

17B:19-8

LEGISLATIVE HISTORY CHECKLIST

NJSA: 17B:19-8

(Insurers-- allow reduction of reserves consistent with valuation standards)

CHAPTER 14

Laws Of: 1987

Bill No: A2939

Sponsor(s): Loveys and Adubato

Date Introduced: June 30, 1986

Committee: Assembly: Insurance

Senate: Labor, Industry and Professions

Amended during passage: No Substituted for S1166 (attached).

Date of Passage: Assembly: October 2, 1986

Senate: December 15, 1986

Date of Approval: January 23, 1987

Following statements are attached if available:

Sponsor statement: Yes (Below)

Committee statement: Assembly Yes

Senate Yes

Fiscal Note: No

Veto Message: No

Message on Signing: No

Following were printed:

Reports: No

Hearings: No

Sponsor's statement:

This bill will permit insurers to reduce required reserves to a level consistent with valuation standards in effect in this State. This bill will result in greater benefits and lower costs to policyholders.

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ASSEMBLY, No. 2939

STATE OF NEW JERSEY

INTRODUCED JUNE 30, 1986

By Assemblymen LOVEYS and ADUBATO

AN ACT concerning insurance and the standard valuation law and amending N. J. S. 17B:19-8.

1 BE IT ENACTED *by the Senate and General Assembly of the State*
2 *of New Jersey:*

1 1. N. J. S. 17B:19-8 is amended to read as follows:

2 17B:19-8. This section shall be known as the standard valuation
3 law and shall apply to all the life insurance policies, pure endow-
4 ment contracts and annuity contracts issued by every life insurer
5 on or after January 1, 1948 or such earlier date as shall have been
6 elected by the insurer as the operative date for such insurer of the
7 standard nonforfeiture law.

8 a. The minimum standard for the valuation of the reserve lia-
9 bilities for all such policies and contracts shall be the commis-
10 sioner's reserve valuation methods defined in subsections b., e. and
11 f. of this section, 3½% interest, except as otherwise provided in
12 paragraphs (iii), (iv), (ix) and (x) of this subsection for annuity
13 and pure endowment contracts and paragraph (x) of this subsec-
14 tion for life insurance policies and disability and accidental death
15 benefits, and except 4% interest for such policies and benefits
16 issued on and after January 1, 1973 and prior to January 1, 1977
17 and 4½% interest for such policies and benefits issued on or after
18 January 1, 1977, and the following tables:

19 (i) For all ordinary policies of life insurance issued on the
20 standard basis, excluding any disability and accidental death
21 benefits in such policies, the Commissioners 1941 Standard Ordi-
22 nary Mortality Table; provided, however, that the Commissioners

EXPLANATION—Matter enclosed in bold-faced brackets [thus] in the above bill is not enacted and is intended to be omitted in the law.
Matter printed in italics *thus* is new matter.

23 1958 Standard Ordinary Mortality Table shall be the table for the
24 minimum standard for such policies issued on or after January 1,
25 1966 or, for policies in any category of ordinary insurance, such
26 earlier date as shall have been elected by the insurer for the pur-
27 pose and prior to the operative date, for such category, provided
28 for in paragraph (xi) of subsection h. of the standard nonforfei-
29 ture law for life insurance (N. J. S. 17B:25-19); and provided that
30 the Commissioners 1980 Standard Ordinary Mortality Table, or at
31 the election of the insurer for any one or more specified plans of
32 life insurance, the Commissioners 1980 Standard Ordinary Mor-
33 tality Table with Ten-Year Select Mortality Factors, or any ordi-
34 nary mortality table, adopted after 1980 by the National Associa-
35 tion of Insurance Commissioners, that is approved by regulation
36 promulgated by the commissioner for use in determining the min-
37 imum standard of valuation for such policies shall be the tables for
38 the minimum standard for policies in any category of ordinary in-
39 surance issued on or after the operative date, for such category pro-
40 vided for in paragraph (xi) of subsection h. of section 17B:25-19,
41 the standard nonforfeiture law for life insurance. Notwithstanding
42 the above provisions of this paragraph, for any category of ordi-
43 nary insurance, reserves for such policies issued on or after July
44 1, 1957 and prior to the operative date provided for in paragraph
45 (xi) of subsection h. of section 17B:25-19, the standard nonforfei-
46 ture law for life insurance, may be calculated, at the option of the
47 insurer, according to the Approved Standard Ordinary Mortality
48 Table contained in section 17B:19-9; provided, further, that for
49 any category of such policies issued on female risks on or after
50 July 1, 1957 and prior to the operative date provided for in para-
51 graph (xi) of subsection h. of the standard nonforfeiture law for
52 life insurance, modified net premiums and present values, referred
53 to in subsection b. of this section, may be calculated, at the option
54 of the insurer with approval of the commissioner, according to an
55 age not more than six years younger than the actual age of the
56 insured.

57 (ii) For all industrial life insurance policies issued on the
58 standard basis, excluding any disability and accidental death bene-
59 fits in such policies, the 1941 Standard Industrial Mortality Table;
60 provided, however, that the Commissioners 1961 Standard In-
61 dustrial Mortality Table or any industrial mortality table, adopted
62 after 1980 by the National Association of Insurance Commis-
63 sioners, that is approved by regulation promulgated by the com-
64 missioner for use in determining the minimum standard of valua-

65 tion for such policies shall be the table for the minimum standard
66 for such policies issued on or after January 1, 1968 or such earlier
67 date as shall have been elected by the insurer as the date on which
68 the calculation of the adjusted premiums referred to in the stan-
69 dard nonforfeiture law for life insurance (N. J. S. 17B:25-19) for
70 such insurer's industrial life insurance policies became based upon
71 said table.

72 (iii) For individual annuity and pure endowment contracts
73 issued prior to the operative date of paragraph (ix) of this sub-
74 section, excluding any disability and accidental death benefits in
75 such contracts, the 1937 Standard Annuity Mortality Table, or,
76 at the option of the insurer, the Annuity Mortality Table for 1949,
77 Ultimate, or any modification of either of these tables approved by
78 the commissioner; provided, however, that for single stipulated
79 payment individual annuity and single premium pure endowment
80 contracts issued on or after January 1, 1970, excluding any dis-
81 ability and accidental death benefits in such contracts, the minimum
82 standard shall be the lesser of (a) the standard just described and
83 (b) the standard based on 4% interest and the Annuity Mortality
84 Table for 1949, Ultimate, or any modification of such table ap-
85 proved by the commissioner.

86 (iv) For group annuity and pure endowment contracts, except
87 annuities and pure endowments purchased thereunder on or after
88 the operative date of paragraph (ix) of this subsection, excluding
89 any disability and accidental death benefits in such contracts, the
90 Group Annuity Mortality Table for 1951, any modification of such
91 table approved by the commissioner, or, at the option of the in-
92 surer, any of the tables or modifications of tables specified for
93 individual annuity and pure endowment contracts; provided, how-
94 ever, that the commissioner may establish regulations governing
95 the use of 5% interest and either the 1971 Group Annuity Mor-
96 tality Table or any modification of such table approved by the
97 commissioner for either contracts whose reserves are considered
98 as pension plan reserves of the type set forth in section 805(d) of
99 the U. S. Internal Revenue Code, as amended, or contracts of a
100 similar type; and further provided that for group annuity benefits
101 arising from considerations received on or after January 1, 1970,
102 excluding any disability and accidental death benefits, the min-
103 imum standard shall be the lesser of (a) the standard just described
104 and (b) the standard based on 4% interest and the Group Annuity
105 Mortality Table for 1951, any modification of such table approved
106 by the commissioner, or, at the option of the insurer, the Annuity

107 Mortality Table for 1949, Ultimate, or any modification of such
108 table specified for individual annuity and pure endowment
108A contracts.

109 (v) For total and permanent disability benefits in or supple-
110 mentary to ordinary policies or contracts, for policies or contracts
111 issued on or after January 1, 1966, the tables of Period 2 disable-
112 ment rates and the 1930 to 1950 termination rates of the 1952 Dis-
113 ability Study of the Society of Actuaries, with due regard to the
114 type of benefits or any tables of disablement rates and termination
115 rates, adopted after 1980 by the National Association of Insurance
116 Commissioners, that are approved by regulation promulgated by
117 the commissioner for use in determining the minimum standard of
118 valuation for such policies; for policies or contracts issued on or
119 after January 1, 1961 and prior to January 1, 1966, either such
120 tables, or, at the option of the insurer, the Class (3) Disability
121 Table (1926); and for policies issued prior to January 1, 1961, the
122 Class (3) Disability Table (1926). Any such table shall, for active
123 lives, be combined with a mortality table permitted for calculating
124 the reserves for life insurance policies.

