

February 15, 1963.  
Place on Calendar.

House File 267 *Substituted*  
By COMMITTEE ON INSURANCE. *by S.F. 393*

Passed House, Date.....

Passed Senate, Date.....

*Withdrawn 4/8*

Vote: Ayes..... Nays.....

Vote: Ayes..... Nays.....

Approved.....

## A BILL FOR

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

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

- 1 Chapter five hundred eight (508), Code 1962, is hereby
- 2 amended by adding thereto the following two sections:
- 1 Section 1. This section shall be known as the Standard
- 2 Valuation Law.
- 3 1. The commissioner shall annually value, or cause
- 4 to be valued, the reserve liabilities (hereinafter called re-
- 5 serves) for all outstanding life insurance policies and
- 6 annuity and pure endowment contracts of every life insurance
- 7 company doing business in this state, except that in the case
- 8 of an alien company, such valuation shall be limited to its
- 9 United States business, and may certify the amount of any
- 10 such reserves, specifying the mortality table or tables,
- 11 rate or rates of interest and methods (net level premium
- 12 method or other) used in the calculation of such reserves.
- 13 In calculating such reserves, he may use group methods and
- 14 approximate averages for fractions of a year or otherwise.
- 15 For the purpose of making such valuation the commissioner
- 16 may employ a competent actuary who shall be paid by
- 17 the company for which the service is rendered; but a
- 18 domestic company may make such valuation and it shall

19 be received by the commissioner upon satisfactory proof  
20 of its correctness. In lieu of the valuation of the  
21 reserves herein required of any foreign or alien com-  
22 pany, the commissioner may accept any valuation made,  
23 or caused to be made, by the insurance supervisory  
24 official of any state or other jurisdiction when such  
25 valuation complies with the minimum standard herein pro-  
26 vided and if the official of such state or jurisdiction  
27 accepts as sufficient and valid for all legal purposes  
28 the certificate of valuation of the commissioner when  
29 such certificate states the valuation to have been made  
30 in a specified manner according to which the aggregate  
31 reserves would be at least as large as if they had been  
32 computed in the manner prescribed by the law of that  
33 state or jurisdiction.

34 Any such company which at any time shall have  
35 adopted any standard of valuation producing greater  
36 aggregate reserves than those calculated according to  
37 the minimum standard herein provided may, with the approv-  
38 al of the commissioner, adopt any lower standard of valua-  
39 tion, but not lower than the minimum herein provided.

40 2. This subsection shall apply to only those  
41 policies and contracts issued prior to the operative date  
42 of section 2 of this Act (the Standard Nonforfeiture Law).

43 The minimum standard of valuation for all policies of  
44 domestic life insurance companies shall be the Commissioners'  
45 reserve valuation method defined in paragraph "b" of sub-  
46 section 3 and the American Experience Table of Mortality  
47 and four and one-half percent interest or the Actuaries'

48 (or Combined) Experience Table of Mortality and four per-  
49 cent interest.

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

55 3. This subsection shall apply to only those  
56 policies and contracts issued on or after the operative  
57 date of section 2 of this Act (the Standard Nonforfeiture  
58 Law).

59 a. The minimum standard for the valuation of  
60 all such policies and contracts shall be the Commissioners'  
61 reserve valuation method defined in paragraph "b" of this  
62 subsection 3, three and one-half percent interest, and the  
63 following tables:

64 (1) For all ordinary policies of life insur-  
65 ance issued on the standard basis, excluding any disability  
66 and accidental death benefits in such policies, —the  
67 Commissioners 1958 Standard Ordinary Mortality Table, pro-  
68 vided that for any category of such policies issued on  
69 female risks all modified net premiums and present values  
70 referred to in this subsection 3 may be calculated according  
71 to an age not more than three years younger than the actual  
72 age of the insured.

73 (2) For all industrial life insurance policies  
74 issued on the standard basis, excluding any disability and  
75 accidental death benefits in such policies, —the 1941 Stand-  
76 ard Industrial Mortality Table; provided, however, that

77 the Commissioners 1961 Standard Industrial Mortality Table  
78 shall be the table for the minimum standard when said  
79 table becomes applicable under the Standard Nonforfeiture  
80 Law in accordance with subsection 5 of section 2 of this  
81 Act.

