

THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE BILL

No. 1766 Session of 2015

INTRODUCED BY PICKETT AND DeLUCA, FEBRUARY 17, 2016

AS REPORTED FROM COMMITTEE ON INSURANCE, HOUSE OF REPRESENTATIVES, AS AMENDED, MARCH 14, 2016

AN ACT

1 Amending Title 40 (Insurance) of the Pennsylvania Consolidated
2 Statutes, providing for standard valuation; and making
3 related repeals regarding Act 284 of 1921 and Act 285 of
4 1921.

5 The General Assembly of the Commonwealth of Pennsylvania
6 hereby enacts as follows:

7 Section 1. Title 40 of the Pennsylvania Consolidated
8 Statutes is amended by adding a part to read:

9 PART IV

10 STANDARD VALUATION

11 Chapter

12 71. Reserve Liabilities

13 CHAPTER 71

14 RESERVE LIABILITIES

15 Subchapter

16 A. General Provisions

17 B. Valuation of Reserves for Contracts and Policies

18 C. Confidentiality

19 D. Exemptions

1 E. Miscellaneous Provisions

2 SUBCHAPTER A

3 GENERAL PROVISIONS

4 Sec.

5 7101. Scope.

6 7102. Definitions.

7 7103. Special applicability provisions.

8 7104. Notice regarding operative date of valuation manual.

9 7105. Regulations.

10 § 7101. Scope.

11 This chapter relates to standards for the valuation of  
12 reserve liabilities for life insurance, accident and health  
13 insurance and deposit-type contracts depending on their date of  
14 issuance.

15 § 7102. Definitions.

16 The following words and phrases when used in this chapter  
17 shall have the meanings given to them in this section unless the  
18 context clearly indicates otherwise:

19 "Accident and health insurance." A contract that  
20 incorporates morbidity risk and provides protection against  
21 economic loss resulting from accident, sickness or medical  
22 conditions and as may be specified in the valuation manual.

23 "Appointed actuary." A qualified actuary who is appointed in  
24 accordance with the valuation manual to prepare the actuarial  
25 opinion required by section 7114 (relating to actuarial opinion  
26 of reserves on or after operative date of valuation manual).

27 "Commissioner." The Insurance Commissioner of the  
28 Commonwealth.

29 "Company." An entity, including a fraternal benefit society,  
30 that:

1       (1) has written, issued or reinsured life insurance  
2 contracts, accident and health insurance contracts or  
3 deposit-type contracts in this Commonwealth and has at least  
4 one policy in force or on claim; or

5       (2) is required to hold a certificate of authority to  
6 write life insurance contracts, accident and health insurance  
7 contracts or deposit-type contracts in this Commonwealth.

8 "Department." The Insurance Department of the Commonwealth.

9 "Deposit-type contract." A contract that does not  
10 incorporate mortality or morbidity risks and as may be specified  
11 in the valuation manual.

12 "Experience data." Documents, materials, data and other  
13 information submitted by a company under section 7127 (relating  
14 to experience reporting for policies in force on or after  
15 operative date of valuation manual).

16 "Experience materials." Documents, materials, data and other  
17 information, including all working papers and copies of all  
18 these items created or produced in connection with experience  
19 data, which include any potentially company-identifying or  
20 personally identifiable information provided to or obtained by  
21 the commissioner.

22 "Fraternal benefit society." As provided for under Article  
23 XXIV of The Insurance Company Law of 1921.

24 "Group-wide supervisor." The chief insurance regulatory  
25 official who is:

26       (1) Authorized to engage in conducting and coordinating  
27 group-wide supervision activities.

28       (2) From the jurisdiction determined or acknowledged by  
29 the department under section 1406.2(c) of The Insurance  
30 Company Law of 1921 to have sufficient, significant contacts

1 with the international insurance group.

2 "IAIS." The International Association of Insurance  
3 Supervisors or its successor organization.

4 "Life insurance." A contract that incorporates mortality  
5 risk, including an annuity or pure endowment contract, and as  
6 may be specified in the valuation manual.

7 "NAIC." The National Association of Insurance Commissioners,  
8 its subsidiaries or affiliates or its successor organization.

9 "Operative date of the valuation manual." The January 1 of  
10 the first calendar year following the first July 1 when all of  
11 the following have occurred:

12 (1) The valuation manual has been adopted by NAIC by an  
13 affirmative vote of at least 42 members or 75% of the members  
14 voting, whichever is greater.

15 (2) The Standard Valuation Law, as amended by NAIC in  
16 2009, or legislation including substantially similar terms  
17 and provisions, has been enacted by both of the following:

18 (i) States representing more than 75% of the direct  
19 premiums written as reported for life, accident and  
20 health annual statements, health annual statements or  
21 fraternal annual statements submitted in 2008.

22 (ii) At least 42 of the 55 NAIC member  
23 jurisdictions, including the 50 states, American Samoa,  
24 the United States Virgin Islands, the District of  
25 Columbia, Guam and Puerto Rico.

26 "Policyholder behavior." An action taken by a policyholder,  
27 certificate holder, contract holder or any other person having  
28 the right to elect options as to a policy or contract subject to  
29 this chapter. The options shall:

30 (1) Include lapse, withdrawal, transfer, deposit,

1 premium payment, loan, annuitization or benefit elections  
2 prescribed by the policy or contract.

3 (2) Exclude events of mortality or morbidity that result  
4 in benefits prescribed in their essential aspects by the  
5 terms of the policy or contract.

6 "Principle-based valuation." A reserve valuation that:

7 (1) Uses one or more methods or one or more assumptions  
8 determined by the insurer.

9 (2) Is required to comply with section 7126 (relating to  
10 requirements of principle-based valuation) as specified in  
11 the valuation manual.

12 "Qualified actuary." An individual who:

13 (1) Is qualified to sign the applicable statement of  
14 actuarial opinion in accordance with the American Academy of  
15 Actuaries qualification standards for actuaries signing these  
16 statements of actuarial opinion.

17 (2) Meets the requirements specified in the valuation  
18 manual.

19 "Reserve liabilities," "reserves" or "net value." An amount  
20 recorded in financial statements to reflect potential  
21 obligations.

22 "Tail risk." A risk that occurs where:

23 (1) the frequency of low probability events is higher  
24 than expected under a normal probability distribution; or

25 (2) there are observed events of very significant size  
26 or magnitude.

27 "The Insurance Company Law of 1921." The act of May 17, 1921  
28 (P.L.682, No.284), known as The Insurance Company Law of 1921.

29 "Valuation manual." The manual of valuation instructions  
30 adopted by NAIC or as subsequently amended and adopted by NAIC.

1 Unless a change in the valuation manual specifies a later  
2 effective date, a change to the valuation manual is effective on  
3 January 1 following the date when the change to the valuation  
4 manual has been adopted by NAIC by an affirmative vote  
5 representing both of the following:

6 (1) At least 75% of the members of NAIC voting, but not  
7 less than a majority of the total membership.

8 (2) Members of NAIC representing jurisdictions totaling  
9 more than 75% of the direct premiums written as reported in  
10 the most recently available life, accident and health annual  
11 statements, health annual statements or fraternal annual  
12 statements.

13 § 7103. Special applicability provisions.

14 The standards for the valuation of reserve liabilities for  
15 life insurance, accident and health insurance and deposit-type  
16 contracts shall be subject to the following applicability  
17 provisions:

18 (1) The following shall apply to policies or contracts  
19 subject to this chapter that were issued on or after May 17,  
20 1921, and prior to the operative date of the valuation  
21 manual:

22 (i) Section 7115 (relating to computation of minimum  
23 standard).

24 (ii) Section 7116 (relating to computation of  
25 minimum standard for annuities).

26 (iii) Section 7117 (relating to computation of  
27 minimum standard by calendar year of issue).

28 (iv) Section 7118 (relating to reserve valuation  
29 method for life insurance and endowment benefits).

30 (v) Section 7119 (relating to reserve valuation

1 method for annuity and pure endowment benefits).

2 (vi) Section 7120 (relating to minimum reserves).

3 (vii) Section 7121 (relating to optional reserve  
4 calculation).

5 (viii) Section 7122 (relating to reserve calculation  
6 for valuation net premium exceeding gross premium  
7 charged).

8 (ix) Section 7123 (relating to reserve calculation  
9 for indeterminate premium plans).

10 (2) Except as otherwise provided in this chapter,  
11 section 7124 (relating to minimum standard for accident and  
12 health insurance contracts) shall apply to policies issued  
13 before, on or after the operative date of the valuation  
14 manual.

15 (3) The following shall not apply to policies or  
16 contracts subject to this chapter that were issued on or  
17 after May 17, 1921, and prior to the operative date of the  
18 valuation manual:

19 (i) Section 7125 (relating to valuation manual for  
20 policies issued on or after operative date of valuation  
21 manual).

22 (ii) Section 7126 (relating to requirements of  
23 principle-based valuation).

24 (4) Sections 7125 and 7126 shall apply to policies  
25 issued on or after the operative date of the valuation  
26 manual.

27 § 7104. Notice regarding operative date of valuation manual.

28 Upon the occurrence of the last occurring event under the  
29 definition of "operative date of the valuation manual" in  
30 section 7102 (relating to definitions), the commissioner shall

1 issue a notice regarding the operative date of the valuation  
2 manual to be published in the Pennsylvania Bulletin and on the  
3 department's publicly accessible Internet website.

4 § 7105. Regulations.

5 The department may promulgate regulations, as necessary, to  
6 implement, administer and enforce this chapter.

7 SUBCHAPTER B

8 VALUATION OF RESERVES FOR CONTRACTS AND POLICIES

9 Sec.

10 7111. Reserve valuation for policies and contracts issued prior  
11 to operative date of valuation manual.

12 7112. Reserve valuation for policies and contracts issued on or  
13 after operative date of valuation manual.

14 7113. Actuarial opinion of reserves prior to operative date of  
15 valuation manual.

16 7114. Actuarial opinion of reserves on or after operative date  
17 of valuation manual.

18 7115. Computation of minimum standard.

19 7116. Computation of minimum standard for annuities.

20 7117. Computation of minimum standard by calendar year of  
21 issue.

22 7118. Reserve valuation method for life insurance and endowment  
23 benefits.

24 7119. Reserve valuation method for annuity and pure endowment  
25 benefits.

26 7120. Minimum reserves.

27 7121. Optional reserve calculation.

28 7122. Reserve calculation for valuation net premium exceeding  
29 gross premium charged.

30 7123. Reserve calculation for indeterminate premium plans.



1 7124. Minimum standard for accident and health insurance  
2 contracts.

3 7125. Valuation manual for policies issued on or after the  
4 operative date of valuation manual.

