

The NAIC solicits comments on this draft. Underlining and overstrikes show changes from the existing model. Comments should be sent to John Engelhardt, NAIC, at JEngelha@naic.org by October 7, 2011.

STANDARD NONFORFEITURE LAW FOR LIFE INSURANCE

Table of Contents

Section 1.	Title
<u>Section 1a.</u>	<u>Definitions</u>
Section 2.	Nonforfeiture Benefits
Section 3.	Computation of Cash Surrender Value
Section 4.	Computation of Paid-Up Nonforfeiture Benefits
Section 5.	Calculation of Adjusted Premiums
Section 5a.	Calculation of Adjusted Premiums—Ordinary Policies
Section 5b.	Calculation of Adjusted Premiums—Industrial Policies
Section 5c.	Calculation of Adjusted Premiums By the Nonforfeiture Net Level Premium Method
Section 6.	Nonforfeiture Benefits for Indeterminate Premium Plans
Section 7.	Proration of Values; Net Value or Paid-Up Additions
Section 8.	Consistency of Progression of Cash Surrender Values with Increasing Policy Duration
Section 9.	Exceptions
Section 10.	Effective Date

* * * *

Section 1. Title

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

Section 1a. Definitions

The term “operative date of the valuation manual” means the January 1 of the first calendar year that the valuation manual as defined in the [insert reference to the state’s Standard Valuation Law incorporating the National Association of Insurance Commissioners’ 2009 Amendments] is effective.

* * * *

Section 5c. Calculations of Adjusted Premiums By the Nonforfeiture Net Level Premium Method

- A. This section shall apply to all policies issued on or after the operative date of this section. Except as provided in Subsection G, the adjusted premiums for any policy shall be calculated on an annual basis and shall be such uniform percentage of the respective premiums specified in the policy for each policy year, excluding amounts payable as extra premiums to cover impairments or special hazards and also excluding any uniform annual contract charge or policy fee specified in the policy in a statement of the method to be used in calculating the cash surrender values and paid-up nonforfeiture benefits, that the present value, at the date of issue of the policy, of all adjusted premiums shall be equal to the sum of:
- (1) The then present value of the future guaranteed benefits provided for by the policy;
 - (2) One percent of either the amount of insurance, if the insurance be uniform in amount, or the average amount of insurance at the beginning of each of the first ten (10) policy years; and
 - (3) One hundred twenty-five percent (125%) of the nonforfeiture net level premium as hereinafter defined.

Provided, however, that in applying the percentage specified in (3) above no nonforfeiture net level premium shall be deemed to exceed four percent (4%) of either the amount of insurance, if the insurance be uniform in amount, or the average amount of insurance at the beginning of each of the first ten (10) policy years. The date of issue of a policy for the purpose of this section shall be the date as of which the rated age of the insured is determined.

- B. The nonforfeiture net level premium shall be equal to the present value, at the date of issue of the policy, of the guaranteed benefits provided for by the policy divided by the present value, at the date of issue of the policy, of an annuity of one per annum payable on the date of issue of the policy and on each anniversary of the policy on which a premium falls due.
- C. In the case of policies which cause, on a basis guaranteed in the policy, unscheduled changes in benefits or premiums; or which provide an option for changes in benefits or premiums, other than a change to a new policy; the adjusted premiums and present values shall initially be calculated on the assumption that future benefits and premiums do not change from those stipulated at the date of issue of the policy. At the time of any change in the benefits or premiums, the future adjusted premiums, nonforfeiture net level premiums and present values shall be recalculated on the assumption that future benefits and premiums do not change from those stipulated by the policy immediately after the change.
- D. Except as otherwise provided in Subsection G, the recalculated future adjusted premiums for any policy shall be uniform percentage of the respective future premiums specified in the policy for each policy year, excluding amounts payable as extra premiums to cover impairments and special hazards, and also excluding any uniform annual contract charge or policy fee specified in the policy in a statement of the method to be used in calculating the cash surrender values and paid-up nonforfeiture benefits, that the present value, at the time of change to the newly defined benefits or premiums, of all such future adjusted premiums shall be equal to the excess of:
 - (1) The sum of
 - (a) The then present value of the then future guaranteed benefits provided for by the policy, and
 - (b) The additional expense allowance, if any, over
 - (2) The then cash surrender value, if any, or present value of any paid-up nonforfeiture benefit under this policy.
- E. The additional expense allowance, at the time of the change to the newly defined benefits or premiums, shall be the sum of:
 - (1) One percent of the excess, if positive, of the average amount of insurance at the beginning of each of the first ten (10) policy years subsequent to the change over the average amount of insurance prior to the change at the beginning of each of the first ten (10) policy years subsequent to the time of the most recent previous change, or, if there has been no previous change, the date of issue of the policy; and
 - (2) One hundred twenty-five percent (125%) of the increase, if positive, in the nonforfeiture net level premium.
- F. The recalculated nonforfeiture net level premium shall be equal to the result obtained by dividing (1) by (2) where
 - (1) Equals the sum of
 - (a) The nonforfeiture net level premium applicable prior to the change times the present value of an annuity of one per annum payable on each anniversary of the policy on or subsequent to the date of the change on which a premium would have fallen due had the change not occurred, and

