

SENATE BILL NO. 94

INTRODUCED BY HAZELBAKER, DOVER

BY REQUEST OF THE COMMISSIONER OF INSURANCE

IN THE SENATE

January 12, 1979	Introduced and referred to Committee on Business and Industry.
January 30, 1979	Committee recommend bill do pass. Report adopted.
January 31, 1979	Printed and placed on members' desks.
February 1, 1979	Second reading, do pass.
February 2, 1979	Considered correctly engrossed.
February 3, 1979	Third reading, passed. Transmitted to second house.

IN THE HOUSE

February 5, 1979	Introduced and referred to Committee on Business and Industry.
March 9, 1979	Committee recommend bill be concurred in. Report adopted.
March 13, 1979	Second reading, concurred in.
March 15, 1979	Third reading, concurred in.

IN THE SENATE

March 16, 1979	Returned from second house. Concurred in. Sent to enrolling. Reported correctly enrolled.
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1 Senate BILL NO. 94
 2 INTRODUCED BY Walter Dyer

3 BY REQUEST OF THE COMMISSIONER OF INSURANCE

4
 5 A BILL FOR AN ACT ENTITLED: "AN ACT TO REVISE THE LAW
 6 RELATING TO STANDARD VALUATION AND STANDARD NONFORFEITURE
 7 IN LIFE INSURANCE; PROVIDING FOR ADOPTION OF ANNUITY
 8 MORTALITY TABLES AND PERMISSIBLE INTEREST RATES IN VALUATION
 9 OF ANNUITY AND INSURANCE CONTRACTS; ADDING PROVISIONS
 10 RELATING TO NONFORFEITURE IN INDIVIDUAL DEFERRED ANNUITIES;
 11 AND AMENDING SECTIONS 33-2-523 THROUGH 33-2-526, 33-20-201,
 12 33-20-206, AND 33-20-207, MCA."

13
 14 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

15 Section 1. Section 33-2-523, MCA, is amended to read:
 16 "33-2-523. Contracts on or after the operative date of
 17 33-20-213 -- valuation. (1) This section shall apply to only
 18 those policies and contracts issued on or after the
 19 operative date of 33-20-213, except as otherwise provided in
 20 33-2-524 for group annuity and pure endowment contracts
 21 issued prior to that date.

22 (2) Except as otherwise provided in 33-2-524, the
 23 minimum standard for the valuation of all such policies and
 24 contracts shall be the commissioner's reserve valuation
 25 method ~~methods~~ defined in 33-2-525 and 32-2-526(3), 53

1 interest for group annuity and pure endowment contracts and
 2 3 1/2% interest for all other such policies and contracts
 3 or in the case of policies and contracts, other than annuity
 4 and pure endowment contracts, issued on or after March 17,
 5 1973, ~~and prior to January 1, 1986,~~ 4% interest for such
 6 policies issued prior to July 1, 1979, and 4 1/2% interest
 7 for such policies issued on or after July 1, 1979, and the
 8 following tables:

9 (a) for all ordinary policies of life insurance issued
 10 on the standard basis, excluding any disability and
 11 accidental death benefits in such policies, the
 12 commissioner's 1941 standard ordinary mortality table for
 13 such policies issued prior to the operative date of
 14 33-20-206, as amended, and the commissioner's 1958 standard
 15 ordinary mortality table for such policies issued on or
 16 after that operative date, except that for any category of
 17 such policies issued on female risks, modified net premiums
 18 and present values, referred to in 33-2-525 and 33-2-526,
 19 may be calculated, at the option of the insurer with the
 20 approval of the commissioner, according to an age younger
 21 than the actual age of the insured;

22 (b) for all industrial life insurance policies issued
 23 on the standard basis, excluding any disability and
 24 accidental death benefits in such policies, the 1941
 25 standard industrial mortality table for such policies issued

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1 prior to the operative date of 33-20-207, as amended, and
 2 the commissioner's 1961 standard industrial mortality table
 3 for such policies issued on or after that operative date;

4 (c) for individual annuity and pure endowment
 5 contracts, excluding any disability and accidental death
 6 benefits in such policies, the 1937 standard annuity
 7 mortality table or, at the option of the insurer, the
 8 annuity mortality table for 1949, ultimate, or any
 9 modification of either of these tables approved by the
 10 commissioner;

11 (d) for group annuity and pure endowment contracts,
 12 excluding any disability and accidental death benefits in
 13 such policies, the group annuity mortality table for 1951,
 14 any modification of such table approved by the commissioner,
 15 or, at the option of the insurer, any of the tables or
 16 modifications of tables specified for individual annuity and
 17 pure endowment contracts;

18 (e) (i) for total and permanent disability benefits in
 19 or supplementary to ordinary policies or contracts:

20 (A) for policies or contracts issued on or after
 21 January 1, 1966, the tables of period 2 disablement rates
 22 and the 1930 to 1950 termination rates of the 1952
 23 disability study of the society of actuaries, with due
 24 regard to the type of benefit;

25 (B) for policies or contracts issued on or after

1 January 1, 1961, and prior to January 1, 1966, either such
 2 tables or, at the option of the insurer, the class 3
 3 disability table (1926); and

4 (C) for policies issued prior to January 1, 1961, the
 5 class 3 disability table (1926);

6 (ii) any such table shall, for active lives, be
 7 combined with a mortality table permitted for calculating
 8 the reserves for life insurance policies;

9 (f) (i) for accidental death benefits in or
 10 supplementary to policies:

11 (A) for policies issued on or after January 1, 1966,
 12 the 1959 accidental death benefits table;

13 (B) for policies issued on or after January 1, 1961,
 14 and prior to January 1, 1966, either such table or, at the
 15 option of the insurer, the intercompany double indemnity
 16 mortality table; and

17 (C) for policies issued prior to January 1, 1961, the
 18 intercompany double indemnity mortality table;

19 (ii) either table shall be combined with a mortality
 20 table permitted for calculating the reserves for life
 21 insurance policies;

22 (g) for group life insurance, life insurance issued on
 23 the substandard basis and other special benefits, such
 24 tables as may be approved by the commissioner."

25 Section 2. Section 33-2-524, MCA, is amended to read:

1 *33-2-524. Individual and group annuity and pure
2 endowment contracts -- valuation. (1) The minimum standard
3 for the valuation of all individual annuity and pure
4 endowment contracts issued on or after [the operative date
5 of this section], as defined herein, and for all annuities
6 and pure endowments purchased on or after that operative
7 date, under group annuity and pure endowment contracts shall
8 be the commissioner's reserve valuation ~~method~~ methods
9 defined in 33-2-525 and the following tables and interest
10 rates:

11 (a) for individual annuity and pure endowment
12 contracts issued prior to ~~January 1, 1986~~ July 1, 1979,
13 excluding any disability and accidental death benefits in
14 such contracts, the 1971 individual annuity mortality table
15 or any modification of this table approved by the
16 commissioner and 6% interest for single premium immediate
17 annuity contracts and 4% interest for all other individual
18 annuity and pure endowment contracts;

19 (b) ~~for individual annuity and pure endowment~~
20 ~~contracts issued on or after January 1, 1986, excluding any~~
21 ~~disability and accidental death benefits in such contracts,~~
22 ~~the 1971 individual annuity mortality table or any~~
23 ~~modification of the table approved by the commissioner and~~
24 ~~3 1/2% interest;~~ for individual single premium immediate
25 annuity contracts issued on or after July 1, 1979, excluding

1 any disability and accidental death benefits in such
2 contracts, the 1971 individual annuity mortality table or
3 any modification of this table approved by the commissioner
4 and 7 1/2% interest;

5 (c) for individual annuity and pure endowment
6 contracts issued on or after July 1, 1979, other than single
7 premium immediate annuity contracts, 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 5 1/2% interest for single premium deferred annuity and pure
12 endowment contracts and 4 1/2% interest for all other such
13 individual annuity and pure endowment contracts;

14 (d) for all annuities and pure endowments purchased
15 prior to ~~January 1, 1986~~ July 1, 1979, under group annuity
16 and pure endowment contracts, excluding any disability and
17 accidental death benefits purchased under such contracts,
18 the 1971 group annuity mortality table or any modification
19 of the table approved by the commissioner and 6% interest;

20 (e) for all annuities and pure endowments purchased
21 on or after ~~January 1, 1986~~ July 1, 1979, under group
22 annuity and pure endowment contracts, excluding any
23 disability and accidental death benefits purchased under
24 such contracts, the 1971 group annuity mortality table or
25 any modification of this table approved by the commissioner

1 and ~~3-1/2%~~ 7 1/2% interest.

2 (2) After March 17, 1973, any insurer may file with
3 the commissioner a written notice of its election to comply
4 with the provisions of subsection (1) after a specified date
5 before January 1, 1979, which shall be the operative date of
6 subsection (1) for such insurer. An insurer may elect a
7 different operative date for individual annuity and pure
8 endowment contracts from that elected for group annuity and
9 pure endowment contracts. If an insurer makes no such
10 election, the operative date of this section for such
11 insurer shall be January 1, 1979."

12 Section 3. Section 33-2-525, MCA, is amended to read:

13 "33-2-525. Commissioner's reserve valuation method.
14 (1) ~~Reserves Except as otherwise provided in subsection (3)~~
15 ~~and 33-2-526(3), reserves~~ according to the commissioner's
16 reserve valuation method, for the life insurance and
17 endowment benefits of policies providing for a uniform
18 amount of insurance and requiring the payment of uniform
19 premiums, shall be the excess, if any, of the present value,
20 at the date of valuation, of such future guaranteed benefits
21 provided for by such policies, over the then present value
22 of any future modified net premiums therefor. The modified
23 net premiums for any such policy shall be such uniform
24 percentage of the respective contract premiums for such
25 benefits that the present value, at the date of issue of the

1 policy, of all such modified net premiums shall be equal to
2 the sum of the then present value of such benefits provided
3 for by the policy and the excess of (a) over (b), as
4 follows:

5 (a) a net level annual premium equal to the present
6 value, at the date of issue, of such benefits provided for
7 after the first policy year, divided by the present value,
8 at the date of issue of an annuity of one per annum payable
9 on the first and each subsequent anniversary of such policy
10 on which a premium falls due; provided, however, that such
11 net level annual premium shall not exceed the net level
12 annual premium on the 19-year premium whole life plan for
13 insurance of the same amount at an age 1 year higher than
14 the age at issue of such policy;

15 (b) a net 1-year term premium for such benefits
16 provided for in the first policy year.

17 (2) Reserves according to the commissioner's reserve
18 valuation method for the following shall be calculated by a
19 method consistent with the principles of this section,
20 except that any extra premiums charged because of
21 impairments or special hazards shall be disregarded in the
22 determination of modified net premiums;

23 (a) life insurance policies providing for a varying
24 amount of insurance or requiring the payment of varying
25 premiums;

1 (b) group annuity and pure endowment contracts
 2 purchased under a retirement plan or plan of deferred
 3 compensation, established or maintained by an employer
 4 (including a partnership or sole proprietorship) or by an
 5 employee organization, or by both, other than a plan
 6 providing individual retirement accounts or individual
 7 retirement annuities under section 408 of the Internal
 8 Revenue Code, as now or hereafter amended;

9 (c) disability and accidental death benefits in all
 10 policies and contracts; and

11 (d) all other benefits, except life insurance and
 12 endowment benefits in life insurance policies--shall--be
 13 calculated--by--a--method--consistent--with--the--principles--of
 14 this--section--except--that--any--extra--premiums--charged--because
 15 of--impairments--or--special--hazards--shall--be--disregarded--in
 16 the--determination--of--modified--net--premiums and benefits
 17 provided by all other annuity and pure endowment contracts.

18 (3) (a) Subsection (3)(b) applies to any annuity and
 19 pure endowment contracts other than group annuity and pure
 20 endowment contracts purchased under a retirement plan or
 21 plan of deferred compensation established or maintained by
 22 an employer (including a partnership or sole proprietorship)
 23 or by an employee organization, or by both, other than a
 24 plan providing individual retirement accounts or individual
 25 retirement annuities under section 408 of the Internal

1 Revenue Code, as now or hereafter amended.

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

20 Section 4. Section 33-2-526, MCA, is amended to read:

21 "33-2-526. Limits -- options -- deficiency minimum
 22 reserves. (1) In no event shall an insurer's aggregate
 23 reserves for all life insurance policies, excluding
 24 disability and accidental death benefits, be less than the
 25 aggregate reserves calculated in accordance with the method

1 ~~methods~~ set forth in 33-2-525 and subsection (3) of this
 2 section and the mortality table or tables and rate or rates
 3 of interest used in calculating nonforfeiture benefits for
 4 such policies.

