

## No. 90

## AN ACT

## SB 636

Amending the act of May 17, 1921 (P.L.789, No.285), entitled, as amended, "An act relating to insurance; establishing an insurance department; and amending, revising, and consolidating the law relating to the licensing, qualification, regulation, examination, suspension, and dissolution of insurance companies, Lloyds associations, reciprocal and inter-insurance exchanges, and certain societies and orders, the examination and regulation of fire insurance rating bureaus, and the licensing and regulation of insurance agents and brokers; the service of legal process upon foreign insurance companies, associations or exchanges; providing penalties, and repealing existing laws," further regulating the computation of the reserve liability of life, health, and accident insurance policies and annuity contracts.

The General Assembly of the Commonwealth of Pennsylvania hereby enacts as follows:

Section 1. Paragraph (6) of subsection (b) of section 301, act of May 17, 1921 (P.L.789, No.285), known as "The Insurance Department Act of one thousand nine hundred and twenty-one," amended May 1, 1945 (P.L.346, No.145), is amended to read:

Section 301. Computation of Reserve Liability.—\* \* \*

(b) This subsection shall apply only to policies and contracts issued prior to the operative date of section four hundred and ten A (the Standard Non-forfeiture Law) of an act, approved the seventeenth day of May, one thousand nine hundred and twenty-one (Pamphlet Laws, six hundred eighty-two), as amended.

\* \* \*

(6) [The] *Except as otherwise provided in subparagraph (B) of paragraph (1) of subsection (c) of this section for group annuity and pure endowment contracts, the* legal minimum standard for valuation of annuities issued after January one, one thousand nine hundred and twelve, shall be McClintock's table of mortality among annuitants, with interest at three and one-half per centum per annum; but annuities deferred ten or more years, and written in connection with life or term insurance, shall be valued upon the same mortality table from which the consideration or premiums were computed, with interest not higher than three and one-half per centum per annum.

\* \* \*

Section 2. The introductory paragraph of subsection (c) and the introductory paragraph of paragraph (1) of subsection (c) of section 301 of the act, added May 1, 1945 (P.L.346, No.145), are amended and a subparagraph is added to paragraph (1) to read:

Section 301. Computation of Reserve Liability.—\* \* \*

(c) This subsection shall apply only to policies and contracts issued on or after the operative date of section four hundred and ten A (the Standard

Non-forfeiture Law) of an act, approved the seventeenth day of May, one thousand nine hundred and twenty-one (Pamphlet Laws, six hundred eighty-two), as amended, *except as otherwise provided in subparagraph (B) of paragraph (1) of this subsection for group annuity and pure endowment contracts issued prior to such operative date.*

(1) [The] *(A) Except as otherwise provided in subparagraph (B) of this paragraph (1), the minimum standard for the valuation of all such policies and contracts shall be the Commissioners reserve valuation method defined in paragraph (2) of this subsection (c), three and one-half per centum (3 ½%) interest, or in the case of policies and contracts, other than annuity and pure endowment contracts, issued on or after the effective date of this amending act of 1976 and prior to January 1, 1986, four per centum (4%) interest, and the following tables:*

\* \* \*

*(B) The minimum standard for valuation of all individual annuity and pure endowment contracts issued on or after the operative date of this subparagraph (B), as defined herein, and for all annuities and pure endowments purchased on or after such operative date under group annuity and pure endowment contracts, shall be the Commissioner's reserve valuation method defined in paragraph (2) of this subsection (c) and the following tables and interest rates:*

*(i) For individual annuity and pure endowment contracts issued prior to January 1, 1986, excluding any disability and accidental death benefits in such contracts, the 1971 Individual Annuity Mortality Table, or any modification of this table approved by the Insurance Commissioner; and six per centum (6%) interest for single premium immediate annuity contracts, and four per centum (4%) interest for all other individual annuity and pure endowment contracts.*

*(ii) For individual annuity and pure endowment contracts issued on or after January 1, 1986, excluding any disability and accidental death benefits in such contracts, the 1971 Individual Annuity Mortality Table, or any modification of this table approved by the Insurance Commissioner, and three and one-half per centum (3 ½%) interest.*

*(iii) For all annuities and pure endowments purchased prior to January 1, 1986 under group annuity and pure endowment contracts, excluding any disability and accidental death benefits purchased under such contracts, the 1971 Group Annuity Mortality Table, or any modification of this table approved by the Insurance Commissioner, and six per centum (6%) interest.*

*(iv) For all annuities and pure endowments purchased on or after January 1, 1986 under group annuity and pure endowment contracts, excluding any disability and accidental death benefits purchased under such contracts, the 1971 Group Annuity Mortality Table, or any modification of this table approved by the Insurance Commissioner, and three and one-half per centum (3 ½%) interest.*