125 (vi) For accidental death benefits in or supplementary to pol-
126 icies, for policies issued on or after January 1, 1966, the 1959
127 Accidental Death Benefits Table or any accidental death benefits
128 table, adopted after 1980 by the National Association of Insurance
129 Commissioners, that is approved by regulation promulgated by the
130 commissioner for use in determining the minimum standard of
131 valuation for such policies; for policies issued on or after January
132 1, 1961 and prior to January 1, 1966, either such table or, at the
133 option of the insurer, the Inter-Company Double Indemnity Mor-
134 tality Table; and for policies issued prior to January 1, 1961,
135 the Inter-Company Double Indemnity Mortality Table. Any such
136 table shall be combined with a mortality table permitted for cal-
137 culating the reserves for life insurance policies.

138 (vii) For group life insurance, life insurance issued on the sub-
139 standard basis and other special benefits, such tables as may be
140 approved by the commissioner.

141 (viii) For ordinary and industrial paid-up nonforfeiture term
142 insurance, and accompanying pure endowment, the table of mor-
143 tality based on the rates of mortality assumed in calculating the
144 paid-up nonforfeiture benefits.

145 (ix) Except as provided in paragraph (x) of this subsection,
146 for individual annuity and pure endowment contracts issued on
147 or after the operative date of this paragraph (ix), as defined

148 herein, and for all annuities and pure endowments purchased on
149 or after such operative date under group annuity and pure endow-
150 ment contracts, the commissioner's reserve valuation methods
151 defined in subsections b., e. and f. and the following tables and
152 interest rates:

153 (1) For individual annuity and pure endowment contracts, ex-
154 cluding any disability and accidental death benefits in such con-
155 tracts, the 1971 Individual Annuity Mortality Table or any indi-
156 vidual annuity mortality table, adopted after 1980 by the National
157 Association of Insurance Commissioners, that is approved by regu-
158 lation promulgated by the commissioner for use in determining the
159 minimum standard of valuation for such contracts, or any modifica-
160 tion of any such table approved by the commissioner, and, for such
161 contracts issued prior to January 1, 1977, 6% interest for single
162 stipulated payment immediate annuity and single premium pure
163 endowment contracts, and 4% interest for all other individual an-
164 nuity and pure endowment contracts, and such contracts issued on
165 or after January 1, 1977, 7½% interest for single stipulated pay-
166 ment immediate annuity contracts either of the type whose reserves
167 are considered as pension plan reserves as set forth in section
168 805(d) of the U. S. Internal Revenue Code, as amended, or of simi-
169 lar type, and 6% interest for other single stipulated payment im-
170 mediate annuity contracts, and 4½% interest for other individual
171 annuity and pure endowment contracts, provided, however, that
172 the commissioner may establish regulations governing the use, in
173 subsequent valuations of single stipulated payments not previously
174 valued, of an interest rate not more than 7½% or less than 6%.

175 (2) For all annuities and pure endowments purchased under
176 group annuity and pure endowment contracts, excluding any dis-
177 ability and accidental death benefits purchased under such con-
178 tracts, the 1971 Group Annuity Mortality Table or any group
179 annuity mortality table, adopted after 1980 by the National Asso-
180 ciation of Insurance Commissioners, that is approved by regula-
181 tion promulgated by the commissioner for use in determining the
182 minimum standard of valuation for such annuities and pure en-
183 dowments, or any modification of any such table approved by the
184 commissioner, and 6% interest; except 7½% interest for purchases
185 on or after January 1, 1977 under either contracts whose reserves
186 are considered as pension plan reserves of the type set forth in
187 section 805(d) of the U. S. Internal Revenue Code, as amended,
188 or contracts of similar type, provided, however, that the commis-
189 sioner may establish regulations governing the use, in subsequent

190 valuations of purchases not previously valued, of an interest rate
191 not more than 7½% or less than 6%.

192 For individual single stipulated payment immediate annuity and
193 single premium pure endowment contracts and for annuities and
194 pure endowments purchased under group annuity and pure endow-
195 ment contracts, the operative date of this paragraph (ix) shall be
196 January 1, 1973.

197 For other individual annuity and pure endowment contracts, an
198 insurer may file with the commissioner a written notice of its elec-
199 tion to comply with the provisions of this paragraph (ix) beginning
200 on a specific date that is on or after January 1, 1973 but prior to
201 January 1, 1979. Such specified date shall be the operative date
202 of this paragraph for such contracts of the insurer, provided that if
203 an insurer makes no such election, the operative date of this para-
204 graph for such contracts of the insurer shall be January 1, 1979.

205 (x) The interest rates used in determining the minimum stan-
206 dard for the valuation of:

207 benefits which are subject to the provisions of N. J. S.
208 17B:25-19 under life insurance policies issued in particular
209 calendar year on or after the operative date provided for in
210 subsection h. (xi) of N. J. S. 17B:25-19; and all other benefits
211 in life insurance policies and all individual annuity and pure
212 endowment contracts issued in particular calendar year on
213 or after January 1, 1981; and
214 all annuities and pure endowments purchased in a particular
215 calendar year on or after January 1, 1981 under group annuity
216 and pure endowment contracts; and
217 the net increase, if any, in a particular calendar year after
218 January 1, 1981, in amounts held under guaranteed interest
219 contracts

220 shall be the calendar year statutory valuation interest rates estab-
221 lished below.

222 The calendar year statutory valuation interest rates, I, shall be
223 determined as follows and the results rounded to the nearer ¼
224 of 1%:

225 (1) For life insurance,

$$226 \quad I = .03 + W (R_1 - .03) + \frac{W}{2} (R_2 - .09);$$

227 (2) For single stipulated payment immediate annuities and for
228 annuity benefits involving life contingencies arising from other

229 annuities with cash settlement options and from guaranteed in-
 230 terest contracts with cash settlement options,

$$231 \quad I = .03 + W (R - .03)$$

232 where R_1 is the lesser of R and .09,

233 R_2 is the greater of R and .09,

234 R is the reference interest rate defined in subparagraph (7) of
 235 this paragraph, and W is the weighting factor defined in sub-
 236 paragraph (6) of this paragraph;

237 (3) For other annuities with cash settlement options and guar-
 238 anteed interest contracts with cash settlement options, valued on
 239 an issue year basis, except as stated in (2) above, the formula for
 240 life insurance stated in (1) above shall apply to annuities and
 241 guaranteed interest contracts with guaranteed durations in excess
 242 of 10 years and the formula for single stipulated payment im-
 243 mediate annuities stated in (2) above shall apply to annuities and
 244 guaranteed interest contracts with guaranteed durations of 10
 245 years or less;

246 (4) For other annuities with no cash settlement options and for
 247 guaranteed interest contracts with no cash settlement options, the
 248 formula for single stipulated payment immediate annuities stated
 249 in (2) above shall apply; and

250 (5) For other annuities with cash settlement options and guar-
 251 anteed interest contracts with cash settlement options, valued on a
 252 change in fund basis, the formula for single stipulated payment
 253 immediate annuities stated in (2) above shall apply.

254 However, if the calendar year statutory valuation interest rate
 255 for any life insurance policies issued in any calendar year deter-
 256 mined without reference to this sentence differs from the corres-
 257 ponding actual rate for similar policies issued in the immediately
 258 preceding calendar year by less than $\frac{1}{2}$ of 1%, the calendar year
 259 statutory valuation interest rate for such life insurance policies
 260 shall be equal to the corresponding actual rate for the immediately
 261 preceding calendar year. For purposes of applying the immediately
 262 preceding sentence, the calendar year statutory valuation interest
 263 rate for life insurance policies issued in a calendar year shall be
 264 determined for 1980 (using the reference interest rate defined for
 265 1979) and shall be determined for each subsequent calendar year
 266 notwithstanding the provisions of subsection h. of section
 267 17B:25-19, the standard nonforfeiture law for life insurance;

268 (6) The weighting factors, W , referred to in the formulas stated
 269 above are given in the following schedules:

SCHEDULE A

270	Weighting Factors for Life Insurance:	
	Guarantee Duration (Years)	Weighting Factors
271	10 or less	.50
272	More than 10, but not more than 20	.45
273	More than 20	.35
274	For life insurance, the guarantee duration is the	
275	maximum number of years the life insurance can re-	
276	main in force on a basis guaranteed in the policy or	
277	under options to convert to plans of life insurance with	
278	premium rates or nonforfeiture values or both which	
279	are guaranteed in the original policy;	

SCHEDULE B

280	Weighting factor for single stipulated payment im-	
281	mediate annuities and for annuity benefits involving life	
282	contingencies arising from other annuities with cash	
283	settlement options and guaranteed interest contracts	
284	with cash settlement options:	.80

SCHEDULE C

285 Weighting factors for other annuities and for guaranteed in-
 286 terest contracts, except as stated in Schedule B above, shall be as
 287 specified in tables A, B and C below, according to the rules and
 288 definitions in D, E and F below:

