when the change to the Valuation Manual has been adopted by the NAIC by an affirmative vote representing:

(i) at least three-fourths of the members of the NAIC voting, but not less than a majority of the total membership; and

(ii) members of the NAIC representing jurisdictions totaling greater than 75% of the direct premiums written as reported in the following annual statements most recently available prior to the vote in subparagraph (i) of this paragraph (c): life, accident and health annual statements; health annual statements; or fraternal annual statements.

(d) The Valuation Manual must specify all of the following:

(i) Minimum valuation standards for and definitions of the policies or contracts subject to subsection (1). Such minimum valuation standards shall be:

(A) the Commissioners reserve valuation method for life insurance contracts, other than annuity contracts, subject to subsection (1);

(B) the Commissioners annuity reserve valuation method for annuity contracts subject to subsection (1); and

(C) minimum reserves for all other policies or contracts subject to subsection (1).

(ii) Which policies or contracts or types of policies or contracts are subject to the requirements of a principle-based valuation in paragraph (a) of subsection (9) and the minimum valuation standards consistent with those requirements.

(iii) For policies and contracts subject to a principle-based valuation under subsection (9):

(A) Requirements for the format of reports to the Director under subparagraph (iii) of paragraph (b) of subsection (9), and which shall include information necessary to determine if the valuation is appropriate and in compliance with this Section.

(B) Assumptions shall be prescribed for risks over which the company does not have significant control or influence.

(C) Procedures for corporate governance and oversight of the actuarial function, and a process for appropriate waiver or modification of such procedures.

(iv) For policies not subject to a principle-based valuation under subsection (9), the minimum valuation standard shall either:

(A) be consistent with the minimum standard of valuation prior to the operative date of the

Valuation Manual; or

(B) develop reserves that quantify the benefits and guarantees and the funding associated with the contracts and their risks at a level of conservatism that reflects conditions that include unfavorable events that have a reasonable probability of occurring.

(v) Other requirements, including, but not limited to, those relating to reserve methods, models for measuring risk, generation of economic scenarios, assumptions, margins, use of company experience, risk measurement, disclosure, certifications, reports, actuarial opinions and memorandums, transition rules, and internal controls.

(vi) The data and form of the data required under subsection (10) of this Section, with whom the data must be submitted, and may specify other requirements, including data analyses and the reporting of analyses.

(e) In the absence of a specific valuation requirement or if a specific valuation requirement in the Valuation Manual is not, in the opinion of the Director, in compliance with this Section, then the company shall, with respect to such requirements, comply with minimum valuation standards prescribed by the Director by rule.

(f) The Director may engage a qualified actuary, at the expense of the company, to perform an actuarial examination of the company and opine on the appropriateness of any reserve assumption or method used by the company, or to review and opine on a company's compliance with any requirement set forth in this Section. The Director may rely upon the opinion regarding provisions contained within this Section of a qualified actuary engaged by the Director of another state, district, or territory of the United States. As used in this paragraph, "engage" includes employment and contracting.

(g) The Director may require a company to change any assumption or method that in the opinion of the Director is necessary in order to comply with the requirements of the Valuation Manual or this Section; and the company shall adjust the reserves as required by the Director. The Director may take other disciplinary action as permitted pursuant to law.

(9) Requirements of a Principle-Based Valuation.

(a) A company must establish reserves using a principle-based valuation that meets the following conditions for policies or contracts as specified in the Valuation Manual:

(i) Quantify the benefits and guarantees, and the funding, associated with the contracts and their risks at a level of conservatism that reflects conditions that include unfavorable events that have a reasonable probability of occurring during the lifetime of the contracts. For policies or contracts with significant tail risk, reflect conditions appropriately adverse to quantify the tail risk.

(ii) Incorporate assumptions, risk analysis methods, and financial models and management techniques that are consistent with, but not necessarily identical to, those utilized within the company's overall risk assessment process, while recognizing potential differences in financial reporting structures and any prescribed assumptions or methods.

(iii) Incorporate assumptions that are derived in one of the following manners:

(A) The assumption is prescribed in the Valuation Manual.

(B) For assumptions that are not prescribed, the assumptions shall:

(1) be established utilizing the company's available experience, to the extent it is relevant and statistically credible; or

(2) to the extent that company data is not available, relevant, or statistically credible, be established utilizing other relevant, statistically credible experience.

(iv) Provide margins for uncertainty, including adverse deviation and estimation error, such that the greater the uncertainty, the larger the margin and resulting reserve.

(b) A company using a principle-based valuation for one or more policies or contracts subject to this subsection as specified in the Valuation Manual shall:

(i) Establish procedures for corporate governance and oversight of the actuarial valuation function consistent with those described in the Valuation Manual.

(ii) Provide to the Director and the board of directors an annual certification of the effectiveness of the internal controls with respect to the principle-based valuation. Such controls shall be designed to ensure that all material risks inherent in the liabilities and associated assets subject to such valuation are included in the valuation, and that valuations are made in accordance with the Valuation Manual. The certification shall be based on the controls in place as of the end of the preceding calendar year.

(iii) Develop and file with the Director upon request a principle-based valuation report that complies with standards prescribed in the Valuation Manual.

(c) A principle-based valuation may include a prescribed formulaic reserve component.

(10) Experience Reporting for Policies In Force On or After the Operative Date of the Valuation Manual. A company shall submit mortality, morbidity, policyholder behavior, or expense experience and other data as prescribed in the Valuation Manual.

