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Passed on File.

Senate File 393 *Subs for*
By INSURANCE COMMITTEE. *H.F. 0267*
4/8

Passed Senate, Date *3-28-63*
Vote: Ayes *50* Nays *0*

Passed House, Date *4-8-63*
Vote: Ayes *101* Nays *0*

Approved *4-15-63*
Reconsider vote 4/4

Insurance 3/29

A BILL FOR

An Act relating to valuation and nonforfeiture benefits of life insurance policies.

Be It Enacted by the General Assembly of the State of Iowa:

1 Chapter five hundred eight (508), Code 1962, is hereby amended
2 by adding thereto the following two sections:

1 Section 1. This section shall be known as the Standard
2 Valuation Law.

3 1. The commissioner shall annually value, or cause to be
4 valued, the reserve liabilities (hereinafter called reserves)
5 for all outstanding life insurance policies and annuity and pure
6 endowment contracts of every life insurance company doing
7 business in this state, except that in the case of an alien
8 company, such valuation shall be limited to its United States
9 business, and may certify the amount of any such reserves,
10 specifying the mortality table or tables, rate or rates of
11 interest and methods (net level premium method or other) used in
12 the calculation of such reserves. In calculating such reserves,
13 he may use group methods and approximate averages for fractions
14 of a year or otherwise. For the purpose of making such valuation
15 the commissioner may employ a competent actuary who shall be paid
16 by the company for which the service is rendered; but a domestic
17 company may make such valuation and it shall be received by the
18 commissioner upon satisfactory proof of its correctness. In lieu

19 of the valuation of the reserves herein required of any foreign
20 or alien company, the commissioner may accept any valuation made,
21 or caused to be made, by the insurance supervisory official of
22 any state or other jurisdiction when such valuation complies with
23 the minimum standard herein provided and if the official of such
24 state or jurisdiction accepts as sufficient and valid for all
25 legal purposes the certificate of valuation of the commissioner
26 when such certificate states the valuation to have been made in a
27 specified manner according to which the aggregate reserves would
28 be at least as large as if they had been computed in the manner
29 prescribed by the law of that state or jurisdiction.

30 Any such company which at any time shall have adopted any
31 standard of valuation producing greater aggregate reserves than
32 those calculated according to the minimum standard herein
33 provided may, with the approval of the commissioner, adopt any
34 lower standard of valuation, but not lower than the minimum
35 herein provided.

36 2. This subsection shall apply to only those policies and
37 contracts issued prior to the operative date of section two (2)
38 of this Act (the Standard Nonforfeiture Law).

39 The minimum standard of valuation for all policies of domestic
40 life insurance companies shall be the Commissioners Reserve
41 Valuation Method defined in paragraph "b" of subsection three (3)
42 and the American Experience Table of Mortality and four and
43 one-half percent interest or the Actuaries' (or Combined)
44 Experience Table of Mortality and four percent interest.

45 Reserves for all such policies and contracts may be
46 calculated, at the option of the company, according to any
47 standards which produce greater aggregate reserves for all such

48 policies and contracts than the minimum reserves required by this
49 subsection.

50 3. This subsection shall apply to only those policies and
51 contracts issued on or after the operative date of section two
52 (2) of this Act (the Standard Nonforfeiture Law).

53 a. The minimum standard for the valuation of all such
54 policies and contracts shall be the Commissioners Reserve
55 Valuation Method defined in paragraph "b" of this subsection
56 three (3), three and one-half percent interest, and the following
57 tables:

58 (1) For all ordinary policies of life insurance issued on the
59 standard basis, excluding any disability and accidental death
60 benefits in such policies, —the Commissioners 1958 Standard
61 Ordinary Mortality Table, provided that for any category of such
62 policies issued on female risks all modified net premiums and
63 present values referred to in this subsection three (3) may be
64 calculated according to an age not more than three years younger
65 than the actual age of the insured.

66 (2) For all industrial life insurance policies issued on the
67 standard basis, excluding any disability and accidental death
68 benefits in such policies, —the 1941 Standard Industrial
69 Mortality Table; provided, however, that the Commissioners 1961
70 Standard Industrial Mortality Table shall be the table for the
71 minimum standard when said table becomes applicable under the
72 Standard Nonforfeiture Law in accordance with subsection five (5)
73 of section two (2) of this Act.