TABLE A

289	For annuities and guaranteed interest contracts valued on an			
290	issued year basis:			
	Guarantee Duration (Years)	Weighting Factor for Plan Type		
		A	B	C
291	5 or less:	.80	.60	.50
292	More than 5, but not more than 10:	.75	.60	.50
293	More than 10, but not more than 20:	.65	.50	.45
294	More than 20:	.45	.35	.35

TABLE B

		Plan Type		
		A	B	C
295	For annuities and guaranteed interest con-			
296	tracts valued on a change in fund basis, the			
297	factors shown in Table A above increased by:	.15	.25	.05

TABLE C

	Plan Type		
	A	B	C

298 For annuities and guaranteed interest con-
 299 tracts valued on an issue year basis (other than
 300 those with no cash settlement options) which do
 301 not guarantee interest on considerations received
 302 more than one year after issue or purchase and
 303 for annuities and guaranteed interest contracts
 304 valued on a change in fund basis which do not
 305 guarantee interest rates on considerations re-
 306 ceived more than 12 months beyond the valua-
 307 tion date, the factors shown in Table A or
 308 derived in Table B increased by:

	.05	.05	.05
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309 Rule D. For other annuities with cash settlement options and
 310 guaranteed interest contracts with cash settlement options, the
 311 guarantee duration is the number of years for which the contract
 312 guarantees interest rates in excess of the calendar year statutory
 313 valuation interest rate for life insurance policies with guarantee
 314 durations in excess of 20 years. For other annuities with no cash
 315 settlement options and for guaranteed interest contracts with no
 316 cash settlement options, the guarantee duration is the number of
 317 years from the date of issue or date of purchase to the date an-
 318 nuity benefits are scheduled to commence.

319 Rule E. Plan type as used in the above tables is defined as
 320 follows:

321 Plan Type A: At any time policyholder may withdraw funds
 322 only with an adjustment to reflect changes in interest rates or asset
 323 values since receipt of the funds by the insurer, or without such
 324 adjustments but in installments over five years or more, or as an
 325 immediate life annuity or no withdrawal permitted.

326 Plan Type B: Before expiration of the interest rate guarantee,
 327 policyholder may withdraw funds only with an adjustment to
 328 reflect changes in interest rates or asset values since receipt of the
 329 funds by the insurer, or without such adjustment but in installments
 330 over five years or more, or no withdrawal permitted. At the end of
 331 interest rate guarantee, funds may be withdrawn without such ad-
 332 justment in a single sum or installments over less than five years.

333 Plan Type C: Policyholder may withdraw funds before expira-
 334 tion of interest rate guarantee in a single sum or installments over
 335 less than five years either without adjustment to reflect changes in
 336 interest rate or asset values since receipt of the funds by the in-

337 surer, or subject only to a fixed surrender charge stipulated in
338 the contract as a percentage of the fund.

339 Rule F. An insurer may elect to value guaranteed interest con-
340 tracts with cash settlement options and annuities with cash settle-
341 ment options on either an issue year basis or on a change in fund
342 basis. Guaranteed interest contracts with no cash settlement
343 options and other annuities with no cash settlement options must
344 be valued on an issue year basis. As used in this paragraph (x)
345 of subsection a., an issue year basis of valuation refers to a
346 valuation basis under which the interest rate used to determine
347 the minimum valuation standard for the entire duration of the
348 annuity or guaranteed interest contract is the calendar year valua-
349 tion interest rate for the year of issue or year of purchase of the
350 annuity or guaranteed interest contract, and the change in fund
351 basis of valuation refers to a valuation basis under which the
352 interest rate used to determine the minimum valuation standard
353 applicable to each change in the fund held under the annuity or
354 guaranteed interest contract is the calendar year valuation interest
355 rate for the year of the change in the fund;

356 (7) The reference interest rate, R , referred to in this paragraph
357 (x) is defined as follows:

358 For all life insurance, the lesser of the average over a period of
359 36 months and the average over a period of 12 months, ending on
360 June 30 of the calendar year next preceding the year of issue, of
361 Moody's Corporate Bond Yield Average—Monthly Average Cor-
362 porates, as published by Moody's Investors Service, Inc.

363 For single stipulated payment immediate annuities and for
364 annuity benefits involving life contingencies arising from other
365 annuities with cash settlement options and guaranteed interest
366 contracts with cash settlement options, the average over a period
367 of 12 months, ending on June 30 of the calendar year of issue or
368 year of purchase, of Moody's Corporate Bond Yield Average—
369 Monthly Average Corporates, as published by Moody's Investors
370 Service, Inc.

371 For other annuities with cash settlement options and guaranteed
372 interest contracts with cash settlement options, valued on a year
373 of issue basis, except as stated above, with guaranteed duration in
374 excess of 10 years, the lesser of the average over a period of 36
375 months and the average over a period of 12 months, ending on
376 June 30 of the calendar year of issue or purchase, of Moody's
377 Corporate Bond Yield Average—Monthly Average Corporates,
378 as published by Moody's Investors Service, Inc.

379 For other annuities with cash settlement options and guaran-
380 teed interest contracts with cash settlement options, valued on a
381 year of issue basis, except as stated above, with guaranteed dura-
382 tion of 10 years or less, the average over a period of 12 months,
383 ending on June 30 of the calendar year of issue or purchase, of
384 Moody's Corporate Bond Yield Average—Monthly Average Cor-
385 porates, as published by Moody's Investors Service, Inc.

386 For other annuities with no cash settlement options and for
387 guaranteed interest contracts with no cash settlement options, the
388 average over a period of 12 months, ending on June 30 of the
389 calendar year of issue or purchase, of Moody's Corporate Bond
390 Yield Average—Monthly Average Corporates, as published by
391 Moody's Investors Service, Inc.

392 For other annuities with cash settlement options and guaranteed
393 interest contracts with cash settlement options, valued on a change
394 in funds basis, except as stated above, the average over a period
395 of 12 months, ending on June 30 of the calendar year of a change
396 in the fund, of Moody's Corporate Bond Yield Average—Monthly
397 Average Corporates, as published by Moody's Investors Service,
398 Inc.

399 In the event that Moody's Corporate Bond Yield Average—
400 Monthly Average Corporates, is no longer published by Moody's
401 Investors Service, Inc., or in the event that the National Associa-
402 tion of Insurance Commissioners determines that Moody's Cor-
403 porate Bond Yield Average—Monthly Average Corporates, as
404 published by Moody's Investors Service, Inc., is no longer appro-
405 priate for the determination of the reference interest rate, then an
406 alternative method for determination of the reference interest
407 rate, which is adopted by the National Association of Insurance
408 Commissioners and approved by regulation promulgated by the
409 commissioner, may be substituted.

410 b. Except as otherwise provided in subsections e. and f., reserves
411 according to the commissioner's reserve valuation method, for the
412 life insurance and endowment benefits of policies providing for a
413 uniform amount of insurance and requiring the payment of uniform
414 premiums, shall be the excess, if any, of the present value, at the
415 date of valuation, of such future guaranteed benefits provided by
416 such policies, over the then present value of any future modified
417 net premiums therefor. The modified net premiums for any such
418 policy shall be such uniform percentage of the respective contract
419 premiums for such benefits that the present value, at the date of
420 issue of the policy, of all such modified net premiums shall be

421 equal to the sum of the then present value of such benefits pro-
422 vided by the policy and the excess of (A) over (B), as follows:

423 (A) A net level annual premium equal to the present value, at
424 the date of issue, of such benefits provided after the first policy
425 year, divided by the present value, at the date of issue, of an an-
426 nuity of one per annum payable on the first and each subsequent
427 anniversary of such policy on which a premium falls due; pro-
428 vided, however, that such net level annual premium shall not
429 exceed the net level annual premium on the 19-year premium whole
430 life plan for insurance of the same amount at an age one year
431 higher than the age at issue of such policy.

432 (B) A net one-year term premium for such benefits provided for
433 in the fiscal policy year.

434 Provided that for any life insurance policies issued on or after
435 January 1, 1985 for which the contract premium in the first policy
436 year exceeds that of the second year and for which no comparable
437 additional benefit is provided in the first year for such excess and
438 which provides an endowment benefit or a cash surrender value or
439 a combination thereof in an amount greater than such excess
440 premium, the reserve according to the commissioner's reserve
441 valuation method as of any policy anniversary occurring on or
442 before the assumed ending date defined herein as the first policy
443 anniversary on which the sum of any endowment benefit and any
444 cash surrender value then available is greater than such excess
445 premium shall, except as otherwise provided in subsection e., be
446 the greater of the reserve as of such policy anniversary calculated
447 as described in the first paragraph of this subsection and the
448 reserve as of such policy anniversary calculated as described in that
449 paragraph, but with (i) the value defined in subparagraph (A) of
450 that paragraph being reduced by 15% of the amount of such excess
451 first year premium, (ii) all present values of benefits and premiums
452 being determined without reference to premiums or benefits pro-
453 vided for by the policy after the assumed ending date, (iii) the
454 policy being assumed to mature on such as an endowment, and
455 (iv) the cash surrender value provided on such date being con-
456 sidered as an endowment benefit. In making the above comparison
457 the mortality and interest bases stated in subsection a. of this
458 section shall be used.

