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HOUSE FILE 462

Commerce  
*Amend (3253) & Dr. Power 256 (482)*

By EVANS and CHIODO

Passed House, Date 3-12-79 (482) Passed Senate, Date \_\_\_\_\_

Vote: Ayes 93 Nays 0 Vote: Ayes 0 Nays \_\_\_\_\_

Approved April 2, 1979

### A BILL FOR

1 An Act relating to valuation standards and nonforfeiture  
2 provisions for policies of insurance subject to chapters  
3 five hundred eight (508) and five hundred twelve (512)  
4 of the Code.

5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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1 Section 1. Section five hundred eight point thirty-six  
2 (508.36), subsections two (2) and three (3), Code 1979, are  
3 amended to read as follows:

4 2. This subsection shall apply to only those policies  
5 and contracts issued prior to the operative date of section  
6 508.37 (the Standard Nonforfeiture Law for Life Insurance).

7 Except as otherwise provided in subsection 3, paragraphs  
8 "g" and "h" for group annuity and pure endowment  
9 contracts, the minimum standard of valuation for all policies  
10 of domestic life insurance companies shall be the Commissioners  
11 Reserve Valuation Method defined in paragraph "b" of subsection  
12 3 and the American Experience Table of Mortality and four  
13 and one-half percent interest or the Actuaries' (or Combined)  
14 Experience Table of Mortality and four percent interest,  
15 except that the minimum standard for the valuation of annuities  
16 and pure endowments purchased under group annuity and pure  
17 endowment contracts shall be that provided by this subsection  
18 but replacing the interest rates specified in this subsection  
19 by an interest rate of five percent per annum.

20 Reserves for all such policies and contracts may be  
21 calculated, at the option of the company, according to any  
22 standards which produce greater aggregate reserves for all  
23 such policies and contracts than the minimum reserves required  
24 by this subsection.

25 3. This subsection shall apply to only those policies  
26 and contracts issued on or after the operative date of section  
27 508.37 (the Standard Nonforfeiture Law for Life Insurance),  
28 except as otherwise provided in paragraphs "g" and "h"  
29 "h" for group annuity and pure endowment contracts issued  
30 prior to such operative date.

31 a. Except as otherwise provided in paragraphs "g"  
32 and "h", the minimum standard for the valuation of all  
33 such policies and contracts shall be the Commissioners Reserve  
34 Valuation Method Methods defined in paragraph-"b" paragraphs  
35 "b", "c" and "f" of this subsection 3, five percent interest

1 for group annuity and pure endowment contracts and three and  
2 one-half percent interest for all other such policies and  
3 contracts, or in the case of policies and contracts, other  
4 than annuity and pure endowment contracts, issued on or after  
5 July 1, 1974, ~~and prior to January 1, 1986~~, four percent  
6 interest for such policies issued prior to July 1, 1980, and  
7 four and one-half percent interest for such policies issued  
8 on or after July 1, 1980, and the following tables:

9 (1) For all ordinary policies of life insurance issued  
10 on the standard basis, excluding any disability and accidental  
11 death benefits in such policies,--the Commissioners 1958  
12 Standard Ordinary Mortality Table, provided that for any  
13 category of such policies issued on female risks all modified  
14 net premiums and present values referred to in this subsection  
15 3 may be calculated according to an age not more than three  
16 six years younger than the actual age of the insured.

17 (2) For all industrial life insurance policies issued  
18 on the standard basis, excluding any disability and accidental  
19 death benefits in such policies,--the 1941 Standard Industrial  
20 Mortality Table; provided, however, that the Commissioners  
21 1961 Standard Industrial Mortality Table shall be the table  
22 for the minimum standard when said table becomes applicable  
23 under the Standard Nonforfeiture Law in accordance with section  
24 508.37, subsection 5.

25 (3) For individual annuity and pure endowment contracts,  
26 excluding any disability and accidental death benefits in  
27 such policies,--the 1937 Standard Annuity Mortality Table  
28 or, at the option of the company, the Annuity Mortality Table  
29 for 1949, Ultimate, or any modification of either of these  
30 tables approved by the commissioner.

31 (4) For group annuity and pure endowment contracts,  
32 excluding any disability and accidental death benefits in  
33 such policies,--the Group Annuity Mortality Table for 1951,  
34 any modification of such table approved by the commissioner,  
35 or, at the option of the company, any of the tables or

1 modifications of tables specified for individual annuity and  
2 pure endowment contracts.

3 (5) For total and permanent disability benefits in or  
4 supplementary to ordinary policies or contracts,--the tables  
5 of "Period 2" disablement rates and the 1930 to 1950  
6 termination rates of the 1952 Disability Study of the Society  
7 of Actuaries, with due regard to the type of benefit. Such  
8 table shall, for active lives, be combined with a mortality  
9 table permitted for calculating the reserves for life insurance  
10 policies.

11 (6) For accidental death benefits in or supplementary  
12 to policies,--the 1959 Accidental Death Benefits Table combined  
13 with a mortality table permitted for calculating the reserves  
14 for life insurance policies.

15 (7) For group life insurance, life insurance issued on  
16 the substandard basis and other special benefits,--such tables  
17 as may be approved by the commissioner.

18 b. Reserves Except as otherwise provided in paragraphs  
19 "c" and "f" of this subsection, reserves according to the  
20 Commissioners Reserve Valuation Method, for the life insurance  
21 and endowment benefits of policies providing for a uniform  
22 amount of insurance and requiring the payment of uniform  
23 premiums shall be the excess, if any, of the present value,  
24 at the date of valuation, of such future guaranteed benefits  
25 provided for by such policies, over the then present value  
26 of any future modified net premiums therefor. The modified  
27 net premiums for any such policy shall be such uniform  
28 percentage of the respective contract premiums for such  
29 benefits that the present value, at the date of issue of the  
30 policy, of all such modified net premiums shall be equal to  
31 the sum of the then present value of such benefits provided  
32 for by the policy and the excess of (x) over (y), as follows:

33 (x) A net level annual premium equal to the present value,  
34 at the date of issue, of such benefits provided for after  
35 the first policy year, divided by the present value, at the

1 date of issue, of an annuity of one per annum payable on the  
2 first and each subsequent anniversary of such policy on which  
3 a premium falls due; provided, however, that such net level  
4 annual premium shall not exceed the net level annual premium  
5 on the nineteen-year premium whole life plan for insurance  
6 of the same amount at an age one year higher than the age  
7 at issue of such policy.

8 (y) A net one-year term premium for such benefits provided  
9 for in the first policy year.

10 Reserves according to the Commissioners Reserve Valuation  
11 Method for (1) life insurance policies providing for a varying  
12 amount of insurance or requiring the payment of varying  
13 premiums, (2) group annuity and pure endowment contracts  
14 purchased under a retirement plan or plan of deferred  
15 compensation, established or maintained by an employer  
16 (including a partnership or sole proprietorship) or by an  
17 employee organization, or by both, other than a plan providing  
18 individual retirement accounts or individual retirement an-  
19 nuities under section four hundred eight (408) of the United  
20 States Internal Revenue Code of 1954, (3) disability and  
21 accidental death benefits in all policies and contracts, and  
22 (4) all other benefits, except life insurance and endowment  
23 benefits in life insurance policies and benefits provided  
24 by all other annuity and pure endowment contracts, shall be  
25 calculated by a method consistent with the principles of this  
26 paragraph "b", except that any extra premiums charged because  
27 of impairments or special hazards shall be disregarded in  
28 the determination of modified net premiums.

29 c. This section shall apply to all annuity and pure endow-  
30 ment contracts other than group annuity and pure endowment  
31 contracts purchased under a retirement plan or plan of deferred  
32 compensation, established or maintained by an employer (in-  
33 cluding a partnership or sole proprietorship) or by an employee  
34 organization, or by both, other than a plan providing individ-  
35 ual retirement accounts or individual retirement annuities

1 under section four hundred eight (408) of the United States  
2 Internal Revenue Code of 1954.

3 Reserves according to the commissioner's annuity reserve  
4 method for benefits under annuity or pure endowment contracts,  
5 excluding any disability and accidental death benefits in  
6 such contracts, shall be the greatest of the respective  
7 excesses of the present values, at the date of valuation,  
8 of the future guaranteed benefits, including guaranteed  
9 nonforfeiture benefits, provided for by such contracts at  
10 the end of each respective contract year, over the present  
11 value, at the date of valuation, of any future valuation  
12 considerations derived from future gross considerations,  
13 required by the terms of such contract, that become payable  
14 prior to the end of such respective contract year. The future  
15 guaranteed benefits shall be determined by using the mortality  
16 table, if any, and the interest rate, or rates, specified  
17 in such contracts for determining guaranteed benefits. The  
18 valuation considerations are the portions of the respective  
19 gross considerations applied under the terms of such contracts  
20 to determine nonforfeiture values.

21 e d. In no event shall a company's aggregate reserves  
22 for all life insurance policies, excluding disability and  
23 accidental death benefits, be less than the aggregate reserves  
24 calculated in accordance with the ~~method~~ methods set forth  
25 in paragraph-"b"-above paragraphs "b", "c" and "f" of this  
26 subsection and the mortality table or tables and rate or rates  
27 of interest used in calculating nonforfeiture benefits for  
28 such policies.

29 d e. Reserves for any category of policies, contracts  
30 or benefits as established by the commissioner, may be  
31 calculated at the option of the company according to any  
32 standards which produce greater aggregate reserves for such  
33 category than those calculated according to the minimum  
34 standard herein provided. ~~Provided, however, that reserves~~  
35 ~~for participating life insurance policies may, with the consent~~

1 of-the-commissioner,-be-calculated-according-to-a-rate-of  
2 interest-lower-than-the-rate-of-interest-used-in-calculating  
3 the-nonforfeiture-benefits-in-such-policies,-with-the-further  
4 proviso-that-if-such-lower-rate-differs-from-the-rate-used  
5 in-the-calculation-of-the-nonforfeiture-benefits-by-more-than  
6 one-half-percent-the-company-issuing-such-policies-shall-file  
7 with-the-commissioner-a-plan-providing-for-such-equitable  
8 increase,-if-any,-in-the-cash-surrender-values-and  
9 nonforfeiture-benefits-in-such-policies-as-the-commissioner  
10 shall-approve-

11 e f. If in any contract year the gross premium charged  
12 by any life insurance company on any policy or contract is  
13 less than the valuation net premium for the policy or contract  
14 according to the mortality table, rate of interest and method  
15 used in calculating the reserve thereon, according to the  
16 minimum standard prescribed in this section, there-shall-be  
17 maintained-on-such-policy-or-contract-a-deficiency-reserve  
18 in-addition-to-all-other-reserves-required-by-law---For-each  
19 such-policy-or-contract-the-deficiency-reserve-shall-be-the  
20 present-value,-according-to-such-standard,-of-an-annuity-of  
21 the-difference-between-such-net-premium-and-the-premium-charged  
22 for-such-policy-or-contract,-running-for-the-remainder-of  
23 the-premium-paying-period the minimum reserve required for  
24 such policy or contract shall be the greater of either the  
25 reserve calculated according to the mortality table, rate  
26 of interest and method actually used for such policy or  
27 contract, or the reserve calculated according to the mortality  
28 table, rate of interest and method used in calculating the  
29 reserve thereon according to the minimum standard prescribed  
30 by this section but replacing the valuation net premium by  
31 the actual gross premium in each contract year for which the  
32 valuation net premium exceeds the actual gross premium.

