Insurance Committee

Filed: 2/28/2007

AMENDMENT TO HOUSE BILL 938

AMENDMENT NO. ______. Amend House Bill 938 on page 1, line 5, by replacing "Section" with "Sections 223 and"; and

on page 1, immediately below line 5, by inserting the following:

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

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

(1) The Director shall annually value, or cause to be valued, the reserve liabilities (hereinafter called reserves) for all outstanding life insurance policies and annuity and pure endowment contracts of every life insurance company doing business in this State, except that in the case of an alien company, such valuation shall be limited to its United States business, 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. Other assumptions may be incorporated into the reserve calculation to the extent permitted by the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual. In calculating such reserves, he may use group methods and approximate averages for fractions of a year or otherwise. In lieu of the valuation of the reserves herein required of any foreign or alien company, he may accept any valuation made, or caused to be made, by the insurance supervisory official of any state or other jurisdiction when such valuation complies with the minimum standard herein provided and if the official of such state or jurisdiction accepts as sufficient and valid for all legal purposes the certificate of valuation of the Director when such certificate states the valuation to have been made in a specified manner according to which the aggregate reserves would be at least as large as if they had been computed in the manner prescribed by the law of that state or jurisdiction.

Any such company which at any time has 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 Director, adopt any lower standard of valuation, but not lower than the minimum herein provided, however, that, for the purposes of this subsection, the holding of additional reserves previously determined by a qualified actuary to be necessary to render the opinion required by subsection (1a) shall not be deemed to be the adoption of a higher standard of valuation. In the valuation of policies the Director shall give no consideration to, nor make any deduction because of, the existence or the possession by the company of

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

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

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

(A) General.

(1) Every life insurance company doing business in this State shall annually submit the opinion of a qualified actuary as to whether the reserves and related actuarial items held in support of the policies

and contracts specified by the Director by regulation are computed appropriately, are based on assumptions that satisfy contractual provisions, are consistent with prior reported amounts and comply with applicable laws of this State. The Director by regulation shall define the specifics of this opinion and add any other items deemed to be necessary to its scope.

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

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

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

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

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

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

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

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

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

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

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

(1) Every life insurance company, except as

exempted by or under regulation, shall also annually include in the opinion required by paragraph (A)(1) of this subsection (1a), an opinion of the same qualified actuary as to whether the reserves and related actuarial items held in support of the policies and contracts specified by the Director by regulation, when considered in light of the assets held by the company with respect to the reserves and related actuarial items including, but not limited to, the investment earnings on the assets and the considerations anticipated to be received and retained under the policies and contracts, make adequate provision for the company's obligations under the policies and contracts including, but not limited to, the benefits under and expenses associated with the policies and contracts.

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

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

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

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

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

(i) first insurance year 50% thereof;

(ii) second insurance year 65% thereof;

(iii) third insurance year 75% thereof;

(iv) fourth insurance year 85% thereof;

(v) fifth insurance year 95% thereof;

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

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

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

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

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

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

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

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

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

(i) The Commissioners 1941 Standard Ordinary Mortality Table for all Ordinary policies of life insurance issued on the standard basis, excluding any disability and accidental death benefits in such policies, for such policies issued prior to the operative date of subsection (4a) of Section 229.2 (Standard Non-forfeiture Law); and the Commissioners 1958 Standard Ordinary Mortality Table for such policies issued on or after such operative date but prior to the operative date of subsection (4c) of Section 229.2 provided that for any category of such policies issued on female risks all modified net premiums and present values referred to in this Act may, prior to September 8, 1977, be calculated according to an age not more than 3 years younger than the actual age of the insured and, after September 8, 1977, calculated according to an age not more than 6 years younger than the actual age of the insured; and for such policies issued on or after the operative date of subsection (4c) of Section 229.2, (i) the Commissioners 1980 Standard Ordinary Mortality Table, or (ii) 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 (iii) any ordinary mortality table adopted after 1980 by the National Association of Insurance Commissioners and approved by regulations promulgated by the Director for use in determining the minimum standard of valuation for such policies.

(ii) For all 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 subsection 4 (b) of Section 229.2 (Standard Non-forfeiture Law); and for such policies issued on or after such operative date the Commissioners 1961 Standard Industrial Mortality Table or any industrial mortality table adopted after 1980 by the National Association of Insurance Commissioners and approved by regulations promulgated by the Director for use in determining the minimum standard of valuation for such policies.

(iii) For Individual Annuity and Pure Endowment contracts, excluding any disability and accidental death benefits in such policies--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 Director.

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

(v) For Total and Permanent Disability Benefits in or supplementary to 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 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 and approved by regulations promulgated by the Director 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.

(vi) For 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 and approved by regulations promulgated by the Director 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, any of such tables 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.

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

(b) Except as otherwise provided in paragraph (f) of subsection (3), subsection (5), and subsection (7) reserves according to the 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) over (B), as follows:

(A) 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 19 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) A net one year term premium for such benefits provided for in the first policy year.

For any life insurance policy issued on or after January 1, 1987, for which the contract premium in the first policy year exceeds that of the second year with no comparable additional benefit being provided in that first year, which policy 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 paragraph (f) of subsection (3), be the greater of the reserve as of such policy anniversary calculated as described in the preceding part of this paragraph (b) and the reserve as of such policy anniversary calculated as described in the preceding part of this paragraph (b) with (i) the value defined in subpart A of the preceding part of this paragraph (b) being reduced by 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 paragraph (a) of subsection (3) and in subsection 6 shall be used.

