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HOUSE FILE 1249

By COMMITTEE ON COMMERCE

Place On Calendar
Sen. Commerce 4/2, Pass 5/2

Passed House, Date 3-29-74 (1352) Passed Senate, Date 5-3-74 (1981)
Vote: Ayes 81 Nays 1 Vote: Ayes 46 Nays 0
Approved 5-27-74

A BILL FOR

1 An Act relating to the investments of life insurance companies
2 and to life insurance standard valuation and nonforfeiture
3 laws.

4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:
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1 Section 1. Section five hundred eight point ten (508.10),
2 Code 1973, is amended to read as follows:

3 508.10 FOREIGN COMPANIES--CAPITAL OR SURPLUS--INVESTMENTS.

4 No company incorporated by or organized under the laws of
5 any other state or government shall transact business in this
6 state unless it is possessed of the actual amount of capital
7 and surplus required of any company organized by the laws
8 of this state, or, if it be a mutual company, of surplus equal
9 in amount thereto, and the same is invested in bonds of the
10 United States or of this state, or in interest-paying bonds,
11 when they are at or above par, of the state in which the com-
12 pany is located, or of some other state, or in notes or bonds
13 secured by mortgages on unencumbered real estate within this
14 or the state where such company is located, worth one and
15 ~~two-thirds~~ one-third times the amount loaned thereon, which
16 securities shall, at the time, be on deposit with the
17 superintendent of insurance, auditor, comptroller, or chief
18 financial officer of the state by whose laws the company is
19 incorporated, or of some other state, and the commissioner
20 of insurance is furnished with a certificate of such officer,
21 under his official seal, that he as such officer holds in
22 trust and on deposit for the benefit of all the policyholders
23 of such company, the securities above mentioned. This certi-
24 ficate shall embrace the items of security so held, and show
25 that such officer is satisfied that such securities are worth
26 the amount stated in the certificate. Nothing herein contained
27 shall invalidate the agency of any company incorporated in
28 another state by reason of its having exchanged the bonds
29 or securities so deposited with such officer for other bonds
30 or securities authorized by this chapter, or by reason of
31 its having drawn its interest and dividends on the same.

32 Sec. 2. Section five hundred eleven point eight (511.8),
33 subsection eight (8), paragraph b, subparagraphs one (1) and
34 two (2), Code 1973, are amended to read as follows:

35 (1) ~~Two~~ With the exception of public utility securities,

1 two percent of the legal reserve in the securities of any
2 one corporation. Five percent of the legal reserve in the
3 securities of one public utility corporation.

4 (2) Fifty percent of the legal reserve in the securities
5 described in subsection 5 issued by other than public utility
6 corporations. Fifty percent of the legal reserve in the
7 securities described in subsection five (5) issued by public
8 utility corporations.

9 Sec. 3. Section five hundred eleven point eight (511.8),
10 subsection nine (9), paragraph f, Code 1973, is amended to
11 read as follows:

12 f. Bonds, notes, obligations or other evidences of
13 indebtedness secured by mortgages or deeds of trust which
14 are a first lien upon unencumbered personal or real property
15 or both personal and real property, including a leasehold
16 of real estate, within the United States of America, or any
17 insular or territorial possession of the United States of
18 America, or the Dominion of Canada, under lease, purchase
19 contract, or lease purchase contract to any governmental body
20 or instrumentality whose obligations qualify under subsections
21 1, 2 or 3 of this section, or to a corporation whose
22 obligations qualify under paragraph "a" of subsection 5 of
23 this section, if the terms of the bond, note or other evidence
24 of indebtedness provide for the amortization during the
25 initial, fixed period of the lease or contract of one hundred
26 percent of the indebtedness and there is pledged or assigned,
27 as additional security for the loan, sufficient of the rentals
28 payable under the lease, or of contract payments, to provide
29 the required payments on the loan necessary to permit such
30 amortization, including but not limited to payments of
31 principal, interest, ground rents and taxes other than the
32 income taxes of the borrower; provided, however, that where
33 the security consists of a first mortgage or deed of trust
34 lien on a fee interest in real property only, the bond, note
35 or other evidence of indebtedness may provide for the

