



Sen. William R. Haine

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1 AMENDMENT TO SENATE BILL 2764

2 AMENDMENT NO. _____. Amend Senate Bill 2764 by replacing
3 everything after the enacting clause with the following:

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

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

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

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

1 ~~specifying the mortality table or tables, rate or rates of~~
2 ~~interest, and methods (net level premium method or other) used~~
3 ~~in the calculation of such reserves. Other assumptions may be~~
4 ~~incorporated into the reserve calculation to the extent~~
5 ~~permitted by the National Association of Insurance~~
6 ~~Commissioners' Accounting Practices and Procedures Manual. In~~
7 calculating such reserves, he may use group methods and
8 approximate averages for fractions of a year or otherwise. In
9 lieu of the valuation of the reserves herein required of any
10 foreign or alien company, he may accept any valuation made, or
11 caused to be made, by the insurance supervisory official of any
12 state or other jurisdiction when such valuation complies with
13 the minimum standard ~~herein~~ provided in this Section.

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

21 The Director shall annually value, or cause to be valued,
22 the reserve liabilities (reserves) for all outstanding life
23 insurance contracts, annuity and pure endowment contracts,
24 accident and health contracts, and deposit-type contracts of
25 every company issued on or after the operative date of the
26 Valuation Manual. In lieu of the valuation of the reserves

1 required of a foreign or alien company, the Director may accept
2 a valuation made, or caused to be made, by the insurance
3 supervisory official of any state or other jurisdiction when
4 the valuation complies with the minimum standard provided in
5 this Code.

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

16 Any such company which adopts at any time a ~~has adopted any~~
17 standard of valuation producing greater aggregate reserves
18 than those calculated according to the minimum standard ~~herein~~
19 provided under this Section may adopt a lower standard of
20 valuation, with the approval of the Director, adopt any lower
21 standard of valuation, but not lower than the minimum herein
22 provided, however, that, for the purposes of this subsection,
23 the holding of additional reserves previously determined by the
24 appointed ~~a qualified~~ actuary to be necessary to render the
25 opinion required by subsection (1a) shall not be deemed to be
26 the adoption of a higher standard of valuation. In the

1 valuation of policies the Director shall give no consideration
2 to, nor make any deduction because of, the existence or the
3 possession by the company of

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

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

17 (1a) This subsection shall become operative at the end of
18 the first full calendar year following the effective date of
19 this amendatory Act of 1991.

20 (A) General.

21 (1) Every life insurance company doing business in
22 this State shall annually submit the opinion of a
23 qualified actuary as to whether the reserves and
24 related actuarial items held in support of the policies
25 and contracts specified by the Director by regulation
26 are computed appropriately, are based on assumptions

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

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

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

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

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

25 (6) For the purpose of this Section, "qualified
26 actuary" means a member in good standing of the

1 American Academy of Actuaries who meets the
2 requirements set forth in its regulations.

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

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

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

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

25 (11) Any memorandum in support of the opinion, and
26 any other material provided by the company to the

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

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

24 (1) Every life insurance company, except as
25 exempted by or under regulation, shall also annually
26 include in the opinion required by paragraph (A) (1) of

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

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

19 (1b) Actuarial Opinion of Reserves after the Operative Date
20 of the Valuation Manual.

21 (A) General.

22 (1) Every company with outstanding life insurance
23 contracts, accident and health insurance contracts, or
24 deposit-type contracts in this State and subject to
25 regulation by the Director shall annually submit the
26 opinion of the appointed actuary as to whether the

1 reserves and related actuarial items held in support of
2 the policies and contracts are computed appropriately,
3 are based on assumptions that satisfy contractual
4 provisions, are consistent with prior reported
5 amounts, and comply with applicable laws of this State.
6 The Valuation Manual shall prescribe the specifics of
7 this opinion, including any items deemed to be
8 necessary to its scope.

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

13 (3) The opinion shall apply to all policies and
14 contracts subject to paragraph (B) of this subsection
15 (1b), plus other actuarial liabilities as may be
16 specified in the Valuation Manual.

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

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

1 this State.

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

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

12 (8) If the insurance company fails to provide a
13 supporting memorandum at the request of the Director
14 within a period specified in the Valuation Manual or
15 the Director determines that the supporting memorandum
16 provided by the insurance company fails to meet the
17 standards prescribed by the Valuation Manual or is
18 otherwise unacceptable to the Director, the Director
19 may engage a qualified actuary at the expense of the
20 company to review the opinion and the basis for the
21 opinion and prepare the supporting memorandum as is
22 required by the Director.

23 (B) Every company with outstanding life insurance
24 contracts, accident and health insurance contracts, or
25 deposit-type contracts in this state and subject to
26 regulation by the Director, except as exempted in the

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

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

19 (a) Except as otherwise in this Article provided, the
20 legal minimum standard for valuation of contracts issued
21 before January 1, 1908, shall be the Actuaries or Combined
22 Experience Table of Mortality with interest at 4% per annum
23 and for valuation of contracts issued on or after that date
24 shall be the American Experience Table of Mortality with
25 either Craig's or Buttolph's Extension for ages under 10
26 and with interest at 3 1/2% per annum. The legal minimum

1 standard for the valuation of group insurance policies
2 under which premium rates are not guaranteed for a period
3 in excess of 5 years shall be the American Men Ultimate
4 Table of Mortality with interest at 3 1/2% per annum. Any
5 life company may, at its option, value its insurance
6 contracts issued on or after January 1, 1938, in accordance
7 with their terms on the basis of the American Men Ultimate
8 Table of Mortality with interest not higher than 3 1/2% per
9 annum.

