



Sen. William R. Haine

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1 AMENDMENT TO SENATE BILL 2764

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

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

7 (215 ILCS 5/223) (from Ch. 73, par. 835)

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

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

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

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

23 For policies and contracts issued on or after the operative
24 date of the Valuation Manual, the Director shall annually
25 value, or cause to be valued, the reserve liabilities
26 (reserves) for all outstanding life insurance contracts,

1 annuity and pure endowment contracts, accident and health
2 contracts, and deposit-type contracts of every company issued
3 on or after the operative date of the Valuation Manual. In lieu
4 of the valuation of the reserves required of a foreign or alien
5 company, the Director may accept a valuation made, or caused to
6 be made, by the insurance supervisory official of any state or
7 other jurisdiction when the valuation complies with the minimum
8 standard provided in this Section.

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

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

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

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

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

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

23 (A) General.

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

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

11 (2) The opinion shall be submitted with the annual
12 statement reflecting the valuation of reserve
13 liabilities for each year ending on or after December
14 31, 1992.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

24 (1b) Actuarial Opinion of Reserves after the Operative Date
25 of the Valuation Manual.

26 (A) General.

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

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

18 (3) The opinion shall apply to all policies and
19 contracts subject to paragraph (B) of this subsection
20 (1b), plus other actuarial liabilities as may be
21 specified in the Valuation Manual.

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

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

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

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

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

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

1 required by the Director.

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

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

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

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

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

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

5 (i) first insurance year 50% thereof;

6 (ii) second insurance year 65% thereof;

7 (iii) third insurance year 75% thereof;

8 (iv) fourth insurance year 85% thereof;

9 (v) fifth insurance year 95% thereof.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

26 (vii) For Group Life Insurance, life insurance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

8 (a) For individual single premium immediate annuity
9 contracts, excluding any disability and accidental death
10 benefits in such contracts, the 1971 Individual Annuity
11 Mortality Table, any individual annuity mortality table
12 adopted after 1980 by the NAIC ~~National Association of~~
13 ~~Insurance Commissioners~~ and approved by regulations
14 promulgated by the Director for use in determining the
15 minimum standard of valuation for such contracts, or any
16 modification of those tables approved by the Director, and
17 7 1/2% interest.

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

1 tables approved by the Director, and 5 1/2% interest for
2 single premium deferred annuity and pure endowment
3 contracts and 4 1/2% interest for all other such individual
4 annuity and pure endowment contracts.

5 (c) For all annuities and pure endowments purchased
6 under group annuity and pure endowment contracts,
7 excluding any disability and accidental death benefits
8 purchased under such contracts, the 1971 Group Annuity
9 Mortality Table, any group annuity mortality table adopted
10 after 1980 by the NAIC ~~National Association of Insurance~~
11 ~~Commissioners~~ and approved by regulations promulgated by
12 the Director for use in determining the minimum standard of
13 valuation for such annuities and pure endowments, or any
14 modification of those tables approved by the Director, and
15 7 1/2% interest.

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

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

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

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

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

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

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

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

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

18 (b) Calendar Year Statutory Valuation Interest Rates.

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

22 (A) For life insurance,

$$23 \quad I = .03 + W (R1 - .03) + W/2 (R2 - .09).$$

24 (B) For single premium immediate annuities and
25 annuity benefits involving life contingencies
26 arising from other annuities with cash settlement

1 options and from guaranteed interest contracts
2 with cash settlement options,

3 $I = .03 + W (R - .03)$ or with prior
4 approval of the Director $I = .03 + W (Rq -$
5 $.03)$.

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

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

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

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

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

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

26 (c) Weighting Factors.

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

4 (A) Weighting Factors for Life Insurance.

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

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

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

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

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

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

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

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

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

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

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

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

24 Plan Type A is a plan under which the
25 policyholder may not withdraw funds, or may
26 withdraw funds at any time but only (a) with an

1 adjustment to reflect changes in interest
2 rates or asset values since receipt of the
3 funds by the insurance company, (b) without
4 such an adjustment but in installments over 5
5 years or more, or (c) as an immediate life
6 annuity.

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

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

1 stipulated in the contract as a percentage of
2 the fund.

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

1 the change in the fund.