(11) Confidentiality.

(a) For the purposes of this subsection (11), "confidential information" means any of the following:

(i) A memorandum in support of an opinion submitted under subsection (1) of this Section and any other documents, materials, and other information, including, but not limited to, all working papers, and copies thereof, created, produced or obtained by or disclosed to the Director or any other person in connection with the memorandum.

(ii) All documents, materials, and other information, including, but not limited to, all working papers, and copies thereof, created, produced, or obtained by or disclosed to the Director or any other person in the course of an examination made under paragraph (f) of subsection (8) of this Section.

(iii) Any reports, documents, materials, and other information developed by a company in support of, or in connection with, an annual certification by the company under subparagraph (ii) of paragraph (b) of subsection (9) of this Section evaluating the effectiveness of the company's internal controls with respect to a principle-based valuation and any other documents, materials, and other information, including, but not limited to, all working papers, and copies thereof, created, produced, or obtained by or disclosed to the Director or any other person in connection with such reports, documents, materials, and other information.

(iv) Any principle-based valuation report developed under subparagraph (iii) of paragraph (b) of subsection (9) of this Section and any other documents, materials and other information, including, but not limited to, all working papers, and copies thereof, created, produced or obtained by or disclosed to the Director or any other person in connection with such report.

(v) Any documents, materials, data, and other information submitted by a company under subsection (10) of this Section (collectively, "experience data") and any other documents, materials, data, and other information, including, but not limited to, all working papers, and copies thereof, created or produced in connection with such experience data, in each case that include any potentially company-identifying or personally identifiable information, that is provided to or obtained by the

Director (together with any experience data, the "experience materials") and any other documents, materials, data and other information, including, but not limited to, all working papers and copies thereof, created, produced, or obtained by or disclosed to the Director or any other person in connection with such experience materials.

(b) Privilege for and Confidentiality of Confidential Information.

(i) Except as provided in this subsection (11), a company's confidential information is confidential by law and privileged, and shall not be subject to the Freedom of Information Act, subpoena, or discovery or admissible as evidence in any private civil action; however, the Director is authorized to use the confidential information in the furtherance of any regulatory or legal action brought against the company as a part of the Director's official duties.

(ii) Neither the Director nor any person who received confidential information while acting under the authority of the Director shall be permitted or required to testify in any private civil action concerning any confidential information.

(iii) In order to assist in the performance of the Director's duties, the Director may share confidential information (A) with other state, federal, and international regulatory agencies and with the NAIC and its affiliates and subsidiaries and (B) in the case of confidential information specified in subparagraphs (i) and (iv) of paragraph (a) of subsection (11) only, with the Actuarial Board for Counseling and Discipline or its successor upon request stating that the confidential information is required for the purpose of professional disciplinary proceedings and with state, federal, and international law enforcement officials; in the case of (A) and (B), provided that such recipient agrees and has the legal authority to agree, to maintain the confidentiality and privileged status of such documents, materials, data, and other information in the same manner and to the same extent as required for the Director.

(iv) The Director may receive documents, materials, data, and other information, including otherwise confidential and privileged documents, materials, data, or information, from the NAIC and its affiliates and subsidiaries, from regulatory or law enforcement officials of other foreign or domestic jurisdictions, and from the Actuarial Board for Counseling and Discipline or its successor and shall maintain as confidential or privileged any document, material, data, or other information received with notice or the understanding that it is confidential or privileged under the laws of the jurisdiction that is the source of the document, material, or other information.

(v) The Director may enter into agreements governing the sharing and use of information consistent with paragraph (b) of this subsection (11).

(vi) No waiver of any applicable privilege or claim of confidentiality in the confidential information shall occur as a result of disclosure to the Director under this subsection (11) or as a result of sharing as authorized in subparagraph (iii) of paragraph (b) of this subsection (11).

(vii) A privilege established under the law of any state or jurisdiction that is substantially similar to the privilege established under paragraph (b) of this subsection (11), shall be available and enforced in any proceeding in and in any court of this State.

(viii) In this subsection (11) "regulatory agency", "law enforcement agency", and "NAIC" include, but are not limited to, their employees, agents, consultants, and contractors.

(c) Notwithstanding paragraph (b) of this subsection (11), any confidential information specified in subparagraphs (i) and (iv) of paragraph (a) of this subsection (11):

(i) may be subject to subpoena for the purpose of defending an action seeking damages from the appointed actuary submitting the related memorandum in support of an opinion submitted under subsection (1) of this Section or principle-based valuation report developed under subparagraph (iii) of paragraph (b) of subsection (9) of this Section by reason of an action required by this Section or by regulations promulgated under this Section;

(ii) may otherwise be released by the Director with the written consent of the company; and

(iii) once any portion of a memorandum in support of an opinion submitted under subsection (1) of this Section or a principle-based valuation report developed under subparagraph (iii) of paragraph (b) of subsection (9) of this Section is cited by the company in its marketing or is publicly volunteered to or before a governmental agency other than a state insurance department or is released by the company to the news media, all portions of such memorandum or report shall no longer be confidential.

(12) Exemptions.

(a) The Director may exempt specific product forms or product lines of a domestic company that is licensed and doing business only in Illinois from the requirements of subsection (8) of this Section, provided that:

(i) the Director has issued an exemption in writing to the company and has not subsequently revoked the exemption in writing; and

(ii) the company computes reserves using assumptions and methods used prior to the operative date of the Valuation Manual in addition to any requirements established by the Director and adopted by rule.