10 (b) Policies issued prior to January 1, 1908, may
11 continue to be valued according to a method producing
12 reserves not less than those produced by the full
13 preliminary term method. Policies issued on and after
14 January 1, 1908, may be valued according to a method
15 producing reserves not less than those produced by the
16 modified preliminary term method hereinafter described in
17 paragraph (c). Policies issued on and after January 1,
18 1938, may be valued either according to a method producing
19 reserves not less than those produced by such modified
20 preliminary term method or by the select and ultimate
21 method on the basis that the rate of mortality during the
22 first 5 years after the issuance of such contracts
23 respectively shall be calculated according to the
24 following percentages of rates shown by the American
25 Experience Table of Mortality:

26 (i) first insurance year 50% thereof;

- 1 (ii) second insurance year 65% thereof;
2 (iii) third insurance year 75% thereof;
3 (iv) fourth insurance year 85% thereof;
4 (v) fifth insurance year 95% thereof.

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

26 (d) The legal minimum standard for the valuations of

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

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

14 (f) The legal minimum standard for valuation of waiver
15 of premium disability benefits or waiver of premium and
16 income disability benefits issued on and after January 1,
17 1938, shall be the Class (3) Disability Table (1926)
18 modified to conform to the contractual waiting period, with
19 interest at not more than 3 1/2% per annum; but in no event
20 shall the values be less than those produced by the basis
21 used in computing premiums for such benefits. The legal
22 minimum standard for the valuation of such benefits issued
23 prior to January 1, 1938, shall be such as to place an
24 adequate value, as determined by sound insurance
25 practices, on the liabilities thereunder and shall be such
26 that the value of the benefits under each and every policy

1 shall in no case be less than the value placed upon the
2 future premiums.

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

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

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

21 (a) Except as otherwise provided in subsections (4),
22 (6), and (7), the minimum standard for the valuation of all
23 such policies and contracts shall be the Commissioners
24 Reserve valuation method defined in paragraphs (b) and (f)
25 of this subsection and in subsection 5, 3 1/2% interest for
26 such policies issued prior to September 8, 1977, 5 1/2%

1 interest for single premium life insurance policies and 4
2 1/2% interest for all other such policies issued on or
3 after September 8, 1977, and the following tables:

4 (i) The Commissioners 1941 Standard Ordinary
5 Mortality Table for all Ordinary policies of life
6 insurance issued on the standard basis, excluding any
7 disability and accidental death benefits in such
8 policies, for such policies issued prior to the
9 operative date of subsection (4a) of Section 229.2
10 (Standard Non-forfeiture Law); and the Commissioners
11 1958 Standard Ordinary Mortality Table for such
12 policies issued on or after such operative date but
13 prior to the operative date of subsection (4c) of
14 Section 229.2 provided that for any category of such
15 policies issued on female risks all modified net
16 premiums and present values referred to in this Section
17 ~~Act~~ may, prior to September 8, 1977, be calculated
18 according to an age not more than 3 years younger than
19 the actual age of the insured and, after September 8,
20 1977, calculated according to an age not more than 6
21 years younger than the actual age of the insured; and
22 for such policies issued on or after the operative date
23 of subsection (4c) of Section 229.2, (i) the
24 Commissioners 1980 Standard Ordinary Mortality Table,
25 or (ii) at the election of the company for any one or
26 more specified plans of life insurance, the

1 Commissioners 1980 Standard Ordinary Mortality Table
2 with Ten-Year Select Mortality Factors, or (iii) any
3 ordinary mortality table adopted after 1980 by the NAIC
4 ~~National Association of Insurance Commissioners~~ and
5 approved by regulations promulgated by the Director
6 for use in determining the minimum standard of
7 valuation for such policies.

8 (ii) For all Industrial Life Insurance policies
9 issued on the standard basis, excluding any disability
10 and accidental death benefits in such policies--the
11 1941 Standard Industrial Mortality Table for such
12 policies issued prior to the operative date of
13 subsection 4 (b) of Section 229.2 (Standard
14 Non-forfeiture Law); and for such policies issued on or
15 after such operative date the Commissioners 1961
16 Standard Industrial Mortality Table or any industrial
17 mortality table adopted after 1980 by the NAIC ~~National~~
18 ~~Association of Insurance Commissioners~~ and approved by
19 regulations promulgated by the Director for use in
20 determining the minimum standard of valuation for such
21 policies.

22 (iii) For Individual Annuity and Pure Endowment
23 contracts, excluding any disability and accidental
24 death benefits in such policies--the 1937 Standard
25 Annuity Mortality Table--or, at the option of the
26 company, the Annuity Mortality Table for 1949,

1 Ultimate, or any modification of either of these tables
2 approved by the Director.

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

11 (v) For Total and Permanent Disability Benefits in
12 or supplementary to Ordinary policies or contracts for
13 policies or contracts issued on or after January 1,
14 1966, the tables of Period 2 disablement rates and the
15 1930 to 1950 termination rates of the 1952 Disability
16 Study of the Society of Actuaries, with due regard to
17 the type of benefit, or any tables of disablement rates
18 and termination rates adopted after 1980 by the NAIC
19 ~~National Association of Insurance Commissioners~~ and
20 approved by regulations promulgated by the Director
21 for use in determining the minimum standard of
22 valuation for such policies; for policies or contracts
23 issued on or after January 1, 1961, and prior to
24 January 1, 1966, either such tables or, at the option
25 of the company, the Class (3) Disability Table (1926);
26 and for policies issued prior to January 1, 1961, the

1 Class (3) Disability Table (1926). Any such table
2 shall, for active lives, be combined with a mortality
3 table permitted for calculating the reserves for life
4 insurance policies.