74 (3) For individual annuity and pure endowment contracts,
75 excluding any disability and accidental death benefits in such
76 policies, —the 1937 Standard Annuity Mortality Table or, at the

77 option of the company, the Annuity Mortality Table for 1949,
78 Ultimate, or any modification of either these tables approved
79 by the commissioner.

80 (4) For group annuity and pure endowment contracts, excluding
81 any disability and accidental death benefits in such policies,
82 —the Group Annuity Mortality Table for 1951, any modification
83 of such table approved by the commissioner, or, at the option of
84 the company, any of the tables or modifications of tables
85 specified for individual annuity and pure endowment contracts.

86 (5) For total and permanent disability benefits in or
87 supplementary to ordinary policies or contracts, —the tables
88 of "Period 2" disablement rates and the 1930 to 1950 termination
89 rates of the 1952 Disability Study of the Society of Actuaries,
90 with due regard to the type of benefit. Such table shall, for
91 active lives, be combined with a mortality table permitted for
92 calculating the reserves for life insurance policies.

93 (6) For accidental death benefits in or supplementary to
94 policies, —the 1959 Accidental Death Benefits Table combined
95 with a mortality table permitted for calculating the reserves for
96 life insurance policies.

97 (7) For group life insurance, life insurance issued on the
98 substandard basis and other special benefits, —such tables as
99 may be approved by the commissioner.

100 b. Reserves according to the Commissioners Reserve Valuation
101 Method, for the life insurance and endowment benefits of
102 policies providing for a uniform amount of insurance and
103 requiring the payment of uniform premiums shall be the excess,
104 if any, of the present value, at the date of valuation, of such
105 future guaranteed benefits provided for by such policies, over

106 the then present value of any future modified net premiums
107 therefor. The modified net premiums for any such policy shall
108 be such uniform percentage of the respective contract premiums
109 for such benefits that the present value, at the date of issue of
110 the policy, of all such modified net premiums shall be equal to
111 the sum of the then present value of such benefits provided for
112 by the policy and the excess of (x) over (y), as follows:

113 (x) A net level annual premium equal to the present value, at
114 the date of issue, of such benefits provided for after the first
115 policy year, divided by the present value, at the date of issue,
116 of an annuity of one per annum payable on the first and each
117 subsequent anniversary of such policy on which a premium falls
118 due; provided, however, that such net level annual premium shall
119 not exceed the net level annual premium on the nineteen year
120 premium whole life plan for insurance of the same amount at an
121 age one year higher than the age at issue of such policy.

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

124 Reserves according to the Commissioners Reserve Valuation
125 Method for (a) life insurance policies providing for a varying
126 amount of insurance or requiring the payment of varying premiums,
127 (b) annuity and pure endowment contracts, (c) disability and
128 accidental death benefits in all policies and contracts, and (d)
129 all other benefits, except life insurance and endowment benefits
130 in life insurance policies, shall be calculated by a method
131 consistent with the principles of this paragraph "b", except
132 that any extra premiums charged because of impairments or
133 special hazards shall be disregarded in the determination of
134 modified net premiums.

135 c. In no event shall a company's aggregate reserves for all
136 life insurance policies, excluding disability and accidental
137 death benefits, be less than the aggregate reserves calculated
138 in accordance with the method set forth in paragraph "b" above
139 and the mortality table or tables and rate or rates of interest
140 used in calculating nonforfeiture benefits for such policies.

141 d. Reserves for any category of policies, contracts or
142 benefits as established by the commissioner, may be calculated
143 at the option of the company according to any standards which
144 produce greater aggregate reserves for such category than those
145 calculated according to the minimum standard herein provided.
146 Provided, however, that reserves for participating life insurance
147 policies may, with the consent of the commissioner, be calculated
148 according to a rate of interest lower than the rate of interest
149 used in calculating the nonforfeiture benefits in such policies,
150 with the further proviso that if such lower rate differs from the
151 rate used in the calculation of the nonforfeiture benefits by
152 more than one-half percent the company issuing such policies
153 shall file with the commissioner a plan providing for such
154 equitable increase, if any, in the cash surrender values and
155 nonforfeiture benefits in such policies as the commissioner
156 shall approve.

