No. 1982-38

AN ACT

SB 1012

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 insurance policies and annuity contracts.

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

Section 1. Sections 301 and 303, 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 July 3, 1980 (P.L.363, No.92), are amended to read:

Section 301. Computation of Reserve Liability.—(a) The Insurance Commissioner shall each year value, or cause to be valued, the reserve liabilities (hereinafter called reserves or net value), as of the thirty-first day of December of the preceding year, for all outstanding life insurance policies and annuity and pure endowment contracts of every life insurance company doing business in this Commonwealth, except that in the case of any company organized under the laws of any foreign country, such valuation shall be limited to its United States business in accordance with the terms of the policy, contract, and rules following, and may certify the amount of any such reserves, specifying the mortality table or tables, rate or rates of interest and methods (net level premium method or other) used in the calculation of such reserves. In calculating such reserves, he may use group methods and approximate averages for fractions of a year or otherwise.

(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]** *Nonforfeiture Law for Life Insurance*) of an act, approved the seventeenth day of May, one thousand nine hundred and twenty-one (Pamphlet Laws, six hundred eighty-two), as amended.

(1) The net value of all outstanding policies of life insurance, issued by the company prior to the first day of January, one thousand eight hundred and ninety, shall be computed upon the basis of the American experience table of mortality, with interest at not less than four and one-half and not more than six per centum per annum.

(2) The net value of all outstanding policies, issued between the first day of January, one thousand eight hundred and ninety, and the first day of January, one thousand nine hundred and three, on the combined experience or actuaries' table of mortality, with interest at four per centum per annum.

(3) The net value of all outstanding policies of life insurance, issued on and after the first day of January, nineteen hundred and three, on the American experience table of mortality, with interest at three and one-half per centum per annum: Provided, however, That any company may value its group term insurance policies, under which premium rates are not guaranteed for a period in excess of five years, according to the American men ultimate table of mortality, with interest at three and one-half per centum per annum.

(4) The net value of all policies of life insurance, issued on and after January first, one thousand nine hundred and twenty-one, where the premiums are payable monthly or oftener, shall be valued according to the American experience table of mortality, with interest at three and one-half per centum per annum. But any company may voluntarily value its industrial policies according to the standard industrial mortality table, with interest at three and one-half per centum per annum.

(5) The net value of a policy at any time shall be taken to be the single net premium which will, at that time, affect the insurance, less the value at that time of the future net premiums called for by the table of mortality and rate of interest designated.

(6) Except as otherwise provided in subparagraph (B) of paragraph (1) ***and in paragraph (2)*** 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; however, (i) for annuities and pure endowments purchased under group annuity and pure endowment contracts the legal minimum standard may, at the option of the company, be the 1971 Group Annuity Mortality Table or any modification of this table approved by the Insurance Commissioner, with interest at five per centum per annum, and (ii) 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.

(7) Any such company may, however, at any time elect under any of its policies of life insurance to reserve on the American experience table of mortality, with a lower rate of interest, but at a rate not less than two per centum, or on the American men ultimate table of mortality (with such modification and extension below age twenty as may be approved by the Insurance Commissioner), with interest at a rate not more than three and one-half per centum and not less than two per centum and its obligations under such policies shall be valued accordingly.

(8) On or after the operative date of section four hundred and ten A (the Standard **[Non-forfeiture Law]** *Nonforfeiture Law for Life Insurance*) of an act, approved the seventeenth day of May, one thousand nine hundred and twenty-one (Pamphlet Laws, six hundred eighty-two), as amended, reserves for any policies or contracts may be calculated, at the option of the company, according to any standard which produces greater aggregate reserves for all such policies or contracts than the standard in use by such company immediately prior to the exercise of the option; and, with the approval of the Insurance Commissioner, any company which at any time shall have adopted any standard of valuation producing greater aggregate reserves than the minimum reserves above provided may adopt any lower standard of valuation for any policies or contracts but not lower than the minimum reserves above provided nor lower than the standard specified in such policies or contracts or the standard used by such company for the determination of the **[non-forfeiture]** *nonforfeiture* values thereof.

(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]** *Nonforfeiture Law for Life Insurance*) 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) *and in paragraph (2)* of this subsection for group annuity and pure endowment contracts issued prior to such operative date.