5 7126. Requirements of principle-based valuation.

6 7127. Experience reporting for policies in force on or after  
7 operative date of valuation manual.

8 § 7111. Reserve valuation for policies and contracts issued  
9 prior to operative date of valuation manual.

10 (a) Applicability.--This section shall apply to each policy  
11 or contract issued prior to the operative date of the valuation  
12 manual.

13 (b) Annual valuation.--The commissioner shall annually  
14 value, or cause to be valued, the reserve liabilities for all  
15 outstanding life insurance policies and annuity and pure  
16 endowment contracts of each company doing business in this  
17 Commonwealth. The commissioner may certify the amount of  
18 reserves.

19 (c) Calculation.--In calculating reserves, the commissioner  
20 may use group methods and approximate averages for fractions of  
21 a year or otherwise.

22 (d) Other jurisdictions.--In lieu of the valuation of the  
23 reserves required of a foreign or alien company, the  
24 commissioner may accept a valuation made, or caused to be made,  
25 by the insurance supervisory official of any state or other  
26 jurisdiction when the valuation complies with the minimum  
27 standard provided in this chapter.

28 (e) Minimum standard.--The minimum standard for the  
29 valuation of policies and contracts issued prior to the  
30 operative date of section 410A of The Insurance Company Law of

1 1921 shall be as follows:

2 (1) The net value of all outstanding policies of life  
3 insurance, issued by the company prior to January 1, 1890,  
4 shall be computed upon the basis of the American experience  
5 table of mortality, with interest at not less than 4.5% and  
6 not more than 6% per year.

7 (2) The net value of all outstanding policies, issued  
8 between January 1, 1890, and January 1, 1903, shall be  
9 computed on the combined experience or actuaries' table of  
10 mortality, with interest at 4% per year.

11 (3) The net value of all outstanding policies of life  
12 insurance, issued on and after January 1, 1903, shall be  
13 computed on the American experience table of mortality, with  
14 interest at 3.5% per year, but a company may value its group  
15 term insurance policies, under which premium rates are not  
16 guaranteed for a period in excess of five years, according to  
17 the American men ultimate table of mortality, with interest  
18 at 3.5% per year.

19 (4) The net value of all policies of life insurance,  
20 issued on and after January 1, 1921, where the premiums are  
21 payable monthly or more frequently, shall be computed  
22 according to the American experience table of mortality, with  
23 interest at 3.5% per year, but a company may voluntarily  
24 value its industrial policies according to the standard  
25 industrial mortality table, with interest at 3.5% per year.

26 (5) The net value of a policy at any time shall be taken  
27 to be the single net premium which will, at that time, affect  
28 the insurance, less the value at that time of the future net  
29 premiums called for by the table of mortality and rate of  
30 interest designated.

1           (6) Except as otherwise provided in sections 7116(a)  
2 (relating to computation of minimum standard for annuities)  
3 and 7117(a) (relating to computation of minimum standard by  
4 calendar year of issue) for group annuity and pure endowment  
5 contracts, the legal minimum standard for valuation of  
6 annuities issued after January 1, 1912, shall be computed  
7 according to McClintock's table of mortality among  
8 annuitants, with interest at 3.5% per year, but the following  
9 shall apply:

10           (i) For annuities and pure endowments purchased  
11 under group annuity and pure endowment contracts, the  
12 legal minimum standard may, at the option of the company,  
13 be computed according to the 1971 Group Annuity Mortality  
14 Table or any modification of this table approved by the  
15 commissioner, with interest at 5% per year.

16           (ii) Annuities deferred 10 or more years, and  
17 written in connection with life or term insurance, shall  
18 be valued upon the same mortality table from which the  
19 consideration or premiums were computed, with interest at  
20 not more than 3.5% per year.

21           (7) At any time and under any of its policies of life  
22 insurance, a company may elect to reserve on the following,  
23 with its obligations under these policies to be valued  
24 accordingly:

25           (i) the American experience table of mortality with  
26 a lower rate of interest, but at a rate not less than 2%  
27 per year; or

28           (ii) the American men ultimate table of mortality,  
29 with any modification and extension below 20 years of age  
30 as may be approved by the commissioner, with interest at

1 a rate not less than 2% nor more than 3.5% per year.

2 (8) On or after the operative date of section 410A of  
3 The Insurance Company Law of 1921, reserves for any policies  
4 or contracts may be calculated, at the option of the company,  
5 according to any standard which produces greater aggregate  
6 reserves for all these policies or contracts than the  
7 standard in use by the company immediately prior to the  
8 exercise of the option.

9 (9) With the approval of the commissioner, a company  
10 that adopts a standard under paragraph (8) may adopt a lower  
11 standard of valuation for any policies or contracts if that  
12 lower standard is not lower than:

13 (i) the minimum reserves provided under this  
14 section;

15 (ii) the standard specified in the policies or  
16 contracts; or

17 (iii) the standard used by the company for the  
18 determination of the nonforfeiture values of the policies  
19 or contracts.

20 § 7112. Reserve valuation for policies and contracts issued on  
21 or after operative date of valuation manual.

22 (a) Applicability.--This section shall apply to each policy  
23 or contract issued on or after the operative date of the  
24 valuation manual.

25 (b) Annual valuation.--The commissioner shall annually  
26 value, or cause to be valued, the reserve liabilities for all  
27 outstanding life insurance contracts, annuity and pure endowment  
28 contracts, accident and health contracts and deposit-type  
29 contracts of each company doing business in this Commonwealth.  
30 The commissioner may certify the amount of reserves.

1 (c) Other jurisdictions.--In lieu of the valuation of the  
2 reserves required of a foreign or alien company, the  
3 commissioner may accept a valuation made, or caused to be made,  
4 by the insurance supervisory official of any State or other  
5 jurisdiction when the valuation complies with the minimum  
6 standard provided in this chapter.

7 (d) Applicable standards.--The following provisions shall  
8 govern a policy or contract under this section:

9 (1) Section 7124(a), (b), (d) and (e) (relating to  
10 minimum standard for accident and health insurance  
11 contracts).

12 (2) Section 7125 (relating to valuation manual for  
13 policies issued on or after operative date of valuation  
14 manual).

15 (3) Section 7126 (relating to requirements of principle-  
16 based valuation).

17 § 7113. Actuarial opinion of reserves prior to operative date  
18 of valuation manual.

19 (a) Applicability.--This section shall apply to an actuarial  
20 opinion prepared prior to the operative date of the valuation  
21 manual.

22 (b) Regulations regarding actuarial opinion.--Through  
23 regulations, the commissioner:

24 (1) Shall define the specifics of the actuarial opinion  
25 under this section and add any other items deemed to be  
26 necessary to fulfill the purpose of this section.

27 (2) May provide for a transition period for establishing  
28 any higher reserves that the qualified actuary may deem  
29 necessary in order to render the opinion required by this  
30 section.

1 (c) Annual submission and purpose.--Each company doing  
2 business in this Commonwealth shall annually submit the opinion  
3 of a qualified actuary as to whether the reserves and related  
4 actuarial items held in support of the company's policies and  
5 contracts specified by the commissioner by regulation:

6 (1) are computed appropriately;

7 (2) are based on assumptions that satisfy contractual  
8 provisions;

9 (3) are consistent with prior reported amounts; and

10 (4) comply with the applicable laws of this  
11 Commonwealth.

12 (d) Opinion regarding company obligations.--The following  
13 shall apply regarding the opinion of the qualified actuary and  
14 the company's obligations:

15 (1) Except as exempted by regulation, each company shall  
16 include in the actuarial opinion required under this section  
17 an opinion by the same qualified actuary as to whether the  
18 reserves and related actuarial items held in support of the  
19 company's policies and contracts specified by the  
20 commissioner by regulation, when considered in light of the  
21 assets held by the company with respect to the reserves and  
22 related actuarial items, including, but not limited to, the  
23 investment earnings on the assets and the considerations  
24 anticipated to be received and retained under the policies  
25 and contracts, make adequate provision for the company's  
26 obligations under the policies and contracts, including, but  
27 not limited to, the benefits under and expenses associated  
28 with the policies and contracts.

29 (2) A memorandum, in form and substance acceptable to  
30 the commissioner as specified by regulation, shall be

1 prepared to support each actuarial opinion.

2 (3) If a company fails to provide a supporting  
3 memorandum at the request of the commissioner within a period  
4 specified by regulation or if the commissioner determines  
5 that the supporting memorandum provided by the company fails  
6 to meet the standards prescribed by regulation or is  
7 otherwise unacceptable to the commissioner, the commissioner  
8 may engage a qualified actuary at the expense of the company  
9 to review the opinion and the basis for the opinion and  
10 prepare the supporting memorandum required by the  
11 commissioner.

12 (e) Requirements.--Each actuarial opinion under this section  
13 shall be governed by the following:

14 (1) The opinion shall be submitted with the annual  
15 statement reflecting the valuation of the reserve liabilities  
16 for each year ending on or after December 31, 1993.

17 (2) The opinion shall apply to all business in force,  
18 including individual and group accident and health insurance  
19 plans, in form and substance acceptable to the commissioner  
20 as specified by regulation.

21 (3) The opinion shall be based on standards adopted from  
22 time to time by the Actuarial Standards Board, or its  
23 successor, and on any additional standards as specified by  
24 regulation.

25 (4) In the case of an opinion required to be submitted  
26 by a foreign or alien company, the commissioner may accept  
27 the opinion filed by that company with the insurance  
28 supervisory official of another state if the commissioner  
29 determines that the opinion reasonably meets the requirements  
30 applicable to a company domiciled in this Commonwealth.

1           (5) Except in cases of fraud or willful misconduct, a  
2 qualified actuary shall not be liable for damages to any  
3 person, other than the insurance company or fraternal benefit  
4 society and the commissioner, for any act, error, omission,  
5 decision or conduct with respect to the actuarial opinion.

6           (6) Disciplinary action by the commissioner against the  
7 company, fraternal benefit society or the qualified actuary  
8 shall be prescribed by regulation.

9           (7) The confidentiality provisions under Subchapter C  
10 (relating to confidentiality) shall apply.

11          (f) Definitions.--As used in this section, the following  
12 words and phrases shall have the meanings given to them in this  
13 subsection unless the context clearly indicates otherwise:

14          "Qualified actuary." A member in good standing of the  
15 American Academy of Actuaries who meets the requirements under  
16 31 Pa. Code Ch. 84b (relating to actuarial opinion and  
17 memorandum).

18          § 7114. Actuarial opinion of reserves on or after operative  
19 date of valuation manual.

20          (a) Applicability.--This section shall apply to an actuarial  
21 opinion prepared on or after the operative date of the valuation  
22 manual.

