



# LAWS OF ALASKA

1978

Source

CSHB 872

Chapter No.

100

## AN ACT

Relating to interest rates used in calculating reserves for life insurance policies; and providing for an effective date.

### BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

\* Section 1. AS 21.18.110(b) is amended to read:

(b) This subsection applies to only those policies and contracts issued on or after the operative date of AS 21.45.300 except as otherwise provided in (6) of this subsection for group annuity and pure endowment contracts issued before that operative date:

(1) Except as otherwise provided in (6) of this subsection, the minimum standard for the valuation of all these policies and contracts shall be the Commissioner's Reserve Valuation Methods defined in (b)(2), (5) and (8) of this section, three and one-half per cent interest, or in the case of policies and contracts, other than annuity and pure endowment contracts, issued on or after July 1, 1978, five and one-half per cent interest for single premium life insurance policies and four and one-half per cent interest for all other policies, and the following tables:

(A) for all ordinary policies of life insurance issued on the standard basis, excluding disability and accidental death benefits in the policies -- the Commissioner's 1958 Standard Ordinary Mortality Table, except that for a category of policies issued on female risks, modified net premiums and present values, referred to in (b)(2) of this section may be calculated according to an age not more than six years younger than the actual age of the insured;

(B) for all industrial life insurance policies issued on the standard basis, excluding disability and accidental death benefits in the policies --

the 1941 Standard Industrial Mortality Table for the policies issued before the operative date of AS 21.45.-300(j), of the Standard Nonforfeiture Law, and the Commissioner's 1961 Standard Industrial Mortality Table for the policies issued on or after the operative date;

(C) for individual annuity and pure endowment contracts, excluding disability and accidental death benefits in the policies -- the 1937 Standard Annuity Mortality Table, or, at the option of the insurer, the Annuity Mortality Table for 1949, ultimate, or any modification of either of these tables approved by the director;

(D) for group annuity and pure endowment contracts, excluding disability and accidental death benefits in the policies -- the Group Annuity Mortality Table for 1951, any modification of the table approved by the director, or, at the option of the insurer, any of the tables or modifications of tables specified for individual annuity and pure endowment contracts;

(E) for total and permanent disability benefits in or supplementary to ordinary policies or contracts -- 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; the table shall, for active lives, be combined with a mortality table permitted for calculating the reserves for life insurance policies;

(F) for accidental death benefits in or supplementary to policies -- the 1959 Accidental Death Benefits Table combined with a mortality table permitted for calculating the reserves for life insurance policies;

(G) for group life insurance, life insurance issued on the substandard basis and other special benefits -- tables approved by the director.

(2) Except as otherwise provided in (5) and (8) of this subsection, reserves according to the Commissioner's 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 the future guaranteed benefits provided for by the policies, over the then present value of any future modified net premiums; the modified net premiums for the policy shall be the uniform percentage of the respective contract premiums for the benefits that the present value, at the date of issue of the policy, of all the modified net premiums shall be equal to the sum of then present value of the 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 the benefits provided for after the first policy year, divided by the present value, at the date of issue of an annuity

of one a year payable on the first and each subsequent anniversary of the policy on which a premium falls due; however, the net level annual premium may 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 the policy;

(B) a net one-year term premium for the benefits provided for in the first policy year;

(C) reserves according to the Commissioner's 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 sec. 408 of the Internal Revenue Code, as amended,

(iii) disability and accidental death benefits in all policies and contracts,

(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 (b)(2) of this section, except that any extra premiums charged because of impairments or special hazards shall be disregarded in the determination of modified net premiums.

(3) In no event may an insurer'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 out in (b)(2), (5) and (8) of this section, and the mortality table or tables and rate or rates of interest used in calculating nonforfeiture benefits for such policies.

(4) Reserves for any category of policies, contracts or benefits as established by the director, may be calculated at the option of the insurer according to standards which produce greater aggregate reserves for the category than those calculated according to the minimum standard provided in this section, but the rate or rates of interest used for policies and contracts, other than annuity and pure endowment contracts, may not be higher than the corresponding rate or rates of interest used in calculating nonforfeiture benefits provided for in the policy or contract.

(5) If in any contract year the gross premium charged by a life insurer on a policy or contract is less

than the valuation net premium for the policy or contract calculated by the method used in calculating the reserve on the policy or contract but using the minimum valuation standards of mortality and rate of interest, the minimum reserve required for that 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 the policy or contract, or the reserve calculated by the method actually used for the 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.

