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Referred: Rules

Original sponsor: Labor and Commerce Committee

1 IN THE HOUSE

BY THE LABOR AND  
COMMERCE COMMITTEE

2 CS FOR HOUSE BILL NO. 373 (L&C)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 THIRTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to nonforfeiture benefits of life  
7 insurance policies and reserve valuation standards  
8 for life insurance policies and annuity contracts;  
9 and providing for an effective date."

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

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

12 (b) This subsection applies to only those policies and contracts  
13 issued on or after the operative date of AS 21.45.300 except as other-  
14 wise provided in (c) of this section and (6) of this subsection for  
15 group annuity and pure endowment contracts issued before that opera-  
16 tive date:

17 (1) Except as otherwise provided in (c) of this section and  
18 (6) of this subsection, the minimum standard for the valuation of all  
19 these policies and contracts shall be the commissioner's reserves  
20 valuation methods [COMMISSIONER'S RESERVES VALUATION METHODS] defined  
21 in (b)(2), (5) and (8) of this section, three and one-half percent  
22 interest, or in the case of policies and contracts, other than annuity  
23 and pure endowment contracts, issued on or after July 1, 1978, five  
24 and one-half percent interest for single premium life insurance  
25 policies and four and one-half percent interest for all other  
26 policies, and the following tables:

27 (A) for all ordinary policies of life insurance issued  
28 on the standard basis, excluding disability and accidental death  
29 benefits in the policies -- the Commissioner's 1958 Standard

1 Ordinary Mortality Table, for policies issued before the opera-  
2 tive date of AS 21.45.300(w), of the Standard Nonforfeiture Law  
3 for Life Insurance as amended, except that for a category of  
4 policies issued on female risks, all modified net premiums and  
5 present values, referred to in (b)(2) of this section may be  
6 calculated according to an age not more than six years younger  
7 than the actual age of the insured; and for policies issued on or  
8 after the operative date of AS 21.45.300(w) of the Standard  
9 Nonforfeiture Law for Life Insurance as amended

10 (i) the Commissioner's 1980 Standard Ordinary  
11 Mortality Table, or

12 (ii) at the election of the insurer for any one or  
13 more specified plans of life insurance, the Commissioner's  
14 1980 Standard Ordinary Mortality Table with 10 year Select  
15 Mortality Factors, or

16 (iii) any ordinary mortality table, adopted after  
17 1980 by the National Association of Insurance Commissioners,  
18 that is approved by regulation promulgated by the director  
19 for use in determining the minimum standard of valuation for  
20 the policies;

21 (B) for all industrial life insurance policies issued  
22 on the standard basis, excluding disability and accidental death  
23 benefits in the policies -- the 1941 Standard Industrial  
24 Mortality Table for the policies issued before the operative  
25 date of AS 21.45.300(1), of the Standard Nonforfeiture Law for  
26 Life Insurance as amended, and [THE COMMISSIONER'S 1961 STANDARD  
27 INDUSTRIAL MORTALITY TABLE] for the policies issued on or after  
28 the effective [OPERATIVE] date of AS 21.45.300(1) the Commis-  
29 sioner's 1961 Standard Industrial Mortality Table or any

1 industrial mortality table, adopted after 1980 by the National  
2 Association of Insurance Commissioners that is approved by  
3 regulation promulgated by the director for use in determining the  
4 minimum standard of valuation for such policies;

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

11 (D) for group annuity and pure endowment contracts,  
12 excluding disability and accidental death benefits in the poli-  
13 cies -- the Group Annuity Mortality Table for 1951, any modifica-  
14 tion of the table approved by the director, or, at the option of  
15 the insurer, any of the tables or modifications of tables speci-  
16 fied for individual annuity and pure endowment contracts;

17 (E) for total and permanent disability benefits in or  
18 supplementary to ordinary policies or contracts the tables of  
19 period 2 disablement rates and the 1930 to 1950 termination rates  
20 of the 1952 disability study of the society of actuaries, with  
21 due regard to the type of benefit or any table of disablement and  
22 termination rates adopted after 1980 by the National Association  
23 of Insurance Commissioners that are approved by regulation  
24 adopted by the director for use in determining the minimum stan-  
25 dard of valuation for the policies; the table shall, for active  
26 lives, be combined with a mortality table permitted for calculat-  
27 ing the reserves for life insurance policies;

28 (F) for accidental death benefits in or supplementary  
29 to policies -- the 1959 Accidental Death Benefits Table or any

1 accidental death benefits table adopted after 1980 by the  
2 National Association of Insurance Commissioners that is approved  
3 by regulation adopted by the director for use in determining the  
4 minimum standard of valuation for the policies combined with a  
5 mortality table permitted for calculating the reserves for life  
6 insurance policies;

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

10 (2) Except as otherwise provided in (5) and (8) of this  
11 subsection, reserves according to the commissioner's reserve valuation  
12 method [COMMISSIONER'S RESERVE VALUATION METHOD], for the life insur-  
13 ance and endowment benefits of policies providing for a uniform amount  
14 of insurance and requiring the payment of uniform premiums, shall be  
15 the excess, if any, of the present value, at the date of valuation, of  
16 the future guaranteed benefits provided for by the policies, over the  
17 then present value of any future modified net premiums; the modified  
18 net premiums for the policy shall be the uniform percentage of the  
19 respective contract premiums for the benefits that the present value,  
20 at the date of issue of the policy, of all the modified net premiums  
21 shall be equal to the sum of the then present value of the benefits  
22 provided for by the policy and the excess of (A) over (B), as follows:

23 (A) a net level annual premium equal to the present  
24 value, at the date of issue, of the benefits provided for after  
25 the first policy year, divided by the present value, at the date  
26 of issue of an annuity of one a year payable on the first and  
27 each subsequent anniversary of the policy on which a premium  
28 falls due; however, the net level annual premium may not exceed  
29 the net level annual premium on the 19-year [19 YEAR] premium

1 whole life plan for insurance of the same amount at an age one  
2 year higher than the age at issue of the policy;

3 (B) a net one-year term premium for the benefits  
4 provided for in the first policy year; notwithstanding this  
5 paragraph, for a life insurance policy issued on or after  
6 January 1, 1987 for which the contract premium in the first  
7 policy year exceeds that of the second year and for which no  
8 comparable additional benefit is provided in the first year for  
9 the excess premium and that provides an endowment benefit or a  
10 cash surrender value or a combination of these in an amount  
11 greater than the excess premium, the reserve according to the  
12 commissioner's reserve valuation method as of a policy anniver-  
13 sary occurring on or before the assumed ending date, except as  
14 otherwise provided in paragraph (5), shall be the greater of the  
15 reserve as of the policy anniversary calculated as described in  
16 2(A) of this subsection and the reserve as of the policy anniver-  
17 sary; the reserve shall be calculated as described in 2(A) of  
18 this subsection, except

19 (i) the present value shall be reduced by 15  
20 percent of the amount of the excess first year premium,

21 (ii) all present values of benefits and premiums  
22 shall be determined without reference to premiums or  
23 benefits provided for by the policy after the assumed ending  
24 date,

25 (iii) the policy shall be assumed to mature on the  
26 assumed ending date as an endowment, and

27 (iv) the cash surrender value provided on the  
28 assumed date shall be considered as an endowment benefit; in  
29 making the comparison in this subparagraph the mortality