33 f g. The minimum standard for the valuation of all  
34 individual annuity and pure endowment contracts issued on  
35 or after the operative date of this paragraph, and for all

1 annuities and pure endowments purchased on or after such  
2 operative date under group annuity and pure endowment  
3 contracts, shall be the Commissioners Reserve Valuation Method  
4 Methods defined in paragraph-"b" paragraphs "b" and "c" of  
5 this subsection and the following tables and interest rates:

6 (1) For individual annuity and pure endowment contracts  
7 issued prior to ~~January-17-1986~~ July 1, 1980, excluding any  
8 disability and accidental death benefits in such contracts, -  
9 -the 1971 Individual Annuity Mortality Table, or any  
10 modification of this table approved by the commissioner, and  
11 six percent interest for single premium immediate annuity  
12 contracts, and four percent interest for all other individual  
13 annuity and pure endowment contracts.

14 (2) For ~~individual-annuity-and-pure-endowment-contracts~~  
15 ~~issued-on-or-after-January-17-1986~~, ~~excluding-any-disability~~  
16 ~~and-accidental-death-benefits-in-such-contracts~~, ~~-the-1971~~  
17 ~~Individual-Annuity-Mortality-Table~~, ~~or-any-modification-of~~  
18 ~~this-table-approved-by-the-commissioner~~, ~~-and-three-and-one-~~  
19 ~~half-percent-interest~~ individual single premium immediate  
20 annuity contracts issued on or after July 1, 1980, excluding  
21 any disability and accidental death benefits in such  
22 contracts,--the 1971 Individual Annuity Mortality Table, or  
23 any modification of this table approved by the commissioner,  
24 and seven and one-half percent interest.

25 (3) For ~~all-annuities-and-pure-endowments-purchased-prior~~  
26 ~~to-January-17-1986~~, ~~under-group-annuity-and-pure-endowment~~  
27 ~~contracts~~, ~~excluding-any-disability-and-accidental-death~~  
28 ~~benefits-purchased-under-such-contracts~~, ~~-the-1971-Group-Annuity~~  
29 ~~Mortality-Table~~, ~~or-any-modification-of-this-table-approved~~  
30 ~~by-the-commissioner~~, ~~-and-six-percent-interest~~ individual  
31 annuity and pure endowment contracts issued on or after July  
32 1, 1980 other than single premium immediate annuity contracts,  
33 excluding any disability and accidental death benefits in  
34 such contracts,--the 1971 Individual Annuity Mortality Table,  
35 or any modification of this table approved by the commissioner,

1 and five and one-half percent interest for single premium  
2 deferred annuity and pure endowment contracts and four and  
3 one-half percent interest for all other such individual annuity  
4 and pure endowment contracts.

5 (4) For all annuities and pure endowments purchased ~~on~~  
6 ~~or after January 1, 1986~~ prior to July 1, 1980, under group  
7 annuity and pure endowment contracts, excluding any disability  
8 and accidental death benefits ~~on~~ purchased under such  
9 contracts, ~~--the~~ 1971 Group Annuity Mortality Table, or any  
10 modification of this table approved by the commissioner, and  
11 ~~three and one-half~~ six percent interest.

12 (5) For all annuities and pure endowments purchased on  
13 or after July 1, 1980 under group annuity and pure endowment  
14 contracts, excluding any disability and accidental death  
15 benefits purchased under such contracts, --the 1971 Group  
16 Annuity Mortality Table, or any modification of this table  
17 approved by the commissioner and seven and one-half percent  
18 interest.

19 g h. After July 1, 1974, any company may file with the  
20 commissioner a written notice of its election to comply with  
21 the provisions of paragraph "f" "g" after a specified date  
22 before January 1, 1979, which shall be the operative date  
23 of paragraph "f" "g" for such company; provided, a company  
24 may elect a different operative date for individual annuity  
25 and pure endowment contracts from that elected for group  
26 annuity and pure endowment contracts. If a company makes  
27 no such election, the operative date of paragraph "f" "g"  
28 for such company shall be January 1, 1979.

29 Sec. 2. Section five hundred eight point thirty-seven  
30 (508.37), unnumbered paragraph one (1) and subsection five  
31 (5), unnumbered paragraph four (4), Code 1979, are amended  
32 to read as follows:

33 This section shall be known as the "Standard Nonforfeiture  
34 Law for Life Insurance."

35 All adjusted premiums and present values referred to in

1 this section shall for all policies of ordinary insurance  
2 be calculated on the basis of the Commissioners 1958 Standard  
3 Ordinary Mortality Table, provided that for any category of  
4 ordinary insurance issued on female risks, adjusted premiums  
5 and present values may be calculated according to an age not  
6 more than ~~three~~ six years younger than the actual age of the  
7 insured. Such calculations for all policies of industrial  
8 insurance shall be made on the basis of the 1941 Standard  
9 Industrial Mortality Table; provided, however, that any company  
10 may file with the commissioner a written notice of its election  
11 that such adjusted premiums and present values shall be  
12 calculated on the basis of the Commissioners 1961 Standard  
13 Industrial Mortality Table, after a specified date before  
14 January 1, 1968; provided, further, that, whether or not any  
15 election has been made, such Commissioners 1961 Standard  
16 Industrial Mortality Table shall be the basis for such  
17 calculations as to all policies of industrial insurance issued  
18 on or after January 1, 1968. All calculations shall be made  
19 on the basis of the rate of interest specified in the policy  
20 for calculating cash surrender values and paid-up nonforfeiture  
21 benefits; provided, that such rate of interest shall not  
22 exceed three and one-half percent per annum, except that a  
23 rate of interest not exceeding four percent per annum may  
24 be used for policies issued on or after July 1, 1974, and  
25 prior to ~~January 1, 1986~~ July 1, 1980, and a rate of interest  
26 not exceeding five and one-half percent per annum may be used  
27 for policies issued on or after July 1, 1980. Provided,  
28 however, that in calculating the present value of any paid-  
29 up term insurance with accompanying pure endowment, if any,  
30 offered as a nonforfeiture benefit, the rates of mortality  
31 assumed in the case of policies of ordinary insurance, may  
32 be not more than those shown in the Commissioners 1958 Extended  
33 Term Insurance Table, and, in the case of policies of  
34 industrial insurance, may be not more than one hundred thirty  
35 percent of the rates of mortality according to the 1941

1 Standard Industrial Mortality Table, except that when the  
2 Commissioners 1961 Standard Industrial Mortality Table becomes  
3 applicable, as hereinbefore provided, such rates of mortality  
4 assumed may be not more than those shown in the Commissioners  
5 1961 Industrial Extended Term Insurance Table, provided,  
6 further, that for insurance issued on a substandard basis,  
7 the calculation of any such adjusted premiums and present  
8 values may be based on such other table of mortality as may  
9 be specified by the company and approved by the commissioner.

10 Sec. 3. Chapter five hundred eight (508), Code 1979, is  
11 amended by adding the following new section as section five  
12 hundred eight point thirty-eight (508.38) of that chapter:

13 NEW SECTION. 508.38 STANDARD NONFORFEITURES. This sec-  
14 tion shall be known as the "Standard Nonforfeiture Law for  
15 Individual Deferred Annuities."

16 1. This section does not apply to any reinsurance, and  
17 does not apply to any group annuity purchased under a  
18 retirement plan or plan of deferred compensation established  
19 or maintained by an employer (including a partnership or sole  
20 proprietorship) or by an employee organization, or by both,  
21 other than a plan providing individual retirement accounts  
22 or individual retirement annuities under section four hundred  
23 eight (408) of the United States Internal Revenue Code of  
24 1954, and does not apply to any premium deposit fund, variable  
25 annuity, investment annuity, or immediate annuity, and does  
26 not apply to any deferred annuity contract after annuity  
27 payments have commenced, and does not apply to a reversionary  
28 annuity, and does not apply to any contract which is delivered  
29 outside this state through an agent or other representative  
30 of the company issuing the contract.

31 2. In the case of contracts issued on or after the opera-  
32 tive date of this section as defined in subsection eleven  
33 (11) of this section, a contract of annuity, except as stated  
34 in subsection one (1) of this section, shall not be delivered  
35 or issued for delivery in this state unless it contains in

1 substance the following provisions, or corresponding provisions  
2 which in the opinion of the commissioner are at least as  
3 favorable to the contract holder, upon cessation of payment  
4 of considerations under the contract:

5 a. That upon cessation of payment of considerations under  
6 a contract, the company will grant a paid-up annuity benefit  
7 on a plan stipulated in the contract of such value as is  
8 specified in subsections four (4), five (5), six (6), seven  
9 (7), and nine (9) of this section.

10 b. If a contract provides for a lump sum settlement at  
11 maturity, or at any other time, that upon surrender of the  
12 contract at or prior to the commencement of any annuity pay-  
13 ments, the company will pay in lieu of any paid-up annuity  
14 benefit a cash surrender benefit of such amount as is speci-  
15 fied in subsections four (4), five (5), seven (7), and nine  
16 (9) of this section. The company shall reserve the right  
17 to defer the payment of the cash surrender benefit for a  
18 period of six months after demand with surrender of the con-  
19 tract.

20 c. A statement of the mortality table, if any, and in-  
21 terest rates used in calculating any minimum paid-up annuity,  
22 cash surrender or death benefits that are guaranteed under  
23 the contract, together with sufficient information to deter-  
24 mine the amounts of the benefits.

25 d. A statement that any paid-up annuity, cash surrender  
26 or death benefits that may be available under the contract  
27 are not less than the minimum benefits required by any statute  
28 of the state in which the contract is delivered and an explana-  
29 tion of the manner in which such benefits are altered by the  
30 existence of any additional amounts credited by the company  
31 to the contract, any indebtedness to the company on the con-  
32 tract or any prior withdrawals from or partial surrenders  
33 of the contract.

34 Notwithstanding the requirements of this subsection, any  
35 deferred annuity contract may provide that if no considerations

1 have been received under a contract for a period of two full  
2 years and the portion of the paid-up annuity benefit at  
3 maturity on the plan stipulated in the contract arising from  
4 considerations paid prior to such period would be less than  
5 twenty dollars monthly, the company may at its option terminate  
6 the contract by payment in cash of the then present value  
7 of such portion of the paid-up annuity benefit, calculated  
8 on the basis of the mortality table, if any, and interest  
9 rate specified in the contract for determining the paid-up  
10 annuity benefit, and by such payment shall be relieved of  
11 any further obligation under the contract.

12 3. The minimum values as specified in subsections four  
13 (4), five (5), six (6), seven (7), and nine (9) of this sec-  
14 tion of any paid-up annuity, cash surrender or death benefits  
15 available under an annuity contract shall be based upon minimum  
16 nonforfeiture amounts as defined in this section.