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

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

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

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

1 options, valued on a year of issue basis, except those
2 described in (B), with guarantee durations in excess of
3 10 years, the reference interest rate is the lesser of
4 the average over a period of 36 months and the average
5 over a period of 12 months, ending on June 30, or with
6 prior approval of the Director ending on December 31,
7 of the calendar year of issue or purchase, of Moody's
8 Corporate Bond Yield Average-Monthly Average
9 Corporates, as published by Moody's Investors Service,
10 Inc.

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

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

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

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

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

24 (e) Alternative Method for Determining Reference
25 Interest Rates. In the event that the Moody's Corporate
26 Bond Yield Average-Monthly Average Corporates is no longer

1 published by Moody's Investors Services, Inc., or in the
2 event that the NAIC ~~National Association of Insurance~~
3 ~~Commissioners~~ determines that Moody's Corporate Bond Yield
4 Average-Monthly Average Corporates as published by Moody's
5 Investors Service, Inc. is no longer appropriate for the
6 determination of the reference interest rate, then an
7 alternative method for determination of the reference
8 interest rate, which is adopted by the NAIC ~~National~~
9 ~~Association of Insurance Commissioners~~ and approved by
10 regulations promulgated by the Director, may be
11 substituted.

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

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

24 (a) For policies issued on or after the operative date
25 of the Valuation Manual, the standard prescribed in the
26 Valuation Manual is the minimum standard of valuation

1 required under subsection (1), except as provided under
2 paragraphs (e) or (g) of this subsection (8).

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

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

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

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

25 (c) Unless a change in the Valuation Manual specifies a
26 later effective date, changes to the Valuation Manual shall

1 be effective on January 1 following the date when the
2 change to the Valuation Manual has been adopted by the NAIC
3 by an affirmative vote representing:

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

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

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

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

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

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

26 (C) minimum reserves for all other policies or

1 contracts subject to subsection (1).

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

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

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

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

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

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

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

1 Valuation Manual; or

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

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

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

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

25 (f) The Director may engage a qualified actuary, at the
26 expense of the company, to perform an actuarial examination

1 of the company and opine on the appropriateness of any
2 reserve assumption or method used by the company, or to
3 review and opine on a company's compliance with any
4 requirement set forth in this Section. The Director may
5 rely upon the opinion regarding provisions contained
6 within this Section of a qualified actuary engaged by the
7 Director of another state, district, or territory of the
8 United States. As used in this paragraph, "engage" includes
9 employment and contracting.

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

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

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

22 (i) Quantify the benefits and guarantees, and the
23 funding, associated with the contracts and their risks
24 at a level of conservatism that reflects conditions
25 that include unfavorable events that have a reasonable
26 probability of occurring during the lifetime of the

1 contracts. For policies or contracts with significant
2 tail risk, reflect conditions appropriately adverse to
3 quantify the tail risk.

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

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

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

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

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

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

25 (iv) Provide margins for uncertainty, including
26 adverse deviation and estimation error, such that the

1 greater the uncertainty, the larger the margin and
2 resulting reserve.

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

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

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

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

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

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

6 (11) Confidentiality.

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

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

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

22 (iii) Any reports, documents, materials, and other
23 information developed by a company in support of, or in
24 connection with, an annual certification by the
25 company under subparagraph (ii) of paragraph (b) of
26 subsection (9) of this Section evaluating the

1 effectiveness of the company's internal controls with
2 respect to a principle-based valuation and any other
3 documents, materials, and other information,
4 including, but not limited to, all working papers, and
5 copies thereof, created, produced, or obtained by or
6 disclosed to the Director or any other person in
7 connection with such reports, documents, materials,
8 and other information.

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

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

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

8 (b) Privilege for and Confidentiality of Confidential
9 Information.

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

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

24 (iii) In order to assist in the performance of the
25 Director's duties, the Director may share confidential
26 information (A) with other state, federal, and

1 international regulatory agencies and with the NAIC
2 and its affiliates and subsidiaries and (B) in the case
3 of confidential information specified in subparagraphs
4 (i) and (iv) of paragraph (a) of subsection (11) only,
5 with the Actuarial Board for Counseling and Discipline
6 or its successor upon request stating that the
7 confidential information is required for the purpose
8 of professional disciplinary proceedings and with
9 state, federal, and international law enforcement
10 officials; in the case of (A) and (B), provided that
11 such recipient agrees and has the legal authority to
12 agree, to maintain the confidentiality and privileged
13 status of such documents, materials, data, and other
14 information in the same manner and to the same extent
15 as required for the Director.