1 and interest bases stated in paragraphs (5) and (7) of this  
2 subsection and subsection (c) shall be used; in this sub-  
3 paragraph the assumed ending date is the first policy anni-  
4 versary on which the sum of the endowment benefit and cash  
5 surrender value then available is greater than the excess  
6 premium;

7 (C) reserves according to the commissioner's reserve  
8 valuation method [COMMISSIONER'S RESERVE VALUATION METHOD] for:

9 (i) life insurance policies providing for a  
10 varying amount of insurance or requiring the payment of  
11 varying premiums,

12 (ii) group annuity and pure endowment contracts  
13 purchased under a retirement plan or plan of deferred  
14 compensation, established or maintained by an employer  
15 (including a partnership or sole proprietorship) or by an  
16 employee organization, or by both, other than a plan  
17 providing individual retirement accounts or individual  
18 retirement annuities under sec. 408 of the Internal Revenue  
19 Code, as amended,

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

22 (iv) all other benefits, except life insurance and  
23 endowment benefits in life insurance policies and benefits  
24 provided by all other annuity and pure endowment contracts,  
25 shall be calculated by a method consistent with the  
26 principles of (b)(2) of this section, except that any extra  
27 premiums charged because of impairments or special hazards  
28 shall be disregarded in the determination of modified net  
29 premiums.

1 (3) In no event may an insurer's aggregate reserves for all  
2 life insurance policies, excluding disability and accidental death  
3 benefits, be less than the aggregate reserves calculated in accordance  
4 with the methods set out in (b)(2), (5), [AND] (8) and (10) of this  
5 section, and the mortality table or tables and rate or rates of  
6 interest used in calculating nonforfeiture benefits for such policies.

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

16 (5) If in any contract year the gross premium charged by a  
17 life insurer on a policy or contract is less than the valuation net  
18 premium for the policy or contract calculated by the method used in  
19 calculating the reserve on the policy or contract but using the mini-  
20 mum valuation standards of mortality and rate of interest, the minimum  
21 reserve required for that policy or contract shall be the greater of  
22 either the reserve calculated according to the mortality table, rate  
23 of interest, and method actually used for the policy or contract, or  
24 the reserve calculated by the method actually used for the policy or  
25 contract but using the minimum valuation standards of mortality and  
26 rate of interest and replacing the valuation net premium by the actual  
27 gross premium in each contract year for which the valuation net  
28 premium exceeds the actual gross premium. In this paragraph, the  
29 minimum valuation standards of mortality and rate of interest are

1 those standards referred to in (C) of this paragraph. Notwithstanding  
2 this paragraph, for a life insurance policy issued on or after  
3 January 1, 1987 for which the gross premium in the first policy year  
4 exceeds that of the second year and for which no comparable additional  
5 benefit is provided in the first year for the excess premium and which  
6 provides an endowment benefit or a cash surrender value or a combina-  
7 tion of these in an amount greater than the excess premium the pro-  
8 visions of this paragraph shall be applied as if the method used in  
9 calculating the reserve for such a policy were the method described in  
10 paragraph (2) of this subsection, ignoring the second paragraph of  
11 paragraph (2) of this subsection. The minimum reserve at each policy  
12 anniversary of such a policy shall be the greater of the minimum  
13 reserve calculated in accordance with paragraph (2), including the  
14 second paragraph of that paragraph, and the minimum reserve calculated  
15 in accordance with this paragraph.

16 (6) Except as provided in (C) of this paragraph, the [THE]  
17 minimum standard for the valuation of all individual annuity and pure  
18 endowment contracts issued on or after the operative date of this  
19 paragraph as set out in (7) of this subsection and for all annuities  
20 and pure endowments purchased on or after that date under group annu-  
21 ity and pure endowment contracts, shall be the commissioner's reserve  
22 valuation methods [COMMISSIONER'S RESERVE VALUATION METHODS] defined  
23 in (2) and (8) of this subsection and the following tables and inter-  
24 est rates:

25 (A) for individual single premium immediate annuity  
26 contracts, excluding any disability and accidental death benefits  
27 in such contracts -- the 1971 individual annuity mortality table  
28 or an individual annuity mortality table, adopted after 1980 by  
29 the National Association of Insurance Commissioners, that is

1 approved by regulation adopted by the director for use in deter-  
2 mining the minimum standard of valuation for the contracts, or  
3 any modification of these tables [THIS TABLE] approved by the  
4 director [COMMISSIONER] and seven and one-half percent interest;

5 (B) for individual annuity and pure endowment con-  
6 tracts, other than single premium immediate annuity contracts,  
7 excluding any disability and accidental death benefits in such  
8 contracts -- the 1971 individual annuity mortality table or an  
9 individual annuity mortality table, adopted after 1980 by the  
10 National Association of Insurance Commissioners, that is approved  
11 by regulation adopted by the director for use in determining the  
12 minimum standard of valuation for the contracts, or any modifica-  
13 tion of these tables [THIS TABLE] approved by the director [COM-  
14 MISSIONER] and five and one-half percent interest for single  
15 premium deferred annuity and pure endowment contracts and four  
16 and one-half percent interest for all other such individual  
17 annuity and pure endowment contracts;

18 (C) for all annuities and pure endowments purchased  
19 under group annuity and pure endowment contracts, excluding any  
20 disability and accidental death benefits purchased under such  
21 contracts -- the 1971 group annuity mortality table or a group  
22 annuity mortality table, adopted after 1980 by the National  
23 Association of Insurance Commissioners, that is approved by  
24 regulation adopted by the director for use in determining the  
25 minimum standard of valuation for the annuities and pure  
26 endowments, or any modification of these tables [THIS TABLE]  
27 approved by the director [COMMISSIONER], and seven and one-half  
28 percent interest.

29 (7) After July 1, 1978, an insurer may file with the

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

9 (8) This section applies to all annuity and pure endowment  
10 contracts other than group annuity and pure endowment contracts pur-  
11 chased under a retirement plan or plan of deferred compensation,  
12 established or maintained by an employer (including a partnership or  
13 sole proprietorship) or by an employee organization, or by both, other  
14 than a plan providing individual retirement accounts or individual  
15 retirement annuities under sec. 408 of the Internal Revenue Code, as  
16 amended. Reserves according to the commissioner's annuity reserve  
17 method [COMMISSIONER'S ANNUITY RESERVE METHOD] for benefits under  
18 annuity or pure endowment contracts, excluding any disability and  
19 accidental death benefits in those contracts, shall be the greatest of  
20 the respective excesses of the present values, at the date of valua-  
21 tion, of the future guaranteed benefits, including guaranteed nonfor-  
22 feiture benefits, provided for by those contracts at the end of each  
23 respective contract year, over the present value, at the date of  
24 valuation, of any future valuation considerations derived from future  
25 gross considerations, required by the terms of such contract, that  
26 become payable before the end of that respective contract year. The  
27 future guaranteed benefits shall be determined by using the mortality  
28 table, if any, and the interest rate, or rates, specified in such  
29 contracts for determining guaranteed benefits. The valuation

1 considerations are the portions of the respective gross considerations  
2 applied under the terms of those contracts to determine nonforfeiture  
3 values.