5 (2) Reserves for any category of policies, contracts,
 6 or benefits as established by the commissioner may be
 7 calculated at the option of the insurer according to any
 8 standards which produce greater aggregate reserves for such
 9 category than those calculated according to the minimum
 10 standard herein provided, but the rate or rates of interest
 11 used for policies and contracts, other than annuity and pure
 12 endowment contracts, shall not be higher than the
 13 corresponding rate or rates of interest used in calculating
 14 any nonforfeiture benefits provided for therein. ~~Provided,~~
 15 ~~however, that reserves for participating life insurance~~
 16 ~~policies may, with the consent of the commissioner, be~~
 17 ~~calculated according to a rate of interest lower than the~~
 18 ~~rate of interest used in calculating the nonforfeiture~~
 19 ~~benefits in such policies. If such lower rate differs from~~
 20 ~~the rate used in the calculation of the nonforfeiture~~
 21 ~~benefits by more than 1/2 of 1%, the insurer issuing such~~
 22 ~~policies shall file with the commissioner a plan providing~~
 23 ~~for such equitable increases, if any, in the cash surrender~~
 24 ~~values and nonforfeiture benefits in such policies as the~~
 25 ~~commissioner shall approve.~~

1 (3) If in any contract year the gross premium charged
 2 by any life insurer on any policy or contract is less than
 3 the valuation net premium for the policy or contract
 4 ~~according to the mortality table, rate of interest, and~~
 5 ~~calculated by the method used in calculating the reserve~~
 6 ~~thereon, there shall be maintained on such policy or~~
 7 ~~contract a deficiency reserve in addition to all other~~
 8 ~~reserves required by law for each such policy or contract~~
 9 ~~the deficiency reserve shall be the present value, according~~
 10 ~~to such standard, of an annuity of the difference between~~
 11 ~~such net premium and the premium charged for such policy or~~
 12 ~~contract, running for the remainder of the premium paying~~
 13 ~~period but using the minimum valuation standards of~~
 14 ~~mortality and rate of interest, the minimum reserve required~~
 15 ~~for such policy or contract shall be the greater of either~~
 16 ~~the reserve calculated according to the mortality tables~~
 17 ~~rate of interest, and method actually used for such policy~~
 18 ~~or contract or the reserve calculated by the method actually~~
 19 ~~used for such policy or contract but using the minimum~~
 20 ~~standards of mortality and rate of interest and replacing~~
 21 ~~the valuation net premium by the actual gross premium in~~
 22 ~~each contract year for which the valuation net premium~~
 23 ~~exceeds the actual gross premium."~~

24 Section 5. Section 33-20-201, MCA, is amended to read:
 25 "33-20-201. Short title. This part shall be known as

1 ~~"The the "Standard Nonforfeiture Law for Life Insurance"."~~

2 Section 6. Section 33-20-206, MCA, is amended to read:

3 "33-20-206. Mortality tables -- policies issued after
4 operative date. (1) In the case of ordinary policies issued
5 on or after the operative date of this section as defined
6 herein, all adjusted premiums and present values referred to
7 in this part shall be calculated on the basis of the
8 ~~commissioners~~ commissioner's 1958 standard ordinary
9 mortality table and the rate of interest specified in the
10 policy for calculating cash surrender values and paid-up
11 nonforfeiture benefits, provided that:

12 (a) such rate of interest shall not exceed 3 1/2% per
13 annum, except that a rate of interest not exceeding 4% per
14 annum may be used for policies issued on or after March 17,
15 1973, and prior to ~~January 1, 1986~~ July 1, 1979, and a rate
16 of interest not exceeding 5 1/2% a year may be used for
17 policies issued on or after July 1, 1979;

18 (b) for any category of ordinary insurance issued on
19 female risks, adjusted premiums and present values may be
20 calculated according to an age not more than 3 1/2 years
21 younger than the actual age of the insured;

22 (c) in calculating the present value of any paid-up
23 term insurance with accompanying pure endowment, if any,
24 offered as a nonforfeiture benefit, the rates of mortality
25 assumed may be not more than those shown in the

1 ~~commissioners~~ commissioner's 1958 extended term insurance
2 table;

3 (d) for insurance issued on a substandard basis, the
4 calculation of any such adjusted premiums and present values
5 may be based on such other table of mortality as may be
6 specified by the company and approved by the commissioner.

7 (2) After July 1, 1961, any insurer may file with the
8 commissioner a written notice of its election to comply with
9 the provisions of this section after a specified date before
10 January 1, 1966. After the filing of such notice, then upon
11 such specified date (which shall be the operative date of
12 this section for such insurer), this section shall become
13 operative with respect to the ordinary policies thereafter
14 issued by such insurer. If an insurer makes no such
15 election, the operative date of this section for such
16 insurer shall be January 1, 1966."

17 Section 7. Section 33-20-207, MCA, is amended to read:

18 "33-20-207. Industrial policies -- mortality tables.

19 (1) In the case of industrial policies issued on or after
20 the operative date of this section as defined herein, all
21 adjusted premiums and present values referred to in this
22 part shall be calculated on the basis of ~~commissioners~~
23 commissioner's 1961 standard industrial mortality table and
24 the rate of interest specified in the policy for calculating
25 cash surrender values and paid-up nonforfeiture benefits

1 provided that:

2 (a) such rate of interest shall not exceed 3 1/2% per
3 annum except that a rate of interest not exceeding 4% per
4 annum may be used for policies issued on or after March 17,
5 1973, and prior to ~~January 1, 1986~~ July 1, 1979, and a rate
6 of interest not exceeding 5 1/2% a year may be used for
7 policies issued on or after July 1, 1979;

8 (b) in calculating the present value of any paid-up
9 term insurance with accompanying pure endowment, if any,
10 offered as a nonforfeiture benefit, the rates of mortality
11 assumed may be not more than those shown in the
12 ~~commissioner's~~ commissioner's 1961 industrial extended term
13 insurance table;

14 (c) for insurance issued on a substandard basis the
15 calculations of any such adjusted premiums and present
16 values may be based on such other table of mortality as may
17 be specified by the company and approved by the
18 commissioner.

19 (2) After February 22, 1965, any insurer may file with
20 the commissioner a written notice of its election to comply
21 with the provisions of this section after a specified date
22 before January 1, 1968. After the filing of such notice,
23 then upon such specified date (which shall be the operative
24 date of this section for such insurer), this section shall
25 become operative with respect to the industrial policies

1 thereafter issued by such insurer. If an insurer makes no
2 such election, the operative date of this section for such
3 insurer shall be January 1, 1968."

4 NEW SECTION. Section 8. Short title. [Sections 8
5 through 20] shall be known as the "Standard Nonforfeiture
6 Law for Individual Deferred Annuities".

7 NEW SECTION. Section 9. Application. [Sections 8
8 through 20] do not apply to any reinsurance, group annuity
9 purchased under a retirement plan, or plan of deferred
10 compensation established or maintained by an employer
11 (including a partnership or sole proprietorship) or by an
12 employee organization, or by both, other than a plan
13 providing individual retirement accounts or individual
14 retirement annuities under section 408 of the Internal
15 Revenue Code, as now or hereafter amended, premium deposit
16 fund, variable annuity, investment annuity, immediate
17 annuity, any deferred annuity contract after annuity
18 payments have commenced, or reversionary annuity or to any
19 contract which is delivered outside this state through an
20 agent or other representative of the company issuing the
21 contract.

22 NEW SECTION. Section 10. Nonforfeiture provisions. In
23 the case of contracts issued on or after the operative date
24 of [sections 8 through 20] as defined in [section 20], no
25 contract of annuity except as stated in [section 9] shall be

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

7 (1) that upon cessation of payment of considerations
 8 under a contract the company will grant a paid-up annuity
 9 benefit on a plan stipulated in the contract of such value
 10 as is specified in [sections 13 through 16, and 18];

11 (2) that if a contract provides for a lump-sum
 12 settlement at maturity or at any other time, than upon
 13 surrender of the contract at or prior to the commencement of
 14 any annuity payments, the company will pay in lieu of any
 15 paid-up annuity benefit a cash surrender benefit of such
 16 amount as is specified in [sections 13, 14, 16, and 18]. The
 17 company shall reserve the right to defer the payment of such
 18 cash surrender benefit for a period of 6 months after demand
 19 therefor with surrender of the contract.

20 (3) a statement of the mortality table, if any, and
 21 interest rates used in calculating any minimum paid-up
 22 annuity, cash surrender, or death benefits that are
 23 guaranteed under the contract, together with sufficient
 24 information to determine the amounts of such benefits;

25 (4) a statement that any paid-up annuity, cash

1 surrender, or death benefits that may be available under the
 2 contract are not less than the minimum benefits required by
 3 any statute of the state in which the contract is delivered
 4 and an explanation of the manner in which such benefits are
 5 altered by the existence of any additional amounts credited
 6 by the company to the contract, any indebtedness to the
 7 company on the contract, or any prior withdrawals from or
 8 partial surrenders of the contract.

9 NEW SECTION. Section 11. Exception. Notwithstanding
 10 the requirements of [section 10], any deferred annuity
 11 contract may provide that if no consideration has been
 12 received under a contract for a period of 2 full years and
 13 the portion of the paid-up annuity benefit at maturity on
 14 the plan stipulated in the contract arising from
 15 consideration paid prior to such period would be less than
 16 \$20 monthly, the company may at its option terminate such
 17 contract by payment in cash of the then present value of
 18 such portion of the paid-up annuity benefit, calculated on
 19 the basis of the mortality table, if any, and interest rate
 20 specified in the contract for determining the paid-up
 21 annuity benefit, and by such payment shall be relieved of
 22 any further obligation under such contract.

23 NEW SECTION. Section 12. Minimum nonforfeiture
 24 amounts. (1) The minimum values as specified in [sections 13
 25 through 16, and 18] of any paid-up annuity, cash surrender,

1 or death benefits available under an annuity contract shall
2 be based upon minimum nonforfeiture amounts as defined in
3 this section.

4 (2) (a) With respect to contracts providing for
5 flexible considerations, the minimum nonforfeiture amount at
6 any time at or prior to the commencement of any annuity
7 payments shall be equal to an accumulation up to such time
8 at a rate of interest of 3% a year of percentages of the net
9 considerations (as hereinafter defined) paid prior to such
10 time, decreased by the sum of any prior withdrawals from or
11 partial surrenders of the contract accumulated at a rate of
12 interest of 3% a year and the amount of any indebtedness to
13 the company on the contract, including interest due and
14 accrued, and increased by existing additional amounts
15 credited by the company to the contract.

16 (b) The net consideration for a given contract year
17 used to define the minimum nonforfeiture amount shall be an
18 amount not less than zero and shall be equal to the
19 corresponding gross considerations credited to the contract
20 during that contract year less an annual contract charge of
21 \$30 and less a collection charge of \$1.25 per consideration
22 credited to the contract during that contract year. The
23 percentages of net consideration shall be 65% of the net
24 consideration for the first contract year and 87 1/2% of the
25 net consideration for the second and later contract years.

1 Notwithstanding the provisions of the preceding sentence,
2 the percentage shall be 65% of the portion of the total net
3 consideration for any renewal contract year which exceeds by
4 not more than two times the sum of those portions of the net
5 consideration in all prior contract years for which the
6 percentage was 65%.

7 (3) With respect to contracts providing for fixed
8 schedule consideration, minimum nonforfeiture amounts shall
9 be calculated on the assumption that consideration is paid
10 annually in advance and shall be defined as for contracts
11 with flexible payments of consideration which are paid
12 annually with two exceptions:

13 (a) The portion of the net consideration for the first
14 contract year to be accumulated shall be the sum of 65% of
15 the net consideration for the first contract year plus
16 22 1/2% of the excess of the net consideration for the first
17 contract year over the lesser of the net considerations for
18 the second and third contract years.

19 (b) The annual contract charge shall be the lesser of
20 \$30 or 10% of the gross annual consideration.

21 (4) With respect to contracts providing for a single
22 consideration, minimum nonforfeiture amounts shall be
23 defined as for contracts with flexible payments of
24 consideration except that the percentage of net
25 consideration used to determine the minimum nonforfeiture

1 amount shall be equal to 90% and the net consideration shall
2 be the gross consideration less a contract charge of \$75.

3 NEW SECTION. Section 13. Present value to equal
4 minimum nonforfeiture amount. Any paid-up annuity benefit
5 available under a contract shall be such that its present
6 value on the date annuity payments are to commence is at
7 least equal to the minimum nonforfeiture amount on that
8 date. Such present value shall be computed using the
9 mortality table, if any, and the interest rate specified in
10 the contract for determining the minimum paid-up annuity
11 benefits guaranteed in the contract.

12 NEW SECTION. Section 14. Cash surrender benefits. For
13 contracts which provide cash surrender benefits, such cash
14 surrender benefits available prior to maturity shall not be
15 less than the present value as of the date of surrender of
16 that portion of the maturity value of the paid-up annuity
17 benefit which would be provided under the contract at
18 maturity arising from considerations paid prior to the time
19 of cash surrender reduced by the amount appropriate to
20 reflect any prior withdrawals from or partial surrenders of
21 the contract, such present value being calculated on the
22 basis of an interest rate not more than 1% higher than the
23 interest rate specified in the contract for accumulating the
24 net considerations to determine such maturity value,
25 decreased by the amount of any indebtedness to the company

1 on the contract, including interest due and accrued, and
2 increased by any existing additional amounts credited by the
3 company to the contract. No cash surrender benefit may be
4 less than the minimum nonforfeiture amount at that time. The
5 death benefit under such contracts shall be at least equal
6 to the cash surrender benefit.

7 NEW SECTION. Section 15. Paid-up annuity benefits.
8 For contracts which do not provide cash surrender benefits,
9 the present value of any paid-up annuity benefit available
10 as a nonforfeiture option at any time prior to maturity may
11 not be less than the present value of that portion of the
12 maturity value of the paid-up annuity benefit provided under
13 the contract arising from considerations paid prior to the
14 time the contract is surrendered in exchange for or changed
15 to a deferred paid-up annuity, such present value being
16 calculated for the period prior to the maturity date on the
17 basis of the interest rate specified in the contract for
18 accumulating the net considerations to determine such
19 maturity value and increased by any existing additional
20 amounts credited by the company to the contract. For
21 contracts which do not provide any death benefits prior to
22 the commencement of any annuity payments, such present
23 values shall be calculated on the basis of such interest
24 rate and the mortality table specified in the contract for
25 determining the maturity value of the paid-up annuity

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1 benefit. However, the present value of a paid-up annuity
2 benefit may not be less than the minimum nonforfeiture
3 amount at that time.

4 NEW SECTION. Section 16. Maturity date. For the
5 purpose of determining the benefits calculated under
6 [sections 14 and 15], in the case of annuity contracts under
7 which an election may be made to have annuity payments
8 commence at optional maturity dates, the maturity date is
9 the latest date for which election is permitted by the
10 contract but may not be later than the anniversary of the
11 contract next following the annuitant's 70th birthday or the
12 10th anniversary of the contract, whichever is later.

13 NEW SECTION. Section 17. Statement of noninclusion of
14 certain death benefits. Any contract which does not provide
15 cash surrender benefits or does not provide death benefits
16 at least equal to the minimum nonforfeiture amount prior to
17 the commencement of any annuity payments shall include a
18 statement in a prominent place in the contract that such
19 benefits are not provided.

20 NEW SECTION. Section 18. Adjusted benefit. Any
21 paid-up annuity, cash surrender, or death benefits available
22 at any time other than on the contract anniversary under any
23 contract with fixed scheduled consideration shall be
24 calculated with allowance for the lapse of time and the
25 payment of any scheduled consideration beyond the beginning

1 of the contract year in which cessation of payment of
2 consideration under the contract occurs.

3 NEW SECTION. Section 19. Calculation of benefits --
4 special benefits excluded. For any contract which provides,
5 within the same contract by rider or supplemental contract
6 provision, both annuity benefits and life insurance benefits
7 that are in excess of the greater of cash surrender benefits
8 or a return of the gross consideration paid with interest,
9 the minimum nonforfeiture benefits shall be equal to the sum
10 of the minimum nonforfeiture benefits for the annuity
11 portion and the minimum nonforfeiture benefits, if any, for
12 the life insurance portion computed as if each portion were
13 a separate contract. Notwithstanding the provisions of
14 [sections 13 through 16, and 18], additional benefits
15 payable in the event of total and permanent disability or as
16 reversionary annuity or deferred reversionary annuity
17 benefits or as other policy benefits additional to life
18 insurance, endowment, and annuity benefits, and
19 considerations for all such additional benefits shall be
20 disregarded in ascertaining the minimum nonforfeiture
21 amounts, paid-up annuity, cash surrender, and death benefits
22 that may be required by this section. The inclusion of such
23 additional benefits shall not be required in any paid-up
24 benefits, unless such additional benefits separately would
25 require minimum nonforfeiture amount paid-up annuity, cash

1 surrender, and death benefits.