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

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

25 (b) Except as otherwise provided in paragraph (f) of
26 subsection (3), subsection (5), and subsection (7)

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

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

26 (B) A net one year term premium for such benefits

1 provided for in the first policy year.

2 For any life insurance policy issued on or after
3 January 1, 1987, for which the contract premium in the
4 first policy year exceeds that of the second year with no
5 comparable additional benefit being provided in that first
6 year, which policy provides an endowment benefit or a cash
7 surrender value or a combination thereof in an amount
8 greater than such excess premium, the reserve according to
9 the Commissioners reserve valuation method as of any policy
10 anniversary occurring on or before the assumed ending date,
11 defined herein as the first policy anniversary on which the
12 sum of any endowment benefit and any cash surrender value
13 then available is greater than such excess premium, shall,
14 except as otherwise provided in paragraph (f) of subsection
15 (3), be the greater of the reserve as of such policy
16 anniversary calculated as described in the preceding part
17 of this paragraph (b) and the reserve as of such policy
18 anniversary calculated as described in the preceding part
19 of this paragraph (b) with (i) the value defined in subpart
20 A of the preceding part of this paragraph (b) being reduced
21 by 15% of the amount of such excess first year premium,
22 (ii) all present values of benefits and premiums being
23 determined without reference to premiums or benefits
24 provided for by the policy after the assumed ending date,
25 (iii) the policy being assumed to mature on such date as an
26 endowment, and (iv) the cash surrender value provided on

1 such date being considered as an endowment benefit. In
2 making the above comparison, the mortality and interest
3 bases stated in paragraph (a) of subsection (3) and in
4 subsection (6) shall be used.

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

25 (c) In no event shall a company's aggregate reserves
26 for all life insurance policies, excluding disability and

1 accidental death benefits be less than the aggregate
2 reserves calculated in accordance with the methods set
3 forth in paragraphs (b), (f), and (g) of subsection (3) and
4 in subsection (5) and the mortality table or tables and
5 rate or rates of interest used in calculating
6 non-forfeiture benefits for such policies.

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

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

22 (f) If in any contract year the gross premium charged
23 by any life insurance company on any policy or contract is
24 less than the valuation net premium for the policy or
25 contract calculated by the method used in calculating the
26 reserve thereon but using the minimum valuation standards

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

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

1 policy shall be the greater of the minimum reserve
2 calculated in accordance with paragraph (b) of subsection
3 (3), including the second paragraph of said paragraph (b),
4 and the minimum reserve calculated in accordance with this
5 paragraph (f).

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

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

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

20 (4) Except as provided in subsection (6), the minimum
21 standard ~~of for the~~ valuation ~~for of all~~ individual annuity and
22 pure endowment contracts issued on or after the operative date
23 of this subsection, as defined herein, and for all annuities
24 and pure endowments purchased on or after such operative date
25 under group annuity and pure endowment contracts shall be the
26 Commissioners Reserve valuation methods defined in paragraph

1 (b) of subsection (3) and subsection (5) and the following
2 tables and interest rates:

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

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

26 (c) For all annuities and pure endowments purchased

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

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

21 (5) This subsection shall apply to all annuity and pure
22 endowment contracts other than group annuity and pure endowment
23 contracts purchased under a retirement plan or plan of deferred
24 compensation, established or maintained by an employer
25 (including a partnership or sole proprietorship) or by an
26 employee organization, or by both, other than a plan providing

1 individual retirement accounts or individual retirement
2 annuities under Section 408 of the Internal Revenue Code, as
3 now or hereafter amended.

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

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

25 (A) all life insurance policies issued in a particular
26 calendar year, on or after the operative date of subsection

1 (4c) of Section 229.2 (Standard Nonforfeiture Law),

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

5 (C) all annuities and pure endowments purchased in a
6 particular calendar year ending on or after December 31,
7 1983, under group annuity and pure endowment contracts, and

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

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

13 (b) Calendar Year Statutory Valuation Interest Rates.

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

17 (A) For life insurance,

$$18 \quad I = .03 + W (R1 - .03) + W/2 (R2 - .09).$$

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

$$24 \quad I = .03 + W (R - .03) \text{ or with prior}$$

25 approval of the Director $I = .03 + W (Rq -$
26 $.03).$

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

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

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

25 (E) For other annuities with cash settlement
26 options and guaranteed interest contracts with

1 cash settlement options, valued on a change in fund
2 basis, the formula for single premium immediate
3 annuities stated in (B) applies.

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

21 (c) Weighting Factors.

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

25 (A) Weighting Factors for Life Insurance.

26 Guarantee

Weighting

1	Duration	Factors
2	(Years)	
3	10 or less	.50
4	More than 10, but not more than 20	.45
5	More than 20	.35

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

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

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

26 (1) For annuities and guaranteed interest

1 contracts valued on an issue year basis.