4 \* Sec. 2. AS 21.18.110 is amended by adding new subsections to read:

5 (c) The calendar year statutory valuation interest rates defined  
6 in (d) of this section shall be the interest rates used in determining  
7 the minimum standard for the valuation of

8 (1) a life insurance policy issued in a particular calendar  
9 year, on or after the operative date of subsection (w) of the Standard  
10 Nonforfeiture Law for Life Insurance;

11 (2) an individual annuity and pure endowment contract  
12 issued in a particular calendar year on or after January 1, 1984;

13 (3) an annuity and pure endowment purchased in a particular  
14 calendar year on or after January 1, 1984 under a group annuity and  
15 pure endowment contract; and

16 (4) the net increase, if any, in a particular calendar year  
17 after January 1, 1984, in an amount held under a guaranteed interest  
18 contract.

19 (d) The calendar year statutory valuation interest rates, I,  
20 shall be determined as follows and the results rounded to the nearer  
21 one-quarter of one percent

22 (1) for life insurance,

$$23 I = .03 + W (R_1 - .03) + W/2 (R_2 - .09);$$

24 (2) for a single premium immediate annuity and for an  
25 annuity benefit involving a life contingency arising from another  
26 annuity with a cash settlement option and from a guaranteed interest  
27 contract with a cash settlement option,

$$28 I = .03 + W (R - .03)$$

29 where  $R_1$  is the lesser of R and .09,

1            $R_2$  is the greater of R and .09,

2           R is the reference interest rate defined in (j) of  
3           this section, and W is the weighting factor defined in  
4           (f) of this section;

5           (3) for other annuities with cash settlement options and  
6           other guaranteed interest contracts with cash settlement options,  
7           valued on an issue year basis, except as stated in (2) above, the  
8           formula for life insurance in (1) of this subsection shall apply to an  
9           annuity or guaranteed interest contract with a guarantee duration in  
10          excess of 10 years and the formula for a single premium immediate  
11          annuity in (2) of this subsection shall apply to an annuity or  
12          guaranteed interest contract with a guarantee duration of 10 years or  
13          less;

14          (4) for other annuities with no cash settlement options and  
15          for other guaranteed interest contracts with no cash settlement  
16          options, the formula for a single premium immediate annuity in (2) of  
17          this subsection shall apply;

18          (5) for other annuities with cash settlement options and  
19          guaranteed interest contracts with cash settlement options, valued on  
20          a change in fund basis, the formula for a single premium immediate  
21          annuity in (2) of this subsection shall apply.

22          (e) Notwithstanding (2) of this subsection, if the calendar year  
23          statutory valuation interest rate for a life insurance policy differs  
24          from the corresponding actual rate for a similar policy issued in the  
25          immediately preceding calendar year by less than one-half of one  
26          percent, the calendar year statutory valuation interest rate for the  
27          life insurance policy shall be equal to the corresponding actual rate  
28          for the immediately preceding calendar year. For the purpose of this  
29          paragraph the calendar year statutory valuation interest rate shall be

1 determined for 1980 using the reference interest rate defined for 1979  
2 and shall be determined for each following calendar year regardless of  
3 when subsection (w) of the Standard Nonforfeiture Law for Life  
4 Insurance becomes operative.

5 (f) The weighting factors referred to in (c) of this section are  
6 as follows:

7 (1) Weighting Factors for Life Insurance:

8 Guarantee	9 Duration;	10 Years	11 Weighting	12 Factors
		13 10 or less;		.50
		14 more than 10, but not more than 20;		.45
		15 more than 20;		.35

16 for life insurance, the guarantee duration is the  
17 maximum number of years the life insurance can remain  
18 in force on a basis guaranteed in the policy or under  
19 an option to convert to a plan of life insurance with a  
20 premium rate or nonforfeiture value or both which are  
21 guaranteed in the original policy;

22 (2) notwithstanding (3) of this subsection the weighting  
23 factor for a single premium immediate annuity and for an annuity  
24 benefit involving a life contingency arising from another annuity with  
25 a cash settlement option and a guaranteed interest contract with a  
26 cash settlement option -- .80;

27 (3) for annuities and guaranteed interest contracts valued  
28 on an issue year basis:

29 Guarantee	Weighting Factor		
Duration;	for Plan Type		
Years	A	B	C

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
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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
(4) for annuities and guaranteed			
interest contracts valued on			
a change in fund basis, the			
factors shown in (3) of this			
subsection increased by;	.15	.25	.05
(5) for annuities and guaranteed			
interest contracts valued on			
an issue year basis, other			
than those with no cash settle-			
ment options, which do not			
guarantee interest on considera-			
tions 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 (3) of this			
subsection or derived in (4) of			
this subsection increased by;	.05	.05	.05

(g) The guarantee duration for other annuities with cash

1 settlement options and guaranteed interest contracts with cash  
2 settlement options is the number of years for which the contract  
3 guarantees interest rates in excess of the calendar year statutory  
4 valuation interest rate for life insurance policies with guarantee  
5 duration in excess of 20 years. For other annuities with no cash  
6 settlement options and for guaranteed interest contracts with no cash  
7 settlement options, the guarantee duration is the number of years from  
8 the date of issue or date of purchase to the date annuity benefits are  
9 scheduled to commence.

10 (h) In this subsection plan type is defined as follows:

11 (1) plan type A: at any time policyholder may withdraw  
12 funds only

13 (A) with an adjustment to reflect a change in interest  
14 rates or asset values since receipt of the funds by the insurer;

15 (B) without such adjustment but in installments over  
16 five years or more;

17 (C) as an immediate life annuity; or

18 (D) no withdrawal permitted;

19 (2) plan type B: before expiration of the interest rate  
20 guarantee, policyholder may withdraw funds only

21 (A) with adjustment to reflect a change in interest  
22 rates or asset values since receipt of the funds by the insurer;

23 (B) without adjustment but in installments over five  
24 years or more; or

25 (C) no withdrawal permitted; at the end of interest  
26 rate guarantee, funds may be withdrawn without adjustment in a  
27 single sum or installments over less than five years;

28 (3) plan type C: policyholder may withdraw funds before  
29 expiration of an interest rate guarantee in a single sum or

1 installments over less than five years either

2 (A) without adjustment to reflect changes in interest  
3 rates or asset values since receipt of the funds by the insurer;  
4 or

5 (B) subject only to a fixed surrender charge stipu-  
6 lated in the contract as a percentage of the fund.

7 (i) An insurer may elect to value a guaranteed interest contract  
8 with a cash settlement option and an annuity with a cash settlement  
9 option on either an issue year basis or on a change in fund basis. A  
10 guaranteed interest contract with no cash settlement option and an  
11 annuity with no cash settlement option must be valued on an issue year  
12 basis. In this subsection an issue year basis of valuation means a  
13 valuation basis under which the interest rate used to determine the  
14 minimum valuation standard for the entire duration of the annuity or  
15 guaranteed interest contract is the calendar year valuation interest  
16 rate for the year of issue or year of purchase of the annuity or  
17 guaranteed interest contract, and the change in fund basis of valua-  
18 tion means a valuation basis under which the interest rate used to  
19 determine the minimum valuation standard applicable to each change in  
20 the fund held under the annuity or guaranteed interest contract is the  
21 calendar year valuation interest rate for the year of the change in  
22 the fund.