(b) A domestic company that has less than $300,000,000 of ordinary life premiums and that is licensed and doing business in Illinois is exempt from the requirements of subsection (8), provided that:

(i) if the company is a member of a group of life insurers, the group has combined ordinary life premiums of less than $1,000,000,000;

(ii) the company has an RBC ratio of at least 450% of authorized control level RBC;

(iii) the appointed actuary has provided an unqualified opinion on the reserves in accordance with subsection (1) of this Section; and

(iv) the company has provided a certification by a qualified actuary that any universal life policy with a secondary guarantee issued by the company after the operative date of the Valuation Manual is not subject to material interest rate risk or asset return volatility risk, as defined in the Valuation Manual.

(c) For purposes of paragraph (b) of this subsection

(12), ordinary life premiums are measured as direct plus reinsurance assumed from an unaffiliated company, not reduced by reinsurance ceded, from the prior calendar year annual statement.

(d) For any company granted an exemption under this subsection, subsections (1), (2), (3), (4), (5), (6), and (7) shall be applicable. With respect to any company applying this exemption, any reference to subsection (8) found in subsections (1), (2), (3), (4), (5), (6), and (7) shall not be applicable.

(13) Definitions. For the purposes of this Section, the following definitions shall apply beginning on the operative date of the Valuation Manual:

"Accident and health insurance" means contracts that incorporate morbidity risk and provide protection against economic loss resulting from accident, sickness, or medical conditions and as may be specified in the Valuation Manual.

"Appointed actuary" means a qualified actuary who is appointed in accordance with the Valuation Manual to prepare the actuarial opinion required in paragraph (b) of subsection (1) of this Section.

"Company" means an entity that (a) has written, issued, or reinsured life insurance contracts, accident and health insurance contracts, or deposit-type contracts in this State and has at least one such policy in force or on claim or (b) has written, issued, or reinsured life insurance contracts, accident and health insurance contracts, or deposit-type contracts in any state and is required to hold a certificate of authority to write life insurance, accident and health insurance, or deposit-type contracts in this State.

"Deposit-type contract" means contracts that do not incorporate mortality or morbidity risks and as may be specified in the Valuation Manual.

"Life insurance" means contracts that incorporate mortality risk, including annuity and pure endowment contracts, and as may be specified in the Valuation Manual.

"NAIC" means the National Association of Insurance Commissioners.

"Policyholder behavior" means any action a policyholder, contract holder, or any other person with the right to elect options, such as a certificate holder, may take under a policy or contract subject to this Section including, but not limited to, lapse, withdrawal, transfer, deposit, premium payment, loan, annuitization, or benefit elections prescribed by the policy or contract, but excluding events of mortality or morbidity that result in benefits prescribed in their essential aspects by the terms of the policy or contract.

"Principle-based valuation" means a reserve valuation that uses one or more methods or one or more assumptions determined by the insurer and is required to comply with subsection (9) of this Section as specified in the Valuation Manual.

"Qualified actuary" means an individual who is qualified to sign the applicable statement of actuarial opinion in accordance with the American Academy of Actuaries qualification standards for actuaries signing such statements and who meets the requirements specified in the Valuation Manual.

"Tail risk" means a risk that occurs either where the frequency of low probability events is higher than expected under a normal probability distribution or where there are observed events of very significant size or magnitude.

"Valuation Manual" means the manual of valuation instructions adopted by the NAIC as specified in this Section or as subsequently amended.

(Source: P.A. 95-86, eff. 9-25-07 (changed from 1-1-08 by P.A. 95-632); 95-876, eff. 8-21-08.)

(215 ILCS 5/229.2) (from Ch. 73, par. 841.2)

Sec. 229.2. Standard Non-forfeiture Law for Life Insurance.

(1) No policy of life insurance, except as stated in subsection (8), shall be delivered or issued for delivery in this State unless it contains in substance the following provisions or corresponding provisions which in the opinion of the Director are at least as favorable to the defaulting or surrendering policyholder and are essentially in compliance with subsection (7) of this law:

(i) That, in the event of default in any premium payment, the company will grant, upon proper request not later than 60 days after the due date of the premium in default, a paid-up nonforfeiture benefit on a plan stipulated in the policy, effective as of such due date, of such amount as may be hereinafter specified. In lieu of such stipulated paid-up nonforfeiture benefit, the company may substitute, upon proper request not later than 60 days after the due date of the premium in default, an actuarially equivalent alternative paid-up nonforfeiture benefit which provides a greater amount or longer period of death benefits or, if applicable, a greater amount or earlier payment of endowment benefits.

(ii) That, upon surrender of the policy within 60 days after the due date of any premium payment in default after premiums have been paid for at least 3 full years in the case of Ordinary insurance or 5 full years in the case of Industrial insurance, the company will pay, in lieu of any paid-up nonforfeiture benefit, a cash surrender value of such amount as may be hereinafter specified.

(iii) That a specified paid-up nonforfeiture benefit shall become effective as specified in the policy unless the person entitled to make such election elects another available option not later than 60 days after the due date of the premium in default.

(iv) That, if the policy shall have become paid-up by completion of all premium payments or if it is continued under any paid-up nonforfeiture benefit which became effective on or after the third policy anniversary in the case of Ordinary insurance or the fifth policy anniversary in the case of Industrial insurance, the company will pay, upon surrender of the policy within 30 days after any policy anniversary, a cash surrender value of such amount as may be hereinafter specified.