17 a. With respect to contracts providing for flexible con-  
18 siderations, the minimum nonforfeiture amount at any time  
19 at or prior to the commencement of any annuity payments shall  
20 be equal to an accumulation up to such time at a rate of  
21 interest of three percent per annum of percentages of the  
22 net considerations (as hereinafter defined) paid prior to  
23 such time, decreased by the sum of (i) any prior withdrawals  
24 from or partial surrenders of the contract accumulated at  
25 a rate of interest of three percent per annum and (ii) the  
26 amount of any indebtedness to the company on the contract,  
27 including interest due and accrued; and increased by any  
28 existing additional amounts credited by the company to the  
29 contract.

30 The net considerations for a given contract year used to  
31 define the minimum nonforfeiture amount shall be an amount  
32 not less than zero and shall be equal to the corresponding  
33 gross considerations credited to the contract during that  
34 contract year less an annual contract charge of thirty dollars  
35 and less a collection charge of one dollar and twenty-five

1 cents per consideration credited to the contract during that  
2 contract year. The percentages of net considerations shall  
3 be sixty-five percent of the net consideration for the first  
4 contract year and eighty-seven and one-half percent of the  
5 net considerations for the second and later contract years.  
6 Notwithstanding the provisions of the preceding sentence,  
7 the percentage shall be sixty-five percent of the portion  
8 of the total net consideration for any renewal contract year  
9 which exceeds by not more than two times the sum of those  
10 portions of the net considerations in all prior contract years  
11 for which the percentage was sixty-five percent.

12 b. With respect to contracts providing for fixed scheduled  
13 considerations, minimum nonforfeiture amounts shall be cal-  
14 culated on the assumption that considerations are paid an-  
15 nually in advance and shall be defined as for contracts with  
16 flexible considerations which are paid annually with two ex-  
17 ceptions:

18 (1) The portion of the net consideration for the first  
19 contract year to be accumulated shall be the sum of sixty-  
20 five percent of the net consideration for the first contract  
21 year plus twenty-two and one-half percent of the excess of  
22 the net consideration for the first contract year over the  
23 lesser of the net considerations for the second and third  
24 contract years.

25 (2) The annual contract charge shall be the lesser of  
26 (i) thirty dollars or (ii) ten percent of the gross annual  
27 consideration.

28 c. With respect to contracts providing for a single  
29 consideration, minimum nonforfeiture amounts shall be de-  
30 fined as for contracts with flexible considerations except  
31 that the percentage of net consideration used to determine  
32 the minimum nonforfeiture amount shall be equal to ninety  
33 percent and the net consideration shall be the gross con-  
34 sideration less a contract charge of seventy-five dollars.

35 4. Any paid-up annuity benefit available under a contract

1 shall be such that its present value on the date annuity pay-  
2 ments are to commence is at least equal to the minimum non-  
3 forfeiture amount on that date. The present value shall be  
4 computed using the mortality table, if any, and the interest  
5 rate specified in the contract for determining the minimum  
6 paid-up annuity benefits guaranteed in the contract.

7 5. For contracts which provide cash surrender benefits,  
8 the cash surrender benefits available prior to maturity shall  
9 not be less than the present value as of the date of surrender  
10 of that portion of the maturity value of the paid-up annuity  
11 benefit which would be provided under the contract at maturity  
12 arising from considerations paid prior to the time of cash  
13 surrender reduced by the amount appropriate to reflect any  
14 prior withdrawals from or partial surrenders of the contract,  
15 such present value being calculated on the basis of an in-  
16 terest rate not more than one percent higher than the interest  
17 rate specified in the contract for accumulating the net con-  
18 siderations to determine such maturity value, decreased by  
19 the amount of any indebtedness to the company on the con-  
20 tract, including interest due and accrued, and increased by  
21 any existing additional amounts credited by the company to  
22 the contract. In no event shall any cash surrender benefit  
23 be less than the minimum nonforfeiture amount at that time.  
24 The death benefit under such contracts shall be at least equal  
25 to the cash surrender benefit.

26 6. For contracts which do not provide cash surrender  
27 benefits, the present value of any paid-up annuity benefit  
28 available as a nonforfeiture option at any time prior to  
29 maturity shall not be less than the present value of that  
30 portion of the maturity value of the paid-up annuity benefit  
31 provided under the contract arising from considerations paid  
32 prior to the time the contract is surrendered in exchange  
33 for or changed to, a deferred paid-up annuity, such present  
34 value being calculated for the period prior to the maturity  
35 date on the basis of the interest rate specified in the con-

1 tract for accumulating the net considerations to determine  
2 such maturity value, and increased by any existing additional  
3 amounts credited by the company to the contract. For contracts  
4 which do not provide any death benefits prior to the  
5 commencement of any annuity payments, such present values  
6 shall be calculated on the basis of such interest rate and  
7 the mortality table specified in the contract for determining  
8 the maturity value of the paid-up annuity benefit. However,  
-9 the present value of a paid-up annuity benefit shall not be  
10 less than the minimum nonforfeiture amount at that time.

11 7. For the purpose of determining the benefits calculated  
12 under subsections five (5) and six (6) of this section, in  
13 the case of annuity contracts under which an election may  
14 be made to have annuity payments commence at optional maturity  
15 dates, the maturity date shall be deemed to be the latest  
16 date for which election shall be permitted by the contract,  
17 but shall not be deemed to be later than the anniversary  
18 of the contract next following the annuitant's seventieth  
19 birthday or the tenth anniversary of the contract, whichever  
20 is later.

21 8. Any contract which does not provide cash surrender  
22 benefits or does not provide death benefits at least equal  
23 to the minimum nonforfeiture amount prior to the commencement  
24 of any annuity payments shall include a statement in a  
25 prominent place in the contract that such benefits are not  
26 provided.

27 9. Any paid-up annuity, cash surrender or death benefits  
28 available at any time, other than on the contract anniversary  
29 under any contract with fixed scheduled considerations, shall  
30 be calculated with allowance for the lapse of time and the  
31 payment of any scheduled considerations beyond the beginning  
32 of the contract year in which cessation of payment of con-  
33 siderations under the contract occurs.

34 10. For any contract which provides, within the same con-  
35 tract by rider or supplemental contract provision, both an-

1 nuity benefits and life insurance benefits that are in excess  
 2 of the greater of cash surrender benefits or a return of the  
 3 gross considerations with interest, the minimum nonforfeiture  
 4 benefits shall be equal to the sum of the minimum nonforfeiture  
 5 benefits for the annuity portion and the minimum nonforfeiture  
 6 benefits, if any, for the life insurance portion computed  
 7 as if each portion were a separate contract. Notwithstanding  
 8 the provisions of subsections four (4), five (5), six (6),  
 9 seven (7) and nine (9) of this section, additional benefits  
 10 payable (a) in the event of total and permanent disability;  
 11 (b) as reversionary annuity or deferred reversionary annuity  
 12 benefits, or (c) as other policy benefits additional to life  
 13 insurance, endowment, and annuity benefits, and considerations  
 14 for all such additional benefits, shall be disregarded in  
 15 ascertaining the minimum nonforfeiture amounts, paid-up  
 16 annuity, cash surrender and death benefits that may be required  
 17 by this section. The inclusion of such additional benefits  
 18 shall not be required in any paid-up benefits, unless such  
 19 additional benefits separately would require minimum  
 20 nonforfeiture amounts, paid-up annuity, cash surrender and  
 21 death benefits.

22 11. After July 1, 1980, any company may file with the  
 23 commissioner a written notice of its election to comply with  
 24 the provisions of this section after a specified date but  
 25 before July 1, 1982. After the filing of such notice, then  
 26 upon such specified date, which shall be the operative date  
 27 of this section for such company, this section shall become  
 28 operative with respect to annuity contracts thereafter issued  
 29 by such company. The operative date of this section shall  
 30 be July 1, 1982 for all companies which do not so elect an  
 31 operative date which is earlier than July 1, 1982.

32 Sec. 4. Section five hundred twelve point forty-three  
 33 (512.43), unnumbered paragraph one (1), Code 1979, is amended  
 34 to read as follows:

35 No fraternal beneficiary society not admitted to transact

1 business in this state prior to July 4, 1907, shall be  
2 incorporated, or given a permit or certificate of authority  
3 to transact business within this state, unless it shall first  
4 show that the mortuary assessment rates provided for in  
5 whatever plan of business it has adopted, including the  
6 issuance of term, whole life, or limited payment certificates  
7 with withdrawal options, are not lower than is indicated as  
8 necessary by the following mortality table, or any more recent  
9 table which is applicable to life insurance companies:

10 Sec. 5. Section five hundred twelve point forty-five  
11 (512.45), Code 1979, is amended to read as follows:

12 512.45 VALUATION OF CERTIFICATES. ~~The certificate writ-~~  
13 ~~ten-by-any-domestic-fraternal-beneficiary-association-operating~~  
14 ~~under-the-provisions-of-the-foregoing-mortality-table-shall~~  
15 ~~be-valued-in-the-same-manner-as-provided-in-section-508-36,~~  
16 ~~except-that-such-valuation-shall-be-based-upon-the-foregoing~~  
17 ~~mortality-table-and-four-percent-interest.~~

18 ~~If-the-society-makes-loans-on-its-certificates, the valua-~~  
19 ~~tion-shall-be-based-upon-a-mortality-table-not-lower-than~~  
20 ~~the-American-table-of-mortality-and-four-and-one-half-percent~~  
21 ~~interest. The minimum standards of valuation for certificates~~  
22 issued prior to January 1, 1980, shall be those provided by  
23 the law in effect prior to January 1, 1980, but not lower  
24 than the standards used in the calculation of rates for the  
25 certificates. The minimum standards of valuation for  
26 certificates issued on or after January 1, 1980, shall be  
27 those provided for life insurance companies.

28 Sec. 6. Sections five hundred twelve point fifty-seven  
29 (512.57) and five hundred twelve point fifty-eight (512.58),  
30 Code 1979, are repealed.

31 Sec. 7. This Act takes effect January 1, 1980.

32 EXPLANATION

33 Sections 1, 2 and 3 of this bill relate to life insurance  
34 policies which are subject to the provisions of chapter 508  
35 of the Code.

1 Section 1 amends the Code provisions which govern the  
 2 standard valuation law. The standard valuation law has the  
 3 function of establishing the minimum reserves which life in-  
 4 surance companies must maintain to protect their policyholders.  
 5 The proposed amendments principally adjust the interest rate  
 6 assumptions which must be used to establish reserves. By  
 7 changing the statutory interest rates to more realistic levels  
 8 relative to the prevailing economy, the initial amounts of  
 9 premium required to be placed in reserve may be somewhat  
 10 reduced. According to the commissioner of insurance the re-  
 11 sult should be a trend to lower premiums charged to the public,  
 12 while retaining the intended protection through adequate  
 13 reserves.

14 Section 2 amends the standard nonforfeiture law for life  
 15 insurance to adjust the interest rate for the reasons stated  
 16 in the explanation of section 1.

17 Sections 1 and 2 also include an amendment to permit re-  
 18 serves to be established for females using a six-year age  
 19 setback rather than only three years as at present. This  
 20 will enable insurers to price life products more nearly in  
 21 accord with actual experience.

22 Section 3 contains new law which would establish nonfor-  
 23 feiture requirements for individual deferred annuities.

24 According to information received, the revisions contained  
 25 in sections 1, 2 and 3 of this bill are recommended by the  
 26 National Association of Insurance Commissioners.