157 e. If the gross premium charged by any life insurance company
158 on any policy or contract is less than the net premium for the
159 policy or contract according to the mortality table, rate of
160 interest and method used in calculating the reserve thereon,
161 there shall be maintained on such policy or contract a deficiency
162 reserve in addition to all other reserves required by law. For
163 each such policy or contract the deficiency reserve shall be the

164 present value, according to such standard, of an annuity of the
165 difference between such net premium and the premium charged for
166 such policy or contract, running for the remainder of the
167 premium-paying period.

1 Sec. 2. This section shall be known as the Standard
2 Nonforfeiture Law.

3 1. In the case of policies issued on or after the operative
4 date of this section as defined in subsection eight (8), no
5 policy of life insurance, except as stated in subsection seven
6 (7), shall be issued or delivered in this state unless it shall
7 contain in substance the following provisions, or corresponding
8 provisions which in the opinion of the commissioner are at least
9 as favorable to the defaulting or surrendering policyholder:

10 a. That, in the event of default in any premium payment, the
11 company will grant, upon proper request not later than sixty days
12 after the due date of the premium in default, a paid-up
13 nonforfeiture benefit on a plan stipulated in the policy,
14 effective as of such due date, of such value as may be
15 hereinafter specified.

16 b. That, upon surrender of the policy within sixty days
17 after the due date of any premium payment in default after
18 premiums have been paid for at least three full years in the
19 case of ordinary insurance or five full years in the case of
20 industrial insurance, the company will pay, in lieu of any
21 paid-up nonforfeiture benefit, a cash surrender value of such
22 amount as may be hereinafter specified.

23 c. That a specified paid-up nonforfeiture benefit shall
24 become effective as specified in the policy unless the person
25 entitled to make such election elects another available option

26 not later than sixty days after the due date of the premium in
27 default.

28 d. That, if the policy shall have become paid-up by
29 completion of all premium payments or if it is continued under
30 any paid-up nonforfeiture benefit which became effective on or
31 after the third policy anniversary in the case of ordinary
32 insurance or the fifth policy anniversary in the case of
33 industrial insurance, the company will pay, upon surrender of the
35 policy within thirty days after any policy anniversary, a cash
36 surrender value of such amount as may be hereinafter specified.

37 e. A statement of the mortality table and interest rate used
38 in calculating the cash surrender values and the paid-up
39 nonforfeiture benefits available under the policy, together with
40 a table showing the cash surrender value, if any, and paid-up
41 nonforfeiture benefit, if any, available under the policy on each
42 policy anniversary, either during the first twenty policy years
43 or during the term of the policy, whichever is shorter, such
44 values and benefits to be calculated upon the assumption that
45 there are no dividends or paid-up additions credited to the
46 policy and that there is no indebtedness to the company on the
47 policy.

48 f. A statement that the cash surrender values and the paid-up
49 nonforfeiture benefits available under the policy are not less
50 than the minimum values and benefits required by or pursuant to
51 the insurance law of the state in which the policy is delivered;
52 an explanation of the manner in which the cash surrender values
53 and the paid-up nonforfeiture benefits are altered by the
54 existence of any paid-up additions credited to the policy or any
55 indebtedness to the company on the policy; if a detailed

56 statement of the method of computation of the values and benefits
57 shown in the policy is not stated therein, a statement that such
58 method of computation has been filed with the insurance
59 supervisory official of the state in which the policy is
60 delivered; and a statement of the method to be used in
61 calculating the cash surrender value and paid-up nonforfeiture
62 benefit available under the policy on any policy anniversary
63 beyond the last anniversary for which such values and benefits
64 are consecutively shown in the policy.

65 2. Any of the provisions or portions thereof set forth in
66 subsection one (1) which are not applicable by reason of the plan
67 of insurance may, to the extent inapplicable, be omitted from the
68 policy. The company shall reserve the rights to defer the payment
69 of any cash surrender value for a period of six months after
70 demand therefor with surrender of the policy.

