

1 IN THE SENATE

BY SENATORS BRADSHAW AND GILBERT

2 SENATE BILL NO.76

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIRST LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An act to provide for the valuation of
7 reserve liabilities for life insurance
8 policies and annuity contracts and to
9 provide for nonforfeiture benefits and cash
10 surrender values under life insurance
11 policies,"

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

13 Section 1.

14 (1) This section shall be known as the Standard Valua-
15 tion Law.

16 (2) The Commissioner shall annually value, or cause to
17 be valued, the reserve liabilities (hereinafter called reserves)
18 for all outstanding life insurance policies and annuity and pure
19 endowment contracts of every life insurance company doing business
20 in this state, except that in the case of an alien insurer, such
21 valuation shall be limited to its insurance transactions in the
22 United States, and may certify the amount of any such reserves,
23 specifying the mortality table or tables, rate or rates of interest
24 and methods (net level premium method or other) used in the cal-
25 culation of such reserves. In calculating such reserves, he may
26 use group methods and approximate averages for fractions of a
27 year or otherwise. He may accept in his discretion the company's
28 calculation of such reserves. In lieu of the valuation of the
29 reserves herein required of any foreign or alien company, he may

1 accept any valuation made, or caused to be made, by the insurance
2 supervisory official of any state or other jurisdiction when such
3 valuation complies with the minimum standard herein provided, and
4 if the official of such state or jurisdiction accepts as sufficient
5 and valid for all legal purposes the certificate of valuation of
6 the Commissioner when such certificate states the valuation to
7 have been made in a specified manner according to which the
8 aggregate reserves would be at least as large as if they had been
9 computed in the manner prescribed by the law of that state or
10 jurisdiction.

11 (3) The minimum standard for the valuation of all such
12 policies and contracts issued prior to the operative date of
13 Section 2 of this act (the Standard Nonforfeiture Law) shall be
14 that provided by the laws in effect immediately prior to the
15 effective date of this act.

16 The minimum standard for the valuation of all such policies
17 and contracts issued on or after the operative date of Section 2
18 of this act (the Standard Nonforfeiture Law) shall be the
19 Commissioners reserve valuation method defined in subsection (4)
20 of this section, three and one-half per cent ($3\frac{1}{2}\%$) interest and
21 the following tables:

22 (a) For all ordinary policies of life insurance
23 issued on the standard basis, excluding any disability and
24 accidental death benefits in such policies, the Commissioners
25 1958 Standard Ordinary Mortality Table, provided, however,
26 that for any category of such policies issued on female
27 risks, all modified net premiums and present values, referred
28 to in this section, may be calculated according to an age not
29 more than three (3) years younger than the actual age of the

1 insured.

2 (b) For all industrial life insurance policies
3 issued on the standard basis, excluding any disability and
4 accidental death benefits in such policies, the 1941 Standard
5 Industrial Mortality Table.

6 (c) For annuity and pure endowment contracts, ex-
7 cluding any disability and accidental death benefits in such
8 policies, the 1937 Standard Annuity Mortality Table.

9 (d) For total and permanent disability benefits in
10 or supplementary to ordinary policies or contracts, Class (3)
11 Disability Table (1926) which, for active lives, shall be
12 combined with a mortality table permitted for calculating the
13 reserves for life insurance policies.

14 (e) For accidental death benefits in or supple-
15 mentary to policies, the Intercompany Double Indemnity
16 Mortality Table combined with a mortality table permitted for
17 calculating the reserves for life insurance policies.

18 (f) For group life insurance, life insurance
19 issued on the substandard basis and other special benefits,
20 such tables as may be approved by the Commissioner.

21 (4) Reserves according to the commissioners reserve
22 valuation method, for the life insurance and endowment benefits
23 of policies providing for a uniform amount of insurance and re-
24 quiring the payment of uniform premiums shall be the excess, if
25 any, of the present value, at the date of valuation, of such
26 future guaranteed benefits provided for by such policies, over
27 the then present value of any future modified net premiums there-
28 for. The modified net premiums for any such policy shall be such
29 uniform percentage of the respective contract premiums for such

1 benefits that the present value, at the date of issue of the
2 policy, of all such modified net premiums shall be equal to the
3 sum of the then present value of such benefits provided for by
4 the policy and the excess of (a) over (b), as follows:

5 (a) A net level annual premium equal to the
6 present value, at the date of issue, of such benefits pro-
7 vided for after the first policy year, divided by the
8 present value, at the date of issue, of an annuity of one
9 per annum payable on the first and each subsequent anniver-
10 sary of such policy on which a premium falls due; provided,
11 however, that such net level annual premium shall not ex-
12 ceed the net level annual premium on the nineteen-year
13 premium whole life plan for insurance of the same amount at
14 an age one year higher than the age at issue of such policy.