82 (3) For individual annuity and pure endow-  
83 ment contracts, excluding any disability and accidental  
84 death benefits in such policies, —the 1937 Standard  
85 Annuity Mortality Table or, at the option of the company,  
86 the Annuity Mortality Table for 1949, Ultimate, or any modi-  
87 fication of either of these tables approved by the commissioner.

88 (4) For group annuity and pure endowment con-  
89 tracts, excluding any disability and accidental death bene-  
90 fits in such policies, —the Group Annuity Mortality Table  
91 for 1951, any modification of such table approved by the  
92 commissioner, or, at the option of the company, any of the  
93 tables or modifications of tables specified for individual  
94 annuity and pure endowment contracts.

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

103 (6) For accidental death benefits in or supple-  
104 mentary to policies, —the 1959 Accidental Death Benefits  
105 Table combined with a mortality table permitted for calculat-

106 ing the reserves for life insurance policies.

107 (7) For group life insurance, life insurance

108 issued on the substandard basis and other special bene-

109 fits, —such tables as may be approved by the commissioner.

110 b. Reserves according to the Commissioners

111 reserve valuation method, for the life insurance and en-

112 dowment benefits of policies providing for a uniform

113 amount of insurance and requiring the payment of uniform

114 premiums shall be the excess, if any, of the present value,

115 at the date of valuation, of such future guaranteed bene-

116 fits provided for by such policies, over the then present

117 value of any future modified net premiums therefor. The

118 modified net premiums for any such policy shall be such

119 uniform percentage of the respective contract premiums for

120 such benefits that the present value, at the date of issue

121 of the policy, of all such modified net premiums shall be

122 equal to the sum of the then present value of such bene-

123 fits provided for by the policy and the excess of (x) over

124 (y), as follows:

125 (x) A net level annual premium equal to the

126 present value, at the date of issue, of such benefits pro-

127 vided for after the first policy year, divided by the

128 present value, at the date of issue, of an annuity of one

129 per annum payable on the first and each subsequent anniver-

130 sary of such policy on which a premium falls due; provided,

131 however, that such net level annual premium shall not exceed

132 the net level annual premium on the nineteen year premium

133 whole life plan for insurance of the same amount at an age

134 one year higher than the age at issue of such policy.

135 (y) A net one year term premium for such bene-  
136 fits provided for in the first policy year.  
137 Reserves according to the Commissioners reserve  
138 valuation method for (a) life insurance policies provid-  
139 ing for a varying amount of insurance or requiring the  
140 payment of varying premiums, (b) annuity and pure endowment  
141 contracts, (c) disability and accidental death benefits  
142 in all policies and contracts, and (d) all other bene-  
143 fits, except life insurance and endowment benefits in  
144 life insurance policies, shall be calculated by a method  
145 consistent with the principles of this paragraph "b",  
146 except that any extra premiums charged because of impair-  
147 ments or special hazards shall be disregarded in the de-  
148 termination of modified net premiums.

149 c. In no event shall a company's aggregate  
150 reserves for all life insurance policies, excluding disa-  
151 bility and accidental death benefits, be less than the  
152 aggregate reserves calculated in accordance with the meth-  
153 od set forth in paragraph "b" above and the mortality  
154 table or tables and rate or rates of interest used in cal-  
155 culating nonforfeiture benefits for such policies.

156 d. Reserves for any category of policies,  
157 contracts or benefits as established by the commissioner,  
158 may be calculated at the option of the company according  
159 to any standards which produce greater aggregate reserves  
160 for such category than those calculated according to the  
161 minimum standard here provided. Provided, however, that  
162 reserves for participating life insurance policies may,  
163 with the consent of the commissioner, be calculated accord-

164 ing to a rate of interest lower than the rate of interest  
165 used in calculating the nonforfeiture benefits in such  
166 policies, with the further proviso that if such lower  
167 rate differs from the rate used in the calculation of  
168 the nonforfeiture benefits by more than one-half percent  
169 the company issuing such policies shall file with the  
170 commissioner a plan providing for such equitable increase,  
171 if any, in the cash surrender values and nonforfeiture  
172 benefits in such policies as the commissioner shall approve.