23          (b) Compliance with valuation manual.--The actuarial opinion  
24 under this section must comply with the requirements set forth  
25 in the valuation manual.

26          (c) Annual submission and purpose.--Each company with  
27 outstanding life insurance contracts, accident and health  
28 insurance contracts or deposit-type contracts in this  
29 Commonwealth shall annually submit the opinion of the appointed  
30 actuary as to whether the reserves and related actuarial items



1 held in support of the company's policies and contracts:

2 (1) are computed appropriately;

3 (2) are based on assumptions that satisfy contractual  
4 provisions;

5 (3) are consistent with prior reported amounts; and

6 (4) comply with the applicable laws of this  
7 Commonwealth.

8 (d) Opinion regarding company obligations.--The following  
9 shall apply regarding the opinion of the appointed actuary and  
10 the company's obligations:

11 (1) Except as exempted in the valuation manual, each  
12 company with outstanding life insurance contracts, accident  
13 and health insurance contracts or deposit-type contracts in  
14 this Commonwealth shall include in the actuarial opinion  
15 required under this section an opinion by the same appointed  
16 actuary as to whether the reserves and related actuarial  
17 items held in support of the company's policies and contracts  
18 specified in the valuation manual, when considered in light  
19 of the assets held by the company with respect to the  
20 reserves and related actuarial items, including, but not  
21 limited to, the investment earnings on the assets and the  
22 considerations anticipated to be received and retained under  
23 the policies and contracts, make adequate provision for the  
24 company's obligations under the policies and contracts,  
25 including, but not limited to, the benefits under and  
26 expenses associated with the policies and contracts.

27 (2) A memorandum, in form and substance as specified in  
28 the valuation manual and as acceptable to the commissioner,  
29 shall be prepared to support each actuarial opinion.

30 (3) If a company fails to provide a supporting

1 memorandum at the request of the commissioner within a period  
2 specified in the valuation manual or if the commissioner  
3 determines that the supporting memorandum provided by the  
4 company fails to meet the standards prescribed by the  
5 valuation manual or is otherwise unacceptable to the  
6 commissioner, the commissioner may engage a qualified actuary  
7 at the expense of the company to review the opinion and the  
8 basis for the opinion and prepare the supporting memorandum  
9 required by the commissioner.

10 (e) Requirements.--Each actuarial opinion under this section  
11 shall be governed by the following:

12 (1) The opinion shall be in form and substance as  
13 specified in the valuation manual and acceptable to the  
14 commissioner.

15 (2) The opinion shall be submitted with the annual  
16 statement reflecting the valuation of the reserve liabilities  
17 for each year ending on or after the operative date of the  
18 valuation manual.

19 (3) The opinion shall apply to all policies and  
20 contracts subject to subsection (d), plus other actuarial  
21 liabilities as may be specified in the valuation manual.

22 (4) The opinion shall be based on standards adopted from  
23 time to time by the Actuarial Standards Board, or its  
24 successor, and on any additional standards as prescribed in  
25 the valuation manual.

26 (5) In the case of an opinion required to be submitted  
27 by a foreign or alien company, the commissioner may accept  
28 the opinion filed by that company with the insurance  
29 supervisory official of another state if the commissioner  
30 determines that the opinion reasonably meets the requirements

1 applicable to a company domiciled in this Commonwealth.

2 (6) Except in cases of fraud or willful misconduct, an  
3 appointed actuary shall not be liable for damages to any  
4 person, other than the company and the commissioner, for any  
5 act, error, omission, decision or conduct with respect to the  
6 actuarial opinion.

7 (7) Disciplinary action by the commissioner against the  
8 company or the appointed actuary shall be prescribed by  
9 regulation.

10 (8) The confidentiality provisions under Subchapter C  
11 (relating to confidentiality) shall apply.

12 § 7115. Computation of minimum standard.

13 (a) Applicability.--This section shall govern the minimum  
14 standard for the valuation of a company's policies and contracts  
15 except as provided in the following sections:

16 (1) Section 7116 (relating to computation of minimum  
17 standard for annuities).

18 (2) Section 7117 (relating to computation of minimum  
19 standard by calendar year of issue).

20 (3) Section 7124 (relating to minimum standard for  
21 accident and health insurance contracts).

22 (b) Policies and contracts issued prior to May 17, 1921.--  
23 The minimum standard for the valuation of policies and contracts  
24 issued prior to May 17, 1921, shall be as provided by the laws  
25 in effect immediately prior to May 17, 1921.

26 (c) Policies and contracts issued on or after May 17,  
27 1921.--The minimum standard for the valuation of policies and  
28 contracts issued on or after May 17, 1921, shall be, together  
29 with the tables referenced under subsection (d), the  
30 commissioners reserve valuation methods established under

1 sections 7118 (relating to reserve valuation method for life  
2 insurance and endowment benefits), 7119 (relating to reserve  
3 valuation method for annuity and pure endowment benefits), 7122  
4 (relating to reserve calculation for valuation net premium  
5 exceeding gross premium charged) and 7124:

6 (1) Three and one-half percent interest.

7 (2) Four percent interest for life insurance policies  
8 and contracts, other than annuity and pure endowment  
9 contracts, issued on or after June 23, 1976, and prior to  
10 January 1, 1979.

11 (3) Four and one-half percent interest for policies  
12 issued on or after January 1, 1979.

13 (d) Applicable tables.--Together with the requirements under  
14 subsection (c), the tables and other provisions of this section  
15 shall govern:

16 (1) For ordinary policies of life insurance issued on  
17 the standard basis, excluding disability and accidental death  
18 benefits in these policies, the following tables shall apply:

19 (i) The Commissioners 1941 Standard Ordinary  
20 Mortality Table for policies issued prior to the  
21 operative date of section 410A(d) (2) of The Insurance  
22 Company Law of 1921.

23 (ii) The Commissioners 1958 Standard Ordinary  
24 Mortality Table for policies issued on or after the  
25 operative date of section 410A(d) (2) of The Insurance  
26 Company Law of 1921 and prior to the operative date of  
27 section 410A(e) of The Insurance Company Law of 1921. For  
28 policies issued on female risks, all modified net  
29 premiums and present values referred to in this  
30 subparagraph may be calculated according to any age not

1 more than six years younger than the actual age of the  
2 insured.

3 (iii) For policies issued on or after the operative  
4 date of section 410A(e) of The Insurance Company Law of  
5 1921, the calculation shall be in accordance with the  
6 following tables as specified by regulation:

7 (A) The Commissioners 1980 Standard Ordinary  
8 Mortality Table.

9 (B) At the election of the company for any one  
10 or more specified plans of life insurance, the  
11 Commissioners 1980 Standard Ordinary Mortality Table  
12 with Ten-Year Select Mortality Factors.

13 (C) Any ordinary mortality table that is adopted  
14 after 1980 by NAIC and approved by regulation for use  
15 in determining the minimum standard of valuation for  
16 the policies.

17 (2) For industrial life insurance policies issued on the  
18 standard basis, excluding disability and accidental death  
19 benefits in these policies, the following tables shall apply:

20 (i) The 1941 Standard Industrial Mortality Table for  
21 policies issued prior to the operative date of section  
22 410A(d) (3) of The Insurance Company Law of 1921.

23 (ii) For policies issued on or after the operative  
24 date of section 410A(d) (3) of The Insurance Company Law  
25 of 1921, the Commissioners 1961 Standard Industrial  
26 Mortality Table or any industrial mortality table that is  
27 adopted after 1980 by NAIC and approved by regulation for  
28 use in determining the minimum standard of valuation for  
29 the policies.

30 (3) For individual annuity and pure endowment contracts,

1 excluding disability and accidental death benefits in these  
2 policies, any of the following shall apply:

3 (i) The 1937 Standard Annuity Mortality Table.

4 (ii) At the option of the company, the Annuity  
5 Mortality Table for 1949, Ultimate.

6 (iii) Any modification of either of the tables under  
7 subparagraphs (i) and (ii) as approved by the  
8 commissioner.

9 (4) For group annuity and pure endowment contracts,  
10 excluding disability and accidental death benefits in the  
11 contracts, any of the following shall apply:

12 (i) The Group Annuity Mortality Table for 1951 or  
13 any modification of the table approved by the  
14 commissioner, with interest at 3.5%.

15 (ii) At the option of the company, the 1971 Group  
16 Annuity Mortality Table or any modification of the table  
17 approved by the commissioner, in which event 5% interest  
18 shall be used in determining the minimum standard for the  
19 valuation of the contracts.

20 (iii) At the option of the company, any of the  
21 tables or modifications of tables specified for  
22 individual annuity and pure endowment contracts.

23 (5) For total and permanent disability benefits in or  
24 supplementary to ordinary policies or contracts, the  
25 following shall apply:

26 (i) For policies or contracts issued on or after  
27 January 1, 1966:

28 (A) the tables of Period 2 disablement rates and  
29 the 1930 to 1950 termination rates of the 1952  
30 Disability Study of the Society of Actuaries, with

1 due regard to the type of benefit; or

2 (B) any tables of disablement rates and  
3 termination rates that are adopted after 1980 by NAIC  
4 and approved by regulation for use in determining the  
5 minimum standard of valuation for the policies or  
6 contracts.

7 (ii) For policies or contracts issued on or after  
8 January 1, 1961, and prior to January 1, 1966:

9 (A) any of the tables under subparagraph (i); or

10 (B) at the option of the company, the Class (3)  
11 Disability Table (1926).

12 (iii) For policies issued prior to January 1, 1961,  
13 the Class (3) Disability Table (1926).

14 A table under this paragraph shall, for active lives, be  
15 combined with a mortality table permitted for calculating the  
16 reserves for life insurance policies.

17 (6) For accidental death benefits in or supplementary to  
18 policies, the following shall apply:

19 (i) For policies issued on or after January 1, 1966:

20 (A) the 1959 Accidental Death Benefits Table; or

21 (B) any accidental death benefits table that is  
22 adopted after 1980 by NAIC and approved by regulation  
23 for use in determining the minimum standard of  
24 valuation for the policies.

25 (ii) For policies issued on or after January 1,  
26 1961, and prior to January 1, 1966:

27 (A) any of the tables under subparagraph (i); or

28 (B) at the option of the company, the Inter-  
29 Company Double Indemnity Mortality Table.

30 (iii) For policies issued prior to January 1, 1961,

1           the Inter-Company Double Indemnity Mortality Table.  
2           A table under this paragraph shall be combined with a  
3           mortality table permitted for calculating the reserves for  
4           life insurance policies.

5           (7) For group life insurance, life insurance issued on  
6           the substandard basis and other special benefits, those  
7           tables approved by the commissioner shall apply.