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

1 privileged under the laws of the jurisdiction that is
2 the source of the document, material, or other
3 information.

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

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

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

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

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

26 (i) may be subject to subpoena for the purpose of

1 defending an action seeking damages from the appointed
2 actuary submitting the related memorandum in support
3 of an opinion submitted under subsection (1) of this
4 Section or principle-based valuation report developed
5 under subparagraph (iii) of paragraph (b) of
6 subsection (9) of this Section by reason of an action
7 required by this Section or by regulations promulgated
8 under this Section;

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

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

21 (12) Exemptions.

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

26 (i) the Director has issued an exemption in writing

1 to the company and has not subsequently revoked the
2 exemption in writing; and

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

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

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

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

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

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

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

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

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

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

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

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

22 "Company" means an entity that (a) has written, issued, or
23 reinsured life insurance contracts, accident and health
24 insurance contracts, or deposit-type contracts in this State
25 and has at least one such policy in force or on claim or (b) has
26 written, issued, or reinsured life insurance contracts,

1 accident and health insurance contracts, or deposit-type
2 contracts in any state and is required to hold a certificate of
3 authority to write life insurance, accident and health
4 insurance, or deposit-type contracts in this State.

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

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

11 "NAIC" means the National Association of Insurance
12 Commissioners.

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

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

26 "Qualified actuary" means an individual who is qualified to

1 sign the applicable statement of actuarial opinion in
2 accordance with the American Academy of Actuaries
3 qualification standards for actuaries signing such statements
4 and who meets the requirements specified in the Valuation
5 Manual.

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

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

13 (Source: P.A. 95-86, eff. 9-25-07 (changed from 1-1-08 by P.A.
14 95-632); 95-876, eff. 8-21-08.)

15 (215 ILCS 5/229.2) (from Ch. 73, par. 841.2)

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

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

25 (i) That, in the event of default in any premium payment,

1 the company will grant, upon proper request not later than 60
2 days after the due date of the premium in default, a paid-up
3 nonforfeiture benefit on a plan stipulated in the policy,
4 effective as of such due date, of such amount as may be
5 hereinafter specified. In lieu of such stipulated paid-up
6 nonforfeiture benefit, the company may substitute, upon proper
7 request not later than 60 days after the due date of the
8 premium in default, an actuarially equivalent alternative
9 paid-up nonforfeiture benefit which provides a greater amount
10 or longer period of death benefits or, if applicable, a greater
11 amount or earlier payment of endowment benefits.

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

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

24 (iv) That, if the policy shall have become paid-up by
25 completion of all premium payments or if it is continued under
26 any paid-up nonforfeiture benefit which became effective on or

1 after the third policy anniversary in the case of Ordinary
2 insurance or the fifth policy anniversary in the case of
3 Industrial insurance, the company will pay, upon surrender of
4 the policy within 30 days after any policy anniversary, a cash
5 surrender value of such amount as may be hereinafter specified.

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

24 (vi) A statement that the cash surrender values and the
25 paid-up nonforfeiture benefits available under the policy are
26 not less than the minimum values and benefits required by or

1 pursuant to the insurance law of the state in which the policy
2 is delivered; an explanation of the manner in which the cash
3 surrender values and the paid-up nonforfeiture benefits are
4 altered by the existence of any paid-up additions credited to
5 the policy or any indebtedness to the company on the policy; if
6 a detailed statement of the method of computation of the values
7 and benefits shown in the policy is not stated therein, a
8 statement that such method of computation has been filed with
9 the insurance supervisory official of the state in which the
10 policy is delivered; and a statement of the method to be used
11 in calculating the cash surrender value and paid-up
12 nonforfeiture benefit available under the policy on any policy
13 anniversary beyond the last anniversary for which such values
14 and benefits are consecutively shown in the policy.

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

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

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

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

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

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

1 policy which provides only the benefits otherwise provided by
2 such term insurance on the life of the spouse.