1 amortization during the initial, fixed period of the lease
2 or contract of less than one hundred percent of the
3 indebtedness if there is to be left unamortized at the end
4 of such period an amount not greater than the appraised value
5 of the land only, exclusive of all improvements, and if there
6 is pledged or assigned, as additional security for the loan,
7 sufficient of the rentals payable under the lease, or of
8 contract payments, to provide the required payments on the
9 loan necessary to permit such amortization, including but
10 not limited to payments of principal, interest, and taxes
11 other than the income taxes of the borrower. Investments
12 made in accordance with the provisions of this paragraph shall
13 not be eligible in excess of fifteen twenty-five percent of
14 the legal reserve, nor shall any one such investment in excess
15 of five percent of the legal reserve be eligible.

16 Sec. 4. Section five hundred eight point thirty-six
17 (508.36), subsection two (2), unnumbered paragraph two (2),
18 Code 1973, is amended to read as follows:

19 The Except as otherwise provided in paragraph f of
20 subsection three (3) of this section for group annuity and
21 pure endowment contracts, the minimum standard of valuation
22 for all policies of domestic life insurance companies shall
23 be the Commissioners Reserve Valuation Method defined in
24 paragraph "b" of subsection 3 and the American Experience
25 Table of Mortality and four and one-half percent interest
26 or the Actuaries' (or Combined) Experience Table of Mortality
27 and four percent interest.

28 Sec. 5. Section five hundred eight point thirty-six
29 (508.36), subsection three (3), unnumbered paragraph one (1),
30 Code 1973, is amended to read as follows:

31 This subsection shall apply to only those policies and
32 contracts issued on or after the operative date of section
33 508.37 (the Standard Nonforfeiture Law), except as other-
34 wise provided in paragraph f of this subsection for group
35 annuity and pure endowment contracts issued prior to such

1 operative date.

2 Sec. 6. Section five hundred eight point thirty-six
3 (508.36), subsection three (3), paragraph a, unnumbered para-
4 graph one (1), Code 1973, is amended to read as follows:

5 The Except as otherwise provided in paragraph f of this
6 subsection, the minimum standard for the valuation of all
7 such policies and contracts shall be the Commissioners Reserve
8 Valuation Method defined in paragraph "b" of this subsection
9 3, three and one-half percent interest, and the following
10 tables:

11 Sec. 7. Section five hundred eight point thirty-six
12 (508.36), subsection three (3), paragraph e, Code 1973, is
13 amended to read as follows:

14 e. If the gross premium charged by any life insurance
15 company on any policy or contract is less than the net premium
16 for the policy or contract according to the mortality table,
17 rate of interest and method used in calculating the reserve
18 thereon, according to the minimum standard prescribed in this
19 section, there shall be maintained on such policy or contract
20 a deficiency reserve in addition to all other reserves required
21 by law. For each such policy or contract the deficiency
22 reserve shall be the present value, according to such standard,
23 of an annuity of the difference between such net premium and
24 the premium charged for such policy or contract, running for
25 the remainder of the premium-paying period.

26 Sec. 8. Section five hundred eight point thirty-six
27 (508.36), subsection three (3), Code 1973, is amended by
28 adding the following new paragraphs:

29 NEW PARAGRAPH. The minimum standard for the valuation
30 of all individual annuity and pure endowment contracts issued
31 on or after the operative date of this paragraph, and for
32 all annuities and pure endowments purchased on or after such
33 operative date under group annuity and pure endowment
34 contracts, shall be the Commissioners Reserve Valuation Method
35 defined in paragraph b of this subsection and the following

1 tables and interest rates:

2 (1) For individual annuity and pure endowment contracts
3 issued prior to January 1, 1936, excluding any disability
4 and accidental death benefits in such contracts, the 1971
5 Individual Annuity Mortality Table, or any modification of
6 this table approved by the commissioner, and six percent
7 interest for single premium immediate annuity contracts, and
8 four percent interest for all other individual annuity and
9 pure endowment contracts.