459 Reserves according to the commissioner's reserve valuation
460 method for (i) life insurance policies providing for varying
461 amounts of insurance or requiring the payment of varying pre-
462 miums, (ii) group annuity and pure endowment contracts pur-

463 chased in connection with retirement plans or plans of deferred
464 compensation, established or maintained by or for one or more em-
465 ployers (including partnerships or sole proprietorships), employee
466 organizations, or any combination thereof, other than plans provid-
467 ing individual retirement accounts or individual retirement annu-
468 ities under section 408 of the Internal Revenue Code, as now or
469 hereafter amended, (iii) disability and accidental death benefits in
470 all policies and contracts, and (iv) all other benefits, except life in-
471 surance and endowment benefits in life insurance policies and
472 benefits provided by all other annuity and pure endowment con-
473 tracts, shall be calculated by a method consistent with the princi-
474 ples of this subsection b., except that any extra premiums charged
475 because of impairments or special hazards shall be disregarded in
476 the determination of modified net premiums.

477 c. In no event shall an insurer's aggregate reserves for all life
478 insurance policies, excluding disability and accidental death bene-
479 fits, be less than the aggregate reserves calculated in accordance
480 with the methods set forth in subsections b., e. and g. and the
481 mortality table or tables and rate or rates of interest used in
482 calculating nonforfeiture benefits for such policies. Reserves for
483 any category of policies, contracts or benefits as established by the
484 commissioner shall not be calculated according to any standards
485 which produce smaller aggregate reserves for such category than
486 the corresponding aggregate values of nonforfeiture benefits avail-
487 able as of the valuation date.

488 d. Reserves for any category of policies, contracts or benefits as
489 established by the commissioner may be calculated, at the option of
490 the insurer, according to any standards which produce greater
491 aggregate reserves for such category than those calculated accord-
492 ing to the minimum standard herein provided], except that for
493 the purpose of valuing an insurer's reserve liabilities as of any
494 date on or after January 1, 1987, the rate or rates of interest used
495 for policies and contracts, other than annuity and pure endowment
496 contracts, shall not be higher than the corresponding rate or rates
497 of interest used in calculating any nonforfeiture benefits provided
498 for therein. Notwithstanding the foregoing exception, any reserves
499 for policies and contracts, other than annuity and pure endowment
500 contracts, issued prior to January 1, 1987 which, for the purpose
501 of valuing an insurer's liabilities as of December 31, 1986, are
502 based on a standard using a rate or rates of interest higher than
503 the corresponding rate or rates of interest used in calculating non-
504 forfeiture benefits, may continue to be based on that standard in
505 valuing the insurer's liabilities thereafter].

506 e. If in any contract year the gross premium charged by any
507 life insurer on any policy or contract to which this section applies
508 is less than the valuation net premium for the policy or contract
509 calculated by the method used in calculating the reserve thereon
510 but using the minimum valuation standards of mortality and rate of
511 interest, the minimum reserve required for such policy or contract
512 is the greater of either the reserve calculated according to the
513 mortality table, rate of interest, and method actually used for such
514 policy or contract, or the reserve calculated by the method actually
515 used for such policy or contract but using the minimum valuation
516 standards of mortality and rate of interest and replacing the val-
517 uation net premium by the actual gross premium in each contract
518 year for which the valuation net premium exceeds the actual gross
519 premium. At the option of the insurer and with the consent of the
520 commissioner, the minimum reserve defined in this subsection e.
521 may be determined for each policy or contract except one issued
522 on the substandard basis by substituting, for the actual gross
523 premium on the policy or contract, the average gross premium
524 charged by the insurer for all policies or contracts classified other
525 than substandard which have the same valuation characteristics
526 apart for variation in premium on account of differences in
527 mortality experience.

528 The minimum valuation standards of mortality and rate of in-
529 terest referred to in this subsection are those standards stated in
530 subsection a. of this section.

531 Provided that for any life insurance policy issued on or after
532 January 1, 1985 for which the gross premium in the first policy
533 year exceeds that of the second year and for which no comparable
534 additional benefit is provided in the first year for such excess and
535 which provides an endowment benefit or a cash surrender value or
536 a combination thereof in an amount greater than such excess
537 premium, the foregoing provisions of this subsection e. shall be
538 applied as if the method actually used in calculating the reserve
539 for such policy were the method described in subsection b., not-
540 withstanding the provisions of the second paragraph of such sub-
541 section b. The minimum reserve at each policy anniversary of such
542 a policy shall be the greater of the minimum reserve calculated in
543 accordance with subsection b. including the second paragraph of
544 that subsection, and the minimum reserve calculated in accordance
545 with this subsection e.

546 f. This subsection shall apply to all annuity and pure endow-
547 ment contracts other than group annuity and pure endowment

548 contracts purchased in connection with retirement plans or plans
 549 of deferred compensation, established or maintained by or for
 550 one or more employers (including partnerships or sole proprietor-
 551 ships), employee organizations, or any combination thereof, except
 552 such plans providing individual retirement accounts or individual
 553 retirement annuities under section 408 of the Internal Revenue
 554 Code, as now or hereafter amended.

555 Reserves according to the commissioner's annuity reserve
 556 method for benefits under annuity or pure endowment contracts,
 557 excluding any disability and accidental death benefits in such con-
 558 tracts, shall be the greatest of the respective excess of the present
 559 values, at the date of valuation, of the future guaranteed benefits,
 560 including guaranteed nonforfeiture benefits, provided for by such
 561 contracts at the end of each respective contract year, over the
 562 present value, at the date of valuation, of any future valuation
 563 considerations derived from future gross considerations, required
 564 by the terms of such contract, that become payable prior to the
 565 end of such respective contract year. The future guaranteed ben-
 566 efits shall be determined by using the mortality table, if any, and
 567 the interest rate, or rates, specified in such contracts for deter-
 568 mining guaranteed benefits. The valuation considerations are the
 569 portions of the respective gross considerations applied under the
 570 terms of such contracts to determine nonforfeiture values.

571 g. In the case of any plan of life insurance which provides for
 572 future premium determination, the amounts of which are to be
 573 determined by the insurer based on then estimates of future
 574 experience, or in the case of any plan of life insurance or annuity
 575 which is of such a nature that the minimum reserves cannot be
 576 determined by the methods described in subsections b., e., and f.,
 577 the reserves which are held under any such plan must:

578 (i) be appropriate in relation to the benefits and the pattern
 579 of premiums for that plan, and

580 (ii) be computed by a method which is consistent with the prin-
 581 ciples of this standard valuation law,

582 as determined by regulations promulgated by the commissioner.

1 2. This act shall take effect immediately.

INSURANCE—LIFE AND HEALTH

Permits insurers to reduce reserve requirements.

SENATE, No. 1166

Introduced Pending Technical Review by Legislative Counsel
PRE-FILED FOR INTRODUCTION IN THE 1986 SESSION

By Senator O'CONNOR

SENATE, No. 2175

STATE OF NEW JERSEY

INTRODUCED SEPTEMBER 13, 1984

By Senator O'CONNOR

Referred to Committee on Labor, Industry and Professions

AN ACT concerning insurance and the standard valuation law and
amending N. J. S. 17B:19-8.

1 BE IT ENACTED *by the Senate and General Assembly of the State*
2 *of New Jersey:*

1 1. N. J. S. 17B:19-8 is amended to read as follows:

2 17B:19-8. This section shall be known as the standard valuation
3 law and shall apply to all the life insurance policies pure endow-
4 ment contracts and annuity contracts issued by every life insurer
5 on or after January 1, 1948 or such earlier date as shall have been
6 elected by the insurer as the operative date for such insurer of the
7 standard nonforfeiture law.