(1) (A) Except as otherwise provided in subparagraph (B) of this paragraph (1) *and in paragraph (2) of this subsection*, the minimum standard for the valuation of all such policies and contracts shall be the **[Commissioners]** *commissioners* reserve valuation methods defined in paragraphs **[(2) and]** (3) *and (4)* of this subsection (c), and in section 303, three and one-half per centum (3 1/2%) interest for policies and contracts other than group annuity and pure endowment contracts and as provided in (iii) of this subparagraph (A) for group annuity and pure endowment contracts, or in the case of policies and contracts, other than annuity and pure endowment contracts, issued on or after June 23, 1976, four per centum (4%) interest for such policies issued prior to January 1, 1979 and four and one-half per centum (4 1/2%) interest or such higher rate of interest as may be approved from time to time by the Insurance Commissioner for such policies issued on or after January 1, 1979, and the following tables:

(i) For all **[Ordinary]** *ordinary* policies of life insurance issued on the standard basis, excluding any disability and accidental death benefits in such policies, the Commissioners 1941 Standard Ordinary Mortality Table for such policies issued prior to the operative date of **[clause]** *paragraph* (2) of subsection (d) of section 410A (the Standard **[Non-forfeiture Law]** *Nonforfeiture Law for Life Insurance*) of "The Insurance Company Law of 1921," and the Commissioners 1958 Standard Ordinary Mortality Table for such policies issued on or after **[such]** *the* operative date *of paragraph (2) of subsection (d) of section 410A (the Standard Nonforfeiture Law for Life Insurance) of "The Insurance Company Law of 1921" and prior to the operative date of subsection (e) of section 410A (the Standard Nonforfeiture Law for Life Insurance) of "The Insurance Company Law of 1921"*: Provided, That for any category of such policies issued on female risks, all modified net premiums and present values referred to in this section may be calculated according to any age not more than six years younger than the actual age of the insured*; and for such policies issued on or after the operative date of subsection (e) of section 410A (the Standard Nonforfeiture Law for Life Insurance) of "The Insurance Company Law of 1921": (a) the Commissioners 1980 Standard Ordinary Mortality Table, or (b) at the election of the company for any one or more specified plans of life insurance, the Commissioners 1980 Standard Ordinary Mortality Table with Ten-Year Select Mortality Factors, or (c) any ordinary mortality table, adopted after 1980 by the National Association of Insurance Commissioners, that is approved by regulation promulgated by the Insurance Commissioner for use in determining the minimum standard of valuation for such policies*.

(ii) For all **[Industrial]** *industrial* life insurance policies issued on the standard basis, excluding any disability and accidental death benefits in such policies, the 1941 Standard Industrial Mortality Table for such policies issued prior to the operative date of paragraph (3) of subsection (d) of section 410-A (The Standard **[Non-forfeiture Law]** *Nonforfeiture Law for Life Insurance*) of "The Insurance Company Law of 1921," and *for such policies issued on or after such operative date* the Commissioners 1961 Standard Industrial Mortality Table **[for such policies issued on or after such operative date]** *or any industrial mortality table, adopted after 1980 by the National Association of Insurance Commissioners, that is approved by regulation promulgated by the Insurance Commissioner for use in determining the minimum standard of valuation for such policies*.

(iii) For **[Individual Annuity and Pure Endowment]** *individual annuity and pure endowment* contracts, excluding any disability and accidental death benefits in such contracts, the 1937 Standard Annuity Mortality Table, or at the option of the company, the Annuity Mortality Table for 1949 Ultimate or any modification of either of these tables approved by the Insurance Commissioner.

For all annuities and pure endowments purchased under **[Group Annuity and Pure Endowment]** *group annuity and pure endowment* contracts, excluding any disability and accidental death benefits in such contracts, either the Group Annuity Mortality Table for 1951, or any modification of such table approved by the Insurance Commissioner, with interest at three and one-half per centum (3 1/2%) or, at the option of the company, the 1971 Group Annuity Mortality Table or any modification of this table approved by the Insurance Commissioner, in which event five per centum (5%) interest shall be used in determining the minimum standard for the valuation of such contracts; or at the option of the company, any of the tables or modifications of tables specified for **[Individual Annuity and Pure Endowment]** ***individual annuity and pure endowment*** contracts.

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

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

(vi) For **[Group Life]** ***group life*** insurance, life insurance issued on the substandard basis and other special benefits, such tables as may be approved by the Insurance Commissioner.