10 (2) For individual annuity and pure endowment contracts
11 issued on or after January 1, 1986, excluding any disability
12 and accidental death benefits in such contracts, the 1971
13 Individual Annuity Mortality Table, or any modification of
14 this table approved by the commissioner, and three and one-
15 half percent interest.

16 (3) For all annuities and pure endowments purchased prior
17 to January 1, 1986 under group annuity and pure endowment
18 contracts, excluding any disability and accidental death bene-
19 fits purchased under such contracts, the 1971 Group Annuity
20 Mortality Table, or any modification of this table approved
21 by the commissioner, and six percent interest.

22 (4) For all annuities and pure endowments purchased on
23 or after January 1, 1986 under group annuity and pure endow-
24 ment contracts, excluding any disability and accidental death
25 benefits in such contracts, the 1971 Group Annuity Mortality
26 Table, or any modification of this table approved by the com-
27 missioner, and three and one-half percent interest.

28 NEW PARAGRAPH. After July 1, 1974, any company may file
29 with the commissioner a written notice of its election to
30 comply with the provisions of this paragraph after a specified
31 date before January 1, 1979, which shall be the operative
32 date of this paragraph for such company; provided, a company
33 may elect a different operative date for individual annuity
34 and pure endowment contracts from that elected for group
35 annuity and pure endowment contracts. If a company makes

1 no such election, the operative date of this paragraph for
2 such company shall be January 1, 1979.

3 Sec. 9. Section five hundred eight point thirty-seven
4 (508.37), subsection five (5), unnumbered paragraph four (4),
5 Code 1973, is amended to read as follows:

6 All adjusted premiums and present values referred to in
7 this section shall for all policies of ordinary insurance
8 be calculated on the basis of the Commissioners 1958 Standard
9 Ordinary Mortality Table, provided that for any category of
10 ordinary insurance issued on female risks, adjusted premiums
11 and present values may be calculated according to an age not
12 more than three years younger than the actual age of the
13 insured. Such calculations for all policies of industrial
14 insurance shall be made on the basis of the 1941 Standard
15 Industrial Mortality Table; provided, however, that any com-
16 pany may file with the commissioner a written notice of its
17 election that such adjusted premiums and present values shall
18 be calculated on the basis of the Commissioners 1961 Standard
19 Industrial Mortality Table, after a specified date before
20 January 1, 1968; provided, further, that, whether or not any
21 election has been made, such Commissioners 1961 Standard
22 Industrial Mortality Table shall be the basis for such cal-
23 culations as to all policies of industrial insurance issued
24 on or after January 1, 1968. All calculations shall be made
25 on the basis of the rate of interest, ~~not exceeding three~~
26 ~~and one-half percent per annum~~, specified in the policy for
27 calculating cash surrender values and paid-up nonforfeiture
28 benefits; provided, that such rate of interest shall not
29 exceed three and one-half percent per annum, except that a
30 rate of interest not exceeding four percent per annum may
31 be used for policies issued on or after July 1, 1974 and prior
32 to January 1, 1986. Provided, however, that in calculating
33 the present value of any paid-up term insurance with accom-
34 panying pure endowment, if any, offered as a nonforfeiture
35 benefit, the rates of mortality assumed in the case of policies

1 of ordinary insurance, may be not more than those shown in
2 the Commissioners 1958 Extended Term Insurance Table, and,
3 in the case of policies of industrial insurance, may be not
4 more than one hundred thirty percent of the rates of mortality
5 according to the 1941 Standard Industrial Mortality Table,
6 except that when the Commissioners 1961 Standard Industrial
7 Mortality Table becomes applicable, as hereinbefore provided,
8 such rates of mortality assumed may be not more than those
9 shown in the Commissioners 1961 Industrial Extended Term
10 Insurance Table, provided, further, that for insurance issued
11 on a substandard basis, the calculation of any such adjusted
12 premiums and present values may be based on such other table
13 of mortality as may be specified by the company and approved
14 by the commissioner.