8 a. The minimum standard for the valuation of the reserve lia-
9 bilities for all such policies and contracts shall be the commis-
10 sioner's reserve valuation methods defined in subsection b., e. and
11 f. of this section, 3½% interest, except as otherwise provided in
12 paragraphs (iii), (iv), (ix) and (x) of this subsection for annuity
13 and pure endowment contracts and paragraph (x) of this subsec-
14 tion for life insurance policies and disability and accidental death
15 benefits, and except 4% interest for such policies and benefits issued
16 on and after January 1, 1973 and prior to January 1, 1977 and
17 4½% interest for such policies and benefits issued on or after
18 January 1, 1977, and the following tables:

19 (i) For all ordinary policies of life insurance issued on the
20 standard basis, excluding any disability and accidental death
21 benefits in such policies, the Commissioners 1941 Standard Ordi-

**EXPLANATION—Matter enclosed in bold-faced brackets [thus] in the above bill
is not enacted and is intended to be omitted in the law.**

22 nary Mortality Table; provided, however, that the Commissioners
23 1958 Standard Ordinary Mortality Table shall be the table for the
24 minimum standard for such policies issued on or after January 1,
25 1966 or, for policies in any category of ordinary insurance, such
26 earlier date as shall have been elected by the insurer for the purpose
27 and prior to the operative date, for such category, provided for
28 in paragraph (xi) of subsection h. of the standard nonforfeiture
29 law for life insurance (N. J. S. 17B:25-19); and provided that the
30 Commissioners 1980 Standard Ordinary Mortality Table, or at the
31 election of the insurer for any one or more specified plans of life
32 insurance, the Commissioners 1980 Standard Ordinary Mortality
33 Table with Ten-Year Select Mortality Factors, or any ordinary
34 mortality table, adopted after 1980 by the National Association of
35 Insurance Commissioners, that is approved by regulation promul-
36 gated by the commissioner for use in determining the minimum
37 standard of valuation for such policies shall be the tables for the
38 minimum standard for policies in any category of ordinary insur-
39 ance issued on or after the operative date, for such category pro-
40 vided for in paragraph (xi) of subsection h. of section 17B:25-19,
41 the standard nonforfeiture law for life insurance. Notwithstanding
42 the above provisions of this paragraph, for any category of ordi-
43 nary insurance, reserves for such policies issued on or after July
44 1, 1957 and prior to the operative date provided for in paragraph
45 (xi) of subsection h. of section 17B:25-19, the standard nonforfei-
46 ture law for life insurance, may be calculated, at the option of the
47 insurer, according to the Approved Standard Ordinary Mortality
48 Table contained in section 17B:19-9; provided, further, that for
49 any category of such policies issued on female risks on or after
50 July 1, 1957 and prior to the operative date provided for in para-
51 graph (xi) of subsection h. of the standard nonforfeiture law for
52 life insurance, modified net premiums and present values, referred
53 to in subsection b. of this section, may be calculated, at the option
54 of the insurer with approval of the commissioner, according to an
55 age not more than six years younger than the actual age of the
56 insured.

57 (ii) For all industrial life insurance policies issued on the
58 standard basis, excluding any disability and accidental death bene-
59 fits in such policies, the 1941 Standard Industrial Mortality Table;
60 provided, however, that the Commissioners 1961 Standard In-
61 dustrial Mortality Table or any industrial mortality table, adopted
62 after 1980 by the National Association of Insurance Commissioners,
63 that is approved by regulation promulgated by the commissioner
64 for use in determining the minimum standard of valuation for such

65 policies shall be the table for the minimum standard for such
66 policies issued on or after January 1, 1968 or such earlier date as
67 shall have been elected by the insurer as the date on which the
68 calculation of the adjusted premiums referred to in the standard
69 nonforfeiture law for life insurance (N. J. S. 17B:25-19) for such
70 insurer's industrial life insurance policies became based upon said
71 table.

72 (iii) For individual annuity and pure endowment contracts
73 issued prior to the operative date of paragraph (ix) of this subsec-
74 tion, excluding any disability and accidental death benefits in such
75 contracts, the 1937 Standard Annuity Mortality Table, or, at the
76 option of the insurer, the Annuity Mortality Table for 1949, Ulti-
77 mate, or any modification of either of these tables approved by the
78 commissioner; provided, however, that for single stipulated pay-
79 ment individual annuity and single premium pure endowment con-
80 tracts issued on or after January 1, 1970, excluding any disability
81 and accidental death benefits in such contracts, the minimum
82 standard shall be the lesser of (a) the standard just described and
83 (b) the standard based on 4% interest and the Annuity Mortality
84 Table for 1949, Ultimate, or any modification of such table approved
85 by the commissioner.

86 (iv) For group annuity and pure endowment contracts, except
87 annuities and pure endowments purchased thereunder on or after
88 the operative date of paragraph (ix) of this subsection, excluding
89 any disability and accidental death benefits in such contracts, the
90 Group Annuity Mortality Table for 1951, any modification of such
91 table approved by the commissioner, or, at the option of the insurer,
92 any of the tables or modifications of tables specified for individual
93 annuity and pure endowment contracts; provided, however, that the
94 commissioner may establish regulations governing the use of 5%
95 interest and either the 1971 Group Annuity Mortality Table or any
96 modification of such table approved by the commissioner for either
97 contracts whose reserves are considered as pension plan reserves
98 of the type set forth in section 805(d) of the U. S. Internal Revenue
99 Code, as amended, or contracts of a similar type; and further pro-
100 vided that for group annuity benefits arising from considerations
101 received on or after January 1, 1970, excluding any disability and
102 accidental death benefits, the minimum standard shall be the lesser
103 of (a) the standard just described and (b) the standard based on
104 4% interest and the Group Annuity Mortality Table for 1951, any
105 modification of such table approved by the commisisoner, or, at the
106 option of the insurer, the Annuity Mortality Table for 1949, Ulti-
107 mate, or any modification of such table specified for individual
108 annuity and pure endowment contracts.

109 (v) For total and permanent disability benefits in or supple-
110 mentary to ordinary policies or contracts, for policies or contracts
111 issued on or after January 1, 1966, the tables of Period 2 disable-
112 ment rates and the 1930 to 1950 termination rates of the 1952 Dis-
113 ability Study of the Society of Actuaries, with due regard to the
114 type of benefits or any tables of disablement rates and termination
115 rates, adopted after 1980 by the National Association of Insurance
116 Commissioners, that are approved by regulation promulgated by
117 the commissioner for use in determining the minimum standard of
118 valuation for such policies; for policies or contracts issued on or
119 after January 1, 1961 and prior to January 1, 1966, either such
120 tables or, at the option of the insurer, the Class (3) Disability Table
121 (1926); and for policies issued prior to January 1, 1961, the Class
122 (3) Disability Table (1926). Any such table shall, for active lives,
123 be combined with a mortality table permitted for calculating the
124 reserves for life insurance policies.

125 (vi) For accidental death benefits in or supplementary to
126 policies, for policies issued on or after January 1, 1966, the 1959
127 Accidental Death Benefits Table or any accidental death benefits
128 table, adopted after 1980 by the National Association of Insurance
129 Commissioners, that is approved by regulation promulgated by the
130 commissioner for use in determining the minimum standard of
131 valuation for such policies; for policies issued on or after January
132 1, 1961 and prior to January 1, 1966, either such table or, at the
133 option of the insurer, the Inter-Company Double Indemnity
134 Mortality Table; and for policies issued prior to January 1, 1961,
135 the Inter-Company Double Indemnity Mortality Table. Any such
136 table shall be combined with a mortality table permitted for calcu-
137 lating the reserves for life insurance policies.

138 (vii) For group life insurance, life insurance issued on the sub-
139 standard basis and other special benefits, such tables as may be
140 approved by the commissioner.

141 (viii) For ordinary and industrial paid-up nonforfeiture term in-
142 surance, and accompanying pure endowment, the table of mortality
143 based on the rates of mortality assumed in calculating the paid-up
144 nonforfeiture benefits.

145 (ix) Except as provided in paragraph (x) of this subsection,
146 for individual annuity and pure endowment contracts issued
147 on or after the operative date of this paragraph (ix), as defined
148 herein, and for all annuities and pure endowments purchased on
149 or after such operative date under group annuity and pure endow-
150 ment contracts, the commissioner's reserve valuation methods de-
151 find in subsections b., e. and f. and the following tables and interest
152 rates:

153 (1) For individual annuity and pure endowment contracts, ex-
 154 cluding any disability and accidental death benefits in such con-
 155 tracts, the 1971 Individual Annuity Mortality Table or any indi-
 156 vidual annuity mortality table, adopted after 1980 by the National
 157 Association of Insurance Commissioners, that is approved by regu-
 158 lation promulgated by the commissioner for use in determining the
 159 minimum standard of valuation for such contracts, or any modifica-
 160 tion of any such table approved by the commissioner, and, for such
 161 contracts issued prior to January 1, 1977, 6% interest for single
 162 stipulated payment immediate annuity and single premium pure
 163 endowment contracts, and 4% interest for all other individual an-
 164 nuity and pure endowment contracts, and such contracts issued on
 165 or after January 1, 1977, 7½% interest for single stipulated pay-
 166 ment immediate annuity contracts either of the type whose reserves
 167 are considered as pension plan reserves as set forth in section
 168 805(d) of the U. S. Internal Revenue Code, as amended, or of simi-
 169 lar type, and 6% interest for other single stipulated payment im-
 170 mediate annuity contracts, and 4½% interest for other individual
 171 annuity and pure endowment contracts, provided, however, that
 172 the commissioner may establish regulations governing the use, in
 173 subsequent valuations of single stipulated payments not previously
 174 valued, of an interest rate not more than 7½% or less than 6%.