27 Sections 4, 5 and 6 of the bill relate to valuation  
 28 standards for insurance certificates issued by fraternal  
 29 societies. The amendments provide in effect that for  
 30 certificates issued on or after January 1, 1980, the valua-  
 31 tion standards used to determine reserves shall be the  
 32 standards applicable to life insurance companies.

33  
 34  
 35

1 Amend House File 462 as follows:

2 1. Page 2, line 6, by striking the word "July"  
3 and inserting in lieu thereof the word "January".

4 2. Page 2, line 8, by striking the word "July"  
5 and inserting in lieu thereof the word "January".

6 3. Page 4, line 20, by inserting after the figure  
7 "1954," the words "as now or hereafter amended,".

8 4. Page 5, line 2, by inserting after the figure  
9 "1954" the words ", as now or hereafter amended".

10 5. Page 7, line 7, by striking the word "July"  
11 and inserting in lieu thereof the word "January".

12 6. Page 7, line 20, by striking the word "July"  
13 and inserting in lieu thereof the word "January".

14 7. Page 7, line 31, by striking the word "July"  
15 and inserting in lieu thereof the word "January".

16 8. Page 8, line 6, by striking the word "July"  
17 and inserting in lieu thereof the word "January".

18 9. Page 8, line 13, by striking the word "July"  
19 and inserting in lieu thereof the word "January".

20 10. Page 9, line 25, by striking the word "July"  
21 and inserting in lieu thereof the word "January".

22 11. Page 9, line 27, by striking the word "July"  
23 and inserting in lieu thereof the word "January".

24 12. Page 10, lines 16 and 17, by striking the  
25 words "and does not apply to any".

26 13. Page 10, line 24, by striking the words "and  
27 does not apply to any" and inserting in lieu thereof  
28 the words "as now or hereafter amended,".

29 14. Page 10, lines 25 and 26, by striking the  
30 words "or immediate annuity, and does not apply to"  
31 and inserting in lieu thereof the words "immediate  
32 annuity,".

33 15. Page 10, line 27, by striking the words "and  
34 does not apply to a" and inserting in lieu thereof  
35 the word "or".

36 16. Page 10, line 28, by striking the words "and  
37 does not apply" and inserting in lieu thereof the  
38 word "nor".

39 17. Page 10, line 33, by striking the word "a"  
40 and inserting in lieu thereof the word "no".

41 18. Page 10, line 34, by striking the word "not".

42 19. Page 11, line 17, by striking the words "of  
43 the" and inserting in lieu thereof the words "of  
44 such".

45 20. Page 11, line 18, by inserting after the word  
46 "demand" the word "therefor".

47 21. Page 11, line 24, by striking the words "of  
48 the" and inserting in lieu thereof the words "of  
49 such".

50 22. Page 11, line 30, by inserting after the wo

- 1 "subsection" the word and figure "two (2)".
- 2 23. Page 12, line 6, by striking the words "the
- 3 contract" and inserting in lieu thereof the word "such
- 4 contract".
- 5 24. Page 12, line 11, by striking the word "the"
- 6 and inserting in lieu thereof the word "such".
- 7 25. Page 13, line 24, by striking the word "years."
- 8 and inserting in lieu thereof the words "years; and".
- 9 26. Page 14, line 3, by striking the word "The"
- 10 and inserting in lieu thereof the word "Such".
- 11 27. Page 14, line 8, by striking the word "the"
- 12 and inserting in lieu thereof the word "such".
- 13 28. Page 15, by striking line 9 and inserting
- 14 in lieu thereof the words "in no event shall the
- 15 present value of a paid-up annuity benefit be".
16. 29. Page 16, line 22, by striking the word "July"
- 17 and inserting in lieu thereof the word "January".
- 18 30. Page 16, line 25, by striking the word and
- 19 figures "July 1, 1982" and inserting in lieu thereof
- 20 the word and figures "January 1, 1981".
- 21 31. Page 16, line 30, by striking the word and
- 22 figures "July 1, 1982" and inserting in lieu thereof
- 23 the word and figures "January 1, 1981".
- 24 32. Page 16, line 31, by striking the word and
- 25 figures "July 1, 1982" and inserting in lieu thereof
- 26 the word and figures "January 1, 1981".

HOUSE FILE 462

By EVANS and CHIODO

(As Amended and Passed by the House)

*Sub for S.F. 268*

Passed House, Date 3-12-79 (p. 845) Passed Senate, Date 3-16-79 (p. 827)

Vote: Ayes 93 Nays 0 Vote: Ayes 42 Nays 0

Approved April 2, 1979

### A BILL FOR

1 An Act relating to valuation standards and nonforfeiture  
2 provisions for policies of insurance subject to chapters  
3 five hundred eight (508) and five hundred twelve (512)  
4 of the Code.

5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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\_\_\_\_\_ House Amendments  
\* Language Stricken

1 Section 1. Section five hundred eight point thirty-six  
2 (508.36), subsections two (2) and three (3), Code 1979, are  
3 amended to read as follows:

4 2. This subsection shall apply to only those policies  
5 and contracts issued prior to the operative date of section  
6 508.37 (the Standard Nonforfeiture Law for Life Insurance).

7 Except as otherwise provided in subsection 3, paragraphs  
8 "f" "g" and "g" "h" for group annuity and pure endowment  
9 contracts, the minimum standard of valuation for all policies  
10 of domestic life insurance companies shall be the Commissioners  
11 Reserve Valuation Method defined in paragraph "b" of subsection  
12 3 and the American Experience Table of Mortality and four  
13 and one-half percent interest or the Actuaries' (or Combined)  
14 Experience Table of Mortality and four percent interest,  
15 except that the minimum standard for the valuation of annuities  
16 and pure endowments purchased under group annuity and pure  
17 endowment contracts shall be that provided by this subsection  
18 but replacing the interest rates specified in this subsection  
19 by an interest rate of five percent per annum.

20 Reserves for all such policies and contracts may be  
21 calculated, at the option of the company, according to any  
22 standards which produce greater aggregate reserves for all  
23 such policies and contracts than the minimum reserves required  
24 by this subsection.

25 3. This subsection shall apply to only those policies  
26 and contracts issued on or after the operative date of section  
27 508.37 (the Standard Nonforfeiture Law for Life Insurance),  
28 except as otherwise provided in paragraphs "f" "g" and "g"  
29 "h" for group annuity and pure endowment contracts issued  
30 prior to such operative date.

31 a. Except as otherwise provided in paragraphs "f" "g"  
32 and "g" "h", the minimum standard for the valuation of all  
33 such policies and contracts shall be the Commissioners Reserve  
34 Valuation Method Methods defined in ~~paragraph~~-"b" paragraphs  
35 "b", "c" and "f" of this subsection 3, five percent interest

1 for group annuity and pure endowment contracts and three and  
2 one-half percent interest for all other such policies and  
3 contracts, or in the case of policies and contracts, other  
4 than annuity and pure endowment contracts, issued on or after  
5 July 1, 1974, and prior to January 1, 1986, four percent  
6 interest for such policies issued prior to January 1, 1980,  
7 and four and one-half percent interest for such policies  
8 issued on or after January 1, 1980, and the following tables:

9 (1) For all ordinary policies of life insurance issued  
10 on the standard basis, excluding any disability and accidental  
11 death benefits in such policies,--the Commissioners 1958  
12 Standard Ordinary Mortality Table, provided that for any  
13 category of such policies issued on female risks all modified  
14 net premiums and present values referred to in this subsection  
15 3 may be calculated according to an age not more than three  
16 six years younger than the actual age of the insured.

17 (2) For all industrial life insurance policies issued  
18 on the standard basis, excluding any disability and accidental  
19 death benefits in such policies,--the 1941 Standard Industrial  
20 Mortality Table; provided, however, that the Commissioners  
21 1961 Standard Industrial Mortality Table shall be the table  
22 for the minimum standard when said table becomes applicable  
23 under the Standard Nonforfeiture Law in accordance with section  
24 508.37, subsection 5.

25 (3) For individual annuity and pure endowment contracts,  
26 excluding any disability and accidental death benefits in  
27 such policies,--the 1937 Standard Annuity Mortality Table  
28 or, at the option of the company, the Annuity Mortality Table  
29 for 1949, Ultimate, or any modification of either of these  
30 tables approved by the commissioner.

31 (4) For group annuity and pure endowment contracts,  
32 excluding any disability and accidental death benefits in  
33 such policies,--the Group Annuity Mortality Table for 1951,  
34 any modification of such table approved by the commissioner,  
35 or, at the option of the company, any of the tables or

1 modifications of tables specified for individual annuity and  
2 pure endowment contracts.

3 (5) For total and permanent disability benefits in or  
4 supplementary to ordinary policies or contracts,--the tables  
5 of "Period 2" disablement rates and the 1930 to 1950  
6 termination rates of the 1952 Disability Study of the Society  
7 of Actuaries, with due regard to the type of benefit. Such  
8 table shall, for active lives, be combined with a mortality  
9 table permitted for calculating the reserves for life insurance  
10 policies.

11 (6) For accidental death benefits in or supplementary  
12 to policies,--the 1959 Accidental Death Benefits Table combined  
13 with a mortality table permitted for calculating the reserves  
14 for life insurance policies.

15 (7) For group life insurance, life insurance issued on  
16 the substandard basis and other special benefits,--such tables  
17 as may be approved by the commissioner.

18 b. Reserves Except as otherwise provided in paragraphs  
19 "c" and "f" of this subsection, reserves according to the  
20 Commissioners Reserve Valuation Method, for the life insurance  
21 and endowment benefits of policies providing for a uniform  
22 amount of insurance and requiring the payment of uniform  
23 premiums shall be the excess, if any, of the present value,  
24 at the date of valuation, of such future guaranteed benefits  
25 provided for by such policies, over the then present value  
26 of any future modified net premiums therefor. The modified  
27 net premiums for any such policy shall be such uniform  
28 percentage of the respective contract premiums for such  
29 benefits that the present value, at the date of issue of the  
30 policy, of all such modified net premiums shall be equal to  
31 the sum of the then present value of such benefits provided  
32 for by the policy and the excess of (x) over (y), as follows:

33 (x) A net level annual premium equal to the present value,  
34 at the date of issue, of such benefits provided for after  
35 the first policy year, divided by the present value, at the

1 date of issue, of an annuity of one per annum payable on the  
2 first and each subsequent anniversary of such policy on which  
3 a premium falls due; provided, however, that such net level  
4 annual premium shall not exceed the net level annual premium  
5 on the nineteen-year premium whole life plan for insurance  
6 of the same amount at an age one year higher than the age  
7 at issue of such policy.

8 (y) A net one-year term premium for such benefits provided  
9 for in the first policy year.

10 Reserves according to the Commissioners Reserve Valuation  
11 Method for (1) life insurance policies providing for a varying  
12 amount of insurance or requiring the payment of varying  
13 premiums, (2) group annuity and pure endowment contracts  
14 purchased under a retirement plan or plan of deferred  
15 compensation, established or maintained by an employer  
16 (including a partnership or sole proprietorship) or by an  
17 employee organization, or by both, other than a plan providing  
18 individual retirement accounts or individual retirement an-  
19 nuities under section four hundred eight (408) of the United  
20 States Internal Revenue Code of 1954, as now or hereafter  
21 amended, (3) disability and accidental death benefits in all  
22 policies and contracts, and (4) all other benefits, except  
23 life insurance and endowment benefits in life insurance  
24 policies and benefits provided by all other annuity and pure  
25 endowment contracts, shall be calculated by a method consistent  
26 with the principles of this paragraph "b", except that any  
27 extra premiums charged because of impairments or special  
28 hazards shall be disregarded in the determination of modified  
29 net premiums.