(6) The minimum standard for the valuation of all individual annuity and pure endowment contracts issued on or after the operative date of this paragraph as set out in (7) of this subsection and for all annuities and pure endowments purchased on or after that date under group annuity and pure endowment contracts, shall be the Commissioner's Reserve Valuation Methods defined in (2) and (8) of this subsection 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, or any modification of this table approved by the commissioner, and seven and one-half per cent interest;

(B) for individual annuity and pure endowment contracts, 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 modification of this table approved by the commissioner, and five and one-half per cent interest for single premium deferred annuity and pure endowment contracts and four and one-half per cent 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, or any modification of this table approved by the commissioner, and seven and one-half per cent interest.

(7) After July 1, 1978, an insurer may file with the director a written notice of its election to comply with the provisions of (6) of this subsection after a specified date before January 1, 1979, which shall be the operative date of that requirement for the insurer; however, an insurer may elect a different operative date for individual annuity and pure endowment contracts from that elected for group annuity and pure endowment contracts. If an insurer makes no election, the operative date of (6) of this subsection for the insurer is January 1, 1979.

(8) This section applies 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 sec. 408 of the Internal Revenue Code, as amended. Reserves according to the Commissioner's Annuity Reserve Method for benefits under annuity or pure endowment contracts, excluding any disability and accidental death benefits in those 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 those 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 before the end of that 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 those contracts to determine nonforfeiture values.

\* Sec. 2. AS 21.45.300(i) is amended to read:

(i) All adjusted premiums and present values referred to in this section shall for all policies of ordinary insurance be calculated on the basis of the Commissioner's 1958 Standard Ordinary Mortality Table, except that for any category of ordinary insurance issued on female risks, adjusted premiums and present values may be calculated according to an age not more than six years younger than the actual age of the insured. Except as provided in (j) of this section, the calculations for all policies of industrial insurance shall be made on the basis of the 1941 Standard Industrial Mortality Table. All calculations shall be made on the basis of the rate of interest specified in the policy for calculating cash surrender values and paid-up nonforfeiture benefits; however, that specified rate of interest may not exceed three and one-half per cent a year except that a rate of interest not exceeding five and one-half per cent a year may be used for policies issued on or after July 1, 1978, except that for any single premium whole life or endowment insurance policy a rate of interest not exceeding six and one-half per cent a year may be used and except that in calculating the present value of paid-up term insurance with accompanying pure endowment, if any, offered as a nonforfeiture benefit, the rates of mortality assumed in the case of policies of ordinary insurance, may be not more than those shown in the Commissioner's 1958 Extended Term Insurance Table, and in the case of policies of industrial insurance, may be not more than 130 per cent of the rates of mortality according to the 1941 Standard Industrial Mortality Table, and for insurance issued on a substandard basis, the calculation of the adjusted premiums and present values may be based on such other table of mortality as may be specified by the insurer and approved by the director.

\* Sec. 3. AS 21.45.300(j) is amended to read:

(j) In case of industrial policies issued on or after the operative date of this subsection as defined in (k) of this section, all adjusted premiums and present values referred to in this section shall be calculated on the basis of the Commissioner's 1961 Standard Industrial Mortality Table and the rate of interest specified in the policy for calculating cash surrender values and paid-up nonforfeiture benefits; however, that specified rate of interest may not exceed three and one-half per cent a year except that a rate of interest not exceeding five and one-half per cent a year may be used for policies issued on or after July 1, 1978, except that for any single premium whole life or endowment insurance policy a rate of interest not exceeding six and one-half per cent a year may be used and except that in calculating the present value of paid-up term insurance with accompanying pure endowment, if any, offered as a nonforfeiture benefit, the rates of mortality assumed may be not more than those shown in the Commissioner's 1961 Industrial Extended Term Insurance Table. The calculation of the adjusted premiums and present values for insurance issued on a substandard basis may be based on a table of mortality specified by the insurer and approved by the director.

\* Sec. 4. AS 21.45 is amended by adding a new section to read:

Sec. 21.45.305. STANDARD NONFORFEITURE LAW FOR INDIVIDUAL DEFERRED ANNUITIES. (a) This section does not apply to any reinsurance, group annuity 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 sec. 408 of the Internal Revenue Code, as amended, premium deposit fund, variable annuity, investment annuity, immediate annuity, any deferred annuity contract after annuity payments have commenced, or reversionary annuity, nor to any contract which shall be delivered outside this state through an agent or other representative of the company issuing the contract.

