

# SB2917



## 94TH GENERAL ASSEMBLY

### State of Illinois

2005 and 2006

SB2917

Introduced 1/20/2006, by Sen. William R. Haine

#### SYNOPSIS AS INTRODUCED:

215 ILCS 5/229.4a

Amends the Illinois Insurance Code. Removes a repeal date from a Section concerning the Standard Non-forfeiture Law for Individual Deferred Annuities. Effective immediately.

LRB094 19125 LJB 54646 b

A BILL FOR

1 AN ACT concerning insurance.

2 **Be it enacted by the People of the State of Illinois,**  
3 **represented in the General Assembly:**

4 Section 5. The Illinois Insurance Code is amended by  
5 changing Section 229.4a as follows:

6 (215 ILCS 5/229.4a)

7 (Section scheduled to be repealed on July 1, 2007)

8 Sec. 229.4a. Standard Non-forfeiture Law for Individual  
9 Deferred Annuities.

10 (1) Title. This Section shall be known as the Standard  
11 Nonforfeiture Law for Individual Deferred Annuities.

12 (2) Applicability. This Section shall not apply to any  
13 reinsurance, group annuity purchased under a retirement plan or  
14 plan of deferred compensation established or maintained by an  
15 employer (including a partnership or sole proprietorship) or by  
16 an employee organization, or by both, other than a plan  
17 providing individual retirement accounts or individual  
18 retirement annuities under Section 408 of the Internal Revenue  
19 Code, as now or hereafter amended, premium deposit fund,  
20 variable annuity, investment annuity, immediate annuity, any  
21 deferred annuity contract after annuity payments have  
22 commenced, or reversionary annuity, nor to any contract which  
23 shall be delivered outside this State through an agent or other  
24 representative of the company issuing the contract.

25 (3) Nonforfeiture Requirements.

26 (A) In the case of contracts issued on or after the  
27 operative date of this Section as defined in subsection  
28 (13), no contract of annuity, except as stated in  
29 subsection (2), shall be delivered or issued for delivery  
30 in this State unless it contains in substance the following  
31 provisions, or corresponding provisions which in the  
32 opinion of the Director of Insurance are at least as

1 favorable to the contract holder, upon cessation of payment  
2 of considerations under the contract:

3 (i) That upon cessation of payment of  
4 considerations under a contract, or upon the written  
5 request of the contract owner, the company shall grant  
6 a paid-up annuity benefit on a plan stipulated in the  
7 contract of such value as is specified in subsections  
8 (5), (6), (7), (8) and (10);

9 (ii) If a contract provides for a lump sum  
10 settlement at maturity, or at any other time, that upon  
11 surrender of the contract at or prior to the  
12 commencement of any annuity payments, the company  
13 shall pay in lieu of a paid-up annuity benefit a cash  
14 surrender benefit of such amount as is specified in  
15 subsections (5), (6), (8) and (10). The company may  
16 reserve the right to defer the payment of the cash  
17 surrender benefit for a period not to exceed 6 months  
18 after demand therefor with surrender of the contract  
19 after making written request and receiving written  
20 approval of the Director. The request shall address the  
21 necessity and equitability to all policyholders of the  
22 deferral;

23 (iii) A statement of the mortality table, if any,  
24 and interest rates used calculating any minimum  
25 paid-up annuity, cash surrender, or death benefits  
26 that are guaranteed under the contract, together with  
27 sufficient information to determine the amounts of the  
28 benefits; and

29 (iv) A statement that any paid-up annuity, cash  
30 surrender or death benefits that may be available under  
31 the contract are not less than the minimum benefits  
32 required by any statute of the state in which the  
33 contract is delivered and an explanation of the manner  
34 in which the benefits are altered by the existence of  
35 any additional amounts credited by the company to the  
36 contract, any indebtedness to the company on the

1 contract or any prior withdrawals from or partial  
2 surrenders of the contract.

3 (B) Notwithstanding the requirements of this Section,  
4 a deferred annuity contract may provide that if no  
5 considerations have been received under a contract for a  
6 period of 2 full years and the portion of the paid-up  
7 annuity benefit at maturity on the plan stipulated in the  
8 contract arising from prior considerations paid would be  
9 less than \$20 monthly, the company may at its option  
10 terminate the contract by payment in cash of the then  
11 present value of the portion of the paid-up annuity  
12 benefit, calculated on the basis on the mortality table, if  
13 any, and interest rate specified in the contract for  
14 determining the paid-up annuity benefit, and by this  
15 payment shall be relieved of any further obligation under  
16 the contract.