2 NEW SECTION. Section 20. Operative date. After July
3 1, 1979, any company may file with the commission a written
4 notice of its election to comply with the provisions of this
5 section after a specified date before July 1, 1981. After
6 the filing of such notice, then upon such specified date,
7 which shall be the operative date of this section for such
8 company, this section shall become operative with respect to
9 annuity contracts thereafter issued by such company. If a
10 company makes no such election, the operative date of this
11 section for such company shall be July 1, 1981.

-End-

Approved by Committee
on Business and Industry

1 Senate BILL NO. 94
2 INTRODUCED BY Harold Dyer
3 BY REQUEST OF THE COMMISSIONER OF INSURANCE

4
5 A BILL FOR AN ACT ENTITLED: "AN ACT TO REVISE THE LAW
6 RELATING TO STANDARD VALUATION AND STANDARD NONFORFEITURE
7 IN LIFE INSURANCE; PROVIDING FOR ADOPTION OF ANNUITY
8 MORTALITY TABLES AND PERMISSIBLE INTEREST RATES IN VALUATION
9 OF ANNUITY AND INSURANCE CONTRACTS; ADDING PROVISIONS
10 RELATING TO NONFORFEITURE IN INDIVIDUAL DEFERRED ANNUITIES;
11 AND AMENDING SECTIONS 33-2-523 THROUGH 33-2-526, 33-20-201,
12 33-20-206, AND 33-20-207, MCA."

13
14 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

15 Section 1. Section 33-2-523, MCA, is amended to read:
16 "33-2-523. Contracts on or after the operative date of
17 33-20-213 -- valuation. (1) This section shall apply to only
18 those policies and contracts issued on or after the
19 operative date of 33-20-213, except as otherwise provided in
20 33-2-524 for group annuity and pure endowment contracts
21 issued prior to that date.

22 (2) Except as otherwise provided in 33-2-524, the
23 minimum standard for the valuation of all such policies and
24 contracts shall be the commissioner's reserve valuation
25 method ~~methods~~ defined in 33-2-525, and ~~32-2-526(3), 52~~

1 ~~interest for group annuity and pure endowment contracts and~~
2 ~~3 1/2% interest, for all other such policies and contracts~~
3 ~~or in the case of policies and contracts, other than annuity~~
4 ~~and pure endowment contracts, issued on or after March 17,~~
5 ~~1973, and prior to January 1, 1986, 4% interest for such~~
6 ~~policies issued prior to July 1, 1979, and 4 1/2% interest~~
7 ~~for such policies issued on or after July 1, 1979, and the~~
8 following tables:

9 (a) for all ordinary policies of life insurance issued
10 on the standard basis, excluding any disability and
11 accidental death benefits in such policies, the
12 commissioner's 1941 standard ordinary mortality table for
13 such policies issued prior to the operative date of
14 33-20-206, as amended, and the commissioner's 1958 standard
15 ordinary mortality table for such policies issued on or
16 after that operative date, except that for any category of
17 such policies issued on female risks, modified net premiums
18 and present values, referred to in 33-2-525 and 33-2-526,
19 may be calculated, at the option of the insurer with the
20 approval of the commissioner, according to an age younger
21 than the actual age of the insured;

22 (b) for all industrial life insurance policies issued
23 on the standard basis, excluding any disability and
24 accidental death benefits in such policies, the 1941
25 standard industrial mortality table for such policies issued

1 prior to the operative date of 33-20-207, as amended, and
 2 the commissioner's 1961 standard industrial mortality table
 3 for such policies issued on or after that operative date;

4 (c) for individual annuity and pure endowment
 5 contracts, excluding any disability and accidental death
 6 benefits in such policies, the 1937 standard annuity
 7 mortality table or, at the option of the insurer, the
 8 annuity mortality table for 1949, ultimate, or any
 9 modification of either of these tables approved by the
 10 commissioner;

11 (d) for group annuity and pure endowment contracts,
 12 excluding any disability and accidental death benefits in
 13 such policies, the group annuity mortality table for 1951,
 14 any modification of such table approved by the commissioner,
 15 or, at the option of the insurer, any of the tables or
 16 modifications of tables specified for individual annuity and
 17 pure endowment contracts;

18 (e) (i) for total and permanent disability benefits in
 19 or supplementary to ordinary policies or contracts:

20 (A) for policies or contracts issued on or after
 21 January 1, 1966, the tables of period 2 disablement rates
 22 and the 1930 to 1950 termination rates of the 1952
 23 disability study of the society of actuaries, with due
 24 regard to the type of benefit;

25 (B) for policies or contracts issued on or after

1 January 1, 1961, and prior to January 1, 1966, either such
 2 tables or, at the option of the insurer, the class 3
 3 disability table (1926); and

4 (C) for policies issued prior to January 1, 1961, the
 5 class 3 disability table (1926);

6 (ii) any such table shall, for active lives, be
 7 combined with a mortality table permitted for calculating
 8 the reserves for life insurance policies;

9 (f) (i) for accidental death benefits in or
 10 supplementary to policies:

11 (A) for policies issued on or after January 1, 1966,
 12 the 1959 accidental death benefits table;

13 (B) for policies issued on or after January 1, 1961,
 14 and prior to January 1, 1966, either such table or, at the
 15 option of the insurer, the intercompany double indemnity
 16 mortality table; and

17 (C) for policies issued prior to January 1, 1961, t
 18 intercompany double indemnity mortality table;

19 (ii) either table shall be combined with a mortality
 20 table permitted for calculating the reserves for life
 21 insurance policies;

22 (g) for group life insurance, life insurance issued on
 23 the substandard basis and other special benefits, such
 24 tables as may be approved by the commissioner."

25 Section 2. Section 33-2-524, NCA, is amended to read:

1 "33-2-524. Individual and group annuity and pure
2 endowment contracts -- valuation. (1) The minimum standard
3 for the valuation of all individual annuity and pure
4 endowment contracts issued on or after [the operative date
5 of this section], as defined herein, and for all annuities
6 and pure endowments purchased on or after that operative
7 date, under group annuity and pure endowment contracts shall
8 be the commissioner's reserve valuation method methods
9 defined in 33-2-525 and the following tables and interest
10 rates:

11 (a) for individual annuity and pure endowment
12 contracts issued prior to ~~January 1, 1986~~ July 1, 1979,
13 excluding any disability and accidental death benefits in
14 such contracts, the 1971 individual annuity mortality table
15 or any modification of this table approved by the
16 commissioner and 6% interest for single premium immediate
17 annuity contracts and 4% interest for all other individual
18 annuity and pure endowment contracts;

19 (b) ~~for individual annuity and pure endowment~~
20 ~~contracts issued on or after January 1, 1986, excluding any~~
21 ~~disability and accidental death benefits in such contracts,~~
22 ~~the 1971 individual annuity mortality table or any~~
23 ~~modification of the table approved by the commissioner and~~
24 ~~3 1/2% interest;~~ for individual single premium immediate
25 annuity contracts issued on or after July 1, 1979, excluding

1 any disability and accidental death benefits in such
2 contracts, the 1971 individual annuity mortality table or
3 any modification of this table approved by the commissioner
4 and 7 1/2% interest;

5 (c) ~~for individual annuity and pure endowment~~
6 ~~contracts issued on or after July 1, 1979, other than single~~
7 ~~premium immediate annuity contracts, 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 ~~5 1/2% interest for single premium deferred annuity and pure~~
12 ~~endowment contracts and 4 1/2% interest for all other such~~
13 ~~individual annuity and pure endowment contracts;~~

14 ~~(d)~~ (d) for all annuities and pure endowments purchased
15 prior to ~~January 1, 1986~~ July 1, 1979, under group annuity
16 and pure endowment contracts, excluding any disability and
17 accidental death benefits purchased under such contracts,
18 the 1971 group annuity mortality table or any modification
19 of the table approved by the commissioner and 6% interest;

20 ~~(e)~~ (e) for all annuities and pure endowments purchased
21 on or after ~~January 1, 1986~~ July 1, 1979, under group
22 annuity and pure endowment contracts, excluding any
23 disability and accidental death benefits purchased under
24 such contracts, the 1971 group annuity mortality table or
25 any modification of this table approved by the commissioner

1 and ~~3-1/2%~~ 7 1/2% interest.

2 (2) After March 17, 1973, any insurer may file with
3 the commissioner a written notice of its election to comply
4 with the provisions of subsection (1) after a specified date
5 before January 1, 1979, which shall be the operative date of
6 subsection (1) for such insurer. An insurer may elect a
7 different operative date for individual annuity and pure
8 endowment contracts from that elected for group annuity and
9 pure endowment contracts. If an insurer makes no such
10 election, the operative date of this section for such
11 insurer shall be January 1, 1979."

12 Section 3. Section 33-2-525, MCA, is amended to read:

13 "33-2-525. Commissioner's reserve valuation method.

14 (1) Reserves Except as otherwise provided in subsection (3)
15 and 33-2-526(3), reserves according to the commissioner's
16 reserve valuation method, for the life insurance and
17 endowment benefits of policies providing for a uniform
18 amount of insurance and requiring the payment of uniform
19 premiums, shall be the excess, if any, of the present value,
20 at the date of valuation, of such future guaranteed benefits
21 provided for by such policies, over the then present value
22 of any future modified net premiums therefor. The modified
23 net premiums for any such policy shall be such uniform
24 percentage of the respective contract premiums for such
25 benefits that the present value, at the date of issue of the

1 policy, of all such modified net premiums shall be equal to
2 the sum of the then present value of such benefits provided
3 for by the policy and the excess of (a) over (b), as
4 follows:

5 (a) a net level annual premium equal to the present
6 value, at the date of issue, of such benefits provided for
7 after the first policy year, divided by the present value,
8 at the date of issue of an annuity of one per annum payable
9 on the first and each subsequent anniversary of such policy
10 on which a premium falls due; provided, however, that such
11 net level annual premium shall not exceed the net level
12 annual premium on the 19-year premium whole life plan for
13 insurance of the same amount at an age 1 year higher than
14 the age at issue of such policy;

15 (b) a net 1-year term premium for such benefits
16 provided for in the first policy year.

17 (2) Reserves according to the commissioner's reserve
18 valuation method for the following shall be calculated by a
19 method consistent with the principles of this section;
20 except that any extra premiums charged because of
21 impairments or special hazards shall be disregarded in the
22 determination of modified net premiums;

23 (a) life insurance policies providing for a varying
24 amount of insurance or requiring the payment of varying
25 premiums;

1 (b) group annuity and pure endowment contracts
 2 purchased under a retirement plan or plan of deferred
 3 compensation, established or maintained by an employer
 4 (including a partnership or sole proprietorship) or by an
 5 employee organization, or by both, other than a plan
 6 providing individual retirement accounts or individual
 7 retirement annuities under section 408 of the Internal
 8 Revenue Code, as now or hereafter amended;

9 (c) disability and accidental death benefits in all
 10 policies and contracts; and

11 (d) all other benefits, except life insurance and
 12 endowment benefits in life insurance policies, shall be
 13 calculated by a method consistent with the principles of
 14 this section, except that any extra premiums charged because
 15 of impairments or special hazards shall be disregarded in
 16 the determination of modified net premiums and benefits
 17 provided by all other annuity and pure endowment contracts.

18 (3) (a) Subsection (3)(b) applies to any annuity and
 19 pure endowment contracts other than group annuity and pure
 20 endowment contracts purchased under a retirement plan or
 21 plan of deferred compensation established or maintained by
 22 an employer (including a partnership or sole proprietorship)
 23 or by an employee organization, or by both, other than a
 24 plan providing individual retirement accounts or individual
 25 retirement annuities under section 408 of the Internal

1 Revenue Code, as now or hereafter amended.

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

20 Section 4. Section 33-2-526, MCA, is amended to read:

21 "33-2-526. Limits -- options -- deficiency minimum
 22 reserves. (1) In no event shall an insurer's aggregate
 23 reserves for all life insurance policies, excluding
 24 disability and accidental death benefits, be less than the
 25 aggregate reserves calculated in accordance with the method

1 ~~methods set forth in 33-2-525 and subsection (3) of this~~
 2 ~~section and the mortality table or tables and rate or rates~~
 3 ~~of interest used in calculating nonforfeiture benefits for~~
 4 ~~such policies.~~

5 (2) Reserves for any category of policies, contracts,
 6 or benefits as established by the commissioner may be
 7 calculated at the option of the insurer according to any
 8 standards which produce greater aggregate reserves for such
 9 category than those calculated according to the minimum
 10 standard herein provided, but the rate or rates of interest
 11 used for policies and contracts, other than annuity and pure
 12 endorsement contracts, shall not be higher than the
 13 corresponding rate or rates of interest used in calculating
 14 any nonforfeiture benefits provided for therein. ~~Provided,~~
 15 ~~however, that reserves for participating life insurance~~
 16 ~~policies may, with the consent of the commissioner, be~~
 17 ~~calculated according to a rate of interest lower than the~~
 18 ~~rate of interest used in calculating the nonforfeiture~~
 19 ~~benefits in such policies. If such lower rate differs from~~
 20 ~~the rate used in the calculation of the nonforfeiture~~
 21 ~~benefits by more than 1/2 of 1%, the insurer issuing such~~
 22 ~~policies shall file with the commissioner a plan providing~~
 23 ~~for such equitable increases, if any, in the cash surrender~~
 24 ~~values and nonforfeiture benefits in such policies as the~~
 25 ~~commissioner shall approve.~~

1 (3) If in any contract year the gross premium charged
 2 by any life insurer on any policy or contract is less than
 3 the valuation net premium for the policy or contract
 4 ~~according to the mortality tables, rate of interest, and~~
 5 ~~calculated by the method used in calculating the reserve~~
 6 ~~thereon, there shall be maintained on such policy or~~
 7 ~~contract a deficiency reserve in addition to all other~~
 8 ~~reserves required by law for each such policy or contract~~
 9 ~~the deficiency reserve shall be the present value, according~~
 10 ~~to such standards, of an annuity of the difference between~~
 11 ~~such net premium and the premium charged for such policy or~~
 12 ~~contract, running for the remainder of the premium paying~~
 13 ~~period but using the minimum valuation standards of~~
 14 ~~mortality and rate of interest, the minimum reserve required~~
 15 ~~for such policy or contract shall be the greater of either~~
 16 ~~the reserve calculated according to the mortality tables,~~
 17 ~~rate of interest, and method actually used for such policy~~
 18 ~~or contract or the reserve calculated by the method actually~~
 19 ~~used for such policy or contract but using the minimum~~
 20 ~~standards of mortality and rate of interest and replacing~~
 21 ~~the valuation net premium by the actual gross premium in~~
 22 ~~each contract year for which the valuation net premium~~
 23 ~~exceeds the actual gross premium."~~

24 Section 5. Section 33-20-201, MCA, is amended to read:
 25 "33-20-201. Short title. This part shall be known as

1 "The ~~the~~ "Standard Nonforfeiture Law for Life Insurance"."