8   § 7116. Computation of minimum standard for annuities.

9           (a) Computation generally.--Except as provided in section  
10          7117 (relating to computation of minimum standard by calendar  
11          year of issue), the minimum standard of valuation for individual  
12          annuity and pure endowment contracts issued on or after the  
13          operative date of section 301(c)(1)(B) of the act of May 17,  
14          1921 (P.L.789, No.285), known as The Insurance Department Act of  
15          1921, and for annuities and pure endowments purchased on or  
16          after that operative date under group annuity and pure endowment  
17          contracts shall be the commissioner's reserve valuation methods  
18          established under sections 7118 (relating to reserve valuation  
19          method for life insurance and endowment benefits) and 7119  
20          (relating to reserve valuation method for annuity and pure  
21          endowment benefits) and the following:

22                  (1) For individual annuity and pure endowment contracts  
23                  issued prior to January 1, 1979, excluding disability and  
24                  accidental death benefits in the contracts, the 1971  
25                  Individual Annuity Mortality Table or any modification of the  
26                  table approved by the commissioner, and 6% interest for  
27                  single premium immediate annuity contracts and 4% interest  
28                  for all other individual annuity and pure endowment  
29                  contracts.

30                  (2) For individual single premium immediate annuity



1 contracts issued on or after January 1, 1979, excluding  
2 disability and accidental death benefits in the contracts,  
3 the 1971 Individual Annuity Mortality Table or any individual  
4 annuity mortality table that is adopted after 1980 by NAIC  
5 and approved by regulation for use in determining the minimum  
6 standard of valuation for the contracts, or any modification  
7 of the tables approved by the commissioner, and 7.5% interest  
8 or a higher rate of interest as may be approved by the  
9 commissioner.

10 (3) For individual annuity and pure endowment contracts  
11 issued on or after January 1, 1979, other than single premium  
12 immediate annuity contracts and excluding disability and  
13 accidental death benefits in the contracts, the 1971  
14 Individual Annuity Mortality Table or any individual annuity  
15 mortality table that is adopted after 1980 by NAIC and  
16 approved by regulation for use in determining the minimum  
17 standard of valuation for the contracts, or any modification  
18 of the tables approved by the commissioner, and 5.5% interest  
19 for single premium deferred annuity and pure endowment  
20 contracts and 4.5% interest for all other individual annuity  
21 and pure endowment contracts or a higher rate of interest as  
22 may be approved by the commissioner.

23 (4) For annuities and pure endowments purchased prior to  
24 January 1, 1979, under group annuity and pure endowment  
25 contracts and excluding disability and accidental death  
26 benefits purchased under the contracts, the 1971 Group  
27 Annuity Mortality Table or any modification of the table  
28 approved by the commissioner, and 6% interest.

29 (5) For annuities and pure endowments purchased on or  
30 after January 1, 1979, under group annuity and pure endowment

1 contracts and excluding disability and accidental death  
2 benefits purchased under the contracts, the 1971 Group  
3 Annuity Mortality Table or any group annuity mortality table  
4 that is adopted after 1980 by NAIC and approved by regulation  
5 for use in determining the minimum standard of valuation for  
6 annuities and pure endowments, or any modification of the  
7 tables approved by the commissioner, and 7.5% interest or a  
8 higher rate of interest as may be approved by the  
9 commissioner.

10 (b) Operative date.--After June 23, 1976, a company may file  
11 with the commissioner a written notice of its election to comply  
12 with the provisions of this section after a specified date  
13 before January 1, 1979, which shall be the operative date of  
14 this section for that company. A company may elect a different  
15 operative date for individual annuity and pure endowment  
16 contracts from that elected for group annuity and pure endowment  
17 contracts. If a company makes no election, the operative date of  
18 this section for that company shall be January 1, 1979.

19 § 7117. Computation of minimum standard by calendar year of  
20 issue.

21 (a) Applicability.--The interest rates used in determining  
22 the minimum standard for the valuation of the following shall be  
23 the calendar year statutory valuation interest rates as defined  
24 in this section:

25 (1) Life insurance policies issued in a particular  
26 calendar year on or after the operative date of section  
27 410A(e) of The Insurance Company Law of 1921.

28 (2) Individual annuity and pure endowment contracts  
29 issued in a particular calendar year on or after January 1,  
30 1981.

1       (3) Annuities and pure endowments purchased in a  
2 particular calendar year on or after January 1, 1981, under  
3 group annuity and pure endowment contracts.

4       (4) The net increase, if any, in a particular calendar  
5 year after January 1, 1981, in amounts held under guaranteed  
6 interest contracts.

7       (b) Calendar year statutory valuation interest rates.--The  
8 following shall apply:

9       (1) Subject to paragraph (2), the calendar year  
10 statutory valuation interest rates, I, shall be determined as  
11 follows and the results rounded to the nearest 0.25%:

12       (i) For life insurance:

$$13 \quad I = .03 + W(R_1 - .03) + W/2(R_2 - .09).$$

14       Where  $R_1$  is the lesser of R and .09,  $R_2$  is the greater of  
15 R and .09, R is the reference interest rate defined in  
16 this section and W is the weighting factor defined in  
17 this section.

18       (ii) For single premium immediate annuities and for  
19 annuity benefits involving life contingencies arising  
20 from other annuities with cash settlement options and  
21 from guaranteed interest contracts with cash settlement  
22 options:

$$23 \quad I = .03 + W(R_1 - .03)$$

24       Where  $R_1$  is the lesser of R and .09,  $R_2$  is the greater of  
25 R and .09, R is the reference interest rate defined in  
26 this section and W is the weighting factor defined in  
27 this section.

28       (iii) For other annuities with cash settlement  
29 options and guaranteed interest contracts with cash  
30 settlement options, valued on an issue year basis, except

1 as stated in subparagraph (ii):

2 (A) The formula for life insurance stated in  
3 subparagraph (i) shall apply to annuities and  
4 guaranteed interest contracts with guarantee  
5 durations in excess of 10 years.

6 (B) The formula for single premium immediate  
7 annuities stated in subparagraph (ii) shall apply to  
8 annuities and guaranteed interest contracts with  
9 guarantee duration of 10 years or less.

10 (iv) For other annuities with no cash settlement  
11 options and for guaranteed interest contracts with no  
12 cash settlement options, the formula for single premium  
13 immediate annuities stated in subparagraph (ii) shall  
14 apply.

15 (v) For other annuities with cash settlement options  
16 and guaranteed interest contracts with cash settlement  
17 options, valued on a change in fund basis, the formula  
18 for single premium immediate annuities stated in  
19 subparagraph (ii) shall apply.

20 (2) The following shall apply:

21 (i) If the calendar year statutory valuation  
22 interest rate for a life insurance policy issued in any  
23 calendar year determined without reference to this  
24 subparagraph differs from the corresponding actual rate  
25 for similar policies issued in the immediately preceding  
26 calendar year by less than 0.5%, the calendar year  
27 statutory valuation interest rate for the life insurance  
28 policies shall be equal to the corresponding actual rate  
29 for the immediately preceding calendar year.

30 (ii) For purposes of applying subparagraph (i), the

1 calendar year statutory valuation interest rate for life  
2 insurance policies issued in a calendar year shall be  
3 determined for 1980, using the reference interest rate  
4 defined in 1979, and shall be determined for each  
5 subsequent calendar year regardless of the operative date  
6 of section 410A(e) of The Insurance Company Law of 1921.

7 (c) Weighting factors.--The weighting factors referred to in  
8 subsection (b) shall be as follows:

9 (1) For life insurance, the guarantee duration shall be  
10 the maximum number of years the life insurance can remain in  
11 force on a basis guaranteed in the policy or under options to  
12 convert to plans of life insurance with premium rates or  
13 nonforfeiture values, or both, which are guaranteed in the  
14 original policy. Weighting factors for life insurance shall  
15 be as provided in the following table:

<u>Guarantee Duration</u>	<u>Weighting</u>
<u>(Years)</u>	<u>Factors</u>
<u>10 or less</u>	<u>.50</u>
<u>More than 10, but not more than 20</u>	<u>.45</u>
<u>More than 20</u>	<u>.35</u>

21 (2) Weighting factors for single premium immediate  
22 annuities and for annuity benefits involving life  
23 contingencies arising from other annuities with cash  
24 settlement options and guaranteed interest contracts with  
25 cash settlement options shall be .80.

26 (3) Weighting factors for other annuities and for  
27 guaranteed interest contracts, except as stated in paragraph  
28 (2), shall be as specified in subparagraphs (i), (ii) and  
29 (iii), according to the rules and definitions in  
30 subparagraphs (iv), (v) and (vi):

1           (i) For annuities and guaranteed interest contracts  
2 valued on an issue year basis, the following table shall  
3 apply:

<u>Guarantee Duration</u> <u>(Years)</u>	<u>Weighting Factor</u> <u>for Plan Type</u>		
	<u>A</u>	<u>B</u>	<u>C</u>
<u>5 or less</u>	<u>.80</u>	<u>.60</u>	<u>.50</u>
<u>More than 5, but not more than 10:</u>	<u>.75</u>	<u>.60</u>	<u>.50</u>
<u>More than 10, but not more than 20:</u>	<u>.65</u>	<u>.50</u>	<u>.45</u>
<u>More than 20:</u>	<u>.45</u>	<u>.35</u>	<u>.35</u>

11           (ii) For annuities and guaranteed interest contracts  
12 valued on a change in fund basis, the factors shown in  
13 subparagraph (i) shall be increased by .15 for plan type  
14 A, .25 for plan type B and .05 for plan type C.

15           (iii) For annuities and guaranteed interest  
16 contracts valued on an issue year basis, other than those  
17 with no cash settlement options, that do not guarantee  
18 interest on considerations received more than one year  
19 after issue or purchase and for annuities and guaranteed  
20 interest contracts valued on a change in fund basis that  
21 do not guarantee interest rates on considerations  
22 received more than 12 months beyond the valuation date,  
23 the factors shown in subparagraph (i) or derived in  
24 subparagraph (ii) shall be increased by .05 for plan  
25 types A, B and C.

26           (iv) For other annuities with cash settlement  
27 options and guaranteed interest contracts with cash  
28 settlement options, the guarantee duration is the number  
29 of years for which the contract guarantees interest rates  
30 in excess of the calendar year statutory valuation

1 interest rate for life insurance policies with guarantee  
2 duration in excess of 20 years. For other annuities with  
3 no cash settlement options and for guaranteed interest  
4 contracts with no cash settlement options, the guarantee  
5 duration is the number of years from the date of issue or  
6 date of purchase to the date annuity benefits are  
7 scheduled to commence.