(v) In the case of policies which cause on a basis guaranteed in the policy unscheduled changes in benefits or premiums, or which provide an option for changes in benefits or premiums other than a change to a new policy, a statement of the mortality table, interest rate, and method used in calculating cash surrender values and the paid-up nonforfeiture benefits available under the policy. In the case of all other policies, a statement of the mortality table and interest rate used in calculating the cash surrender values and the paid-up nonforfeiture benefits available under the policy, together with a table showing the cash surrender value, if any, and paid-up nonforfeiture benefit, if any, available under the policy on each policy anniversary either during the first 20 policy years or during the term of the policy, whichever is shorter, such values and benefits to be calculated upon the assumption that there are no dividends or paid-up additions credited to the policy and that there is no indebtedness to the company on the policy.

(vi) A statement that the cash surrender values and the paid-up nonforfeiture benefits available under the policy are not less than the minimum values and benefits required by or pursuant to the insurance law of the state in which the policy is delivered; an explanation of the manner in which the cash surrender values and the paid-up nonforfeiture benefits are altered by the existence of any paid-up additions credited to the policy or any indebtedness to the company on the policy; if a detailed statement of the method of computation of the values and benefits shown in the policy is not stated therein, a statement that such method of computation has been filed with the insurance supervisory official of the state in which the policy is delivered; and a statement of the method to be used in calculating the cash surrender value and paid-up nonforfeiture benefit available under the policy on any policy anniversary beyond the last anniversary for which such values and benefits are consecutively shown in the policy.

Any of the foregoing provisions or portions thereof not applicable by reason of the plan of insurance may, to the extent inapplicable, be omitted from the policy.

The company shall reserve the right to defer the payment of any cash surrender value for a period of 6 months after demand therefor with surrender of the policy.

(2) (i) Any cash surrender value available under the policy in the event of default in a premium payment due on any policy anniversary, whether or not required by subsection (1), shall be an amount not less than the excess, if any, of the present value, on such anniversary, of the future guaranteed benefits which would have been provided for by the policy, including any

existing paid-up additions, if there had been no default, over the sum of (i) the then present value of the adjusted premiums as defined in subsections 4, 4(a), 4(b) and 4(c), corresponding to premiums which would have fallen due on and after such anniversary, and (ii) the amount of any indebtedness to the company on the policy.

(ii) For any policy issued on or after the operative date of subsection 4(c), which provides supplemental life insurance or annuity benefits at the option of the insured for an identifiable additional premium by rider or supplemental policy provision, the cash surrender value shall be an amount not less than the sum of the cash surrender value as determined in paragraph (i) for an otherwise similar policy issued at the same age without such rider or supplemental policy provision and the cash surrender value as determined in such paragraph for a policy which provides only the benefits otherwise provided by such rider or supplemental policy provision.

(iii) For any family policy issued on or after the operative date of subsection 4(c), which defines a primary insured and provides term insurance on the life of the spouse of the primary insured expiring before the spouse attains age 71, the cash surrender value shall be an amount not less than the sum of the cash surrender value as determined in paragraph (i) for an otherwise similar policy issued at the same age without such term insurance on the life of the spouse and the cash surrender value as determined in such paragraph for a policy which provides only the benefits otherwise provided by such term insurance on the life of the spouse.

(iv) Any cash surrender value available within 30 days after any policy anniversary under any policy paid up by completion of all premium payments or any policy continued under any paid-up nonforfeiture benefit, whether or not required by subsection (1), shall be an amount not less than the present value, on such anniversary, of the future guaranteed benefits provided for by the policy, including any existing paid-up additions, decreased by any indebtedness to the company on the policy.

(3) Any paid-up nonforfeiture benefit available under the policy in the event of default in a premium payment due on any policy anniversary shall be such that its present value as of such anniversary shall be at least equal to the cash surrender value then provided for by the policy, or if none is provided for, that cash surrender value which would have been required by this section in the absence of the condition that premiums shall have been paid for at least a specified period.

(4) This subsection (4) shall not apply to policies issued on or after the operative date of subsection (4c). Except as provided in the third paragraph of this subsection, the adjusted premiums for any policy shall be calculated on an annual basis and shall be such uniform percentage of the respective premium specified in the policy for each policy year, excluding any extra premiums charged because of

impairments or special hazards, that the present value, at the date of issue of the policy, of all such adjusted premiums shall be equal to the sum of (i) the then present value of the future guaranteed benefits provided for by the policy; (ii) 2% of the amount of insurance, if the insurance be uniform in amount, or of the equivalent uniform amount, as hereinafter defined, if the amount of insurance varies with duration of the policy; (iii) 40% of the adjusted premium for the first policy year; (iv) 25% of either the adjusted premium for the first policy year or the adjusted premium for a whole life policy of the same uniform or equivalent uniform amount with uniform premiums for the whole of life issued at the same age for the same amount of insurance, whichever is less. Provided, however, that in applying the percentages specified in (iii) and (iv) above, no adjusted premium shall be deemed to exceed 4% of the amount of insurance or uniform amount equivalent thereto. The date of issue of a policy for the purpose of this subsection shall be the date as of which the rated age of the insured is determined.