175 (2) For all annuities and pure endowments purchased under
 176 group annuity and pure endowment contracts, excluding any dis-
 177 ability and accidental death benefits purchased under such con-
 178 tracts, the 1971 Group Annuity Mortality Table or any group
 179 annuity mortality table, adopted after 1980 by the National Asso-
 180 ciation of Insurance Commissioners, that is approved by regulation
 181 promulgated by the commisioner for use in determining the
 182 minimum standard of valuation for such annuities and pure endow-
 183 ments, or any modification of any such table approved by the
 184 commissioner, and 6% interest; except 7½% interest for purchases
 185 on or after January 1, 1977 under either contracts whose reserves
 186 are considered as pension plan reserves of the type set forth in
 187 section 805(d) of the U. S. Internal Revenue Code, as anended,
 188 or contracts of similar type, provided, however, that the commis-
 189 sioner may establish regulations governing the use, in subsequent
 190 valuations of purchases not previously valued, of an interest rate
 191 not more than 7½% or less than 6%.

192 For individual single stipulated payment immediate annuity and
 193 single premium pure endowment contracts and for annuities and
 194 pure endowments purchased under group annuity and pure endow-
 195 ment contracts, the operative date of this paragraph (ix) shall be
 196 January 1, 1973.

197 For other individual annuity and pure endowment contracts, an
 198 insurer may file with the commissioner a written notice of its elec-
 199 tion to comply with the provisions of this paragraph (ix) beginning
 200 on a specific date that is on or after January 1, 1973 but prior to
 201 January 1, 1979. Such specified date shall be the operative date of
 202 this paragraph for such contracts of the insurer, provided that if an
 203 insurer makes no such election, the operative date of this paragraph
 204 for such contracts of the insurer shall be January 1, 1979.

205 (x) The interest rates used in determining the minimum stan-
 206 dard for the valuation of:

207 benefits which are subject to the provisions of N. J. S.
 208 17B:25-19 under life insurance policies issued in a particular
 209 calendar year on or after the operative date provided for in
 210 subsection h. (xi) of N. J. S. 17B:25-19; and all other benefits
 211 in life insurance policies and all individual annuity and pure
 212 endowment contracts issued in a particular calendar year on
 213 or after January 1, 1981; and

214 all annuities and pure endowments purchased in a particular
 215 calendar year on or after January 1, 1981 under group annuity
 216 and pure endowment contracts; and

217 the net increase, if any, in a particular calendar year after
 218 January 1, 1981, in amounts held under guaranteed interest
 219 contracts

220 shall be the calendar year statutory valuation interest rates estab-
 221 lished below.

222 The calendar year statutory valuation interest rates, I, shall be
 223 determined as follows and the results rounded to the nearer $\frac{1}{4}$ of
 224 1%:

225 (1) For life insurance,

$$226 \quad I = .03 + W (R_1 - .03) + \frac{W}{2} (R_2 - .09);$$

227 (2) For single stipulated payment immediate annuities and for
 228 annuity benefits involving life contingencies arising from other
 229 annuities with cash settlement options and from guaranteed interest
 230 contracts with cash settlement options,

$$231 \quad I = .03 + W (R - .03)$$

232 where R_1 is the lesser of R and .09,

233 R_2 is the greater of R and .09,

234 R is the reference interest rate defined in subparagraph (7) of
 235 this paragraph, and W is the weighing factor defined in sub-
 236 paragraph (6) of this paragraph;

237 (3) For other annuities with cash settlement options and guar-
 238 anteed interest contracts with cash settlement options, valued on
 239 an issue year basis, except as stated in (2) above, the formula for
 240 life insurance stated in (1) above shall apply to annuities and
 241 guaranteed interest contracts with guaranteed durations in excess
 242 of 10 years and the formula for single stipulated payment im-
 243 mediate annuities stated in (2) above shall apply to annuities and
 244 guaranteed interest contracts with guaranteed durations of 10 years
 245 or less;

246 (4) For other annuities with no cash settlement options and for
 247 guaranteed interest contracts with no cash settlement options, the
 248 formula for single stipulated payment immediate annuities stated
 249 in (2) above shall apply; and

250 (5) For other annuities with cash settlement options and guar-
 251 anteed interest contracts with cash settlement options, valued on a
 252 change in fund basis, the formula for single stipulated payment
 253 immediate annuities stated in (2) above shall apply.

254 However, if the calendar year statutory valuation interest rate
 255 for any life insurance policies issued in any calendar year deter-
 256 mined without reference to this sentence differs from the corres-
 257 ponding actual rate for similar policies issued in the immediately
 258 preceding calendar year by less than $\frac{1}{2}$ of 1%, the calendar year
 259 statutory valuation interest rate for such life insurance policies
 260 shall be equal to the corresponding actual rate for the immediately
 261 preceding calendar year. For purposes of applying the immediately
 262 preceding sentence, the calendar year statutory valuation interest
 263 rate for life insurance policies issued in a calendar year shall be
 264 determined for 1980 (using the reference interest rate defined for
 265 1979) and shall be determined for each subsequent calendar year
 266 notwithstanding the provisions of subsection h. of section
 267 17B:25-19, the standard nonforfeiture law for life insurance;

268 (6) The weighting factors, W, referred to in the formulas stated
 269 above are given in the following schedules:

SCHEDULE A

270 Weighting Factors for Life Insurance:

Guarantee Duration (Years)	Weighting Factors
271 10 or less	.50
272 More than 10, but not more than 20	.45
273 More than 20	.35
274 For life insurance, the guarantee duration is the 275 maximum number of years the life insurance can remain	

276 in force on a basis guaranteed in the policy or under
 277 options to convert to plans of life insurance with pre-
 278 mium rates or nonforfeiture values or both which are
 279 guaranteed in the original policy:

SCHEDULE B

280 Weighting factor for single stipulated payment im-
 281 mediate annuities and for annuity benefits involving life
 282 contingencies arising from other annuities with cash
 283 settlement options and guaranteed interest contracts
 284 with cash settlement options:

.80

SCHEDULE C

285 Weighting factors for other annuities and for guaranteed interest
 286 contracts, except as stated in Schedule B above, shall be as specified
 287 in tables A, B and C below, according to the rules and definitions
 288 in D, E and F below:

TABLE A

289 For annuities and guaranteed interest contracts valued on an
 290 issued year basis:

Guarantee Duration (Years)	Weighting Factors for Plan Type		
	A	B	C
291 5 or less:	.80	.60	.50
292 More than 5, but not more than 10:	.75	.60	.50
293 More than 10, but not more than 20:	.65	.50	.45
294 More than 20:	.45	.35	.35

TABLE B

	Plan Type		
	A	B	C
295 For annuities and guaranteed interest contracts 296 valued on a change in fund basis, the factors 297 shown in Table A above increased by:	.15	.25	.05

TABLE C

	Plan Type		
	A	B	C
298 For annuities and guaranteed interest contracts 299 valued on an issue year basis (other than those 300 with no cash settlement options) which do not 301 guarantee interest on considerations received 302 more than one year after issue or purchase and 303 for annuities and guaranteed interest contracts 304 valued on a change in fund basis which do not			

305 guarantee interest rates on considerations re-
 306 ceived more than 12 months beyond the valuation
 307 date, the factors shown in Table A or derived
 308 in Table B increased by: .05 .05 .05

309 Rule D. For other annuities with cash settlement options and
 310 guaranteed interest contracts with cash settlement options, the
 311 guarantee duration is the number of years for which the contract
 312 guarantees interest rates in excess of the calendar year statutory
 313 valuation interest rate for life insurance policies with guarantee
 314 duration in excess of 20 years. For other annuities with no cash
 315 settlement options and for guaranteed interest contracts with no
 316 cash settlement options, the guarantee duration is the number of
 317 years from the date of issue or date of purchase to the date annuity
 318 benefits are scheduled to commence.

319 Rule E. Plan type as used in the above tables is defined as
 320 follows:

321 Plan Type A: At any time policyholder may withdraw funds only
 322 with an adjustment to reflect changes in interest rates or asset
 323 values since receipt of the funds by the insurer, or without such
 324 adjustments but in installments over five years or more, or as an
 325 immediate life annuity or no withdrawal permitted.

326 Plan Type B: Before expiration of the interest rate guarantee,
 327 policyholder may withdraw funds only with an adjustment to
 328 reflect changes in interest rates or asset values since receipt of the
 329 funds by the insurer, or without such adjustment but in installments
 330 over five years or more, or no withdrawal permitted. At the end of
 331 interest rate guarantee, funds may be withdrawn without such
 332 adjustment in a single sum or installments over less than five years.