8 (v) Each plan type referenced in this paragraph  
9 shall be defined as follows:

10 (A) "Plan type A." A plan in which at any time  
11 the policyholder may withdraw funds only:

12 (I) with an adjustment to reflect changes in  
13 interest rates or asset values since receipt of  
14 the funds by the insurance company;

15 (II) without an adjustment but in  
16 installments over five years or more;

17 (III) as an immediate life annuity; or

18 (IV) no withdrawal permitted.

19 (B) "Plan type B." A plan in which, before  
20 expiration of the interest rate guarantee, the  
21 policyholder may withdraw funds only:

22 (I) with an adjustment to reflect changes in  
23 interest rates or asset values since receipt of  
24 the funds by the insurance company;

25 (II) without an adjustment but in  
26 installments over five years or more; or

27 (III) no withdrawal permitted.

28 At the end of interest rate guarantee, funds may be  
29 withdrawn without an adjustment in a single sum or  
30 installments over less than five years.

1                   (C) "Plan type C." A plan in which the  
2 policyholder may withdraw funds before expiration of  
3 interest rate guarantee in a single sum or  
4 installments over less than five years either:

5                   (I) without adjustment to reflect changes in  
6 interest rates or asset values since receipt of  
7 the funds by the insurance company; or

8                   (II) subject only to a fixed surrender  
9 charge stipulated in the contract as a percentage  
10 of the fund.

11 (vi) The following shall apply:

12                   (A) A company may elect to value guaranteed  
13 interest contracts with cash settlement options and  
14 annuities with cash settlement options on either an  
15 issue year basis or on a change in fund basis.

16                   (B) Guaranteed interest contracts with no cash  
17 settlement options and other annuities with no cash  
18 settlement options shall be valued on an issue year  
19 basis.

20                   (C) As used in this section:

21                   (I) An issue year basis of valuation shall  
22 refer to a valuation basis under which the  
23 interest rate used to determine the minimum  
24 valuation standard for the entire duration of the  
25 annuity or guaranteed interest contract is the  
26 calendar year valuation interest rate for the  
27 year of issue or year of purchase of the annuity  
28 or guaranteed interest contract.

29                   (II) A change in fund basis of valuation  
30 shall refer to a valuation basis under which the



1 interest rate used to determine the minimum  
2 valuation standard applicable to each change in  
3 the fund held under the annuity or guaranteed  
4 interest contract is the calendar year valuation  
5 interest rate for the year of the change in the  
6 fund.

7 (d) Reference interest rate.--The reference interest rate  
8 referred to in subsection (b) shall be defined as follows:

9 (1) For life insurance, the lesser of the average over a  
10 period of 36 months and the average over a period of 12  
11 months, ending on June 30 of the calendar year preceding the  
12 year of issue, of the monthly average of the composite yield  
13 on seasoned corporate bonds, as published by Moody's  
14 Investors Service, Inc.

15 (2) For single premium immediate annuities and for  
16 annuity benefits involving life contingencies arising from  
17 other annuities with cash settlement options and guaranteed  
18 interest contracts with cash settlement options, the average  
19 over a period of 12 months, ending on June 30 of the calendar  
20 year of issue or year of purchase, of the monthly average of  
21 the composite yield on seasoned corporate bonds, as published  
22 by Moody's Investors Service, Inc.

23 (3) For other annuities with cash settlement options and  
24 guaranteed interest contracts with cash settlement options,  
25 valued on a year of issue basis, except as stated in  
26 paragraph (2), with guarantee duration in excess of 10 years,  
27 the lesser of the average over a period of 36 months and the  
28 average over a period of 12 months, ending on June 30 of the  
29 calendar year of issue or purchase, of the monthly average of  
30 the composite yield on seasoned corporate bonds, as published

1 by Moody's Investors Service, Inc.

2 (4) For other annuities with cash settlement options and  
3 guaranteed interest contracts with cash settlement options,  
4 valued on a year of issue basis, except as stated in  
5 paragraph (2), with guarantee duration of 10 years or less,  
6 the average over a period of 12 months, ending on June 30 of  
7 the calendar year of issue or purchase, of the monthly  
8 average of the composite yield on seasoned corporate bonds,  
9 as published by Moody's Investors Service, Inc.

10 (5) For other annuities with no cash settlement options  
11 and for guaranteed interest contracts with no cash settlement  
12 options, the average over a period of 12 months, ending on  
13 June 30 of the calendar year of issue or purchase, of the  
14 monthly average of the composite yield on seasoned corporate  
15 bonds, as published by Moody's Investors Service, Inc.

16 (6) For other annuities with cash settlement options and  
17 guaranteed interest contracts with cash settlement options,  
18 valued on a change in fund basis, except as stated in  
19 paragraph (2), the average over a period of 12 months, ending  
20 on June 30 of the calendar year of the change in the fund, of  
21 the monthly average of the composite yield on seasoned  
22 corporate bonds, as published by Moody's Investors Service,  
23 Inc.

24 (e) Alternative method to determine reference interest  
25 rate.--If the monthly average of the composite yield on seasoned  
26 corporate bonds is no longer published by Moody's Investors  
27 Service, Inc. or if NAIC determines that the monthly average of  
28 the composite yield on seasoned corporate bonds as published by  
29 Moody's Investors Service, Inc. is no longer appropriate for the  
30 determination of the reference interest rate, then an

1 alternative method for determination of the reference interest  
2 rate adopted by NAIC and approved by regulation may be  
3 substituted.

4 § 7118. Reserve valuation method for life insurance and  
5 endowment benefits.

6 (a) Uniform insurance amount and premiums.--Except as  
7 otherwise provided in sections 7119 (relating to reserve  
8 valuation method for annuity and pure endowment benefits), 7122  
9 (relating to reserve calculation for valuation net premium  
10 exceeding gross premium charged) and 7124 (relating to minimum  
11 standard for accident and health insurance contracts), for the  
12 life insurance and endowment benefits of policies providing for  
13 a uniform amount of insurance and requiring the payment of  
14 uniform premiums, reserves according to the commissioners  
15 reserve valuation method shall be the excess, if any, of the  
16 present value, at the date of valuation, of the future  
17 guaranteed benefits provided for by those policies, over the  
18 then present value of any future modified net premiums therefor.  
19 The modified net premiums for a policy shall be the uniform  
20 percentage of the respective gross premiums for the benefits so  
21 that the present value, at the date of issue of the policy, of  
22 all modified net premiums shall be equal to the sum of the then  
23 present value of the benefits provided for by the policy and the  
24 excess of paragraph (1) over paragraph (2), as follows:

25 (1) A net level annual premium equal to the present  
26 value, at the date of issue, of the benefits provided for  
27 after the first policy year, divided by the present value, at  
28 the date of issue, of an annuity of one per year payable on  
29 the first and each subsequent anniversary of the policy on  
30 which a premium falls due. However, the net level annual

1 premium shall not exceed the net level annual premium on the  
2 19-year premium whole life plan for insurance of the same  
3 amount at an age one year greater than the age at issue of  
4 the policy.

5 (2) A net one-year term premium for the benefits  
6 provided for in the first policy year.

7 (b) First-year excess.--For a life insurance policy issued  
8 on or after January 1, 1985, for which the gross premium in the  
9 first policy year exceeds that of the second year and for which  
10 no comparable additional benefit is provided in the first year  
11 for the excess and which provides an endowment benefit or a cash  
12 surrender value or a combination in an amount greater than the  
13 excess premium, reserves according to the commissioners reserve  
14 valuation method as of any policy anniversary occurring on or  
15 before the assumed ending date defined under this subsection as  
16 the first policy anniversary on which the sum of any endowment  
17 benefit and any cash surrender value then available is greater  
18 than the excess premium shall, except as otherwise provided in  
19 section 7122, be the greater of the reserve as of the policy  
20 anniversary calculated as described in subsection (a) and the  
21 reserve as of the policy anniversary calculated as described in  
22 subsection (a), but with:

23 (1) The value defined in subsection (a) being reduced by  
24 15% of the amount of this excess first year premium.

25 (2) All present values of benefits and premiums being  
26 determined without reference to premiums or benefits provided  
27 for by the policy after the assumed ending date.

28 (3) The policy being assumed to mature on that date as  
29 an endowment.

30 (4) The cash surrender value provided on that date being

1 considered as an endowment benefit.  
2 In making the comparison under this subsection, the mortality  
3 and interest bases stated in sections 7115 (relating to  
4 computation of minimum standard) and 7117 (relating to  
5 computation of minimum standard by calendar year of issue) shall  
6 be used.

7 (c) Consistent method.--Reserves according to the  
8 commissioners reserve valuation method shall be calculated by a  
9 method consistent with the principles of this section, except  
10 that any extra premiums charged because of impairments or  
11 special hazards shall be disregarded in the determination of  
12 modified net premiums, for:

13 (1) Life insurance policies providing for a varying  
14 amount of insurance or requiring the payment of varying  
15 premiums.

16 (2) Group annuity and pure endowment contracts purchased  
17 under a retirement plan or plan of deferred compensation,  
18 established or maintained by an employer, including a  
19 partnership or sole proprietorship, or by an employee  
20 organization, or by both, other than a plan providing  
21 individual retirement accounts or individual retirement  
22 annuities under section 408 of the Internal Revenue Code of  
23 1986 (Public Law 99-514, 26 U.S.C. § 408).

24 (3) Disability and accidental death benefits in all  
25 policies and contracts.

26 (4) All other benefits, except life insurance and  
27 endowment benefits in life insurance policies and benefits  
28 provided by all other annuity and pure endowment contracts.

29 § 7119. Reserve valuation method for annuity and pure endowment  
30 benefits.

1     (a) Applicability.--This section shall apply to all annuity  
2 and pure endowment contracts other than group annuity and pure  
3 endowment contracts purchased under a retirement plan or plan of  
4 deferred compensation, established or maintained by an employer,  
5 including a partnership or sole proprietorship, or by an  
6 employee organization, or by both, other than a plan providing  
7 individual retirement accounts or individual retirement  
8 annuities under section 408 of the Internal Revenue Code of 1986  
9 (Public Law 99-514, 26 U.S.C. § 408).

10    (b) Calculation.--The following shall apply:

11         (1) Reserves according to the commissioners annuity  
12 reserve method for benefits under annuity or pure endowment  
13 contracts, excluding any disability and accidental death  
14 benefits in the contracts, shall be the greatest of the  
15 respective excesses of the present values, at the date of  
16 valuation, of the future guaranteed benefits, including  
17 guaranteed nonforfeiture benefits, provided for by the  
18 contracts at the end of each respective contract year, over  
19 the present value, at the date of valuation, of any future  
20 valuation considerations derived from future gross  
21 considerations, required by the terms of the contract, that  
22 become payable prior to the end of the respective contract  
23 year.