2 Guarantee	3 Weighting Factor		
4 Duration	4 for Plan Type		
5 (Years)	A	B	C
6 5 or less .....	.80	.60	.50
7 More than 5, but not			
8 more than 10 .....	.75	.60	.50
9 More than 10, but not			
10 more than 20 .....	.65	.50	.45
11 More than 20 .....	.45	.35	.35

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

16 (3) For annuities and guaranteed interest
 17 contracts valued on an issue year basis, other
 18 than those with no cash settlement options,
 19 which do not guarantee interest on
 20 considerations received more than one year
 21 after issue or purchase, and for annuities and
 22 guaranteed interest contracts valued on a
 23 change in fund basis which do not guarantee
 24 interest rates on considerations received more
 25 than 12 months beyond the valuation date, the
 26 factors shown in (1), or derived in (2), for

1 Plan Types A, B and C are increased by .05.

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

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

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

1 annuity.

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

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

24 (6) A company may elect to value
25 guaranteed interest contracts with cash
26 settlement options and annuities with cash

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

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

26 (A) For all life insurance, the reference interest

1 rate is the lesser of the average over a period of 36
2 months, and the average over a period of 12 months,
3 with both periods ending on June 30, or with prior
4 approval of the Director ending on December 31, of the
5 calendar year next preceding the year of issue, of
6 Moody's Corporate Bond Yield Average - Monthly Average
7 Corporates, as published by Moody's Investors Service,
8 Inc.

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

20 (C) For annuities with cash settlement options and
21 guaranteed interest contracts with cash settlement
22 options, valued on a year of issue basis, except those
23 described in (B), with guarantee durations in excess of
24 10 years, the reference interest rate is the lesser of
25 the average over a period of 36 months and the average
26 over a period of 12 months, ending on June 30, or with

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

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

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

26 (F) For annuities with cash settlement options and

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

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

19 (e) Alternative Method for Determining Reference
20 Interest Rates. In the event that the Moody's Corporate
21 Bond Yield Average-Monthly Average Corporates is no longer
22 published by Moody's Investors Services, Inc., or in the
23 event that the NAIC ~~National Association of Insurance~~
24 ~~Commissioners~~ determines that Moody's Corporate Bond Yield
25 Average-Monthly Average Corporates as published by Moody's
26 Investors Service, Inc. is no longer appropriate for the

1 determination of the reference interest rate, then an
2 alternative method for determination of the reference
3 interest rate, which is adopted by the NAIC ~~National~~
4 ~~Association of Insurance Commissioners~~ and approved by
5 regulations promulgated by the Director, may be
6 substituted.

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

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

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

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

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

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

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

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

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

1 membership; and

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

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

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

15 (A) the Director's reserve valuation method
16 for life insurance contracts, other than annuity
17 contracts, subject to subsection (1);

18 (B) the Director's annuity reserve valuation
19 method for annuity contracts subject to subsection
20 (1); and

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

23 (ii) Which policies or contracts or types of
24 policies or contracts are subject to the requirements
25 of a principle-based valuation in paragraph (a) of
26 subsection (9) and the minimum valuation standards

1 consistent with those requirements.

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

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

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

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

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

20 (A) be consistent with the minimum standard of
21 valuation prior to the operative date of the
22 Valuation Manual; or

23 (B) develop reserves that quantify the
24 benefits and guarantees and the funding associated
25 with the contracts and their risks at a level of
26 conservatism that reflects conditions that include

1 unfavorable events that have a reasonable
2 probability of occurring.

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

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

14 (e) In the absence of a specific valuation requirement
15 or if a specific valuation requirement in the valuation
16 manual is not, in the opinion of the Director, in
17 compliance with this Code, then the company shall, with
18 respect to such requirements, comply with minimum
19 valuation standards prescribed by the Director by rule.

20 (f) The Director may engage a qualified actuary, at the
21 expense of the company, to perform an actuarial examination
22 of the company and opine on the appropriateness of any
23 reserve assumption or method used by the company, or to
24 review and opine on a company's compliance with any
25 requirement set forth in this Section. The Director may
26 rely upon the opinion regarding provisions contained

1 within this Section of a qualified actuary engaged by the
2 Director of another state, district, or territory of the
3 United States. As used in this paragraph, "engage" includes
4 employment and contracting.

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

12 (9) Requirements of a Principle-Based Valuation.

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

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

25 (ii) Incorporate assumptions, risk analysis
26 methods, and financial models and management

1 techniques that are consistent with, but not
2 necessarily identical to, those utilized within the
3 company's overall risk assessment process, while
4 recognizing potential differences in financial
5 reporting structures and any prescribed assumptions or
6 methods.

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

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

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

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

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

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

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

1 (i) Establish procedures for corporate governance
2 and oversight of the actuarial valuation function
3 consistent with those described in the valuation
4 manual.

5 (ii) Provide to the Director and the board of
6 directors an annual certification of the effectiveness
7 of the internal controls with respect to the
8 principle-based valuation. Such controls shall be
9 designed to ensure that all material risks inherent in
10 the liabilities and associated assets subject to such
11 valuation are included in the valuation, and that
12 valuations are made in accordance with the valuation
13 manual. The certification shall be based on the
14 controls in place as of the end of the preceding
15 calendar year.

16 (iii) Develop and file with the Director upon
17 request a principle-based valuation report that
18 complies with standards prescribed in the valuation
19 manual.

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

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

1 (11) Confidentiality.