30 c. This section shall apply to all annuity and pure endow-  
31 ment contracts other than group annuity and pure endowment  
32 contracts purchased under a retirement plan or plan of deferred  
33 compensation, established or maintained by an employer (in-  
34 cluding a partnership or sole proprietorship) or by an employee  
35 organization, or by both, other than a plan providing individ-

1 ual retirement accounts or individual retirement annuities  
2 under section four hundred eight (408) of the United States  
3 Internal Revenue Code of 1954, as now or hereafter amended.

4 Reserves according to the commissioner's annuity reserve  
5 method for benefits under annuity or pure endowment contracts,  
6 excluding any disability and accidental death benefits in  
7 such contracts, shall be the greatest of the respective  
8 excesses of the present values, at the date of valuation,  
9 of the future guaranteed benefits, including guaranteed  
10 nonforfeiture benefits, provided for by such contracts at  
11 the end of each respective contract year, over the present  
12 value, at the date of valuation, of any future valuation  
13 considerations derived from future gross considerations,  
14 required by the terms of such contract, that become payable  
15 prior to the end of such respective contract year. The future  
16 guaranteed benefits shall be determined by using the mortality  
17 table, if any, and the interest rate, or rates, specified  
18 in such contracts for determining guaranteed benefits. The  
19 valuation considerations are the portions of the respective  
20 gross considerations applied under the terms of such contracts  
21 to determine nonforfeiture values.

22 e d. In no event shall a company's aggregate reserves  
23 for all life insurance policies, excluding disability and  
24 accidental death benefits, be less than the aggregate reserves  
25 calculated in accordance with the ~~method~~ methods set forth  
26 in ~~paragraph-"b"-above~~ paragraphs "b", "c" and "f" of this  
27 subsection and the mortality table or tables and rate or rates  
28 of interest used in calculating nonforfeiture benefits for  
29 such policies.

30 d e. Reserves for any category of policies, contracts  
31 or benefits as established by the commissioner, may be  
32 calculated at the option of the company according to any  
33 standards which produce greater aggregate reserves for such  
34 category than those calculated according to the minimum  
35 standard herein provided. ~~Provided, however, that reserves~~

1 for-participating-life-insurance-policies-may,-with-the-consent  
2 of-the-commissioner,-be-calculated-according-to-a-rate-of  
3 interest-lower-than-the-rate-of-interest-used-in-calculating  
4 the-nonforfeiture-benefits-in-such-policies,-with-the-further  
5 proviso-that-if-such-lower-rate-differs-from-the-rate-used  
6 in-the-calculation-of-the-nonforfeiture-benefits-by-more-than  
7 one-half-percent-the-company-issuing-such-policies-shall-file  
8 with-the-commissioner-a-plan-providing-for-such-equitable  
9 increase,-if-any,-in-the-cash-surrender-values-and  
10 nonforfeiture-benefits-in-such-policies-as-the-commissioner  
11 shall-approve.

12 e f. If in any contract year the gross premium charged  
13 by any life insurance company on any policy or contract is  
14 less than the valuation net premium for the policy or contract  
15 according to the mortality table, rate of interest and method  
16 used in calculating the reserve thereon, according to the  
17 minimum standard prescribed in this section, there shall be  
18 maintained on such policy or contract a deficiency reserve  
19 in addition to all other reserves required by law. For each  
20 such policy or contract the deficiency reserve shall be the  
21 present value, according to such standard, of an annuity of  
22 the difference between such net premium and the premium charged  
23 for such policy or contract, running for the remainder of  
24 the premium-paying period the minimum reserve required for  
25 such policy or contract shall be the greater of either the  
26 reserve calculated according to the mortality table, rate  
27 of interest and method actually used for such policy or  
28 contract, or the reserve calculated according to the mortality  
29 table, rate of interest and method used in calculating the  
30 reserve thereon according to the minimum standard prescribed  
31 by this section but replacing the valuation net premium by  
32 the actual gross premium in each contract year for which the  
33 valuation net premium exceeds the actual gross premium.

34 f g. The minimum standard for the valuation of all  
35 individual annuity and pure endowment contracts issued on

1 or after the operative date of this paragraph, and for all  
2 annuities and pure endowments purchased on or after such  
3 operative date under group annuity and pure endowment  
4 contracts, shall be the Commissioners Reserve Valuation Method  
5 Methods defined in paragraph-"b" paragraphs "b" and "c" of  
6 this subsection and the following tables and interest rates:

7 (1) For individual annuity and pure endowment contracts  
8 issued prior to ~~January 1, 1986~~ January 1, 1980, excluding  
9 any disability and accidental death benefits in such  
10 contracts,--the 1971 Individual Annuity Mortality Table, or  
11 any modification of this table approved by the commissioner,  
12 and six percent interest for single premium immediate annuity  
13 contracts, and four percent interest for all other individual  
14 annuity and pure endowment contracts.

15 (2) For ~~individual annuity and pure endowment contracts~~  
16 ~~issued on or after January 1, 1986, excluding any disability~~  
17 ~~and accidental death benefits in such contracts, the 1971~~  
18 ~~Individual Annuity Mortality Table, or any modification of~~  
19 ~~this table approved by the commissioner, and three and one-~~  
20 ~~half percent interest~~ individual single premium immediate  
21 annuity contracts issued on or after January 1, 1980, excluding  
22 any disability and accidental death benefits in such  
23 contracts,--the 1971 Individual Annuity Mortality Table, or  
24 any modification of this table approved by the commissioner,  
25 and seven and one-half percent interest.

26 (3) For ~~all annuities and pure endowments purchased prior~~  
27 ~~to January 1, 1986, under group annuity and pure endowment~~  
28 ~~contracts, excluding any disability and accidental death~~  
29 ~~benefits purchased under such contracts, the 1971 Group Annuity~~  
30 ~~Mortality Table, or any modification of this table approved~~  
31 ~~by the commissioner, and six percent interest~~ individual  
32 annuity and pure endowment contracts issued on or after January  
33 1, 1980 other than single premium immediate annuity contracts,  
34 excluding any disability and accidental death benefits in  
35 such contracts,--the 1971 Individual Annuity Mortality Table,

1 or any modification of this table approved by the commissioner,  
2 and five and one-half percent interest for single premium  
3 deferred annuity and pure endowment contracts and four and  
4 one-half percent interest for all other such individual annuity  
5 and pure endowment contracts.

6 (4) For all annuities and pure endowments purchased on  
7 ~~or after January 1, 1986~~ prior to January 1, 1980, under group  
8 annuity and pure endowment contracts, excluding any disability  
9 and accidental death benefits ~~in~~ purchased under such  
10 contracts, --the 1971 Group Annuity Mortality Table, or any  
11 modification of this table approved by the commissioner, and  
12 ~~three-and-one-half~~ six percent interest.

13 (5) For all annuities and pure endowments purchased on  
14 or after January 1, 1980 under group annuity and pure endowment  
15 contracts, excluding any disability and accidental death  
16 benefits purchased under such contracts, --the 1971 Group  
17 Annuity Mortality Table, or any modification of this table  
18 approved by the commissioner and seven and one-half percent  
19 interest.

20 g h. After July 1, 1974, any company may file with the  
21 commissioner a written notice of its election to comply with  
22 the provisions of paragraph "f" "g" after a specified date  
23 before January 1, 1979, which shall be the operative date  
24 of paragraph "f" "g" for such company; provided, a company  
25 may elect a different operative date for individual annuity  
26 and pure endowment contracts from that elected for group  
27 annuity and pure endowment contracts. If a company makes  
28 no such election, the operative date of paragraph "f" "g"  
29 for such company shall be January 1, 1979.

30 Sec. 2. Section five hundred eight point thirty-seven  
31 (508.37), unnumbered paragraph one (1) and subsection five  
32 (5), unnumbered paragraph four (4), Code 1979, are amended  
33 to read as follows:

34 This section shall be known as the "Standard Nonforfeiture  
35 Law for Life Insurance."

1 All adjusted premiums and present values referred to in  
2 this section shall for all policies of ordinary insurance  
3 be calculated on the basis of the Commissioners 1958 Standard  
4 Ordinary Mortality Table, provided that for any category of  
5 ordinary insurance issued on female risks, adjusted premiums  
6 and present values may be calculated according to an age not  
7 more than ~~three~~ six years younger than the actual age of the  
8 insured. Such calculations for all policies of industrial  
9 insurance shall be made on the basis of the 1941 Standard  
10 Industrial Mortality Table; provided, however, that any company  
11 may file with the commissioner a written notice of its election  
12 that such adjusted premiums and present values shall be  
13 calculated on the basis of the Commissioners 1961 Standard  
14 Industrial Mortality Table, after a specified date before  
15 January 1, 1968; provided, further, that, whether or not any  
16 election has been made, such Commissioners 1961 Standard  
17 Industrial Mortality Table shall be the basis for such  
18 calculations as to all policies of industrial insurance issued  
19 on or after January 1, 1968. All calculations shall be made  
20 on the basis of the rate of interest specified in the policy  
21 for calculating cash surrender values and paid-up nonforfeiture  
22 benefits; provided, that such rate of interest shall not  
23 exceed three and one-half percent per annum, except that a  
24 rate of interest not exceeding four percent per annum may  
25 be used for policies issued on or after July 1, 1974, and  
26 prior to ~~January 1, 1986~~ January 1, 1980, and a rate of  
27 interest not exceeding five and one-half percent per annum  
28 may be used for policies issued on or after January 1, 1980.  
29 Provided, however, that in calculating the present value of  
30 any paid-up term insurance with accompanying pure endowment,  
31 if any, offered as a nonforfeiture benefit, the rates of  
32 mortality assumed in the case of policies of ordinary  
33 insurance, may be not more than those shown in the  
34 Commissioners 1958 Extended Term Insurance Table, and, in  
35 the case of policies of industrial insurance, may be not more

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

12 Sec. 3. Chapter five hundred eight (508), Code 1979, is  
 13 amended by adding the following new section as section five  
 14 hundred eight point thirty-eight (508.38) of that chapter:

15 NEW SECTION. 508.38 STANDARD NONFORFEITURES. This sec-  
 16 tion shall be known as the "Standard Nonforfeiture Law for  
 17 Individual Deferred Annuities."

\* 18 1. This section does not apply to any reinsurance, group  
 \* 19 annuity purchased under a retirement plan or plan of deferred  
 20 compensation established or maintained by an employer  
 21 (including a partnership or sole proprietorship) or by an  
 22 employee organization, or by both, other than a plan providing  
 23 individual retirement accounts or individual retirement  
 24 annuities under section four hundred eight (408) of the United  
 25 States Internal Revenue Code of 1954, as now or hereafter  
 26 amended, premium deposit fund, variable annuity, investment  
 27 annuity, immediate annuity, any deferred annuity contract  
 28 after annuity payments have commenced, or reversionary annuity,  
 29 nor to any contract which is delivered outside this state  
 30 through an agent or other representative of the company issuing  
 31 the contract.