15 (b) A net one-year term premium for such benefits
16 provided for in the first policy year.

17 Reserves according to the commissioners reserve valuation
18 method for (1) life insurance policies providing for a varying
19 amount of insurance or requiring the payment of varying premiums,
20 (2) annuity and pure endowment contracts, (3) disability and
21 accidental death benefits in all policies and contracts, and (4)
22 all other benefits, except life insurance and endowment benefits
23 in life insurance policies, shall be calculated by a method con-
24 sistent with the principles of the preceding paragraph.

25 (5) In no event shall a company's aggregate reserves
26 for all life insurance policies, excluding disability and
27 accidental death benefits, issued on or after the operative date
28 of Section 2 of this act (the Standard Nonforfeiture Law), be
29 less than the aggregate reserves calculated in accordance with

1 the method set forth in subsection (4) of this section and the
2 mortality table or tables and rate or rates of interest used in
3 calculating nonforfeiture benefits for such policies.

4 (6) Reserves for all policies and contracts issued
5 prior to the operative date of Section 2 of this act (the Standard
6 Nonforfeiture Law), may be calculated, at the option of the
7 company, according to any standards which produce greater aggregate
8 reserves for all such policies and contracts than the minimum re-
9 serves required by the laws in effect immediately prior to such
10 date.

11 Reserves for any category of policies, contracts or benefits
12 as established by the Commissioner, issued on or after the
13 operative date of Section 2 of this act (the Standard Nonforfeiture
14 Law), may be calculated, at the option of the company, according
15 to any standards which produce greater aggregate reserves for
16 such category than those calculated according to the minimum
17 standard herein provided, but the rate or rates of interest used
18 shall not be higher than the corresponding rate or rates of
19 interest used in calculating any nonforfeiture benefits provided
20 for therein, provided, however, that reserves for participating
21 life insurance policies issued on or after the operative date of
22 Section 2 of this act (the Standard Nonforfeiture Law), may, with
23 the consent of the commissioner, be calculated according to a
24 rate of interest lower than the rate of interest used in calculat-
25 ing the nonforfeiture benefits in such policies, with the further
26 proviso that if such lower rate differs from the rate used in the
27 calculation of the nonforfeiture benefits by more than one-half
28 per cent ($\frac{1}{2}\%$) the company issuing such policies shall file with
29 the commissioner a plan providing for such equitable increases, if

1 any, in the cash surrender values and nonforfeiture benefits in
2 such policies as the Commissioner shall approve.

3 Any such company which at any time shall have adopted any
4 standard of valuation producing greater aggregate reserves than
5 those calculated according to the minimum standard herein provided
6 may, with the approval of the Commissioner, adopt any lower
7 standard of valuation, but not lower than the minimum herein
8 provided.

9 (7) If the gross premium charged by any life insurance
10 company on any policy or contract issued on or after the operative
11 date of Section 2 of this act (the Standard Nonforfeiture Law), is
12 less than the net premium for the policy or contract according to
13 the mortality table, rate of interest and method used in calculat-
14 ing the reserve thereon, there shall be maintained on such policy
15 or contract a deficiency reserve in addition to all other reserves
16 required by law. For each such policy or contract the deficiency
17 reserve shall be the present value, according to such standard,
18 of an annuity of the difference between such net premium and the
19 premium charged for such policy or contract, running for the re-
20 mainder of the premium-paying period.

21 Section 2. (1) This section shall be known as the Standard
22 Nonforfeiture Law.

23 (2) In the case of policies issued on or after the
24 operative date of this section as defined in subsection (8) of
25 this section, no policy of life insurance, except as set forth
26 in subsection (7) of this section, shall be delivered or issued
27 for delivery in this state unless it shall contain in substance
28 the following provisions, or corresponding provisions which in
29 the opinion of the Commissioner are at least as favorable to the

1 defaulting or surrendering policyholder:

2 (a) That in the event of default in any premium
3 payment, the company will grant, upon proper request not
4 later than sixty days after the due date of the premium in
5 default, a paid-up nonforfeiture benefit on a plan stipulated
6 in the policy, effective as of such due date, of such value as
7 may be hereinafter specified.

8 (b) That, upon surrender of the policy within
9 sixty days after the due date of any premium payment in de-
10 fault after premiums have been paid for at least three full
11 years in the case of ordinary insurance, or five full years
12 in the case of industrial insurance, the company will pay,
13 in lieu of any paid-up nonforfeiture benefit, a cash surrender
14 value of such amount as may be hereinafter specified.

15 (c) That a specified paid-up nonforfeiture benefit
16 shall become effective as specified in the policy unless the
17 person entitled to make such election elects another avail-
18 able option not later than sixty days after the due date of
19 the premium in default.