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

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

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

17 (iii) Any reports, documents, materials, and other
18 information developed by a company in support of, or in
19 connection with, an annual certification by the
20 company under subparagraph (ii) of paragraph (b) of
21 subsection (9) of this Section evaluating the
22 effectiveness of the company's internal controls with
23 respect to a principle-based valuation and any other
24 documents, materials, and other information,
25 including, but not limited to, all working papers, and
26 copies thereof, created, produced, or obtained by or

1 disclosed to the Director or any other person in
2 connection with such reports, documents, materials,
3 and other information.

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

12 (v) Any documents, materials, data, and other
13 information submitted by a company under subsection
14 (10) of this Section (collectively, "experience data")
15 and any other documents, materials, data, and other
16 information, including, but not limited to, all
17 working papers, and copies thereof, created or
18 produced in connection with such experience data, in
19 each case that include any potentially
20 company-identifying or personally identifiable
21 information, that is provided to or obtained by the
22 Director (together with any experience data, the
23 "experience materials") and any other documents,
24 materials, data and other information, including, but
25 not limited to, all working papers and copies thereof,
26 created, produced, or obtained by or disclosed to the

1 Director or any other person in connection with such
2 experience materials.

3 (b) Privilege for and Confidentiality of Confidential
4 Information.

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

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

19 (iii) In order to assist in the performance of the
20 Director's duties, the Director may share confidential
21 information (A) with other state, federal, and
22 international regulatory agencies and with the NAIC
23 and its affiliates and subsidiaries and (B) in the case
24 of confidential information specified in subparagraphs
25 (i) and (iv) of paragraph (a) of subsection (11) only,
26 with the Actuarial Board for Counseling and Discipline

1 or its successor upon request stating that the
2 Confidential Information is required for the purpose
3 of professional disciplinary proceedings and with
4 state, federal, and international law enforcement
5 officials; in the case of (A) and (B), provided that
6 such recipient agrees and has the legal authority to
7 agree, to maintain the confidentiality and privileged
8 status of such documents, materials, data, and other
9 information in the same manner and to the same extent
10 as required for the Director.

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

25 (v) The Director may enter into agreements
26 governing the sharing and use of information

1 consistent with paragraph (b) of this subsection (11).

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

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

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

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

21 (i) may be subject to subpoena for the purpose of
22 defending an action seeking damages from the appointed
23 actuary submitting the related memorandum in support
24 of an opinion submitted under subsection (1) of this
25 Section or principle-based valuation report developed
26 under subparagraph (iii) of paragraph (b) of

1 subsection (9) of this Section by reason of an action
2 required by this Section or by regulations promulgated
3 under this Section;

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

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

16 (12) Exemptions.

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

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

24 (ii) the company computes reserves using
25 assumptions and methods used prior to the operative
26 date of the Valuation Manual in addition to any

1 requirements established by the Director and adopted
2 by rule.

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

7 (i) if the company is a member of a group of life
8 insurers, the group has combined ordinary life
9 premiums of less than \$1,000,000,000.00;

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

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

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

21 (c) For purposes of paragraph (b) of this subsection
22 (12), ordinary life premiums are measured as direct plus
23 reinsurance assumed from an unaffiliated company, not
24 reduced by reinsurance ceded, from the prior calendar year
25 annual statement.

26 (d) For any company granted an exemption under this

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

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

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

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

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

26 "Deposit-type contract" means contracts that do not

1 incorporate mortality or morbidity risks and as may be
2 specified in the Valuation Manual.

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

6 "NAIC" means the National Association of Insurance
7 Commissioners.

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

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

21 "Qualified actuary" means an individual who is qualified to
22 sign the applicable statement of actuarial opinion in
23 accordance with the American Academy of Actuaries
24 qualification standards for actuaries signing such statements
25 and who meets the requirements specified in the valuation
26 manual.

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

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

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

10 (215 ILCS 5/229.2) (from Ch. 73, par. 841.2)

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

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

20 (i) That, in the event of default in any premium payment,
21 the company will grant, upon proper request not later than 60
22 days after the due date of the premium in default, a paid-up
23 nonforfeiture benefit on a plan stipulated in the policy,
24 effective as of such due date, of such amount as may be
25 hereinafter specified. In lieu of such stipulated paid-up

1 nonforfeiture benefit, the company may substitute, upon proper
2 request not later than 60 days after the due date of the
3 premium in default, an actuarially equivalent alternative
4 paid-up nonforfeiture benefit which provides a greater amount
5 or longer period of death benefits or, if applicable, a greater
6 amount or earlier payment of endowment benefits.

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

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

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

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

19 (vi) A statement that the cash surrender values and the
20 paid-up nonforfeiture benefits available under the policy are
21 not less than the minimum values and benefits required by or
22 pursuant to the insurance law of the state in which the policy
23 is delivered; an explanation of the manner in which the cash
24 surrender values and the paid-up nonforfeiture benefits are
25 altered by the existence of any paid-up additions credited to
26 the policy or any indebtedness to the company on the policy; if

1 a detailed statement of the method of computation of the values
2 and benefits shown in the policy is not stated therein, a
3 statement that such method of computation has been filed with
4 the insurance supervisory official of the state in which the
5 policy is delivered; and a statement of the method to be used
6 in calculating the cash surrender value and paid-up
7 nonforfeiture benefit available under the policy on any policy
8 anniversary beyond the last anniversary for which such values
9 and benefits are consecutively shown in the policy.