23 (j) The reference interest rates referred to in (C) of this  
24 section are as follows:

25 (1) for life insurance, the lesser of the average interest  
26 rate for a period of 36 months and the average interest rate for a  
27 period of 12 months, ending on June 30 of the calendar year next  
28 preceding the year of issue, of Moody's Corporate Bond Yield Average  
29 -- Monthly Average Corporates, as published by Moody's Investors

1 Service, Inc.;

2 (2) for a single premium immediate annuity and for an  
3 annuity benefit involving a life contingency arising from another  
4 annuity with a cash settlement option and a guaranteed interest con-  
5 tract with a cash settlement option, the average interest rate for a  
6 period of 12 months, ending on June 30 of the calendar year of issue  
7 or year of purchase, of Moody's Corporate Bond Yield Average --  
8 Monthly Average Corporates, as published by Moody's Investors Service,  
9 Inc.;

10 (3) for other annuities with cash settlement options and  
11 guaranteed interest contracts with cash settlement options, valued on  
12 a year of issue basis, except as provided in (2) of this subsection,  
13 with a guarantee duration in excess of 10 years, the lesser of the  
14 average interest rate for a period of 36 months and the average inter-  
15 est rate for a period of 12 months, ending on June 30 of the calendar  
16 year of issue or purchase, of Moody's Corporate Bond Yield Average --  
17 Monthly Average Corporates, as published by Moody's Investors Service,  
18 Inc.;

19 (4) for other annuities with cash settlement options and  
20 guaranteed interest contracts with cash settlement options, valued on  
21 a year of issue basis, except as provided in (2) of this subsection,  
22 with a guarantee duration of 10 years or less, the average interest  
23 rate for a period of 12 months, ending on June 30 of the calendar year  
24 of issue or purchase, of Moody's Corporate Bond Yield Average --  
25 Monthly Average Corporates, as published by Moody's Investors Service,  
26 Inc.;

27 (5) for other annuities with no cash settlement options and  
28 for guaranteed interest contracts with no cash settlement options, the  
29 average interest rate for a period of 12 months, ending on June 30 of

1 the calendar year of issue or purchase, of Moody's Corporate Bond  
2 Yield Average -- Monthly Average Corporates, as published by Moody's  
3 Investors Service, Inc.;

4 (6) for other annuities with cash settlement options and  
5 guaranteed interest contracts with cash settlement options, valued on  
6 a change in fund basis, except as provided in (2) of this subsection,  
7 the average interest rate for a period of 12 months, ending on June 30  
8 of the calendar year of the change in the fund, of Moody's Corporate  
9 Bond Yield Average -- Monthly Average Corporates, as published by  
10 Moody's Investors Service, Inc.

11 (k) In the event that Moody's Corporate Bond Yield Average --  
12 Monthly Average Corporates is no longer published by Moody's Investors  
13 Service, Inc., or in the event that the National Association of Insur-  
14 ance Commissioners determines that Moody's Corporate Bond Yield Aver-  
15 age -- Monthly Average Corporates as published by Moody's Investors  
16 Service, Inc. is no longer appropriate for the determination of the  
17 reference interest rate, an alternative method for determination of  
18 the reference interest rate, which is adopted by the National Asso-  
19 ciation of Insurance Commissioners and approved by regulation adopted  
20 by the director, may be substituted.

21 (l) If a plan of life insurance that provides for future premium  
22 determination, the amounts of which are to be determined by the  
23 insurer based on then estimates of future experience, or if a plan of  
24 life insurance or annuity is of a nature that the minimum reserves  
25 cannot be determined by the methods described in AS 21.18.110(b)(2),  
26 (5) and (8), the reserves that are held shall be appropriate in rela-  
27 tion to the benefits and the pattern of premiums for that plan, and be  
28 computed by a method that is consistent with the principles of this  
29 Standard Valuation Law, as determined by regulations promulgated by

1 the director.

2 \* Sec. 3. AS 21.45.300 is repealed and reenacted to read:

3 Sec. 21.45.300. STANDARD NONFORFEITURE LAW-LIFE INSURANCE. (a)  
4 This section shall be known as the standard nonforfeiture law for life  
5 insurance.

6 (b) In the case of policies issued on and after the operative  
7 date of this section as defined in (cc) of this section no policy of  
8 life insurance, except as stated in (aa) of this section, may be  
9 delivered or issued for delivery in this state unless it contains the  
10 following provisions, or corresponding provisions that in the opinion  
11 of the director are at least as favorable to the defaulting or surren-  
12 dering policyholder as are the minimum requirements specified in this  
13 section and are essentially in compliance with (z) of this section;

14 (1) that, in the event of default in a premium payment,  
15 after premiums have been paid for at least one full year, the insurer  
16 will grant, upon proper request not later than 60 days after the due  
17 date of the premium in default, a paid-up nonforfeiture benefit on a  
18 plan stipulated in the policy, effective as of the due date, of the  
19 amount as may be specified in this section.

20 (2) that, upon surrender of the policy within 60 days after  
21 the due date of any premium payment in default after premiums have  
22 been paid for at least three full years in the case of ordinary insur-  
23 ance and five full years in the case of industrial insurance, the  
24 insurer will pay, instead of a paid-up nonforfeiture benefit, a cash  
25 surrender value of the amount specified;

26 (3) that a specified paid-up nonforfeiture benefit shall  
27 become effective as specified in the policy unless the person entitled  
28 to make the election elects another available option not later than 60  
29 days after the due date of the premium in default;

1 (4) that if the policy shall have become paid up by comple-  
2 tion of premium payments, or if it is continued under a paid-up non-  
3 forfeiture benefit which became effective on or after the third policy  
4 anniversary in the case of ordinary insurance, or the fifth policy  
5 anniversary in the case of industrial insurance, the insurer will pay,  
6 upon surrender of the policy within 30 days after any policy anniver-  
7 sary, a cash surrender value of the amount specified;

8 (5) in the case of all other policies, a statement of the  
9 mortality table and interest rate used in calculating the cash surren-  
10 der values and the paid-up nonforfeiture benefits available under the  
11 policy, together with a table showing the cash surrender value, if  
12 any, and paid-up nonforfeiture benefit, if any, available under the  
13 policy on each policy anniversary, either during the first 20 policy  
14 years or during the term of the policy, whichever is shorter, such  
15 values and benefits to be calculated upon the assumption that there  
16 are no dividends or paid-up additions credited to the policy and that  
17 there is no indebtedness to the insurer on the policy;

18 (6) a statement that the cash surrender values and the  
19 paid-up nonforfeiture benefits available under the policy are not less  
20 than the minimum values and benefits required by or under the insur-  
21 ance law of this state; an explanation of the manner in which the cash  
22 surrender values and the paid-up nonforfeiture benefits are altered by  
23 the existence of any paid-up additions credited to the policy or any  
24 indebtedness to the insurer on the policy; or if a detailed statement  
25 of the method of computation of the values and benefits shown in the  
26 policy is not stated in the policy, a statement that the method of  
27 computation has been filed with the insurance supervisory official of  
28 the state in which the policy is delivered; and a statement of the  
29 method to be used in calculating the cash surrender value and paid-up

1 nonforfeiture benefit available under the policy on any policy  
2 anniversary beyond the last anniversary for which the values and  
3 benefits are consecutively shown in the policy;

4 (7) that instead of a stipulated paid-up nonforfeiture  
5 benefit as described in (1) of this subsection, the insurer may sub-  
6 stitute, upon proper request not later than 60 days after the due date  
7 of the premium in default, an actuarially equivalent alternative  
8 paid-up nonforfeiture benefit that provides a greater amount or longer  
9 period of death benefits or, if applicable, a greater amount of  
10 earlier payment of endowment benefits;

11 (8) in the case of a policy which causes on a basis guaran-  
12 teed in the policy an unscheduled change in benefits or premiums, or  
13 which provides an option for a change in benefits or premiums other  
14 than a change to a new policy, a statement of the mortality table,  
15 interest rate, and method used in calculating cash surrender values  
16 and the paid-up nonforfeiture benefits available under the policy;

17 (c) Any of the provisions or portions of provisions set out in  
18 (b)(1) - (8) of this section which are not applicable by reason of the  
19 plan of insurance may, to the extent inapplicable, be omitted from the  
20 policy. The insurer shall reserve the right to defer the payment of a  
21 cash surrender value for a period of six months after demand has been  
22 made on the policy surrendered.