In the case of a policy providing an amount of insurance varying with duration of the policy, the equivalent uniform amount thereof for the purpose of this subsection shall be deemed to be the level amount of insurance, provided by an otherwise similar policy, containing the same endowment benefit or benefits, if any, issued at the same age and for the same term, the amount of which does not vary with duration and the benefits under which have the same present value at the inception of the insurance as the benefits under the policy; provided, however, that in the case of a policy providing a varying amount of insurance issued on the life of a child under age 10, the equivalent uniform amount may be computed as though the amount of insurance provided by the policy prior to the attainment of age 10 were the amount provided by such policy at age 10.

The adjusted premiums for any policy providing term insurance benefits by rider or supplemental policy provision shall be equal to (a) the adjusted premiums for an otherwise similar policy issued at the same age without such term insurance benefits, increased, during the period for which premiums for such term insurance benefits are payable, by (b) the adjusted premiums for such term insurance, the foregoing items (a) and (b) being calculated separately and as specified in the first 2 paragraphs of this subsection except that, for the purposes of (ii), (iii) and (iv) of the first such paragraph, the amount of insurance or equivalent uniform amount of insurance used in the calculation of the adjusted premiums referred to in (b) shall be equal to the excess of the corresponding amount determined for the entire policy over the amount used in the calculation of the adjusted premiums in (a).

Except as otherwise provided in subsections (4a) and (4b), all adjusted premiums and present values referred to in this section shall for all policies of Ordinary insurance be calculated on the basis of the Commissioners 1941 Standard Ordinary Mortality Table, provided that for any category of Ordinary insurance issued on female risks adjusted premiums and present values may be calculated according to an age not more than 3 years younger than the actual age of the insured, and such calculations for all policies of Industrial insurance shall be made on the basis of the 1941 Standard Industrial Mortality Table. All calculations shall be made on the basis of the rate of interest, not exceeding 3 1/2% per annum, specified in the policy for calculating cash surrender values and paid-up nonforfeiture benefits. Provided, however, that in calculating the present value of any paid-up term insurance with accompanying pure endowment, if any, offered as a nonforfeiture benefit, the rates of mortality assumed may be not more than 130% of the rates of mortality according to such applicable table. Provided, further, that for insurance issued on a substandard basis, the calculation of any such adjusted premiums and present values may be based on such other table of mortality as may be specified by the company and approved by the Director.

(4a) This subsection (4a) shall not apply to Ordinary policies issued on or after the operative date of subsection (4c). In the case of Ordinary policies issued on or after the operative date of this subsection (4a) as defined herein, all adjusted premiums and present values referred to in this Section shall be calculated on the basis of the Commissioners

1958 Standard Ordinary Mortality Table and the rate of interest specified in the policy for calculating cash surrender values and paid-up nonforfeiture benefits, provided that such rate of interest shall not exceed 3 1/2% per annum except that a rate of interest not exceeding 5 1/2% per annum may be used for policies issued on or after September 8, 1977, except that for any single premium whole life or endowment insurance policy a rate of interest not exceeding 6 1/2% per annum may be used and provided that for any category of Ordinary insurance issued on female risks, adjusted premiums and present values may be calculated according to an age not more than 6 years younger than the actual age of the insured. Provided, however, that in calculating the present value of any paid-up term insurance with accompanying pure endowment, if any, offered as a nonforfeiture benefit, the rates of mortality assumed may be not more than those shown in the Commissioners 1958 Extended Term Insurance Table. Provided, however, that for insurance issued on a substandard basis, the calculation for any such adjusted premiums and present values may be based on such other table of mortality as may be specified by the company and approved by the Director. After the effective date of this subsection (4a), any company may file with the Director written notice of its election to comply with the provisions of this subsection after a specified date before January 1, 1966. After the filing of such notice, then upon such specified date (which shall be the operative date of this subsection for such company), this subsection shall become operative with respect to the Ordinary policies thereafter issued by such company. If a company makes no such election, the operative date of this subsection for such company shall be January 1, 1966.

(4b) This subsection (4b) shall not apply to Industrial policies issued on or after the operative date of subsection (4c). In the case of Industrial policies issued on or after the operative date of this subsection (4b) as defined herein, all adjusted premiums and present values referred to in this Section shall be calculated on the basis of the Commissioners 1961 Standard Industrial Mortality Table and the rate of interest specified in the policy for calculating cash surrender values and paid-up nonforfeiture benefits, provided that such rate of interest shall not exceed 3 1/2% per annum except that a rate of interest not exceeding 5 1/2% per annum may be used for policies issued on or after September 8, 1977, except that for any single premium whole life or endowment insurance policy a rate of interest not exceeding 6 1/2% per annum may be used. Provided, however, that in calculating the present value of any paid-up term insurance with accompanying pure endowment, if any, offered as a nonforfeiture benefit, the rates of mortality assumed may be not more than those shown in the Commissioners 1961 Industrial Extended Term Insurance Table. Provided, further, that for insurance issued on a substandard basis, the calculations of any such adjusted premiums and present values may be based on such other table of mortality as may be specified by the company and approved by the Director. After the effective date of this subsection (4b), any company may file with the Director a written notice of its election to comply with the provisions of this subsection after a specified date before January 1, 1968. After the filing of such notice, then upon such specified date (which shall be the operative date of this subsection for such company), this subsection shall become operative with respect to the Industrial policies thereafter issued by such company. If a company makes no such election, the operative date of this subsection for such company shall be January 1, 1968.

