LRB9214934JSpcA

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AN ACT concerning insurance.

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

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

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

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

(1) No contract of annuity issued on or after the 9 operative date of this Section except as stated in subsection 10 (11) 11 shall be delivered or issued for delivery in this 11 State unless it contains in substance the 12 following 13 provisions or corresponding provisions which in the opinion of the Director are at least as favorable to the contract 14 holder upon cessation of payment of considerations under the 15 contract: 16

17 (a) That upon cessation of payment of 18 considerations under a contract, the company will grant a 19 paid-up annuity benefit on a plan stipulated in the 20 contract of such value as is specified in subsections 21 (3), (4), (5), (6) and (8).

22 (b) If a contract provides for a lump sum 23 settlement at maturity, or at any other time, that upon surrender of the contract at or prior to the commencement 24 of any annuity payments, the company will pay in lieu of 25 any paid-up annuity benefit a cash surrender benefit of 26 27 such amount as is specified in subsections (3), (4), (6) and (8). The company shall reserve the right to defer 28 the payment of such cash surrender benefit for a period 29 of 6 months after demand therefor with surrender of the 30 31 contract.

1 (c) A statement of the mortality table, if any, and 2 interest rates used in calculating any minimum paid-up 3 annuity, cash surrender or death benefits that are 4 guaranteed under the contract, together with sufficient 5 information to determine the amount of such benefits.

(d) A statement that any paid-up annuity, cash 6 7 surrender or death benefits that may be available under 8 the contract are not less than the minimum benefits 9 required by any statute of the state in which the contract is delivered and an explanation of the manner in 10 11 which such benefits are altered by the existence of any additional amounts credited by the company to 12 the contract, any indebtedness to the company on the contract 13 or any prior withdrawals from or partial surrenders of 14 15 the contract.

16 Notwithstanding the requirements of this subsection, any 17 deferred annuity contract may provide that if no considerations have been received under a contract for a 18 period of 2 full years and the portion of the paid-up annuity 19 benefit at maturity on the plan stipulated in the contract 20 21 arising from considerations paid prior to such period would 22 be less than \$20.00 monthly, the company may at its option 23 terminate such contract by payment in cash of the present value of such portion of the paid-up annuity benefit, 24 25 calculated on the basis of the mortality table, if any, and interest rate specified in the contract for determining the 26 paid-up annuity benefit, and by such payment shall be 27 relieved of any further obligation under such contract. 28

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

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(a) With respect to contracts providing for

1 flexible considerations, the minimum nonforfeiture amount 2 at any time at or prior to the commencement of any annuity payments shall be equal to an accumulation up to 3 4 such time at a rate of interest of 3% per annum of percentages of the net considerations, as hereinafter 5 defined, paid prior to such time, decreased by the sum of 6 7 (i) any prior withdrawals from or partial surrenders of the contract accumulated at a rate of interest of 3% per 8 9 annum and (ii) the amount of any indebtedness to the company on the contract, including interest due and 10 11 accrued, and increased by any existing additional amounts credited by the company to the contract. 12

The net considerations for a given contract year 13 used to define the minimum nonforfeiture amount shall be 14 15 an amount not less than zero and shall be equal to the 16 corresponding gross considerations credited to the contract during that contract year less an annual 17 contract charge of \$30.00 and less a collection charge of 18 \$1.25 per consideration credited to the contract during 19 20 that contract year. The percentages of net 21 considerations shall be 65% of the net consideration for 22 the first contract year and 87 1/2% of the net 23 considerations for the second and later contract years. Notwithstanding the provisions of the preceding sentence, 24 the percentage shall be 65% of the portion of the total 25 net consideration for any renewal contract year which 26 27 exceeds by not more than two times the sum of those portions of the net considerations in all prior contract 28 29 years for which the percentage was 65%.