(B) **[The]** ***Except as provided in paragraph (2) of this subsection (c), 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]** ***commissioners*** reserve valuation methods defined in paragraphs **[(2) and]** (3) ***and (4)*** of this subsection (c) and the following tables and interest rates:

(i) For individual annuity and pure endowment contracts issued prior to January 1, 1979, 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 single premium immediate annuity contracts issued on or after January 1, 1979, excluding any disability and accidental death benefits in such contracts, the 1971 Individual Annuity Mortality Table ***or any individual annuity mortality table, adopted after 1980 by the National Association of Insurance Commissioners, that is approved by regulation promulgated by the Insurance Commissioner for use in determining the minimum standard of valuation for such contracts***, or any modification of **[this table]** ***these tables*** approved by the Insurance Commissioner, and seven and one-half per centum (7 1/2%) interest or such higher rate of interest as may be approved from time to time by the Insurance Commissioner.

(iii) For individual annuity and pure endowment contracts issued on or after January 1, 1979, other than single premium immediate annuity contracts, excluding any disability and accidental death benefits in such contracts, the 1971 Individual Annuity Mortality Table, ***or any individual annuity mortality table, adopted after 1980 by the National Association of Insurance Commissioners, that is approved by regulation promulgated by the Insurance Commissioner for use in determining the minimum standard of valuation for such contracts,*** or any modification of **[this table]** ***these tables*** approved by the Insurance Commissioner, and five and one-half per centum (5 1/2%) interest for single premium deferred annuity and pure endowment contracts and four and one-half per centum (4 1/2%) interest for all other such individual annuity and pure endowment contracts or such higher rate or rates of interest as may be approved from time to time by the Insurance Commissioner.

(iv) For all annuities and pure endowments purchased prior to January 1, 1979 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.

(v) For all annuities and pure endowments purchased on or after January 1, 1979 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 group annuity mortality table, adopted after 1980 by the National Association of Insurance Commissioners, that is approved by regulation promulgated by the Insurance Commissioner for use in determining the minimum standard of valuation for such annuities and pure endowments,*** or any modification of **[this table]** ***these tables*** approved by the Insurance Commissioner, and seven and one-half per centum (7 1/2%) interest or such higher rate of interest as may be approved from time to time by the Insurance Commissioner.

After June 23, 1976, 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.

(2) (A) The interest rates used in determining the minimum standard for the valuation of:

(i) all life insurance policies issued in a particular calendar year, on or after the operative date of subsection (e) of section 410A (The Standard Nonforfeiture Law for Life Insurance) of "The Insurance Company Law of 1921,"

(ii) all individual annuity and pure endowment contracts issued in a particular calendar year on or after January 1, 1981,

(iii) all annuities and pure endowments purchased in a particular calendar year on or after January 1, 1981, under group annuity and pure endowment contracts, and

(iv) the net increase, if any, in a particular calendar year after January 1, 1981, in amounts held under guaranteed interest contracts shall be the calendar year statutory valuation interest rates as defined in this paragraph (2) of subsection (c).

(B) The calendar year statutory valuation interest rates, I, shall be determined as follows and the results rounded to the nearer one-quarter of one per centum (1/4 of 1%):

(i) For life insurance,

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

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

$$I = .03 + W(R - .03).$$

where R1 is the lesser of R and .09,
R2 is the greater of R and .09,
R is the reference interest rate defined in this paragraph (2), and
W is the weighting factor defined in this paragraph (2).

(iii) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on an issue year basis, except as stated in (ii) above, the formula for life insurance stated in (i) above shall apply to annuities and guaranteed interest contracts with guarantee durations in excess of ten years and the formula for single premium immediate annuities stated in (ii) above shall apply to annuities and guaranteed interest contracts with guarantee duration of ten years or less.

(iv) For other annuities with no cash settlement options and for guaranteed interest contracts with no cash settlement options, the formula for single premium immediate annuities stated in (ii) above shall apply.

(v) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a change in fund basis, the formula for single premium immediate annuities stated in (ii) above shall apply.