32 2. In the case of contracts issued on or after the opera-  
 33 tive date of this section as defined in subsection eleven  
 34 (11) of this section, no contract of annuity, except as stated  
 \* 35 in subsection one (1) of this section, shall be delivered

1 or issued for delivery in this state unless it contains in  
2 substance the following provisions, or corresponding provisions  
3 which in the opinion of the commissioner are at least as  
4 favorable to the contract holder, upon cessation of payment  
5 of considerations under the contract:

6 a. That upon cessation of payment of considerations under  
7 a contract, the company will grant a paid-up annuity benefit  
8 on a plan stipulated in the contract of such value as is  
9 specified in subsections four (4), five (5), six (6), seven  
10 (7), and nine (9) of this section.

11 b. If a contract provides for a lump sum settlement at  
12 maturity, or at any other time, that upon surrender of the  
13 contract at or prior to the commencement of any annuity pay-  
14 ments, the company will pay in lieu of any paid-up annuity  
15 benefit a cash surrender benefit of such amount as is speci-  
16 fied in subsections four (4), five (5), seven (7), and nine  
17 (9) of this section. The company shall reserve the right  
18 to defer the payment of such cash surrender benefit for a  
19 period of six months after demand therefor with surrender  
20 of the contract.

21 c. A statement of the mortality table, if any, and in-  
22 terest rates used in calculating any minimum paid-up annuity,  
23 cash surrender or death benefits that are guaranteed under  
24 the contract, together with sufficient information to deter-  
25 mine the amounts of such benefits.

26 d. A statement that any paid-up annuity, cash surrender  
27 or death benefits that may be available under the contract  
28 are not less than the minimum benefits required by any statute  
29 of the state in which the contract is delivered and an explana-  
30 tion of the manner in which such benefits are altered by the  
31 existence of any additional amounts credited by the company  
32 to the contract, any indebtedness to the company on the con-  
33 tract or any prior withdrawals from or partial surrenders  
34 of the contract.

35 Notwithstanding the requirements of this subsection two

1 (2), any deferred annuity contract may provide that if no  
2 considerations have been received under a contract for a  
3 period of two full years and the portion of the paid-up annuity  
4 benefit at maturity on the plan stipulated in the contract  
5 arising from considerations paid prior to such period would  
6 be less than twenty dollars monthly, the company may at its  
7 option terminate such contract by payment in cash of the then  
8 present value of such portion of the paid-up annuity benefit,  
9 calculated on the basis of the mortality table, if any, and  
10 interest rate specified in the contract for determining the  
11 paid-up annuity benefit, and by such payment shall be relieved  
12 of any further obligation under such contract.

13 3. The minimum values as specified in subsections four  
14 (4), five (5), six (6), seven (7), and nine (9) of this sec-  
15 tion of any paid-up annuity, cash surrender or death benefits  
16 available under an annuity contract shall be based upon minimum  
17 nonforfeiture amounts as defined in this section.

18 a. With respect to contracts providing for flexible con-  
19 siderations, the minimum nonforfeiture amount at any time  
20 at or prior to the commencement of any annuity payments shall  
21 be equal to an accumulation up to such time at a rate of  
22 interest of three percent per annum of percentages of the  
23 net considerations (as hereinafter defined) paid prior to  
24 such time, decreased by the sum of (i) any prior withdrawals  
25 from or partial surrenders of the contract accumulated at  
26 a rate of interest of three percent per annum and (ii) the  
27 amount of any indebtedness to the company on the contract,  
28 including interest due and accrued; and increased by any  
29 existing additional amounts credited by the company to the  
30 contract.

31 The net considerations for a given contract year used to  
32 define the minimum nonforfeiture amount shall be an amount  
33 not less than zero and shall be equal to the corresponding  
34 gross considerations credited to the contract during that  
35 contract year less an annual contract charge of thirty dollars

1 and less a collection charge of one dollar and twenty-five  
2 cents per consideration credited to the contract during that  
3 contract year. The percentages of net considerations shall  
4 be sixty-five percent of the net consideration for the first  
5 contract year and eighty-seven and one-half percent of the  
6 net considerations for the second and later contract years.  
7 Notwithstanding the provisions of the preceding sentence,  
8 the percentage shall be sixty-five percent of the portion  
9 of the total net consideration for any renewal contract year  
10 which exceeds by not more than two times the sum of those  
11 portions of the net considerations in all prior contract years  
12 for which the percentage was sixty-five percent.

13 b. With respect to contracts providing for fixed scheduled  
14 considerations, minimum nonforfeiture amounts shall be cal-  
15 culated on the assumption that considerations are paid an-  
16 nually in advance and shall be defined as for contracts with  
17 flexible considerations which are paid annually with two ex-  
18 ceptions:

19 (1) The portion of the net consideration for the first  
20 contract year to be accumulated shall be the sum of sixty-  
21 five percent of the net consideration for the first contract  
22 year plus twenty-two and one-half percent of the excess of  
23 the net consideration for the first contract year over the  
24 lesser of the net considerations for the second and third  
25 contract years; and

26 (2) The annual contract charge shall be the lesser of  
27 (i) thirty dollars or (ii) ten percent of the gross annual  
28 consideration.

29 c. With respect to contracts providing for a single  
30 consideration, minimum nonforfeiture amounts shall be de-  
31 fined as for contracts with flexible considerations except  
32 that the percentage of net consideration used to determine  
33 the minimum nonforfeiture amount shall be equal to ninety  
34 percent and the net consideration shall be the gross con-  
35 sideration less a contract charge of seventy-five dollars.

1 4. Any paid-up annuity benefit available under a contract  
2 shall be such that its present value on the date annuity pay-  
3 ments are to commence is at least equal to the minimum non-  
4 forfeiture amount on that date. Such present value shall  
5 be computed using the mortality table, if any, and the interest  
6 rate specified in the contract for determining the minimum  
7 paid-up annuity benefits guaranteed in the contract.

8 5. For contracts which provide cash surrender benefits,  
9 such cash surrender benefits available prior to maturity shall  
10 not be less than the present value as of the date of surrender  
11 of that portion of the maturity value of the paid-up annuity  
12 benefit which would be provided under the contract at maturity  
13 arising from considerations paid prior to the time of cash  
14 surrender reduced by the amount appropriate to reflect any  
15 prior withdrawals from or partial surrenders of the contract,  
16 such present value being calculated on the basis of an in-  
17 terest rate not more than one percent higher than the interest  
18 rate specified in the contract for accumulating the net con-  
19 siderations to determine such maturity value, decreased by  
20 the amount of any indebtedness to the company on the con-  
21 tract, including interest due and accrued, and increased by  
22 any existing additional amounts credited by the company to  
23 the contract. In no event shall any cash surrender benefit  
24 be less than the minimum nonforfeiture amount at that time.  
25 The death benefit under such contracts shall be at least equal  
26 to the cash surrender benefit.

27 6. For contracts which do not provide cash surrender  
28 benefits, the present value of any paid-up annuity benefit  
29 available as a nonforfeiture option at any time prior to  
30 maturity shall not be less than the present value of that  
31 portion of the maturity value of the paid-up annuity benefit  
32 provided under the contract arising from considerations paid  
33 prior to the time the contract is surrendered in exchange  
34 for or changed to, a deferred paid-up annuity, such present  
35 value being calculated for the period prior to the maturity

1 date on the basis of the interest rate specified in the con-  
2 tract for accumulating the net considerations to determine  
3 such maturity value, and increased by any existing additional  
4 amounts credited by the company to the contract. For contracts  
5 which do not provide any death benefits prior to the  
6 commencement of any annuity payments, such present values  
7 shall be calculated on the basis of such interest rate and  
8 the mortality table specified in the contract for determining  
9 the maturity value of the paid-up annuity benefit. However,  
10 in no event shall the present value of a paid-up annuity  
11 benefit be less than the minimum nonforfeiture amount at that  
12 time.

13 7. For the purpose of determining the benefits calculated  
14 under subsections five (5) and six (6) of this section, in  
15 the case of annuity contracts under which an election may  
16 be made to have annuity payments commence at optional maturity  
17 dates, the maturity date shall be deemed to be the latest  
18 date for which election shall be permitted by the contract,  
19 but shall not be deemed to be later than the anniversary of  
20 the contract next following the annuitant's seventieth birthday  
21 or the tenth anniversary of the contract, whichever is later.

22 8. Any contract which does not provide cash surrender  
23 benefits or does not provide death benefits at least equal  
24 to the minimum nonforfeiture amount prior to the commencement  
25 of any annuity payments shall include a statement in a  
26 prominent place in the contract that such benefits are not  
27 provided.

28 9. Any paid-up annuity, cash surrender or death benefits  
29 available at any time, other than on the contract anniversary  
30 under any contract with fixed scheduled considerations, shall  
31 be calculated with allowance for the lapse of time and the  
32 payment of any scheduled considerations beyond the beginning  
33 of the contract year in which cessation of payment of con-  
34 siderations under the contract occurs.

35 10. For any contract which provides, within the same con-

1 tract by rider or supplemental contract provision, both an-  
2 nuity benefits and life insurance benefits that are in excess  
3 of the greater of cash surrender benefits or a return of the  
4 gross considerations with interest, the minimum nonforfeiture  
5 benefits shall be equal to the sum of the minimum nonforfeiture  
6 benefits for the annuity portion and the minimum nonforfeiture  
7 benefits, if any, for the life insurance portion computed  
8 as if each portion were a separate contract. Notwithstanding  
9 the provisions of subsections four (4), five (5), six (6),  
10 seven (7) and nine (9) of this section, additional benefits  
11 payable (a) in the event of total and permanent disability;  
12 (b) as reversionary annuity or deferred reversionary annuity  
13 benefits, or (c) as other policy benefits additional to life  
14 insurance, endowment, and annuity benefits, and considerations  
15 for all such additional benefits, shall be disregarded in  
16 ascertaining the minimum nonforfeiture amounts, paid-up  
17 annuity, cash surrender and death benefits that may be required  
18 by this section. The inclusion of such additional benefits  
19 shall not be required in any paid-up benefits, unless such  
20 additional benefits separately would require minimum  
21 nonforfeiture amounts, paid-up annuity, cash surrender and  
22 death benefits.

23 11. After January 1, 1980, any company may file with the  
24 commissioner a written notice of its election to comply with  
25 the provisions of this section after a specified date but  
26 before January 1, 1981. After the filing of such notice,  
27 then upon such specified date, which shall be the operative  
28 date of this section for such company, this section shall  
29 become operative with respect to annuity contracts thereafter  
30 issued by such company. The operative date of this section  
31 shall be January 1, 1981 for all companies which do not so  
32 elect an operative date which is earlier than January 1, 1981.