2 Section 6. Section 33-20-206, MCA, is amended to read:

3 "33-20-206. Mortality tables -- policies issued after
4 operative date. (1) In the case of ordinary policies issued
5 on or after the operative date of this section as defined
6 herein, all adjusted premiums and present values referred to
7 in this part shall be calculated on the basis of the
8 ~~commissioners~~ commissioner's 1958 standard ordinary
9 mortality table and the rate of interest specified in the
10 policy for calculating cash surrender values and paid-up
11 nonforfeiture benefits, provided that:

12 (a) such rate of interest shall not exceed 3 1/2% per
13 annum, except that a rate of interest not exceeding 4% per
14 annum may be used for policies issued on or after March 17,
15 1973, and prior to ~~January 1, 1966~~ July 1, 1979, and a rate
16 of interest not exceeding 5 1/2% a year may be used for
17 policies issued on or after July 1, 1979;

18 (b) for any category of ordinary insurance issued on
19 female risks, adjusted premiums and present values may be
20 calculated according to an age not more than 3 1/2 years
21 younger than the actual age of the insured;

22 (c) in calculating the present value of any paid-up
23 term insurance with accompanying pure endowment, if any,
24 offered as a nonforfeiture benefit, the rates of mortality
25 assumed may be not more than those shown in the

1 ~~commissioners~~ commissioner's 1958 extended term insurance
2 table;

3 (d) for insurance issued on a substandard basis, the
4 calculation of any such adjusted premiums and present values
5 may be based on such other table of mortality as may be
6 specified by the company and approved by the commissioner.

7 (2) After July 1, 1961, any insurer may file with the
8 commissioner a written notice of its election to comply with
9 the provisions of this section after a specified date before
10 January 1, 1966. After the filing of such notice, then upon
11 such specified date (which shall be the operative date of
12 this section for such insurer), this section shall become
13 operative with respect to the ordinary policies thereafter
14 issued by such insurer. If an insurer makes no such
15 election, the operative date of this section for such
16 insurer shall be January 1, 1966."

17 Section 7. Section 33-20-207, MCA, is amended to read:

18 "33-20-207. Industrial policies -- mortality tables.

19 (1) In the case of industrial policies issued on or after
20 the operative date of this section as defined herein, all
21 adjusted premiums and present values referred to in this
22 part shall be calculated on the basis of ~~commissioners~~
23 commissioner's 1961 standard industrial mortality table and
24 the rate of interest specified in the policy for calculating
25 cash surrender values and paid-up nonforfeiture benefits

1 provided that:

2 (a) such rate of interest shall not exceed 3 1/2% per
3 annum except that a rate of interest not exceeding 4% per
4 annum may be used for policies issued on or after March 17,
5 1973, and prior to ~~January 1, 1986~~ July 1, 1979, and a rate
6 of interest not exceeding 5 1/2% a year may be used for
7 policies issued on or after July 1, 1979;

8 (b) in calculating the present value of any paid-up
9 term insurance with accompanying pure endowment, if any,
10 offered as a nonforfeiture benefit, the rates of mortality
11 assumed may be not more than those shown in the
12 ~~commissioners~~ commissioner's 1961 industrial extended term
13 insurance table;

14 (c) for insurance issued on a substandard basis the
15 calculations of any such adjusted premiums and present
16 values may be based on such other table of mortality as may
17 be specified by the company and approved by the
18 commissioner.

19 (2) After February 22, 1965, any insurer may file with
20 the commissioner a written notice of its election to comply
21 with the provisions of this section after a specified date
22 before January 1, 1968. After the filing of such notice,
23 then upon such specified date (which shall be the operative
24 date of this section for such insurer), this section shall
25 become operative with respect to the industrial policies

1 thereafter issued by such insurer. If an insurer makes no
2 such election, the operative date of this section for such
3 insurer shall be January 1, 1968."

4 NEW SECTION. Section 8. Short title. [Sections 8
5 through 20] shall be known as the "Standard Nonforfeiture
6 Law for Individual Deferred Annuities".

7 NEW SECTION. Section 9. Application. [Sections 8
8 through 20] do not apply to any reinsurance, group annuity
9 purchased under a retirement plan, or plan of deferred
10 compensation established or maintained by an employer
11 (including a partnership or sole proprietorship) or by an
12 employee organization, or by both, other than a plan
13 providing individual retirement accounts or individual
14 retirement annuities under section 408 of the Internal
15 Revenue Code, as now or hereafter amended, premium deposit
16 fund, variable annuity, investment annuity, immediate
17 annuity, any deferred annuity contract after annuity
18 payments have commenced, or reversionary annuity or to any
19 contract which is delivered outside this state through an
20 agent or other representative of the company issuing the
21 contract.

22 NEW SECTION. Section 10. Nonforfeiture provisions. In
23 the case of contracts issued on or after the operative date
24 of [sections 8 through 20] as defined in [section 20], no
25 contract of annuity except as stated in [section 9] shall be

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

7 (1) that upon cessation of payment of considerations
 8 under a contract the company will grant a paid-up annuity
 9 benefit on a plan stipulated in the contract of such value
 10 as is specified in [sections 13 through 16, and 18];

11 (2) that if a contract provides for a lump-sum
 12 settlement at maturity or at any other time, than upon
 13 surrender of the contract at or prior to the commencement of
 14 any annuity payments, the company will pay in lieu of any
 15 paid-up annuity benefit a cash surrender benefit of such
 16 amount as is specified in [sections 13, 14, 16, and 18]. The
 17 company shall reserve the right to defer the payment of such
 18 cash surrender benefit for a period of 6 months after demand
 19 therefor with surrender of the contract.

20 (3) a statement of the mortality table, if any, and
 21 interest rates used in calculating any minimum paid-up
 22 annuity, cash surrender, or death benefits that are
 23 guaranteed under the contract, together with sufficient
 24 information to determine the amounts of such benefits;

25 (4) a statement that any paid-up annuity, cash

1 surrender, or death benefits that may be available under the
 2 contract are not less than the minimum benefits required by
 3 any statute of the state in which the contract is delivered
 4 and an explanation of the manner in which such benefits are
 5 altered by the existence of any additional amounts credited
 6 by the company to the contract, any indebtedness to the
 7 company on the contract, or any prior withdrawals from or
 8 partial surrenders of the contract.

9 NEW SECTION. Section 11. Exception. Notwithstanding
 10 the requirements of [section 10], any deferred annuity
 11 contract may provide that if no consideration has been
 12 received under a contract for a period of 2 full years and
 13 the portion of the paid-up annuity benefit at maturity on
 14 the plan stipulated in the contract arising from
 15 consideration paid prior to such period would be less than
 16 \$20 monthly, the company may at its option terminate such
 17 contract by payment in cash of the then present value of
 18 such portion of the paid-up annuity benefit, calculated on
 19 the basis of the mortality table, if any, and interest rate
 20 specified in the contract for determining the paid-up
 21 annuity benefit, and by such payment shall be relieved of
 22 any further obligation under such contract.

23 NEW SECTION. Section 12. Minimum nonforfeiture
 24 amounts. (1) The minimum values as specified in [sections 13
 25 through 16, and 18] of any paid-up annuity, cash surrender,

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1 or death benefits available under an annuity contract shall
2 be based upon minimum nonforfeiture amounts as defined in
3 this section.

4 (2) (a) With respect to contracts providing for
5 flexible considerations, the minimum nonforfeiture amount at
6 any time at or prior to the commencement of any annuity
7 payments shall be equal to an accumulation up to such time
8 at a rate of interest of 3% a year of percentages of the net
9 considerations (as hereinafter defined) paid prior to such
10 time, decreased by the sum of any prior withdrawals from or
11 partial surrenders of the contract accumulated at a rate of
12 interest of 3% a year and the amount of any indebtedness to
13 the company on the contract, including interest due and
14 accrued, and increased by existing additional amounts
15 credited by the company to the contract.

16 (b) The net consideration for a given contract year
17 used to define the minimum nonforfeiture amount shall be an
18 amount not less than zero and shall be equal to the
19 corresponding gross considerations credited to the contract
20 during that contract year less an annual contract charge of
21 \$30 and less a collection charge of \$1.25 per consideration
22 credited to the contract during that contract year. The
23 percentages of net consideration shall be 65% of the net
24 consideration for the first contract year and 87 1/2% of the
25 net consideration for the second and later contract years.

1 Notwithstanding the provisions of the preceding sentence,
2 the percentage shall be 65% of the portion of the total net
3 consideration for any renewal contract year which exceeds by
4 not more than two times the sum of those portions of the net
5 consideration in all prior contract years for which the
6 percentage was 65%.

7 (3) With respect to contracts providing for fixed
8 schedule consideration, minimum nonforfeiture amounts shall
9 be calculated on the assumption that consideration is paid
10 annually in advance and shall be defined as for contracts
11 with flexible payments of consideration which are paid
12 annually with two exceptions:

13 (a) The portion of the net consideration for the first
14 contract year to be accumulated shall be the sum of 65% of
15 the net consideration for the first contract year plus
16 22 1/2% of the excess of the net consideration for the first
17 contract year over the lesser of the net considerations for
18 the second and third contract years.

19 (b) The annual contract charge shall be the lesser of
20 \$30 or 10% of the gross annual consideration.

21 (4) With respect to contracts providing for a single
22 consideration, minimum nonforfeiture amounts shall be
23 defined as for contracts with flexible payments of
24 consideration except that the percentage of net
25 consideration used to determine the minimum nonforfeiture

1 amount shall be equal to 90% and the net consideration shall
2 be the gross consideration less a contract charge of \$75.

3 NEW SECTION. Section 13. Present value to equal
4 minimum nonforfeiture amount. Any paid-up annuity benefit
5 available under a contract shall be such that its present
6 value on the date annuity payments are to commence is at
7 least equal to the minimum nonforfeiture amount on that
8 date. Such present value shall be computed using the
9 mortality table, if any, and the interest rate specified in
10 the contract for determining the minimum paid-up annuity
11 benefits guaranteed in the contract.

12 NEW SECTION. Section 14. Cash surrender benefits. For
13 contracts which provide cash surrender benefits, such cash
14 surrender benefits available prior to maturity shall not be
15 less than the present value as of the date of surrender of
16 that portion of the maturity value of the paid-up annuity
17 benefit which would be provided under the contract at
18 maturity arising from considerations paid prior to the time
19 of cash surrender reduced by the amount appropriate to
20 reflect any prior withdrawals from or partial surrenders of
21 the contract, such present value being calculated on the
22 basis of an interest rate not more than 1% higher than the
23 interest rate specified in the contract for accumulating the
24 net considerations to determine such maturity value,
25 decreased by the amount of any indebtedness to the company

1 on the contract, including interest due and accrued, and
2 increased by any existing additional amounts credited by the
3 company to the contract. No cash surrender benefit may be
4 less than the minimum nonforfeiture amount at that time. The
5 death benefit under such contracts shall be at least equal
6 to the cash surrender benefit.

7 NEW SECTION. Section 15. Paid-up annuity benefits.
8 For contracts which do not provide cash surrender benefits,
9 the present value of any paid-up annuity benefit available
10 as a nonforfeiture option at any time prior to maturity may
11 not be less than the present value of that portion of the
12 maturity value of the paid-up annuity benefit provided under
13 the contract arising from considerations paid prior to the
14 time the contract is surrendered in exchange for or changed
15 to a deferred paid-up annuity, such present value being
16 calculated for the period prior to the maturity date on the
17 basis of the interest rate specified in the contract for
18 accumulating the net considerations to determine such
19 maturity value and increased by any existing additional
20 amounts credited by the company to the contract. For
21 contracts which do not provide any death benefits prior to
22 the commencement of any annuity payments, such present
23 values shall be calculated on the basis of such interest
24 rate and the mortality table specified in the contract for
25 determining the maturity value of the paid-up annuity

1 benefit. However, the present value of a paid-up annuity
2 benefit may not be less than the minimum nonforfeiture
3 amount at that time.

4 NEW SECTION. Section 16. Maturity date. For the
5 purpose of determining the benefits calculated under
6 [sections 14 and 15], in the case of annuity contracts under
7 which an election may be made to have annuity payments
8 commence at optional maturity dates, the maturity date is
9 the latest date for which election is permitted by the
10 contract but may not be later than the anniversary of the
11 contract next following the annuitant's 70th birthday or the
12 10th anniversary of the contract, whichever is later.

13 NEW SECTION. Section 17. Statement of noninclusion of
14 certain death benefits. Any contract which does not provide
15 cash surrender benefits or does not provide death benefits
16 at least equal to the minimum nonforfeiture amount prior to
17 the commencement of any annuity payments shall include a
18 statement in a prominent place in the contract that such
19 benefits are not provided.

20 NEW SECTION. Section 18. Adjusted benefit. Any
21 paid-up annuity, cash surrender, or death benefits available
22 at any time other than on the contract anniversary under any
23 contract with fixed scheduled consideration shall be
24 calculated with allowance for the lapse of time and the
25 payment of any scheduled consideration beyond the beginning

1 of the contract year in which cessation of payment of
2 consideration under the contract occurs.

3 NEW SECTION. Section 19. Calculation of benefits --
4 special benefits excluded. For any contract which provides,
5 within the same contract by rider or supplemental contract
6 provision, both annuity benefits and life insurance benefits
7 that are in excess of the greater of cash surrender benefits
8 or a return of the gross consideration paid with interest,
9 the minimum nonforfeiture benefits shall be equal to the sum
10 of the minimum nonforfeiture benefits for the annuity
11 portion and the minimum nonforfeiture benefits, if any, for
12 the life insurance portion computed as if each portion were
13 a separate contract. Notwithstanding the provisions of
14 [sections 13 through 16, and 18], additional benefits
15 payable in the event of total and permanent disability or as
16 reversionary annuity or deferred reversionary annuity
17 benefits or as other policy benefits additional to life
18 insurance, endowment, and annuity benefits, and
19 considerations for all such additional benefits shall be
20 disregarded in ascertaining the minimum nonforfeiture
21 amounts, paid-up annuity, cash surrender, and death benefits
22 that may be required by this section. The inclusion of such
23 additional benefits shall not be required in any paid-up
24 benefits, unless such additional benefits separately would
25 require minimum nonforfeiture amount paid-up annuity, cash

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1 surrender, and death benefits.