- (b) The present value of the increase in future guaranteed benefits provided for by the policy, and
 - (2) Equals the present value of an annuity of one per annum payable on each anniversary of the policy on or subsequent to the date of change on which a premium falls due.
- G. Notwithstanding any other provisions of this section to the contrary, in the case of a policy issued on a substandard basis which provides reduced graded amounts of insurance so that, in each policy year, the policy has the same tabular mortality cost as an otherwise similar policy issued on the standard basis which provides higher uniform amount of insurance, adjusted premiums and present values for the substandard policy may be calculated as if it were issued to provide higher uniform amounts of insurance on the standard basis.
- H. All adjusted premiums and present values referred to in this Act shall for all policies of ordinary insurance be calculated on the basis of the Commissioners 1980 Standard Ordinary Mortality Table; or, at the election of the company for any one or more specified plans of life insurance, the Commissioners 1980 Standard Ordinary Mortality Table with Ten-Year Select Mortality Factors; shall for all policies of industrial insurance be calculated on the basis of the Commissioners 1961 Standard Industrial Mortality Table; and shall for all policies issued in a particular calendar year be calculated on the basis of a rate of interest not exceeding the nonforfeiture interest rate as defined in this section, for policies issued in that calendar year. Provided, however, that:
 - (1) At the option of the company, calculations for all policies issued in a particular calendar year may be made on the basis of a rate of interest not exceeding the nonforfeiture interest rate, as defined in this section, for policies issued in the immediately preceding calendar year.
 - (2) Under any paid-up nonforfeiture benefit, including any paid-up dividend additions, any cash surrender value available, whether or not required by Section 2, shall be calculated on the basis of the mortality table and rate of interest used in determining the amount of such paid-up nonforfeiture benefit and paid-up dividend additions, if any.
 - (3) A company may calculate the amount of any guaranteed paid-up nonforfeiture benefit including any paid-up additions under the policy on the basis of an interest rate no lower than that specified in the policy for calculating cash surrender values.
 - (4) In calculating the present value of any paid-up term insurance with accompanying pure endowment, if any, offered as a nonforfeiture benefit, the rates of mortality assumed may be not more than those shown in the Commissioners 1980 Extended Term Insurance Table for policies of ordinary insurance and not more than the Commissioners 1961 Industrial Extended Term Insurance Table for policies of industrial insurance.
 - (5) For insurance issued on a substandard basis, the calculation of any adjusted premiums and present values may be based on appropriate modifications of the aforementioned tables.
 - (6) Any ordinary mortality tables, adopted after 1980 and prior to the operative date of the valuation manual by the National Association of Insurance Commissioners, that are approved by regulation promulgated by the commissioner for use in determining the minimum nonforfeiture standard may be substituted for the Commissioners 1980 Standard Ordinary Mortality Table with or without Ten-Year Select Mortality Factors or for the Commissioners 1980 Extended Term Insurance Table.

For policies issued on or after the operative date of the valuation manual the valuation manual shall provide the mortality table for use in determining the minimum nonforfeiture standard that may be substituted for the Commissioners 1980 Standard Ordinary Mortality Table with or without Ten-Year Select Mortality Factors or for the Commissioners 1980 Extended Term Insurance Table. If the commissioner approves by regulation any ordinary mortality table adopted by the National Association of Insurance Commissioners for use in determining the minimum nonforfeiture

Formatted: Indent: Hanging: 0.5"

standard for policies issued on or after the operative date of the valuation manual then that minimum nonforfeiture standard supersedes the minimum nonforfeiture standard provided by the valuation manual.

- (7) Any industrial mortality tables, adopted after 1980 and prior to the operative date of the valuation manual by the National Association of Insurance Commissioners, that are approved by regulation promulgated by the commissioner for use in determining the minimum nonforfeiture standard may be substituted for the Commissioners 1961 Standard Industrial Mortality Table or the Commissioners 1961 Industrial Extended Term Insurance Table.

For policies issued on or after the operative date of the valuation manual the valuation manual shall provide the mortality table for use in determining the minimum nonforfeiture standard that may be substituted for the Commissioners 1961 Standard Industrial Mortality Table or the Commissioners 1961 Industrial Extended Term Insurance Table. If the commissioner approves by regulation any industrial mortality table adopted by the National Association of Insurance Commissioners for use in determining the minimum nonforfeiture standard for policies issued on or after the operative date of the valuation manual then that minimum nonforfeiture standard supersedes the minimum nonforfeiture standard provided by the valuation manual.

I. The nonforfeiture interest rate is defined below:

(1) Prior to the operative date of the valuation manual, the nonforfeiture interest rate per annum for any policy issued in a particular calendar year shall be equal to one hundred and twenty-five percent (125%) of the calendar year statutory valuation interest rate for such policy as defined in the *Standard Valuation Law*, rounded to the nearer one quarter of one percent (1/4 of 1%).

(2) On and after the operative date of the valuation manual the nonforfeiture interest rate per annum for any policy issued in a particular calendar year shall be provided by the valuation manual.

- J. Notwithstanding any other provision in this code to the contrary, any refiling of nonforfeiture values or their methods of computation for any previously approved policy form which involves only a change in the interest rate or mortality table used to compute nonforfeiture values shall not require refiling of any other provisions of that policy form.

- K. After the effective date of this section, any company may file with the commissioner a written notice of its election to comply with the provision of this section after a specified date before January 1, 1989, which shall be the operative date of this section for the company. If a company makes no election, the operative date of this section for the company shall be January 1, 1989.

* * * *

Formatted: Indent: Left: 0", First line: 0", Tab stops: Not at 1.5"

Formatted: Indent: Hanging: 0.5", Tab stops: 1.5", Left

Formatted: Indent: Left: 0.06", First line: 0", Tab stops: Not at 1.5"

Formatted: Font: Italic