However, if the calendar year statutory valuation interest rate for any life insurance policies issued in any calendar year determined without reference to this sentence differs from the corresponding actual rate for similar policies issued in the immediately preceding calendar year by less than one-half of one per centum (1/2 of 1%), the calendar year statutory valuation interest rate for such life insurance policies shall be equal to the corresponding actual rate for the immediately preceding calendar year. For purposes of applying the immediately preceding sentence, the calendar year statutory valuation interest rate for life insurance policies issued in a calendar year shall be determined for 1980 (using the reference interest rate defined for 1979) and shall be determined for each subsequent calendar year regardless of when subsection (e) of section 410A (The Standard Nonforfeiture Law for Life Insurance) of "The Insurance Company Law of 1921" becomes operative.

(C) The weighting factors referred to in the formulas stated above are given in the following tables:

(i) Weighting factors for life insurance:

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

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

(ii) Weighting factor for single premium immediate annuities and for annuity benefits involving life contingencies arising from other annuities with cash settlement options and guaranteed interest contracts with cash settlement options:

.80

(iii) Weighting factors for other annuities and for guaranteed interest contracts, except as stated in (ii) above, shall be as specified in tables (a), (b) and (c) below, according to the rules and definitions in (d), (e) and (f) below:

(a) For annuities and guaranteed interest contracts valued on an issue year basis:

Guarantee Duration (Years)	*Weighting Factor for Plan Type*		
	A	*B*	*C*
5 or less	*.80*	*.60*	*.50*
More than 5, but not more than 10:	*.75*	*.60*	*.50*
More than 10, but not more than 20:	*.65*	*.50*	*.45*
More than 20:	*.45*	*.35*	*.35*

	Plan Type		
	A	*B*	*C*
(b) For annuities and guaranteed interest contracts valued on a change in fund basis, the factors shown in (a) above increased by:	*.15*	*.25*	*.05*

	Plan Type		
	A	*B*	*C*
(c) For annuities and guaranteed interest contracts valued on an issue year basis (other than those with no cash settlement options) which do not guarantee interest on considerations received more than one year after issue or purchase and for annuities and guaranteed interest contracts valued on a change in fund basis which do not guarantee interest rates on considerations received more than twelve months beyond the valuation date, the factors shown in (a) or derived in (b) increased by:	*.05*	*.05*	*.05*

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

(e) Plan type as used in the above tables is defined as follows:

Plan Type A: *At any time policyholder may withdraw funds only (1) with an adjustment to reflect changes in interest rates or asset values since receipt of the funds by the insurance company, or (2) without such adjustment but in installments over five years or more, or (3) as an immediate life annuity, or (4) no withdrawal permitted.*

Plan Type B: *Before expiration of the interest rate guarantee, policyholder may withdraw funds only (1) with an adjustment to reflect changes in interest rates or asset values since receipt of the funds by the insurance company, or (2) without such adjustment but in installments over five years or more, or (3) no withdrawal permitted. At the end of the interest rate guarantee, funds may be withdrawn without such adjustment in a single sum or installments over less than five years.*

Plan Type C: *Policyholder may withdraw funds before expiration of the interest rate guarantee in a single sum or installments over less than five years either (1) without adjustment to reflect changes in interest rates or asset values since receipt of the funds by the insurance company, or (2) subject only to a fixed surrender charge stipulated in the contract as a percentage of the fund.*

(f) A company may elect to value guaranteed interest contracts with cash settlement options and annuities with cash settlement options on either an issue year basis or on a change in fund basis. Guaranteed interest contracts with no cash settlement options and other annuities with no cash settlement options must be valued on an issue year basis. As used in this paragraph (2) of subsection (c), an issue year basis of valuation refers to a valuation basis under which the interest rate used to determine the minimum valuation standard for the entire duration of the annuity or guaranteed interest contract is the calendar year valuation interest rate for the year of issue or year of purchase of the annuity or guaranteed interest contract, and the change in fund basis of valuation refers to a valuation basis under which the interest rate used to determine the minimum valuation standard applicable to each change in the fund held under the annuity or guaranteed interest contract is the calendar year valuation interest rate for the year of the change in the fund.

(D) The reference interest rate referred to in subparagraph (B) of this paragraph (2) of subsection (c) shall be defined as follows:

(i) For all life insurance, the lesser of the average over a period of thirty-six months and the average over a period of twelve months, ending on June 30 of the calendar year next preceding the year of issue, of Moody's Corporate Bond Yield Average-Monthly Average Corporates, as published by Moody's Investors Service, Inc.