2 NEW SECTION. Section 20. Operative date. After July
3 1, 1979, any company may file with the commission a written
4 notice of its election to comply with the provisions of this
5 section after a specified date before July 1, 1981. After
6 the filing of such notice, then upon such specified date,
7 which shall be the operative date of this section for such
8 company, this section shall become operative with respect to
9 annuity contracts thereafter issued by such company. If a
10 company makes no such election, the operative date of this
11 section for such company shall be July 1, 1981.

-End-

SB 94

1 Senate BILL NO. 94
2 INTRODUCED BY Halliday Durr

3 BY REQUEST OF THE COMMISSIONER OF INSURANCE

4
5 A BILL FOR AN ACT ENTITLED: "AN ACT TO REVISE THE LAW
6 RELATING TO STANDARD VALUATION AND STANDARD NONFORFEITURE
7 IN LIFE INSURANCE; PROVIDING FOR ADOPTION OF ANNUITY
8 MORTALITY TABLES AND PERMISSIBLE INTEREST RATES IN VALUATION
9 OF ANNUITY AND INSURANCE CONTRACTS; ADDING PROVISIONS
10 RELATING TO NONFORFEITURE IN INDIVIDUAL DEFERRED ANNUITIES;
11 AND AMENDING SECTIONS 33-2-523 THROUGH 33-2-526, 33-20-201,
12 33-20-206, AND 33-20-207, MCA."

13
14 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

15 Section 1. Section 33-2-523, MCA, is amended to read:

16 "33-2-523. Contracts on or after the operative date of
17 33-20-213 -- valuation. (1) This section shall apply to only
18 those policies and contracts issued on or after the
19 operative date of 33-20-213, except as otherwise provided in
20 33-2-524 for group annuity and pure endowment contracts
21 issued prior to that date.

22 (2) Except as otherwise provided in 33-2-524, the
23 minimum standard for the valuation of all such policies and
24 contracts shall be the commissioner's reserve valuation
25 method ~~methods~~ defined in 33-2-525, and 32-2-526(3), 5%

1 interest for group annuity and pure endowment contracts and
2 3 1/2% interest, for all other such policies and contracts
3 or in the case of policies and contracts, other than annuity
4 and pure endowment contracts, issued on or after March 17,
5 1973, and prior to January 2, 1986, 4% interest for such
6 policies issued prior to July 1, 1979, and 4 1/2% interest
7 for such policies issued on or after July 1, 1979, and the
8 following tables:

9 (a) for all ordinary policies of life insurance issued
10 on the standard basis, excluding any disability and
11 accidental death benefits in such policies, the
12 commissioner's 1941 standard ordinary mortality table for
13 such policies issued prior to the operative date of
14 33-20-206, as amended, and the commissioner's 1958 standard
15 ordinary mortality table for such policies issued on or
16 after that operative date, except that for any category of
17 such policies issued on female risks, modified net premiums
18 and present values, referred to in 33-2-525 and 33-2-526,
19 may be calculated, at the option of the insurer with the
20 approval of the commissioner, according to an age younger
21 than the actual age of the insured;

22 (b) for all industrial life insurance policies issued
23 on the standard basis, excluding any disability and
24 accidental death benefits in such policies, the 1941
25 standard industrial mortality table for such policies issued

1 prior to the operative date of 33-20-207, as amended, and
 2 the commissioner's 1961 standard industrial mortality table
 3 for such policies issued on or after that operative date;

4 (c) for individual annuity and pure endowment
 5 contracts, excluding any disability and accidental death
 6 benefits in such policies, the 1937 standard annuity
 7 mortality table or, at the option of the insurer, the
 8 annuity mortality table for 1949, ultimate, or any
 9 modification of either of these tables approved by the
 10 commissioner;

11 (d) for group annuity and pure endowment contracts,
 12 excluding any disability and accidental death benefits in
 13 such policies, the group annuity mortality table for 1951,
 14 any modification of such table approved by the commissioner,
 15 or, at the option of the insurer, any of the tables or
 16 modifications of tables specified for individual annuity and
 17 pure endowment contracts;

18 (e) (i) for total and permanent disability benefits in
 19 or supplementary to ordinary policies or contracts:

20 (A) for policies or contracts issued on or after
 21 January 1, 1966, the tables of period 2 disablement rates
 22 and the 1930 to 1950 termination rates of the 1952
 23 disability study of the society of actuaries, with due
 24 regard to the type of benefit;

25 (B) for policies or contracts issued on or after

1 January 1, 1961, and prior to January 1, 1966, either such
 2 tables or, at the option of the insurer, the class 3
 3 disability table (1926); and

4 (C) for policies issued prior to January 1, 1961, the
 5 class 3 disability table (1926);

6 (ii) any such table shall, for active lives, be
 7 combined with a mortality table permitted for calculating
 8 the reserves for life insurance policies;

9 (f) (i) for accidental death benefits in or
 10 supplementary to policies:

11 (A) for policies issued on or after January 1, 1966,
 12 the 1959 accidental death benefits table;

13 (B) for policies issued on or after January 1, 1961,
 14 and prior to January 1, 1966, either such table or, at the
 15 option of the insurer, the intercompany double indemnity
 16 mortality table; and

17 (C) for policies issued prior to January 1, 1961, the
 18 intercompany double indemnity mortality table;

19 (ii) either table shall be combined with a mortality
 20 table permitted for calculating the reserves for life
 21 insurance policies;

22 (g) for group life insurance, life insurance issued on
 23 the substandard basis and other special benefits, such
 24 tables as may be approved by the commissioner."

25 Section 2. Section 33-2-524, MCA, is amended to read:

1 33-2-524. Individual and group annuity and pure
 2 endowment contracts -- valuation. (1) The minimum standard
 3 for the valuation of all individual annuity and pure
 4 endowment contracts issued on or after [the operative date
 5 of this section], as defined herein, and for all annuities
 6 and pure endowments purchased on or after that operative
 7 date, under group annuity and pure endowment contracts shall
 8 be the commissioner's reserve valuation method methods
 9 defined in 33-2-525 and the following tables and interest
 10 rates:

11 (a) for individual annuity and pure endowment
 12 contracts issued prior to ~~January 1, 1986~~ July 1, 1979,
 13 excluding any disability and accidental death benefits in
 14 such contracts, the 1971 individual annuity mortality table
 15 or any modification of this table approved by the
 16 commissioner and 6% interest for single premium immediate
 17 annuity contracts and 4% interest for all other individual
 18 annuity and pure endowment contracts;

19 ~~(b) for individual annuity and pure endowment~~
 20 ~~contracts issued on or after January 1, 1986, excluding any~~
 21 ~~disability and accidental death benefits in such contracts,~~
 22 ~~the 1971 individual annuity mortality table or any~~
 23 ~~modification of the table approved by the commissioner and~~
 24 ~~3 1/2% interest; for individual single premium immediate~~
 25 annuity contracts issued on or after July 1, 1979, excluding

1 any disability and accidental death benefits in such
 2 contracts, the 1971 individual annuity mortality table or
 3 any modification of this table approved by the commissioner
 4 and 7 1/2% interest;

5 (c) for individual annuity and pure endowment
 6 contracts issued on or after July 1, 1979, other than single
 7 premium immediate annuity contracts, 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 5 1/2% interest for single premium deferred annuity and pure
 12 endowment contracts and 4 1/2% interest for all other such
 13 individual annuity and pure endowment contracts;

14 ~~(c)(d)~~ for all annuities and pure endowments purchased
 15 prior to ~~January 1, 1986~~ July 1, 1979, under group annuity
 16 and pure endowment contracts, excluding any disability and
 17 accidental death benefits purchased under such contracts,
 18 the 1971 group annuity mortality table or any modification
 19 of the table approved by the commissioner and 6% interest;

20 ~~(d)(a)~~ for all annuities and pure endowments purchased
 21 on or after ~~January 1, 1986~~ July 1, 1979, under group
 22 annuity and pure endowment contracts, excluding any
 23 disability and accidental death benefits purchased under
 24 such contracts, the 1971 group annuity mortality table or
 25 any modification of this table approved by the commissioner

1 and ~~3-1/2%~~ 7 1/2% interest.

2 (2) After March 17, 1973, any insurer may file with
3 the commissioner a written notice of its election to comply
4 with the provisions of subsection (1) after a specified date
5 before January 1, 1979, which shall be the operative date of
6 subsection (1) for such insurer. An insurer may elect a
7 different operative date for individual annuity and pure
8 endowment contracts from that elected for group annuity and
9 pure endowment contracts. If an insurer makes no such
10 election, the operative date of this section for such
11 insurer shall be January 1, 1979."

12 Section 3. Section 33-2-525, MCA, is amended to read:

13 "33-2-525. Commissioner's reserve valuation method.

14 ~~(1) Reserves Except as otherwise provided in subsection (3)~~
15 ~~and 33-2-526(3), reserves~~ according to the commissioner's
16 reserve valuation method, for the life insurance and
17 endowment benefits of policies providing for a uniform
18 amount of insurance and requiring the payment of uniform
19 premiums, shall be the excess, if any, of the present value,
20 at the date of valuation, of such future guaranteed benefits
21 provided for by such policies, over the then present value
22 of any future modified net premiums therefor. The modified
23 net premiums for any such policy shall be such uniform
24 percentage of the respective contract premiums for such
25 benefits that the present value, at the date of issue of the

1 policy, of all such modified net premiums shall be equal to
2 the sum of the then present value of such benefits provided
3 for by the policy and the excess of (a) over (b), as
4 follows:

5 (a) a net level annual premium equal to the present
6 value, at the date of issue, of such benefits provided for
7 after the first policy year, divided by the present value,
8 at the date of issue of an annuity of one per annum payable
9 on the first and each subsequent anniversary of such policy
10 on which a premium falls due; provided, however, that such
11 net level annual premium shall not exceed the net level
12 annual premium on the 19-year premium whole life plan for
13 insurance of the same amount at an age 1 year higher than
14 the age at issue of such policy;

15 (b) a net 1-year term premium for such benefits
16 provided for in the first policy year.

17 (2) Reserves according to the commissioner's reserve
18 valuation method for the following shall be calculated by a
19 method consistent with the principles of this section,
20 except that any extra premiums charged because of
21 impairments or special hazards shall be disregarded in the
22 determination of modified net premiums:

23 (a) life insurance policies providing for a varying
24 amount of insurance or requiring the payment of varying
25 premiums;

1 (b) group annuity and pure endowment contracts
 2 purchased under a retirement plan or plan of deferred
 3 compensation, established or maintained by an employer
 4 (including a partnership or sole proprietorship) or by an
 5 employee organization, or by both, other than a plan
 6 providing individual retirement accounts or individual
 7 retirement annuities under section 408 of the Internal
 8 Revenue Code, as now or hereafter amended;

9 (c) disability and accidental death benefits in all
 10 policies and contracts; and

11 (d) all other benefits, except life insurance and
 12 endowment benefits in life insurance policies, shall be
 13 calculated by a method consistent with the principles of
 14 this section, except that any extra premiums charged because
 15 of impairments or special hazards shall be disregarded in
 16 the determination of modified net premiums and benefits
 17 provided by all other annuity and pure endowment contracts.

18 (3) (a) Subsection (3)(b) applies to any annuity and
 19 pure endowment contracts other than group annuity and pure
 20 endowment contracts purchased under a retirement plan or
 21 plan of deferred compensation established or maintained by
 22 an employer (including a partnership or sole proprietorship)
 23 or by an employee organization, or by both, other than a
 24 plan providing individual retirement accounts or individual
 25 retirement annuities under section 408 of the Internal

1 Revenue Code, as now or hereafter amended.

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

20 Section 4. Section 33-2-526, MCA, is amended to read:

21 "33-2-526. Limits -- options -- deficiency minimum
 22 reserves. (1) In no event shall an insurer's aggregate
 23 reserves for all life insurance policies, excluding
 24 disability and accidental death benefits, be less than the
 25 aggregate reserves calculated in accordance with the method

1 ~~methods~~ set forth in 33-2-525 ~~and subsection (3) of this~~
 2 ~~section~~ and the mortality table or tables and rate or rates
 3 of interest used in calculating nonforfeiture benefits for
 4 such policies.

5 (2) Reserves for any category of policies, contracts,
 6 or benefits as established by the commissioner may be
 7 calculated at the option of the insurer according to any
 8 standards which produce greater aggregate reserves for such
 9 category than those calculated according to the minimum
 10 standard herein provided, but the rate or rates of interest
 11 used for policies and contracts, other than annuity and pure
 12 endowment contracts, shall not be higher than the
 13 corresponding rate or rates of interest used in calculating
 14 any nonforfeiture benefits provided for therein. ~~Provided,~~
 15 ~~however that reserves for participating life insurance~~
 16 ~~policies may, with the consent of the commissioner, be~~
 17 ~~calculated according to a rate of interest lower than the~~
 18 ~~rate of interest used in calculating the nonforfeiture~~
 19 ~~benefits in such policies. If such lower rate differs from~~
 20 ~~the rate used in the calculation of the nonforfeiture~~
 21 ~~benefits by more than 1/2 of 1%, the insurer issuing such~~
 22 ~~policies shall file with the commissioner a plan providing~~
 23 ~~for such equitable increases, if any, in the cash surrender~~
 24 ~~values and nonforfeiture benefits in such policies as the~~
 25 ~~commissioner shall approve~~

1 (3) If in any contract year the gross premium charged
 2 by any life insurer on any policy or contract is less than
 3 the valuation net premium for the policy or contract
 4 ~~according to the mortality table, rate of interest, and~~
 5 ~~calculated by the method used in calculating the reserve~~
 6 ~~thereon, there shall be maintained on such policy or~~
 7 ~~contract a deficiency reserve in addition to all other~~
 8 ~~reserves required by law for each such policy or contract~~
 9 ~~the deficiency reserve shall be the present value, according~~
 10 ~~to such standard, of an annuity of the difference between~~
 11 ~~such net premium and the premium charged for such policy or~~
 12 ~~contract, running for the remainder of the premium paying~~
 13 ~~period but using the minimum valuation standards of~~
 14 mortality and rate of interest, the minimum reserve required
 15 for such policy or contract shall be the greater of either
 16 the reserve calculated according to the mortality table,
 17 rate of interest, and method actually used for such policy
 18 or contract or the reserve calculated by the method actual y
 19 used for such policy or contract but using the minimum
 20 standards of mortality and rate of interest and replacing
 21 the valuation net premium by the actual gross premium in
 22 each contract year for which the valuation net premium
 23 exceeds the actual gross premium."

24 Section 5. Section 33-20-201, MCA, is amended to read:
 25 "33-20-201. Short title. This part shall be known as

1 "The ~~the~~ "Standard Nonforfeiture Law for Life Insurance"."