20 (d) That, if the policy shall have become paid up
21 by completion of all premium payments or if it is continued
22 under any paid-up nonforfeiture benefit which became effec-
23 tive on or after the third policy anniversary in the case of
24 ordinary insurance or the fifth policy anniversary in the
25 case of industrial insurance, the company will pay, upon
26 surrender of the policy within thirty days after any policy
27 anniversary, a cash surrender value of such amount as may be
28 hereinafter specified.

29 (e) A statement of the mortality table and interest

1 rate used in calculating the cash surrender values and the
2 paid-up nonforfeiture benefits available under the policy,
3 together with a table showing the cash surrender value, if
4 any, and paid-up nonforfeiture benefit, if any, available
5 under the policy on each policy anniversary, either during
6 the first twenty policy years or during the term of the
7 policy, whichever is shorter, such values and benefits to be
8 calculated upon the assumption that there are no dividends or
9 paid-up additions credited to the policy and that there is no
10 indebtedness to the company on the policy.

11 (f) A statement that the cash surrender values and
12 the paid-up nonforfeiture benefits available under the policy
13 are not less than the minimum values and benefits required by
14 or pursuant to the insurance law of the state in which the
15 policy is delivered; an explanation of the manner in which
16 the cash surrender values and the paid-up nonforfeiture
17 benefits are altered by the existence of any paid-up addi-
18 tions credited to the policy or any indebtedness to the
19 company on the policy; if a detailed statement of the method
20 of computation of the values and benefits shown in the
21 policy is not stated therein, a statement that such method of
22 computation has been filed with the insurance supervisory
23 official of the state in which the policy is delivered; and
24 a statement of the method to be used in calculating the cash
25 surrender value and paid-up nonforfeiture benefit available
26 under the policy on any policy anniversary beyond the last
27 anniversary for which such values and benefits are consecutive-
28 ly shown in the policy.

29 Any of the foregoing provisions or portions thereof not

1 applicable by reason of the plan of insurance may, to the extent
2 inapplicable, be omitted from the policy.

3 The company shall reserve the right to defer the payment of
4 any cash surrender value for a period of six months after demand
5 therefor with surrender of the policy.

6 (3) Any cash surrender value available under the policy
7 in the event of default in the premium payment due on any policy
8 anniversary, whether or not required by subsection (2), shall be
9 an amount not less than the excess, if any, of the present value,
10 on such anniversary, of the future guaranteed benefits which would
11 have been provided for by the policy, including any existing paid-
12 up additions, if there had been no default, over the sum of (a)
13 the then present value of the adjusted premiums as defined in sub-
14 section (5) corresponding to premiums which would have fallen due
15 on and after such anniversary, and (b) the amount of any indebted-
16 ness to the company on the policy. Any cash surrender value
17 available within thirty days after any policy anniversary under
18 any policy paid-up by completion of all premium payments, or any
19 policy continued under any paid-up nonforfeiture benefits, whether
20 or not required by subsection (2), shall be an amount not less
21 than the present value, on such anniversary, of the future guaran-
22 teed benefits provided for by the policy, including any existing
23 paid-up additions, decreased by any indebtedness to the company on
24 the policy.

25 (4) Any paid-up nonforfeiture benefit available under
26 the policy in the event of default in a premium payment due on any
27 policy anniversary shall be such that its present value as of such
28 anniversary shall be at least equal to the cash surrender value
29 then provided for by the policy or, if none is provided for, that

1 cash surrender value which would have been required by this sec-
2 tion in the absence of the conditions that premiums shall have
3 been paid for at least a specified period.

4 (5) The adjusted premiums for any policy shall be
5 calculated on an annual basis and shall be such uniform percentage
6 of the respective premiums specified in the policy for each policy
7 year, excluding any extra premiums charged because of impairments
8 or special hazards, that the present value, at the date of issue
9 of the policy, of all such adjusted premiums shall be equal to
10 the sum of (i) the then present value of the future guaranteed
11 benefits provided for by the policy; (ii) two percent of the
12 amount of insurance, if the insurance be uniform in amount, or of
13 the equivalent uniform amount, as hereinafter defined, if the
14 amount of insurance varies with duration of the policy; (iii)
15 forty percent of the adjusted premium for the first policy year;
16 (iv) twenty-five per cent of either the adjusted premium for the
17 first policy year or the adjusted premium for a whole life policy
18 of the same uniform or equivalent uniform amount with uniform
19 premiums for the whole of life issued at the same age for the
20 same amount of insurance, whichever is less, provided, however,
21 that in applying the percentages specified in (iii) and (iv) above,
22 no adjusted premiums shall be deemed to exceed four percent (4%)
23 of the amount of insurance or uniform amount equivalent thereto.
24 The date of issue of a policy for the purpose of this section
25 shall be the date as of which the rated age of the insured is
26 determined.