30 (a-5) Notwithstanding the provisions of paragraph 31 (a) of this subsection, the minimum nonforfeiture amount 32 for any contract issued on or after July 1, 2002 and 33 before July 1, 2005 shall be based on a rate of interest 34 of 1.5% per annum. 1 (b) With respect to contracts providing for fixed 2 scheduled considerations, minimum nonforfeiture amounts 3 shall be calculated on the assumption that considerations 4 are paid annually in advance and shall be defined as for 5 contracts with flexible considerations which are paid 6 annually, with two exceptions:

7 (i) The portion of the net consideration for 8 the first contract year to be accumulated shall be 9 the sum of 65% of the net consideration for the 10 first contract year plus 22 1/2% of the excess of 11 the net consideration for the first contract year 12 over the lesser of the net considerations for the 13 second and third contract years.

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

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

(3) Any paid-up annuity benefit available under a 24 25 contract shall be such that its present value on the date annuity payments are to commence is at least equal to the 26 minimum nonforfeiture amount on that date. 27 Such present value shall be computed using the mortality table, if any, 28 29 and the interest rate specified in the contract for 30 determining the minimum paid-up annuity benefits guaranteed in the contract. 31

32 (4) For contracts which provide cash surrender benefits,
33 such cash surrender benefits available prior to maturity
34 shall not be less than the present value as of the date of

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

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

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

5 (6) For the purpose of determining the benefits б calculated under subsections (4) and (5), in the case of 7 annuity contracts under which an election may be made to have 8 annuity payments commence at optional maturity dates, the 9 maturity date shall be deemed to be the latest date for which election shall be permitted by the contract, but shall not be 10 11 deemed to be later than the anniversary of the contract next following the annuitant's seventieth birthday or the tenth 12 13 anniversary of the contract, whichever is later.

14 (7) Any contract which does not provide cash surrender 15 benefits or does not provide death benefits at least equal to 16 the minimum nonforfeiture amount prior to the commencement of 17 any annuity payments shall include a statement in a prominent 18 place in the contract that such benefits are not provided.

19 (8) Any paid-up annuity, cash surrender or death 20 benefits available at any time, other than on the contract 21 anniversary under any contract with fixed scheduled 22 considerations, shall be calculated with allowance for the 23 lapse of time and the payment of any scheduled considerations 24 beyond the beginning of the contract year in which cessation 25 of payment of considerations under the contract occurs.

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

1 contract. Notwithstanding the provisions of subsections (3), 2 (4), (5), (6) and (8), additional benefits payable (a) in the event of total and permanent disability, (b) as reversionary 3 4 annuity or deferred reversionary annuity benefits, or (c) as other policy benefits additional life 5 to insurance, 6 endowment, and annuity benefits, and considerations for all benefits, 7 additional shall such be disregarded in 8 ascertaining the minimum nonforfeiture amounts, paid-up 9 annuity, cash surrender and death benefits that may be required by this section. The inclusion of such additional 10 11 benefits shall not be required in any paid-up benefits, unless such additional benefits separately would require 12 minimum nonforfeiture amounts, paid-up annuity, cash 13 surrender and death benefits. 14

(10) After the effective date of this Section, 15 any 16 company may file with the Director a written notice of its election to comply with the provisions of this Section after 17 a specified date before the second anniversary of the 18 19 effective date of this Section. After the filing of such notice, then upon such specified date, which shall be the 20 21 operative date of this section for such company, this Section 22 shall become operative with respect to annuity contracts 23 thereafter issued by such company. If a company makes no such election, the operative date of this section for such 24 25 company shall be the second anniversary of the effective date of this Section. 26

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

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fund, variable annuity, investment annuity, immediate annuity, any deferred annuity contract after annuity payments have commenced, or reversionary annuity, nor to any contract which shall be delivered outside this State through an agent or other representative of the company issuing the contract. (Source: P.A. 90-655, eff. 7-30-98.)

7 Section 99. Effective date. This Act takes effect on8 July 1, 2002.