23 (d) A cash surrender value available under the policy in the  
24 event of default in a premium payment due on any policy anniversary  
25 whether or not required by (b) of this section, shall be an amount not  
26 less than the excess, if any, of the present value on the anniversary  
27 of the future guaranteed benefits which would have been provided for  
28 by the policy, including any existing paid-up additions, if there has  
29 been no default, over the sum of

1 (1) the then present value of the adjusted premiums as  
2 defined in (h) - (w) of this section, corresponding to premiums which  
3 would have fallen on and after the anniversary; and

4 (2) the amount of any indebtedness to the insurer on  
5 account of or secured by the policy.

6 (e) Notwithstanding (d) of this section, if a policy issued  
7 on or after the operative date of (w) of this section provides  
8 supplemental life insurance or annuity benefits at the option of  
9 the insured and for an identifiable additional premium by rider  
10 supplemental policy provision, the cash surrender value referred  
11 to in (d) of this section shall be an amount not less than the sum  
12 of the cash surrender value as defined in (d) of this section for  
13 an otherwise similar policy issued at the same age without the  
14 same rider or supplemental policy provision and the cash surrender  
15 value as defined in (d) of this section for a policy which provides  
16 only the benefits otherwise provided by the rider or supplemental  
17 policy provision.

18 (f) Notwithstanding (d) of this section, if a family policy  
19 issued on or after the effective date of (w) of this section defines a  
20 primary insured and provides term insurance on the life of the spouse  
21 of the primary insured expiring before the spouse is age 71, the cash  
22 surrender value referred to in (d) of this section shall be an amount  
23 not less than the cash surrender value as defined in (d) of this  
24 section for an otherwise similar policy issued at the same age without  
25 the term insurance on the life of the spouse and the cash surrender  
26 value as defined in (d) for a policy which provides only the benefits  
27 otherwise provided by the term insurance on the life of the spouse. A  
28 cash surrender value available within 30 days after any anniversary  
29 under a policy paid-up by completion of all premium payments, or a

1 policy continued under any paid-up nonforfeiture benefits whether or  
2 not required by (b) of this section, shall be an amount not less than  
3 the present value, on the anniversary, of the future guaranteed bene-  
4 fits provided for by the policy, including any existing paid-up addi-  
5 tions, decreased by any indebtedness to the insurer on account of or  
6 secured by the policy.

7 (g) A paid-up nonforfeiture benefit available under the policy  
8 in the event of default in the premium payment due on any policy  
9 anniversary shall be such that its present value as of the anniversary  
10 shall be at least equal to the cash surrender value provided for by  
11 the policy or, if none is provided for, that cash surrender value  
12 which would have been required by this section in the absence of the  
13 conditions that premiums shall have been paid for at least a specified  
14 period.

15 (h) Except as provided in (j) of this section, the adjusted  
16 premiums for a policy shall be calculated on an annual basis and shall  
17 be the uniform percentage of the respective premiums specified in the  
18 policy for each policy year, excluding extra premiums on a substandard  
19 policy that the present value, at the date of issue of the policy, of  
20 all the adjusted premiums shall be equal to the sum of (1) the then  
21 present value of the future guaranteed benefits provided for by the  
22 policy; (2) two percent of the amount of the insurance, if the  
23 insurance is uniform in amount, or of the equivalent uniform amount,  
24 as defined, if the amount of insurance varies with the duration of the  
25 policy; (3) 40 percent of the adjusted premiums for the first policy  
26 year; (4) 25 percent of either the adjusted premium for the first  
27 policy year or the adjusted premium for a whole life policy of the  
28 same uniform or equivalent uniform amount with uniform premiums for  
29 the whole of life issued at the same age for the same amount of

1 insurance, whichever is less, except that in applying the percentage  
2 specified in (3) and (4) of this subsection no adjusted premiums shall  
3 be considered to exceed four percent of the amount of insurance or  
4 uniform amount equivalent thereto. Whenever the plan or term of a  
5 policy has been changed, either by request of the insured or automat-  
6 ically in accordance with the provisions of the policy, the date of  
7 inception of the changed policy for the purposes of determining a  
8 nonforfeiture benefit or cash surrender value shall be the date as of  
9 which the age of the insured is determined for the purposes of the  
10 changed policy. The date of issue of a policy for the purposes of  
11 this section shall be the date on which the rated age of the insured  
12 is determined. This subsection does not apply to policies issued on  
13 or after the operative date of (w) of this section.

14 (i) If a policy provides an amount of insurance which varies  
15 with the duration of the policy, the equivalent uniform amount of in-  
16 surance for the purpose of (h) of this section shall be considered to  
17 be the uniform amount of insurance provided by an otherwise similar  
18 policy, containing the same endowment benefit or benefits, if any,  
19 issued at the same age and for the same term the amount of which does  
20 not vary with the duration and the benefit under which have the same  
21 present value at the date of issue as the benefits under the policy,  
22 except that in the case of a policy a varying amount of insurance  
23 issued on the life of a child under age 10, the equivalent uniform  
24 amount may be computed as though the amount of insurance provided by  
25 the policy before the attainment of age 10 were the amount provided by  
26 the policy at age 10.

27 (j) The adjusted premiums for a policy which provides term  
28 insurance benefits by rider or supplemental policy provision shall be  
29 equal to (1) the adjusted premiums for an otherwise similar policy

1 issued at the same age without the term insurance benefits, increased  
2 during the period for which premiums for the term insurance benefits  
3 are payable, by (2) the adjusted premiums for the term insurance, the  
4 foregoing items (1) and (2) being calculated separately in accordance  
5 with (h) and (i) of this section, except that, for the purposes of (h)  
6 (2), (3) and (4) of this section, the amount of insurance of equiva-  
7 lent uniform amount of insurance used in the calculation of the  
8 adjusted premiums referred to in (2) of this subsection shall be equal  
9 to the excess of the corresponding amount determined for the entire  
10 policy over the amount used in the calculation of the adjusted premi-  
11 ums in (1) of this subsection.