173 e. If the gross premium charged by any life  
174 insurance company on any policy or contract is less than  
175 the net premium for the policy or contract according to  
176 the mortality table, rate of interest and method used in  
177 calculating the reserve thereon, there shall be maintained  
178 on such policy or contract a deficiency reserve in addi-  
179 tion to all other reserves required by law. For each such  
180 policy or contract the deficiency reserve shall be the  
181 present value, according to such standard, of an annuity  
182 of the difference between such net premium and the pre-  
183 mium charged for such policy or contract, running for the  
184 remainder of the premium-paying period.

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

3 1. In the case of policies issued on or after the  
4 operative date of this section as defined in subsection 8,  
5 no policy of life insurance, except as stated in subsection  
6 7, shall be issued or delivered in this state unless it  
7 shall contain in substance the following provisions, or  
8 corresponding provisions which in the opinion of the commis-

9 sioner are at least as favorable to the defaulting or  
10 surrendering policyholder:

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

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

25 c. That a specified paid-up nonforfeiture  
26 benefit shall become effective as specified in the policy  
27 unless the person entitled to make such election elects  
28 another available option not later than sixty days after  
29 the due date of the premium in default.

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

38 as may be hereinafter specified.

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

51 f. A statement that the cash surrender  
52 values and the paid-up nonforfeiture benefits available  
53 under the policy are not less than the minimum values  
54 and benefits required by or pursuant to the insurance law  
55 of the state in which the policy is delivered; an explanation  
56 of the manner in which the cash surrender values and the  
57 paid-up nonforfeiture benefits are altered by the existence  
58 of any paid-up additions credited to the policy or any in-  
59 debtedness to the company on the policy; if a detailed  
60 statement of the method of computation of the values and  
61 benefits shown in the policy is not stated therein, a state-  
62 ment that such method of computation has been filed with the  
63 insurance supervisory official of the state in which the  
64 policy is delivered; and a statement of the method to be  
65 used in calculating the cash surrender value and paid-up  
66 nonforfeiture benefit available under the policy on any

67 policy anniversary beyond the last anniversary for which  
68 such values and benefits are consecutively shown in the policy.

69 2. Any of the provisions or portions thereof set  
70 forth in subsection 1 which are not applicable by reason  
71 of the plan of insurance may, to the extent inapplicable,  
72 be omitted from the policy. The company shall reserve  
73 the right to defer the payment of any cash surrender value  
74 for a period of six months after demand therefor with  
75 surrender of the policy.

76 3. Any cash surrender value available under the  
77 policy in the event of default in a premium payment due on  
78 any policy anniversary, whether or not required by subsec-  
79 tion 1, shall be an amount not less than the excess, if any,  
80 of the present value, on such anniversary, of the future  
81 guaranteed benefits which would have been provided for by  
82 the policy, including any existing paid-up additions, if  
83 there had been no default, over the sum of (a) the then  
84 present value of the adjusted premiums as defined in subsec-  
85 tion 5, corresponding to premiums which would have fallen  
86 due on and after such anniversary, and (b) the amount of  
87 any indebtedness to the company on the policy. Any cash  
88 surrender value available within thirty days after any  
89 policy anniversary under any policy paid-up by completion  
90 of all premium payments or any policy continued under any  
91 paid-up nonforfeiture benefit, whether or not required by  
92 subsection 1, shall be an amount not less than the present  
93 value, on such anniversary, of the future guaranteed bene-  
94 fits provided for by the policy, including any existing  
95 paid-up additions, decreased by any indebtedness to the

96 company on the policy.

97 4. Any paid-up nonforfeiture benefit available

98 under the policy in the event of default in a premium pay-

99 ment due on any policy anniversary shall be such that its

100 present value as of such anniversary shall be at least

101 equal to the cash surrender value then provided for by

102 the policy or, if none is provided for, that cash surren-

103 der value which would have been required by this section

104 in the absence of the condition that premiums shall have

105 been paid for at least a specified period.