333 Plan Type C: Policyholder may withdraw funds before expira-
 334 tion of interest rate guarantee in a single sum or installments over
 335 less than five years either without adjustment to reflect changes in
 336 interest rates or asset values since receipt of the funds by the in-
 337 surer, or subject only to a fixed surrender charge stipulated in the
 338 contract as a percentage of the fund.

339 Rule F. An insurer may elect to value guaranteed interest con-
 340 tracts with cash settlement options and annuities with cash settle-
 341 ment options on either an issue year basis or on a change in fund
 342 basis. Guaranteed interest contracts with no cash settlement
 343 options and other annuities with no cash settlement options must
 344 be valued on an issue year basis. As used in this paragraph (x)
 345 of subsection a., an issue year basis of valuation refers to a
 346 valuation basis under which the interest rate used to determine the
 347 minimum valuation standard for the entire duration of the annuity
 348 or guaranteed interest contract is the calendar year valuation

349 interest rate for the year of issue or year of purchase of the annuity
350 or guaranteed interest contract, and the change in fund basis of
351 valuation refers to a valuation basis under which the interest rate
352 used to determine the minimum valuation standard applicable to
353 each change in the fund held under the annuity or guaranteed
354 interest contract is the calendar year valuation interest rate for the
355 year of the change in the fund;

356 (7) The reference interest rate, R, referred to in this paragraph
357 (x) is defined as follows:

358 For all life insurance, the lesser of the average over a period of
359 36 months and the average over a period of 12 months, ending on
360 June 30 of the calendar year next preceding the year of issue, of
361 Moody's Corporate Bond Yield Average—Monthly Average Corpo-
362 rates, as published by Moody's Investors Service, Inc.

363 For single stipulated payment immediate annuities and for
364 annuity benefits involving life contingencies arising from other
365 annuities with cash settlement options and guaranteed interest
366 contracts with cash settlement options, the average over a period
367 of 12 months, ending on June 30 of the calendar year of issue or
368 year of purchase, of Moody's Corporate Bond Yield Average—
369 Monthly Average Corporates, as published by Moody's Investors
370 Service, Inc.

371 For other annuities with cash settlement options and guaranteed
372 interest contracts with cash settlement options, valued on a year
373 of issue basis, except as stated above, with guaranteed duration in
374 excess of 10 years, the lesser of the average over a period of 36
375 months and the average over a period of 12 months, ending on June
376 30 of the calendar year of issue or purchase, of Moody's Corporate
377 Bond Yield Average—Monthly Average Corporates, as published
378 by Moody's Investors Service, Inc.

379 For other annuities with cash settlement options and guaranteed
380 interest contracts with cash settlement options, valued on a year
381 of issue basis, except as stated above, with guaranteed duration of
382 10 years or less, the average over a period of 12 months, ending
383 on June 30 of the calendar year of issue or purchase, of Moody's
384 Corporate Bond Yield Average—Monthly Average Corporates, as
385 published by Moody's Investors Service, Inc.

386 For other annuities with no cash settlement options and for
387 guaranteed interest contracts with no cash settlement options, the
388 average over a period of 12 months, ending on June 30 of the
389 calendar year of issue or purchase, of Moody's Corporate Bond
390 Yield Average—Monthly Average Corporates, as published by
391 Moody's Investors Service, Inc.

392 For other annuities with cash settlement options and guaranteed
393 interest contracts with cash settlement options, valued on a change
394 in funds basis, except as stated above, the average over a period
395 of 12 months, ending on June 30 of the calendar year of a change
396 in the fund, of Moody's Corporate Bond Yield Average—Monthly
397 Average Corporates, as published by Moody's Investors Service,
398 Inc.

399 In the event that Moody's Corporate Bond Yield Average—
400 Monthly Average Corporates, is no longer published by Moody's
401 Investors Service, Inc., or in the event that the National Association
402 of Insurance Commissioners determines that Moody's Corporate
403 Bond Yield Average—Monthly Average Corporates, as published
404 by Moody's Investors Service, Inc., is no longer appropriate for the
405 determination of the reference interest rate, then an alternative
406 method for determination of the reference interest rate, which is
407 adopted by the National Association of Insurance Commissioners
408 and approved by regulation promulgated by the commissioner, may
409 be substituted.

410 b. Except as otherwise provided in subsections e. and f., reserves
411 according to the commissioner's reserve valuation method, for the
412 life insurance and endowment benefits of policies providing for a
413 uniform amount of insurance and requiring the payment of uniform
414 premiums, shall be the excess, if any, of the present value, at the
415 date of valuation, of such future guaranteed benefits provided by
416 such policies, over the then present value of any future modified net
417 premiums therefor. The modified net premiums for any such policy
418 shall be such uniform percentage of the respective contract pre-
419 miums for such benefits that the present value, at the date of issue
420 of the policy, of all such modified net premiums shall be equal to the
421 sum of the then present value of such benefits provided by the policy
422 and the excess of (A) over (B), as follows:

423 (A) A net level annual premium equal to the present value, at the
424 date of issue, of such benefits provided for after the first policy year,
425 divided by the present value, at the date of issue, of an annuity of
426 one per annum payable on the first and each subsequent anniversary
427 of such policy on which a premium falls due; provided, however,
428 that such net level annual premium shall not exceed the net level
429 annual premium on the 19-year premium whole life plan for in-
430 surance of the same amount at an age one year higher than the age
431 at issue of such policy.

432 (B) A net one-year term premium for such benefits provided for
433 in the fiscal policy year.

434 Provided that for any life insurance policies issued on or after
435 January 1, 1985 for which the contract premium in the first policy
436 year exceeds that of the second year and for which no comparable
437 additional benefit is provided in the first year for such excess and
438 which provides an endowment benefit or a cash surrender value or
439 a combination thereof in an amount greater than such excess
440 premium, the reserve according to the commissioner's reserve valua-
441 tion method as of any policy anniversary occurring on or before
442 the assumed ending date defined herein as the first policy anni-
443 versary on which the sum of any endowment benefit and any cash
444 surrender value than available is greater than such excess premium
445 shall, except as otherwise provided in subsection e., be the greater
446 of the reserve as of such policy anniversary calculated as described
447 in the first paragraph of this subsection and the reserve as of such
448 policy anniversary calculated as described in that paragraph, but
449 with (i) the value defined in subparagraph (A) of that paragraph
450 being reduced by 15% of the amount of such excess first year
451 premium, (ii) all present values of benefits and premiums being
452 determined without reference to premiums or benefits provided for
453 by the policy after the assumed ending date, (iii) the policy being
454 assumed to mature on such as an endowment, and (iv) the cash
455 surrender value provided on such date being considered as an en-
456 dowment benefit. In making the above comparison the mortality
457 and interest bases stated in subsection a. of this section shall be
458 used.

459 Reserves according to the commissioner's reserve valuation me-
460 thod for (i) life insurance policies providing for varying amounts
461 premium, (ii) all present values of benefits and premiums being
462 group annuity and pure endowment contracts purchased in con-
463 nection with retirement plans or plans of deferred compensation,
464 established or maintained by or for one or more employers (includ-
465 ing partnerships or sole proprietorships), employee organizations,
466 or any combination thereof, other than plans providing individual
467 retirement accounts or individual retirement annuities under sec-
468 tion 408 of the Internal Revenue Code, as now or hereafter amended,
469 (iii) disability and accidental death benefits in all policies and con-
470 tracts, and (iv) all other benefits, except life insurance and endow-
471 ment benefits in life insurance policies and benefits provided by all
472 other annuity and pure endowment contracts, shall be calculated by
473 a method consistent with the principles of this subsection b., except
474 that any extra premiums charged because of impairments or special
475 hazards shall be disregarded in the determination of modified net
476 premiums.

477 c. In no event shall an insurer's aggregate reserves for all life
478 insurance policies, excluding disability and accidental death bene-
479 fits, be less than the aggregate reserves calculated in accordance
480 with the methods set forth in subsections b., e. and g. and the
481 mortality table or tables and rate or rates of interest used in
482 calculating nonforfeiture benefits for such policies. Reserves for
483 any category of policies, contracts or benefits as established by the
484 commissioner shall not be calculated according to any standards
485 which produce smaller aggregate reserves for such category than
486 the corresponding aggregate values of nonforfeiture benefits avail-
487 able as of the valuation date.

488 d. Reserves for any category of policies, contracts or benefits as
489 established by the commissioner may be calculated, at the option of
490 the insurer, according to any standards which produce greater
491 aggregate reserves for such category than those calculated accord-
492 ing to the minimum standard herein provided], but the rate or
493 rates of interest used for policies and contracts, other than annuity
494 and pure endowment contracts, shall not be higher than the cor-
495 responding rate or rates of interest used in calculating any non-
496 forfeiture benefits provided for therein].