2 Section 6. Section 33-20-206, MCA, is amended to read:

3 "33-20-206. Mortality tables -- policies issued after
4 operative date. (1) In the case of ordinary policies issued
5 on or after the operative date of this section as defined
6 herein, all adjusted premiums and present values referred to
7 in this part shall be calculated on the basis of the
8 ~~commissioners~~ commissioner's 1958 standard ordinary
9 mortality table and the rate of interest specified in the
10 policy for calculating cash surrender values and paid-up
11 nonforfeiture benefits, provided that:

12 (a) such rate of interest shall not exceed 3 1/2% per
13 annum, except that a rate of interest not exceeding 4% per
14 annum may be used for policies issued on or after March 17,
15 1973, and prior to ~~January 1, 1974~~ July 1, 1979, and a rate
16 of interest not exceeding 5 1/2% a year may be used for
17 policies issued on or after July 1, 1979;

18 (b) for any category of ordinary insurance issued on
19 female risks, adjusted premiums and present values may be
20 calculated according to an age not more than 3 1/2 years
21 younger than the actual age of the insured;

22 (c) in calculating the present value of any paid-up
23 term insurance with accompanying pure endowment, if any,
24 offered as a nonforfeiture benefit, the rates of mortality
25 assumed may be not more than those shown in the

1 ~~commissioners~~ commissioner's 1958 extended term insurance
2 table;

3 (d) for insurance issued on a substandard basis, the
4 calculation of any such adjusted premiums and present values
5 may be based on such other table of mortality as may be
6 specified by the company and approved by the commissioner.

7 (2) After July 1, 1961, any insurer may file with the
8 commissioner a written notice of its election to comply with
9 the provisions of this section after a specified date before
10 January 1, 1966. After the filing of such notice, then upon
11 such specified date (which shall be the operative date of
12 this section for such insurer), this section shall become
13 operative with respect to the ordinary policies thereafter
14 issued by such insurer. If an insurer makes no such
15 election, the operative date of this section for such
16 insurer shall be January 1, 1966."

17 Section 7. Section 33-20-207, MCA, is amended to read:

18 "33-20-207. Industrial policies -- mortality tables.

19 (1) In the case of industrial policies issued on or after
20 the operative date of this section as defined herein, all
21 adjusted premiums and present values referred to in this
22 part shall be calculated on the basis of ~~commissioners~~
23 commissioner's 1961 standard industrial mortality table and
24 the rate of interest specified in the policy for calculating
25 cash surrender values and paid-up nonforfeiture benefits

1 provided that:

2 (a) such rate of interest shall not exceed 3 1/2% per
3 annum except that a rate of interest not exceeding 4% per
4 annum may be used for policies issued on or after March 17,
5 1973, and prior to ~~January 1, 1986~~ July 1, 1979, and a rate
6 of interest not exceeding 5 1/2% a year may be used for
7 policies issued on or after July 1, 1979;

8 (b) in calculating the present value of any paid-up
9 term insurance with accompanying pure endowment, if any,
10 offered as a nonforfeiture benefit, the rates of mortality
11 assumed may be not more than those shown in the
12 commissioner's ~~commissioner's~~ 1961 industrial extended term
13 insurance table;

14 (c) for insurance issued on a substandard basis the
15 calculations of any such adjusted premiums and present
16 values may be based on such other table of mortality as may
17 be specified by the company and approved by the
18 commissioner.

19 (2) After February 22, 1965, any insurer may file with
20 the commissioner a written notice of its election to comply
21 with the provisions of this section after a specified date
22 before January 1, 1968. After the filing of such notice,
23 then upon such specified date (which shall be the operative
24 date of this section for such insurer), this section shall
25 become operative with respect to the industrial policies

1 thereafter issued by such insurer. If an insurer makes no
2 such election, the operative date of this section for such
3 insurer shall be January 1, 1968."

4 NEW SECTION. Section 8. Short title. [Sections 8
5 through 20] shall be known as the "Standard Nonforfeiture
6 Law for Individual Deferred Annuities".

7 NEW SECTION. Section 9. Application. [Sections 8
8 through 20] do not apply to any reinsurance, group annuity
9 purchased under a retirement plan, or plan of deferred
10 compensation established or maintained by an employer
11 (including a partnership or sole proprietorship) or by an
12 employee organization, or by both, other than a plan
13 providing individual retirement accounts or individual
14 retirement annuities under section 408 of the Internal
15 Revenue Code, as now or hereafter amended, premium deposit
16 fund, variable annuity, investment annuity, immediate
17 annuity, any deferred annuity contract after annuity
18 payments have commenced, or reversionary annuity or to any
19 contract which is delivered outside this state through an
20 agent or other representative of the company issuing the
21 contract.

22 NEW SECTION. Section 10. Nonforfeiture provisions. In
23 the case of contracts issued on or after the operative date
24 of [sections 8 through 20] as defined in [section 20], no
25 contract of annuity except as stated in [section 9] shall be

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

7 (1) that upon cessation of payment of considerations
 8 under a contract the company will grant a paid-up annuity
 9 benefit on a plan stipulated in the contract of such value
 10 as is specified in [sections 13 through 16, and 18];

11 (2) that if a contract provides for a lump-sum
 12 settlement at maturity or at any other time, than upon
 13 surrender of the contract at or prior to the commencement of
 14 any annuity payments, the company will pay in lieu of any
 15 paid-up annuity benefit a cash surrender benefit of such
 16 amount as is specified in [sections 13, 14, 16, and 18]. The
 17 company shall reserve the right to defer the payment of such
 18 cash surrender benefit for a period of 6 months after demand
 19 therefor with surrender of the contract.

20 (3) a statement of the mortality table, if any, and
 21 interest rates used in calculating any minimum paid-up
 22 annuity, cash surrender, or death benefits that are
 23 guaranteed under the contract, together with sufficient
 24 information to determine the amounts of such benefits;

25 (4) a statement that any paid-up annuity, cash

1 surrender, or death benefits that may be available under the
 2 contract are not less than the minimum benefits required by
 3 any statute of the state in which the contract is delivered
 4 and an explanation of the manner in which such benefits are
 5 altered by the existence of any additional amounts credited
 6 by the company to the contract, any indebtedness to the
 7 company on the contract, or any prior withdrawals from or
 8 partial surrenders of the contract.

9 NEW SECTION. Section 11. Exception. Notwithstanding
 10 the requirements of [section 10], any deferred annuity
 11 contract may provide that if no consideration has been
 12 received under a contract for a period of 2 full years and
 13 the portion of the paid-up annuity benefit at maturity on
 14 the plan stipulated in the contract arising from
 15 consideration paid prior to such period would be less than
 16 \$20 monthly, the company may at its option terminate such
 17 contract by payment in cash of the then present value of
 18 such portion of the paid-up annuity benefit, calculated on
 19 the basis of the mortality table, if any, and interest rate
 20 specified in the contract for determining the paid-up
 21 annuity benefit, and by such payment shall be relieved of
 22 any further obligation under such contract.

23 NEW SECTION. Section 12. Minimum nonforfeiture
 24 amounts. (1) The minimum values as specified in [sections 13
 25 through 16, and 18] of any paid-up annuity, cash surrender,

1 or death benefits available under an annuity contract shall
2 be based upon minimum nonforfeiture amounts as defined in
3 this section.

4 (2) (a) With respect to contracts providing for
5 flexible considerations, the minimum nonforfeiture amount at
6 any time at or prior to the commencement of any annuity
7 payments shall be equal to an accumulation up to such time
8 at a rate of interest of 3% a year of percentages of the net
9 considerations (as hereinafter defined) paid prior to such
10 time, decreased by the sum of any prior withdrawals from or
11 partial surrenders of the contract accumulated at a rate of
12 interest of 3% a year and the amount of any indebtedness to
13 the company on the contract, including interest due and
14 accrued, and increased by existing additional amounts
15 credited by the company to the contract.

16 (b) The net consideration for a given contract year
17 used to define the minimum nonforfeiture amount shall be an
18 amount not less than zero and shall be equal to the
19 corresponding gross considerations credited to the contract
20 during that contract year less an annual contract charge of
21 \$30 and less a collection charge of \$1.25 per consideration
22 credited to the contract during that contract year. The
23 percentages of net consideration shall be 65% of the net
24 consideration for the first contract year and 87 1/2% of the
25 net consideration for the second and later contract years.

1 Notwithstanding the provisions of the preceding sentence,
2 the percentage shall be 65% of the portion of the total net
3 consideration for any renewal contract year which exceeds by
4 not more than two times the sum of those portions of the net
5 consideration in all prior contract years for which the
6 percentage was 65%.

7 (3) With respect to contracts providing for fixed
8 schedule consideration, minimum nonforfeiture amounts shall
9 be calculated on the assumption that consideration is paid
10 annually in advance and shall be defined as for contracts
11 with flexible payments of consideration which are paid
12 annually with two exceptions:

13 (a) The portion of the net consideration for the first
14 contract year to be accumulated shall be the sum of 65% of
15 the net consideration for the first contract year plus
16 22 1/2% of the excess of the net consideration for the first
17 contract year over the lesser of the net considerations for
18 the second and third contract years.

19 (b) The annual contract charge shall be the lesser of
20 \$30 or 10% of the gross annual consideration.

21 (4) With respect to contracts providing for a single
22 consideration, minimum nonforfeiture amounts shall be
23 defined as for contracts with flexible payments of
24 consideration except that the percentage of net
25 consideration used to determine the minimum nonforfeiture

1 amount shall be equal to 90% and the net consideration shall
2 be the gross consideration less a contract charge of \$75.

3 NEW SECTION. Section 13. Present value to equal
4 minimum nonforfeiture amount. Any paid-up annuity benefit
5 available under a contract shall be such that its present
6 value on the date annuity payments are to commence is at
7 least equal to the minimum nonforfeiture amount on that
8 date. Such present value shall be computed using the
9 mortality table, if any, and the interest rate specified in
10 the contract for determining the minimum paid-up annuity
11 benefits guaranteed in the contract.

12 NEW SECTION. Section 14. Cash surrender benefits. For
13 contracts which provide cash surrender benefits, such cash
14 surrender benefits available prior to maturity shall not be
15 less than the present value as of the date of surrender of
16 that portion of the maturity value of the paid-up annuity
17 benefit which would be provided under the contract at
18 maturity arising from considerations paid prior to the time
19 of cash surrender reduced by the amount appropriate to
20 reflect any prior withdrawals from or partial surrenders of
21 the contract, such present value being calculated on the
22 basis of an interest rate not more than 1% higher than the
23 interest rate specified in the contract for accumulating the
24 net considerations to determine such maturity value,
25 decreased by the amount of any indebtedness to the company

1 on the contract, including interest due and accrued, and
2 increased by any existing additional amounts credited by the
3 company to the contract. No cash surrender benefit may be
4 less than the minimum nonforfeiture amount at that time. The
5 death benefit under such contracts shall be at least equal
6 to the cash surrender benefit.

7 NEW SECTION. Section 15. Paid-up annuity benefits.
8 For contracts which do not provide cash surrender benefits,
9 the present value of any paid-up annuity benefit available
10 as a nonforfeiture option at any time prior to maturity may
11 not be less than the present value of that portion of the
12 maturity value of the paid-up annuity benefit provided under
13 the contract arising from considerations paid prior to the
14 time the contract is surrendered in exchange for or changed
15 to a deferred paid-up annuity, such present value being
16 calculated for the period prior to the maturity date on the
17 basis of the interest rate specified in the contract for
18 accumulating the net considerations to determine such
19 maturity value and increased by any existing additional
20 amounts credited by the company to the contract. For
21 contracts which do not provide any death benefits prior to
22 the commencement of any annuity payments, such present
23 values shall be calculated on the basis of such interest
24 rate and the mortality table specified in the contract for
25 determining the maturity value of the paid-up annuity

1 benefit. However, the present value of a paid-up annuity
 2 benefit may not be less than the minimum nonforfeiture
 3 amount at that time.

4 NEW SECTION. Section 16. Maturity date. For the
 5 purpose of determining the benefits calculated under
 6 [sections 14 and 15], in the case of annuity contracts under
 7 which an election may be made to have annuity payments
 8 commence at optional maturity dates, the maturity date is
 9 the latest date for which election is permitted by the
 10 contract but may not be later than the anniversary of the
 11 contract next following the annuitant's 70th birthday or the
 12 10th anniversary of the contract, whichever is later.

13 NEW SECTION. Section 17. Statement of noninclusion of
 14 certain death benefits. Any contract which does not provide
 15 cash surrender benefits or does not provide death benefits
 16 at least equal to the minimum nonforfeiture amount prior to
 17 the commencement of any annuity payments shall include a
 18 statement in a prominent place in the contract that such
 19 benefits are not provided.

20 NEW SECTION. Section 18. Adjusted benefit. Any
 21 paid-up annuity, cash surrender, or death benefits available
 22 at any time other than on the contract anniversary under any
 23 contract with fixed scheduled consideration shall be
 24 calculated with allowance for the lapse of time and the
 25 payment of any scheduled consideration beyond the beginning

1 of the contract year in which cessation of payment of
 2 consideration under the contract occurs.

3 NEW SECTION. Section 19. Calculation of benefits --
 4 special benefits excluded. For any contract which provides,
 5 within the same contract by rider or supplemental contract
 6 provision, both annuity benefits and life insurance benefits
 7 that are in excess of the greater of cash surrender benefits
 8 or a return of the gross consideration paid with interest,
 9 the minimum nonforfeiture benefits shall be equal to the sum
 10 of the minimum nonforfeiture benefits for the annuity
 11 portion and the minimum nonforfeiture benefits, if any, for
 12 the life insurance portion computed as if each portion were
 13 a separate contract. Notwithstanding the provisions of
 14 [sections 13 through 16, and 18], additional benefits
 15 payable in the event of total and permanent disability or as
 16 reversionary annuity or deferred reversionary annuity
 17 benefits or as other policy benefits additional to life
 18 insurance, endowment, and annuity benefits, and
 19 considerations for all such additional benefits shall be
 20 disregarded in ascertaining the minimum nonforfeiture
 21 amounts, paid-up annuity, cash surrender, and death benefits
 22 that may be required by this section. The inclusion of such
 23 additional benefits shall not be required in any paid-up
 24 benefits, unless such additional benefits separately would
 25 require minimum nonforfeiture amount paid-up annuity, cash

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1 surrender, and death benefits.

2 NEW SECTION. Section 20. Operative date. After July
3 1, 1979, any company may file with the commission a written
4 notice of its election to comply with the provisions of this
5 section after a specified date before July 1, 1981. After
6 the filing of such notice, then upon such specified date,
7 which shall be the operative date of this section for such
8 company, this section shall become operative with respect to
9 annuity contracts thereafter issued by such company. If a
10 company makes no such election, the operative date of this
11 section for such company shall be July 1, 1981.