33 Sec. 4. Section five hundred twelve point forty-three  
34 (512.43), unnumbered paragraph one (1), Code 1979, is amended  
35 to read as follows:

1 No fraternal beneficiary society not admitted to transact  
2 business in this state prior to July 4, 1907, shall be  
3 incorporated, or given a permit or certificate of authority  
4 to transact business within this state, unless it shall first  
5 show that the mortality assessment rates provided for in  
6 whatever plan of business it has adopted, including the  
7 issuance of term, whole life, or limited payment certificates  
8 with withdrawal options, are not lower than is indicated as  
9 necessary by the following mortality table, or any more recent  
10 table which is applicable to life insurance companies:

11 Sec. 5. Section five hundred twelve point forty-five  
12 (512.45), Code 1979, is amended to read as follows:

13 512.45 VALUATION OF CERTIFICATES. ~~The certificate writ-~~  
14 ~~ten-by-any-domestic-fraternal-beneficiary-association-operating~~  
15 ~~under-the-provisions-of-the-foregoing-mortality-table-shall~~  
16 ~~be-valued-in-the-same-manner-as-provided-in-section-508.36,~~  
17 ~~except-that-such-valuation-shall-be-based-upon-the-foregoing~~  
18 ~~mortality-table-and-four-percent-interest.~~

19 ~~If-the-society-makes-loans-on-its-certificates,-the-valua-~~  
20 ~~tion-shall-be-based-upon-a-mortality-table-not-lower-than~~  
21 ~~the-American-table-of-mortality-and-four-and-one-half-percent~~  
22 ~~interest. The minimum standards of valuation for certificates~~  
23 issued prior to January 1, 1980, shall be those provided by  
24 the law in effect prior to January 1, 1980, but not lower  
25 than the standards used in the calculation of rates for the  
26 certificates. The minimum standards of valuation for  
27 certificates issued on or after January 1, 1980, shall be  
28 those provided for life insurance companies.

29 Sec. 6. Sections five hundred twelve point fifty-seven  
30 (512.57) and five hundred twelve point fifty-eight (512.58),  
31 Code 1979, are repealed.

32 Sec. 7. This Act takes effect January 1, 1980.

33  
34  
35

## HOUSE FILE 462

## AN ACT

RELATING TO VALUATION STANDARDS AND NONFORFEITURE PROVISIONS  
FOR POLICIES OF INSURANCE SUBJECT TO CHAPTERS FIVE HUNDRED  
EIGHT (508) AND FIVE HUNDRED TWELVE (512) OF THE CODE.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

Section 1. Section five hundred eight point thirty-six (508.36), subsections two (2) and three (3), Code 1979, are amended to read as follows:

2. This subsection shall apply to only those policies and contracts issued prior to the operative date of section 508.37 (the Standard Nonforfeiture Law for Life Insurance).

Except as otherwise provided in subsection 3, paragraphs "f" "g" and "h" for group annuity and pure endowment contracts, the minimum standard of valuation for all policies of domestic life insurance companies shall be the Commissioners Reserve Valuation Method defined in paragraph "b" of subsection 3 and the American Experience Table of Mortality and four and one-half percent interest or the Actuaries' (or Combined) Experience Table of Mortality and four percent interest, except that the minimum standard for the valuation of annuities and pure endowments purchased under group annuity and pure endowment contracts shall be that provided by this subsection but replacing the interest rates specified in this subsection by an interest rate of five percent per annum.

Reserves for all such policies and contracts may be calculated, at the option of the company, according to any standards which produce greater aggregate reserves for all such policies and contracts than the minimum reserves required by this subsection.

3. This subsection shall apply to only those policies and contracts issued on or after the operative date of section

508.37 (the Standard Nonforfeiture Law for Life Insurance), except as otherwise provided in paragraphs "f" "g" and "h" for group annuity and pure endowment contracts issued prior to such operative date.

a. Except as otherwise provided in paragraphs "f" "g" and "h" "h", the minimum standard for the valuation of all such policies and contracts shall be the Commissioners Reserve Valuation Method Methods defined in ~~paragraph "b"~~ paragraphs "b", "c" and "f" of this subsection 3, five percent interest for group annuity and pure endowment contracts and three and one-half percent interest for all other such policies and contracts, or in the case of policies and contracts, other than annuity and pure endowment contracts, issued on or after July 1, 1974, ~~and prior to January 1, 1980~~, four percent interest for such policies issued prior to January 1, 1980, and four and one-half percent interest for such policies issued on or after January 1, 1980, and the following tables:

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

(2) For all industrial life insurance policies issued on the standard basis, excluding any disability and accidental death benefits in such policies,--the 1941 Standard Industrial Mortality Table; provided, however, that the Commissioners 1961 Standard Industrial Mortality Table shall be the table for the minimum standard when said table becomes applicable under the Standard Nonforfeiture Law in accordance with section 508.37, subsection 5.

(3) For individual annuity and pure endowment contracts, excluding any disability and accidental death benefits in

such policies,--the 1937 Standard Annuity Mortality Table or, at the option of the company, the Annuity Mortality Table for 1949, Ultimate, or any modification of either of these tables approved by the commissioner.

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

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

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

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

b. Reserves Except as otherwise provided in paragraphs "c" and "f" of this subsection, reserves according to the Commissioners Reserve Valuation Method, for the life insurance and endowment benefits of policies providing for a uniform amount of insurance and requiring the payment of uniform premiums shall be the excess, if any, of the present value, at the date of valuation, of such future guaranteed benefits provided for by such policies, over the then present value of any future modified net premiums therefor. The modified

net premiums for any such policy shall be such uniform percentage of the respective contract premiums for such benefits that the present value, at the date of issue of the policy, of all such modified net premiums shall be equal to the sum of the then present value of such benefits provided for by the policy and the excess of (x) over (y), as follows:

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

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

Reserves according to the Commissioners Reserve Valuation Method for (1) life insurance policies providing for a varying amount of insurance or requiring the payment of varying premiums, (2) group annuity and pure endowment contracts purchased under a retirement plan or plan of deferred compensation, established or maintained by an employer (including a partnership or sole proprietorship) or by an employee organization, or by both, other than a plan providing individual retirement accounts or individual retirement annuities under section four hundred eight (408) of the United States Internal Revenue Code of 1954, as now or hereafter amended, (3) disability and accidental death benefits in all policies and contracts, and (4) all other benefits, except life insurance and endowment benefits in life insurance policies and benefits provided by all other annuity and pure endowment contracts, shall be calculated by a method consistent with the principles of this paragraph "b", except that any

extra premiums charged because of impairments or special hazards shall be disregarded in the determination of modified net premiums.

c. This section shall apply to all annuity and pure endowment contracts other than group annuity and pure endowment contracts purchased under a retirement plan or plan of deferred compensation, established or maintained by an employer (including a partnership or sole proprietorship) or by an employee organization, or by both, other than a plan providing individual retirement accounts or individual retirement annuities under section four hundred eight (408) of the United States Internal Revenue Code of 1954, as now or hereafter amended.

Reserves according to the commissioner's annuity reserve method for benefits under annuity or pure endowment contracts, excluding any disability and accidental death benefits in such contracts, shall be the greatest of the respective excesses of the present values, at the date of valuation, of the future guaranteed benefits, including guaranteed nonforfeiture benefits, provided for by such contracts at the end of each respective contract year, over the present value, at the date of valuation, of any future valuation considerations derived from future gross considerations, required by the terms of such contract, that become payable prior to the end of such respective contract year. The future guaranteed benefits shall be determined by using the mortality table, if any, and the interest rate, or rates, specified in such contracts for determining guaranteed benefits. The valuation considerations are the portions of the respective gross considerations applied under the terms of such contracts to determine nonforfeiture values.

e d. In no event shall a company's aggregate reserves for all life insurance policies, excluding disability and accidental death benefits, be less than the aggregate reserves calculated in accordance with the method methods set forth in paragraph "b" above paragraphs "b", "c" and "f" of this

subsection and the mortality table or tables and rate or rates of interest used in calculating nonforfeiture benefits for such policies.

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

e f. If in any contract year the gross premium charged by any life insurance company on any policy or contract is less than the valuation net premium for the policy or contract according to the mortality table, rate of interest and method used in calculating the reserve thereon, according to the minimum standard prescribed in this section, there shall be maintained on such policy or contract a deficiency reserve in addition to all other reserves required by law. For each such policy or contract the deficiency reserve shall be the present value, according to such standard, of an annuity of the difference between such net premium and the premium charged for such policy or contract, running for the remainder of the premium paying period the minimum reserve required for such policy or contract shall be the greater of either the reserve calculated according to the mortality table, rate

of interest and method actually used for such policy or contract, or the reserve calculated according to the mortality table, rate of interest and method used in calculating the reserve thereon according to the minimum standard prescribed by this section but replacing the valuation net premium by the actual gross premium in each contract year for which the valuation net premium exceeds the actual gross premium.

f g. The minimum standard for the valuation of all individual annuity and pure endowment contracts issued on or after the operative date of this paragraph, and for all annuities and pure endowments purchased on or after such operative date under group annuity and pure endowment contracts, shall be the Commissioners Reserve Valuation Method Methods defined in paragraph "b" paragraphs "b" and "c" of this subsection and the following tables and interest rates:

(1) For individual annuity and pure endowment contracts issued prior to ~~January 1, 1986~~ January 1, 1980, excluding any disability and accidental death benefits in such contracts, ~~the 1971 Individual Annuity Mortality Table, or any modification of this table approved by the commissioner, and six percent interest for single premium immediate annuity contracts, and four percent interest for all other individual annuity and pure endowment contracts.~~

(2) For ~~individual annuity and pure endowment contracts issued on or after January 1, 1986, excluding any disability and accidental death benefits in such contracts, the 1971 Individual Annuity Mortality Table, or any modification of this table approved by the commissioner, and three and one-half percent interest individual single premium immediate annuity contracts issued on or after January 1, 1980, excluding any disability and accidental death benefits in such contracts, the 1971 Individual Annuity Mortality Table, or any modification of this table approved by the commissioner, and seven and one-half percent interest.~~

(3) ~~For all annuities and pure endowments purchased prior to January 1, 1986, under group annuity and pure endowment contracts, excluding any disability and accidental death benefits purchased under such contracts, the 1971 Group Annuity Mortality Table, or any modification of this table approved by the commissioner, and six percent interest individual annuity and pure endowment contracts issued on or after January 1, 1980 other than single premium immediate annuity contracts, excluding any disability and accidental death benefits in such contracts, the 1971 Individual Annuity Mortality Table, or any modification of this table approved by the commissioner, and five and one-half percent interest for single premium deferred annuity and pure endowment contracts and four and one-half percent interest for all other such individual annuity and pure endowment contracts.~~

(4) For all annuities and pure endowments purchased ~~on or after January 1, 1986~~ prior to January 1, 1980, under group annuity and pure endowment contracts, excluding any disability and accidental death benefits ~~in purchased under~~ such contracts, ~~the 1971 Group Annuity Mortality Table, or any modification of this table approved by the commissioner, and three and one-half~~ six percent interest.

(5) ~~For all annuities and pure endowments purchased on or after January 1, 1980 under group annuity and pure endowment contracts, excluding any disability and accidental death benefits purchased under such contracts, the 1971 Group Annuity Mortality Table, or any modification of this table approved by the commissioner and seven and one-half percent interest.~~

g h. After July 1, 1974, any company may file with the commissioner a written notice of its election to comply with the provisions of paragraph "f" "g" after a specified date before January 1, 1979, which shall be the operative date of paragraph "f" "g" for such company; provided, a company may elect a different operative date for individual annuity

and pure endowment contracts from that elected for group annuity and pure endowment contracts. If a company makes no such election, the operative date of paragraph #4 "q" for such company shall be January 1, 1979.