(b) In the case of contracts issued on or after the operative date of this section as defined in (k) of this section, no contract of annuity, except as stated in (a) of this section, may be delivered or issued for delivery in this state unless it contains in substance the following provisions, or corresponding provisions which in the opinion of the director are at least as favorable to the contract holder, upon cessation of payment of considerations under the contract: (1) that upon cessation of payment of considerations under a contract, the company will grant a paid-up annuity benefit on a plan stipulated in the contract of such value as is specified in (d) - (g) and (i) of this section; (2) if a contract provides for a lump sum settlement at maturity, or at any other time, that upon surrender of the contract at or before the commencement of any annuity payments, the company will pay in lieu of any paid-up annuity benefit a cash surrender benefit of such amount as is specified in (d), (e), (g) and (i) of this section; the company shall reserve the right to defer the payment of that cash surrender benefit for a period of six months after

demand for the payment with surrender of the contract; (3) a statement of the mortality table, if any, and interest rates used in calculating any minimum paid-up annuity, cash surrender or death benefits that are guaranteed under the contract, together with sufficient information to determine the amounts of those benefits; (4) a statement that any paid-up annuity, cash surrender or death benefits that may be available under the contract are not less than the minimum benefits required by any statute of the state in which the contract is delivered and an explanation of the manner in which those benefits are altered by the existence of any additional amounts credited by the company to the contract, any indebtedness to the company on the contract or any prior withdrawals from or partial surrenders of the contract. Notwithstanding the requirements of this subsection, any deferred annuity contract may provide that if no considerations have been received under a contract for a period of two full years and the portion of the paid-up annuity benefit at maturity on the plan stipulated in the contract arising from considerations paid before that period would be less than \$20 monthly, the company may at its option terminate the contract by payment in cash of the then present value of such portion of the paid-up annuity benefit, calculated on the basis of the mortality table, if any, and interest rate specified in the contract for determining the paid-up annuity benefit, and by that payment shall be relieved of any further obligation under the contract.

(c) The minimum values as specified in (d) - (g) and (i) of this section of any paid-up annuity, cash surrender or death benefits available under an annuity contract shall be based upon minimum nonforfeiture amounts as defined in this section:

(1) with respect to contracts providing for flexible considerations, the minimum nonforfeiture amount at any time at or before the commencement of any annuity payments shall be equal to an accumulation up to that time at a rate of interest of three per cent a year of percentages of the net considerations as defined in this paragraph paid before that time, decreased by the sum of (A) any prior withdrawals from or partial surrenders of the contract accumulated at a rate of interest of three per cent a year; and (B) the amount of any indebtedness to the company on the contract, including interest due and accrued, and increased by any existing additional amounts credited by the company to the contract. The net considerations for a given contract year used to define the minimum nonforfeiture amount shall be an amount not less than zero and shall be equal to the corresponding gross considerations credited to the contract during that contract year less an annual contract charge of \$30 and less a collection charge of \$1.25 per consideration credited to the contract during that contract year. The percentages of net considerations shall be 65 per cent of the net consideration for the first contract year and 87-1/2 per cent of the net considerations for the second and later contract years. Notwithstanding the provisions of the preceding sentence, the percentage shall be 65 per cent of the portion of the total net consideration for any renewal contract year which exceeds by not more than two times the sum of those portions of the net considerations in all prior contract years for which the percentage was 65 per cent.

(2) With respect to contracts providing for fixed scheduled considerations, minimum nonforfeiture amounts shall be calculated on the assumption that considerations are paid annually in advance and shall be defined as for contracts with flexible considerations which are paid annually with two exceptions:

(A) The portion of the net consideration for the first contract year to be accumulated shall be the sum of 65 per cent of the net consideration for the first contract year plus 22-1/2 per cent of the excess of the net consideration for the first contract year over the lesser of the net considerations for the second and third contract years.

(B) The annual contract charge shall be the lesser of (i) \$30 or (ii) 10 per cent of the gross annual consideration.

(3) With respect to contracts providing for a single consideration, minimum nonforfeiture amounts shall be defined as for contracts with flexible considerations except that the percentage of net consideration used to determine the minimum nonforfeiture amount shall be equal to 90 per cent and the net consideration shall be the gross consideration less a contract charge of \$75.