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

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

16 (2) (i) Any cash surrender value available under the policy
17 in the event of default in a premium payment due on any policy
18 anniversary, whether or not required by subsection (1), shall
19 be an amount not less than the excess, if any, of the present
20 value, on such anniversary, of the future guaranteed benefits
21 which would have been provided for by the policy, including any
22 existing paid-up additions, if there had been no default, over
23 the sum of (i) the then present value of the adjusted premiums
24 as defined in subsections 4, 4(a), 4(b) and 4(c), corresponding
25 to premiums which would have fallen due on and after such
26 anniversary, and (ii) the amount of any indebtedness to the

1 company on the policy.

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

13 (iii) For any family policy issued on or after the
14 operative date of subsection 4(c), which defines a primary
15 insured and provides term insurance on the life of the spouse
16 of the primary insured expiring before the spouse attains age
17 71, the cash surrender value shall be an amount not less than
18 the sum of the cash surrender value as determined in paragraph
19 (i) for an otherwise similar policy issued at the same age
20 without such term insurance on the life of the spouse and the
21 cash surrender value as determined in such paragraph for a
22 policy which provides only the benefits otherwise provided by
23 such term insurance on the life of the spouse.

24 (iv) Any cash surrender value available within 30 days
25 after any policy anniversary under any policy paid up by
26 completion of all premium payments or any policy continued

1 under any paid-up nonforfeiture benefit, whether or not
2 required by subsection (1), shall be an amount not less than
3 the present value, on such anniversary, of the future
4 guaranteed benefits provided for by the policy, including any
5 existing paid-up additions, decreased by any indebtedness to
6 the company on the policy.

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

15 (4) This subsection (4) shall not apply to policies issued
16 on or after the operative date of subsection (4c). Except as
17 provided in the third paragraph of this subsection, the
18 adjusted premiums for any policy shall be calculated on an
19 annual basis and shall be such uniform percentage of the
20 respective premium specified in the policy for each policy
21 year, excluding any extra premiums charged because of
22 impairments or special hazards, that the present value, at the
23 date of issue of the policy, of all such adjusted premiums
24 shall be equal to the sum of (i) the then present value of the
25 future guaranteed benefits provided for by the policy; (ii) 2%
26 of the amount of insurance, if the insurance be uniform in

1 amount, or of the equivalent uniform amount, as hereinafter
2 defined, if the amount of insurance varies with duration of the
3 policy; (iii) 40% of the adjusted premium for the first policy
4 year; (iv) 25% of either the adjusted premium for the first
5 policy year or the adjusted premium for a whole life policy of
6 the same uniform or equivalent uniform amount with uniform
7 premiums for the whole of life issued at the same age for the
8 same amount of insurance, whichever is less. Provided, however,
9 that in applying the percentages specified in (iii) and (iv)
10 above, no adjusted premium shall be deemed to exceed 4% of the
11 amount of insurance or uniform amount equivalent thereto. The
12 date of issue of a policy for the purpose of this subsection
13 shall be the date as of which the rated age of the insured is
14 determined.

15 In the case of a policy providing an amount of insurance
16 varying with duration of the policy, the equivalent uniform
17 amount thereof for the purpose of this subsection shall be
18 deemed to be the level amount of insurance, provided by an
19 otherwise similar policy, containing the same endowment
20 benefit or benefits, if any, issued at the same age and for the
21 same term, the amount of which does not vary with duration and
22 the benefits under which have the same present value at the
23 inception of the insurance as the benefits under the policy;
24 provided, however, that in the case of a policy providing a
25 varying amount of insurance issued on the life of a child under
26 age 10, the equivalent uniform amount may be computed as though

1 the amount of insurance provided by the policy prior to the
2 attainment of age 10 were the amount provided by such policy at
3 age 10.

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

19 Except as otherwise provided in subsections (4a) and (4b),
20 all adjusted premiums and present values referred to in this
21 section shall for all policies of Ordinary insurance be
22 calculated on the basis of the Commissioners 1941 Standard
23 Ordinary Mortality Table, provided that for any category of
24 Ordinary insurance issued on female risks adjusted premiums and
25 present values may be calculated according to an age not more
26 than 3 years younger than the actual age of the insured, and

1 such calculations for all policies of Industrial insurance
2 shall be made on the basis of the 1941 Standard Industrial
3 Mortality Table. All calculations shall be made on the basis of
4 the rate of interest, not exceeding 3 1/2% per annum, specified
5 in the policy for calculating cash surrender values and paid-up
6 nonforfeiture benefits. Provided, however, that in calculating
7 the present value of any paid-up term insurance with
8 accompanying pure endowment, if any, offered as a nonforfeiture
9 benefit, the rates of mortality assumed may be not more than
10 130% of the rates of mortality according to such applicable
11 table. Provided, further, that for insurance issued on a
12 substandard basis, the calculation of any such adjusted
13 premiums and present values may be based on such other table of
14 mortality as may be specified by the company and approved by
15 the Director.