24         (2) The future guaranteed benefits shall be determined  
25 by using the mortality table, if any, and the interest rate  
26 or rates specified in the contracts for determining  
27 guaranteed benefits.

28         (3) The valuation considerations shall be the portions  
29 of the respective gross considerations applied under the  
30 terms of the contracts to determine nonforfeiture values.

1 § 7120. Minimum reserves.

2 (a) Amount calculated.--A company's aggregate reserves for  
3 all life insurance policies, excluding disability and accidental  
4 death benefits, issued on or after May 17, 1921, shall not be  
5 less than the aggregate reserves calculated by using the  
6 mortality table or tables and rate or rates of interest used in  
7 calculating nonforfeiture benefits for the policies and in  
8 accordance with the methods set forth in:

9 (1) Section 7118 (relating to reserve valuation method  
10 for life insurance and endowment benefits).

11 (2) Section 7119 (relating to reserve valuation method  
12 for annuity and pure endowment benefits).

13 (3) Section 7122 (relating to reserve calculation for  
14 valuation net premium exceeding gross premium charged).

15 (4) Section 7123 (relating to reserve calculation for  
16 indeterminate premium plans).

17 (b) Amount necessary to render actuarial opinion.--The  
18 aggregate reserves for all policies, contracts and benefits  
19 shall not be less than the aggregate reserves determined by the  
20 appointed actuary to be necessary to render the opinion required  
21 by section 7113 (relating to actuarial opinion of reserves prior  
22 to operative date of valuation manual) or 7114 (relating to  
23 actuarial opinion of reserves on or after operative date of  
24 valuation manual).

25 § 7121. Optional reserve calculation.

26 (a) Issuance prior to May 17, 1921.--Reserves for policies  
27 and contracts issued prior to May 17, 1921, may be calculated,  
28 at the option of the company, according to any standards that  
29 produce greater aggregate reserves for all these policies and  
30 contracts than the minimum reserves required by law.

1     (b) Issuance on or after May 17, 1921.--Reserves for any  
2 category of policies, contracts or benefits established by the  
3 commissioner, issued on or after May 17, 1921, may be  
4 calculated, at the option of the company, according to any  
5 standards that produce greater aggregate reserves for the  
6 category than those calculated according to the minimum standard  
7 provided under this chapter, but the rate or rates of interest  
8 used for policies and contracts, other than annuity and pure  
9 endowment contracts, shall not be greater than the corresponding  
10 rate or rates of interest used in calculating any nonforfeiture  
11 benefits provided in the policies or contracts.

12     (c) Adoption of alternative standards.--The following shall  
13 apply:

14         (1) Subject to paragraph (2), a company that adopts at  
15 any time a standard of valuation producing greater aggregate  
16 reserves than those calculated according to the minimum  
17 standard provided under this chapter may adopt a lower  
18 standard of valuation with the approval of the commissioner,  
19 but not lower than the minimum provided in this chapter.

20         (2) For the purposes of this section, the holding of  
21 additional reserves previously determined by the appointed  
22 actuary to be necessary to render the opinion required by  
23 section 7113 (relating to actuarial opinion of reserves prior  
24 to operative date of valuation manual) or 7114 (relating to  
25 actuarial opinion of reserves on or after operative date of  
26 valuation manual) shall not be deemed to be the adoption of a  
27 higher standard of valuation.

28 § 7122. Reserve calculation for valuation net premium exceeding  
29 gross premium charged.

30     (a) Calculation of minimum reserve.--The following shall



1 apply:

2 (1) If in any contract year the gross premium charged by  
3 a company on a policy or contract is less than the valuation  
4 net premium for the policy or contract calculated by the  
5 method used in calculating the reserve but using the minimum  
6 valuation standards of mortality and rate of interest, the  
7 minimum reserve required for the policy or contract shall be  
8 the greater of:

9 (i) The reserve calculated according to the  
10 mortality table, rate of interest and method actually  
11 used for the policy or contract.

12 (ii) The reserve calculated by the method actually  
13 used for the policy or contract but using the minimum  
14 valuation standards of mortality and rate of interest and  
15 replacing the valuation net premium by the actual gross  
16 premium in each contract year for which the valuation net  
17 premium exceeds the actual gross premium.

18 (2) The minimum valuation standards of mortality and  
19 rate of interest referred to in this subsection are those  
20 standards stated in sections 7115 (relating to computation of  
21 minimum standard) and 7117 (relating to computation of  
22 minimum standard by calendar year of issue).

23 (b) How to apply this section for certain policies.--The  
24 following shall apply:

25 (1) For a life insurance policy issued on or after  
26 January 1, 1985, for which the gross premium in the first  
27 policy year exceeds that of the second year and for which no  
28 comparable additional benefit is provided in the first year  
29 for the excess and which provides an endowment benefit or a  
30 cash surrender value or a combination in an amount greater

1 than the excess premium, the provisions of this section shall  
2 be applied as if the method actually used in calculating the  
3 reserve for the policy were the method described in section  
4 7118 (relating to reserve valuation method for life insurance  
5 and endowment benefits), ignoring section 7118(b).

6 (2) The minimum reserve at each policy anniversary of  
7 the policy under paragraph (1) shall be the greater of the  
8 minimum reserve calculated in accordance with section 7118,  
9 including section 7118(b), and the minimum reserve calculated  
10 in accordance with this section.

11 § 7123. Reserve calculation for indeterminate premium plans.

12 (a) Applicability.--This section shall apply to either of  
13 the following:

14 (1) A plan of life insurance that provides for future  
15 premium determination, the amounts of which are to be  
16 determined by the insurance company based on then estimates  
17 of future experience.

18 (2) A plan of life insurance or annuity that is of a  
19 nature that the minimum reserves cannot be determined by the  
20 methods described in any of the following:

21 (i) Section 7118 (relating to reserve valuation  
22 method for life insurance and endowment benefits).

23 (ii) Section 7119 (relating to reserve valuation  
24 method for annuity and pure endowment benefits).

25 (iii) Section 7122 (relating to reserve calculation  
26 for valuation net premium exceeding gross premium  
27 charged).

28 (b) Nature and calculation of reserves.--The reserves that  
29 are held under a plan under this section shall be:

30 (1) Appropriate in relation to the benefits and the

1 pattern of premiums for the plan.

2 (2) Computed by a method that is consistent with the  
3 principles of this chapter, as determined by regulation.

4 § 7124. Minimum standard for accident and health insurance  
5 contracts.

6 (a) Annual valuation of reserve liabilities.--On an annual  
7 basis as of the December 31 of the preceding year, the  
8 commissioner shall value, or cause to be valued, or require the  
9 insurer to value, or cause to be valued, the reserve liabilities  
10 of each company doing business in this Commonwealth, with  
11 respect to all the accident and health insurance contracts of  
12 the company.

13 (b) Issuances after operative date of valuation manual.--For  
14 accident and health insurance contracts issued on or after the  
15 operative date of the valuation manual, the standard prescribed  
16 in the valuation manual shall be the minimum standard of  
17 valuation required under section 7112 (relating to reserve  
18 valuation for policies and contracts issued on or after  
19 operative date of valuation manual).

20 (c) Issuances prior to operative date of valuation manual.--  
21 For accident and health insurance contracts issued on or after  
22 May 17, 1921, and prior to the operative date of the valuation  
23 manual, the following shall apply:

24 (1) The minimum standard of valuation shall be the  
25 standard adopted by the commissioner by regulation.

26 (2) The company shall maintain a claim reserve for  
27 incurred but unpaid claims and an active life reserve that  
28 shall:

29 (i) place a sound value on its liabilities under  
30 these contracts; and

1           (ii) be not less than the reserve according to  
2           appropriate standards as prescribed by regulation.

3           (3) The active life reserve shall not be less in the  
4           aggregate than the pro rata gross unearned premiums for the  
5           contracts.

6           (d) Foreign or alien insurers.--For a foreign or alien  
7           insurer, the commissioner may accept a like valuation of the  
8           insurance supervising official of the state, province or foreign  
9           country in which that insurer is domiciled, if that valuation is  
10           made upon a basis and according to standards producing an  
11           aggregate reserve not less than contained in this chapter.

12           (e) Applicability.--This section shall not apply to total  
13           and permanent disability benefits supplementary to life  
14           insurance or annuity policies or contracts.

15           § 7125. Valuation manual for policies issued on or after  
16           operative date of valuation manual.

17           (a) Standard in valuation manual.--Except as provided in  
18           subsection (c) or (e), for policies issued on or after the  
19           operative date of the valuation manual, the standard prescribed  
20           in the valuation manual shall be the minimum standard of  
21           valuation required under 7112 (relating to reserve valuation for  
22           policies and contracts issued on or after operative date of  
23           valuation manual).

24           (b) Specific information in valuation manual.--The valuation  
25           manual shall specify:

26           (1) Minimum valuation standards for and definitions of  
27           the policies or contracts subject to section 7112, which  
28           shall be:

29           (i) The commissioners reserve valuation method for  
30           life insurance contracts other than annuity contracts.

1           (ii) The commissioners annuity reserve valuation  
2 method for annuity contracts.

3           (iii) Minimum reserves for all other policies or  
4 contracts.

5           (2) Which policies or contracts or types of policies or  
6 contracts are subject to the requirements of a principle-  
7 based valuation in section 7126(a) (relating to requirements  
8 of principle-based valuation) and the minimum valuation  
9 standards consistent with those requirements.

10           (3) For policies and contracts subject to a principle-  
11 based valuation under section 7126:

12           (i) Requirements for the format of reports to the  
13 commissioner under section 7126(b) (3), including  
14 information necessary to determine if the valuation is  
15 appropriate and in compliance with this chapter.

16           (ii) Assumptions prescribed for risks over which the  
17 company does not have significant control or influence.

18           (iii) Procedures for corporate governance and  
19 oversight of the actuarial function and a process for  
20 appropriate waiver or modification of those procedures.

21           (4) For policies not subject to a principle-based  
22 valuation under section 7126, the minimum valuation standard,  
23 which shall:

24           (i) be consistent with the minimum standard of  
25 valuation prior to the operative date of the valuation  
26 manual; or

27           (ii) develop reserves that quantify the benefits,  
28 guarantees and the funding associated with the contracts  
29 and their risks at a level of conservatism that reflects  
30 conditions that include unfavorable events having a

1 reasonable probability of occurring.