71 3. Any cash surrender value available under the policy in the
72 event of default in a premium payment due on any policy
73 anniversary, whether or not required by subsection one (1),
74 shall be an amount not less than the excess, if any, of the
75 present value, on such anniversary, of the future guaranteed
76 benefits which would have been provided for by the policy,
77 including any existing paid-up additions, if there had been no
78 default, over the sum of (a) the then present value of the
79 adjusted premiums as defined in subsection five (5),
80 corresponding to premiums which would have fallen due on and
81 after such anniversary, and (b) the amount of any indebtedness to
82 the company on the policy. Any cash surrender value available
83 within thirty days after any policy anniversary under any policy
84 paid-up by completion of all premium payments or any policy

85 continued under any paid-up nonforfeiture benefit, whether or
86 not required by subsection one (1), shall be an amount not less
87 than the present value, on such anniversary, of the future
88 guaranteed benefits provided for by the policy, including any
89 existing paid-up additions, decreased by any indebtedness to the
90 company on the policy.

91 4. Any paid-up nonforfeiture benefit available under the
92 policy in the event of default in a premium payment due on any
93 policy anniversary shall be such that its present value as of
94 such anniversary shall be at least equal to the cash surrender
95 value then provided for by the policy or, if none is provided
96 for, that cash surrender value which would have been required by
97 this section in the absence of the condition that premiums shall
98 have been paid for at least a specified period.

99 5. Except as provided in the third paragraph of this
100 subsection, the adjusted premiums for any policy shall be
101 calculated on an annual basis and shall be such uniform
102 percentage of the respective premiums specified in the policy for
103 each policy year, excluding any extra premiums charged because of
104 impairments or special hazards, that the present value, at the
105 date of issue of the policy, of all such adjusted premiums shall
106 be equal to the sum of (a) the then present value of the future
107 guaranteed benefits provided for by the policy; (b) two percent
108 of the amount of the insurance, if the insurance be uniform in
109 amount, or of the equivalent uniform amount, as hereinafter
110 defined, if the amount of insurance varies with duration of the
111 policy; (c) forty percent of the adjusted premium for the first
112 policy year; (d) twenty-five percent of either the adjusted
113 premium for the first policy year or the adjusted premium for a

114 whole life policy of the same uniform or equivalent uniform
115 amount with uniform premiums for the whole of life issued at the
116 same age for the same amount of insurance, whichever is less.
117 Provided, however, that in applying the percentages specified in
118 (c) and (d) above, no adjusted premium shall be deemed to exceed
119 four percent of the amount of insurance or uniform amount
120 equivalent thereto. The date of issue of a policy for the
121 purpose of this subsection five (5) shall be the date as of
122 which the rated age of the insured is determined.

123 In the case of a policy providing an amount of insurance
124 varying with duration of the policy, the equivalent uniform
125 amount thereof for the purpose of this subsection five (5) shall
126 be deemed to be the uniform amount of insurance provided by an
127 otherwise similar policy, containing the same endowment benefit
128 or benefits, if any, issued at the same age and for the same
129 term, the amount of which does not vary with duration and the
130 benefits under which have the same present value at the date of
131 issue as the benefits under the policy, provided, however, that
132 in the case of a policy providing a varying amount of insurance
133 issued on the life of a child under age ten, the equivalent
134 uniform amount may be computed as though the amount of insurance
135 provided by the policy prior to the attainment of age ten were
136 the amount provided by such policy at age ten.

137 The adjusted premiums for any policy providing term insurance
138 benefits by rider or supplemental policy provision shall be equal
139 to (a) the adjusted premiums for an otherwise similar policy
140 issued at the same age without such term insurance benefits,
141 increased during the period for which premiums for such term
142 insurance benefits are payable, by (b) the adjusted premiums for

143 such term insurance, the foregoing items (a) and (b) being
144 calculated separately and as specified in the first two
145 paragraphs of this subsection except that, for the purposes of
146 (b), (c) and (d) of the first paragraph of this subsection, the
147 amount of insurance or equivalent uniform amount of insurance
148 used in the calculation of the adjusted premiums referred to in
149 (b) of this paragraph shall be equal to the excess of the
150 corresponding amount determined for the entire policy over the
151 amount used in the calculation of the adjusted premiums in (a)
152 of this paragraph.