106 5. Except as provided in the third paragraph

107 of this subsection, the adjusted premiums for any policy

108 shall be calculated on any annual basis and shall be such

109 uniform percentage of the respective premiums specified

110 in the policy for each policy year, excluding any

111 extra premiums charged because of impairments or special

112 hazards, that the present value, at the date of issue of

113 the policy, of all such adjusted premiums shall be equal

114 to the sum of (a) the then present value of the future

115 guaranteed benefits provided for by the policy; (b) two

116 percent of the amount of the insurance, if the insurance

117 be uniform in amount, or of the equivalent uniform amount,

118 as hereinafter defined, if the amount of insurance varies

119 with duration of the policy; (c) forty percent of the

120 adjusted premium for the first policy year; (d) twenty-

121 five percent of either the adjusted premium for the first

122 policy year or the adjusted premium for a whole life policy

123 of the same uniform or equivalent uniform amount with uni-

124 form premiums for the whole of life issued at the same age

125 for the same amount of insurance, whichever is less. Pro-  
126 vided, however, that in applying the percentages specified  
127 in (c) and (d) above, no adjusted premium shall be deemed  
128 to exceed four percent of the amount of insurance or uniform  
129 amount equivalent thereto. The date of issue of a policy  
130 for the purpose of this subsection 5 shall be the date  
131 as of which the rated age of the insured is determined.

132 In the case of a policy providing an amount of in-  
133 surance varying with duration of the policy, the equiva-  
134 lent uniform amount thereof for the purpose of this sub-  
135 section 5 shall be deemed to be the uniform amount of  
136 insurance provided by an otherwise similar policy, con-  
137 taining the same endowment benefit or benefits, if any,  
138 issued at the same age and for the same term, the amount  
139 of which does not vary with duration and the benefits  
140 under which have the same present value at the date of  
141 issue as the benefits under the policy, provided, however,  
142 that in the case of a policy providing a varying amount  
143 of insurance issued on the life of a child under age ten,  
144 the equivalent uniform amount may be computed as though  
145 the amount of insurance provided by the policy prior to  
146 the attainment of age ten were the amount provided by  
147 such policy at age ten.

148 The adjusted premiums for any policy providing term  
149 insurance benefits by rider or supplemental policy provi-  
150 sion shall be equal to (a) the adjusted premiums for an  
151 otherwise similar policy issued at the same age without  
152 such term insurance benefits, increased during the

153 period for which premiums for such term insurance benefits  
154 are payable, by (b) the adjusted premiums for such term  
155 insurance, the foregoing items (a) and (b) being calculated  
156 separately and as specified in the first two paragraphs of  
157 this subsection except that, for the purposes of (b), (c)  
158 and (d) of the first paragraph of this subsection, the amount  
159 of insurance or equivalent uniform amount of insurance  
160 used in the calculation of the adjusted premiums referred  
161 to in (b) of this paragraph shall be equal to the excess  
162 of the corresponding amount determined for the entire  
163 policy over the amount used in the calculation of the  
164 adjusted premiums in (a) of this paragraph.

165 All adjusted premiums and present values referred  
166 to in this section shall for all policies of ordinary  
167 insurance be calculated on the basis of the Commissioners  
168 1958 Standard Ordinary Mortality Table, provided that for  
169 any category of ordinary insurance issued on female risks,  
170 adjusted premiums and present values may be calculated  
171 according to an age not more than three years younger  
172 than the actual age of the insured. Such calculations  
173 for all policies of industrial insurance shall be made on  
174 the basis of the 1941 Standard Industrial Mortality Table;  
175 provided, however, that any company may file with the  
176 commissioner a written notice of its election that such  
177 adjusted premiums and present values shall be calculated on  
178 the basis of the Commissioners 1961 Standard Industrial  
179 Mortality Table, after a specified date before January 1,  
180 1968; provided, further, that, whether or not any election  
181 has been made, such Commissioners 1961 Standard Industrial

182 Mortality Table shall be the basis for such calculations as  
183 to all policies of industrial insurance issued on or after  
184 January 1, 1968. All calculations shall be made on the basis  
185 of the rate of interest, not exceeding three and one-half  
186 percent per annum, specified in the policy for calculating  
187 cash surrender values and paid-up nonforfeiture benefits;  
188 provided, however, that in calculating the present value  
189 of any paid-up term insurance with accompanying pure en-  
190 dowment, if any, offered as a nonforfeiture benefit, the  
191 rates of mortality assumed in the case of policies of  
192 ordinary insurance, may be not more than those shown in  
193 the Commissioners 1958 Extended Term Insurance Table, and,  
194 in the case of policies of industrial insurance, may be not  
195 more than one hundred thirty percent of the rates of mor-  
196 tality according to the 1941 Standard Industrial Mortality  
197 Table, except that when the Commissioners 1961 Standard In-  
198 dustrial Mortality Table becomes applicable, as hereinbe-  
199 fore provided, such rates of mortality assumed may be not  
200 more than those shown in the Commissioners 1961 Industrial  
201 Extended Term Insurance Table; provided, further, that for  
202 insurance issued on a substandard basis, the calculation  
203 of any such adjusted premiums and present values may  
204 be based on such other table of mortality as may be speci-  
205 fied by the company and approved by the commissioner.