(4c)(a) This subsection shall apply to all policies issued on or after its operative date. Except as provided in paragraph (g), the adjusted premiums for any policy shall be calculated on an annual basis and shall be such uniform percentage of the respective premiums specified in the policy for each policy year, excluding amounts payable as extra premiums to cover impairments or special hazards and any uniform annual contract charge or policy fee specified in the policy in a statement of the method to be used in calculating the cash surrender value and paid-up nonforfeiture benefits of the policy, that the present value, at the date of issue of the policy, of all adjusted premiums shall be equal to the sum of (i) the then present value of the future guaranteed benefits provided for by the policy; (ii) 1% of either the amount of insurance, if the insurance is uniform in amount, or the average amount of insurance at the beginning of each of the first 10 policy years; and (iii) 125% of the nonforfeiture net level premium as hereinafter defined. In applying the percentage specified in (iii), however, no nonforfeiture net level premium shall exceed 4% of either the amount of insurance, if the insurance is uniform in amount, or the average amount of insurance at the beginning of each of the first 10 policy years. The date of issue of a policy for the purpose of this subsection is the date as of which the rated age of the insured is determined.

(b) The nonforfeiture net level premium equals the present value, at the date of issue of the policy, of the guaranteed benefits provided for by the policy divided by the present value, at the date of issue of the policy, of an annuity of one per annum payable on the date of issue of the policy and on each anniversary of such policy on which a premium falls due.

(c) In the case of a policy which causes, on a basis guaranteed in such policy, unscheduled changes in benefits or premiums, or which provides an option for changes in benefits or premiums other than a change to a new policy, adjusted premiums and present values shall initially be calculated on the assumption that future benefits and premiums do not change from those stipulated at the date of issue of such policy. At the time of any such change in the benefits or premiums, the future adjusted premiums, nonforfeiture net level premiums and present values shall be recalculated on the assumption that future benefits and premiums do not change from those stipulated by such policy immediately after the change.

(d) Except as otherwise provided in paragraph (g), the recalculated future adjusted premiums for any policy shall be such uniform percentage of the respective future premiums specified in the policy for each policy year, excluding amounts payable as extra premiums to cover impairments and special hazards and any uniform annual contract charge or policy fee specified in the policy in a statement of the method to be used in calculating the cash surrender values and paid-up nonforfeiture benefits, that the present value, at the time of change to the newly defined benefits or premiums, of all such future adjusted premiums shall be equal to the excess of (A) the sum of (i) the then present value of the then future guaranteed benefits provided for by the policy and (ii) the additional expense allowance, if any, over (B) the then cash surrender value, if any, or present value of any paid-up nonforfeiture benefit under the policy.

(e) The additional expense allowance at the time of the change to the newly defined benefits or premiums shall be the sum of (i) 1% of the excess, if positive, of the average amount of insurance at the beginning of each of the first 10 policy years subsequent to the change over the average amount of insurance prior to the change at the beginning of each of the first 10 policy years subsequent to the time of the most recent previous change, or, if there has been no previous change, the date of issue of the policy; and (ii) 125% of the increase, if positive, in the nonforfeiture net level premium.

(f) The recalculated nonforfeiture net level premium equals the result obtained by dividing X by Y, where

(i) X equals the sum of

(A) the nonforfeiture net level premium applicable prior to the change times the present value of an annuity of one per annum payable on each anniversary of the policy on or subsequent to the date of the change on which a premium would have fallen due had the change not occurred, and

(B) the present value of the increase in future guaranteed benefits provided for by the policy; and

(ii) Y equals the present value of an annuity of one per annum payable on each anniversary of the policy on or subsequent to the date of change on which a premium falls due.

(g) Notwithstanding any other provisions of this subsection to the contrary, in the case of a policy issued on a substandard basis which provides reduced graded amounts of insurance so that, in each policy year, such policy has the same tabular mortality cost as an otherwise similar policy issued on the standard basis which provides higher uniform amounts of insurance, adjusted premiums and present values for such substandard policy may be calculated as if it were issued to provide such higher uniform amounts of insurance on the standard basis.

(h) All adjusted premiums and present values referred to in this Section shall for all policies of ordinary insurance be calculated on the basis of the Commissioners 1980 Standard Ordinary Mortality Table or, at the election of the company for any one or more specified plans of life insurance, the Commissioners 1980 Standard Ordinary Mortality Table with Ten-Year Select Mortality Factors. All adjusted premiums and present values referred to in this Section shall for all policies of Industrial insurance be calculated on the basis of the Commissioners 1961 Standard Industrial Mortality Table. All adjusted premiums and present values referred to in this Section for all policies issued in a particular calendar year shall be calculated on the basis of a rate of interest not exceeding the nonforfeiture interest rate as defined in this subsection for policies issued in that calendar year. The provisions of this paragraph are subject to the provisions set forth in subparagraphs (i) through (vii).

(i) At the option of the company, calculations for all policies issued in a particular calendar year may be made on the basis of a rate of interest not exceeding the nonforfeiture interest rate, as defined in this subsection, for policies issued in the immediately preceding calendar year.

(ii) Under any paid-up nonforfeiture benefit, including any paid-up dividend additions, any cash surrender value available, whether or not required by subsection (1), shall be calculated on the basis of the mortality table and rate of interest used in determining the amount of such paid-up nonforfeiture benefit and paid-up dividend additions, if any.