17 (4) Minimum values. The minimum values as specified in  
18 subsections (5), (6), (7), (8) and (10) of any paid-up annuity,  
19 cash surrender or death benefits available under an annuity  
20 contract shall be based upon minimum nonforfeiture amounts as  
21 defined in this subsection.

22 (A) (i) The minimum nonforfeiture amount at any time at  
23 or prior to the commencement of any annuity payments shall  
24 be equal to an accumulation up to such time at rates of  
25 interest as indicated in subdivision (4) (B) of the net  
26 considerations (as hereinafter defined) paid prior to such  
27 time, decreased by the sum of paragraphs (a) through (d)  
28 below:

29 (a) Any prior withdrawals from or partial  
30 surrenders of the contract accumulated at rates of  
31 interest as indicated in subdivision (4) (B);

32 (b) An annual contract charge of \$50,  
33 accumulated at rates of interest as indicated in  
34 subdivision (4) (B);

35 (c) Any premium tax paid by the company for the  
36 contract, accumulated at rates of interest as

1 indicated in subdivision (4) (B); and

2 (d) The amount of any indebtedness to the  
3 company on the contract, including interest due and  
4 accrued.

5 (ii) The net considerations for a given contract year  
6 used to define the minimum nonforfeiture amount shall be an  
7 amount equal to 87.5% of the gross considerations, credited  
8 to the contract during that contract year.

9 (B) The interest rate used in determining minimum  
10 nonforfeiture amounts shall be an annual rate of interest  
11 determined as the lesser of 3% per annum and the following,  
12 which shall be specified in the contract if the interest  
13 rate will be reset:

14 (i) The five-year Constant Maturity Treasury Rate  
15 reported by the Federal Reserve as of a date, or  
16 average over a period, rounded to the nearest 1/20th of  
17 one percent, specified in the contract no longer than  
18 15 months prior to the contract issue date or  
19 redetermination date under subdivision (4) (B) (iv);

20 (ii) Reduced by 125 basis points;

21 (iii) Where the resulting interest rate is not less  
22 than 1%; and

23 (iv) The interest rate shall apply for an initial  
24 period and may be redetermined for additional periods.  
25 The redetermination date, basis and period, if any,  
26 shall be stated in the contract. The basis is the date  
27 or average over a specified period that produces the  
28 value of the 5-year Constant Maturity Treasury Rate to  
29 be used at each redetermination date.

30 (C) During the period or term that a contract provides  
31 substantive participation in an equity indexed benefit, it  
32 may increase the reduction described in subdivision  
33 (4) (B) (ii) above by up to an additional 100 basis points to  
34 reflect the value of the equity index benefit. The present  
35 value at the contract issue date, and at each  
36 redetermination date thereafter, of the additional

1 reduction shall not exceed market value of the benefit. The  
2 Director may require a demonstration that the present value  
3 of the additional reduction does not exceed the market  
4 value of the benefit. Lacking such a demonstration that is  
5 acceptable to the Director, the Director may disallow or  
6 limit the additional reduction.

7 (D) The Director may adopt rules to implement the  
8 provisions of subdivision (4) (C) and to provide for further  
9 adjustments to the calculation of minimum nonforfeiture  
10 amounts for contracts that provide substantive  
11 participation in an equity index benefit and for other  
12 contracts that the Director determines adjustments are  
13 justified.

14 (5) Computation of Present Value. Any paid-up annuity  
15 benefit available under a contract shall be such that its  
16 present value on the date annuity payments are to commence is  
17 at least equal to the minimum nonforfeiture amount on that  
18 date. Present value shall be computed using the mortality  
19 table, if any, and the interest rates specified in the contract  
20 for determining the minimum paid-up annuity benefits  
21 guaranteed in the contract.

22 (6) Calculation of Cash Surrender Value. For contracts that  
23 provide cash surrender benefits, the cash surrender benefits  
24 available prior to maturity shall not be less than the present  
25 value as of the date of surrender of that portion of the  
26 maturity value of the paid-up annuity benefit that would be  
27 provided under the contract at maturity arising from  
28 considerations paid prior to the time of cash surrender reduced  
29 by the amount appropriate to reflect any prior withdrawals from  
30 or partial surrenders of the contract, such present value being  
31 calculated on the basis of an interest rate not more than 1%  
32 higher than the interest rate specified in the contract for  
33 accumulating the net considerations to determine maturity  
34 value, decreased by the amount of any indebtedness to the  
35 company on the contract, including interest due and accrued,  
36 and increased by any existing additional amounts credited by

1 the company to the contract. In no event shall any cash  
2 surrender benefit be less than the minimum nonforfeiture amount  
3 at that time. The death benefit under such contracts shall be  
4 at least equal to the cash surrender benefit.