Reserves according to the 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 employee 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 (b), except that any extra premiums charged because of impairments or special hazards shall be disregarded in the determination of modified net premiums.

(c) 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 (b), (f), and (g) of subsection (3) and in subsection (5) and the mortality table or tables and rate or rates of interest used in calculating non-forfeiture benefits for such policies.

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

(e) Reserves for any category of policies, contracts or benefits as established by the Director, 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 nonforfeiture benefits provided for therein.

(f) 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 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 paragraph (f) are those standards stated in subsection (6) and paragraph (a) of subsection (3).

For any life insurance policy issued on or after January 1, 1987, for which the gross premium in the first policy year exceeds that of the second year with no comparable additional benefit provided in that first year, which policy 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 paragraph (f) shall be applied as if the method actually used in calculating the reserve for such policy were the method described in paragraph (b) of subsection (3), ignoring the second paragraph of said paragraph (b). The minimum reserve at each policy anniversary of such a policy shall be the greater of the minimum reserve calculated in accordance with paragraph (b) of subsection (3), including the second paragraph of said paragraph (b), and the minimum reserve calculated in accordance with this paragraph (f).

(g) 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 (b) and (f) of subsection (3) and subsection (5), the reserves which are held under any such plan shall:

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

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

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

endowment contracts issued on or after the operative date of this subsection, 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 Commissioners Reserve valuation methods defined in paragraph (b) of subsection (3) and subsection (5) and the following tables and interest rates:

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

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

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

After September 8, 1977, any company may file with the Director a written notice of its election to comply with the provisions of this subsection after a specified date before January 1, 1979, which shall be the operative date of this subsection for such company; provided, 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. If a company makes no election, the operative date of this subsection for such company shall be January 1, 1979.

(5) This subsection 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 employee 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 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 nonforfeiture values.

(6) (a) Applicability of this subsection. (i) The interest

rates used in determining the minimum standard for the valuation of

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

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

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

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

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

(b) Calendar Year Statutory Valuation Interest Rates.

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

(A) For life insurance,

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

(B) For single premium immediate annuities and 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) or with prior approval of the Director I = .03 + W (Rq - .03).

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

(C) 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 (B), the formula for life insurance stated in (A) applies to annuities and guaranteed interest contracts with guarantee durations in excess of 10 years, and the formula for single premium immediate annuities stated in (B) above applies to annuities and guaranteed interest contracts with guarantee durations of 10 years or less.

(D) 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 (B) applies.

(E) 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 (B) applies.

(ii) If the calendar year statutory valuation interest rate for any life insurance policy issued in any calendar year determined without reference to this subparagraph differs from the corresponding actual rate for similar policies issued in the immediately preceding calendar year by less than .5%, the calendar year statutory valuation interest rate for such life insurance policy shall be the corresponding actual rate for the immediately preceding calendar year. For purposes of applying this subparagraph, 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 (4c) of Section 229.2 (Standard Nonforfeiture Law) becomes operative.

(c) Weighting Factors.

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

(A) 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.

(B) The 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 is .80.

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

(1) 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

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

(3) 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 12 months beyond the valuation date, the factors shown in (1), or derived in (2), for Plan Types A, B and C are increased by .05.

(4) 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 durations in excess of 20 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.

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

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

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

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

(6) 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 shall be valued on an issue year basis. As used in this Section, "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. "Change in fund basis of valuation", as used in this Section, 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) Reference Interest Rate. (i) The reference interest rate referred to in paragraph (b) of this subsection is defined as follows.

(A) For all life insurance, the reference interest rate is the lesser of the average over a period of 36 months, and the average over a period of 12 months, with both periods ending on June 30, or with prior approval of the Director ending on December 31, 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.

(B) 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 reference interest rate is the average over a period of 12 months, ending on June 30, or with prior approval of the Director ending on December 31, 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.

(C) For annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a year of issue basis, except those described in (B), with guarantee durations in excess of 10 years, the reference interest rate is the lesser of the average over a period of 36 months and the average over a period of 12 months, ending on June 30, or with prior approval of the Director ending on December 31, 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.

(D) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a year of issue basis, except those described in (B), with guarantee durations of 10 years or less, the reference interest rate is the average over a period of 12 months, ending on June 30, or with prior approval of the Director ending on December 31, 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.

(E) For annuities with no cash settlement options and for guaranteed interest contracts with no cash settlement options, the reference interest rate is the average over a period of 12 months, ending on June 30, or with prior approval of the Director ending on December 31, 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.

(F) For annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a change in fund basis, except those described in (B), the reference interest rate is the average over a period of 12 months, ending on June 30, or with prior approval of the Director ending on December 31, 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.

(G) For annuities valued by a formula based on Rq, the quarterly reference interest rate is, with the prior approval of the Director, the average within each of the 4 consecutive calendar year quarters ending on March 31, June 30, September 30 and December 31 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.

(e) Alternative Method for Determining Reference Interest Rates. In the event that the Moody's Corporate Bond Yield Average-Monthly Average Corporates is no longer published by Moody's Investors Services, Inc., or in the event that the National Association of Insurance Commissioners determines that Moody's Corporate Bond Yield Average-Monthly Average Corporates as published by Moody's Investors Service, Inc. 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 regulations promulgated by the Director, may be substituted.

(7) Minimum Standards for Health (Disability, Accident and Sickness) Plans. The Director shall promulgate a regulation containing the minimum standards applicable to the valuation of health (disability, sickness and accident) plans.

(Source: P.A. 91-357, eff. 7-29-99.)".