497 e. If in any contract year the gross premium charged by any life
498 insurer on any policy or contract to which this section applies is
499 less than the valuation net premium for the policy or contract
500 calculated by the method used in calculating the reserve thereon
501 but using the minimum valuation standards of mortality and rate of
502 interest, the minimum reserve required for such policy or contract
503 is the greater of either the reserve calculated according to the
504 mortality table, rate of interest, and method actually used for such
505 policy or contract, or the reserve calculated by the method actually
506 used for such policy or contract but using the minimum valuation
507 standards of mortality and rate of interest and replacing the valua-
508 tion net premium by the actual gross premium in each contract year
509 for which the valuation net premium exceeds the actual gross
510 premium. At the option of the insurer and with the consent of the
511 commissioner, the minimum reserve defined in this subsection e.
512 may be determined for each policy or contract except one issued
513 on the substandard basis by substituting, for the actual gross
514 premium on the policy or contract, the average gross premium
515 charged by the insurer for all policies or contracts classified other
516 than substandard which have the same valuation characteristics
517 apart from variation in premium on account of differences in
518 mortality experience.

519 The minimum valuation standards of mortality and rate of in-
520 terest referred to in this subsection are those standards stated in
521 subsection a. of this section.

522 Provided that for any life insurance policy issued on or after
523 January 1, 1985 for which the gross premium in the first policy
524 year exceeds that of the second year and for which no comparable
525 additional benefit is provided in the first year for such excess and
526 which provides an endowment benefit or a cash surrender value or
527 a combination thereof in an amount greater than such excess
528 premium, the foregoing provisions of this subsection e. shall be
529 applied as if the method actually used in calculating the reserve for
530 such policy were the method described in subsection b., notwith-
531 standing the provisions of the second paragraph of such subsection
532 b. The minimum reserve at each policy anniversary of such a
533 policy shall be the greater of the minimum reserve calculated in
534 accordance with subsection b. including the second paragraph of
535 that subsection, and the minimum reserve calculated in accordance
536 with this subsection e.

537 f. This subsection shall apply to all annuity and pure endowment
538 contracts other than group annuity and pure endowment contracts
539 purchased in connection with retirement plans or plans of deferred
540 compensation, established or maintained by or for one or more em-
541 ployers (including partnerships or sole proprietorships), employee
542 organizations, or any combination thereof, except such plans provid-
543 ing individual retirement accounts or individual retirement annu-
544 ities under section 408 of the Internal Revenue Code, as now or
545 hereafter amended.

546 Reserve according to the commissioner's annuity reserve method
547 for benefits under annuity or pure endowment contracts, excluding
548 any disability and accidental death benefits in such contracts, shall
549 be the greatest of the respective excesses of the present values, at
550 the date of valuation, of the future guaranteed benefits, including
551 guaranteed nonforfeiture benefits, provided for by such contracts
552 at the end of each respective contract year, over the present value,
553 at the date of valuation, of any future valuation considerations
554 derived from future gross considerations, required by the terms of
555 such contract, that become payable prior to the end of such respec-
556 tive contract year. The future guaranteed benefits shall be deter-
557 mined by using the mortality table, if any, and the interest rate, or
558 rates, specified in such contracts for determining guaranteed
559 benefits. The valuation considerations are the portions of the
560 respective gross considerations applied under the terms of such
561 contracts to determine nonforfeiture values.

562 g. In the case of any plan of life insurance which provides for
563 future premium determination, the amounts of which are to be
564 determined by the insurer based on then estimates of future
565 experience, or in the case of any plan of life insurance or annuity
566 which is of such a nature that the minimum reserves cannot be
567 determined by the methods described in subsections b., e., and f.,
568 the reserves which are held under any such plan must:

569 (i) be appropriate in relation to the benefits and the pattern
570 of premiums for that plan, and

571 (ii) be computed by a method which is consistent with the princi-
572 ples of this standard valuation law, as determined by regulations
573 promulgated by the commissioner.

1 2. This act shall take effect immediately.

STATEMENT

This bill will permit insurers to reduce required reserves to a level consistent with valuation standards in effect in this State. This bill will result in greater benefits and lower costs to policyholders.

ASSEMBLY INSURANCE COMMITTEE
STATEMENT TO
ASSEMBLY, No. 2939
STATE OF NEW JERSEY

DATED: SEPTEMBER 11, 1986

The purpose of this bill is to repeal a sunset provision which was inserted in a law, P. L. 1985, c. 477, passed last December by the Legislature. That law amended the standard valuation law governing life insurance companies to permit domestic mutual life insurers to ease a tax burden imposed by the federal Tax Reform Act of 1984.

Passage of Assembly Bill No. 2939 would have the effect of permitting life insurance companies to apply an interest rate to their reserve valuations which is more liberal than the rate which was required to be applied prior to the passage of the 1985 law; prior to that law, life insurers could use an interest rate no higher than the interest rate which they use to govern their nonforfeiture benefits. The ultimate effect of this change in the interest rate level permitted to be used under New Jersey law is that the actual reserves held by the insurers will be lower than at present.

The New Jersey statutory reserve standards, and those of most other states, are established with a primary view toward safety and soundness. Thus, the amount of reserves which an insurer holds relates to its future obligations. Aside from reserves on its obligations to its policyholders, insurers also maintain a surplus, which is also material to its solvency.

The federal Tax Reform Act of 1984 changed the method of taxing life insurance companies; in general, the tax paid by life insurers was raised. Partly, this was accomplished by a change in the method of calculating reserves for tax purposes. Mutual insurers are required to pay a tax under the federal law which is essentially a tax on their equity; because the equity of a mutual company cannot be computed in the same manner as with a stock insurer, the equity tax on a mutual insurer takes the form of a tax on the insurer's surplus.

There is a direct relationship between a mutual insurer's reserves and surplus. The calculation of reserves under federal law for tax purposes results in a reserve which is actually lower than the reserves which are required for State regulatory purposes. The State reserves, as has been noted, are based upon considerations of safety and sound-

ness. The effect of this differentiation in the calculation of reserves is that for federal tax purposes the excess reserves required by the State are considered by the federal government to be surplus, which is taxable at 3%. Because of this anomaly one domestic mutual life insurer estimates that its federal tax burden on its New Jersey statutory reserves was \$37 million.

By eliminating the New Jersey statutory cap on the interest rate which is used to calculate New Jersey statutory reserves, the actual amount of the reserves can be reduced. The higher the rate of interest which may be used to calculate the reserves, the less actual moneys are needed to be set aside in reserves; the determination of the ultimate reserve liabilities which are needed for safety and soundness is the result of a calculation of the principal amount of the reserve and the interest rate which is imputed to those reserves. This is the aggregate amount of money which will be needed to meet the insurer's obligations.

The reduction of an insurer's reserves through the use of a more liberal interest rate would not in and of itself ease an insurer's federal tax burden. What it will do, by placing more money in an insurer's surplus, is permit the insurer to conduct a series of financial transactions, such as selling some of the bonds it holds at a discount, to create a paper "tax loss" to reduce its surplus. The tax loss will not be detrimental to the company's financial condition or to its policyholders, because the company can purchase new securities with higher yields which make up the difference in lost principal.

At the end of last session, when the Legislature passed a bill, signed into law by the Governor, which permitted insurers to use the higher interest rates to calculate their reserve liabilities, it included a sunset provision which will cause the law to expire January 1, 1987; if the Legislature takes no action before that time, insurers would be required to raise the amount of their New Jersey statutory reserves on certain policies, and their federal income tax burden would be increased.

The major mutual life insurance companies which are domiciled in New York do not have an interest rate cap, and are permitted to calculate their reserves in the manner required by New Jersey's temporary law. Thus, they are able to avoid the federal tax on their excess reserves. It has been suggested that the tax savings enjoyed by the New York insurers is passed on to their insureds in the form of higher dividends, thus placing the New York companies at a competitive advantage over insurers which are domiciled in New Jersey.

SENATE LABOR, INDUSTRY AND PROFESSIONS
COMMITTEE

STATEMENT TO

ASSEMBLY, No. 2939

STATE OF NEW JERSEY

DATED: DECEMBER 8, 1986

The purpose of this bill is to repeal a sunset provision which was inserted in a law, P. L. 1985, c. 477, passed last December by the Legislature. That law amended the "standard valuation law" governing life insurance companies to permit domestic mutual life insurers to ease a tax burden imposed by the federal Tax Reform Act of 1984.

Passage of Senate No. 1166 and Assembly No. 2939 would have the effect of permitting life insurance companies to apply an interest rate to their reserve valuations which is more liberal than the rate which was required to be applied prior to the passage of the 1985 law; prior to that law, life insurers could use an interest rate no higher than the interest rate which they use to govern their nonforfeiture benefits. The ultimate effect of this change in the interest rate level permitted to be used under New Jersey law is that the actual reserves held by the insurers will be lower than at present.

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