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

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

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

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

20 In the case of a policy providing an amount of insurance
21 varying with duration of the policy, the equivalent uniform
22 amount thereof for the purpose of this subsection shall be
23 deemed to be the level amount of insurance, provided by an
24 otherwise similar policy, containing the same endowment
25 benefit or benefits, if any, issued at the same age and for the
26 same term, the amount of which does not vary with duration and

1 the benefits under which have the same present value at the
2 inception of the insurance as the benefits under the policy;
3 provided, however, that in the case of a policy providing a
4 varying amount of insurance issued on the life of a child under
5 age 10, the equivalent uniform amount may be computed as though
6 the amount of insurance provided by the policy prior to the
7 attainment of age 10 were the amount provided by such policy at
8 age 10.

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

24 Except as otherwise provided in subsections (4a) and (4b),
25 all adjusted premiums and present values referred to in this
26 section shall for all policies of Ordinary insurance be

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

21 (4a) This subsection (4a) shall not apply to Ordinary
22 policies issued on or after the operative date of subsection
23 (4c). In the case of Ordinary policies issued on or after the
24 operative date of this subsection (4a) as defined herein, all
25 adjusted premiums and present values referred to in this
26 Section shall be calculated on the basis of the Commissioners

1 1958 Standard Ordinary Mortality Table and the rate of interest
2 specified in the policy for calculating cash surrender values
3 and paid-up nonforfeiture benefits, provided that such rate of
4 interest shall not exceed 3 1/2% per annum except that a rate
5 of interest not exceeding 5 1/2% per annum may be used for
6 policies issued on or after September 8, 1977, except that for
7 any single premium whole life or endowment insurance policy a
8 rate of interest not exceeding 6 1/2% per annum may be used and
9 provided that for any category of Ordinary insurance issued on
10 female risks, adjusted premiums and present values may be
11 calculated according to an age not more than 6 years younger
12 than the actual age of the insured. Provided, however, that in
13 calculating the present value of any paid-up term insurance
14 with accompanying pure endowment, if any, offered as a
15 nonforfeiture benefit, the rates of mortality assumed may be
16 not more than those shown in the Commissioners 1958 Extended
17 Term Insurance Table. Provided, however, that for insurance
18 issued on a substandard basis, the calculation for any such
19 adjusted premiums and present values may be based on such other
20 table of mortality as may be specified by the company and
21 approved by the Director. After the effective date of this
22 subsection (4a), any company may file with the Director written
23 notice of its election to comply with the provisions of this
24 subsection after a specified date before January 1, 1966. After
25 the filing of such notice, then upon such specified date (which
26 shall be the operative date of this subsection for such

1 company), this subsection shall become operative with respect
2 to the Ordinary policies thereafter issued by such company. If
3 a company makes no such election, the operative date of this
4 subsection for such company shall be January 1, 1966.

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

1 specified by the company and approved by the Director. After
2 the effective date of this subsection (4b), any company may
3 file with the Director a written notice of its election to
4 comply with the provisions of this subsection after a specified
5 date before January 1, 1968. After the filing of such notice,
6 then upon such specified date (which shall be the operative
7 date of this subsection for such company), this subsection
8 shall become operative with respect to the Industrial policies
9 thereafter issued by such company. If a company makes no such
10 election, the operative date of this subsection for such
11 company shall be January 1, 1968.

12 (4c) (a) This subsection shall apply to all policies issued
13 on or after its operative date. Except as provided in paragraph
14 (g), the adjusted premiums for any policy shall be calculated
15 on an annual basis and shall be such uniform percentage of the
16 respective premiums specified in the policy for each policy
17 year, excluding amounts payable as extra premiums to cover
18 impairments or special hazards and any uniform annual contract
19 charge or policy fee specified in the policy in a statement of
20 the method to be used in calculating the cash surrender value
21 and paid-up nonforfeiture benefits of the policy, that the
22 present value, at the date of issue of the policy, of all
23 adjusted premiums shall be equal to the sum of (i) the then
24 present value of the future guaranteed benefits provided for by
25 the policy; (ii) 1% of either the amount of insurance, if the
26 insurance is uniform in amount, or the average amount of

1 insurance at the beginning of each of the first 10 policy
2 years; and (iii) 125% of the nonforfeiture net level premium as
3 hereinafter defined. In applying the percentage specified in
4 (iii), however, no nonforfeiture net level premium shall exceed
5 4% of either the amount of insurance, if the insurance is
6 uniform in amount, or the average amount of insurance at the
7 beginning of each of the first 10 policy years. The date of
8 issue of a policy for the purpose of this subsection is the
9 date as of which the rated age of the insured is determined.