(iii) A company may calculate the amount of any guaranteed paid-up nonforfeiture benefit, including any paid-up additions under the policy, on the basis of an interest rate no lower than that specified in the policy for calculating cash surrender values.

(iv) In calculating the present value of any paid-up term insurance with an accompanying pure endowment, if any, offered as a nonforfeiture benefit, the rates of mortality assumed may be not more than those shown in the Commissioners 1980 Extended Term Insurance Table for policies of ordinary insurance and not more than the Commissioner 1961 Industrial Extended Term Insurance Table for policies of industrial insurance.

(v) For insurance issued on a substandard basis, the calculation of any such adjusted premiums and present values may be based on appropriated modifications of the aforementioned tables.

(vi) For policies issued prior to the operative date of the Valuation Manual, any commissioner's standard ~~Any~~ ordinary mortality tables adopted after 1980 by the National Association of Insurance Commissioners and approved by regulations promulgated by the Director for use in determining the minimum nonforfeiture standard may be substituted for the Commissioners 1980 Standard Ordinary Mortality Table with or without Ten-Year Select Mortality Factors or for the Commissioners 1980 Extended Term Insurance Table.

For policies issued on or after the operative date of the

Valuation Manual, the Valuation Manual shall provide the Commissioners Standard mortality table for use in determining the minimum nonforfeiture standard that may be substituted for the Commissioners 1980 Standard Ordinary Mortality Table with or without Ten-Year Select Mortality Factors or for the Commissioners 1980 Extended Term Insurance Table. If the Director approves by regulation any Commissioner's Standard ordinary mortality table adopted by the National Association of Insurance Commissioners for use in determining the minimum nonforfeiture standard for policies issued on or after the operative date of the Valuation Manual, then that minimum nonforfeiture standard supersedes the minimum nonforfeiture standard provided by the Valuation Manual.

(vii) For policies issued prior to the operative date of the Valuation Manual, any Commissioner's Standard ~~Any~~ industrial mortality tables adopted after 1980 by the National Association of Insurance Commissioners and approved by regulations promulgated by the Director for use in determining the minimum nonforfeiture standard may be substituted for the Commissioners 1961 Standard Industrial Mortality Table or the Commissioners 1961 Industrial Extended Term Insurance Table.

For policies issued on or after the operative date of the Valuation Manual, the Valuation Manual shall provide the Commissioner's Standard mortality table for use in determining the minimum nonforfeiture standard that may be substituted for the Commissioners 1961 Standard Industrial Mortality Table or the Commissioners 1961 Industrial Extended Term Insurance Table. If the Director approves by regulation any Commissioner's Standard industrial mortality table adopted by the National Association of Insurance Commissioners for use in determining the minimum nonforfeiture standard for policies issued on or after the operative date of the Valuation Manual, then that minimum nonforfeiture standard supersedes the minimum nonforfeiture standard provided by the Valuation Manual.

(i) The nonforfeiture interest rate is defined as follows:

(i) For policies issued prior to the operative date of the Valuation Manual, ~~The~~ nonforfeiture interest rate per annum for any policy issued in a particular calendar year shall be equal to 125% of the calendar year statutory valuation interest rate for such policy, as defined in the Standard Valuation Law, rounded to the nearest .25%, provided, however, that the nonforfeiture interest rate shall not be less than 4.00%.

(ii) For policies issued on and after the operative date of the Valuation Manual, the nonforfeiture interest rate per annum for any policy issued in a particular calendar year shall be provided by the Valuation Manual.

(j) Notwithstanding any other provision in this Code to the contrary, any refiling of nonforfeiture values or their methods of computation for any previously approved policy form which involves only a change in the interest rate or mortality table used to compute nonforfeiture values shall not require refiling of any other provisions of that policy form.

(k) After the effective date of this subsection, any company may, with respect to any category of insurance, file with the Director a written notice of its election to comply with the provisions of this subsection after a specified date before January 1, 1989. That date shall be the operative date of this subsection for that category of insurance for such company. If a company makes no such election, the operative date of this subsection for that category of insurance issued by such company shall be January 1, 1989.

(5) In the case of any plan of life insurance which provides for future premium determination, the amounts of which are to be determined by the insurance company based on then estimates of future experience, or in the case of any plan of life insurance which is of such a nature that minimum values cannot be determined by the methods described in subsections (1), (2), (3), (4), (4a), (4b) or (4c), then

(a) the Director shall satisfy himself that the benefits provided under such plan are substantially as favorable to policyholders and insured parties as the minimum benefits otherwise required by subsections (1), (2), (3), (4), (4a), (4b) or (4c);

(b) the Director shall satisfy himself that the benefits and the pattern of premiums of that plan are not such as to mislead prospective policyholders or insured parties; and

(c) the cash surrender values and paid-up nonforfeiture benefits provided by such plan shall not be less than the minimum values and benefits computed by a method consistent with the principles of this Standard Nonforfeiture law for Life Insurance, as determined by regulations promulgated by the Director.