Sec. 2. Section five hundred eight point thirty-seven (508.37), unnumbered paragraph one (1) and subsection five (5), unnumbered paragraph four (4), Code 1979, are amended to read as follows:

This section shall be known as the "Standard Nonforfeiture Law for Life Insurance."

All adjusted premiums and present values referred to in this section shall for all policies of ordinary insurance be calculated on the basis of the Commissioners 1958 Standard Ordinary Mortality Table, provided that for any category of ordinary insurance issued on female risks, adjusted premiums and present values may be calculated according to an age not more than ~~three~~ six years younger than the actual age of the insured. Such calculations for all policies of industrial insurance shall be made on the basis of the 1941 Standard Industrial Mortality Table; provided, however, that any company may file with the commissioner a written notice of its election that such adjusted premiums and present values shall be calculated on the basis of the Commissioners 1961 Standard Industrial Mortality Table, after a specified date before January 1, 1968; provided, further, that, whether or not any election has been made, such Commissioners 1961 Standard Industrial Mortality Table shall be the basis for such calculations as to all policies of industrial insurance issued on or after January 1, 1968. All calculations shall be made on the basis of the rate of interest specified in the policy for calculating cash surrender values and paid-up nonforfeiture benefits; provided, that such rate of interest shall not exceed three and one-half percent per annum, except that a rate of interest not exceeding four percent per annum may be used for policies issued on or after July 1, 1974, and

prior to ~~January 1, 1986~~ January 1, 1980, and a rate of interest not exceeding five and one-half percent per annum may be used for policies issued on or after January 1, 1980. Provided, however, that in calculating the present value of any paid-up term insurance with accompanying pure endowment, if any, offered as a nonforfeiture benefit, the rates of mortality assumed in the case of policies of ordinary insurance, may be not more than those shown in the Commissioners 1958 Extended Term Insurance Table, and, in the case of policies of industrial insurance, may be not more than one hundred thirty percent of the rates of mortality according to the 1941 Standard Industrial Mortality Table, except that when the Commissioners 1961 Standard Industrial Mortality Table becomes applicable, as hereinbefore provided, such rates of mortality assumed may be not more than those shown in the Commissioners 1961 Industrial Extended Term Insurance Table, provided, further, that for insurance issued on a substandard basis, the calculation of any such adjusted premiums and present values may be based on such other table of mortality as may be specified by the company and approved by the commissioner.

Sec. 3. Chapter five hundred eight (508), Code 1979, is amended by adding the following new section as section five hundred eight point thirty-eight (508.38) of that chapter:  
NEW SECTION. 508.38 STANDARD NONFORFEITURES. This section shall be known as the "Standard Nonforfeiture Law for Individual Deferred Annuities."

1. This section does not apply to any reinsurance, group annuity purchased under a retirement plan or plan of deferred compensation established or maintained by an employer (including a partnership or sole proprietorship) or by an employee organization, or by both, other than a plan providing individual retirement accounts or individual retirement annuities under section four hundred eight (408) of the United States Internal Revenue Code of 1954, as now or hereafter

amended, premium deposit fund, variable annuity, investment annuity, immediate annuity, any deferred annuity contract after annuity payments have commenced, or reversionary annuity, nor to any contract which is delivered outside this state through an agent or other representative of the company issuing the contract.

2. In the case of contracts issued on or after the operative date of this section as defined in subsection eleven (11) of this section, no contract of annuity, except as stated in subsection one (1) of this section, shall be delivered or issued for delivery in this state unless it contains in substance the following provisions, or corresponding provisions which in the opinion of the commissioner are at least as favorable to the contract holder, upon cessation of payment of considerations under the contract:

a. That upon cessation of payment of considerations under a contract, the company will grant a paid-up annuity benefit on a plan stipulated in the contract of such value as is specified in subsections four (4), five (5), six (6), seven (7), and nine (9) of this section.

b. If a contract provides for a lump sum settlement at maturity, or at any other time, that upon surrender of the contract at or prior to the commencement of any annuity payments, the company will pay in lieu of any paid-up annuity benefit a cash surrender benefit of such amount as is specified in subsections four (4), five (5), seven (7), and nine (9) of this section. The company shall reserve the right to defer the payment of such cash surrender benefit for a period of six months after demand therefor with surrender of the contract.

c. A statement of the mortality table, if any, and interest rates used in calculating any minimum paid-up annuity, cash surrender or death benefits that are guaranteed under the contract, together with sufficient information to determine the amounts of such benefits.

d. A statement that any paid-up annuity, cash surrender or death benefits that may be available under the contract are not less than the minimum benefits required by any statute of the state in which the contract is delivered and an explanation of the manner in which such benefits are altered by the existence of any additional amounts credited by the company to the contract, any indebtedness to the company on the contract or any prior withdrawals from or partial surrenders of the contract.

Notwithstanding the requirements of this subsection two (2), any deferred annuity contract may provide that if no considerations have been received under a contract for a period of two full years and the portion of the paid-up annuity benefit at maturity on the plan stipulated in the contract arising from considerations paid prior to such period would be less than twenty dollars monthly, the company may at its option terminate such contract by payment in cash of the then present value of such portion of the paid-up annuity benefit, calculated on the basis of the mortality table, if any, and interest rate specified in the contract for determining the paid-up annuity benefit, and by such payment shall be relieved of any further obligation under such contract.

3. The minimum values as specified in subsections four (4), five (5), six (6), seven (7), and nine (9) of this section of any paid-up annuity, cash surrender or death benefits available under an annuity contract shall be based upon minimum nonforfeiture amounts as defined in this section.

a. With respect to contracts providing for flexible considerations, the minimum nonforfeiture amount at any time at or prior to the commencement of any annuity payments shall be equal to an accumulation up to such time at a rate of interest of three percent per annum of percentages of the net considerations (as hereinafter defined) paid prior to such time, decreased by the sum of (i) any prior withdrawals from or partial surrenders of the contract accumulated at

a rate of interest of three percent per annum and (ii) the amount of any indebtedness to the company on the contract, including interest due and accrued; and increased by any existing additional amounts credited by the company to the contract.

The net considerations for a given contract year used to define the minimum nonforfeiture amount shall be an amount not less than zero and shall be equal to the corresponding gross considerations credited to the contract during that contract year less an annual contract charge of thirty dollars and less a collection charge of one dollar and twenty-five cents per consideration credited to the contract during that contract year. The percentages of net considerations shall be sixty-five percent of the net consideration for the first contract year and eighty-seven and one-half percent of the net considerations for the second and later contract years. Notwithstanding the provisions of the preceding sentence, the percentage shall be sixty-five percent of the portion of the total net consideration for any renewal contract year which exceeds by not more than two times the sum of those portions of the net considerations in all prior contract years for which the percentage was sixty-five percent.

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

(1) The portion of the net consideration for the first contract year to be accumulated shall be the sum of sixty-five percent of the net consideration for the first contract year plus twenty-two and one-half percent of the excess of the net consideration for the first contract year over the lesser of the net considerations for the second and third contract years; and

(2) The annual contract charge shall be the lesser of (i) thirty dollars or (ii) ten percent of the gross annual consideration.

c. With respect to contracts providing for a single consideration, minimum nonforfeiture amounts shall be defined as for contracts with flexible considerations except that the percentage of net consideration used to determine the minimum nonforfeiture amount shall be equal to ninety percent and the net consideration shall be the gross consideration less a contract charge of seventy-five dollars.

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

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

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

7. For the purpose of determining the benefits calculated under subsections five (5) and six (6) of this section, in the case of annuity contracts under which an election may be made to have annuity payments commence at optional maturity dates, the maturity date shall be deemed to be the latest date for which election shall be permitted by the contract, but shall not be deemed to be later than the anniversary of the contract next following the annuitant's seventieth birthday or the tenth anniversary of the contract, whichever is later.

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

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

10. For any contract which provides, within the same contract by rider or supplemental contract provision, both annuity benefits and life insurance benefits that are in excess of the greater of cash surrender benefits or a return of the gross considerations with interest, the minimum nonforfeiture benefits shall be equal to the sum of the minimum nonforfeiture benefits for the annuity portion and the minimum nonforfeiture benefits, if any, for the life insurance portion computed as if each portion were a separate contract. Notwithstanding the provisions of subsections four (4), five (5), six (6), seven (7), and nine (9) of this section, additional benefits payable (a) in the event of total and permanent disability; (b) as reversionary annuity or deferred reversionary annuity benefits, or (c) as other policy benefits additional to life insurance, endowment, and annuity benefits, and considerations for all such additional benefits, shall be disregarded in ascertaining the minimum nonforfeiture amounts, paid-up annuity, cash surrender and death benefits that may be required by this section. The inclusion of such additional benefits shall not be required in any paid-up benefits, unless such additional benefits separately would require minimum nonforfeiture amounts, paid-up annuity, cash surrender and death benefits.

11. After January 1, 1980, any company may file with the commissioner a written notice of its election to comply with the provisions of this section after a specified date but before January 1, 1981. After the filing of such notice, then upon such specified date, which shall be the operative

date of this section for such company, this section shall become operative with respect to annuity contracts thereafter issued by such company. The operative date of this section shall be January 1, 1981 for all companies which do not so elect an operative date which is earlier than January 1, 1981.

Sec. 4. Section five hundred twelve point forty-three (512.43), unnumbered paragraph one (1), Code 1979, is amended to read as follows:

No fraternal beneficiary society not admitted to transact business in this state prior to July 4, 1907, shall be incorporated, or given a permit or certificate of authority to transact business within this state, unless it shall first show that the mortuary assessment rates provided for in whatever plan of business it has adopted, including the issuance of term, whole life, or limited payment certificates with withdrawal options, are not lower than is indicated as necessary by the following mortality table, or any more recent table which is applicable to life insurance companies:

Sec. 5. Section five hundred twelve point forty-five (512.45), Code 1979, is amended to read as follows:

512.45 VALUATION OF CERTIFICATES. ~~The certificate written by any domestic fraternal beneficiary association operating under the provisions of the foregoing mortality table shall be valued in the same manner as provided in section 508-36, except that such valuation shall be based upon the foregoing mortality table and four percent interest.~~

~~if the society makes loans on its certificates, the valuation shall be based upon a mortality table not lower than the American table of mortality and four and one-half percent interest.~~ The minimum standards of valuation for certificates issued prior to January 1, 1980, shall be those provided by the law in effect prior to January 1, 1980, but not lower than the standards used in the calculation of rates for the certificates. The minimum standards of valuation for certificates issued on or after January 1, 1980, shall be those provided for life insurance companies.

Sec. 6. Sections five hundred twelve point fifty-seven (512.57) and five hundred twelve point fifty-eight (512.58), Code 1979, are repealed.

Sec. 7. This Act takes effect January 1, 1980.

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FLOYD H. MILLEN  
Speaker of the House

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TERRY E. BRANSTAD  
President of the Senate

I hereby certify that this bill originated in the House and is known as House File 462, Sixty-eighth General Assembly.

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DAVID L. WRAY  
Chief Clerk of the House

Approved April 2, 1979

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ROBERT D. RAY  
Governor