16 (4a) This subsection (4a) shall not apply to Ordinary
17 policies issued on or after the operative date of subsection
18 (4c). In the case of Ordinary policies issued on or after the
19 operative date of this subsection (4a) as defined herein, all
20 adjusted premiums and present values referred to in this
21 Section shall be calculated on the basis of the Commissioners
22 1958 Standard Ordinary Mortality Table and the rate of interest
23 specified in the policy for calculating cash surrender values
24 and paid-up nonforfeiture benefits, provided that such rate of
25 interest shall not exceed 3 1/2% per annum except that a rate
26 of interest not exceeding 5 1/2% per annum may be used for

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

26 (4b) This subsection (4b) shall not apply to Industrial

1 policies issued on or after the operative date of subsection
2 (4c). In the case of Industrial policies issued on or after the
3 operative date of this subsection (4b) as defined herein, all
4 adjusted premiums and present values referred to in this
5 Section shall be calculated on the basis of the Commissioners
6 1961 Standard Industrial Mortality Table and the rate of
7 interest specified in the policy for calculating cash surrender
8 values and paid-up nonforfeiture benefits, provided that such
9 rate of interest shall not exceed 3 1/2% per annum except that
10 a rate of interest not exceeding 5 1/2% per annum may be used
11 for policies issued on or after September 8, 1977, except that
12 for any single premium whole life or endowment insurance policy
13 a rate of interest not exceeding 6 1/2% per annum may be used.
14 Provided, however, that in calculating the present value of any
15 paid-up term insurance with accompanying pure endowment, if
16 any, offered as a nonforfeiture benefit, the rates of mortality
17 assumed may be not more than those shown in the Commissioners
18 1961 Industrial Extended Term Insurance Table. Provided,
19 further, that for insurance issued on a substandard basis, the
20 calculations of any such adjusted premiums and present values
21 may be based on such other table of mortality as may be
22 specified by the company and approved by the Director. After
23 the effective date of this subsection (4b), any company may
24 file with the Director a written notice of its election to
25 comply with the provisions of this subsection after a specified
26 date before January 1, 1968. After the filing of such notice,

1 then upon such specified date (which shall be the operative
2 date of this subsection for such company), this subsection
3 shall become operative with respect to the Industrial policies
4 thereafter issued by such company. If a company makes no such
5 election, the operative date of this subsection for such
6 company shall be January 1, 1968.

7 (4c) (a) This subsection shall apply to all policies issued
8 on or after its operative date. Except as provided in paragraph
9 (g), the adjusted premiums for any policy shall be calculated
10 on an annual basis and shall be such uniform percentage of the
11 respective premiums specified in the policy for each policy
12 year, excluding amounts payable as extra premiums to cover
13 impairments or special hazards and any uniform annual contract
14 charge or policy fee specified in the policy in a statement of
15 the method to be used in calculating the cash surrender value
16 and paid-up nonforfeiture benefits of the policy, that the
17 present value, at the date of issue of the policy, of all
18 adjusted premiums shall be equal to the sum of (i) the then
19 present value of the future guaranteed benefits provided for by
20 the policy; (ii) 1% of either the amount of insurance, if the
21 insurance is uniform in amount, or the average amount of
22 insurance at the beginning of each of the first 10 policy
23 years; and (iii) 125% of the nonforfeiture net level premium as
24 hereinafter defined. In applying the percentage specified in
25 (iii), however, no nonforfeiture net level premium shall exceed
26 4% of either the amount of insurance, if the insurance is

1 uniform in amount, or the average amount of insurance at the
2 beginning of each of the first 10 policy years. The date of
3 issue of a policy for the purpose of this subsection is the
4 date as of which the rated age of the insured is determined.

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

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

23 (d) Except as otherwise provided in paragraph (g), the
24 recalculated future adjusted premiums for any policy shall be
25 such uniform percentage of the respective future premiums
26 specified in the policy for each policy year, excluding amounts

1 payable as extra premiums to cover impairments and special
2 hazards and any uniform annual contract charge or policy fee
3 specified in the policy in a statement of the method to be used
4 in calculating the cash surrender values and paid-up
5 nonforfeiture benefits, that the present value, at the time of
6 change to the newly defined benefits or premiums, of all such
7 future adjusted premiums shall be equal to the excess of (A)
8 the sum of (i) the then present value of the then future
9 guaranteed benefits provided for by the policy and (ii) the
10 additional expense allowance, if any, over (B) the then cash
11 surrender value, if any, or present value of any paid-up
12 nonforfeiture benefit under the policy.

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

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

25 (i) X equals the sum of

26 (A) the nonforfeiture net level premium applicable prior to

1 the change times the present value of an annuity of one per
2 annum payable on each anniversary of the policy on or
3 subsequent to the date of the change on which a premium would
4 have fallen due had the change not occurred, and

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

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

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

20 (h) All adjusted premiums and present values referred to in
21 this Section shall for all policies of ordinary insurance be
22 calculated on the basis of the Commissioners 1980 Standard
23 Ordinary Mortality Table or, at the election of the company for
24 any one or more specified plans of life insurance, the
25 Commissioners 1980 Standard Ordinary Mortality Table with
26 Ten-Year Select Mortality Factors. All adjusted premiums and

1 present values referred to in this Section shall for all
2 policies of Industrial insurance be calculated on the basis of
3 the Commissioners 1961 Standard Industrial Mortality Table.
4 All adjusted premiums and present values referred to in this
5 Section for all policies issued in a particular calendar year
6 shall be calculated on the basis of a rate of interest not
7 exceeding the nonforfeiture interest rate as defined in this
8 subsection for policies issued in that calendar year. The
9 provisions of this paragraph are subject to the provisions set
10 forth in subparagraphs (i) through (vii).