(6) Any cash surrender value and any paid-up nonforfeiture benefit, available under the policy in the event of default in a premium payment due at any time other than on the policy anniversary, shall be calculated with allowance for the lapse of time and the payment of fractional premiums beyond the last preceding policy anniversary. All values referred to in subsections (2), (3), (4), (4a), (4b) and (4c) may be calculated upon the assumption that any death benefit is payable at the end of the policy year of death. The net value of any paid-up additions, other than paid-up term additions, shall be not less than the amounts used to provide such additions. Notwithstanding the provisions of subsection (2), additional benefits payable (i) in the event of death or dismemberment by accident or accidental means, (ii) in the event of total and permanent disability, (iii) as reversionary annuity or deferred reversionary annuity benefits, (iv) as term insurance benefits provided by a rider or supplemental policy provision to which, if issued as a separate policy, this section would not apply, (v) as term insurance on the life of a child or on the lives of children provided in a policy on the

life of a parent of the child, if such term insurance expires before the child's age is 26, is uniform in amount after the child's age is one, and has not become paid-up by reason of the death of a parent of the child, and (vi) as other policy benefits additional to life insurance and endowment benefits, and premiums for all such additional benefits, shall be disregarded in ascertaining cash surrender values and nonforfeiture benefits required by this section, and no such additional benefits shall be required to be included in any paid-up nonforfeiture benefits.

(7) This subsection shall apply to all policies issued on or after January 1, 1987. Any cash surrender value available under the policy in the event of default in a premium payment due on any policy anniversary shall be in an amount which does not differ by more than .2% of either the amount of insurance if the insurance is uniform in amount, or the average amount of insurance at the beginning of each of the first 10 policy years, from the sum of (a) the greater of zero and the basic cash value hereinafter specified and (b) the present value of any existing paid-up additions less the amount of any indebtedness to the company under the policy.

The basic cash value equals the present value, on such anniversary, of the future guaranteed benefits which would have been provided for by the policy, excluding any existing paid-up additions and before deduction of any indebtedness to the company, if there had been no default, less the then present value of the nonforfeiture factors, as hereinafter defined, corresponding to premiums which would have fallen due on and after such anniversary. The effects on the basic cash value of supplemental life insurance or annuity benefits or of family coverage, as described in subsection (2) or (4), whichever is applicable, shall, however, be the same as are the effects specified in subsection (2) or (4), whichever is applicable, on the cash surrender values defined in that subsection.

The nonforfeiture factor for each policy year equals a percentage of the adjusted premium for the policy year, as defined in subsection (4) or (4c), whichever is applicable. Except as is required by the next succeeding sentence of this paragraph, such percentage

(a) shall be the same percentage for each policy year between the second policy anniversary and the later of (i) the fifth policy anniversary and (ii) the first policy anniversary at which there is available under the policy a cash surrender value in an amount, before including any paid-up additions and before deducting any indebtedness, of at least .2% of either the amount of insurance, if the insurance is uniform in amount, or the average amount of insurance at the beginning of each of the first 10 policy years; and

(b) shall be such that no percentage after the later of the 2 policy anniversaries specified in the preceding item (a) may apply to fewer than 5 consecutive policy years.

No basic cash value may be less than the value which would be obtained if the adjusted premiums for the policy, as defined in subsection (4) or (4c), whichever is applicable, were substituted for the nonforfeiture factors in the calculation of the basic cash value.

All adjusted premiums and present values referred to in this subsection shall for a particular policy be calculated on the same mortality and interest bases as those used in accordance with the other subsections of this law. The cash surrender values referred to in this subsection shall include any endowment benefits provided for by the policy.

Any cash surrender value available other than in the event of default in a premium payment due on a policy anniversary, and the amount of any paid-up nonforfeiture benefit available under the policy in the event of default in a premium payment shall be determined in manners consistent with the manners specified for determining the analogous minimum amounts in subsections 1, 2, 3, 4c, and 6. The amounts of any cash surrender values and of any paid-up nonforfeiture benefits granted in connection with additional benefits such as those listed as items (i) through (vi) in subsection (6) shall conform with the principles of this subsection (7).

(8) This Section shall not apply to any of the following:

(a) reinsurance,

(b) group insurance,

(c) a pure endowment,

(d) an annuity or reversionary annuity contract,

(e) a term policy of uniform amount, which provides no guaranteed nonforfeiture or endowment benefits, or renewal thereof, of 20 years or less expiring before age 71, for which uniform premiums are payable during the entire term of the policy,

(f) a term policy of decreasing amount, which provides no guaranteed nonforfeiture or endowment benefits, on which each adjusted premium, calculated as specified in subsections (4), (4a), (4b) and (4c), is less than the adjusted premium so calculated, on a term policy of uniform amount, or renewal thereof, which provides no guaranteed nonforfeiture or endowment benefits, issued at the same age and for the same initial amount of insurance and for a term of 20 years or less expiring before age 71, for which uniform premiums are payable during the entire term of the policy,

(g) a policy, which provides no guaranteed nonforfeiture or endowment benefits, for which no cash surrender value, if any, or present value of any paid-up nonforfeiture benefit, at the beginning of any policy year, calculated as specified in subsections (2), (3), (4), (4a), (4b) and (4c), exceeds 2.5% of the amount of insurance at the beginning of the same policy year,

(h) any policy which shall be delivered outside this State through an agent or other representative of the company issuing the policy.

For purposes of determining the applicability of this

Section, the age of expiry for a joint term life insurance policy shall be the age of expiry of the oldest life.

(9) For the purposes of this Section:

"Operative date of the Valuation Manual" means the January 1 of the first calendar year that the Valuation Manual is effective.

"Valuation Manual" has the same meaning as set forth in Section 223 of this Code.

(Source: P.A. 83-1465.)".