5 (7) Calculation of Paid-up Annuity Benefits. For contracts  
6 that do not provide cash surrender benefits, the present value  
7 of any paid-up annuity benefit available as a nonforfeiture  
8 option at any time prior to maturity shall not be less than the  
9 present value of that portion of the maturity value of the  
10 paid-up annuity benefit provided under the contract arising  
11 from considerations paid prior to the time the contract is  
12 surrendered in exchange for, or changed to, a deferred paid-up  
13 annuity, such present value being calculated for the period  
14 prior to the maturity date on the basis of the interest rate  
15 specified in the contract for accumulating the net  
16 considerations to determine maturity value, and increased by  
17 any additional amounts credited by the company to the contract.  
18 For contracts that do not provide any death benefits prior to  
19 the commencement of any annuity payments, present values shall  
20 be calculated on the basis of such interest rate and the  
21 mortality table specified in the contract for determining the  
22 maturity value of the paid-up annuity benefit. However, in no  
23 event shall the present value of a paid-up annuity benefit be  
24 less than the minimum nonforfeiture amount at that time.

25 (8) Maturity Date. For the purpose of determining the  
26 benefits calculated under subsections (6) and (7), in the case  
27 of annuity contracts under which an election may be made to  
28 have annuity payments commence at optional maturity dates, the  
29 maturity date shall be deemed to be the latest date for which  
30 election shall be permitted by the contract, but shall not be  
31 deemed to be later than the anniversary of the contract next  
32 following the annuitant's seventieth birthday or the tenth  
33 anniversary of the contract, whichever is later.

34 (9) Disclosure of Limited Death Benefits. A contract that  
35 does not provide cash surrender benefits or does not provide  
36 death benefits at least equal to the minimum nonforfeiture

1 amount prior to the commencement of any annuity payments shall  
2 include a statement in a prominent place in the contract that  
3 such benefits are not provided.

4 (10) Inclusion of Lapse of Time Considerations. Any paid-up  
5 annuity, cash surrender or death benefits available at any  
6 time, other than on the contract anniversary under any contract  
7 with fixed scheduled considerations, shall be calculated with  
8 allowance for the lapse of time and the payment of any  
9 scheduled considerations beyond the beginning of the contract  
10 year in which cessation of payment of considerations under the  
11 contract occurs.

12 (11) Proration of Values; Additional Benefits. For a  
13 contract which provides, within the same contract by rider or  
14 supplemental contract provision, both annuity benefits and  
15 life insurance benefits that are in excess of the greater of  
16 cash surrender benefits or a return of the gross considerations  
17 with interest, the minimum nonforfeiture benefits shall be  
18 equal to the sum of the minimum nonforfeiture benefits for the  
19 annuity portion and the minimum nonforfeiture benefits, if any,  
20 for the life insurance portion computed as if each portion were  
21 a separate contract. Notwithstanding the provisions of  
22 subsections (5), (6), (7), (8) and (10), additional benefits  
23 payable in the event of total and permanent disability, as  
24 reversionary annuity or deferred reversionary annuity  
25 benefits, or as other policy benefits additional to life  
26 insurance, endowment and annuity benefits, and considerations  
27 for all such additional benefits, shall be disregarded in  
28 ascertaining the minimum nonforfeiture amounts, paid-up  
29 annuity, cash surrender and death benefits that may be required  
30 under this Section. The inclusion of such benefits shall not be  
31 required in any paid-up benefits, unless the additional  
32 benefits separately would require minimum nonforfeiture  
33 amounts, paid-up annuity, cash surrender and death benefits.

34 (12) Rules. The Director may adopt rules to implement the  
35 provisions of this Section.

36 (13) Effective Date. After the effective date of this



1 amendatory Act of the 93rd General Assembly, a company may  
2 elect to apply its provisions to annuity contracts on a  
3 contract form-by-contract form basis before July 1, 2006. In  
4 all other instances, this Section shall become operative with  
5 respect to annuity contracts issued by the company on or after  
6 July 1, 2006.

7 (14) (Blank) ~~This Section is repealed on July 1, 2007.~~

8 (Source: P.A. 93-873, eff. 8-6-04.)

9 Section 99. Effective date. This Act takes effect upon  
10 becoming law.