27 In the case of a policy providing an amount of insurance
28 varying with the duration of the policy, the equivalent uniform
29 amount thereof for the purpose of this subsection shall be deemed

1 to be the uniform amount of insurance provided by an otherwise
2 similar policy, containing the same endowment benefit or benefits,
3 if any, issued at the same age and for the same term, the amount
4 of which does not vary with duration and the benefits under which
5 have the same present value at the date of issue as the benefits
6 under the policy, provided, however, that in the case of a policy
7 providing a varying amount of insurance issued on the life of a
8 child under age ten, the equivalent uniform amount may be computed
9 as though the amount of insurance provided by the policy prior to
10 the attainment of age ten were the amount provided by such policy
11 at age ten.

12 All adjusted premiums and present values referred to in this
13 section shall for all policies of ordinary insurance be calculated
14 on the basis of the Commissioners 1958 Standard Ordinary Mortality
15 Table, provided, however, that for any category of ordinary insur-
16 ance issued on female risks, adjusted premiums and present values
17 may be calculated according to an age not more than 3 years younger
18 than the actual age of the insured. Such calculations for all
19 policies of industrial insurance shall be made on the basis of the
20 1941 Standard Industrial Mortality Table. All calculations shall
21 be made on the basis of the rate of interest, not exceeding three
22 and one-half percent ($3\frac{1}{2}\%$) per annum, specified in the policy for
23 calculating cash surrender values and paid-up nonforfeiture bene-
24 fits. Provided, however, that in calculating the present value of
25 any paid-up term insurance with accompanying pure endowment, if
26 any, offered as a nonforfeiture benefit, the rates of mortality
27 assumed in the case of ordinary policies, may be not more than
28 those shown in the Commissioners 1958 Extended Term Insurance Table,
29 and, in the case of industrial policies, may be not more than one

1 hundred and thirty per cent (130%) of the rates of mortality
2 according to the 1941 Standard Industrial Mortality Tables, pro-
3 vided further, that for insurance issued on a substandard basis,
4 the calculation of any such adjusted premiums and present values
5 may be based on such other table of mortality as may be specified
6 by the company and approved by the Commissioner.

7 (6) Any cash surrender value and any paid-up nonfor-
8 feiture benefit, available under the policy in the event of de-
9 fault in a premium payment due at any time other than on the
10 policy anniversary, shall be calculated with allowance for the
11 lapse of time and the payment of fractional premiums beyond the
12 last preceding policy anniversary. All values referred to in
13 subsections (3), (4) and (5) may be calculated upon the assumption
14 that any death benefit is payable at the end of the policy year
15 of death. The net value of any paid-up additions, other than
16 paid-up term additions, shall be not less than the dividends used
17 to provide such additions. Notwithstanding the provisions of
18 subsection (3), additional benefits payable (a) in the event of
19 death or dismemberment by accident or accidental means, (b) in
20 the event of total and permanent disability, (c) as reversionary
21 annuity or deferred reversionary annuity benefits, (d) as term
22 insurance benefits provided by a rider or supplemental policy
23 provision to which, if issued as a separate policy, this section
24 would not apply, and (e) as other policy benefits additional to
25 life insurance and endowment benefits, and premiums for all such
26 additional benefits, shall be disregarded in ascertaining cash
27 surrender values and nonforfeiture benefits required by this sec-
28 tion, and no such additional benefits shall be required to be
29 included in any paid-up nonforfeiture benefits.

1 (7) This section shall not apply to any re-insurance,
2 group insurance, pure endowment, annuity or reversionary annuity
3 contract, nor to any term policy of uniform amount, or renewal
4 thereof, of fifteen years or less expiring before age 66, for
5 which uniform premiums are payable during the entire term of the
6 policy, nor to any term policy of decreasing amount on which each
7 adjusted premium, calculated as specified in subsection (5), is
8 less than the adjusted premium so calculated on a term policy of
9 uniform amount issued at the same age and for the same initial
10 amount of insurance for a term which is 15 years for ages at
11 issue 50 and under and which decreases one year for each year of
12 age at issue beyond 50.

13 (8) OPERATIVE DATE. After the effective date of this
14 act, any insurer may file with the Commissioner a written notice
15 of its election to comply with the provisions of this section
16 after a specified date before January 1, 1966. After the filing
17 of such notice, then upon such specified date (which shall be the
18 operative date of this section for such insurer) this section
19 shall become operative with respect to the policies and contracts
20 thereafter issued by such insurer. If an insurer makes no such
21 election, the operative date of this section for such insurer
22 shall be January 1, 1966.

23
24
25
26
27
28
29