2 (5) Other requirements, including those relating to  
3 reserve methods, models for measuring risk, generation of  
4 economic scenarios, assumptions, margins, use of company  
5 experience, risk measurement, disclosure, certifications,  
6 reports, actuarial opinions and memorandums, transition rules  
7 and internal controls.

8 (6) The data and form of the data required under section  
9 7127 (relating to experience reporting for policies in force  
10 on or after operative date of valuation manual) and with whom  
11 the data must be submitted. The valuation manual may specify  
12 other requirements, including data analyses and reporting of  
13 analyses.

14 (c) Absent or noncompliant valuation requirement.--In the  
15 absence of a specific valuation requirement or if a specific  
16 valuation requirement in the valuation manual is not, in the  
17 opinion of the commissioner, in compliance with this chapter,  
18 the company shall, with respect to those requirements, comply  
19 with minimum valuation standards prescribed by the commissioner  
20 by regulation.

21 (d) Actuarial examination and review.--The following shall  
22 apply:

23 (1) The commissioner may engage a qualified actuary, at  
24 the expense of a company, to:

25 (i) perform an actuarial examination of the company  
26 and opine on the appropriateness of any reserve  
27 assumption or method used by the company; or

28 (ii) review and opine on the company's compliance  
29 with any requirement under this chapter.

30 (2) The commissioner may rely on the opinion regarding

1 provisions contained in this chapter of a qualified actuary  
2 engaged by the commissioner of another state, district or  
3 territory of the United States.

4 (3) As used in this subsection, the term "engage" shall  
5 include employment and contracting.

6 (e) Change, adjustment and disciplinary action.--The  
7 commissioner may require a company to change any assumption or  
8 method or adjust company reserves if, in the opinion of the  
9 commissioner, the change or adjustment is necessary to comply  
10 with the requirements of the valuation manual or this chapter.  
11 The commissioner may take disciplinary action as permitted by  
12 law.

13 § 7126. Requirements of principle-based valuation.

14 (a) Characteristics of valuation.--For policies or contracts  
15 specified in the valuation manual, a company shall establish  
16 reserves using a principle-based valuation that:

17 (1) Quantifies benefits and guarantees and the funding  
18 associated with contracts and their risks at a level of  
19 conservatism that reflects conditions that include  
20 unfavorable events having a reasonable probability of  
21 occurring during the lifetime of the contracts. For policies  
22 or contracts with significant tail risk, the valuation must  
23 reflect conditions appropriately adverse to quantify the tail  
24 risk.

25 (2) Incorporates assumptions, risk analysis methods and  
26 financial models and management techniques that are  
27 consistent with, but not necessarily identical to, those  
28 utilized within the company's overall risk assessment  
29 process, while recognizing potential differences in financial  
30 reporting structures and any prescribed assumptions or

1 methods.

2 (3) Incorporates assumptions that are:

3 (i) Prescribed in the valuation manual.

4 (ii) If not prescribed in the valuation manual,  
5 established by utilizing either of the following:

6 (A) The company's available experience, to the  
7 extent it is relevant and statistically credible.

8 (B) Other relevant and statistically credible  
9 experience, to the extent that company data is not  
10 available, relevant or statistically credible.

11 (4) Provides margins for uncertainty, including adverse  
12 deviation and estimation error, so that the greater the  
13 uncertainty, the larger the margin and resulting reserve.

14 (b) Company requirements.--A company using a principle-based  
15 valuation for one or more policies or contracts subject to this  
16 section as specified in the valuation manual shall:

17 (1) Establish procedures for corporate governance and  
18 oversight of the actuarial valuation function consistent with  
19 those described in the valuation manual.

20 (2) Provide to the commissioner and the board of  
21 directors an annual certification of the effectiveness of the  
22 internal controls with respect to the principle-based  
23 valuation. These controls shall be designed to assure that  
24 all material risks inherent in the liabilities and associated  
25 assets subject to this valuation are included in the  
26 valuation and that valuations are made in accordance with the  
27 valuation manual. The certification shall be based on the  
28 controls in place as of the end of the preceding calendar  
29 year.

30 (3) Develop and file with the commissioner upon request



1 a principle-based valuation report that complies with  
2 standards prescribed in the valuation manual.

3 (c) Formulaic reserve component.--A principle-based  
4 valuation may include a prescribed formulaic reserve component.  
5 § 7127. Experience reporting for policies in force on or after  
6 operative date of valuation manual.

7 A company shall submit to the commissioner, or the  
8 commissioner's designee or agent, mortality, morbidity,  
9 policyholder behavior or expense experience and other data as  
10 prescribed in the valuation manual.

11 SUBCHAPTER C

12 CONFIDENTIALITY

13 Sec.

14 7131. Confidential information defined.

15 7132. General rule for confidential information.

16 7133. Private civil actions.

17 7134. Use of confidential information by department.

18 7135. Agreements.

19 7136. No waiver of privilege or confidentiality.

20 7137. Limited exceptions.

21 § 7131. Confidential information defined.

22 As used in this subchapter, the following words and phrases  
23 shall have the meanings given to them in this section unless the  
24 context clearly indicates otherwise:

25 "Confidential information." Any of the following:

26 (1) A memorandum in support of an opinion submitted  
27 under section 7113 (relating to actuarial opinion of reserves  
28 prior to operative date of valuation manual) or 7114  
29 (relating to actuarial opinion of reserves on or after  
30 operative date of valuation manual) and any other documents,

1 materials and other information, including all working papers  
2 and copies thereof, created, produced or obtained by or  
3 disclosed to the commissioner or any other person in  
4 connection with the memorandum.

5 (2) All documents, materials and other information,  
6 including all working papers and copies thereof, created,  
7 produced or obtained by or disclosed to the commissioner or  
8 any other person in the course of an examination made under  
9 section 7125(d) (relating to valuation manual for policies  
10 issued on or after operative date of valuation manual),  
11 except that confidential information shall not include an  
12 examination report or other material prepared in connection  
13 with an examination made under Article IX of the act of May  
14 17, 1921 (P.L.789, No.285), known as The Insurance Department  
15 Act of 1921, to the extent not held to be private and  
16 confidential information under section 905 of The Insurance  
17 Department Act of 1921.

18 (3) Reports, documents, materials and other information  
19 developed by a company in support of or in connection with an  
20 annual certification by the company under section 7126(b) (2)  
21 (relating to requirements of principle-based valuation),  
22 which evaluates the effectiveness of the company's internal  
23 controls regarding a principle-based valuation, and any other  
24 documents, materials and other information, including all  
25 working papers and copies thereof, created, produced or  
26 obtained by or disclosed to the commissioner or any other  
27 person in connection with the reports, documents, materials  
28 and other information.

29 (4) A principle-based valuation report developed under  
30 section 7126(b) (3) and any other documents, materials and

1 other information, including all working papers and copies  
2 thereof, created, produced or obtained by or disclosed to the  
3 commissioner or any other person in connection with the  
4 report.

5 (5) Experience data, experience materials and any other  
6 documents, materials, data and other information, including  
7 all working papers and copies thereof, created, produced or  
8 obtained by or disclosed to the commissioner or any other  
9 person in connection with experience data or experience  
10 materials.

11 § 7132. General rule for confidential information.

12 Except as otherwise provided in this subchapter, confidential  
13 information shall be privileged and given confidential treatment  
14 and shall not be:

15 (1) Subject to discovery or admissible as evidence in a  
16 private civil action.

17 (2) Subject to subpoena.

18 (3) Subject to the act of February 14, 2008 (P.L.6,  
19 No.3), known as the Right-to-Know Law.

20 § 7133. Private civil actions.

21 The commissioner, department or any person who receives  
22 documents, materials or other information while acting under the  
23 authority of the commissioner or department or with whom the  
24 documents, materials or other information are shared under this  
25 chapter may not be permitted or required to testify in any  
26 private civil action concerning any confidential information  
27 covered under this subchapter.

28 § 7134. Use of confidential information by department.

29 To assist in the performance of its duties, the department  
30 may:

1       (1) Use confidential information in the furtherance of  
2 any regulatory or legal action brought against a company as a  
3 part of the department's official duties.

4       (2) Share confidential information with regulatory or  
5 law enforcement officials of this Commonwealth or other  
6 jurisdictions, IAIS, NAIC and its affiliates and  
7 subsidiaries, group-wide supervisors and members of a  
8 supervisory college under section 1406.1 of The Insurance  
9 Company Law of 1921, if prior to receiving the confidential  
10 information the recipient agrees, and has the legal authority  
11 to agree, to maintain the confidential and privileged status  
12 of the confidential information in the same manner and to the  
13 same extent as required for the commissioner.

14       (3) Receive, and shall maintain as confidential, any  
15 confidential information from the Actuarial Board for  
16 Counseling and Discipline or its successor, from NAIC and its  
17 affiliates and subsidiaries and from regulatory and law  
18 enforcement officials of this Commonwealth or other  
19 jurisdictions with the understanding that the documents,  
20 materials or other information received are confidential by  
21 law in those jurisdictions and shall be given the same  
22 confidential treatment provided by this subchapter.

23 § 7135. Agreements.

24       The department may enter into agreements governing sharing  
25 and use of confidential information consistent with this  
26 subchapter.

27 § 7136. No waiver of privilege or confidentiality.

28       (a) Sharing of information by department.--The sharing of  
29 confidential information ~~to~~ WITH or by the department as  
30 authorized by section 7134 (relating to use of confidential

<--

1 information by department) shall not constitute a waiver of any  
2 applicable privilege or claim of confidentiality in the  
3 documents, materials or information.

4 (b) Privilege established in other jurisdictions.--A  
5 privilege established under the law of any state or jurisdiction  
6 that is substantially similar to the privilege established under  
7 this subchapter shall be available and enforced in any  
8 proceeding in, and in any court of, this Commonwealth.

9 § 7137. Limited exceptions.

10 Notwithstanding section 7132 (relating to general rule for  
11 confidential information), confidential information as defined  
12 in section 7131(1) and (4) (relating to confidential information  
13 defined):

14 (1) May be shared with the Actuarial Board for  
15 Counseling and Discipline if the information is required for  
16 the purpose of professional disciplinary proceedings and the  
17 Actuarial Board for Counseling and Discipline recipient  
18 agrees, and has the legal authority to agree, to maintain the  
19 confidentiality and privileged status of the documents,  
20 materials, data and other information in the same manner and  
21 to the same extent as required for the commissioner.

22 (2) May be subject to subpoena for the purpose of  
23 defending an action seeking damages from the actuary  
24 submitting the related memorandum in support of an opinion  
25 submitted under section 7113 (relating to actuarial opinion  
26 of reserves prior to operative date of valuation manual) or  
27 7114 (relating to actuarial opinion of reserves on or after  
28 operative date of valuation manual) or a principle-based  
29 valuation report developed under section 7126(b) (3) (relating  
30 to requirements of principle-based valuation) by reason of an

1 action required by this chapter or regulations promulgated  
2 under this chapter.