-End-

1 SENATE BILL NO. 94

2 INTRODUCED BY HAZELBAKER, DOVER

3 BY REQUEST OF THE COMMISSIONER OF INSURANCE

4
5 A BILL FOR AN ACT ENTITLED: "AN ACT TO REVISE THE LAW
6 RELATING TO STANDARD VALUATION AND STANDARD NONFORFEITURE
7 IN LIFE INSURANCE; PROVIDING FOR ADOPTION OF ANNUITY
8 MORTALITY TABLES AND PERMISSIBLE INTEREST RATES IN VALUATION
9 OF ANNUITY AND INSURANCE CONTRACTS; ADDING PROVISIONS
10 RELATING TO NONFORFEITURE IN INDIVIDUAL DEFERRED ANNUITIES;
11 AND AMENDING SECTIONS 33-2-523 THROUGH 33-2-526, 33-20-201,
12 33-20-206, AND 33-20-207, MCA."

13
14 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

15 Section 1. Section 33-2-523, MCA, is amended to read:

16 "33-2-523. Contracts on or after the operative date of
17 33-20-213 -- valuation. (1) This section shall apply to only
18 those policies and contracts issued on or after the
19 operative date of 33-20-213, except as otherwise provided in
20 33-2-524 for group annuity and pure endowment contracts
21 issued prior to that date.

22 (2) Except as otherwise provided in 33-2-524, the
23 minimum standard for the valuation of all such policies and
24 contracts shall be the commissioner's reserve valuation
25 method ~~methods~~ defined in 33-2-525, ~~and 32-2-526(3), 53~~

1 ~~interest for group annuity and pure endowment contracts and~~
2 ~~3 1/2% interest for all other such policies and contracts~~
3 or in the case of policies and contracts, other than annuity
4 and pure endowment contracts, issued on or after March 17,
5 1973, ~~and prior to January 1, 1986,~~ 4% interest ~~for such~~
6 ~~policies issued prior to July 1, 1979, and 4 1/2% interest~~
7 ~~for such policies issued on or after July 1, 1979,~~ and the
8 following tables:

9 (a) for all ordinary policies of life insurance issued
10 on the standard basis, excluding any disability and
11 accidental death benefits in such policies, the
12 commissioner's 1941 standard ordinary mortality table for
13 such policies issued prior to the operative date of
14 33-20-206, as amended, and the commissioner's 1958 standard
15 ordinary mortality table for such policies issued on or
16 after that operative date, except that for any category of
17 such policies issued on female risks, modified net premiums
18 and present values, referred to in 33-2-525 ~~and 33-2-526,~~
19 may be calculated, at the option of the insurer with the
20 approval of the commissioner, according to an age younger
21 than the actual age of the insured;

22 (b) for all industrial life insurance policies issued
23 on the standard basis, excluding any disability and
24 accidental death benefits in such policies, the 1941
25 standard industrial mortality table for such policies issued

1 prior to the operative date of 33-20-207, as amended, and
 2 the commissioner's 1961 standard industrial mortality table
 3 for such policies issued on or after that operative date;

4 (c) for individual annuity and pure endowment
 5 contracts, excluding any disability and accidental death
 6 benefits in such policies, the 1937 standard annuity
 7 mortality table or, at the option of the insurer, the
 8 annuity mortality table for 1949, ultimate, or any
 9 modification of either of these tables approved by the
 10 commissioner;

11 (d) for group annuity and pure endowment contracts,
 12 excluding any disability and accidental death benefits in
 13 such policies, the group annuity mortality table for 1951,
 14 any modification of such table approved by the commissioner,
 15 or, at the option of the insurer, any of the tables or
 16 modifications of tables specified for individual annuity and
 17 pure endowment contracts;

18 (e) (i) for total and permanent disability benefits in
 19 or supplementary to ordinary policies or contracts:

20 (A) for policies or contracts issued on or after
 21 January 1, 1966, the tables of period 2 disablement rates
 22 and the 1930 to 1950 termination rates of the 1952
 23 disability study of the society of actuaries, with due
 24 regard to the type of benefit;

25 (B) for policies or contracts issued on or after

1 January 1, 1961, and prior to January 1, 1966, either such
 2 tables or, at the option of the insurer, the class 3
 3 disability table (1926); and

4 (C) for policies issued prior to January 1, 1961, the
 5 class 3 disability table (1926);

6 (ii) any such table shall, for active lives, be
 7 combined with a mortality table permitted for calculating
 8 the reserves for life insurance policies;

9 (f) (i) for accidental death benefits in or
 10 supplementary to policies:

11 (A) for policies issued on or after January 1, 1966,
 12 the 1959 accidental death benefits table;

13 (B) for policies issued on or after January 1, 1961,
 14 and prior to January 1, 1966, either such table or, at the
 15 option of the insurer, the intercompany double indemnity
 16 mortality table; and

17 (C) for policies issued prior to January 1, 1961, the
 18 intercompany double indemnity mortality table;

19 (ii) either table shall be combined with a mortality
 20 table permitted for calculating the reserves for life
 21 insurance policies;

22 (g) for group life insurance, life insurance issued on
 23 the substandard basis and other special benefits, such
 24 tables as may be approved by the commissioner."

25 Section 2. Section 33-2-524, MCA, is amended to read:

1 "33-2-524. Individual and group annuity and pure
2 endowment contracts -- valuation. (1) The minimum standard
3 for the valuation of all individual annuity and pure
4 endowment contracts issued on or after [the operative date
5 of this section], as defined herein, and for all annuities
6 and pure endowments purchased on or after that operative
7 date, under group annuity and pure endowment contracts shall
8 be the commissioner's reserve valuation method ~~methods~~
9 defined in 33-2-525 and the following tables and interest
10 rates:

11 (a) for individual annuity and pure endowment
12 contracts issued prior to ~~January--iv--1986~~ July 1, 1979,
13 excluding any disability and accidental death benefits in
14 such contracts, the 1971 individual annuity mortality table
15 or any modification of this table approved by the
16 commissioner and 6% interest for single premium immediate
17 annuity contracts and 4% interest for all other individual
18 annuity and pure endowment contracts;

19 (b) ~~for--individual--annuity--and--pure--endowment~~
20 ~~contracts--issued-on-or-after-January-iv-1986, excluding any~~
21 ~~disability and accidental death benefits in such--contracts,~~
22 ~~the--1971--individual--annuity--mortality--table--or--any~~
23 ~~modification-of-the-table-approved-by-the--commissioner--and~~
24 ~~3-1/2%--interest;~~ for individual single premium immediate
25 annuity contracts issued on or after July 1, 1979, excluding

1 any disability and accidental death benefits in such
2 contracts, the 1971 individual annuity mortality table or
3 any modification of this table approved by the commissioner
4 and 7 1/2% interest;

5 (c) for individual annuity and pure endowment
6 contracts issued on or after July 1, 1979, other than single
7 premium immediate annuity contracts, 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 5 1/2% interest for single premium deferred annuity and pure
12 endowment contracts and 4 1/2% interest for all other such
13 individual annuity and pure endowment contracts;

14 (d) for all annuities and pure endowments purchased
15 prior to ~~January-iv-1986~~ July 1, 1979, under group annuity
16 and pure endowment contracts, excluding any disability and
17 accidental death benefits purchased under such contracts,
18 the 1971 group annuity mortality table or any modification
19 of the table approved by the commissioner and 6% interest;

20 (e) for all annuities and pure endowments purchased
21 on or after ~~January-iv-1986~~ July 1, 1979, under group
22 annuity and pure endowment contracts, excluding any
23 disability and accidental death benefits purchased under
24 such contracts, the 1971 group annuity mortality table or
25 any modification of this table approved by the commissioner

1 and ~~3-1/2%~~ 7 1/2% interest.

2 (2) After March 17, 1973, any insurer may file with
3 the commissioner a written notice of its election to comply
4 with the provisions of subsection (1) after a specified date
5 before January 1, 1979, which shall be the operative date of
6 subsection (1) for such insurer. An insurer may elect a
7 different operative date for individual annuity and pure
8 endowment contracts from that elected for group annuity and
9 pure endowment contracts. If an insurer makes no such
10 election, the operative date of this section for such
11 insurer shall be January 1, 1979."

12 Section 3. Section 33-2-525, MCA, is amended to read:

13 "33-2-525. Commissioner's reserve valuation method.

14 ~~(1) Reserves Except as otherwise provided in subsection (3)~~
15 ~~and 33-2-526(3), reserves~~ according to the commissioner's
16 reserve valuation method, for the life insurance and
17 endowment benefits of policies providing for a uniform
18 amount of insurance and requiring the payment of uniform
19 premiums, shall be the excess, if any, of the present value,
20 at the date of valuation, of such future guaranteed benefits
21 provided for by such policies, over the then present value
22 of any future modified net premiums therefor. The modified
23 net premiums for any such policy shall be such uniform
24 percentage of the respective contract premiums for such
25 benefits that the present value, at the date of issue of the

1 policy, of all such modified net premiums shall be equal to
2 the sum of the then present value of such benefits provided
3 for by the policy and the excess of (a) over (b), as
4 follows:

5 (a) a net level annual premium equal to the present
6 value, at the date of issue, of such benefits provided for
7 after the first policy year, divided by the present value,
8 at the date of issue of an annuity of one per annum payable
9 on the first and each subsequent anniversary of such policy
10 on which a premium falls due; provided, however, that such
11 net level annual premium shall not exceed the net level
12 annual premium on the 19-year premium whole life plan for
13 insurance of the same amount at an age 1 year higher than
14 the age at issue of such policy;

15 (b) a net 1-year term premium for such benefits
16 provided for in the first policy year.

17 (2) Reserves according to the commissioner's reserve
18 valuation method for ~~the following shall be calculated by a~~
19 ~~method consistent with the principles of this section,~~
20 ~~except that any extra premiums charged because of~~
21 ~~impairments or special hazards shall be disregarded in the~~
22 ~~determination of modified net premiums;~~

23 (a) life insurance policies providing for a varying
24 amount of insurance or requiring the payment of varying
25 premiums;

1 (b) group annuity and pure endowment contracts
 2 purchased under a retirement plan or plan of deferred
 3 compensation, established or maintained by an employer
 4 (including a partnership or sole proprietorship) or by an
 5 employee organization, or by both, other than a plan
 6 providing individual retirement accounts or individual
 7 retirement annuities under section 408 of the Internal
 8 Revenue Code, as now or hereafter amended;

9 (c) disability and accidental death benefits in all
 10 policies and contracts; and

11 (d) all other benefits, except life insurance and
 12 endowment benefits in life insurance policies--shall--be
 13 calculated--by--a--method--consistent--with--the--principles--of
 14 this--section--except--that--any--extra--premiums--charged--because
 15 of--impairments--or--special--hazards--shall--be--disregarded--in
 16 the--determination--of--modified--net--premiums and benefits
 17 provided by all other annuity and pure endowment contracts.

18 (3) (a) Subsection (3)(b) applies to any annuity and
 19 pure endowment contracts other than group annuity and pure
 20 endowment contracts purchased under a retirement plan or
 21 plan of deferred compensation established or maintained by
 22 an employer (including a partnership or sole proprietorship)
 23 or by an employee organization, or by both, other than a
 24 plan providing individual retirement accounts or individual
 25 retirement annuities under section 408 of the Internal

1 Revenue Code, as now or hereafter amended.

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

20 Section 4. Section 33-2-526, MCA, is amended to read:
 21 "33-2-526. Limits -- options -- deficiency minimum
 22 reserves. (1) In no event shall an insurer's aggregate
 23 reserves for all life insurance policies, excluding
 24 disability and accidental death benefits, be less than the
 25 aggregate reserves calculated in accordance with the method

1 ~~methods~~ set forth in 33-2-525 ~~and subsection (3) of this~~
 2 ~~section~~ and the mortality table or tables and rate or rates
 3 of interest used in calculating nonforfeiture benefits for
 4 such policies.

5 (2) Reserves for any category of policies, contracts,
 6 or benefits as established by the commissioner may be
 7 calculated at the option of the insurer according to any
 8 standards which produce greater aggregate reserves for such
 9 category than those calculated according to the minimum
 10 standard herein provided, but the rate or rates of interest
 11 used for policies and contracts other than annuity and pure
 12 endowment contracts shall not be higher than the
 13 corresponding rate or rates of interest used in calculating
 14 any nonforfeiture benefits provided for therein. ~~Provided,~~
 15 ~~however that reserves for participating life insurance~~
 16 ~~policies may with the consent of the commissioner be~~
 17 ~~calculated according to a rate of interest lower than the~~
 18 ~~rate of interest used in calculating the nonforfeiture~~
 19 ~~benefits in such policies if such lower rate differs from~~
 20 ~~the rate used in the calculation of the nonforfeiture~~
 21 ~~benefits by more than 1/2 of 1% the insurer issuing such~~
 22 ~~policies shall file with the commissioner a plan providing~~
 23 ~~for such equitable increases if any in the cash surrender~~
 24 ~~values and nonforfeiture benefits in such policies as the~~
 25 ~~commissioner shall approve~~

1 (3) ~~If in any contract year~~ the gross premium charged
 2 by any life insurer on any policy or contract is less than
 3 the valuation net premium for the policy or contract
 4 ~~according to the mortality tables, rate of interest and~~
 5 ~~calculated by the method used in calculating the reserve~~
 6 ~~thereon, there shall be maintained on such policy or~~
 7 ~~contract a deficiency reserve in addition to all other~~
 8 ~~reserves required by law for each such policy or contract~~
 9 ~~the deficiency reserve shall be the present value according~~
 10 ~~to such standards of an annuity of the difference between~~
 11 ~~such net premium and the premium charged for such policy or~~
 12 ~~contract running for the remainder of the premium paying~~
 13 ~~period but using the minimum valuation standards of~~
 14 ~~mortality and rate of interest, the minimum reserve required~~
 15 ~~for such policy or contract shall be the greater of either~~
 16 ~~the reserve calculated according to the mortality tables,~~
 17 ~~rate of interest, and method actually used for such policy~~
 18 ~~or contract or the reserve calculated by the method actually~~
 19 ~~used for such policy or contract but using the minimum~~
 20 ~~standards of mortality and rate of interest and replacing~~
 21 ~~the valuation net premium by the actual gross premium in~~
 22 ~~each contract year for which the valuation net premium~~
 23 ~~exceeds the actual gross premium."~~

24 Section 5. Section 33-20-201, MCA, is amended to read:
 25 "33-20-201. Short title. This part shall be known as

1 "The ~~the~~ "Standard Nonforfeiture Law for Life Insurance"."