153 All adjusted premiums and present values referred to in this
154 section shall for all policies of ordinary insurance be
155 calculated on the basis of the Commissioners 1958 Standard
156 Ordinary Mortality Table, provided that for any category of
157 ordinary insurance issued on female risks, adjusted premiums and
158 present values may be calculated according to an age not more
159 than three years younger than the actual age of the insured.
160 Such calculations for all policies of industrial insurance shall
161 be made on the basis of the 1941 Standard Industrial Mortality
162 Table; provided, however, that any company may file with the
163 commissioner a written notice of its election that such adjusted
164 premiums and present values shall be calculated on the basis of
165 the Commissioners 1961 Standard Industrial Mortality Table, after
166 a specified date before January 1, 1968; provided, further, that,
167 whether or not any election has been made, such Commissioners
168 1961 Standard Industrial Mortality Table shall be the basis for
169 such calculations as to all policies of industrial insurance
170 issued on or after January 1, 1968. All calculations shall be
171 made on the basis of the rate of interest, not exceeding three

172 and one-half percent per annum, specified in the policy for
173 calculating cash surrender values and paid-up nonforfeiture
174 benefits; provided, however, that in calculating the present
175 value of any paid-up term insurance with accompanying pure
176 endowment, if any, offered as a nonforfeiture benefit, the rates
177 of mortality assumed in the case of policies of ordinary
178 insurance, may be not more than those shown in the Commissioners
179 1958 *Extended Term Insurance Table*, and, in the case of policies
180 of industrial insurance, may be not more than one hundred thirty
181 percent of the rates of mortality according to the 1941 Standard
182 Industrial Mortality Table, except that when the Commissioners
183 1961 Standard Industrial Mortality Table becomes applicable, as
184 hereinbefore provided, such rates of mortality assumed may be not
185 more than those shown in the Commissioners 1961 Industrial
186 *Extended Term Insurance Table*, provided, further, that for
187 insurance issued on a substandard basis, the calculation of any
188 such adjusted premiums and present values may be based on such
189 other table of mortality as may be specified by the company and
190 approved by the commissioner.

191 6. Any cash surrender value and any paid-up nonforfeiture
192 benefit, available under the policy in the event of default in a
193 premium payment due at any time other than on the policy
194 anniversary, shall be calculated with allowance for the lapse of
195 time and the payment of fractional premiums beyond the last
196 preceding policy anniversary. All values referred to in
197 subsections three (3), four (4) and five (5) may be calculated
198 upon the assumption that any death benefit is payable at the end
199 of the policy year of death. The net value of any paid-up
200 additions, other than paid-up term additions, shall be not less

201 than the dividends used to provide such additions.
202 Notwithstanding the provisions of subsection three (3) above,
203 additional benefits payable (a) in the event of death or
204 dismemberment by accident or accidental means, (b) in the event
205 of total and permanent disability, (c) as reversionary annuity
206 or deferred reversionary annuity benefits, (d) as term insurance
207 benefits provided by a rider or supplemental policy provision
208 to which, if issued as a separate policy, this section would not
209 apply, (e) as term insurance on the life of a child or on the
210 lives of children provided in a policy on the life of a parent of
211 the child, if such term insurance expires before the child's age
212 is twenty-six, is uniform in amount after the child's age is one,
213 and has not become paid-up by reason of the death of a parent of
214 the child, and (f) as other policy benefits additional to life
215 insurance and endowment benefits, and premiums for all such
216 additional benefits, shall be disregarded as ascertaining cash
217 surrender values and nonforfeiture benefits required by this
218 section, and no such additional benefits shall be required to be
219 included in any paid-up nonforfeiture benefits.

220 7. This section shall not apply to any reinsurance, group
221 insurance, pure endowment, annuity or reversionary annuity
222 contract, nor to any term policy of uniform amount, or renewal
223 thereof, of fifteen years or less expiring before age sixty-six,
224 for which uniform premiums are payable during the entire term
225 of the policy, nor to any term policy of decreasing amount on
226 which each adjusted premium, calculated as specified in
227 subsection five (5) above, is less than the adjusted premium so
228 calculated, on such fifteen year term policy issued at the same
229 age and for the same initial amount of insurance, nor to any

230 policy which shall be delivered outside this state through an
231 agent or other representative of the company issuing the policy.

232 8. After the effective date of this Act, any company may file
233 with the commissioner a written notice of its election to comply
234 with the provisions of this section after a specified date before
235 January 1, 1966. After the filing of such notice, then upon such
236 specified date (which shall be the operative date of this section
237 for such company), this section shall become operative with
238 respect to the policies thereafter issued by such company. If
239 a company makes no such election, the operative date of this
240 section for such company shall be January 1, 1966.

1 Sec. 3. Section five hundred eight point twelve (508.12),

2 Code 1962, is hereby repealed.