12 (k) All adjusted premiums and present values referred to in this  
13 section shall for all policies of ordinary insurance be calculated on  
14 the basis of the Commissioner's 1958 Standard Ordinary Mortality  
15 Table, except that for any category or ordinary insurance issued on  
16 female risks, adjusted premiums and present values may be calculated  
17 according to an age not more than six years younger than the actual  
18 age of the insured. Except as provided in (1) of this section, the  
19 calculations for all policies of industrial insurance shall be made on  
20 the basis of the 1941 Standard Industrial Mortality Table. All calcu-  
21 lations shall be made on the basis of the rate of interest specified  
22 in the policy for calculating cash surrender values and paid-up non-  
23 forfeiture benefits. The rate of interest specified in the policy may  
24 not exceed three and one-half percent a year except that (1) a rate of  
25 interest not exceeding five and one-half percent a year may be used  
26 for policies issued on or after July 1, 1978, and (2) a rate of inter-  
27 est not exceeding six and one-half percent a year may be used for a  
28 single premium whole life or endowment insurance policy. In calculat-  
29 ing the present value of paid-up term insurance with accompanying pure

1 endowment, if any, offered as a nonforfeiture benefit, the rates of  
2 mortality assumed in the case of a policy of ordinary insurance, may  
3 be not more than those shown in the Commissioner's 1958 Extended Term  
4 Insurance Table. In the case of a policy of industrial insurance, the  
5 rates of mortality may be not more than 130 percent of the rates of  
6 mortality according to the 1941 Standard Industrial Mortality Table.  
7 The calculation of the adjusted premiums and present values for insur-  
8 ance issued on a substandard basis may be based on another table of  
9 mortality as may be specified by the insurer and approved by the  
10 director. This subsection does not apply to policies issued on or  
11 after the operative date of (w) of this section.

12 (1) In case of industrial policies issued on or after January 1,  
13 1970, the adjusted premiums and present values referred to in this  
14 section shall be calculated on the basis of the Commissioner's 1961  
15 Standard Industrial Mortality Table and the rate of interest specified  
16 in the policy for calculating cash surrender values and paid-up non-  
17 forfeiture benefits, however, that specified the rate of interest  
18 specified in the policy may not exceed three and one-half percent a  
19 year except that (1) a rate of interest not exceeding five and one-  
20 half percent a year may be used for policies issued on or after  
21 July 1, 1978; and (2) a rate of interest not exceeding six and one-  
22 half percent a year may be used for a single premium whole life or  
23 endowment insurance policy. In calculating the present value of  
24 paid-up term insurance with accompanying pure endowment, if any,  
25 offered as a nonforfeiture benefit, the rates of mortality assumed may  
26 be not more than those shown in the Commissioner's 1961 Industrial  
27 Extended Term Insurance Table. The calculation of the adjusted premi-  
28 ums and present values for insurance issued on a substandard basis may  
29 be based on a table of mortality specified by the insurer and approved

1 by the director. This subsection does not apply to policies issued on  
2 or after the operative date of (w) of this section.

3 (m) Except as provided in (s) of this section, the adjusted  
4 premiums for a policy shall be calculated on an annual basis and shall  
5 be a uniform percentage of the respective premiums specified in the  
6 policy for each policy year, excluding amounts payable as extra premi-  
7 ums to cover impairments or special hazards and also excluding a  
8 uniform annual contract charge or policy fee specified in the policy  
9 in a statement of the method to be used in calculating the cash sur-  
10 render values and paid-up nonforfeiture benefits, that the present  
11 value, at the date of issue of the policy, of all adjusted premiums  
12 shall be equal to the sum of (1) the then present value of the future  
13 guaranteed benefits provided for by the policy; (2) one percent of  
14 either the amount of insurance, if the insurance be uniform in amount,  
15 or the average amount of insurance at the beginning of each of the  
16 first 10 policy years; and (3) 125 percent of the nonforfeiture net  
17 level premium as defined in (n) - (t) of this section. In applying  
18 the percentage specified in (3) of this paragraph a nonforfeiture net  
19 level premium shall not exceed four percent of either the amount of  
20 insurance, if the insurance is uniform in amount, or the average  
21 amount of insurance at the beginning of each of the first 10 policy  
22 years. The date of issue of a policy for the purpose of this  
23 subsection shall be the date as of which the rated age of the insured  
24 is determined. This subsection applies to all policies issued after  
25 the operative date of (w) of this section.

26 (n) The nonforfeiture net level premium shall be equal to the  
27 present value, at the date of issue of the policy, of the guaranteed  
28 benefits provided for by the policy divided by the present value, at  
29 the date of issue of the policy, of an annuity of one a year payable

1 on the date of issue of the policy and on each anniversary of the  
2 policy on which a premium falls due. This subsection applies to all  
3 policies issued after the operative date of (w) of this section.

4 (o) In the case of policies which cause on a basis guaranteed in  
5 the policy unscheduled changes in benefits or premiums or which  
6 provide an option for changes in benefits or premiums other than a  
7 change to a new policy, the adjusted premiums and present values shall  
8 initially be calculated on the assumption that future benefits and  
9 premiums do not change from those stipulated at the date of issue of  
10 the policy. At the time of a change in the benefits or premiums the  
11 future adjusted premiums, nonforfeiture net level premiums, and pre-  
12 sent values shall be recalculated on the assumption that future bene-  
13 fits and premiums do not change from those stipulated by the policy  
14 immediately after the change. This subsection applies to all policies  
15 issued after the operative date of (w) of this section.

16 (p) Except as provided in (s) of this section, the recalculated  
17 future adjusted premiums for a policy shall be a uniform percentage of  
18 the respective future premiums specified in the policy for each policy  
19 year, excluding amounts payable as extra premiums to cover impairments  
20 and special hazards, and also excluding any uniform annual contract  
21 charge or policy fee specified in the policy in a statement of the  
22 method to be used in calculating the cash surrender values and paid-up  
23 nonforfeiture benefits, that the present value, at the time of change  
24 to the newly defined benefits or premiums, of all future adjusted  
25 premiums shall be equal to the excess of (1) the sum of (A) the then  
26 present value of the then future guaranteed benefits provided for by  
27 the policy; and (B) the additional expense allowance, if any; over (2)  
28 the then cash surrender value if any, or present value of any paid-up  
29 nonforfeiture benefit under the policy. This subsection applies to

1 all policies issued after the operative date of (w) of this section.

2 (q) The additional expense allowance, at the time of the change  
3 to the newly defined benefits or premiums, shall be the sum of (1) one  
4 percent of the excess, if positive, of the average amount of insurance  
5 at the beginning of each of the first 10 policy years after the change  
6 over the average amount of insurance before the change at the beginn-  
7 ing of each of the first 10 policy years after the time of the most  
8 recent previous change, or, if there has been no previous change, the  
9 date of issue of the policy; and (2) 125 percent of the increase, if  
10 positive, in the nonforfeiture net level premium. This subsection  
11 applies to all policies issued after the operative date of (w) of this  
12 section.

13 (r) The recalculated nonforfeiture net level premium shall be  
14 equal to the result obtained by dividing (1) by (2) where

15 (1) equals the sum of

16 (A) the nonforfeiture net level premium applicable  
17 before the change times the present value of an annuity of one a  
18 year payable on each anniversary of the policy on or subsequent  
19 to the date of the change on which a premium would have fallen  
20 due had the change not occurred; and

21 (B) the present value of the increase in future guar-  
22 anteed benefits provided for by the policy; and

23 (2) equals the present value of an annuity of one a year  
24 payable on each anniversary of the policy on or subsequent to the date  
25 of change on which a premium falls due. This subsection applies to  
26 all policies issued after the operative date of (w) of this section.