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

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

1 stipulated by such policy immediately after the change.

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

18 (e) The additional expense allowance at the time of the
19 change to the newly defined benefits or premiums shall be the
20 sum of (i) 1% of the excess, if positive, of the average amount
21 of insurance at the beginning of each of the first 10 policy
22 years subsequent to the change over the average amount of
23 insurance prior to the change at the beginning of each of the
24 first 10 policy years subsequent to the time of the most recent
25 previous change, or, if there has been no previous change, the
26 date of issue of the policy; and (ii) 125% of the increase, if

1 positive, in the nonforfeiture net level premium.

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

4 (i) X equals the sum of

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

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

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

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

25 (h) All adjusted premiums and present values referred to in
26 this Section shall for all policies of ordinary insurance be

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

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

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

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

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

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

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

26 For policies issued on or after the operative date of the

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

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

22 For policies issued on or after the operative date of the
23 Valuation Manual, the Valuation Manual shall provide the
24 Commissioner's Standard mortality table for use in determining
25 the minimum nonforfeiture standard that may be substituted for
26 the Commissioners 1961 Standard Industrial Mortality Table or

1 the Commissioners 1961 Industrial Extended Term Insurance
2 Table. If the Director approves by regulation any
3 Commissioner's Standard industrial mortality table adopted by
4 the National Association of Insurance Commissioners for use in
5 determining the minimum nonforfeiture standard for policies
6 issued on or after the operative date of the Valuation Manual,
7 then that minimum nonforfeiture standard supersedes the
8 minimum nonforfeiture standard provided by the Valuation
9 Manual.

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

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

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

23 (j) Notwithstanding any other provision in this Code to the
24 contrary, any refiling of nonforfeiture values or their methods
25 of computation for any previously approved policy form which
26 involves only a change in the interest rate or mortality table

1 used to compute nonforfeiture values shall not require refiling
2 of any other provisions of that policy form.

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

12 (5) In the case of any plan of life insurance which
13 provides for future premium determination, the amounts of which
14 are to be determined by the insurance company based on then
15 estimates of future experience, or in the case of any plan of
16 life insurance which is of such a nature that minimum values
17 cannot be determined by the methods described in subsections
18 (1), (2), (3), (4), (4a), (4b) or (4c), then

19 (a) the Director shall satisfy himself that the benefits
20 provided under such plan are substantially as favorable to
21 policyholders and insured parties as the minimum benefits
22 otherwise required by subsections (1), (2), (3), (4), (4a),
23 (4b) or (4c);

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

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

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

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

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

22 The basic cash value equals the present value, on such
23 anniversary, of the future guaranteed benefits which would have
24 been provided for by the policy, excluding any existing paid-up
25 additions and before deduction of any indebtedness to the
26 company, if there had been no default, less the then present

1 value of the nonforfeiture factors, as hereinafter defined,
2 corresponding to premiums which would have fallen due on and
3 after such anniversary. The effects on the basic cash value of
4 supplemental life insurance or annuity benefits or of family
5 coverage, as described in subsection (2) or (4), whichever is
6 applicable, shall, however, be the same as are the effects
7 specified in subsection (2) or (4), whichever is applicable, on
8 the cash surrender values defined in that subsection.

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

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

23 (b) shall be such that no percentage after the later of the
24 2 policy anniversaries specified in the preceding item (a) may
25 apply to fewer than 5 consecutive policy years.

26 No basic cash value may be less than the value which would

1 be obtained if the adjusted premiums for the policy, as defined
2 in subsection (4) or (4c), whichever is applicable, were
3 substituted for the nonforfeiture factors in the calculation of
4 the basic cash value.

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

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

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

23 (a) reinsurance,

24 (b) group insurance,

25 (c) a pure endowment,

26 (d) an annuity or reversionary annuity contract,

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

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

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

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

26 For purposes of determining the applicability of this

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

3 (9) For the purposes of this Section:

4 "Operative date of the Valuation Manual" means the January
5 1 of the first calendar year that the Valuation Manual is
6 effective.

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

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