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

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

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

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

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

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

21 For policies issued on or after the operative date of the
22 Valuation Manual, the Valuation Manual shall provide the
23 Commissioners Standard mortality table for use in determining
24 the minimum nonforfeiture standard that may be substituted for
25 the Commissioners 1980 Standard Ordinary Mortality Table with
26 or without Ten-Year Select Mortality Factors or for the

1 Commissioners 1980 Extended Term Insurance Table. If the
2 Director approves by regulation any Commissioner's Standard
3 ordinary mortality table adopted by the National Association of
4 Insurance Commissioners for use in determining the minimum
5 nonforfeiture standard for policies issued on or after the
6 operative date of the Valuation Manual, then that minimum
7 nonforfeiture standard supersedes the minimum nonforfeiture
8 standard provided by the Valuation Manual.

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

17 For policies issued on or after the operative date of the
18 Valuation Manual the Valuation Manual shall provide the
19 Commissioner's Standard mortality table for use in determining
20 the minimum nonforfeiture standard that may be substituted for
21 the Commissioners 1961 Standard Industrial Mortality Table or
22 the Commissioners 1961 Industrial Extended Term Insurance
23 Table. If the Director approves by regulation any
24 Commissioner's Standard industrial mortality table adopted by
25 the National Association of Insurance Commissioners for use in
26 determining the minimum nonforfeiture standard for policies

1 issued on or after the operative date of the Valuation Manual
2 then that minimum nonforfeiture standard supersedes the
3 minimum nonforfeiture standard provided by the valuation
4 manual.

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

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

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

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

24 (k) After the effective date of this subsection, any
25 company may, with respect to any category of insurance, file
26 with the Director a written notice of its election to comply

1 with the provisions of this subsection after a specified date
2 before January 1, 1989. That date shall be the operative date
3 of this subsection for that category of insurance for such
4 company. If a company makes no such election, the operative
5 date of this subsection for that category of insurance issued
6 by such company shall be January 1, 1989.

7 (5) In the case of any plan of life insurance which
8 provides for future premium determination, the amounts of which
9 are to be determined by the insurance company based on then
10 estimates of future experience, or in the case of any plan of
11 life insurance which is of such a nature that minimum values
12 cannot be determined by the methods described in subsections
13 (1), (2), (3), (4), (4a), (4b) or (4c), then

14 (a) the Director shall satisfy himself that the benefits
15 provided under such plan are substantially as favorable to
16 policyholders and insured parties as the minimum benefits
17 otherwise required by subsections (1), (2), (3), (4), (4a),
18 (4b) or (4c);

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

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

1 Director.

2 (6) Any cash surrender value and any paid-up nonforfeiture
3 benefit, available under the policy in the event of default in
4 a premium payment due at any time other than on the policy
5 anniversary, shall be calculated with allowance for the lapse
6 of time and the payment of fractional premiums beyond the last
7 preceding policy anniversary. All values referred to in
8 subsections (2), (3), (4), (4a), (4b) and (4c) may be
9 calculated upon the assumption that any death benefit is
10 payable at the end of the policy year of death. The net value
11 of any paid-up additions, other than paid-up term additions,
12 shall be not less than the amounts used to provide such
13 additions. Notwithstanding the provisions of subsection (2),
14 additional benefits payable (i) in the event of death or
15 dismemberment by accident or accidental means, (ii) in the
16 event of total and permanent disability, (iii) as reversionary
17 annuity or deferred reversionary annuity benefits, (iv) as term
18 insurance benefits provided by a rider or supplemental policy
19 provision to which, if issued as a separate policy, this
20 section would not apply, (v) as term insurance on the life of a
21 child or on the lives of children provided in a policy on the
22 life of a parent of the child, if such term insurance expires
23 before the child's age is 26, is uniform in amount after the
24 child's age is one, and has not become paid-up by reason of the
25 death of a parent of the child, and (vi) as other policy
26 benefits additional to life insurance and endowment benefits,

1 and premiums for all such additional benefits, shall be
2 disregarded in ascertaining cash surrender values and
3 nonforfeiture benefits required by this section, and no such
4 additional benefits shall be required to be included in any
5 paid-up nonforfeiture benefits.

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

17 The basic cash value equals the present value, on such
18 anniversary, of the future guaranteed benefits which would have
19 been provided for by the policy, excluding any existing paid-up
20 additions and before deduction of any indebtedness to the
21 company, if there had been no default, less the then present
22 value of the nonforfeiture factors, as hereinafter defined,
23 corresponding to premiums which would have fallen due on and
24 after such anniversary. The effects on the basic cash value of
25 supplemental life insurance or annuity benefits or of family
26 coverage, as described in subsection (2) or (4), whichever is

1 applicable, shall, however, be the same as are the effects
2 specified in subsection (2) or (4), whichever is applicable, on
3 the cash surrender values defined in that subsection.

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

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

18 (b) shall be such that no percentage after the later of the
19 2 policy anniversaries specified in the preceding item (a) may
20 apply to fewer than 5 consecutive policy years.

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

26 All adjusted premiums and present values referred to in

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

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

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

18 (a) reinsurance,

19 (b) group insurance,

20 (c) a pure endowment,

21 (d) an annuity or reversionary annuity contract,

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

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

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

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

21 For purposes of determining the applicability of this
22 Section, the age of expiry for a joint term life insurance
23 policy shall be the age of expiry of the oldest life.

24 (9) For the purposes of this Section:

25 "Operative date of the Valuation Manual" means the January
26 1 of the first calendar year that the Valuation Manual is

1 effective.

2 "Valuation Manual" has the same meaning as set forth in

3 Section 223 of this Code.

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