*After the effective date of this act a company may file with the Insurance Commissioner a written notice of its election to comply with the provisions of this subparagraph (B) after a specified date before January 1, 1979, which shall be the operative date of this subparagraph (B) for such company: Provided, That a company may elect a different operative date for individual annuity and pure endowment contracts from that elected for group annuity and pure endowment contracts. Whenever a company makes no such election, the operative date of this subparagraph (B) for such company shall be January 1, 1979.*

\* \* \*

Section 3. Section 301.1 of the act, added May 20, 1949 (P.L.1500, No.450), is amended to read:

Section 301.1. Computation of [Policy and Loss] Reserve *Liability*; [Noncancellable] Health and Accident Insurance.—(a) The Insurance [Commissioners] *Commissioner* shall each year value or cause to be valued, or shall annually require the insurer to value or cause to be valued, the reserve liabilities, as of the thirty-first day of December of the preceding year, of every life insurance company doing business in this Commonwealth, with respect to all of its [noncancellable] health and accident insurance [issued on and after January first, one thousand nine hundred fifty] *policies*. *For all such policies, the company shall maintain an active life reserve which shall place a sound value on its liabilities under such policies and be not less than the reserve according to appropriate standards set forth in regulations issued by the Insurance Commissioner and, in no event, less in the aggregate than the pro rata gross unearned premiums for such policies.*

[*(b)* The legal minimum standard for computing the active life reserve, including the unearned premium reserve of such noncancellable health and accident policies issued on and after January first, one thousand nine hundred fifty, shall be based on the Conference Modification of Class III Disability Table, with interest not to exceed three and one-half per centum per annum, on the full preliminary term basis. The disabled life reserves under such non-cancellable health and accident policies issued on and after such date shall also be based on such table, except that for claims of less than twenty-seven months' duration, the reserve may be taken as equivalent to the prospective claim payment, in the case of short term contracts, or to three and one-half times the elapsed period of disability, in the case of unlimited contracts: *Provided, That in the case of unlimited contracts, the reserve shall not be less than the equivalent of seven weeks' claim payments.*

[*(c)* The Insurance Commissioner may modify the application of the requirements prescribed in this section to policies or to claims arising under policies in accordance with the waiting period contained in such policies and in accordance with any limitation as to the time for which indemnity is payable, or in such other manner as the actual facts warrant.]

(d) [The Insurance Commissioner may, whenever he deems it prudent, for the protection of policyholders in this Commonwealth, vary the standard in particular cases.] This section shall not apply to total and permanent disability benefits, supplementary to life insurance or annuity policies or contracts.

Section 4. Section 311.1 of the act, added May 20, 1949 (P.L.1498, No.449), is amended to read:

Section 311.1. Computation of [Policy and Loss Reserves] *Reserve Liability*; [Noncancellable] Health and Accident Insurance [Issued On and After January First, One Thousand Nine Hundred Fifty].—(a) The Insurance Commissioner shall each year value or cause to be valued, or shall annually require the insurer to value or cause to be valued, the reserve liabilities, as of the thirty-first day of December of the preceding year, of every casualty insurance company doing business in this Commonwealth, with respect to all of its [noncancellable] health and accident insurance [issued on and after January first, one thousand nine hundred fifty] policies. *For all such policies the company shall maintain an active life reserve which shall place a sound value on its liabilities under such policies and be not less than the reserve according to appropriate standards set forth in regulation issued by the Insurance Commissioner and, in no event, less in the aggregate than the pro rata gross unearned premiums for such policies.*

[(b) The legal minimum standard for computing the active life reserve, including the unearned premium reserve of such noncancellable health and accident policies, shall be based on the Conference Modification of Class III Disability Table, with interest not to exceed three and one-half per centum per annum, on the full preliminary term basis. The disabled life reserve under such noncancellable health and accident policies issued on and after such date shall also be based on such table, except that for claims of less than twenty-seven months' duration, the reserve may be taken as equivalent to the prospective claim payment, in the case of short term contracts, or to three and one-half times the elapsed period of disability, in the case of unlimited contracts: Provided, That in the case of unlimited contracts, the reserve shall not be less than the equivalent of seven weeks' claim payments.

(c) The Insurance Commissioner may modify the application of the requirements prescribed in this section to policies or to claims arising under policies in accordance with the waiting period contained in such policies and in accordance with any limitation as to the time for which indemnity is payable, or in such other manner as the actual facts warrant.]

(d) [The Insurance Commissioner may, whenever he deems it prudent, for the protection of policyholders in this Commonwealth, vary the standard in particular cases.] The Insurance Commissioner may, with respect to any foreign or alien insurer, accept a like valuation of the insurance supervising official of the state, province or foreign country in

which such insurer is domiciled, if such valuation is made upon a basis and according to standards producing an aggregate reserve not less than herein contained.

Section 5. This act shall take effect immediately.

APPROVED—The 23rd day of June, A. D. 1976.

MILTON J. SHAPP