3 (3) May be released by the commissioner with the written  
4 consent of the company.

5 (4) Is no longer confidential once any portion of a  
6 memorandum in support of an opinion submitted under section  
7 7113 or 7114 or a principle-based valuation report developed  
8 under section 7126(b) (3) is:

9 (i) cited by the company in its marketing materials;

10 (ii) publicly released to a governmental agency  
11 other than a State insurance department; or

12 (iii) released by the company to the news media.

13 SUBCHAPTER D

14 EXEMPTIONS

15 Sec.

16 7141. Single-state company exemption.

17 7142. Small company exemption.

18 § 7141. Single-state company exemption.

19 (a) Requirements.--A company may file a written request with  
20 the commissioner to exempt specific product forms or product  
21 lines issued by a domestic company from the requirements of  
22 sections 7125 (relating to valuation manual for policies issued  
23 on or after operative date of valuation manual) and 7126  
24 (relating to requirements of principle-based valuation) if the  
25 company:

26 (1) Is licensed and doing business only in this  
27 Commonwealth.

28 (2) Computes reserves using assumptions and methods used  
29 prior to the operative date of the valuation manual in  
30 addition to any requirements established by the commissioner

1 and promulgated by regulation.

2 (b) Written exemption.--An exemption under subsection (a)  
3 that is granted by the commissioner shall be in writing.

4 (c) Revocation.--The commissioner may revoke the exemption  
5 under subsection (a) if the conditions under subsection (a)(1)  
6 and (2) are no longer met after 180 days' written notice to the  
7 company regarding the conditions.

8 (d) Additional effects of exemption.--A company granted an  
9 exemption under subsection (a) shall also be exempt from any  
10 requirement under this chapter that is created by a reference to  
11 section 7125 or 7126 for the product forms or product lines  
12 exempted.

13 § 7142. Small company exemption.

14 (a) Requirements.--A company seeking an exemption for any of  
15 its ordinary life policies ISSUED ON OR AFTER THE OPERATIVE DATE <--  
16 OF THE VALUATION MANUAL may file a statement of exemption for  
17 the current calendar year with its domestic commissioner prior  
18 to July 1 of that year if the following conditions are met:

19 (1) The company has less than \$100,000,000 of ordinary  
20 life premiums.

21 (2) Any universal life secondary guarantee policies  
22 issued or assumed by the company with an issue date on or  
23 after the operative date of the valuation manual meet the  
24 definition of a nonmaterial secondary guarantee universal  
25 life product.

26 (b) Certification.--The statement of exemption under  
27 subsection (a) must certify that:

28 (1) The conditions under subsection (a) are met based on  
29 premiums and other values from the prior calendar year's  
30 financial statements.

1           (2) Any universal life secondary guarantee business  
2           issued since the operative date of the valuation manual meets  
3           the definition of a nonmaterial secondary guarantee universal  
4           life product.

5           (c) Inclusion with NAIC filing.--The statement of exemption  
6           under subsection (a) shall also be included with the NAIC filing  
7           for the second quarter of that year.

8           (d) Rejection.--If the commissioner finds that the  
9           conditions in subsection (a) are not met, the commissioner may <--  
10           SHALL reject the statement of exemption prior to September 1 and <--  
11           require the company to follow the requirements of the valuation  
12           manual minimum standard entitled VM-20 for the ordinary life  
13           policies. IF THE COMMISSIONER REJECTS THE EXEMPTION OR THE <--  
14           COMPANY DOES NOT FILE A STATEMENT OF EXEMPTION, THE COMPANY  
15           SHALL FOLLOW THE REQUIREMENTS OF THE VALUATION MANUAL MINIMUM  
16           STANDARD ENTITLED VM-20 FOR THE ORDINARY LIFE POLICIES ISSUED ON  
17           OR AFTER THE OPERATIVE DATE OF THE VALUATION MANUAL.

18           (e) Approval.--If the statement of exemption under  
19           subsection (a) is granted, the minimum reserve requirements for  
20           the exempt company's ordinary life policies ISSUED ON OR AFTER <--  
21           THE OPERATIVE DATE OF THE VALUATION MANUAL shall be as set forth  
22           in the valuation manual EXCEPT FOR VM-20. <--

23           (f) Definitions.--As used in this section, the following  
24           words and phrases shall have the meanings given to them in this  
25           subsection unless the context clearly indicates otherwise:

26           "Nonmaterial secondary guarantee universal life product." A  
27           universal life product where the secondary guarantee meets the  
28           following parameters at the time of issue:

29           (1) The policy has only one secondary guarantee, which  
30           is in the form of a required premium consisting of either a



1 specified annual or cumulative premium.

2 (2) The duration of the secondary guarantee for each  
3 policy is no longer than 20 years from issue through issue  
4 age 60, grading down by two-thirds year for each higher issue  
5 age to age 82, and thereafter five years.

6 (3) The present value of the required premium under the  
7 secondary guarantee must be at least as great as the present  
8 value of net premiums resulting from the appropriate  
9 valuation basic table over the course of the maximum  
10 secondary guarantee duration allowable under the contract in  
11 aggregate and subject to the duration limit under paragraph  
12 (2). The following shall apply:

13 (i) The present value shall use minimum allowable  
14 valuation basic table rates, where preferred tables are  
15 subject to existing qualification requirements, and the  
16 maximum valuation interest rate as defined in VM-20  
17 section 3(C) (2).

18 (ii) The minimum premiums shall be the annual  
19 required premiums over the course of the maximum  
20 secondary guarantee duration.

21 "Ordinary life premiums." Direct premiums plus reinsurance  
22 assumed premiums from an unaffiliated company from the ordinary  
23 life line of business reported in Exhibit 1-Part 1, entitled  
24 Premiums and Annuity Considerations for Life and Accident and  
25 Health Contracts, of the prior calendar year's life, accident  
26 and health annual statement or the fraternal annual statement.

27 SUBCHAPTER E

28 MISCELLANEOUS PROVISIONS

29 Sec.

30 7151. Effect on The Insurance Company Law of 1921.

1 § 7151. Effect on The Insurance Company Law of 1921.

2 (a) Fraternal benefit organizations.--The following shall  
3 apply:

4 (1) Section 2451(b) of The Insurance Company Law of 1921  
5 shall apply to the minimum reserves for certificates issued  
6 after February 11, 1994 and prior to the effective date of  
7 this chapter.

8 (2) The minimum reserves for certificates issued on or  
9 after the effective date of this chapter shall be governed by  
10 this chapter.

11 (b) Standard nonforfeiture law for life insurance.--  
12 Notwithstanding any provision of The Insurance Company Law of  
13 1921:

14 (1) For policies issued prior to the operative date of  
15 the valuation manual, any commissioners standard ordinary  
16 mortality table that was adopted after 1980 by NAIC and is  
17 approved by regulation for use in determining the minimum  
18 nonforfeiture standard may be substituted for the  
19 Commissioners 1980 Standard Ordinary Mortality Table with or  
20 without Ten-Year Select Mortality Factors or for the  
21 Commissioners 1980 Extended Term Insurance Table.

22 (2) For policies issued on or after the operative date  
23 of the valuation manual, the valuation manual shall provide  
24 the commissioners standard mortality table for use in  
25 determining the minimum nonforfeiture standard that may be  
26 substituted for the Commissioners 1980 Standard Ordinary  
27 Mortality Table with or without Ten-Year Select Mortality  
28 Factors or for the Commissioners 1980 Extended Term Insurance  
29 Table. If the commissioner approves by regulation any  
30 commissioners standard ordinary mortality table adopted by

1 NAIC for use in determining the minimum nonforfeiture  
2 standard for policies issued on or after the operative date  
3 of the valuation manual, that minimum nonforfeiture standard  
4 shall supersede the minimum nonforfeiture standard provided  
5 by the valuation manual.

6 (3) For policies issued prior to the operative date of  
7 the valuation manual, any commissioners standard industrial  
8 mortality table that was adopted after 1980 by NAIC and that  
9 is approved by regulation for use in determining the minimum  
10 nonforfeiture standard may be substituted for the  
11 Commissioners 1961 Standard Industrial Mortality Table or the  
12 Commissioners 1961 Industrial Extended Term Insurance Table.

13 (4) For policies issued on or after the operative date  
14 of the valuation manual, the valuation manual shall provide  
15 the commissioners standard mortality table for use in  
16 determining the minimum nonforfeiture standard that may be  
17 substituted for the Commissioners 1961 Standard Industrial  
18 Mortality Table or the Commissioners 1961 Industrial Extended  
19 Term Insurance Table. If the commissioner approves by  
20 regulation any commissioners standard industrial mortality  
21 table adopted by the NAIC for use in determining the minimum  
22 nonforfeiture standard for policies issued on or after the  
23 operative date of the valuation manual, that minimum  
24 nonforfeiture standard shall supersede the minimum  
25 nonforfeiture standard provided by the valuation manual.

26 (c) Nonforfeiture interest rate.--Notwithstanding any  
27 provision of The Insurance Company Law of 1921, the  
28 nonforfeiture rate shall be as follows:

29 (1) For policies issued prior to the operative date of  
30 the valuation manual, the nonforfeiture interest rate per

1 year for any policy issued in a particular calendar year  
2 shall be equal to 125% of the calendar year statutory  
3 valuation interest rate for the policy as defined in section  
4 7117 (relating to computation of minimum standard by calendar  
5 year of issue) rounded to the nearest 0.25%, but the  
6 nonforfeiture interest rate shall not be less than 4%.

7 (2) For policies issued on and after the operative date  
8 of the valuation manual, the nonforfeiture interest rate per  
9 year for any policy issued in a particular calendar year  
10 shall be provided by the valuation manual.

11 Section 2. Repeals are as follows:

12 (1) The General Assembly declares that the repeals under  
13 paragraphs (2) and (3) are necessary to effectuate the  
14 addition of 40 Pa.C.S. Pt. IV.

15 (2) Sections 301, 301.1, 303 and 311.1 of the act of May  
16 17, 1921 (P.L.789, No.285), known as The Insurance Department  
17 Act of 1921, are repealed.

18 (3) Section 410A(e)(8)(F) and (G) and (9) of the act of  
19 May 17, 1921 (P.L.682, No.284), known as The Insurance  
20 Company Law of 1921, are repealed.

21 (4) All other acts and parts of acts are repealed  
22 insofar as they are inconsistent with this act.

23 Section 3. This act shall take effect in 30 days.