(ii) For single premium immediate annuities and for annuity benefits involving life contingencies arising from other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, the average over a period of twelve months, ending on June 30 of the calendar year of issue or year of purchase, of Moody's Corporate

Bond Yield Average-Monthly Average Corporates, as published by Moody's Investors Service, Inc.

(iii) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a year of issue basis, except as stated in (ii) above, with guarantee duration in excess of ten years, the lesser of the average over a period of thirty-six months and the average over a period of twelve months, ending on June 30 of the calendar year of issue or purchase, of Moody's Corporate Bond Yield Average-Monthly Average Corporates, as published by Moody's Investors Service, Inc.

(iv) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a year of issue basis, except as stated in (ii) above, with guarantee duration of ten years or less, the average over a period of twelve months, ending on June 30 of the calendar year of issue or purchase, of Moody's Corporate Bond Yield Average-Monthly Average Corporates, as published by Moody's Investors Service, Inc.

(v) For other annuities with no cash settlement options and for guaranteed interest contracts with no cash settlement options, the average over a period of twelve months, ending on June 30 of the calendar year of issue or purchase, of Moody's Corporate Bond Yield Average-Monthly Average Corporates, as published by Moody's Investors Service, Inc.

(vi) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a change in fund basis, except as stated in (ii) above, the average over a period of twelve months, ending on June 30 of the calendar year of the change in the fund, of Moody's Corporate Bond Yield Average-Monthly Average Corporates, as published by Moody's Investors Service, Inc.

(E) In the event that Moody's Corporate Bond Yield Average-Monthly Average Corporates is no longer published by Moody's Investors Service, Inc., or in the event that the National Association of Insurance Commissioners determines that Moody's Corporate Bond Yield Average-Monthly Average Corporates is no longer appropriate for the determination of the reference interest rate, then an alternative method for determination of the reference interest rate, which is adopted by the National Association of Insurance Commissioners and approved by regulation promulgated by the Insurance Commissioner, may be substituted.

[(2)] *(3) (A)* Except as otherwise provided in ***subparagraph (B) of this paragraph (3), and in*** paragraph **[(3)]** *(4)* of this subsection (c), and in section 303, reserves according to the **[Commissioners]** ***commissioners*** reserve valuation method, for the life insurance and endowment benefits of policies providing for a uniform amount of insurance and requiring the payment of uniform premiums shall be the excess, if any, of the present value, at the date of valuation, of such future guaranteed benefits provided for by such policies, over the then present value of any future modified net premiums therefor. The modified net premiums for any such policy shall be such uniform percentage of the respective contract premiums for such benefits that the present value, at the date of issue of the policy, of all such modified net premiums shall be equal to the sum of the then present value of such benefits provided for by the policy and the excess of **[(A)]** *(I)* over **[(B)]** *(II)*, as follows:

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

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

(B) For any life insurance policy issued on or after January 1, 1985 for which the gross premium in the first policy year exceeds that of the second year and for which no comparable additional benefit is provided in the first year for such excess and which provides an endowment benefit or a cash surrender value or a combination thereof in an amount greater than such excess premium, the reserve according to the commissioners reserve valuation method as of any policy anniversary occurring on or before the assumed ending date defined herein as the first policy anniversary on which the sum of any endowment benefit and any cash surrender value then available is greater than such excess premium shall, except as otherwise provided in section 303, be the greater of the reserve as of such policy anniversary calculated as described in subparagraph (A) of this paragraph (3) and the reserve as of such policy anniversary calculated as described in that paragraph, but with (i) the value defined in (I) of that subparagraph being reduced by fifteen per centum (15%) of the amount of such excess first year premium, (ii) all present values of benefits and premiums being determined without reference to premiums or benefits provided for by the policy after the assumed ending date, (iii) the policy being assumed to mature on such date as an endowment, and (iv) the cash surrender value provided on such date being considered as an endowment benefit. In making the above comparison the mortality and interest bases stated in subparagraph (A) of paragraph (1) of subsection (c) and paragraph (2) of subsection (c) shall be used.

(C) Reserves**[,]** according to the **[Commissioners]** *commissioners* reserve valuation method for (i) life insurance policies providing for a varying amount of insurance or requiring the payment of varying premiums, (ii) group annuity and pure endowment contracts purchased under a retirement plan or plan of deferred compensation, established or maintained by an employer (including a partnership or sole proprietorship) or by an employe organization, or by both, other than a plan providing individual retirement**[,]** accounts or individual retirement

annuities under section 408 of the Internal Revenue Code, as now or hereafter amended, (iii) disability and accidental death benefits in all policies and contracts, and (iv) all other benefits, except life insurance and endowment benefits in life insurance policies[,] and benefits provided by all other annuity and pure endowment contracts, shall be calculated by a method consistent with the principles of this paragraph **[(2)]** *(3)* of this subsection (c), except that any extra premiums charged because of impairments or special hazards shall be disregarded in the determination of modified net premiums.