15 EXPLANATION

16 Section 1 is to conform foreign company investments in
17 mortgages to the statutory change allowing insurance com-
18 panies to loan to 75% of value.

19 Section 2 allows more flexibility in investments in cor-
20 porate obligations by increasing the permissible investment
21 in public utility obligations.

22 Section 3 allows an additional 10% investment in mortgages
23 secured by long-term leases but adds a limitation on the
24 maximum that may be invested in any one mortgage.

25 The bill also provides amendments to the Standard Valuation
26 and Nonforfeiture Laws by establishing new valuation mortality
27 standards for annuity and pure endowment contracts in the
28 1971 Group Annuity Mortality Table and the 1971 Individual
29 Annuity Mortality Table; by allowing the use of interest rates
30 not to exceed 6% for group annuity or pure endowment contracts
31 and individual single premium immediate annuity contracts,
32 and 4% for all other individual annuity or pure endowment
33 contracts, to January 1, 1986; by allowing an interest rate
34 not to exceed 4% to be used for all other insurance contracts,
35 to January 1, 1986; and by establishing an operative date

1 of January 1, 1979 or earlier at the election of the company.

2 The purpose of a minimum valuation standard is to guarantee
3 that sufficient funds will be available when a company must
4 meet its obligations in the future to its policyholders.

5 The purpose of minimum nonforfeiture requirements is to assure
6 that terminating policyholders receive as nearly as possi-
7 ble their equitable share in the assets of the company, with-
8 out impairing the position of the continuing policyholders.
9 These changes are an attempt to allow more realistic valuation
10 and nonforfeiture assumptions in view of higher investment
11 yields and improved mortality being experienced today.

12 A cutoff date of January 1, 1986 has been established in
13 order to force a reassessment of the economic picture at that
14 time. If prevailing interest rates remain at a relatively
15 high level, the cutoff date can be extended. If, however,
16 prevailing interest rates decline, the interest assumptions
17 will automatically return to their original level.

18 Section 7 of the bill clarifies that additional reserves
19 will be required under paragraph e of subsection 508.36(3)
20 only if the gross premium charged on any policy or contract
21 is less than the net valuation premium calculated on the
22 minimum reserve standard.

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H-2312

1 Amend House File 1249 as follows:

2 1. Page 3, line 3, by inserting after the word
3 "of" the word "any".

4 2. Page 4, lines 19 and 20, by striking the
5 words "paragraph f of subsection three (3) of this
6 section" and inserting in lieu thereof the words
7 "section eight (8) of this Act".

8 3. Page 4, line 34, by striking the words
9 "paragraph f of this subsection" and inserting in lieu
10 thereof the words "section eight (8) of this Act".

11 4. Page 5, lines 5 and 6, by striking the words
12 "paragraph f of this subsection" and inserting in lieu
13 thereof the words "section eight (8) of this Act".

14 5. Page 5, line 9, by inserting after the word
15 "interest" the words "or in the case of policies and
16 contracts, other than annuity and pure endowment
17 contracts, issued on or after July 1, 1974 and prior
18 to January 1, 1986, four percent interest,".

19 6. Page 6, line 3, by striking the figures
20 "1936" and inserting in lieu thereof the figures
21 "1986".

22 7. Page 6, line 30, by striking the words "this
23 paragraph" and inserting in lieu thereof the words
24 "section eight (8) of this Act".

25 8. Page 6, line 32, by striking the words "this
26 paragraph" and inserting in lieu thereof the words
27 "section eight (8) of this Act".

28 9. Page 7, line 1, by striking the words "this
29 paragraph" and inserting in lieu thereof the words
30 "section eight (8) of this Act".

H-2312 Filed *Adopted 3/29*
February 21, 1974

By BITTLE of Polk

EXPLANATION

This is a corrective amendment. Paragraphs 1 and 5 add words omitted in drafting the original bill and paragraph 6 corrects a misstated date. Paragraphs 2, 3, 4, 7, 8 and 9 conform the references to other parts of the bill to the requirements of the code editor and more clearly identify the paragraphs being referenced.