27 (s) Notwithstanding (m) - (q) of this section, in the case of a  
28 policy issued on a substandard basis which provides reduced graded  
29 amounts of insurance so that, in each policy year, the policy has the

1 same tabular mortality cost as an otherwise similar policy issued on  
2 the standard basis which provides higher uniform amounts of insurance,  
3 the adjusted premiums and present values may be calculated as if it  
4 were issued to provide those higher uniform amounts of insurance on  
5 the standard basis. This subsection applies to all policies issued  
6 after the operative date of (w) of this section.

7 (t) The adjusted premiums and present values for a policy of  
8 ordinary insurance referred to in this section shall be calculated on  
9 the basis of the Commissioner's 1980 Standard Ordinary Mortality Table  
10 or, at the election of the insurer for any one or more specified plans  
11 of life insurance, the Commissioners 1980 Standard Ordinary Mortality  
12 Table with Ten-Year Select Mortality Factors. The adjusted premiums  
13 and present values for a policy of industrial insurance shall be  
14 calculated on the basis of the Commissioner's 1961 Standard Industrial  
15 Mortality Table. The adjusted premiums and present values for a  
16 policy issued in a particular calendar year shall be calculated on the  
17 basis of a rate of interest not exceeding the nonforfeiture interest  
18 rate as defined in this subsection for policies issued in that calen-  
19 dar year. Provided, however, that

20 (1) at the option of the insurer, calculations for all  
21 policies issued in a particular calendar year may be made on the basis  
22 of a rate of interest not exceeding the nonforfeiture interest rate,  
23 as defined in this subsection, for policies issued in the immediately  
24 preceding calendar year;

25 (2) under a paid-up nonforfeiture benefit, including a  
26 paid-up dividend addition, a cash surrender value available, shall be  
27 calculated on the basis of the mortality table and rate of interest  
28 used in determining the amount of the paid-up nonforfeiture benefit  
29 and paid-up dividend additions, if any;

1 (3) an insurer may calculate the amount of a guaranteed  
2 paid-up nonforfeiture benefit including any paid-up addition under the  
3 policy on the basis of an interest rate no less than that specified in  
4 the policy for calculating cash surrender values;

5 (4) in calculating the present value of paid-up term insur-  
6 ance with accompanying pure endowment, if any, offered as nonforfei-  
7 ture benefit, the rates of mortality assumed may be not more than  
8 those shown in the Commissioner's Extended Term Insurance Table for  
9 policies of ordinary insurance and not more than the Commissioner's  
10 1961 Industrial Extended Term Insurance Table for policies of indus-  
11 trial insurance;

12 (5) for insurance issued on a substandard basis, the calcu-  
13 lations of adjusted premiums and present values may be based on appro-  
14 priate modifications mentioned above;

15 (6) an ordinary mortality table, adopted after 1980 by the  
16 National Association of Insurance Commissioners, that is approved by  
17 regulation adopted by the director for use in determining the minimum  
18 nonforfeiture standard may be substituted for the Commissioner's 1980  
19 Standard Ordinary Mortality Table with or without Ten-Year Select  
20 Mortality Factors or for the Commissioner's 1980 Extended Term Insur-  
21 ance Table;

22 (7) an industrial mortality table, adopted after 1980 by  
23 the National Association of Insurance Commissioners, that is approved  
24 by regulation adopted by the director for use in determining the  
25 minimum nonforfeiture standard may be substituted for the Commis-  
26 sioner's 1961 Standard Industrial Mortality Table or the Commis-  
27 sioner's 1961 Industrial Extended Term Insurance Table. This  
28 subsection applies to all policies issued after the operative date of  
29 (w) of this section.

1 (u) The nonforfeiture interest rate a year for a policy issued  
2 in a particular calendar year shall be equal to 125 percent of the  
3 calendar year statutory valuation interest rate for the policy as  
4 defined in the Standard Valuation Law, rounded to the nearer one  
5 quarter of one percent. This subsection applies to all policies  
6 issued after the operative date of (w) of this section.

7 (v) Notwithstanding any other provision in this title, a  
8 refiling of nonforfeiture values or their methods of computation for a  
9 previously approved policy form which involves only a change in the  
10 interest rate or mortality table used to compute nonforfeiture values  
11 shall not require refiling of any other provision of that policy form.  
12 This subsection applies to all policies issued after the operative  
13 date of (w) of this section.

14 (w) An insurer may file with the director a written notice of  
15 its election to comply with the provisions of this subsection after a  
16 specified date before January 1, 1989. That date shall be the opera-  
17 tive date of this subsection for the insurer. If an insurer makes no  
18 election, the operative date of this subsection for the insurer shall  
19 be January 1, 1989.

20 (x) In the case of a plan of life insurance which provides for  
21 future premium determination, the amounts of which are to be deter-  
22 mined by the insurer based on then estimates of future experience, or  
23 in the case of any plan of life insurance which is of such a nature  
24 than minimum values cannot be determined by the methods described in  
25 subsections (b) - (k) or (m) of this section;

26 (1) the director must be satisfied that the benefits pro-  
27 vided under the plan are substantially as favorable to policyholders  
28 and insured as the minimum benefits otherwise required by subsections  
29 (b) - (w) of this section;

1 (2) the director must be satisfied that the benefits and  
2 pattern of premiums of the plan do not mislead prospective policyhol-  
3 ders or insureds;

4 (3) the cash surrender values and paid-up nonforfeiture  
5 benefits provided by the plan must not be less than the minimum values  
6 and benefits required for the plan computed by a method consistent  
7 with the principles of this Standard Nonforfeiture Law for Life Insur-  
8 ance, as determined by regulations adopted by the director.

9 (y) A cash surrender value and a paid-up nonforfeiture benefit  
10 available under the policy in the event of default in a premium pay-  
11 ment due at any time other than on the policy anniversary shall be  
12 calculated with allowance for the lapse of time and the payment of  
13 fractional premiums beyond the last preceding policy anniversary. All  
14 values referred to in (b) - (w) of this section may be calculated upon  
15 the assumption that a death benefit is payable at the end of the  
16 policy year of death. The net value of any paid-up additions, other  
17 than paid-up term additions, shall be not less than the amounts used  
18 to provide the additions. Notwithstanding the provisions of (d) of  
19 this section, certain additional benefits and premiums for those  
20 additional benefits, shall be disregarded in ascertaining cash surren-  
21 der values and nonforfeiture benefits required by this section, and no  
22 additional benefits shall be required to be included in any paid-up  
23 nonforfeiture benefits. The benefits to be disregarded are those paid

24 (1) in the event of death or dismemberment by accident or  
25 accidental means;

26 (2) in the event of total and permanent disability;

27 (3) as a reversionary annuity or deferred reversionary  
28 annuity benefits;

29 (4) as term insurance benefits provided by a rider or

1 supplemental policy provision to which, if issued as a separate  
2 policy, this section would not apply;

3 (5) as term insurance on the life of a child or on the  
4 lives of children provided in a policy on the life of a parent of the  
5 child, if the term insurance expires before the child's age is 26, is  
6 uniform in amount after the child's age is one, and has not become  
7 paid-up by reason of the death of a parent of the child; and

8 (6) as other policy benefits additional to life insurance  
9 and endowment benefits.