[(3)] *(4)* This **[section]** ***paragraph*** shall apply to all annuity and pure endowment contracts other than group annuity and pure endowment contracts purchased under a retirement plan or plan of deferred compensation, established or maintained by an employer (including a partnership or sole proprietorship) or by an employe organization, or by both, other than a plan providing individual retirement accounts or individual retirement annuities under section 408 of the Internal Revenue Code, as now or hereafter amended.

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

[(4)] *(5)* In no event shall a company's aggregate reserves for all life insurance policies, excluding disability and accidental death benefits, be less than the aggregate reserves calculated in accordance with the methods set forth in paragraphs **[(2) and]** (3) ***and (4)*** of this subsection (c), and in section 303, and the mortality table or tables and rate or rates of interest used in calculating **[non-forfeiture]** ***nonforfeiture*** benefits for such policies.

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

[(6)] *(7)* Any such company which at any time shall have adopted any standard of valuation producing greater aggregate reserves than those calculated according to the minimum standard herein provided may, with the approval of the Insurance Commissioner, adopt any lower standard of valuation, but not lower than the minimum herein provided.

(d) The aggregate reserves or net value so ascertained of the policies and contracts of any such life insurance company shall be deemed its reserve liability, to provide for which it shall hold funds in secure investments of an amount equal to such net value above all its other liabilities. The Insurance Commissioner shall, after having determined as above the net value of all the policies and contracts in force, see that the company has that amount in safe legal securities, after all its other debts and claims against it have been provided for.

(e) In the case of any plan of life insurance which provides for future premium determination, the amounts of which are to be determined by the insurance company based on then estimates of future experience, or in the case of any plan of life insurance or annuity which is of such a nature that the minimum reserves cannot be determined by the methods described in paragraphs (3) and (4) of subsection (c) and section 303, the reserves which are held under any such plan must:

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

(2) be computed by a method which is consistent with the principles of this section and section 303,

as determined by regulations promulgated by the Insurance Commissioner.

[(e)] *(f)* The provisions of this section for the valuation of policies and for premium rates shall not apply to companies or associations transacting business on the mutual assessment plan.

Section 303. Minimum Reserve Requirements of Companies Charging Less Than Net Premiums Computed on Mortality Tables.—If in any contract year the gross premium charged by any life insurance company on any policy or contract is less than the valuation net premium for the policy or contract calculated by the method used in calculating the reserve thereon but using the minimum valuation standards of mortality and rate of interest, the minimum reserve required for such policy or contract shall be the greater of either the reserve calculated according to the mortality table, rate of interest, and method actually used for such policy or contract, or the reserve calculated by the method actually used for such policy or contract but using the minimum ***valuation*** standards of mortality and rate of interest and replacing the valuation net premium by the actual gross premium in each contract year for which the valuation net premium exceeds the actual gross premium. ***The minimum valuation standards of mortality and rate of interest referred to in this section are those standards stated in subsection (b), subparagraph (A) of paragraph (1) of subsection (c), and paragraph (2) of subsection (c) of section 301.***

Provided that for any life insurance policy issued on or after January 1, 1985 for which the gross premium in the first policy year exceeds that of the second year and for which no comparable additional benefit is provided in the first year for such excess and which provides an endowment benefit or a cash surrender value or a combination thereof in an amount greater than such excess premium, the foregoing provisions of this section shall be applied as if the method actually used in calculating the reserve for such policy were the method described in paragraph (3) of subsection (c) of section 301, ignoring subparagraph (B) of paragraph (3) of subsection (c) of section 301. The minimum reserve at each policy anniversary of such a policy shall be the greater of the minimum reserve calculated in accordance with paragraph (3) of subsection (c) of section 301, including subparagraph (B) of that subsection, and the minimum reserve calculated in accordance with this section.

Section 2. This act shall take effect immediately.

APPROVED—The 28th day of February, A. D. 1982.

DICK THORNBURGH