(d) Any paid-up annuity benefit available under a contract shall be such that its present value on the date annuity payments are to commence is at least equal to the minimum nonforfeiture amount on that date. Such present value shall be computed using the mortality table, if any, and the interest rate specified in the contract for determining the minimum paid-up annuity benefits guaranteed in the contract.

(e) For contracts which provide cash surrender benefits, such cash surrender benefits available before maturity may not be less than the present value as of the date of surrender of that portion of the maturity value of the paid-up annuity benefit which would be provided under the contract at maturity arising from considerations paid before the time of cash surrender reduced by the amount appropriate to reflect any prior withdrawals from or partial surrenders of the contract. The present value shall be calculated on the basis of an interest rate not more than one per cent higher than the interest rate specified in the contract for accumulating the net considerations to determine the maturity value, decreased by the amount of any indebtedness to the company on the contract, including interest due and accrued, and increased by any existing additional amounts credited by the company to the contract. In no event may any cash surrender benefit be less than the minimum nonforfeiture amount at that time. The death benefit under such contracts shall be at least equal to the cash surrender benefit.

(f) For contracts which do not provide cash surrender benefits, the present value of any paid-up annuity benefit available as a nonforfeiture option at any time before maturity may not be less than the present value of that portion of the maturity value of the paid-up annuity benefit provided under the contract arising from considerations

paid before the time the contract is surrendered in exchange for, or changed to, a deferred paid-up annuity. The present value shall be calculated for the period before the maturity date on the basis of the interest rate specified in the contract for accumulating the net considerations to determine the maturity value, and increased by any existing additional amounts credited by the company to the contract. For contracts which do not provide any death benefits before the commencement of any annuity payments, the present values shall be calculated on the basis of the interest rate and the mortality table specified in the contract for determining the maturity value of the paid-up annuity benefit. However, in no event may the present value of a paid-up annuity benefit be less than the minimum nonforfeiture amount at that time.

(g) For the purpose of determining the benefits calculated under (e) and (f) of this section, in the case of annuity contracts under which an election may be made to have annuity payments commence at optional maturity dates, the maturity date shall be considered to be the latest date for which election shall be permitted by the contract, but is not considered to be later than the anniversary of the contract next following the annuitant's 70th birthday or the 10th anniversary of the contract, whichever is later.

(h) Any contract which does not provide cash surrender benefits or does not provide death benefits at least equal to the minimum nonforfeiture amount before the commencement of any annuity payments shall include a statement in a prominent place in the contract that such benefits are not provided.

(i) Any paid-up annuity, cash surrender or death benefits available at any time, other than on the contract anniversary under any contract with fixed scheduled considerations, shall be calculated with allowance for the lapse of time and the payment of any scheduled considerations beyond the beginning of the contract year in which cessation of payment of considerations under the contract occurs.

(j) For any contract which provides, within the same contract by rider or supplemental contract provision, both annuity benefits and life insurance benefits that are in excess of the greater of cash surrender benefits or a return of the gross considerations with interest, the minimum nonforfeiture benefits shall be equal to the sum of the minimum nonforfeiture benefits for the annuity portion and the minimum nonforfeiture benefits, if any, for the life insurance portion computed as if each portion were a separate contract. Notwithstanding the provisions of (d) - (g) and (i) of this section, additional benefits payable (1) in the event of total and permanent disability, (2) as reversionary annuity or deferred reversionary annuity benefits, or (3) as other policy benefits additional to life insurance, endowment and annuity benefits, and considerations for all such additional benefits, shall be disregarded in ascertaining the minimum nonforfeiture amounts, paid-up annuity, cash surrender and death benefits that may be required by this section. The inclusion of such additional benefits is not required in any paid-up benefits, unless those additional benefits separately would require minimum nonforfeiture amounts, paid-up annuity, cash surrender and death benefits.

(k) After the effective date of this section, any company may file with the director a written notice of its election to comply with the provisions of this section after a specified date before the second anniversary of the effective date of this section. After the filing of the notice, then upon the specified date, which shall be the operative date of this section for the company, this section shall become operative with respect to annuity contracts thereafter issued by the company. If a company makes no such election, the operative date of this section for the company shall be the second anniversary of the effective date of this section.

\* Sec. 5. This Act takes effect immediately in accordance with AS 01.10.070(c).