206 6. Any cash surrender value and any paid-up  
207 nonforfeiture benefit, available under the policy in the  
208 event of default in a premium payment due at any time other  
209 than on the policy anniversary, shall be calculated with  
210 allowance for the lapse of time and the payment of fractional

211 premiums beyond the last preceding policy anniversary. All  
212 values referred to in subsections 3, 4 and 5 may be calculat-  
213 ed upon the assumption that any death benefit is payable  
214 at the end of the policy year of death. The net value of  
215 any paid-up additions, other than paid-up term additions,  
216 shall be not less than the dividends used to provide such  
217 additions. Notwithstanding the provisions of subsection 3  
218 above, additional benefits payable (a) in the event of  
219 death or dismemberment by accident or accidental means,  
220 (b) in the event of total and permanent disability, (c)  
221 as reversionary annuity or deferred reversionary annuity  
222 benefits, (d) as term insurance benefits provided by a  
223 rider or supplemental policy provision to which, if issued  
224 as a separate policy, this section would not apply, (e)  
225 as term insurance on the life of a child or on the lives  
226 of children provided in a policy on the life of a parent of  
227 the child, if such term insurance expires before the child's  
228 age is twenty-six, is uniform in amount after the child's age  
229 is one, and has not become paid-up by reason of the death of  
230 a parent of the child, and (f) as other policy benefits  
231 additional to life insurance and endowment benefits, and  
232 premiums for all such additional benefits, shall be disre-  
233 garded in ascertaining cash surrender values and nonforfeiture  
234 benefits required by this section, and no such addi-  
235 tional benefits shall be required to be included in any paid-  
236 up nonforfeiture benefits.

237 7. This section shall not apply to any reinsurance,  
238 group insurance, pure endowment, annuity or reversionary  
239 annuity contract, nor to any term policy of uniform amount,

240 or renewal thereof, of fifteen years or less expiring before  
241 age sixty-six, for which uniform premiums are payable during  
242 the entire term of the policy, nor to any term policy of  
243 decreasing amount on which each adjusted premium, calculated  
244 as specified in subsection 5 above, is less than the adjusted  
245 premium so calculated, on such fifteen year term policy issued  
246 at the same age and for the same initial amount of insurance,  
247 nor to any policy which shall be delivered outside this  
248 state through an agent or other representative of the  
249 company issuing the policy.

250 8. After the effective date of this Act, any  
251 company may file with the commissioner a written notice  
252 of its election to comply with the provisions of this  
253 section after a specified date before January first,  
254 nineteen hundred and sixty-six. After the filing of  
255 such notice, then upon such specified date (which shall  
256 be the operative date of this section for such company),  
257 this section shall become operative with respect to the  
258 policies thereafter issued by such company. If a company  
259 makes no such election, the operative date of this section  
260 for such company shall be January first, nineteen hundred  
261 and sixty-six.

1 Sec. 3. Section five hundred eight point twelve

2 (508.12), Code 1962, is hereby repealed.

#### EXPLANATION OF HOUSE FILE 267

This is the model bill of the National Association of Insurance Commissioners relating to the valuation of reserve liabilities of life insurance companies under their outstanding contracts and to provide the basis for nonforfeiture benefits if the policyholder defaults in premium payments. The provisions are in the public interest.

Forty-two of the states have such a law. Actually, for some time, the insurance department has applied these principles without benefit of supporting statutes other than the very sketchy provisions of section 508.12 of the Code.

This bill would give the Insurance Department statutory authority for its practices in policy, review and approval.

HOUSE FILE 267

1 Amend House File 267, Section 2, line 108, by striking  
2 the word "any" and inserting in lieu thereof the word "an".

Filed  
February 22, 1963.

ANDERSEN of Woodbury.

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