10 (z) This subsection, in addition to all other applicable subsec-  
11 tions of this section, shall apply to all policies issued on or after  
12 January 1, 1987. The cash surrender value available under the policy  
13 in the event of default in a premium payment due on a policy anniver-  
14 sary shall be in an amount which does not differ by more than two-  
15 tenths of one percent of either the amount of insurance, if the  
16 insurance be uniform in amount, or the average amount of insurance at  
17 the beginning of each of the first 10 policy years, from the sum of  
18 the greater of zero and the basic cash value hereinafter specified and  
19 the present value of any existing paid-up additions less the amount of  
20 any indebtedness of the insurer under the policy. The basic cash  
21 value shall be equal to the present value on the policy anniversary of  
22 the future guaranteed benefits which would have been provided for by  
23 the policy, excluding any existing paid-up additions and before  
24 deduction of any indebtedness to the insurer if there had been no  
25 default, less the then present value of the nonforfeiture factors as  
26 defined in this subsection, corresponding to the premiums which would  
27 have fallen due on and after the policy anniversary. Provided, how-  
28 ever, that the effects on the basic cash value of supplemental life  
29 insurance or annuity benefits or of family coverage as described in

1 subsection (d) or (j), whichever is applicable, be the same as are the  
2 effects specified in (d) or (j) of this section, whichever is appli-  
3 cable, on the cash surrender values as defined in that subsection.  
4 The nonforfeiture factor for each policy year shall be an amount equal  
5 to a percentage of the adjusted premium for the policy year, as  
6 defined in (h), (i), (j) and (m) of this section, whichever is  
7 applicable. Except as is required by the next succeeding sentence of  
8 this paragraph, the percentage (1) must be the same percentage for  
9 each policy year between the second policy anniversary and the later  
10 of (A) the fifth policy anniversary and (B) the first policy  
11 anniversary at which there is available under the policy a cash  
12 surrender value in an amount, before including any paid-up additions  
13 and before deducting any indebtedness of at least two-tenths of one  
14 percent of either the amount, of insurance, if the insurance be  
15 uniform in amount, or the average amount of insurance at the beginning  
16 of each of the first 10 policy years; and (2) must be such that no  
17 percentage after the later of the two policy anniversaries specified  
18 in (1) of this subsection may apply to fewer than five consecutive  
19 policy years. Provided, that no basic cash value may be less than the  
20 value which would be obtained if the adjusted premiums for the policy,  
21 defined in (h), (i), and (j) of this section or in (m) of this  
22 section, whichever is applicable, were substituted for the  
23 nonforfeiture factors in the calculation of the basic cash value. All  
24 adjusted premiums and present values referred to in this subsection  
25 shall for a particular policy be calculated on the same mortality and  
26 interest bases as are used in demonstrating the policy compliance with  
27 the other subsections of this section. The cash surrender values  
28 referred to in this subsection shall include all endowment benefits  
29 provided for by the policy. Any cash surrender value available other

1 than in the event of default in a premium payment due on a policy  
2 anniversary, and the amount of any paid-up nonforfeiture benefit  
3 available under the policy in the event of default in a premium  
4 payment shall be determined in manners consistent with the manners  
5 specified for determining the analogous minimum amounts in (b) - (g),  
6 (m), and (y) of this section. The amounts of any cash surrender  
7 values and of any paid-up nonforfeiture benefits granted in connection  
8 with additional benefits such as those listed as items (1) through (6)  
9 in (y) of this section shall conform with the principles of this  
10 subsection.

11 (aa) This section shall not apply to any of the following:

12 (1) reinsurance;

13 (2) group insurance;

14 (3) pure endowment;

15 (4) annuity or reversionary annuity contract;

16 (5) term policy of uniform amount, which provides no guar-  
17 anteed nonforfeiture or endowment benefits, or renewal thereof, of 20  
18 years or less expiring before age 71, for which uniform premiums are  
19 payable during the entire term of the policy;

20 (6) term policy of decreasing amount, which provides no  
21 guaranteed nonforfeiture or endowment benefits, on which each adjusted  
22 premium, calculated as specified in (h) - (w) of this section is less  
23 than the adjusted premiums calculated, on a policy of uniform amount  
24 or renewal thereof, which provides no guaranteed nonforfeiture or  
25 endowment benefits, issued at the same age and for the same initial  
26 amount of insurance for a term defined as follows: for ages at issue  
27 50 and under, the term shall be 15 years; thereafter, the term shall  
28 decrease one year for each year of age beyond 50, and for a term of 20  
29 years or less expiring before age 71, for which uniform premiums are

1 payable during the entire term of the policy;

2 (7) policy, which provides no guaranteed nonforfeiture or  
3 endowment benefits, for which no cash surrender value, if any, or  
4 present value of any paid-up nonforfeiture benefit, at the beginning  
5 of any policy year, calculated as specified in (d) - (w) of this sec-  
6 tion, exceeds two and one-half percent of the amount of insurance at  
7 the beginning of the same policy year;

8 (8) policy which shall be delivered outside this state  
9 through an agent or other representative of the insurer issuing the  
10 policy.

11 (bb) For purposes of determining the applicability of subsection  
12 (aa), the at expiry for a joint term life insurance policy shall be  
13 the age at expiry of the oldest life.

14 (cc) The operative date of this section is January 1, 1968 except  
15 that an insurer may elect to comply with this section before that date  
16 by filing a written notice of election with the director a written  
17 notice of election is not effective unless the insurer specifies in  
18 the notice

19 (1) the date upon which this section is to be operative,  
20 which date must be later than the date on which the notice is filed;

21 (2) the policies to which this section applies.

22 \* Sec. 4. AS 21.84.220(b) is amended to read:

23 (b) In the case of certificates other than those for which  
24 reserves are computed on the Commissioner's 1958 Standard Ordinary  
25 Mortality Table or the Commissioner's 1941 Standard Industrial Table  
26 or a more recent table made applicable to life insurance companies.  
27 the value of every paid-up nonforfeiture benefit and the amount of a  
28 cash surrender value, loan or other option granted may not be less  
29 than the excess, if any, of (1) over (2) of this section, as follows:

1 (1) the reserve under the certificate determined on the  
2 basis specified in the certificates;

3 (2) the sum of any indebtedness to the society on the  
4 certificate, including interest due and accrued, and a surrender  
5 charge equal to 2 1/2 percent of the face amount of the certificate,  
6 which, in the case of insurance on the lives of children, shall be the  
7 ultimate face amount of the certificate, if death benefits provided  
8 therein are graded.

9 \* Sec. 5. AS 21.84.220(d) is amended to read:

10 (d) In the case of certificates for which reserves are computed  
11 on the Commissioner's 1941 Standard Ordinary Mortality Table or the  
12 Commissioner's 1941 Standard Industrial Table or the Commissioner's  
13 1958 Standard Ordinary Mortality Table or a more recent table made  
14 applicable to life insurance companies, every paid-up nonforfeiture  
15 benefit and the amount of any cash surrender value, loan or other  
16 option granted may not be less than the corresponding amount  
17 ascertained in accordance with the provisions of the laws of this  
18 state applicable to life insurers issuing policies containing like  
19 insurance benefits based upon these tables.

20 \* Sec. 6. AS 21.84.350 is amended by adding a new subsection to read:

21 (j) Notwithstanding (g) of this section, a society may value its  
22 certificates in accordance with valuation standards authorized by the  
23 laws of this state for the valuation of policies issued by a life  
24 insurance company.

25 \* Sec. 7. This Act takes effect immediately in accordance with AS 01.-  
26 10.070(c).