2 Section 6. Section 33-20-206, MCA, is amended to read:

3 "33-20-206. Mortality tables -- policies issued after
4 operative date. (1) In the case of ordinary policies issued
5 on or after the operative date of this section as defined
6 herein, all adjusted premiums and present values referred to
7 in this part shall be calculated on the basis of the
8 commissioners ~~commissioner's~~ 1958 standard ordinary
9 mortality table and the rate of interest specified in the
10 policy for calculating cash surrender values and paid-up
11 nonforfeiture benefits, provided that:

12 (a) such rate of interest shall not exceed 3 1/2% per
13 annum, except that a rate of interest not exceeding 4% per
14 annum may be used for policies issued on or after March 17,
15 1973, and prior to ~~January 1, 1966~~ July 1, 1979, and a rate
16 of interest not exceeding 5 1/2% a year may be used for
17 policies issued on or after July 1, 1979;

18 (b) for any category of ordinary insurance issued on
19 female risks, adjusted premiums and present values may be
20 calculated according to an age not more than 3 1/2 years
21 younger than the actual age of the insured;

22 (c) in calculating the present value of any paid-up
23 term insurance with accompanying pure endowment, if any,
24 offered as a nonforfeiture benefit, the rates of mortality
25 assumed may be not more than those shown in the

1 commissioners ~~commissioner's~~ 1958 extended term insurance
2 table;

3 (d) for insurance issued on a substandard basis, the
4 calculation of any such adjusted premiums and present values
5 may be based on such other table of mortality as may be
6 specified by the company and approved by the commissioner.

7 (2) After July 1, 1961, any insurer may file with the
8 commissioner a written notice of its election to comply with
9 the provisions of this section after a specified date before
10 January 1, 1966. After the filing of such notice, then upon
11 such specified date (which shall be the operative date of
12 this section for such insurer), this section shall become
13 operative with respect to the ordinary policies thereafter
14 issued by such insurer. If an insurer makes no such
15 election, the operative date of this section for such
16 insurer shall be January 1, 1966."

17 Section 7. Section 33-20-207, MCA, is amended to read:

18 "33-20-207. Industrial policies -- mortality tables.

19 (1) In the case of industrial policies issued on or after
20 the operative date of this section as defined herein, all
21 adjusted premiums and present values referred to in this
22 part shall be calculated on the basis of commissioners
23 ~~commissioner's~~ 1961 standard industrial mortality table and
24 the rate of interest specified in the policy for calculating
25 cash surrender values and paid-up nonforfeiture benefits

1 provided that:

2 (a) such rate of interest shall not exceed 3 1/2% per
3 annum except that a rate of interest not exceeding 4% per
4 annum may be used for policies issued on or after March 17,
5 1973, and prior to ~~January 1, 1966~~ July 1, 1979, and a rate
6 of interest not exceeding 5 1/2% a year may be used for
7 policies issued on or after July 1, 1979;

8 (b) in calculating the present value of any paid-up
9 term insurance with accompanying pure endowment, if any,
10 offered as a nonforfeiture benefit, the rates of mortality
11 assumed may be not more than those shown in the
12 ~~commissioner's~~ Commissioner's 1961 industrial extended term
13 insurance table;

14 (c) for insurance issued on a substandard basis the
15 calculations of any such adjusted premiums and present
16 values may be based on such other table of mortality as may
17 be specified by the company and approved by the
18 commissioner.

19 (2) After February 22, 1965, any insurer may file with
20 the commissioner a written notice of its election to comply
21 with the provisions of this section after a specified date
22 before January 1, 1968. After the filing of such notice,
23 then upon such specified date (which shall be the operative
24 date of this section for such insurer), this section shall
25 become operative with respect to the industrial policies

1 thereafter issued by such insurer. If an insurer makes no
2 such election, the operative date of this section for such
3 insurer shall be January 1, 1968.*

4 ~~NEW SECTION.~~ Section 8. Short title. [Sections 8
5 through 20] shall be known as the "Standard Nonforfeiture
6 Law for Individual Deferred Annuities".

7 ~~NEW SECTION.~~ Section 9. Application. [Sections 8
8 through 20] do not apply to any reinsurance, group annuity
9 purchased under a retirement plan, or plan of deferred
10 compensation established or maintained by an employer
11 (including a partnership or sole proprietorship) or by an
12 employee organization, or by both, other than a plan
13 providing individual retirement accounts or individual
14 retirement annuities under section 408 of the Internal
15 Revenue Code, as now or hereafter amended, premium deposit
16 fund, variable annuity, investment annuity, immediate
17 annuity, any deferred annuity contract after annuity
18 payments have commenced, or reversionary annuity or to any
19 contract which is delivered outside this state through an
20 agent or other representative of the company issuing the
21 contract.

22 ~~NEW SECTION.~~ Section 10. Nonforfeiture provisions. In
23 the case of contracts issued on or after the operative date
24 of [sections 8 through 20] as defined in [section 20], no
25 contract of annuity except as stated in [section 9] shall be

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

7 (1) that upon cessation of payment of considerations
 8 under a contract the company will grant a paid-up annuity
 9 benefit on a plan stipulated in the contract of such value
 10 as is specified in [sections 13 through 16, and 18];

11 (2) that if a contract provides for a lump-sum
 12 settlement at maturity or at any other time, than upon
 13 surrender of the contract at or prior to the commencement of
 14 any annuity payments, the company will pay in lieu of any
 15 paid-up annuity benefit a cash surrender benefit of such
 16 amount as is specified in [sections 13, 14, 16, and 18]. The
 17 company shall reserve the right to defer the payment of such
 18 cash surrender benefit for a period of 6 months after demand
 19 therefor with surrender of the contract.

20 (3) a statement of the mortality table, if any, and
 21 interest rates used in calculating any minimum paid-up
 22 annuity, cash surrender, or death benefits that are
 23 guaranteed under the contract, together with sufficient
 24 information to determine the amounts of such benefits;

25 (4) a statement that any paid-up annuity, cash

1 surrender, or death benefits that may be available under the
 2 contract are not less than the minimum benefits required by
 3 any statute of the state in which the contract is delivered
 4 and an explanation of the manner in which such benefits are
 5 altered by the existence of any additional amounts credited
 6 by the company to the contract, any indebtedness to the
 7 company on the contract, or any prior withdrawals from or
 8 partial surrenders of the contract.

9 NEW SECTION. Section 11. Exception. Notwithstanding
 10 the requirements of [section 10], any deferred annuity
 11 contract may provide that if no consideration has been
 12 received under a contract for a period of 2 full years and
 13 the portion of the paid-up annuity benefit at maturity on
 14 the plan stipulated in the contract arising from
 15 consideration paid prior to such period would be less than
 16 \$20 monthly, the company may at its option terminate such
 17 contract by payment in cash of the then present value of
 18 such portion of the paid-up annuity benefit, calculated on
 19 the basis of the mortality table, if any, and interest rate
 20 specified in the contract for determining the paid-up
 21 annuity benefit, and by such payment shall be relieved of
 22 any further obligation under such contract.

23 NEW SECTION. Section 12. Minimum nonforfeiture
 24 amounts. (1) The minimum values as specified in [sections 13
 25 through 16, and 18] of any paid-up annuity, cash surrender,

1 or death benefits available under an annuity contract shall
2 be based upon minimum nonforfeiture amounts as defined in
3 this section.

4 (2) (a) With respect to contracts providing for
5 flexible considerations, the minimum nonforfeiture amount at
6 any time at or prior to the commencement of any annuity
7 payments shall be equal to an accumulation up to such time
8 at a rate of interest of 3% a year of percentages of the net
9 considerations (as hereinafter defined) paid prior to such
10 time, decreased by the sum of any prior withdrawals from or
11 partial surrenders of the contract accumulated at a rate of
12 interest of 3% a year and the amount of any indebtedness to
13 the company on the contract, including interest due and
14 accrued, and increased by existing additional amounts
15 credited by the company to the contract.

16 (b) The net consideration for a given contract year
17 used to define the minimum nonforfeiture amount shall be an
18 amount not less than zero and shall be equal to the
19 corresponding gross considerations credited to the contract
20 during that contract year less an annual contract charge of
21 \$30 and less a collection charge of \$1.25 per consideration
22 credited to the contract during that contract year. The
23 percentages of net consideration shall be 65% of the net
24 consideration for the first contract year and 87 1/2% of the
25 net consideration for the second and later contract years.

1 Notwithstanding the provisions of the preceding sentence,
2 the percentage shall be 65% of the portion of the total net
3 consideration for any renewal contract year which exceeds by
4 not more than two times the sum of those portions of the net
5 consideration in all prior contract years for which the
6 percentage was 65%.

7 (3) With respect to contracts providing for fixed
8 schedule consideration, minimum nonforfeiture amounts shall
9 be calculated on the assumption that consideration is paid
10 annually in advance and shall be defined as for contracts
11 with flexible payments of consideration which are paid
12 annually with two exceptions:

13 (a) The portion of the net consideration for the first
14 contract year to be accumulated shall be the sum of 65% of
15 the net consideration for the first contract year plus
16 22 1/2% of the excess of the net consideration for the first
17 contract year over the lesser of the net considerations for
18 the second and third contract years.

19 (b) The annual contract charge shall be the lesser of
20 \$30 or 10% of the gross annual consideration.

21 (4) With respect to contracts providing for a single
22 consideration, minimum nonforfeiture amounts shall be
23 defined as for contracts with flexible payments of
24 consideration except that the percentage of net
25 consideration used to determine the minimum nonforfeiture

1 amount shall be equal to 90% and the net consideration shall
2 be the gross consideration less a contract charge of \$75.

3 NEW SECTION. Section 13. Present value to equal
4 minimum nonforfeiture amount. Any paid-up annuity benefit
5 available under a contract shall be such that its present
6 value on the date annuity payments are to commence is at
7 least equal to the minimum nonforfeiture amount on that
8 date. Such present value shall be computed using the
9 mortality table, if any, and the interest rate specified in
10 the contract for determining the minimum paid-up annuity
11 benefits guaranteed in the contract.

12 NEW SECTION. Section 14. Cash surrender benefits. For
13 contracts which provide cash surrender benefits, such cash
14 surrender benefits available prior to maturity shall not be
15 less than the present value as of the date of surrender of
16 that portion of the maturity value of the paid-up annuity
17 benefit which would be provided under the contract at
18 maturity arising from considerations paid prior to the time
19 of cash surrender reduced by the amount appropriate to
20 reflect any prior withdrawals from or partial surrenders of
21 the contract, such present value being calculated on the
22 basis of an interest rate not more than 1% higher than the
23 interest rate specified in the contract for accumulating the
24 net considerations to determine such maturity value,
25 decreased by the amount of any indebtedness to the company

1 on the contract, including interest due and accrued, and
2 increased by any existing additional amounts credited by the
3 company to the contract. No cash surrender benefit may be
4 less than the minimum nonforfeiture amount at that time. The
5 death benefit under such contracts shall be at least equal
6 to the cash surrender benefit.

7 NEW SECTION. Section 15. Paid-up annuity benefits.
8 For contracts which do not provide cash surrender benefits,
9 the present value of any paid-up annuity benefit available
10 as a nonforfeiture option at any time prior to maturity may
11 not be less than the present value of that portion of the
12 maturity value of the paid-up annuity benefit provided under
13 the contract arising from considerations paid prior to the
14 time the contract is surrendered in exchange for or changed
15 to a deferred paid-up annuity, such present value being
16 calculated for the period prior to the maturity date on the
17 basis of the interest rate specified in the contract for
18 accumulating the net considerations to determine such
19 maturity value and increased by any existing additional
20 amounts credited by the company to the contract. For
21 contracts which do not provide any death benefits prior to
22 the commencement of any annuity payments, such present
23 values shall be calculated on the basis of such interest
24 rate and the mortality table specified in the contract for
25 determining the maturity value of the paid-up annuity

1 benefit. However, the present value of a paid-up annuity
2 benefit may not be less than the minimum nonforfeiture
3 amount at that time.

4 **NEW_SECTION.** Section 16. Maturity date. For the
5 purpose of determining the benefits calculated under
6 [sections 14 and 15], in the case of annuity contracts under
7 which an election may be made to have annuity payments
8 commence at optional maturity dates, the maturity date is
9 the latest date for which election is permitted by the
10 contract but may not be later than the anniversary of the
11 contract next following the annuitant's 70th birthday or the
12 10th anniversary of the contract, whichever is later.

13 **NEW_SECTION.** Section 17. Statement of noninclusion of
14 certain death benefits. Any contract which does not provide
15 cash surrender benefits or does not provide death benefits
16 at least equal to the minimum nonforfeiture amount prior to
17 the commencement of any annuity payments shall include a
18 statement in a prominent place in the contract that such
19 benefits are not provided.

20 **NEW_SECTION.** Section 18. Adjusted benefit. Any
21 paid-up annuity, cash surrender, or death benefits available
22 at any time other than on the contract anniversary under any
23 contract with fixed scheduled consideration shall be
24 calculated with allowance for the lapse of time and the
25 payment of any scheduled consideration beyond the beginning

1 of the contract year in which cessation of payment of
2 consideration under the contract occurs.

3 **NEW_SECTION.** Section 19. Calculation of benefits --
4 special benefits excluded. For any contract which provides,
5 within the same contract by rider or supplemental contract
6 provision, both annuity benefits and life insurance benefits
7 that are in excess of the greater of cash surrender benefits
8 or a return of the gross consideration paid with interest,
9 the minimum nonforfeiture benefits shall be equal to the sum
10 of the minimum nonforfeiture benefits for the annuity
11 portion and the minimum nonforfeiture benefits, if any, for
12 the life insurance portion computed as if each portion were
13 a separate contract. Notwithstanding the provisions of
14 [sections 13 through 16, and 18], additional benefits
15 payable in the event of total and permanent disability or as
16 reversionary annuity or deferred reversionary annuity
17 benefits or as other policy benefits additional to life
18 insurance, endowment, and annuity benefits, and
19 considerations for all such additional benefits shall be
20 disregarded in ascertaining the minimum nonforfeiture
21 amounts, paid-up annuity, cash surrender, and death benefits
22 that may be required by this section. The inclusion of such
23 additional benefits shall not be required in any paid-up
24 benefits, unless such additional benefits separately would
25 require minimum nonforfeiture amount paid-up annuity, cash

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1 surrender, and death benefits.

2 NEW SECTION. Section 20. Operative date. After July
3 1, 1979, any company may file with the commission a written
4 notice of its election to comply with the provisions of this
5 section after a specified date before July 1, 1981. After
6 the filing of such notice, then upon such specified date,
7 which shall be the operative date of this section for such
8 company, this section shall become operative with respect to
9 annuity contracts thereafter issued by such company. If a
10 company makes no such election, the operative date of this
11 section for such company shall be July 1, 1981.

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